

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

FINANCIAL REPORT

JUNE 30, 2005

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
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QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2005

The following is a discussion and analysis of the Board of Cooperative Educational Services (hereinafter referred to as "Questar III") financial performance for the fiscal year ended June 30, 2005. The section is a summary of Questar III's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with Questar III's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Net assets on an entity wide basis decreased by 2.6 million primarily due to the elimination of the reserve for post-retirement benefits.
- Governmental revenues under the modified accrual basis of accounting increased by 10.5% due to increase demand for services. The following is a five year revenue comparison:

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Administration (001-002)	\$ 4.3	\$ 4.1	\$ 4.3	\$ 4.5	\$ 4.3
Occupational Instruction (100-199)	5.7	5.1	4.5	4.3	3.8
Instruction for Handicapped (200-299)	16.1	13.9	11.8	12.5	11.7
Itinerant Service (300-399)	1.0	0.9	1.0	1.6	1.7
General Instruction (400-499)	3.1	3.1	2.9	2.6	2.6
Instructional Support (500-599)	2.4	1.8	1.7	2.3	2.3
Other Services (600-699)	4.5	4.9	5.1	5.4	5.3
Special Aid Fund (800-999)	7.1	6.2	7.2	8.3	7.6
Total Revenue	<u>\$ 44.20</u>	<u>\$ 40.0</u>	<u>\$ 38.5</u>	<u>\$ 41.5</u>	<u>\$ 39.3</u>
% Increase (Decrease)	<u>10.50%</u>	<u>3.90%</u>	<u>(7.23)%</u>	<u>5.60%</u>	

Increases in expenditures are in line with increased demand for services. Even though salaries as a percent of total expenditure have been stable, fringe benefit costs have been increasing primarily due to health insurance increases, pension related increases as well as post retirement health insurance benefits.

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Salaries & Wages	\$ 20.6	\$ 18.7	\$ 18.0	\$ 18.6	\$ 17.5
Salaries & Wages as % of Total Expenditures	47.36%	47.58%	48.78%	46.27%	47.95%
Fringe Benefits	\$ 9.2	\$ 7.7	\$ 5.8	\$ 7.4	\$ 5.5
Fringe Benefits as % of Total Expenditures	21.15%	19.59%	15.72%	18.41%	15.07%
Health Insurance	\$ 5.4	\$ 4.3	\$ 2.9	\$ 4.7	\$ 3.2
Health Insurance as % of Total Expenditures	12.41%	10.94%	7.86%	11.69%	8.77%
Total Expenditures	\$ 43.5	\$ 39.3	\$ 36.9	\$ 40.2	\$ 36.5

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2005

FINANCIAL HIGHLIGHTS (CONTINUED)

- Questar III offers over 270 educational and district support services, while operating on a fiscally sound basis. Demand for Questar III educational programs is strong and we expect the trend to continue.

OVERVIEW OF THE FINANCIAL STATEMENTS

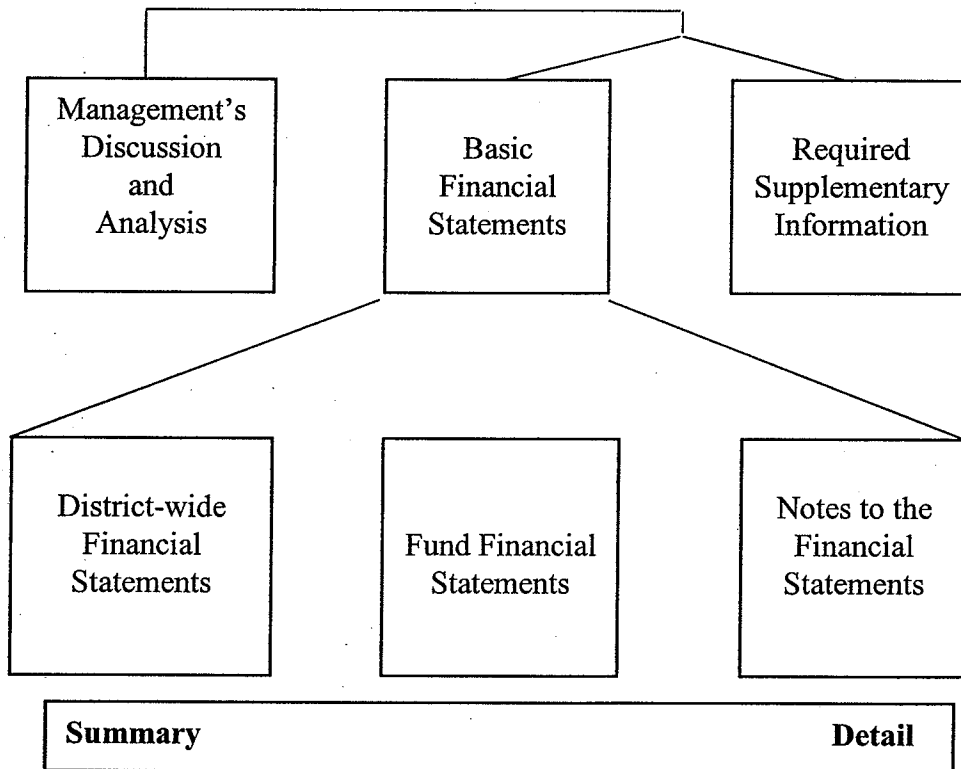
This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of Questar III:

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

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2005

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, 2005

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, 2005

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.

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

FUND FINANCIAL STATEMENTS

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

Questar III has two kinds of funds:

- **Governmental funds:** Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of Questar III. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. In summary, the governmental fund statements focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general fund, special revenue funds and capital project funds. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2005

FUND FINANCIAL STATEMENTS (CONTINUED)

- **Fiduciary funds:** Questar III is the trustee or *fiduciary* for assets that belong to others, such as scholarship funds, student activities funds, and post-retirement health insurance 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.

FINANCIAL ANALYSIS OF QUESTAR III AS A WHOLE

Questar III's net assets decreased \$2.6 million to \$5.2 million as detailed in Tables A-3 and A-4. (1.9 million of the decrease related to the elimination of the reserve for post-retirement benefits. The liability for post-retirement benefits is being recorded in the Agency Fund.)

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

	Fiscal Year 2005	Fiscal Year 2004
Current and other assets	\$ 7.2	\$ 6.6
Capital assets, net of depreciation	<u>4.9</u>	<u>5.2</u>
Total Assets	<u>12.1</u>	<u>11.8</u>
Current liabilities	<u>6.9</u>	<u>4.0</u>
Net assets		
Investment in capital assets, net of related debt	4.9	5.2
Unrestricted	<u>.3</u>	<u>2.6</u>
Total Net Assets	<u>\$ 5.2</u>	<u>\$ 7.8</u>

CHANGES IN NET ASSETS

Questar III's total fiscal year 2005 revenues totaled \$43.9 million. (See Table A-4) Charges to components and non-components accounted for 82% (83% in 2004) of Questar III's revenue. Operating grants accounted for 16% (16% in 2004).

Questar III's total fiscal year 2005 expenses totaled \$43.5 million. (See Table A-4) Of these expenses 90.8% related to instruction and instructional support (90.2% in 2004) and 9.2% related to administrative and business activities (9.8% in 2004).

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2005

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

	Fiscal Year 2005	Fiscal Year 2004
Revenues		
Program Revenues		
Charges for Services	\$ 36.1	\$ 33.0
Operating Grants	7.1	6.2
Other Revenues	<u>.7</u>	<u>.6</u>
Total Revenues	<u>43.9</u>	<u>39.8</u>
Expenses		
Administration	4.0	3.8
Occupational Instruction	6.3	6.2
Instruction of Handicapped	17.2	14.2
Itinerant Services	1.0	.9
General Instruction	4.6	3.7
Instructional Support	5.8	4.9
Other Services	4.3	4.5
Depreciation	<u>.3</u>	<u>.3</u>
	<u>43.5</u>	<u>38.5</u>
Revenues in Excess of Expenses before Return of Surplus	.4	1.3
Return of Surplus	<u>(.6)</u>	<u>(1.3)</u>
Change in Net Assets	<u>\$ (.2)</u>	<u>\$ -</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2005

FINANCIAL ANALYSIS OF QUESTAR III'S FUNDS

Variances between years for the governmental fund financial statements are not the same as variances between years for the District-wide financial statements. Questar III's governmental funds are presented on the **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 or decreases in purchased services from component, noncomponent and other BOCES.

Questar III had a number of significant budget amendments during the year ended June 30, 2005 primarily to provide additional services as requested by components and others. The larger increases related to instruction for handicapped students as well as instructional support. Other support services, which include state aid planning, risk management, textbook coordination and public information, budgets were decreased due to reduced demand for services.

The Questar III occupational instruction programs experienced a deficit due to lower revenue than anticipated, staffing at increased levels and expenses associated with the development of then "Tech High School" initiative.

	<u>Initial Budget</u>	<u>Adjustments</u>	<u>Current Budget</u>	<u>Year-to-Date Expenditures</u>	<u>Encumbrances Outstanding</u>	<u>Unencumbered Balance</u>
Administration (001-002)	\$ 4,417,506	\$ 2,895	\$ 4,420,401	\$ 3,858,473	\$ 17,823	\$ 544,105
Occupational Instruction (100-199)	5,285,434	257,418	5,542,852	5,824,491	12,644	(294,283)
Instruction for Handicapped (200-299)	14,485,505	1,665,470	16,150,975	16,095,318	43,482	12,175
Itinerant Service (300-399)	862,924	477,533	1,340,457	1,010,139	549	329,769
General Instruction (400-499)	2,470,466	652,268	3,122,734	3,019,396	16,774	86,564
Instructional Support (500-599)	1,541,962	1,141,252	2,683,214	2,252,786	80,085	350,343
Other Services (600-699)	<u>5,045,355</u>	<u>(280,386)</u>	<u>4,764,969</u>	<u>4,415,410</u>	<u>7,260</u>	<u>342,299</u>
	<u>\$ 34,109,152</u>	<u>\$ 3,916,450</u>	<u>\$ 38,025,602</u>	<u>\$ 36,476,013</u>	<u>\$ 178,617</u>	<u>\$ 1,370,972</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2005

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 2005:

Table A-5: Capital Assets

Category	<u>2005</u>	<u>2004</u>
Land	\$ 280,430	\$ 280,430
Buildings	6,447,494	6,630,600
Machinery and Equipment	1,489,376	1,376,175
Vehicles	<u>666,678</u>	<u>1,234,192</u>
Total	<u>\$ 8,883,978</u>	<u>\$ 9,521,397</u>

Long-Term Debt

At year-end Questar III had \$89,771 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:

- Questar III is currently negotiating two union contracts. The Federation contract represents the majority of support staff. Also, the Instructional staff contract was reopened to develop salary schedules for Adult Education staff that recently became members of this bargaining unit. 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 the demand for Questar III educational services is strengthening. During the 2004/05 Fiscal year enrollment for Special Education, Career Technical Education, and General Education services increased by 7.53% and 6.87%, respectively. In addition, demand for certain district support services such as State Aid Planning is stable. The following section explains some of the trends that the Questar III programs and services are currently experiencing:

QUESTAR III
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RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2005

FACTORS BEARING ON QUESTAR III'S FUTURE (CONTINUED)

Career and Technical Education: The steady increase of Career and Technical Education revenue is due to increased enrollment which in turn is due to the successful integration of academics and vocational education programs as well as development of new programs. We anticipate demand for our Career and Technical Education services to increase even though the number of students that our current facilities can support limits us. Currently Questar III is developing new vocational programs for general as well as special education students.

Instruction for Students with Disabilities: The increase in revenue for our Special Education programs can be attributed to a number of different factors. Development and modification of existing programs helped us increase our enrollments. Also, our excess capacity allows us to be more responsible to district needs. It is important to note that the number of students our current facilities can support limits this program. As these programs evolve to meet the ever changing student needs, our infrastructure needs will also change. We are currently negotiating with a component school districts for additional classroom space as well as becoming partners with their new building projects.

Itinerant: This service has been stable. A number of vendors compete with us in providing therapy services. Also, district needs have changed due to the expanding special education population.

General Instruction: The Alternative Educational program revenue has been stable over the last couple of years. However, we expect increased demand from certain large school districts primarily with our alternative high school program. We expect this program to continue growing once the State Education Department implements a unique student identification number system that will encourage districts to provide alternative education opportunities to students rather than face the consequences of high school drop out rates.

School District Support Services: Demand for Instructional Support services has been stabilized and is now increasing after a number of years of decline. However, demand for Other Support Services is continually decreasing. Both types of services are facing stiff competition from various types of vendors. We need to reinvent these services, become more competitive and develop new programs based on district needs.

QUESTAR III
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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2005

CONTACTING QUESTAR III'S FINANCIAL MANAGEMENT

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

Questar III
Board of Cooperative Educational Services
Rensselaer-Columbia-Greene Counties
Attention: Treasurer
10 Empire State Boulevard
Castleton, New York 12203
(518) 477-8771

CUSACK & COMPANY
Certified Public Accountants LLC

7 AIRPORT PARK BOULEVARD
LATHAM, NEW YORK 12110
(518) 786-3550
FAX (518) 786-1538
E-MAIL ADDRESS: CUSACKCO@NYCAP.RR.COM
WWW.CUSACKCPA.COM

JOSEPH D. BATTAGLIA, CPA
KENNETH B. CLAFLIN, CPA
PAUL A. CUDA, CPA
JAMES M. CUSACK, CPA

DANIEL F. COLVIN
JOHN A. CRISCONE
TERRENCE P. GILLOOLEY
JOHN J. TAFILOWSKI
KIMBERLY A. URQUHART

CLIFTON PARK
(518) 383-1722

MEMBERS OF:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
AND
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Questar III -Board of Cooperative Educational Services of Rensselaer-Columbia-Greene Counties ("Questar III"), as of and for the year ended June 30, 2005, as listed in the table of contents. These 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 financial statements referred to above present fairly, in all material respects, the financial position of Questar III at June 30, 2005, 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 November 4, 2005 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 31 and 32, 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, CPAs LLC

CUSACK & COMPANY, CPA'S LLC

Latham, New York
November 4, 2005

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS

Cash	\$ 413,819
State and Federal Aid Receivable	1,648,431
Due from School Districts	4,871,054
Other Receivables	249,048
Prepaid Expenses	30,500
Capital Assets, Net	<u>4,913,838</u>

Total Assets	<u>\$ 12,126,690</u>
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LIABILITIES

Accounts Payable	\$ 740,297
Accrued Expenses	891,846
Due from Other Funds	2,237,751
Deferred Revenues	1,787,276
Capital Leases Payable	89,771
Due to Retirement Systems	<u>1,171,187</u>
Total Liabilities	<u>6,918,128</u>

NET ASSETS

Invested in Capital Assets	4,913,838
Unrestricted Reserve for Encumbrances	268,173
Unrestricted Reserve for Prepays	30,500
Unrestricted	<u>(3,949)</u>
Total Net Assets	<u>5,208,562</u>

Total Liabilities and Net Assets	<u>\$ 12,126,690</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, 2005

		<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	\$ 4,029,307	\$ 4,045,402	\$ 45,018	\$ 61,113
Occupational Instruction	6,345,424	5,878,391	563,274	96,241
Instruction of Handicapped	17,173,825	16,350,394	1,083,906	260,475
Itinerant Services	1,010,139	1,025,460	-	15,321
General Instruction	4,568,166	3,088,681	1,548,770	69,285
Instructional Support	5,794,112	2,022,783	3,859,209	87,880
Other Services	4,356,026	4,422,093	-	66,067
Depreciation	<u>270,883</u>	<u>-</u>	<u>-</u>	<u>(270,883)</u>
Total Functions/Programs	<u>\$ 43,547,882</u>	<u>\$ 36,833,204</u>	<u>\$ 7,100,177</u>	385,499
Return of Surplus				<u>630,178</u>
Change in Net Assets				(244,679)
Encumbrances, Beginning of Year				(643,137)
Encumbrances, End of Year				178,617
Increase in Reserve for Prepaids				16,500
Reduction in Reserve for Employee Benefits				(1,926,237)
Net Assets, Beginning of Year				<u>7,827,498</u>
Net Assets, End of Year				<u>\$ 5,208,562</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE COUNTIES
COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash	\$ 207,110	\$ 139,384	\$ 67,325	\$ 413,819
State and Federal Aid Receivable	-	1,648,431	-	1,648,431
Due from School Districts	4,781,282	-	-	4,781,282
Other Receivables, Net	24,768	224,280	-	249,048
Due from Other Funds	7,269	-	20,000	27,269
Prepaid Expenses	<u>30,500</u>	<u>-</u>	<u>-</u>	<u>30,500</u>
Total Assets	<u>\$ 5,050,929</u>	<u>\$ 2,012,095</u>	<u>\$ 87,325</u>	<u>\$ 7,150,349</u>
LIABILITIES				
Liabilities:				
Accounts Payable	\$ 583,242	\$ 155,336	\$ 1,718	\$ 740,296
Accrued Expenses	829,632	62,214	-	891,846
Due to Other Funds	2,257,751	7,269	-	2,265,020
Deferred Revenues	-	1,787,276	-	1,787,276
Due to Retirement System	<u>1,171,187</u>	<u>-</u>	<u>-</u>	<u>1,171,187</u>
Total Liabilities	<u>4,841,812</u>	<u>2,012,095</u>	<u>1,718</u>	<u>6,855,625</u>
FUND BALANCES				
Fund Balance:				
Unrestricted Reserve for Encumbrances	178,617	89,556	-	268,173
Unrestricted Reserve for Prepaid Expenses	30,500	-	-	30,500
Unrestricted	<u>-</u>	<u>(89,556)</u>	<u>85,607</u>	<u>(3,949)</u>
Total Fund Balance	<u>209,117</u>	<u>-</u>	<u>85,607</u>	<u>294,724</u>
Total Liabilities and Fund Balance	<u>\$ 5,050,929</u>	<u>\$ 2,012,095</u>	<u>\$ 87,325</u>	<u>\$ 7,150,349</u>
Reconciliation of Total Fund Balance to Total Net Assets:				
Total Fund Balance				\$ 294,724
Capital Assets				4,913,838
Installment Debt Receivables				89,771
Installment Debt Payable				<u>(89,771)</u>
Total Net Assets				<u>\$ 5,208,562</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, 2005

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES:				
Charges to Components	\$ 33,828,366	\$ -	\$ -	\$ 33,828,366
Charges to Non-Components	428,803	-	-	428,803
Charges for Services	1,939,041	1,924,022	-	3,863,063
Interest and Earnings	57,385	-	2,118	59,503
Miscellaneous	681,863	-	-	681,863
Sales	170,733	-	-	170,733
State and Local Sources	-	2,844,574	-	2,844,574
Federal Sources	-	2,331,581	-	2,331,581
Total Revenues	<u>37,106,191</u>	<u>7,100,177</u>	<u>2,118</u>	<u>44,208,486</u>
EXPENDITURES:				
Administration	3,838,473	45,018	-	3,883,491
Occupational Instruction	5,824,491	563,274	-	6,387,765
Instruction for Handicapped	16,095,318	1,083,906	-	17,179,224
Itinerant Services	1,010,139	-	-	1,010,139
General Instruction	3,019,396	1,548,770	-	4,568,166
Instructional Support	2,252,786	3,859,209	-	6,111,995
Other Services	4,415,410	-	-	4,415,410
Total Expenditures	<u>36,456,013</u>	<u>7,100,177</u>	<u>-</u>	<u>43,556,190</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES:	<u>650,178</u>	<u>-</u>	<u>2,118</u>	<u>652,296</u>
OTHER SOURCES AND (USES):				
Return of Surplus	(630,178)	-	-	(630,178)
Transfer to Capital Projects	(20,000)	-	-	(20,000)
Transfer from General Fund	-	-	20,000	20,000
	<u>(650,178)</u>	<u>-</u>	<u>20,000</u>	<u>(630,178)</u>
Change in Fund Equity	-	-	22,118	22,118
Encumbrances, Beginning of Year	(643,137)	-	-	(643,137)
Encumbrances, End of Year	178,617	-	-	178,617
Increase Reserve for Prepaids	16,500	-	-	16,500
Reduction in Reserve for Employee Benefits	(1,926,237)	-	-	(1,926,237)
Fund Equity, Beginning of Year	<u>2,583,374</u>	<u>-</u>	<u>63,489</u>	<u>2,646,863</u>
Fund Equity, End of Year	<u>\$ 209,117</u>	<u>\$ -</u>	<u>\$ 85,607</u>	<u>\$ 294,724</u>
RECONCILIATION OF CHANGE IN FUND EQUITY TO CHANGE IN NET ASSETS:				
Change in Fund Equity				\$ 22,118
Capital Assets Acquired				149,903
Depreciation				(270,883)
Loss on Disposal of Assets				(145,817)
Change in Net Assets				<u>\$ (244,679)</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, 2005

Statement of Fiduciary Net Assets

	<u>Private-purpose Trusts</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 130,453	\$ 6,510,350
Accounts Receivables	-	13,060
Due from Other Funds	-	<u>2,237,751</u>
Total Assets	<u>\$ 130,453</u>	<u>\$ 8,761,161</u>
LIABILITIES		
Due to Student Groups	\$ -	\$ 23,410
Post-Retirement Benefits Payable	<u>-</u>	<u>8,737,751</u>
Total Liabilities	<u>-</u>	<u>\$ 8,761,161</u>
NET ASSETS		
Reserved for Scholarships	<u>130,453</u>	
Total Net Assets	<u>130,453</u>	
Total Liabilities and Net Assets	<u>\$ 130,453</u>	

Statement of Changes in Fiduciary Net Assets

Contributions	\$ 28,070
Investment Income	<u>279</u>
Total Income	<u>28,349</u>
Scholarships	9,263
Other Expenses	<u>9,444</u>
Total Expenses	<u>18,707</u>
Increase in Net Assets	9,642
Net Assets, Beginning of Year	<u>120,811</u>
Net Assets, End of Year	<u>\$ 130,453</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Averill Park	Hoosick 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	

Questar III's 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 Questar III;
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, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (continued)

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

The decision to include a potential component unit in the reporting entity is based on the criteria set forth in GASB Statement 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 agency fund of Questar III. Separate audited financial statements (cash basis) of the extraclassroom activity funds are located at the Questar III business office.

The Questar III Education Foundation

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

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.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide Financial Statements (Continued)

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.

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, 2005

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 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, 2005

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 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 primarily 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, 2005

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.

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, 2005

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, 2005 per the bank were \$8,532,134 with a carrying value of \$5,558,918. These deposits were entirely covered by Federal Deposit Insurance or by collateral held by a bank in Questar III's name.

Questar III maintains a pooled cash account in which cash is deposited into one bank account and accounting records are maintained to show the portion of the balance attributable to each fund. At June 30, 2005 Questar III's book balances in the pooled bank accounts were \$206,910 in the General Fund and \$4,526,912 in the Agency Fund.

3. OTHER RECEIVABLES

Other receivables at June 30, 2005 consisted of the following, which are stated at net realizable value:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Fee for Service	\$ 24,768
Special Revenue	Fee for Service Billings	\$ 224,280
Trust and Agency	Due from Terminated Employees	\$ 13,060

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2005

4. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2005 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 7,269	\$ 2,257,751
Special Revenue Fund	-	7,269
Capital Projects	20,000	-
Trust and Agency	2,237,751	-
	<u>\$ 2,265,020</u>	<u>\$ 2,265,020</u>

5. CAPITAL ASSETS

A summary of capital assets for the year ended June 30, 2005 is as follows:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 280,430	\$ -	\$ -	\$ 280,430
Buildings	6,630,600	-	(183,106)	6,447,494
Machinery and Equipment	1,376,175	113,201	-	1,489,376
Vehicles	1,234,192	36,702	(604,216)	666,678
	<u>9,521,397</u>	<u>149,903</u>	<u>(787,322)</u>	<u>8,883,978</u>
Less Accumulated Depreciation:				
Buildings	2,347,494	137,152	(146,485)	2,338,161
Machinery and Equipment	951,271	112,701	-	1,063,972
Vehicles	1,041,997	21,030	(495,020)	568,007
	<u>4,340,762</u>	<u>270,883</u>	<u>(641,505)</u>	<u>3,970,140</u>
Capital Assets, Net	<u>\$ 5,180,635</u>	<u>\$ (120,980)</u>	<u>\$ (145,817)</u>	<u>\$ 4,913,838</u>

Depreciation expense was \$270,883 for the year ended June 30, 2005.

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.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

6. INSTALLMENT PURCHASE DEBT (CONTINUED)

Installment purchase debt activity for the year ended June 30, 2005 is as follows:

Installment Purchase Debt, Beginning Balance	\$ 53,747
New Lease	95,408
Repayments	<u>(59,384)</u>
Installment Purchase Debt, Ending Balance	<u>\$ 89,771</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.

Plan Descriptions

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

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

Funding Policies

The Systems are noncontributory except for the employees who joined the Systems after July 27, 1979 who contribute 3% of their salary, for 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
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

7. PENSION PLANS (CONTINUED)

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

	<u>ERS</u>		<u>TRS</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
2005	\$ 278,931	10.63%	\$ 1,056,140	5.63%
2004	\$ 619,038	12.08%	\$ 438,063	2.52%
2003	\$ 301,784	4.50%	\$ 151,833	0.36%

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

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, 217 retirees and spouses meet those eligibility requirements. Questar III pays 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 \$8,737,751 which has been recorded as a liability in the agency fund. GASB 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" will generally require the cost of benefits to be recognized in periods when the related services are received by the employer will be required to be implemented by June 30, 2009, although earlier implementation is encouraged. The actual cost of health insurance premiums paid for during the year ended June 30, 2005 for Questar III's 217 retirees and spouses was approximately \$1.2 million.

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.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

9. CONTINGENCIES AND COMMITMENTS (CONTINUED)

Leases

Questar III was committed to various operating lease arrangements at June 30, 2005.

The following table summarizes Questar III future payment requirements as of June 30, 2005 under noncancellable operating leases:

Year Ending	
2006	\$ 741,627
2007	381,111
2008	351,295
2009	280,725
2010	230,314
Thereafter	230,314
	<u>\$ 2,215,386</u>

Worker's Compensation Self-Insurance

Questar III participates in a self-insurance plan for worker's compensation called The Rensselaer Columbia-Greene (RCG) Counties Worker's Compensation Consortium ("Consortium"). The Plan is a claims-servicing public entity risk pool which began operations in July, 1985. The Consortium was formed by participating school districts and Questar III. The purpose of the Consortium is to operate a plan to provide the employees of the participants with worker's compensation benefits and the participants with centralized administration and insurance covering job-connected disabilities and including the cost of medical treatment. The Consortium was accepted as a self-insurer by the State of New York Worker's Compensation Board effective July 1, 1985. 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, 2005 there were 14 participating members from Rensselaer, Columbia and Greene Counties in New York State. An estimated actuarial calculated liability to the Consortium of \$398,081 has been recorded in the accrued expenses in the general fund. Payments made to the Consortium during the year ended June 30, 2005 were \$196,313.

Dental Self-Insurance

Questar III is self-insured for dental insurance. Dental claims expense for the year ended June 30, 2005 was \$139,043.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2005

9. CONTINGENCIES AND COMMITMENTS (CONTINUED)

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, 2007
Assistant Unit	June 30, 2007
Support Services	June 30, 2005

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, 2005

SUPPLEMENTAL SCHEDULE #1

July 1 - Debit Balance	<u>\$ 2,387,600</u>
Debits:	
Billings to School Districts and Other BOCES	39,198,394
Surplus Refund to School Districts	965,685
Encumbrances - End of Year	<u>178,617</u>
Total Debits	<u>40,342,696</u>
Total	<u>42,730,296</u>
Credits:	
Collections from School Districts and Other BOCES	36,637,838
Adjustments - Credits to School BOCES - Revenues in Excess of Expenditures	630,178
Encumbrances - Beginning of Year	643,137
Increase in Allowance for Uncollectible Accounts	<u>37,861</u>
Total Credits	<u>37,949,014</u>
June 30 - Debit Balance	<u><u>\$ 4,781,282</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, 2005

SUPPLEMENTAL SCHEDULE #2

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Over (Under) Amended Budget</u>	
REVENUES					
Administration (001-002)	\$ 4,417,506	\$ 4,420,401	\$ 4,281,858	\$ (138,543)	
Occupational Instruction (100-199)	5,285,434	5,542,852	5,654,165	111,313	
Instruction for Handicapped (200-299)	14,485,505	16,150,975	16,093,274	(57,701)	
Itinerant (300-399)	862,924	1,340,457	1,011,043	(329,414)	
General Instruction (400-499)	2,470,466	3,122,734	3,137,907	15,173	
Instructional Support (500-599)	1,541,962	2,683,214	2,383,943	(299,271)	
Other (600-699)	<u>5,045,355</u>	<u>4,764,969</u>	<u>4,544,001</u>	<u>(220,968)</u>	
Total	<u>\$ 34,109,152</u>	<u>\$ 38,025,602</u>	<u>\$ 37,106,191</u>	<u>\$ (919,411)</u>	
	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Encumbrances</u>	<u>Unencumbered Balance</u>
EXPENDITURES					
Administration (001-002)	\$ 4,417,506	\$ 4,420,401	\$ 3,858,473	\$ 17,823	\$ 544,105
Occupational Instruction (100-199)	5,285,434	5,542,852	5,824,491	12,644	(294,283)
Instruction for Handicapped (200-299)	14,485,505	16,150,975	16,095,318	43,482	12,175
Itinerant (300-399)	862,924	1,340,457	1,010,139	549	329,769
General Instruction (400-499)	2,470,466	3,122,734	3,019,396	16,774	86,564
Instructional Support (500-599)	1,541,962	2,683,214	2,252,786	80,085	350,343
Other (600-699)	<u>5,045,355</u>	<u>4,764,969</u>	<u>4,415,410</u>	<u>7,260</u>	<u>342,299</u>
Total	<u>\$ 34,109,152</u>	<u>\$ 38,025,602</u>	<u>\$ 36,476,013</u>	<u>\$ 178,617</u>	<u>\$ 1,370,972</u>

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

JOSEPH D. BATTAGLIA, CPA
KENNETH B. CLAFLIN, CPA
PAUL A. CUDA, CPA
JAMES M. CUSACK, CPA
DANIEL F. COLVIN
JOHN A. CRISONE
TERRENCE P. GILLOOLEY
JOHN J. TAFILOWSKI
KIMBERLY A. URQUHART

CLIFTON PARK
(518) 383-1722
MEMBERS OF:
AMERICAN INSTITUTE OF
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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, 2005, 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 November 4, 2005, 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

(1) Chapter 263 of the Laws of 2005

Our management letter from last year had recommended that management consider the establishment of an audit committee and an Internal Audit Function. During 2005, Chapter 263 of the Laws of 2005 were enacted which now require School Board Training, the establishment of an audit committee, standards for engaging external auditors and the establishment of an internal audit function.

Recommendation: We recommend that management develop and implement procedures to comply with Chapter 263 of the Laws of 2005.

(2) Governmental Accounting Standards Board ("GASB") Statement No. 45 "Accounting and Financial Reporting by Employers for Post-retirement Benefits Other than Pension"

Prior to 2004, and the issuance of GASB 45, there was little or no formal guidance on the accounting for post-retirement health insurance. In 2001, management took a proactive position and estimated its liability for post-retirement health insurance at approximately \$40 million and began a plan to recognize the liability for post-retirement health insurance over a number of years. As of June 30, 2005, \$8.7 million has been recognized as a liability in the agency fund for post-retirement health insurance. GASB 45 would be effective for Questar III for the fiscal year ending June 30, 2009, although earlier implementation is encouraged. Essentially, GASB 45 would replace management's current policy of recognition, which is based on ability to charge users, to an actuarially computed amount.

Recommendation: As formal guidance is now provided by GASB 45, we recommend that management consider the early implementation of GASB 45, which will result in the proper recognition of the liability for post-retirement health insurance. (A similar comment was made in the prior year)