

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

FINANCIAL REPORT

JUNE 30, 2001

QUESTAR, III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
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INDEPENDENT AUDITOR'S REPORT

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Members of the Board

QUESTAR, III

Board of Cooperative Educational Services
Rensselaer-Columbia-Greene Counties

We have audited the accompanying general purpose financial statements of QUESTAR, III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties, as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of QUESTAR III's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of QUESTAR III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties at June 30, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2001 on our consideration of the Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cusack & Company CPA's LLC
CUSACK & COMPANY, CPA'S LLC

Latham, New York
September 27, 2001

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001 (WITH COMPARATIVE TOTALS FOR 2000)

	Governmental Fund Types			Fiduciary	Account Groups		Total (Memorandum Only)	
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long Term Debt	2001	2000
Assets								
Cash	\$ 2,336,317	\$ 1,052,073	\$ 252,387	\$ 518,808	\$ -	\$ -	\$ 4,159,585	\$ 4,908,205
Other receivables	45,773	216,142	-	7,995	-	-	269,910	304,640
State and federal aid receivables	-	3,125,281	-	-	-	-	3,125,281	2,884,793
Due from other funds	4,126,091	-	252,774	-	-	-	4,378,865	4,019,974
Due from School Districts	4,574,834	-	-	-	-	-	4,574,834	3,945,867
Fixed assets	-	-	-	-	12,135,400	-	12,135,400	11,315,880
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	2,802,922	2,802,922	2,696,036
Total assets	<u>\$ 11,083,015</u>	<u>\$ 4,393,496</u>	<u>\$ 505,161</u>	<u>\$ 526,803</u>	<u>\$ 12,135,400</u>	<u>\$ 2,802,922</u>	<u>\$ 31,446,797</u>	<u>\$ 30,075,395</u>
Liabilities								
Accounts payable	890,875	378,710	-	-	-	-	1,269,585	1,644,806
Accrued liabilities	568,214	-	-	-	-	-	568,214	571,098
Compensated absences	-	-	-	-	-	78,754	78,754	83,935
Due to other funds	252,774	3,638,769	-	487,322	-	-	4,378,865	4,019,974
Due to School Districts	2,710,405	-	-	-	-	-	2,710,405	4,808,066
State Aid Due to School Districts	1,630,554	-	-	-	-	-	1,630,554	-
Student activity balances	-	-	-	17,181	-	-	17,181	10,471
Due to Retirement Systems'	452,636	-	-	-	-	178,303	630,939	487,944
Capital leases payable	-	-	-	-	-	677,195	677,195	843,101
Post retirement benefits	1,440,450	-	-	-	-	1,868,670	3,309,120	2,275,115
Deferred revenues	310,778	376,017	-	-	-	-	686,795	1,005,266
Total liabilities	<u>8,256,686</u>	<u>4,393,496</u>	<u>-</u>	<u>504,503</u>	<u>-</u>	<u>2,802,922</u>	<u>15,957,607</u>	<u>15,749,776</u>
Fund Balances:								
Investment in general fixed assets	-	-	-	-	12,135,400	-	12,135,400	11,315,880
Reserve for encumbrances	843,084	412,697	-	-	-	-	1,255,781	1,274,393
Reserve for liability	-	-	-	-	-	-	-	589,879
Reserve for unemployment insurance	114,575	-	-	-	-	-	114,575	1,188,077
Reserve for employee benefits	1,868,670	-	-	-	-	-	1,868,670	-
Endowment scholarship	-	-	-	22,300	-	-	22,300	28,234
Unreserved, undesignated	-	(412,697)	505,161	-	-	-	92,464	(70,844)
Total fund balances	<u>2,826,329</u>	<u>-</u>	<u>505,161</u>	<u>22,300</u>	<u>12,135,400</u>	<u>-</u>	<u>15,489,190</u>	<u>14,325,619</u>
Total liabilities and fund balances	<u>\$ 11,083,015</u>	<u>\$ 4,393,496</u>	<u>\$ 505,161</u>	<u>\$ 526,803</u>	<u>\$ 12,135,400</u>	<u>\$ 2,802,922</u>	<u>\$ 31,446,797</u>	<u>\$ 30,075,395</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 ALL GOVERNMENTAL FUND TYPES AND SIMILAR TRUST FUNDS
 FOR THE YEAR ENDED JUNE 30, 2001 (WITH COMPARATIVE TOTALS FOR 2000)

	Governmental Fund Types			Fiduciary	Total (Memorandum Only)	
	General	Special Revenue	Capital Projects	Trust and Agency	2001	2000
Revenues						
Charges for components	\$26,071,863	\$ -	\$ -	\$ -	\$ 26,071,863	\$ 25,038,362
Charges to other BOCES	4,820,570	-	-	-	4,820,570	4,687,919
Charges for services	249,866	697,818	-	-	947,684	599,045
Interest and earnings	81,336	-	19,404	866	101,606	68,685
Miscellaneous	168,190	-	-	3,000	171,190	135,403
Sales	206,289	-	-	-	206,289	477,734
State sources	-	3,576,184	-	-	3,576,184	3,464,964
Federal sources	-	3,338,814	-	-	3,338,814	3,234,239
Total Revenue	<u>31,598,114</u>	<u>7,612,816</u>	<u>19,404</u>	<u>3,866</u>	<u>39,234,200</u>	<u>37,706,351</u>
Expenditures						
Administration	3,786,125	23,009	-	-	3,809,134	4,157,013
Occupational instruction	3,617,786	753,474	-	-	4,371,260	3,666,998
Instruction for the handicapped	10,881,573	841,258	-	-	11,722,831	10,184,930
Itinerant services	1,575,862	-	-	-	1,575,862	1,346,273
General instruction	2,344,204	2,044,833	-	-	4,389,037	3,286,097
Instructional support	1,975,127	3,950,242	-	-	5,925,369	6,704,049
Other services	4,732,738	-	-	-	4,732,738	4,851,264
Other expenses	-	-	-	9,800	9,800	11,751
Total Expenditures	<u>28,913,415</u>	<u>7,612,816</u>	<u>-</u>	<u>9,800</u>	<u>36,536,031</u>	<u>34,208,375</u>
Excess (deficiency) of revenues over expenditures	<u>2,684,699</u>	<u>-</u>	<u>19,404</u>	<u>(5,934)</u>	<u>2,698,169</u>	<u>3,497,976</u>
Other financing sources (uses):						
Operating transfers - in	-	-	252,774	-	252,774	527,046
Operating transfers - out	(252,774)	-	-	-	(252,774)	-
Operating transfers - Refund of Surplus Unpaid	(2,226,636)	-	-	-	(2,226,636)	(3,793,926)
Total other financing sources (uses)	<u>(2,479,410)</u>	<u>-</u>	<u>252,774</u>	<u>-</u>	<u>(2,226,636)</u>	<u>(3,266,880)</u>
Excess (deficiency) of revenues over expenditures	205,289	-	272,178	(5,934)	471,533	231,096
Other changes in fund equity						
Encumbrances, end of year	843,084	412,697	-	-	1,255,781	1,274,393
Encumbrances, beginning of year	(970,566)	(303,827)	-	-	(1,274,393)	(1,408,325)
Liquidation of reserve	-	(108,870)	-	-	(108,870)	215,405
Net increase (decrease)	77,807	-	272,178	(5,934)	344,051	312,569
Fund balance, beginning of year	<u>2,748,522</u>	<u>-</u>	<u>232,983</u>	<u>28,234</u>	<u>3,009,739</u>	<u>2,697,170</u>
Fund balance, end of year	<u>\$ 2,826,329</u>	<u>\$ -</u>	<u>\$ 505,161</u>	<u>\$ 22,300</u>	<u>\$ 3,353,790</u>	<u>\$ 3,009,739</u>

See the accompanying notes and independent auditor's report.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCE- BUDGET AND ACTUAL BASIS
FOR THE YEAR ENDED JUNE 30, 2001

	General Fund		
	Budget		Variance
	(Amended)	Actual	Favorable
			(Unfavorable)
Revenues			
Local Sources:			
Charges to components	\$ 27,772,946	\$26,071,863	\$ (1,701,083)
Charges to other BOCES	5,174,378	4,820,570	(353,808)
Interest and earnings	87,306	81,336	(5,970)
Miscellaneous	1,893	1,764	(129)
Other revenue	<u>668,276</u>	<u>622,581</u>	<u>(45,695)</u>
Total revenues	<u>33,704,799</u>	<u>31,598,114</u>	<u>(2,106,685)</u>
Expenditures			
Current:			
Administration	4,130,615	3,786,125	344,490
Occupational instruction	4,190,864	3,617,786	573,078
Instruction for the handicapped	12,246,928	10,881,573	1,365,355
Itinerant services	1,730,656	1,575,862	154,794
General instruction	2,578,159	2,344,204	233,955
Instructional support	2,915,125	1,975,127	939,998
Other services	<u>5,659,678</u>	<u>4,732,738</u>	<u>926,940</u>
Total expenditures	<u>33,452,025</u>	<u>28,913,415</u>	<u>4,538,610</u>
Operating Transfer	<u>252,774</u>	<u>252,774</u>	-
Excess of revenue over expenditures	<u>\$ -</u>	2,431,925	<u>\$ 2,431,925</u>
Add: Encumbrances at end of year included in actual		843,084	
Less: Expenditure of prior year's encumbrances		<u>(970,566)</u>	
Excess of revenues over expenditures - GAAP basis		2,304,443	
Operating transfers - Refund of Surplus Unpaid		<u>(2,226,636)</u>	
Net increase		77,807	
Fund balance, beginning of year		<u>2,748,522</u>	
Fund balance, end of year		<u>\$ 2,826,329</u>	

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2001

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 generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of QUESTAR III accounting policies are described below.

Reporting Entity

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

Boards of Cooperative Educational Services (BOCES) were established by New York State legislation in 1948 to enable smaller school districts to offer more breadth in their educational programs to provide vocational and special education. A 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 - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties provides instructional and support programs and services to the following 23 school districts in New York's Rensselaer, Columbia and Greene counties:

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

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

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

1. The primary government which is the BOCES;
2. Organizations for which the primary government is financially accountable, and:
3. Other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's general purpose financial statements to be misleading or incomplete.

The decision to include a potential component unit in the reporting entity is based on the criteria set forth in GASB Statement 14, including legal standing, fiscal dependency, and financial accountability. Based on the application

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (continued)

of these criteria , the following activity is included in the reporting entity:

The Extraclassroom Activity Funds

The extraclassroom activity funds of QUESTAR III represents funds of the students of QUESTAR III. The Board exercises general oversight of these funds. The extraclassroom activity funds are independent of QUESTAR III with respect to its financial transactions, and the designation of student management and the cash balances are reported in the trust and agency fund of QUESTAR III. Separate audited financial statements (cash basis) of the extraclassroom activity funds are located at the QUESTAR III business office.

Basis of Presentation

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

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

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

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

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

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

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

Basis of Accounting/Measurement Focus

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

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

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting/Measurement Focus (continued)

a. Modified Accrual Basis (continued)

- QUESTAR III recognizes a liability for vacation leave and other compensated absences with similar characteristics and additional salary-related payments as the benefits are earned by the employees, based on the rendering of past service and the probability that the employees will be compensated for the benefits through paid time off or some other means. This includes vacation leave and other compensated absences with similar characteristics that were earned but not used during the current or prior periods and for which employees can receive compensation in a future period. Amounts do not include leave expected to lapse and includes leave that employees will qualify for.
- b. **Account Groups** - General fixed assets are recorded at cost, where known, or sound value, i.e., cost of replacement less an allowance for "allowed depreciation" resulting from age and condition. No provision for depreciation is made. The asset values are maintained by an independent appraisal service. General long-term debt liabilities are recorded at the par value of the principal amount. No liability is recorded for interest payable to maturity.
- c. **Deferred Revenues** - QUESTAR III reports deferred revenues on its combined balance sheet. Deferred revenue arises when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenue also arises when resources are receivable by QUESTAR III before it has a legal claim to them, as when grant monies are receivable prior to the incurrence of qualifying expenditures. In subsequent periods, when both recognition criteria are met, or when QUESTAR III has legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

Budgetary Data

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

- Section 1950 §4(b) of the Education Law requires adoption of a final budget by no later than May 15, for the ensuing year.
 - QUESTAR III administration prepares a proposed administrative, capital and program budget, as applicable, for approval by members of the QUESTAR III board for the general fund.
 - Appropriations for educational services are adopted at the program level and lapse at the end of each fiscal year.
 - A tentative administrative budget is provided to the component districts for adoption by resolution. Approval of the tentative administrative budget requires the approval of a majority of the component school boards actually voting. During the current year, the administrative budget was approved by a majority of its voting component schools boards.
- b. **Encumbrances** - Encumbrances accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded for budgetary control purposes to reserve that portion of the applicable appropriations, is employed as a control in preventing overexpenditure of established appropriations. Open encumbrances are reported as a reservation of fund balance since they do not constitute expenditures or liabilities and will be honored through budget appropriations in the subsequent year.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Data (continued)

- c. **Budget Basis of Accounting** - Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

QUESTAR III can approve budget revisions based upon requests for additional services and surplus revenues.

Post Retirement Benefits

In addition to providing the retirement benefits described in Note 7, QUESTAR III provides post retirement health insurance coverage to its retired employees and their survivors in accordance with the provisions of the employment contract between QUESTAR III and its employee groups. 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, 164 retirees meet those eligibility requirements. QUESTAR III pays 100% of the costs of premiums to an insurance company which provided health care insurance. QUESTAR III recognized the estimated cost of providing future post retirement health benefits to its current retirees at \$3,309,120, of which \$1,440,450 has been recorded in the general fund and \$1,868,670 has been recorded in the long-term debt account group. The actual cost of health insurance premiums paid for during the year ended June 30, 2001 for QUESTAR III's 164 retirees was \$417,500.

Total (Memorandum Only)

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

2. CASH AND INVESTMENTS

QUESTAR III's investment policies are governed by State statutes. In addition, QUESTAR III has its own written investment policy. QUESTAR III monies must be deposited in FDIC-insured commercial banks or trust companies located with the State. The School Business Administrator is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and obligations of New York State or its localities.

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

Total financial institution (bank) balances at June 30, 2001 per the bank were \$ 5,226,799. These deposits were entirely covered by Federal Deposit Insurance or by collateral held by a bank in QUESTAR III's name.

3. RESTRICTED CASH

Restricted cash consists of the following:

General Fund:	
Reserved for unemployment	\$ 127,976
Trust and Agency Fund:	
Expendable trusts	22,300
Extraclassroom activity funds	<u>17,181</u>
	<u>\$ 167,457</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001

4. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2001 are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 4,126,091	\$ 252,774
Special Revenue Fund	-	3,638,769
Capital Project Fund	252,774	-
Trust and Agency	-	487,322
	<u>\$ 4,378,865</u>	<u>\$ 4,378,865</u>

Charges for services in the general fund of \$249,866 includes \$214,738 of interfund and intrafund revenues charged as indirect cost reimbursements.

5. OTHER RECEIVABLES

Other receivables at June 30, 2001 consisted of the following, which are stated at net realizable value:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Revenue Billings and Deposits	\$ 45,773
Special Revenue	State and Federal Aid Receivables	\$ 216,142
Trust and Agency	Overpayments	\$ 7,995

6. CHANGES IN FIXED ASSETS

A summary of changes in general fixed assets for the year ended June 30, 2001 is as follows:

<u>Category</u>	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Land	\$ 30,500	\$ -	\$ -	\$ 30,500
Buildings	5,932,520	-	-	5,932,520
Equipment	<u>5,352,860</u>	<u>1,057,478</u>	<u>237,958</u>	<u>6,172,380</u>
	<u>\$ 11,315,880</u>	<u>\$ 1,057,478</u>	<u>\$ 237,958</u>	<u>\$ 12,135,400</u>

7. PENSION PLANS

General Information

QUESTAR III participates in the New York State and Local Employee's 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, 2001

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 the New York State and Local Employees' Retirement System, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. Pursuant to Article 11 of the Education Law, rates are established annually for TRS by the New York State Teachers' Retirement Board.

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

	ERS		TRS	
	Amount	Rate	Amount	Rate
2001	\$ 129,905	0.50%	\$ 362,710	0.43%
2000	\$ 37,689	0.10%	\$ 438,415	1.43%
1999	\$ 24,946	0.30%	\$ 503,286	1.42%

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

Pursuant to Chapter 30 of the Laws of 1996, Chapter 47 of the Laws of 1998, and Chapter 70 of the Laws of 1999, the State Legislature authorized local governments to make available retirement incentive programs with estimated TRS costs of \$316,292 and ERS costs of \$89,014 which was charged to expenditures in the Governmental Funds in the current fiscal year.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001

8. INDEBTEDNESS

Installment Purchase Debt

QUESTAR III pays rentals for leases considered to be installment purchases. The balance of the liability under installment purchase debt at June 30, 2001 totaling \$677,195 represents the present value of the balance due in future years for lease rentals. Since the present value of the future minimum lease payments at the beginning of the equipment lease approximated the fair value of the leased assets at that date the leases have been recorded as installment purchase debt.

The equipment leases are payable in total annual payments of principal and interest ranging from \$21,052 to \$101,200 through February, 2004.

Changes

The changes in QUESTAR III's indebtedness for the year ended June 30, 2001 are summarized as follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
Installment purchase debt	\$ 843,101	\$ 383,890	\$ 549,796	\$ 677,195
Post retirement benefits	1,769,000	99,670	-	1,868,670
Retirement Incentive	-	178,303	-	178,303
Compensated absences	83,935	-	5,181	78,754
	<u>\$ 2,696,036</u>	<u>\$ 661,863</u>	<u>\$ 554,977</u>	<u>\$ 2,802,922</u>

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

Maturity

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

<u>Year</u>	<u>Principal</u>	<u>(Memorandum)</u> <u>Interest</u>
2001 - 2002	\$ 301,815	\$ 35,327
2002 - 2003	265,380	19,496
2003-2004	110,000	5,654
	<u>\$ 677,195</u>	<u>\$ 60,477</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2001

9. FUND BALANCES

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

I. Reserved

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

Reserve for unemployment insurance - This reserve fund is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method.

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

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

II. Unreserved

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

10. 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, 2001.

The following table summarizes QUESTAR III future payment requirements as of June 30, 2001 under noncancellable operating leases:

Year Ending	
2002	\$ 601,912
2003	577,308
2004	603,442
2005	611,939
2006	620,647
Thereafter	<u>1,181,389</u>
	<u>\$ 4,196,637</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2001

11. 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, 2001 there were 11 participating members from Rensselaer, Columbia and Greene Counties in New York State. An actuarial calculated liability to the Consortium of \$568,214 has been recorded in the accrued expenses in the general fund. Payments made to the Consortium during the year ended June 30, 2001 were \$157,967.

Dental Self-Insurance

QUESTAR III is self-insured for dental insurance. Dental claims expense for the year ended June 30, 2001 was \$127,173.

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, 2001

12. SUBSEQUENT EVENT

In August 2001, QUESTAR III purchased two Vo-tec Centers from the company in which it had been leasing the centers at a cost of \$368,000.

SUPPLEMENTAL INFORMATION

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
ANALYSIS OF ACCOUNT A431 - SCHOOL DISTRICTS AND OTHER BOCES
FOR THE YEAR ENDED JUNE 30, 2001

July 1 - credit balance	\$ <u>(862,199)</u>
Debits:	
Billings to school districts	29,314,384
Refund of balances due school districts	3,487,254
Encumbrances - end of the year	843,084
Other reserves - end of the year	<u>1,983,245</u>
Total debits	<u>35,627,967</u>
Total	<u>34,765,768</u>
Credits:	
Collection from school districts	27,926,181
Adjustment - credits to school districts - revenues in excess of expenditures	2,226,636
Encumbrances - beginning of the year	970,566
Other reserves - beginning of the year	<u>1,777,956</u>
Total credits	<u>32,901,339</u>
June 30 - debit balance	\$ <u><u>1,864,429</u></u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
BALANCE SHEET - SPECIAL REVENUE FUND
JUNE 30, 2001

Assets	
Cash	\$ 1,052,073
State and federal aid receivables	3,125,281
Other receivables	<u>216,142</u>
Total Assets	<u>\$ 4,393,496</u>
Liabilities and Fund Balance	
Liabilities	
Accounts payable	378,710
Due to other funds	3,638,769
Deferred revenues	<u>376,017</u>
Total Liabilities	<u>4,393,496</u>
Fund Balance	
Reserve for encumbrances	412,697
Unreserved, undesignated	<u>(412,697)</u>
Total Fund Balance	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 4,393,496</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND EQUITY
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2001

Revenues	
Charges for services	\$ 697,818
State sources	3,576,184
Federal sources	<u>3,338,814</u>
Total Revenue	<u>7,612,816</u>
Expenditures	
Administration	23,009
Occupational instruction	753,474
Instruction for the handicapped	841,258
General instruction	2,044,833
Instructional support	<u>3,950,242</u>
Total Expenditures	<u>7,612,816</u>
Excess of revenues over expenditures	-
Fund balance, beginning of year	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2001 (WITH COMPARATIVE TOTALS FOR 2000)

	Original Budget	Revised Budget	Current Year's Revenues	Over/ (Under) Revised Budget
Revenues				
Administration 001 - 002	\$ 4,383,389	\$ 4,383,389	\$ 4,266,855	\$ (116,534)
Occupational Instruction 100-199	4,039,411	4,190,864	3,757,908	(432,956)
Instruction for Handicapped 200-299	11,572,090	12,246,928	11,677,702	(569,226)
Itinerant 300-399	1,316,682	1,730,656	1,710,336	(20,320)
General Instruction 400-499	2,588,069	2,578,159	2,634,761	56,602
Instructional Support 500-599	2,171,413	2,915,125	2,260,067	(655,058)
Other Services 600-699	<u>5,903,477</u>	<u>5,659,678</u>	<u>5,290,485</u>	<u>(369,193)</u>
Totals	<u>\$ 31,974,531</u>	<u>\$ 33,704,799</u>	<u>\$ 31,598,114</u>	<u>\$ (2,106,685)</u>

	Original Budget	Revised Budget	Current Year Expenditures	Encumbrances	Unencumbered Balances
Expenditures					
Administration 001 - 002	\$ 4,130,615	\$ 4,130,615	\$ 3,786,125	\$ 156,581	\$ 187,909
Occupational Instruction 100-199	4,039,411	4,190,864	3,617,786	53,612	519,466
Instruction for Handicapped 200-299	11,572,090	12,246,928	10,881,573	12,638	1,352,717
Itinerant 300-399	1,316,682	1,730,656	1,575,862	3,592	151,202
General Instruction 400-499	2,588,069	2,578,159	2,344,204	23,864	210,091
Instructional Support 500-599	2,171,413	2,915,125	1,975,127	76,690	863,308
Other Services 600-699	5,903,477	5,659,678	4,732,738	516,107	410,833
Operating Transfer	<u>252,774</u>	<u>252,774</u>	<u>252,774</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 31,974,531</u>	<u>\$ 33,704,799</u>	<u>\$ 29,166,189</u>	<u>\$ 843,084</u>	<u>\$ 3,695,526</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF CAPITAL PROJECT EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Original</u>	<u>Revised</u>	<u>Expenditures to Date</u>		<u>Total</u>	<u>Unexpended</u>
			<u>Appropriations</u>	<u>Appropriations</u>		
Administration Center additions and alterations	<u>\$ 156,110</u>	<u>\$ 156,110</u>	<u>\$ 39,000</u>	<u>\$ -</u>	<u>\$ 39,000</u>	<u>\$ 117,110</u>

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

In planning and performing our audit of the financial statements of QUESTAR III, Board of Cooperative Educational Services Rensselaer-Columbia-Greene Counties for the year ended June 30, 2001, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated September 27, 2001, on the financial statements of QUESTAR III.

We will review the status of these comments during our next audit engagement. We have already discussed many of 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

September 27, 2001
Latham, New York

**QUESTAR III
Management Letter
June 30, 2001**

1. Elimination of Risk Retention Fund:

QUESTAR III general ledger maintains a risk retention fund. Such a fund is no longer required and it is recommended to be kept as part of the general fund.

We recommend that management close the risk retention fund into the general fund.

2. Self-Insured Dental Claims and Post Retirement Health Insurance Accounting Policies:

The current QUESTAR III accounting policies do not record estimates for claims incurred but not reported or post retirement health insurance benefits for current employees that are not yet eligible for retirement.

We recommend that management establish a plan to determine and record dental and post retirement benefits incurred but not reported. It is also recommend that QUESTAR III consider performing an actuarial study to determine the total post retirement benefits liability.

3. Adult Educational Program:

The State has substantially cut back on funding for programs that service the QUESTAR III adult education population (i.e. Employment Preparation Education, Adult LPN, Workforce Investment Act e.t.c). For example during the 2000/2001 fiscal year the Employment Preparation Education (EPE) program cost QUESTAR III \$3.83 per contact hour while the state reimbursement rate was \$3.08 per contact hour.

We recommend that QUESTAR III closely monitor the profitability of these programs and implement corrective action plans when deemed necessary.