

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

FINANCIAL REPORT

JUNE 30, 2011

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
TABLE OF CONTENTS
JUNE 30, 2011

	<u>Page</u>
Management's Discussion and Analysis	1-11
Independent Auditor's Report on the Financial Statements	12-13
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	14
Statement of Activities and Changes in Net Assets (Deficit)	15
Governmental Fund Financial Statements:	
Combined Balance Sheet - Governmental Funds and Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	16
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds and Reconciliation of the Governmental Funds Combined Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	17
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets	18
Notes to Financial Statements	19-31
Supplementary Information:	
<u>Supplementary Schedule</u> <u>Number</u>	
1. Budgetary Comparison Statement - General Fund	32
2. Analysis of Account A431-School Districts and Other BOCES	33
3. Schedule of Project Expenditures - Capital Projects Fund	34

QUESTAR, III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
TABLE OF CONTENTS (CONTINUED)
JUNE 30, 2011

	<u>Page</u>
Single Audit	
Federal Program Award Information	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	35-36
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards	37-38
Schedule of Expenditures of Federal Awards	39
Notes to Schedule of Expenditures of Federal Awards	40
Schedule of Findings and Questioned Costs	41-42
Extraclassroom Activity Funds	
Independent Auditor's Report	43
Financial Statements	
Statement of Assets and Fund Balance Resulting from Cash Transactions	44
Statement of Cash Receipts and Disbursements	45
Note to Financial Statements	46
Management Letter	47-49

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2011

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, 2011. This section is a summary of Questar III's financial activities based on currently known facts, decisions, or conditions. It is also based on both the government-wide and fund-based financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with Questar III's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Net assets on an entity wide basis decreased by \$10.7 million over the prior year, primarily as a result of the postemployment benefit adjustment of approximately \$12.0 million and an increase in encumbrances of approximately \$917,000.
- Governmental revenues under the modified accrual basis of accounting decreased by 4.31% due to a reduction in operating grants, as well as a reduction in the number of students we serve. The following is a five year revenue comparison (dollars in millions):

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Administration (001-002)	\$ 5.8	\$ 6.0	\$ 5.7	\$ 5.4	\$ 5.0
Occupational Instruction (100-199)	7.7	7.6	7.7	7.1	6.2
Instruction for Handicapped (200-299)	19.2	18.8	20.1	18.3	17.3
Itinerant Service (300-399)	1.5	1.5	1.3	1.5	1.2
General Instruction (400-499)	4.7	5.7	6.5	5.3	5.8
Instructional Support (500-599)	4.4	5.0	4.7	5.0	2.8
Other Services (600-699)	8.2	7.6	8.0	6.8	5.6
Special Aid Fund (800-999)	<u>6.2</u>	<u>8.2</u>	<u>8.9</u>	<u>8.9</u>	<u>9.6</u>
Total Revenue	<u>\$ 57.7</u>	<u>\$ 60.4</u>	<u>\$ 62.9</u>	<u>\$ 58.3</u>	<u>\$ 53.5</u>
% Increase (Decrease)	<u>(4.31%)</u>	<u>(3.97%)</u>	<u>7.89%</u>	<u>8.97%</u>	<u>7.86%</u>

The majority of Questar III services are purchased by our 22 component school districts which accounted for approximately 82.56% of our total revenues (75.34% in the 2009/2010 fiscal year). The large increase is primarily due to the expiration of several state grants.

Expenditures decreased by 5.59% over the prior year. Salaries decreased as a percentage of total expenditures to 42.6% for the current year. The following is a five year expenditure comparison (dollars in millions) for salaries and benefits:

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)(CONTINUED)
JUNE 30, 2011

FINANCIAL HIGHLIGHTS (CONTINUED)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Salaries & Wages	\$ 23.0	\$ 24.6	\$ 24.8	\$ 24.2	\$ 23.5
Salaries & Wages as % of Total Expenditures	42.6%	43.01%	42.25%	42.83%	46.53%
Fringe Benefits	\$ 12.4	\$ 13.3	\$ 11.7	\$ 11.6	\$ 10.7
Fringe Benefits as % of Total Expenditures	22.97%	23.25%	19.93%	20.53%	21.19%
Health Insurance	\$ 6.0	\$ 7.0	\$ 6.6	\$ 5.7	\$ 5.1
Health Insurance as % of Total Expenditures	11.12%	12.24%	11.24%	10.1%	10.1%
Total Expenditures	\$ 54.0	\$ 57.2	\$ 58.7	\$ 56.5	\$ 50.5

- Questar III offers approximately 280 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

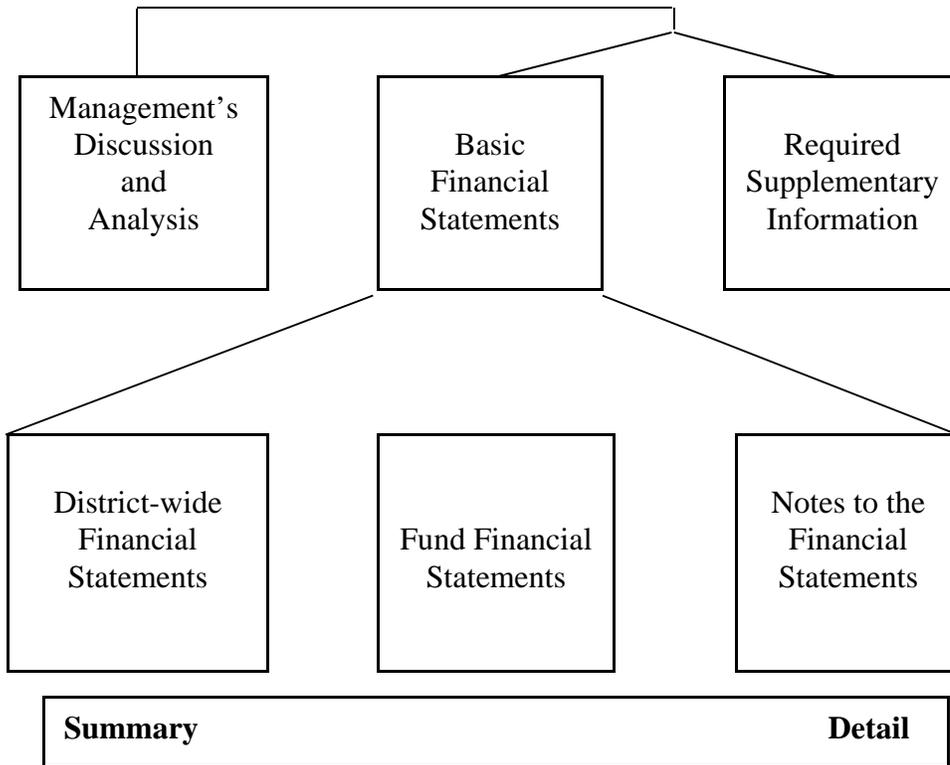
This annual report consists of three parts: MD&A (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of Questar III:

- 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 fund statements** provide information about the financial relationships in which Questar III acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that provide additional information about the financial statements and the balances reported. The statements are followed by a section of required 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, 2011

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



QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2011

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 SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2011

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 Career and Technical Education, special education, support services, administration and substantially all these activities are financed through user charges.

FUND FINANCIAL STATEMENTS

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

Questar III has two kinds of funds:

- **Governmental funds**: Most of the basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of Questar III. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. In summary, the governmental fund statements focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. Included are the general 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 SERVICES
RENSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2011

FUND FINANCIAL STATEMENTS (CONTINUED)

- **Fiduciary funds:** Questar III is the trustee or fiduciary for assets that belong to others, such as scholarship funds and student activities funds. Questar III is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. Questar III excludes these activities from the entity-wide financial statements because it cannot use these assets to finance its operations. Fiduciary fund reporting focuses on net assets and changes in net assets.

FINANCIAL ANALYSIS OF QUESTAR III AS A WHOLE

Questar III's net assets decreased approximately \$10.7 million to a deficit of \$(11.4) million as detailed in Tables A-3 and A-4.

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

	Fiscal Year 2011	Fiscal Year 2010
Current and Other Assets	\$ 30.5	\$ 29.8
Capital Assets, Net of Depreciation	<u>6.6</u>	<u>6.1</u>
Total Assets	<u>\$ 37.1</u>	<u>\$ 35.9</u>
Current Liabilities	\$ 5.8	\$ 6.8
Noncurrent Liabilities	<u>42.7</u>	<u>29.8</u>
Total Liabilities	<u>\$ 48.5</u>	<u>\$ 36.6</u>
Net Assets		
Investment in Capital Assets, Net of Related Debt	\$ 5.8	\$ 6.1
Unrestricted	<u>(17.2)</u>	<u>(6.8)</u>
Total Net Assets (Deficit)	<u>\$ (11.4)</u>	<u>\$ (.7)</u>

CHANGES IN NET ASSETS

Questar III's total fiscal year 2011 revenues approximate \$56.1 million. (See Table A-4) Charges to components, non-components and others accounted for 87.2% (84.5% in 2010) of Questar III's revenue. Operating grants accounted for 11.1% (14.2% in 2010).

Questar III's total fiscal year 2011 expenses approximate \$52.2 million. (See Table A-4) Of these expenses 87.3% related to instruction and instructional support (89.3% in 2010) and 10.3% related to administrative and business activities (10.7% in 2010).

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2011

CHANGES IN NET ASSETS (CONTINUED)

The \$42.7 million of noncurrent liabilities represents the current present value of the actuarially computed future liability for other postemployment employee benefits for retirees and current employees.

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

	Fiscal Year		Fiscal Year	
	2011		2010	
Revenues				
Program Revenues				
Charges for Services	\$ 48.9	87.2%	\$ 49.5	84.5%
Operating Grants	6.2	11.1%	8.3	14.2%
Other Revenues	<u>1.0</u>	<u>1.7%</u>	<u>.8</u>	<u>1.3%</u>
Total Revenues	<u>56.1</u>	<u>100.0%</u>	<u>58.6</u>	<u>100.0%</u>
Expenses				
Administration	5.4	10.3%	5.8	10.7%
Occupational Instruction	9.2	17.6%	9.1	16.7%
Instruction of Handicapped	19.6	37.5%	19.3	35.5%
Itinerant Services	1.4	2.7%	1.4	2.6%
General Instruction	5.0	9.6%	6.1	11.2%
Instructional Support	5.0	9.6%	7.3	13.4%
Other Services	<u>6.6</u>	<u>12.7%</u>	<u>5.4</u>	<u>9.9%</u>
	<u>52.2</u>	<u>100.0%</u>	<u>54.4</u>	<u>100.0%</u>
Revenues in Excess of Expenses before Return of Surplus				
	3.9		4.2	
Return of Surplus	(3.5)		(3.0)	
Postemployment Benefit Adjustment	<u>(12.0)</u>		<u>(10.3)</u>	
Change in Net Assets	<u>\$ (11.6)</u>		<u>\$ (9.1)</u>	

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2011

FINANCIAL ANALYSIS OF QUESTAR III'S FUNDS

Variations between years for the governmental fund financial statements are not the same as variations between years for the district-wide financial statements. Questar III's governmental funds are presented on the **modified accrual basis of accounting**, which has a current financial resources measurement focus. Based on this presentation, governmental funds do not include long-term debt liabilities and capital assets. Governmental funds will include the current payments for capital assets, and the current payments for capital leases.

BUDGETARY HIGHLIGHTS

Over the course of the year, Questar III revised its budget several times in order to comply with the changes of component's and other's needs for additional services pursuant to its mandate. These budget amendments fall into two categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances and encumbrances carried-over from the prior year.
- Changes made to account for projected increases or decreases in purchased services from component, noncomponent and other BOCES.

Questar III had a number of significant budget amendments during the year ended June 30, 2011 primarily to provide additional services as requested by components and others.

	<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)	\$ 5,752,081	\$ 106,866	\$ 5,858,947	\$ 5,340,919	\$ 266,802	\$ 251,226
Occupational Instruction (100-199)	7,770,686	10,824	7,781,510	7,191,783	273,528	316,199
Instruction for Handicapped (200-299)	19,420,716	27,684	19,448,400	18,065,109	286,969	1,096,322
Itinerant Service (300-399)	1,609,335	(261,731)	1,347,604	1,409,796	339	(62,531)
General Instruction (400-499)	3,899,902	995,241	4,895,143	4,703,783	71,222	120,138
Instructional Support (500-599)	4,663,680	378,398	5,042,078	4,264,275	239,297	538,506
Other Services (600-699)	<u>8,181,373</u>	<u>667,641</u>	<u>8,849,014</u>	<u>7,060,678</u>	<u>736,319</u>	<u>1,052,017</u>
	<u>\$ 51,297,773</u>	<u>\$ 1,924,923</u>	<u>\$ 53,222,696</u>	<u>\$ 48,036,343</u>	<u>\$ 1,874,476</u>	<u>\$ 3,311,877</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2011

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 2011:

Table A-5: Capital Assets

<u>Category</u>	<u>2011</u>	<u>2010</u>
Land	\$ 463,533	\$ 463,533
Buildings	7,438,027	7,438,027
Equipment	2,195,369	2,008,080
Equipment Leased to Districts	1,105,670	431,963
Vehicles	<u>457,286</u>	<u>456,778</u>
Total	<u>\$ 11,659,885</u>	<u>\$10,798,381</u>

Long-Term Debt

At year-end Questar III had \$1,123,831 in installment purchase debt outstanding. Installment purchase debt consists of various leases incurred for the purchase of equipment which is then leased by Questar III under similar terms to component districts. The contracts generally mature in two years.

FACTORS BEARING ON QUESTAR III'S FUTURE

At the time these financial statements were prepared and audited, Questar III was aware of the following existing circumstances that could significantly affect its financial health in the future:

The national and statewide fiscal crises has resulted in a decline in requests for certain services from component districts for the year ended June 30, 2011. Demand for certain Questar III services is anemic, however most services will meet revenue projections for 2011-2012. Districts received ARRA funding to bridge their revenue gaps and continue to contract with Questar III for its services. However, ARRA funding will cease during the 2011-2012 fiscal year and New York State's continuing fiscal crisis, budget deficit and the new 2% tax cap legislation, will likely have an adverse impact on component districts and Questar III's revenue streams. Questar III is continuing to employ cost containment measures in anticipation of cutbacks, but to sustain our current infrastructure we need to expand our revenue base.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2011

FACTORS BEARING ON QUESTAR III'S FUTURE (CONTINUED)

Career and Technical Education - CTE: During 2010-2011 the Career and Technical Education services eliminated two programs based on the recommendation of our clients and program reviews. The CTE programs are undergoing a review to focus on curricula that support 21st Century skills. Based on these reviews, during 2011-2012 we plan to add three new programs which are focused on emerging technologies and professions. The CTE programs also implemented a student "intake process" that ensures that qualified students are accepted into programs. This "intake process" is being fine tuned to ensure that students are registered in programs where they will be successful.

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

<u>Career & Technical Education</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Number of students	651	762	736	667	613
% change from prior year	(14.6%)	3.5%	10.3%	8.8%	-
Revenue in millions	\$ 7.7	\$ 7.6	\$ 7.7	\$ 7.1	\$ 6.2
% change from prior year	1.3%	(1.3%)	8.5%	14.5%	-

Instruction of Students with Disabilities: Revenues for Special Education are stable at this time. Enrollment is not growing. It is questionable if we will be able to sustain current student enrollment under the current fiscal conditions. A significant challenge facing the program is the lack of space in an integrated facility in the Columbia/Green County area. We are currently negotiating a lease with one of our Greene County school districts. In September 2011 we increased our academy space by renting the Catskill Academy in Columbia County.

Approximately 13.9% of our students with disabilities are from non-component school districts (11.6% in 2009-2010)

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

<u>Students with Disabilities</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Number of students	292	299	307	301	288
% change from prior year	(2.3%)	(2.6%)	2.0%	4.5%	-
Revenue in millions	\$ 19.3	\$ 18.8	\$ 20.1	\$ 18.3	\$ 17.3
% change from prior year	2.7%	(6.5%)	9.8%	5.8%	-

Itinerant Service: The itinerant services have remained stable and no growth is expected in these services unless districts increase the number of students with disabilities that they serve in-house.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)
JUNE 30, 2011

FACTORS BEARING ON QUESTAR III'S FUTURE (CONTINUED)

General Instruction: Changes in program delivery for the Alternative Learning Program (ALP) continued in 2010-2011. To streamline the program, ALP is now offered in conjunction with CTE only. As districts continue to look for cost-effective educational programs, the Cooperative Distance Learning Program saw an increase in participation. This trend is expected to continue in 2011-2012.

Special Aid Fund: During the 2010-2011 fiscal year, Questar III saw significant reductions in federal and state funding. Due to the current financial crisis we expect this negative trend to continue.

School District Support Services: The demand for district support services is stable. It is expected that the demand for these services will remain stable as districts seek to find economies in the services offered. It is anticipated that the component districts will decrease their investment in equipment purchases and leases due to the fiscal crisis.

Other Services: District participation in State Aid Planning, Fixed Asset Management and GASB 45 Planning and Valuation services remain strong. The fiscal crisis has resulted in numerous requests for additional services including cost-sharing opportunities. It is expected that demand for these services will increase as districts strive to meet financial compliance requirements.

CONTACTING QUESTAR III'S FINANCIAL MANAGEMENT

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

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2011, 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, 2011, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 1 through 11 and 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information presented on pages 32 to 34, inclusive, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented on page 39 for the purpose of additional analyses as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-profit Organizations, and is also not a required part of the financial statements. This supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2011 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.

A handwritten signature in cursive script that reads "Cusack & Company, CPA's LLC".

CUSACK & COMPANY, CPA'S LLC

Latham, New York
November 2, 2011

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
STATEMENT OF NET ASSETS (DEFICIT)
JUNE 30, 2011

ASSETS:

Current Assets:

Cash	\$ 23,466,649
State and Federal Aid Receivable	1,387,762
Due from School Districts and Other BOCES	4,969,920
Due from Other Funds	50,450
Other Receivables	588,518
Prepaid Expenses	<u>27,316</u>
Total Current Assets	<u>30,490,615</u>

Noncurrent Assets:

Capital Assets	11,659,885
Less: Accumulated Depreciation	<u>(5,035,344)</u>
Total Noncurrent Assets	<u>6,624,541</u>

Total Assets \$ 37,115,156

LIABILITIES:

Current Liabilities:

Accounts Payable	\$ 1,197,627
Accrued Expenses	1,499,380
Deferred Revenues	243,949
Capital Leases Payable	1,123,831
Due to Retirement Systems	<u>1,765,336</u>
Total Current Liabilities	5,830,123

Noncurrent Liabilities:

Postemployment Benefit Liability	<u>42,720,281</u>
Total Liabilities	<u>48,550,404</u>

NET ASSETS (DEFICIT):

Invested in Capital Assets, Net of Related Debt	5,760,060
Unrestricted Deficit	<u>(17,195,308)</u>
Total Net Assets (Deficit)	<u>(11,435,248)</u>

Total Liabilities and Net Assets (Deficit) \$ 37,115,156

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenues and Changes in Net Assets</u>
Functions/Programs:				
Administration	\$ 5,441,725	\$ 5,761,924	\$ 771,469	\$ 1,091,668
Occupational Instruction	9,170,467	7,573,555	2,269,734	672,822
Instruction of Handicapped	19,637,213	19,684,005	1,701,903	1,748,695
Itinerant Services	1,400,537	1,537,090	-	136,553
General Instruction	5,003,356	5,128,299	330,647	455,590
Instructional Support	5,041,840	4,348,969	1,079,226	386,355
Other Services	<u>6,582,265</u>	<u>5,951,400</u>	<u>-</u>	<u>(630,865)</u>
Total Functions/Programs	<u>\$ 52,277,403</u>	<u>\$ 49,985,242</u>	<u>\$ 6,152,979</u>	3,860,818
Return of Surplus				(3,472,287)
Postemployment Benefit Adjustment				<u>(12,039,640)</u>
Change in Net Assets				(11,651,109)
General Fund Encumbrances, Beginning of Year				(957,062)
General Fund Encumbrances, End of Year				1,874,476
Decrease in Reserve for Prepaid Expenses				(2,425)
Net Assets (Deficit), Beginning of Year				<u>(699,128)</u>
Net Assets (Deficit), End of Year				<u><u>\$(11,435,248)</u></u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 COMBINED BALANCE SHEET
 GOVERNMENTAL FUNDS AND RECONCILIATION
 JUNE 30, 2011

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS				
Assets:				
Cash	\$ 20,434,338	\$ 1,031,389	\$ 2,000,922	\$ 23,466,649
Due from School Districts	3,846,089	-	-	3,846,089
State and Federal Aid Receivable	-	1,387,762	-	1,387,762
Other Receivables, Net	264,293	324,225	-	588,518
Due from Other Funds	1,198,630	-	-	1,198,630
Prepaid Expenses	<u>27,316</u>	<u>-</u>	<u>-</u>	<u>27,316</u>
Total Assets	<u>\$ 25,770,666</u>	<u>\$ 2,743,376</u>	<u>\$ 2,000,922</u>	<u>\$ 30,514,964</u>
LIABILITIES				
Liabilities:				
Accounts Payable	\$ 1,113,892	\$ 83,735	\$ -	\$ 1,197,627
Accrued Expenses	591,558	43,341	-	634,899
Due to Other Funds	-	1,148,180	-	1,148,180
Deferred Revenues	44,729	199,220	-	243,949
Due to Retirement System	1,765,336	-	-	1,765,336
Other Postemployment Benefit Liability	<u>20,353,359</u>	<u>-</u>	<u>-</u>	<u>20,353,359</u>
Total Liabilities	<u>23,868,874</u>	<u>1,474,476</u>	<u>-</u>	<u>25,343,350</u>
FUND BALANCES				
Fund Balance:				
Nonspendable	27,316	-	-	27,316
Assigned	1,874,476	1,268,900	2,000,922	5,144,298
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>1,901,792</u>	<u>1,268,900</u>	<u>2,000,922</u>	<u>5,171,614</u>
Total Liabilities and Fund Balance	<u>\$ 25,770,666</u>	<u>\$ 2,743,376</u>	<u>\$ 2,000,922</u>	<u>\$ 30,514,964</u>
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities:				
Total Fund Balances for Governmental Funds				\$ 5,171,614
Capital Assets				6,624,541
Installment Debt Receivables				1,123,831
Accrued Expense				(864,481)
Installment Debt Payable				(1,123,831)
Postemployment Benefit Adjustment				<u>(22,366,922)</u>
Net Assets (Deficit) of Governmental Activities				<u>\$ (11,435,248)</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

	<u>General</u>	<u>Special Aid</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES:				
Charges to Components	\$ 47,611,555	\$ -	\$ -	\$ 47,611,555
Charges to Non-Components	2,042,650	-	-	2,042,650
Charges for Services	78,709	2,722,611	-	2,801,320
Interest and Earnings	190,502	-	4,458	194,960
Miscellaneous	667,146	-	-	667,146
Sales	170,378	-	-	170,378
Interfund Revenues	747,690	-	-	747,690
State and Local Sources	-	1,714,993	-	1,714,993
Federal Sources	-	1,715,375	-	1,715,375
Total Revenues	<u>51,508,630</u>	<u>6,152,979</u>	<u>4,458</u>	<u>57,666,067</u>
EXPENDITURES:				
Administration	4,761,130	715,786	-	5,476,916
Occupational Instruction	7,191,783	2,141,393	-	9,333,176
Instruction for Handicapped	18,065,109	1,701,916	-	19,767,025
Itinerant Services	1,409,796	-	-	1,409,796
General Instruction	4,703,783	332,647	-	5,036,430
Instructional Support	4,264,275	1,078,299	-	5,342,574
Other Services	7,060,678	-	-	7,060,678
Total Expenditures	<u>47,456,554</u>	<u>5,970,041</u>	<u>-</u>	<u>53,426,595</u>
EXCESS (DEFICIENCY) OF REVENUES OVER				
EXPENDITURES:	<u>4,052,076</u>	<u>182,938</u>	<u>4,458</u>	<u>4,239,472</u>
OTHER SOURCES AND (USES):				
Return of Surplus	(3,472,287)	-	-	(3,472,287)
Transfer to Capital Projects	(579,789)	-	-	(579,789)
Transfer from General Fund	-	-	579,789	579,789
Total Other Sources (Uses)	<u>(4,052,076)</u>	<u>-</u>	<u>579,789</u>	<u>(3,472,287)</u>
Change in Fund Equity	-	182,938	584,247	767,185
Encumbrances, Beginning of Year	(957,062)	-	-	(957,062)
Encumbrances, End of Year	1,874,476	-	-	1,874,476
Decrease in Reserve for Prepaids	(2,425)	-	-	(2,425)
Fund Equity, Beginning of Year	<u>986,803</u>	<u>1,085,962</u>	<u>1,416,675</u>	<u>3,489,440</u>
Fund Equity, End of Year	<u>\$ 1,901,792</u>	<u>\$ 1,268,900</u>	<u>\$ 2,000,922</u>	<u>\$ 5,171,614</u>
RECONCILIATION OF THE GOVERNMENTAL FUNDS				
COMBINED STATEMENTS OF REVENUES,				
EXPENDITURES AND CHANGES IN FUND BALANCES TO				
THE STATEMENT OF ACTIVITIES:				
Total Net Changes in Fund Balances -				
Governmental Funds				\$ 767,185
Capital Assets Acquired				1,342,165
Depreciation				(610,642)
Loss on Asset Disposal				(245,696)
Capital Lease Expense				(864,481)
Postemployment Benefit Adjustment				(12,039,640)
Change in Net Assets of Governmental Activities				<u>\$ (11,651,109)</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 STATEMENT OF FIDUCIARY NET ASSETS AND CHANGES IN FIDUCIARY NET ASSETS
 JUNE 30, 2011

Statement of Fiduciary Net Assets

	<u>Private-purpose Trusts</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 97,835	\$ 60,579
Accounts Receivables	-	13,648
Total Assets	<u>\$ 97,835</u>	<u>\$ 74,227</u>
LIABILITIES		
Due to Student Activities	\$ -	\$ 23,777
Due to Other Funds	-	50,450
Total Liabilities	<u>-</u>	<u>\$ 74,227</u>
NET ASSETS		
Reserved for Scholarships	<u>97,835</u>	
Total Net Assets	<u>97,835</u>	
Total Liabilities and Net Assets	<u>\$ -</u>	

Statement of Changes in Fiduciary Net Assets

Contributions	\$ 13,970
Interest	<u>759</u>
Total Income	<u>14,729</u>
Scholarships and Other Expense	<u>3,871</u>
Total Expenses	<u>3,871</u>
Increase in Net Assets	10,858
Net Assets, Beginning of Year	<u>86,977</u>
Net Assets, End of Year	<u>\$ 97,835</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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 polices are described below.

Reporting Entity

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

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

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

Questar III’s programs and services include career technical education, instruction of students with disabilities, academic and alternative programs, summer school, staff development, itinerant and school district support services.

The financial reporting entity consists of the following, as 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.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

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 presented on pages 43 to 46.

The Questar III Education Foundation

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

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 III'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, 2011

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 Aid - is used to account for the proceeds of specific revenue sources such as Federal and State grants, that are legally restricted to expenditures for specified purposes and other activities whose funds are restricted as to use, other than expendable trusts or major capital projects. These legal restrictions may be imposed by either governments that provide the funds or outside parties.
- c. Capital Projects - is used to account for financial resources to be used for the acquisition or construction of facilities, renovations and improvements.

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 scholarship programs.

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, 2011

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 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, 2011

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. 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 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.

Postemployment Benefits

In addition to providing pension benefits, Questar III provides health insurance coverage for retired employees and their survivors. Substantially all of Questar III's employees may become eligible for these benefits if they reach normal retirement age while working for Questar III. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing postemployment benefits is primarily borne by Questar III.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

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

Basis of Accounting/Measurement Focus (Continued)

2. **Governmental Fund Financial Statements (Continued)**

Fund Balance

As of June 30, 2011, Questar III implemented GASB 54 "Fund Balance Reporting and Governmental Fund Type Definitions."

GASB 54 defines five categories of fund balances as follows:

- **Non-spendable** fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Questar III's non-spendable fund balance consists of \$27,316 in prepaid expense recorded in the general fund at June 30, 2011.
- **Restricted** fund balance includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of Questar III's Board and contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements such as the award of a bid by Questar III's Board.
- **Assigned** fund balance includes amounts that are constrained by Questar III's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include funds that are legally mandated to be accounted for separately as well as amounts that have been contractually obligated by Questar III or designated by Questar III for ensuing year's budget. Assigned fund balance includes \$1,874,476 and \$38,386 of encumbrances recorded in the general fund and special aid fund respectively, at June 30, 2011.
- **Unassigned** fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the fund.

Questar III's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year by adjusting journal entries.

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.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Procedures and Budgetary Accounting (Continued)

1. Budget Policies (Continued)

- 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's Board can approve budget revisions based upon a request for additional services and available surplus revenues to pay for these items.

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 Assistant Superintendent for Business and Financial Services and the Treasurer are authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and U.S. Agencies, obligations of New York State or its localities, obligations of states other than New York rated in the three highest ranking categories and zero coupon obligations or the U.S. Treasury.

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

Total financial institution (bank) balances at June 30, 2011 per the bank were \$24,577,931 with a carrying value of \$23,625,063. These deposits were covered by Federal Deposit Insurance to the extent of \$572,845 and by pledged collateral of \$24,005,086.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2011

3. CAPITAL ASSETS

A summary of capital assets for the year ended June 30, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers/ Deletions</u>	<u>Ending Balance</u>
Land	\$ 463,533	\$ -	\$ -	\$ 463,533
Buildings	7,438,027	-	-	7,438,027
Equipment	2,008,080	330,866	143,577	2,195,369
Equipment Leased to Districts	431,963	975,099	301,392	1,105,670
Vehicles	<u>456,778</u>	<u>36,200</u>	<u>35,692</u>	<u>457,286</u>
	<u>10,798,381</u>	<u>1,342,165</u>	<u>480,661</u>	<u>11,659,885</u>
Less Accumulated Depreciation:				
Buildings	3,076,160	159,418	-	3,235,578
Equipment	1,243,213	187,164	146,695	1,283,682
Equipment Leased to Districts	87,659	213,810	60,280	241,189
Vehicles	<u>252,635</u>	<u>50,250</u>	<u>27,990</u>	<u>274,895</u>
	<u>4,659,667</u>	<u>610,642</u>	<u>234,965</u>	<u>5,035,344</u>
Capital Assets, Net	<u>\$ 6,138,714</u>	<u>\$ 731,523</u>	<u>\$ (245,696)</u>	<u>\$ 6,624,541</u>

Depreciation expense was \$610,642 for the year ended June 30, 2011.

4. INSTALLMENT PURCHASE DEBT

Installment purchase debt consists of various leases incurred for the purchase of equipment which is then leased by Questar III under similar terms to its component districts. The contracts will generally mature in two years. All installment purchase debts are collateralized by various equipment.

Installment purchase debt activity for the year ended June 30, 2011 is as follows:

Installment Purchase Debt, Beginning Balance	\$ 1,096,462
New Leases	780,156
Repayments	<u>(752,787)</u>
Installment Purchase Debt, Ending Balance	<u>\$ 1,123,831</u>

5. PENSION PLANS

General Information

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2011

5. 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, 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. Effective January 1, 2010 and thereafter, new employees must contribute 3% of their salary until retirement age. 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	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
2011	\$ 917,047	14.93%	\$ 1,344,741	8.62%
2010	\$ 771,153	11.44%	\$ 1,002,641	6.19%
2009	\$ 434,295	7.06%	\$ 1,311,615	7.63%

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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

6. POSTEMPLOYMENT BENEFITS

Questar III provides postemployment (health insurance) coverage to retired employees in accordance with the provisions of various employment contracts. The benefit levels, employee contributions and employer contributions are governed by Questar III's contractual agreements. Questar III implemented GASB Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*, within the required implementation time-line. This required Questar III to calculate and record a net other postemployment benefit obligation at year end. The net other postemployment benefit obligation is basically the cumulative difference between the actuarially required contribution and the actual contributions made.

Questar III recognizes the cost of providing health insurance annually as expenditures in the General Fund of the fund level financial statements as payments are made. For the current year and two preceding years, Questar III recognized for its share of insurance premiums for currently enrolled retirees the following:

2011	\$2,085,839
2010	\$1,744,632
2009	\$1,564,743

Questar III has obtained an actuarial valuation report as of June 30, 2011 which indicates that the total liability for other postemployment benefits is \$42,720,281, which is reflected in the Statement of Net Assets.

Funding Policy: The annual contributions are established by the Board of Education. Required annual insurance premiums are budgeted as approved by the Board of Education in addition to a certain amount set aside as designated for postretirement benefits.

Annual OPEB Cost and Net OPEB Obligation: Questar III's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of Questar III's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in Questar III's net OPEB obligation:

Annual required contribution	\$ 15,688,585
Interest	744,459
Less: ARC adjustment	<u>1,405,282</u>
Annual OPEB Cost	15,027,762
Contributions made	<u>2,085,839</u>
Increase in net OPEB obligation	12,941,923
Net OPEB obligation - Beginning of year	<u>29,778,358</u>
Net OPEB obligation - End of year	<u><u>\$ 42,720,281</u></u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2011

6. POSTEMPLOYMENT BENEFITS (CONTINUED)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010 and 2011 is as follows:

<u>Fiscal Year End</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 15,424,875	11.3%	\$ 29,778,358
6/30/11	\$ 15,027,762	13.8%	\$ 42,720,281

Funded Status and Funding Progress: As of June 30, 2011, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$132,426,991, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$132,426,991. The covered payroll (annual payroll of active employees covered by the plan) was \$23,052,538, and the ratio of the UAAL to the covered payroll was 574%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actual methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 2.5% investment rate of return and an annual healthcare cost trend rate of 11% initially, reduced by decrements to an ultimate rate of 7% after 5 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was 27 years.

A portion of the postemployment benefit liability has been charged to participating districts and grants, while the remaining portion remains unfunded. Questar III includes that portion charged to districts and grants in functional expenses and the unfunded portion as an other change in net assets, as this presentation is deemed the most meaningful.

The change in the postemployment benefit can be summarized as follows:

	<u>Total</u>	<u>Funded</u>	<u>Unfunded</u>
Postemployment Benefit Liability, July 1, 2010	\$ 29,778,358	\$ 19,451,076	\$ 10,327,282
Annual Required Contribution	15,027,762	2,988,122	12,039,640
Contributions Made	<u>(2,085,839)</u>	<u>(2,085,839)</u>	<u>-</u>
Postemployment Benefit Liability June 30, 2011	<u>\$ 42,720,281</u>	<u>\$ 20,353,359</u>	<u>\$ 22,366,922</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

7. COMMITMENTS AND CONTINGENCIES

Other Contingencies

Questar III has received grants which are subject to audit by agencies of the state and federal governments. Such audits may result in disallowances and a request for a return of funds to the federal and state governments. Questar III believes disallowances, if any, will be immaterial.

Leases

Questar III was committed to 17 operating lease arrangements at June 30, 2011 attributable to 16 classrooms and the Questar III's main office. The term of the leases vary from one to ten years.

The following table summarizes Questar III future payment requirements as of June 30, 2011 under noncancellable operating leases:

Year Ending	
2012	\$ 1,003,857
2013	899,398
2014	744,148
2015	744,148
2016	437,348
Thereafter	<u>1,579,740</u>
	<u>\$ 5,408,639</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, 2011 there were 17 participating members from Rensselaer, Columbia and Greene Counties in New York State. An estimated actuarial calculated liability to the Consortium of \$214,066 has been recorded in the accrued expenses in the general fund. Payments made to the Consortium during the year ended June 30, 2011 were \$293,816.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

7. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Dental Self-Insurance

Questar III is self-insured for dental insurance. Dental claims expense for the year ended June 30, 2011 was \$241,457. There is no annual maximum, no deductible and the plan does not cover employee's dependents.

Union Contracts

Questar III employees are represented by collective bargaining agents. Those agents which represent them and the dates of expiration of their agreements are as follows:

<u>Bargaining Unit</u>	<u>Contract Expiration Date</u>
Teachers' Association	June 30, 2013
Assistant Unit	June 30, 2013
Support Services	June 30, 2013

Litigation

Questar III is a defendant in various legal actions which are pending litigation. Legal counsel has reviewed the contingent liability to Questar III for each of these various lawsuits. Legal counsel is of the opinion that the outcome of this litigation will not materially affect the financial position of Questar III.

SUPPLEMENTARY INFORMATION

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
 BUDGETARY COMPARISON STATEMENT - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2011

SUPPLEMENTAL SCHEDULE #1

	Original Budget	Amended Budget	Actual	Over (Under) Amended Budget	
REVENUES					
Administration (001-002)	\$ 5,752,081	\$ 5,937,099	\$ 5,845,688	\$ (91,411)	
Occupational Instruction (100-199)	7,770,686	7,723,757	7,715,326	(8,431)	
Instruction for Handicapped (200-299)	19,420,716	19,145,762	19,260,596	114,834	
Itinerant (300-399)	1,609,335	1,467,976	1,451,309	(16,667)	
General Instruction (400-499)	3,899,902	4,680,514	4,674,965	(5,549)	
Instructional Support (500-599)	4,663,680	4,580,171	4,363,021	(217,150)	
Other (600-699)	<u>8,181,373</u>	<u>8,737,979</u>	<u>8,197,725</u>	<u>(540,254)</u>	
	<u>\$ 51,297,773</u>	<u>\$ 52,273,258</u>	<u>\$ 51,508,630</u>	<u>\$ (764,628)</u>	
	Original Budget	Amended Budget	Actual	(Overexpended) Unencumbered Encumbrances Balance	
EXPENDITURES					
Administration (001-002)	\$ 5,752,081	\$ 5,858,947	\$ 5,340,919	\$ 266,802	\$ 251,226
Occupational Instruction (100-199)	7,770,686	7,781,510	7,191,783	273,528	316,199
Instruction for Handicapped (200-299)	19,420,716	19,448,400	18,065,109	286,969	1,096,322
Itinerant (300-399)	1,609,335	1,347,604	1,409,796	339	(62,531)
General Instruction (400-499)	3,899,902	4,895,143	4,703,783	71,222	120,138
Instructional Support (500-599)	4,663,680	5,042,078	4,264,275	239,297	538,506
Other (600-699)	<u>8,181,373</u>	<u>8,849,014</u>	<u>7,060,678</u>	<u>736,319</u>	<u>1,052,017</u>
	<u>\$ 51,297,773</u>	<u>\$ 53,222,696</u>	<u>\$ 48,036,343</u>	<u>\$ 1,874,476</u>	<u>\$ 3,311,877</u>

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, 2011

SUPPLEMENTAL SCHEDULE #2

July 1 - Debit Balance	<u>\$ 3,893,632</u>
Debits:	
Billings to School Districts and Other BOCES	49,654,205
Prior Year Refund of Balances Due School Districts	3,067,333
Encumbrances - End of Year	<u>1,874,476</u>
Total Debits	<u>54,596,014</u>
Total	<u>58,489,646</u>
Credits:	
Collections from School Districts and Other BOCES	50,214,208
Adjustments - Credits to School BOCES - Revenues in Excess of Expenditures	3,472,287
Encumbrances - Beginning of Year	<u>957,062</u>
Total Credits	<u>54,643,557</u>
June 30 - Debit Balance	<u>\$ 3,846,089</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF PROJECT EXPENDITURES
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2011

SUPPLEMENTAL SCHEDULE #3

	<u>Original Appropriation</u>	<u>Revised Appropriation</u>	<u>Prior Year's</u>	<u>Current Year</u>	<u>Balance</u>
Columbia - Greene Parking Lot	\$ <u>510,021</u>	\$ <u>515,505</u>	\$ <u>477,943</u>	<u>-</u>	\$ <u>37,562</u>

FEDERAL PROGRAM AWARD INFORMATION

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the basic financial statements of Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties as of and for the year ended June 30, 2011 and have issued our report thereon dated November 2, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Questar III - Board of Cooperative Educational Services' management and is not intended to be and should not be used by anyone other than these specific parties.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
November 2, 2011

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

We have audited the compliance of Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2011. Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' management. Our responsibility is to express an opinion on Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States; and OMB A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' compliance with those requirements.

In our opinion, Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties complied, in all material respects, with the requirement referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance, accordingly, we do not express an opinion on the effectiveness of Questar III's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a control deficiency, or combination of control deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties as of and for the year ended June 30, 2011 and have issued our report thereon dated November 2, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Questar III - Board of Cooperative Educational Services' management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
November 2, 2011

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

<u>Federal Projects</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
U.S. Department of Labor		
Passed Through NYS Department of Education		
Service Navigator/WIA	17.259	\$ <u>50,281</u>
U.S. Department of Education		
Passed Through NYS Department of Education		
WIA	84.002A	262,402
RSE-TASC	84.027A	472,114
VATEA Formula	84.048A	272,538
Perkins	84.243	495,998
State Fiscal Stabilization Fund (ARRA Funding)	84.397	<u>126,020</u>
		<u>1,629,072</u>
U.S. Department of Health and Human Services		
Passed through NYS Department of Education		
Learn and Serve	94.001	<u>36,022</u>
U.S. Department of Education		
Passed Through NYS Higher Education Services Corp.		
Stafford Loan (Federal Family Education Loan)	84.032	547,163
Parent Loan for Undergraduate Students Program	84.268	24,403
Pell Grant (Federal Pell Grant Program)	84.063	<u>287,422</u>
		<u>858,988</u>
		<u>\$ 2,574,363</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents expenditures under federal financial assistance programs administered by Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States and Local Governments, and Non-Profit Organizations*.

2. RECONCILIATION OF FEDERAL AWARDS TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

A reconciliation of federal awards per the basic financial statements and the schedule of expenditures of federal awards is as follows:

Federal Award Revenue per Basic Financial Statement - Special Revenue Fund	\$ 1,715,375
Add Non Cash Loan Guarantee Federal Awards:	
Stafford Loan Program	547,163
Parent Loan for Undergraduate Students Program	287,422
Pell Grant Program	<u>24,403</u>
Federal Awards per Schedule of Expenditures of Federal Awards	<u>\$ 2,574,363</u>

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of Auditor's Report Issued: Unqualified

Internal Control Over Financial Reporting

- "Going Concern" explanatory paragraph included in audit report? No
- Significant deficiency(ies) disclosed No
- Significant deficiency(ies) reported as a material weakness? No
- Material noncompliance disclosed? No

Federal Awards

Internal Control Over Major Programs

- Significant deficiency(ies) disclosed for any major programs? No
- Significant deficiency(ies) reported for any major programs as a material weakness? No
- Any known questioned costs reported? No

Type of Auditor's Report Issued on Compliance for Major Programs: Unqualified

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

Major Program:	CFDA
State Fiscal Stabilization Fund (ARRA Funding)	<u>Number</u>
WIA	84.397
	84.002A

Dollar Threshold to Determine Type A and Type B Programs \$300,000

Auditee Qualified as Low-Risk Auditee: Yes

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2011

Section II - Financial Statement Findings

There were no findings relating to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

Section III - Federal Award Findings and Questioned Costs

There were no findings or questioned costs relating to Federal Award programs that are required to be reported in accordance with OMB Circular A-133.

EXTRACLASSROOM ACTIVITY FUNDS SECTION

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of assets and fund balance resulting from cash transactions of Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties, Extraclassroom Activity Funds, a component unit of Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties, as of June 30, 2011 and the related statement of cash receipts and disbursements for the year then ended. 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. 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.

As described in Note 1, Questar III's policy is to prepare the Extraclassroom Activity Funds' financial statements on the basis of cash receipts and disbursements; consequently, certain revenue and the related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and fund balances resulting from cash transactions of Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties, Extraclassroom Activity Funds as of June 30, 2011, and the revenue collected and expenses paid during the year then ended, on the basis of accounting described in Note 1.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
November 2, 2011

QUESTAR III - BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
EXTRAClassroom Activity Funds
STATEMENT OF ASSETS AND FUND BALANCE RESULTING FROM CASH TRANSACTIONS
JUNE 30, 2011

Assets

Cash	\$ <u>23,777</u>
------	------------------

Fund Balance

Fund balance	\$ <u>23,777</u>
--------------	------------------

QUESTAR III - BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSELAER-COLUMBIA-GREENE COUNTIES
EXTRACLASSROOM ACTIVITY FUNDS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Balances</u> <u>June 30, 2010</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Balances</u> <u>June 30, 2011</u>
Skills - Columbia-Greene	\$ 3,058	\$ 9,777	\$ 10,635	\$ 2,200
Skills - Rensselaer	6,406	7,778	7,495	6,689
E Bluhm/Red Mill	110	675	475	310
Odyssey of the Mind	2,405	4,025	3,147	3,283
Autistic/Goff	5,158	11,160	13,562	2,756
Yearbook - REC	(6)	36	30	-
Claverack Student Council	346	155	338	163
New Visions RPI	341	301	414	228
New Visions Visual Arts	94	206	253	47
Tamarac Team	564	2	-	566
Business 21 st Century	1,032	133	336	829
Sackett Student Council	276	588	202	662
Pro Start	975	3,072	3,521	526
New Visions Science Research	555	144	600	99
New Visions Science and Health	48	5,207	5,255	-
LPN - Columbia-Greene	122	-	122	-
Food Service	635	2,075	2,450	260
Rensselaer Academy Student Council	592	74	70	596
Tamarac - Burola	-	2,079	1,922	157
CGEC Health	-	7,349	2,943	4,406
	<u>\$ 22,711</u>	<u>\$ 54,836</u>	<u>\$ 53,770</u>	<u>\$ 23,777</u>

QUESTAR III - BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE COUNTIES
EXTRAClassroom Activity Funds
NOTE TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The extraclassroom activity funds are used to account for those organizations within Questar III - Board of Cooperative Educational Services, Rensselaer-Columbia-Greene Counties (Questar III) whose activities are conducted by students and whose financial support is raised other than by taxation, fees or through charges of Questar III.

A. Reporting Entity

The transactions of the Extraclassroom Activity Funds are considered part of the reporting entity of Questar III. Consequently, such transactions are included in the combined financial statements.

The extraclassroom activity funds of Questar III represents funds of the students of Questar III. The Board exercises general oversight of these funds. The extraclassroom activity funds are independent of Questar III with respect to its financial transactions, and the designation of student management.

B. Basis of Accounting

The books and records of Questar III's Extraclassroom Activity Funds are maintained on the cash basis of accounting. Under this basis of accounting revenues are recognized when cash is received and expenditures recognized when cash is disbursed.

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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, 2011, 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 2, 2011, 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

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICES
RENSSELAER-COLUMBIA-GREENE
MANAGEMENT COMMENTS
JUNE 30, 2011

CURRENT YEAR RECOMMENDATIONS

1. Fixed Assets

During our audit we noted several asset additions and deletions which had not been adjusted in the fixed asset detail.

Recommendation: We recommend that procedures be developed and implemented to address the issues noted.

Management's Response: We agree with the recommendation. It appears that the fixed asset addition deficiency relates to assets which were not physically handled by the fixed asset custodian. We will implement procedures to reconcile capital assets acquired during the year to the fixed assets record maintained by the custodian at least annually.

2. Restrictive Endorsement Lacking

During our audit we noted that checks forwarded from other locations lacked the restrictive endorsement "For Deposit Only."

Recommendation: We recommend procedures be developed to address the issue.

Management Response: Procedures will be developed to address the issue.

PRIOR YEAR RECOMMENDATIONS

1. Pooled Cash Funds

During the year the District began utilizing a pooled cash fund for the general, special aid and agency funds. As no procedure was implemented to offset the due to/from balances generated by the change, significant cash overdrafts and due from other funds balances were generated in the special aid and agency funds. We proposed a reclassification entry to offset these balances.

Recommendation: We recommend that procedures be developed and implemented to appropriately offset cash and due from other fund accounts to properly reflect both account balances.

Management's Response: We agree with the recommendation and will develop and implement procedures immediately.

QUESTAR III
BOARD OF COOPERATIVE EDUCATIONAL SERVICE
RENSSELAER-COLUMBIA-GREENE
MANAGEMENT COMMENTS (CONTINUED)
JUNE 30, 2011

2. Payroll Testing

Our testing of a sample of payroll transactions identified one instance in which a teacher's certificate had expired.

Recommendation: We recommend that procedures be developed and implemented to address the issue noted.

Management's Response: We agree with the recommendation. It appears that the deficiency relates to the Adult Education program and we will develop and implement procedures to correct this deficiency immediately.

3. Fixed Assets

During our audit we noted five fixed asset additions totaling \$96,866 which were not included in the fixed asset detail. In addition, we noted inconsistent estimated lives for printers acquired in 2010, with some having lives of 5 years and some having lives of 10 year.

Recommendation: We recommend that procedures be developed and implemented to address the issues noted.

Management's Response: We agree with the recommendation. It appears that the fixed asset addition deficiency relates to assets which were not physically handled by the fixed asset custodian. We will implement procedures to reconcile capital assets acquired during the year to the fixed assets record maintained by the custodian at least annually.