



March 11, 2015

Ms. Katy Buzetti
School Business Executive
Horseheads CSD
One Raider Lane
Horseheads, NY 14845

Dear Ms. Buzetti:

In 1998, Questar III management, having become increasingly concerned about the long-term impact of legacy costs to our component districts, developed a funding strategy expected to save districts more than half of the net Other Post-Employment Benefits (OPEB) obligation over time. We began collecting funds from grants and service programs and by June 30, 2013 had accrued \$22.9M for this purpose. We used accrual accounting, recorded in the general fund, as a basis for recognizing the OPEB long-term liability. The Questar III Board of Education authorized the policy and information regarding the policy and practice was shared annually with our component districts. External auditors reviewed the practice and acknowledged it as appropriate.

In recent years, however, the Office of the State Comptroller and the New York State Education Department have determined that BOCES with such accruals should return the funds, and pay for OPEB obligations on a pay-as-you go basis. The Questar III Board of Education engaged in a rigorous analysis of the OPEB accruals, which included an independent, full forensic audit conducted by D'Arcangelo & Co., LLP and independent legal review. An OPEB accrual liquidation plan was adopted by the Questar III Board and later approved by the New York State Education Department. A copy of the *Questar III Other-Post-Employment Benefits Recommendation (September 2014)* (the "Plan") is available on the Questar III website at www.questar.org/opeb.

Questar III is now liquidating OPEB accumulations in accordance with the Plan.

The forensic audit of OPEB accumulations identified accruals to be returned to your school district. The approved plan provides that accruals due to Questar III non-component districts in excess of \$10,000 will be liquidated over five years in the form of credits to the district's Questar III program purchases. Districts due credits of less than \$10,000 will be credited in one year. Should any credit provided to a district exceed its program purchases in any year, the excess credit will be carried forward to the following year until exhausted.

Your school district is due credits of \$1,026.43 in the year ending June 30, 2016, assuming no excess credit is carried forward to the following year.

The approved Plan also requires that, before any accrual is distributed, the recipient district board of education must authorize and sign a release from liability relating to OPEB. A copy of the Fund Surplus Resolution Agreement and Release is enclosed with this letter. The following steps are required:

1. District Board of Education authorizes the board president to sign two copies of the Fund Surplus Resolution Agreement and Release.
2. Once the board president signs, both copies are submitted by 5/31/2015 to: Robin Emanatian, Questar III Board Clerk, 10 Empire State Boulevard, Castleton, NY 12033.
3. Once the Questar III Board of Education authorizes the board president to sign the release, one original copy of the fully-executed release will be returned to the district board clerk.

In accordance with the Plan, no credits will be dispersed to a district unless and until it receives the executed release.

When the State Education Department approved the Plan, it indicated that it expected Questar III to develop a methodology to estimate the portion of each district's OPEB liquidation that was previously aided. Questar III responded to NYSED that it was NYSED's responsibility to determine whether state aid adjustments should be made. In addition, we expressed our belief that such aid take-back would be inconsistent with past SED practices and therefore unfair.

Please contact Harry Hadjioannou (518-479-6809 or harryh@questar.org) if you have any questions. We look forward to implementing the Plan and concluding OPEB liquidations.

Sincerely,



Gladys I. Cruz, Ph.D.
Chief Operating Officer
and Deputy Superintendent

cc: Questar III Board of Education
Encl.: Fund Surplus Resolution Agreement and Release

FUND SURPLUS RESOLUTION AGREEMENT AND RELEASE

This Fund Surplus Resolution Agreement And Release (“Agreement”) is by and between the Horseheads CSD (“District”), One Raider Lane, Horseheads, NY 14845, and the Board of Cooperative Educational Services Rensselaer - Columbia - Greene Counties (“Questar III”, which shall be defined to include Questar III’s Board members, administrators, officers, employees, attorneys, agents, representatives, successors and assigns), 10 Empire State Boulevard, Castleton, NY 12033. The District and Questar III may be referred to collectively herein as the “Parties.”

WHEREAS, Questar III retained D’Arcangelo & Co, LLP (“D’Arcangelo”) to conduct an independent audit of the funds that Questar III has accrued for purposes of satisfying future liabilities for post-retirement and other post-employment benefits (“OPEB”); and

WHEREAS, D’Arcangelo issued an Agreed-Upon Procedures Report on July 21, 2014 (the “Report”) which, among other things, confirmed the total balance of funds accrued by Questar III for OPEB purposes as of June 30, 2013 and, of that balance, amounts that could be returned to the component and non-component school districts who participated in the relevant programs conducted by Questar III (“Accrual Amount”); and

WHEREAS, the Questar III Board has adopted a plan by which the OPEB Accrual Amount will be returned to such component and non-component school districts (the “Plan”), utilizing the basis for return set forth in the Report, and

WHEREAS, the Plan has received approval from the State Education Department; and

WHEREAS, the Parties hereto wish to memorialize the terms by which the District will participate in the Plan;

NOW, THEREFORE, THE PARTIES HEREBY AGREED AS FOLLOWS:

1. Questar III will return to the District a total of \$1,026.43 (the “Payment Amount”), which by this Agreement shall be deemed to constitute the District’s full and complete entitlement to its share of the OPEB Accrual Amount. The Payment Amount shall be returned over a period not to exceed five years as follows:

District: Horseheads CSD

Year ending June 30,	OPEB Accruals Return to be Credited to Administrative Levy	% of Total Return to District
2016	\$1,026.43	100
Total Return of OPEB Accruals to District	\$1,026.43	100

The Payment Amount as set forth above shall be returned in the form of a credit against the amount that the District otherwise is required to contribute to Questar III for non-component district CoSer charges in each of the school years set forth in the Payment Schedule above. If the portion of the Payment Amount to be returned in any school year exceeds the amount that the District must otherwise remit to Questar III, the excess balance shall be added to the portion of the Payment Amount to be returned in the next subsequent school year pursuant to the above Payment Schedule. If any such excess balance remains after the final year of the Payment Schedule, the excess balance shall be credited against the District’s required contribution to Questar III in the next subsequent school year, and any additional school years as may be necessary to fully return the Payment Amount to the District. In no case shall Questar III be required to return any portion of the Payment Amount in the form of a cash payment to the District, or in any other manner except as set forth herein.

2. The District hereby accepts the return of the Payment Amount, as set forth herein, as full and complete satisfaction of any claim or entitlement the District would otherwise have, by law, contract, equity or otherwise, to return of any portion of the Accrual Amount.
3. In consideration for the return of the Payment Amount as set forth herein, the District hereby releases and discharges Questar III from any and all obligations, claims or liabilities, of any nature, that relate to the Accrual Amount and/or Questar III's OPEB accruals up to the date of execution of this Agreement, and the District hereby agrees that it will not commence, maintain or cooperate with any action, proceeding or claim in law or equity, of any nature or in any forum, against Questar III in relation to the Accrual Amount and/or Questar III's OPEB accruals up to the date of execution of this Agreement, which shall include but not be limited to any action, proceeding or claim in law or equity, seeking to recover (a) any portion of the Accrual Amount beyond that which is set forth in this Agreement, or (b) any other payment or relief that relates in any way to the Accrual Amount and/or Questar III's OPEB accruals up to the date of execution of this Agreement.
4. The District agrees that presentation of this Agreement shall serve as the District's unqualified and irrevocable consent to discontinue with prejudice any action, proceeding or claim in law or equity, commenced or maintained by or on behalf of the District and/or its officers in violation of the terms of this Agreement.
5. The Parties affirm that this Agreement fully and completely sets forth the agreed upon resolution of any rights, entitlements or claims that the District may have in relation to the Accrual Amount, and that no other promises or agreements have been made or would be effective in relation to the Accrual Amount.

6. The District and Questar III hereby each respectively affirm that the execution of this Agreement has been authorized by action of its Board of Education.

FOR QUESTAR III:

FOR THE DISTRICT:

Robert Gibson

President, Board of Education

Date: _____

[Type or Print Name]

President, Board of Education

Date: _____