

ACCOUNTING POLICY

I. Intent

The Board of Cooperative Educational Services recognizes that as a public education corporation it is steward of public resources. Further, as a cooperative, it is incumbent on the organization to appropriately account for the expenditure of resources in order to effectively carry out its mission to serve its school districts and their students.

II. System of Accounts

A. The accounting system shall provide an accurate, clear and complete record of all financial transactions for the organization under Generally Accepted Accounting Principles (GAAP) applicable to governmental entities. The accounting system shall support the goal of financial stewardship and shall facilitate future financial planning.

B. The system of accounts shall conform to the system prescribed pursuant to section 36 of the General Municipal Law and section 2116-a of the Education Law (the Uniform System of Accounts for BOCES). Additional accounts or records may supplement these accounts in order to assist the board and administration in decision-making.

III. Classification of Expenditures

A. All expenditures are to be reported under the account classifications provided in the Uniform System of Accounts for BOCES in order to satisfy legal reporting requirements and to facilitate compilation of comparative financial data for other programmatic purposes, such as grants program reporting.

B. Incurred obligations shall be within the amount of appropriation for such purposes. Requisitions shall be encumbered against available funds. In the event sufficient funds are not available, a transfer of funds or approval must accompany the request.

C. In order to maintain an accurate accounting of anticipated obligations and to obtain an accurate estimate of uncommitted appropriations, all known obligations must be encumbered as soon as possible within the fiscal year. These include obligations such as utilities expenses, debt service, salaries, fringe benefits and all known contractual expenses.

D. At the annual Reorganization meeting the District Superintendent or his/her designee shall be authorized to approve budget transfers. All transfers are processed in accordance with procedures established by the Deputy Superintendent responsible for Business and Financial Services. Budgets are adjusted to accommodate the service requests from school districts and other BOCES. Transfers within individual COSER budgets are revised using an online approval process which is approved at the Deputy Superintendent level, and upon authorizations processed by the BOCES Treasurer, increases or decreases to an individual program budget are processed using the written Budgetary Adjustment Process (BA-1 Form) and are approved at the same level as the budget transfers. No percentage or monetary limits have been established due to the fact that any changes are made to accommodate levels of service provided to school district and other BOCES. Programs accounted for in the Special Aid Fund are governed by the provisions of the grant and contract agreements. Transfers within the individual grant and contract budgets are processed using the written Budgetary Adjustment Process (BA-1 Form) and are approved at the same level as the COSER budget transfers noted above. Financial reports will be reviewed with the Audit Committee on a periodic basis.

IV. Revenue Recognition – Modified Accrual Basis of Accounting

A. Under the modified accrual 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. Beginning for fiscal year ending June 30, 2018, a 60-day availability period is used for recognition for governmental fund revenues except as follows: Revenues from Charges to Components, Charges to Non-Components, Charges for Services and State and Local Sources, Federal Sources and Sales are considered available if it is expected to be collected within one-year.

V. Performance Bonds

A. The Deputy Superintendent responsible for Business and Financial Services will assure that a public school system faithful performance bond, or blanket positions bond, will be obtained at all times for all employees, officers and pupils, as required by the Public Officers Law and the Commissioner's regulations. The Board shall direct any additional bonding amounts required for specific positions annually at its reorganization meeting.

VI. Petty Cash

- A. Petty cash funds, with fund amounts, may be established by the board of education for use by specified Questar III facilities. Petty cash funds shall be administered by and under the custody of individual(s) designated by the board of education.
- B. The method of recordkeeping for each fund shall be the imprest method for petty cash funds.
- C. Deposits to each fund may be made from time to time in amounts that shall not exceed payments made in cash from each fund, as indicated by receipts, receipted bills or other evidence of payment in a form available for audit.
- D. Payments from each fund may be made for materials, supplies or services only when payment is required upon delivery.
- E. Receipts and cash-on-hand for each fund shall always total the authorized fund amount.
- F. Each fund shall be managed and administered in compliance with the policies, rules and regulations of Questar III and the laws, rules and regulations of the State of New York.

VII. Cash in School Buildings (Other than Petty Cash)

- A. All money collected at Questar III facilities and classrooms (other than petty cash), including cash and negotiable instruments, shall be transferred to the business office for deposit as soon as possible after collection. In the event that money must be maintained in a Questar III facility overnight, it shall be placed in the building's safe. In the event money must be maintained in a Questar III district-based classroom overnight, it shall be maintained in a locked drawer or cabinet.
- B. A system of controls shall be instituted by the business office to assure accurate accounting for all cash receipts. Pre-numbered receipt forms will be used by the Treasurer and the Extraclassroom Activities Fund Treasurer to record the receipt of money paid over to his or her custody.
- C. All cash receipts shall be entered into the cash receipts journal and shall be maintained on a gross basis. The treasurer's receipt numbers, the source of the money and the amount shall be recorded.

- D. The Treasurer shall maintain a log of receipt books that identifies the number series of each book and persons to whom the books are assigned.

VIII. Use of Checks

- A. The Treasurer is authorized to sign checks for the Board. The Board of Education may appoint a Deputy Treasurer who is authorized to sign checks for the Board. In the event the Treasurer and the Deputy Treasurer are absent for any reason, the Board President is authorized to sign checks and, in the absence of the President, the Board Vice-President is authorized to sign checks for the Board.
- B. The Treasurer shall be responsible for safeguarding all unused checks in a manner that will protect them from fire, theft or water damage. Access to unused/blank checks shall be restricted.
- C. Checks may be signed electronically with the facsimile signature of the Treasurer or the Deputy Treasurer through the password protected check printing feature of the financial accounting software. The Treasurer and Deputy Treasurer shall maintain control of their respective passwords. In no event, shall passwords be shared. The password for printing and electronically signing checks is different than the initial log in to the financial software. This password should be updated at least twice a year.

IX. Certain Payments Prior to Audit

Payments of claims for public utility services, postage, freight and express charges may be made in advance of audit in accordance with section 1724 of the Education Law. Public utility services shall mean electric, gas, water, sewer and telephone services, including cell phone services. All such claims shall be subject to audit by the claims auditor as soon after payment as practicable and the person incurring or approving the same shall be liable for any amount disallowed by the claims auditor.

X. Certification of Payrolls

The Board designates the Deputy Superintendent responsible for Business and Financial Services to be responsible for certifying payrolls.

XI. Cash Flow Management

- A. The Treasurer shall manage all activities associated with the BOCES cash flow management consistent with the Office of the State Comptroller's Financial Management Guide.

- B. The cash flow management program shall include procedures for temporarily investing monies in order to earn interest income. All investments shall be made after seeking quotations and shall be consistent with the Board's Investment Policy.

XII. Periodic Financial Reports

- A. The Treasurer shall provide the Board with a cash reconciliation report for each fund on a monthly basis.
- B. The Treasurer shall provide the Board with a budget status report including both revenues and expenditures, which shall include programmatic information provided by program directors to support the budget data. The reports shall include a simple narrative explaining the activity for the time period being reported. These reports shall be provided for each major program area three times each fiscal year. The first report shall reflect the first six months of the fiscal year, the second report shall be presented at the adoption of the ensuing year's budget and a third and final report shall be furnished with the annual audit report.
- C. An annual audit of all funds of the BOCES shall be made by a certified public accountant in accordance with Commissioner's Regulations. The annual audit should include an examination of documents, records and accounts, and be conducted in accordance with Generally Accepted Accounting Principles (GAAP). The BOCES shall use a competitive request for proposal process when contracting for the annual audit and no audit engagement shall be for a term exceeding five (5) years. The audit committee shall make recommendations relating to the annual audit and engagement of the external auditor as provided by the Board's Audit Committee Policy.

XIII. Write-off of Bad Debt

The Audit Committee will, at least annually, review the proposed list of accounts receivable to be written off. The Audit Committee will then make a recommendation to the Board for approval of bad debt write-offs.

XIV. Accounting for OPEB Funds

Please refer to Appendices A and B of this document for background information on OPEB Funds.

A. Policies –

The following accounting policies pertain to the accounting of the balance of the OPEB accrual:

- Any amounts due to component, non-component school districts and other BOCES shall be accounted for in the Agency Funds; Any amounts due to New York State or any other agency for grants and contracts shall be accounted for in the Special Aid Fund.
- The amount related to the Health Insurance Holdback (12 month estimate) shall be accounted for in the General Fund as a current accrued liability under the modified accrual basis of accounting, representing an estimate of the amount of postemployment benefits to be liquidated with expendable available financial resources.
 - On an annual basis, the current accrued liability will be adjusted to reflect the subsequent year's projected benefit payments. The latest GASB 45 actuarial valuation report, available during budget development for the ensuing fiscal year, shall be the basis for recording the projected benefit payments as the current accrued liability. *For example: The July 1, 2015 actuarial report for fiscal year ending June 30, 2016 was issued and available during the 2016-17 budget development process. The projected benefit payments included in the report for fiscal year ending June 30, 2018, shall be the budgeted and actual expenditure during the 2016-17 fiscal year and the current accrued liability as of June 30, 2017, representing the estimated amount due for retiree health insurance payments within one year of the balance sheet date.*
- The full OPEB current accrued liability and related expenditures shall be budgeted and accounted for in the Administrative Budget.
- An annual schedule that distributes the Administrative, Rent and Capital Budgets to component school districts, which is inclusive of credits (miscellaneous revenues and OPEB credits, if any), shall be provided to the Board of Education as part of the annual rate setting approval.

References:

Education Law, §§ 2116-a; 2116-c; 1709(29); 1720; 1724; 1950(4);
General Municipal Law, §36
8 NYCRR §§ 170.2; 170.3; 170.4.

Uniform System of Accounts for BOCES, Office of the State Comptroller (1988)

ADOPTED 5/11/06
REVISED 3/20/13
REVISED 6/9/16
REVISED 9/13/18

APPENDIX A

Background on the OPEB Accrual and the liquidation plan:

- Prior to the 2013-2014 school year, Questar III had a longstanding practice of setting aside funds to pay for the future expenses associated with the post-employment benefits of our retirees.
- A task force of superintendents and business officials were convened after this practice was questioned by several districts for review.
- A letter from the Office of the State Comptroller was received on October 11, 2013, rejecting the longstanding practice.
- The Questar III Board accepted the Final OPEB report of the Task Force, dated February 2014, at its regular meeting on April 15, 2014.
- Questar III retained an independent accounting firm to perform agreed-upon procedures and retained a law firm to perform an independent legal review and their results for liquidating the accrual were presented to superintendents and business officials on July 24, 2014.
- Each component district was asked to submit their district's preference for the liquidation time period (five, seven or 10 years) by August 23, 2014.
- On September 11, 2014, the Questar III Board accepted the Report of the District Superintendent, dated September 2014, entitled Questar III Other-Post-Employment Benefits Recommendation, which included six recommended actions based upon the requirement from the Office of the State Comptroller that the funds be liquidated and the recommendations of the BOCES created OPEB Task Force, the report of the independent auditor and the independent legal review.
- On October 6, 2014, the State Education Department issued a letter dated October 6, 2014 accepting the aforementioned board approved recommendations.
- Component and Non-Component School Districts executed Fund Surplus Resolution Agreement and Release agreements.

APPENDIX A - CONTINUED

- At its' regular meeting, January 14, 2016, Questar III's Board of Education has determined, in accordance with the OPEB Accrual Liquidation – Funds Held Decision Memo on Financial Statement Treatment for Fiscal Year Ending June 30, 2015 (see Appendix B), certain accounting policies for accounting of the \$20,685,619 balance of the OPEB accrual.
 - The portion due to component, non-component school districts and other BOCES in the amount of \$15,692,282 as of June 30, 2015, shall be accounted for in the Agency Funds;
 - The portion due to New York State for grants and contracts in the amount of \$2,318,337 as of June 30, 2015, shall be accounted for in the Special Aid Fund. In accordance with GASB 54, the Board of Education, hereby, assigns \$2,318,337 of fund balance for the purposes of funding a potential recovery of funds by New York State;
 - The portion related to the Health Insurance Holdback (12 month estimate) in the amount of \$2,675,000, shall be accounted for in the General Fund as a current accrued liability under the modified accrual basis of accounting, representing an estimate of the amount of postemployment benefits to be liquidated with expendable available financial resources.

APPENDIX B

**QUESTAR III
OPEB ACCRUAL LIQUIDATION – FUNDS HELD
DECISION MEMO ON FINANCIAL STATEMENT TREATMENT
FISCAL YEAR ENDING JUNE 30, 2015**

The following documents should be reviewed in conjunction with this decision memo:

- OPEB Task Force Report – Questar III BOCES Other Post-Employment Benefits and Budget/Fiscal Practices – February 2014.
- Report of the District Superintendent dated September 2014, approved by the Board on September 11, 2014, entitled Questar III Other Post-Employment Benefits Recommendation.
- New York State Education Department appreciation letter – October 6, 2014

Status of OPEB Accrual Balance:

6/30/2014 OPEB Accrual Balance	\$21,931,555
2014-2015 Liquidation (credits to districts)	1,245,936
6/30/2015 OPEB Accrual Balance	\$20,685,619

The OPEB Accrual Balance as of June 30, 2015 is broken down as follows:

Due to Components and Hoosick Falls	\$14,285,939
Due to Non-Components (excl. Hoosick Falls)	1,406,343
Due to New York State (Grants and Contracts)	2,318,337
Health Insurance Holdback (12 month estimate)	2,675,000
6/30/2015 OPEB Accrual Balance	\$20,685,619

For fiscal year ending June 30, 2014 the OPEB Accrual Balance of \$21,931,555 was recorded in the General Fund. Subsequent to June 30, 2014 the following events occurred:

1. \$1,245,936 of the OPEB Accrual Balance was liquidated in the form of credits to districts leaving a balance of \$20,685,619.
2. Questar III’s Board of Education adopted, on September 11, 2014, the following recommendations as contained in the September 2014 Report of the District Superintendent:
 - \$14,285,939.01 would be liquidated to component school districts and Hoosick Falls over a five year period.
 - \$1,406,343.09 would be liquidated to school districts outside of Questar’s region over a five year period. Districts due credits of less than \$10,000, will be credited in one-year.

APPENDIX B - CONTINUED

- \$2,318,337.26 will remain in the Special Aid fund pending guidance from the State Education Department.
 - Before any accruals are distributed, the recipient districts must execute a release of liability relating to OPEB.
 - Consistent with modified accrual accounting standards, Questar III will retain a 12 month estimate of future OPEB costs in its General Fund.
 - Submit the approved plan to the State Education Department for its approval prior to distribution of any funds.
3. The State Education Department issued a letter dated October 6, 2014, accepting the above 6 recommendations.
 4. The Fund Surplus Resolution Agreement and Release agreements were executed by all of Questar's component school districts, all but 2 of the non-component districts with credits greater than \$10,000, and the majority of non-component districts.
 - Some outstanding non-component districts agreements continue to trickle in and Questar is considering to send a follow up mailing prior to the end of the June 30, 2016 fiscal year.
 - A future decision will need to be made regarding agreements not returned and how the related balance of the OPEB accrual will be handled.
 5. There has been no guidance from SED regarding the remaining \$2,318,337.26 related to grants and contracts.

Accounting treatment of the OPEB Accrual Balance:

Portion due to school districts and other BOCES (\$14,285,939 + \$1,406,343):

These funds are no longer owned by Questar III, as a result of the board approved recommendations and the execution of the Fund Surplus Resolution Agreements. Therefore, Questar III is holding the funds for the benefit of others (agency capacity) and the funds shall be transferred to the Trust and Agency Fund.

Portion related to grants and contracts (\$2,318,337.26):

Questar III has taken the position that the funds are due back to the State and Federal governments. However, there has been no response from SED after repeated attempts to seek guidance on this issue. As a result, the funds will be retained in the Special Aid Fund. The nature of the funds is not a current liability, therefore the Board of Education will establish an assignment of fund balance, in accordance with GASB 54, in the amount of \$2,318,337.26 for the purposes of funding a potential recovery of funds by SED. At some time in the future, the BOE may decide to release the assignment of the fund balance, after there is reasonable assurance by either the statute of limitations running out or a final determination from SED that the funds will not be recouped.

The BOE assignment of fund balance will be proposed for establishment at the January 2016 BOE meeting.

APPENDIX B - CONTINUED

Portion related to the Health Insurance Holdback (12 month estimate \$2,675,000):

The task force recommended that a 12 month estimate be held as an accrued liability in the general fund.

Basis for recording in the General Fund: In accordance with GASB Statement No. 45 (paragraph 19), "OPEB expenditures from governmental funds should be recognized on the modified accrual basis. The amount recognized should be equal to the amount contributed to the plan or expected to be liquidated with expendable available financial resources." GASB Interpretation No. 6 defines "Normally Expected to Be Liquidated with Expendable Available Financial Resources" (paragraph 14). "Governments, in general, are normally expected to liquidate liabilities with expendable available financial resources to the extent that the liabilities mature (come due for payment) each period." The 12 month estimate at 6/30/15 represents the health insurance liability for employee retirements at 6/30/15 for health insurance payments that will be made during the year ending 6/30/16, 12 months of current financial resources. This method requires an update of the 12 month estimate on an annual basis. In effect, Questar III would need to budget and expend in its current year financial statements, the subsequent year's projected payments. The amount of the 12 month holdback is \$2,675,000 per the task force report. The current expenditure in the 6/30/15 financial statements is \$2,675,000. The 15-16 estimated benefit payments per the GASB 45 valuation report for the year ending 6/30/15 is \$2,808,506. The additional amount of \$133,506 is immaterial to the financial statements as a whole, and will not be adjusted for year ending 6/30/15. In addition, the amount reported is an estimate and due to the inherent uncertainty involved in making estimates, actual results may differ from the estimates made.