

**Malone Central School District**  
**Annual Report**  
**June 30, 2018**

# Malone Central School District

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## **Independent Auditor's Report**

To the Board of Education  
Malone Central School District

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Malone Central School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Malone Central School District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Malone Central School District as of June 30, 2018 and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 21 and the budgetary comparison and information on other post employment benefits, ERS and TRS pension plans on pages 63 through 69 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.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Malone Central School District's basic financial statements. The accompanying information as contained in the Reference Manual for Audits of General Purpose Financial Statements of New York State School Districts and the combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

The accompanying information as contained in the Reference Manual for Audits of General Purpose Financial Statements of New York State School Districts, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements or to the basic 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 stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018 on our consideration of Malone Central School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* in considering Malone Central School District's internal control over financial reporting and compliance.

Seyfarth & Seyfarth CPAs, P.C.  
Malone, NY

October 1, 2018

## Management's Discussion and Analysis

The following is a discussion and analysis of Malone Central School District's financial performance for the fiscal year ended June 30, 2018. This section is a summary of the School District'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. This section is only an introduction and should be read in conjunction with the School District's financial statements, which immediately follow this section. Responsibility for completeness and fairness of the information contained rests with the School District.

### **School District Overview/Highlights**

The School District encompasses approximately 384 square miles and includes various portions of the towns of Bangor, Belmont, Brandon, Burke, Constable, Duane, Franklin, Malone, and Westville. The character of the School District is primarily agricultural with the majority of homes being one-family. Commercial activity in the School District is centered in and around the town and village of Malone, with the primary employers being New York State Department of Corrections, Alice Hyde Medical Center and the Malone Central School District.

The School District employs approximately 506 full and part-time professional and support staff. These employees are organized into three collective bargaining units (teaching staff, support staff, and administrators). On August 22, 2017 the Malone Central School District Board of Education approved a new bargaining agreement for the period of July 1, 2017 – June 30, 2022. The CSEA (support staff) and MAA (administrators) contracts both expire on June 30, 2018 and both were settled. The MAA (administrators) contract was settled on June 12, 2018 and the CSEA (support staff) on August 14, 2018.

The 2018-2019 budget was developed by the board of education and passed by district voters on May 15, 2018. Total state aid is projected to decrease by \$414,560 coming by way of decreased building aid. Foundation aid is projected to be \$24,407,655 for 2018-19. Over time, increases in retirement costs and health insurance premiums have increased, leaving districts to use large amounts of fund balance to make up for the lost revenue, or for districts that did not have fund balance, cut programs and staff. The Board of Education made a decision to stay below the property tax levy cap in 2018-19, which calculated to be 2.145%. The final budget passed by the board carried a projected tax levy increase of 0%. This will be especially important as the Board looks to develop a budget for the 2019-2020 school year. Consumer price indexes at this time show a troubling indicator that there will continue to be little or no growth in the CPI for the coming months. The use of carryover for the district will be necessary to maintain current programs.

As mentioned above, the Board of Education adopted a budget that carried with it an estimated levy increase for 2018-19 of 0%. This resulted in an estimated true value tax rate of \$16.83 per thousand dollars of assessed value for the 2018-2019 school year, which is a decrease of 2.3%. The current true value tax rate compares favorably when compared to the 2004-05 school year where the tax rate on true was \$19.20. For comparison reasons, the district looks at the rate from ten (10) years ago to highlight the fact that the tax rate on true value has remained stable over that same time period, which is unusual for school districts. The chart below shows Malone CSD to be spending the least per pupil among Franklin County School Districts. Based on the number of available programs and activities students in

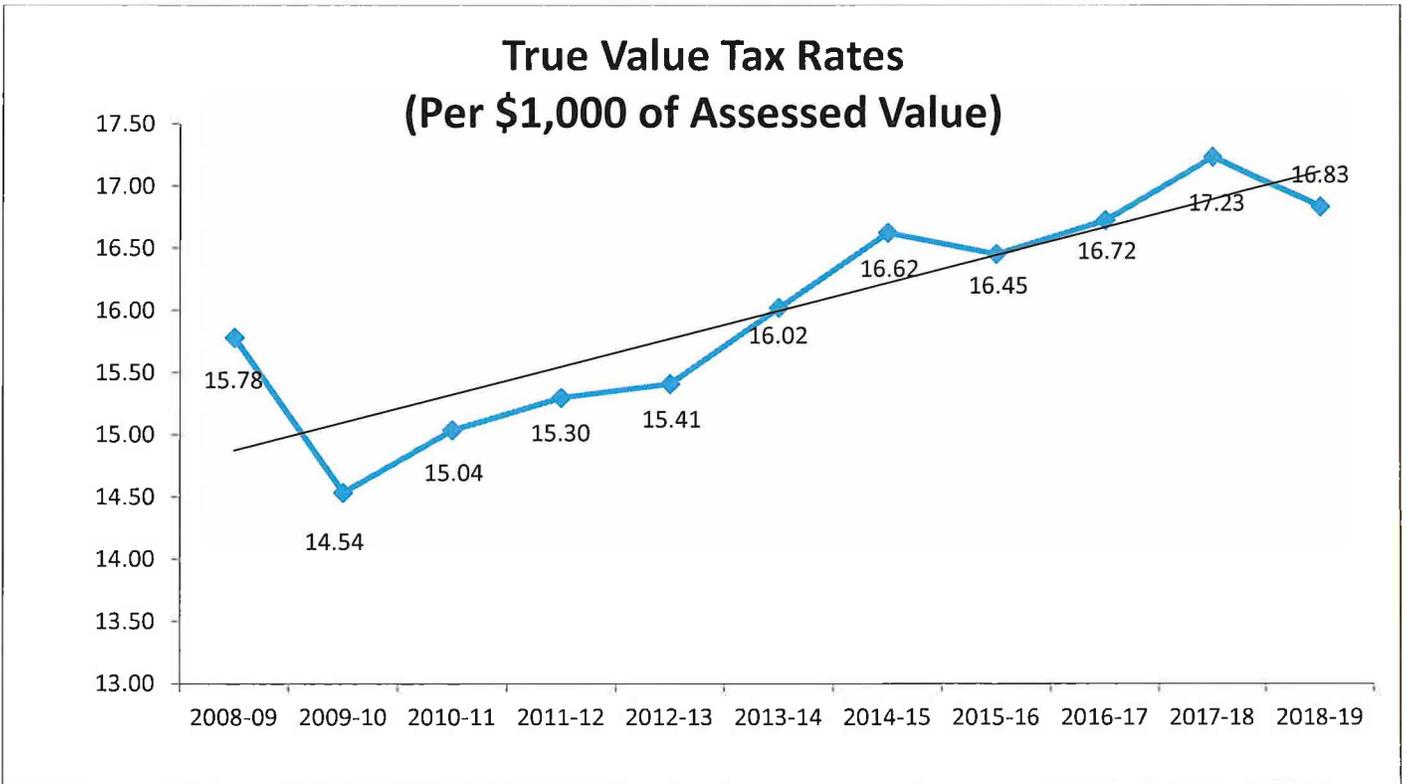
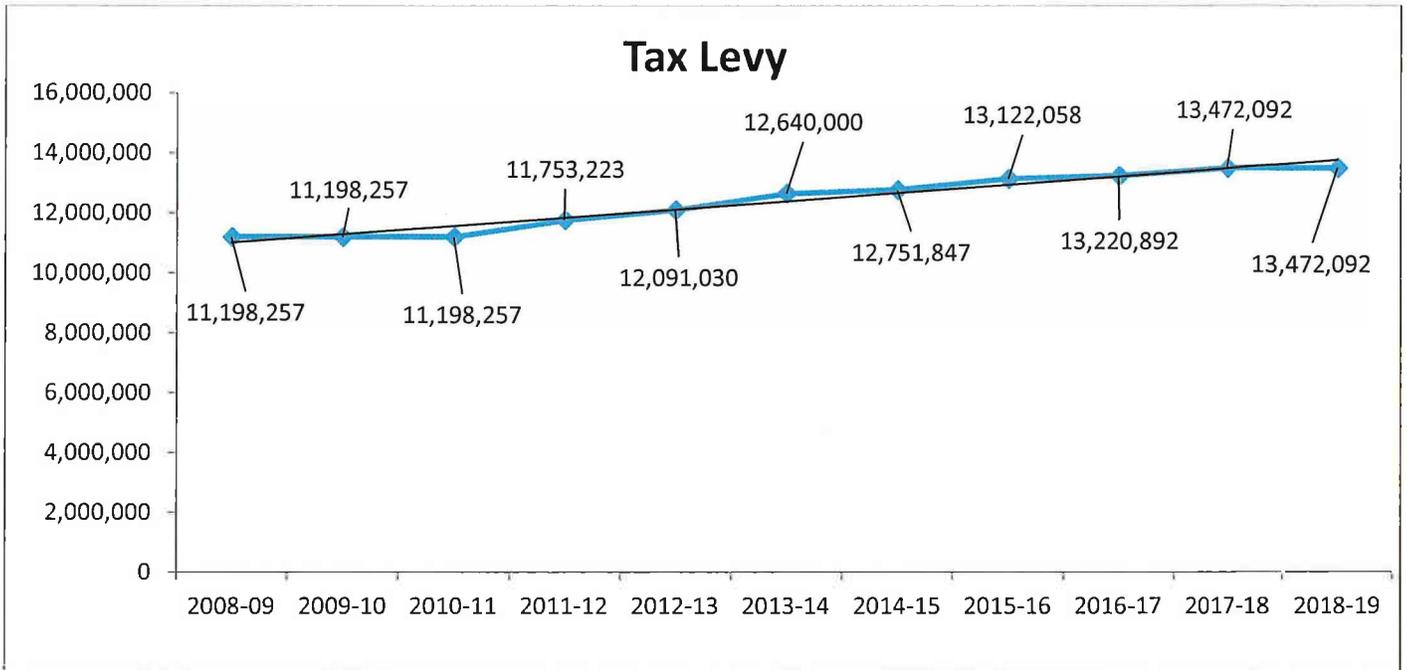
the district have available for their participation. The chart shows taxpayers in the district are getting a good value for their tax dollars. Data source is from the Annual Financial Report Data (ST#) for school districts for school year 2016-17 (as of December 15, 2017).

<u>District</u>	<u>Spending per pupil</u> ▲	<u>Budget</u>	<u>County</u>
Malone	\$22,435	\$50,859,117	Franklin
Tupper Lake	\$22,469	\$16,964,066	Franklin
Saranac Lake	\$25,150	\$29,927,987	Franklin
Chateaugay	\$26,770	\$13,250,961	Franklin
Brushton-Moira	\$25,711	\$20,105,798	Franklin
Salmon River	\$28,666	\$41,537,162	Franklin
Saint Regis Falls	\$40,435	\$10,068,416	Franklin

The actual rate in each town within the district fluctuates greatly due to the way the municipalities and the state choose to report property value. When property is not assessed at its full value, as determined by the state, an equalization rate is applied to the town. This rate makes it easier to compare towns where property values are not proportional.

The district's enrollment on March 31, 2018 was 2,310, inclusive of 90 pre-kindergarten students. This is slightly higher than the previous year's enrollment of 2,291. Enrollment projections indicate that the current incoming classes will be approximately the same as the previous years and enrollment in general should remain constant.

At the July 24, 2018 meeting, the Board of Education adopted a tax levy of \$13,472,092 for the 2018-19 school year. The levy increase of 0% was a result of the district complying with the tax levy limit law of the greater of 2% or the CPI. For the 2018-19 school year, the district's tax levy limit was actually 2.145%. However, in a conscious effort to minimize the impact to the taxpayers the board decided to adopt a spending plan at the 0% level. This will enable the Board to utilize carryover tax money for the 2018-2019 fiscal year. The trend of tax rates based on true value has shown a steady decrease over a ten year period. See below for graphs that show the history of tax levy increases and true value tax rates.



In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (Statement 75). This statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, (Statement 45). As a result of the new GASB 75 the other postemployment employee benefits (OPEB) such as health care will now be reported as an OPEB liability reported on the face of the financial statements rather than in the accompanying notes (as previously required by Statement 45). Postemployment benefits are part of an exchange of salaries and benefits offered by employers to attract and retain qualified employees, some benefits, including salaries and active-employee healthcare, are taken while the employees are in active service. These reporting requirements became effective beginning after June 30, 2017. The goal of the statement is to give a true projection of the cost of health benefits from the time a person is hired, until that person is deceased. Presently, the district uses the pay as you go method, since a reserve cannot be established to offset the future expenses.

The OPEB liability is determined annually using an actuarial valuation as of the 7/1/2017 measurement date. The liability is measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee services. OPEB expense is the change of OPEB liability between the measurement dates and is recognized as an expense in the current reporting period. Deferred inflows and outflows of resources are recorded separately in the Net Asset Statement.

After an actuarial study was completed for Malone CSD by Armory Associates, Inc., it was determined that the liability that will be reported in our financial statements relative to GASB 75 requirements is \$109,558,610. When this liability is reflected on the district's statements and analyzed in conjunction with net assets, the district experienced negative net assets of \$70,181,770. If the district were to fully fund the future cost of health benefits of our current employees and those who have retired from the district, the cost as of July 1, 2017 would be \$109,558,610. Obviously it is unrealistic and impossible for the district to set aside enough money to fully fund this sort of future liability. However, there is no mandate for schools to fund the liability, only to report the cost on the financial statements.

The 2015 fiscal year saw the additions of GASB 68 *Accounting and Financial Reporting for Pensions*, which is an amendment of GASB Statements No. 27 and 71 *Pensions Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of the Statements requires the District to report as an asset and/or liability its portion of the collective net pensions asset and liability in the New York State Teachers' and Employees' Retirement Systems. The implementation of the Statements also requires the District to report a deferred outflow and/or inflow for the effect of the net change in the District's proportion of the collective net pension asset and/or liability and difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. Also included as a deferred outflow is the District contributions to the pension systems subsequent to the measurement date.

The Districts' proportionate share of New York State Teachers' Retirement System is a net pension **asset** of \$803,160 and the Districts' proportionate share of New York State Employees' Retirement System is a net pension **liability** of \$467,365. The combined pensions deferred outflows amounted to \$11,952,693 and inflows were \$3,902,445.

The 2017 fiscal year saw the addition of GASB Statement No. 77 *Tax Abatement Disclosures*. At the present time, the school district has not entered into any property tax abatement programs for the purpose of economic development with any one entity. All of the property tax abatement programs that the district receives money from are the result of agreements entered into with Franklin County Industrial Development Agency, Village of Malone, and the Town of Malone.

## OVERVIEW OF 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 the School District.

- The first two statements are *district-wide* financial statements that provide both *short-term* and *long-term* information about the School District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School District, reporting the School District’s operations in *more detail* than the district-wide statements. The fund financial statements concentrate on the School District’s most significant funds with all other non-major funds listed in total in one column.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the School District acts solely as a *trustee* or *agent* for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information (Supplemental Schedule SS-1) that further explains and supports the financial statements with a comparison of the School District’s budget and actual for the year.

The following summarizes the major features of the School District’s financial statements, including the portion of the School District’s activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

<b>Major Features of the District-Wide and Fund Financial Statement</b>			
		<b>Fund Financial Statements</b>	
	<b>District-Wide</b>	<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire District (except fiduciary funds)	The activities of the School District that are not proprietary or	Instances in which the School District administers resources on

		fiduciary, such as special education and building maintenance	behalf of someone else, such as scholarship programs and student activities monies
<b>Required Financial Statements</b>	Statement of net position Statement of activities	Balance Sheet Statement of revenues, expenditures, and changes in fund balances	Statement of fiduciary net assets Statement of changes in fiduciary net position
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
<b>Type of Asset/Deferred Outflows of Resources/Liability/Deferred Inflows of Resources Information</b>	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources both financial and capital, short-term and long-term	Generally, assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due or available during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any) both short-term and long-term; funds do not currently contain capital assets, although they can
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end to the year; 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

### District-Wide Statements

The district-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The *statement of net assets* includes all of the School District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid.

The two district-wide statements report the School District's *net assets* and how they have changed. Net assets, the difference between the School District's assets and liabilities, is one way to measure the School District's financial health or *position*.

- Over time, increases or decreases in the School District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the School District's overall health, you need to consider additional non-financial factors such as changes in the School District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the School District's activities are shown as *Governmental activities*. Most of the School District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state and federal aid finance most of these activities.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds - not the School District as a whole. Funds are accounting devices the School District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The School District establishes other funds to control and to manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as Federal grants).

The District has two kinds of funds:

- 1.) Governmental Funds:** Most of the School District's 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 in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.
- 2.) Fiduciary Funds:** The School District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The School District 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. The School District excludes these assets to finance its operations.

### **FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE**

Net position may serve over time as a useful indicator of a government's financial position. In the case of the School District, liabilities exceeded assets by \$70,181,771 at the close of the most recent fiscal year.

The largest portion of the School District's net assets, \$33,061,411, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The School District used capital assets to provide services; consequently, these assets are not available for future spending. Although the School District's investment in its capital assets is reported net of related debt, it should be

noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the School District's net assets, \$5,068,437, represents resources subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the School District's ongoing activities.

The following schedule summarizes the School District's net assets. The complete Statement of Net Assets can be found in the School District's basic financial statements on page 22.

**Condensed Statement of Net Assets:**

<b>ASSETS:</b>	<b>2016-2017</b>	<b>2017-2018</b>
Current and other assets	\$ 14,422,727	\$ 16,500,012
Pension assets, net	0	803,160
Capital assets, net	<u>68,631,753</u>	<u>66,522,627</u>
<b>Total Assets:</b>	<b><u>\$ 83,054,480</u></b>	<b><u>\$ 83,825,799</u></b>
 <b>DEFERRED OUTFLOWS:</b>	 <u>\$ 11,963,450</u>	 <u>\$ 13,825,701</u>
 <b>LIABILITIES:</b>		
Current liabilities	\$ 1,689,400	\$ 727,818
Long-term liabilities	<u>93,595,551</u>	<u>146,036,430</u>
<b>Total Liabilities:</b>	<b><u>\$ 95,284,951</u></b>	<b><u>\$ 146,764,248</u></b>
 <b>DEFERRED INFLOWS:</b>	 <u>\$ 3,465,511</u>	 <u>\$ 21,069,023</u>
 <b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	\$ 30,459,611	\$ 33,061,411
Restricted	4,986,754	5,068,437
Unrestricted	<u>(39,178,897)</u>	<u>(108,311,619)</u>
<b>Total Net Assets</b>	<b><u>\$ (3,732,532)</u></b>	<b><u>\$ (70,181,771)</u></b>

In general, fund level assets are those assets that are available to satisfy current obligations and current liabilities are those liabilities that will be paid within one year. Current assets consist primarily of cash equivalents of \$12,918,483 and state and federal aid receivable of \$1,559,085.

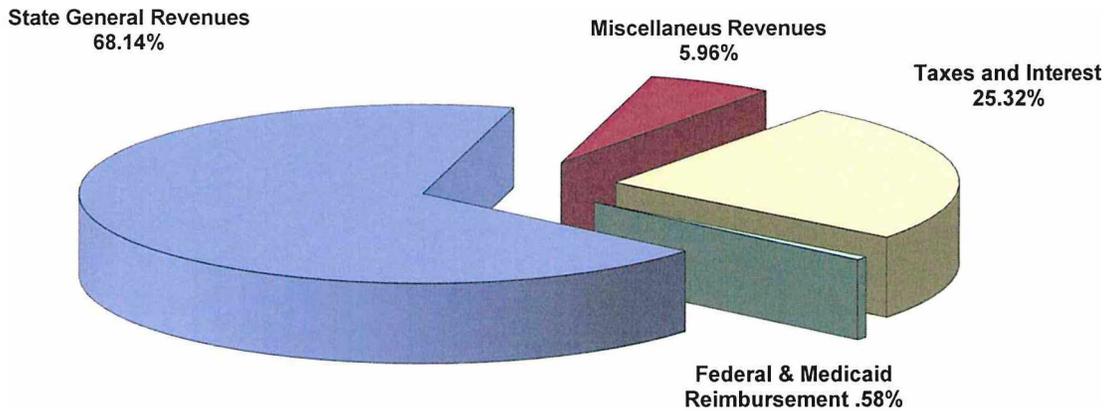
The Statement of Activities shows the cost of program services net of charges for services and grants offsetting those services. General revenues including tax revenue, investment earnings and unrestricted state and federal aid must support the net cost of the School District's programs.

The following schedule summarizes the School District's activities. The complete Statement of Activities can be found in the School District's basic financial statements on page 23.

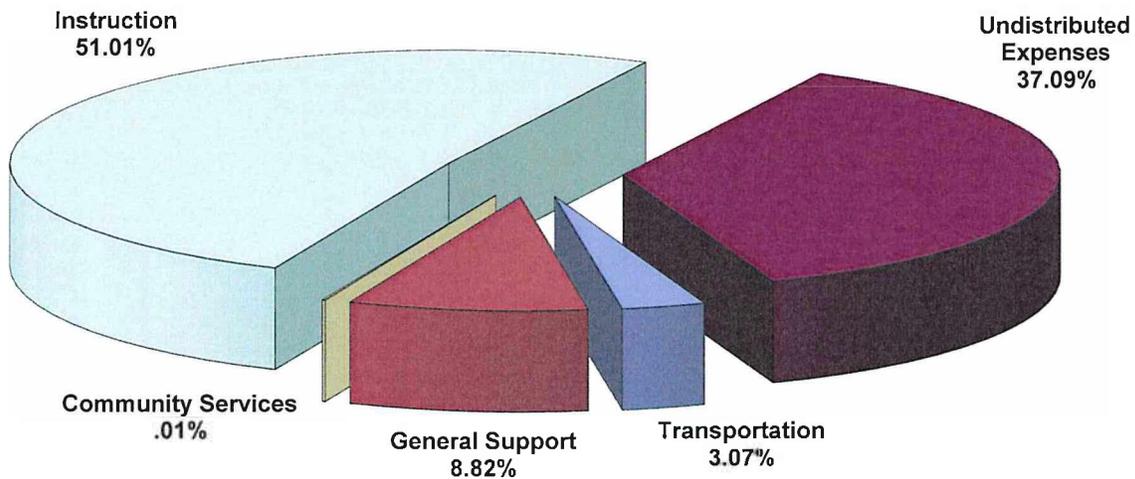
**Condensed Statement of Activities**

<b>Revenues</b>	16-17	17-18
General Revenues		
Property and other tax items	13,342,920	13,620,144
Use of money and property	5,904	13,031
Sale of property and compensation for loss	30,721	2,292,084
State sources	34,150,019	37,779,259
Federal sources	2,104,386	2,079,086
Other	558,816	400,570
Total Revenues	<u>50,192,766</u>	<u>56,184,174</u>
 <b>Expenses</b>		
General Support	4,827,507	6,183,394
Instruction	27,094,242	32,540,737
Pupil Transportation	2,051,448	2,851,774
Community Service	77,054	107,554
Employee Benefits	19,250,163	11,948,452
Debt service	1,209,212	1,493,958
Other Expenditures	-	-
School Lunch	(57,353)	7,341
Total Expenses	<u>54,452,273</u>	<u>55,133,210</u>
 <b>Change in Net Assets</b>	 <u><u>\$ (4,259,507)</u></u>	 <u><u>\$ 1,050,964</u></u>

## Sources of Revenue for Fiscal Year Ending 2018



## Expenditures for Fiscal Year Ending 2018



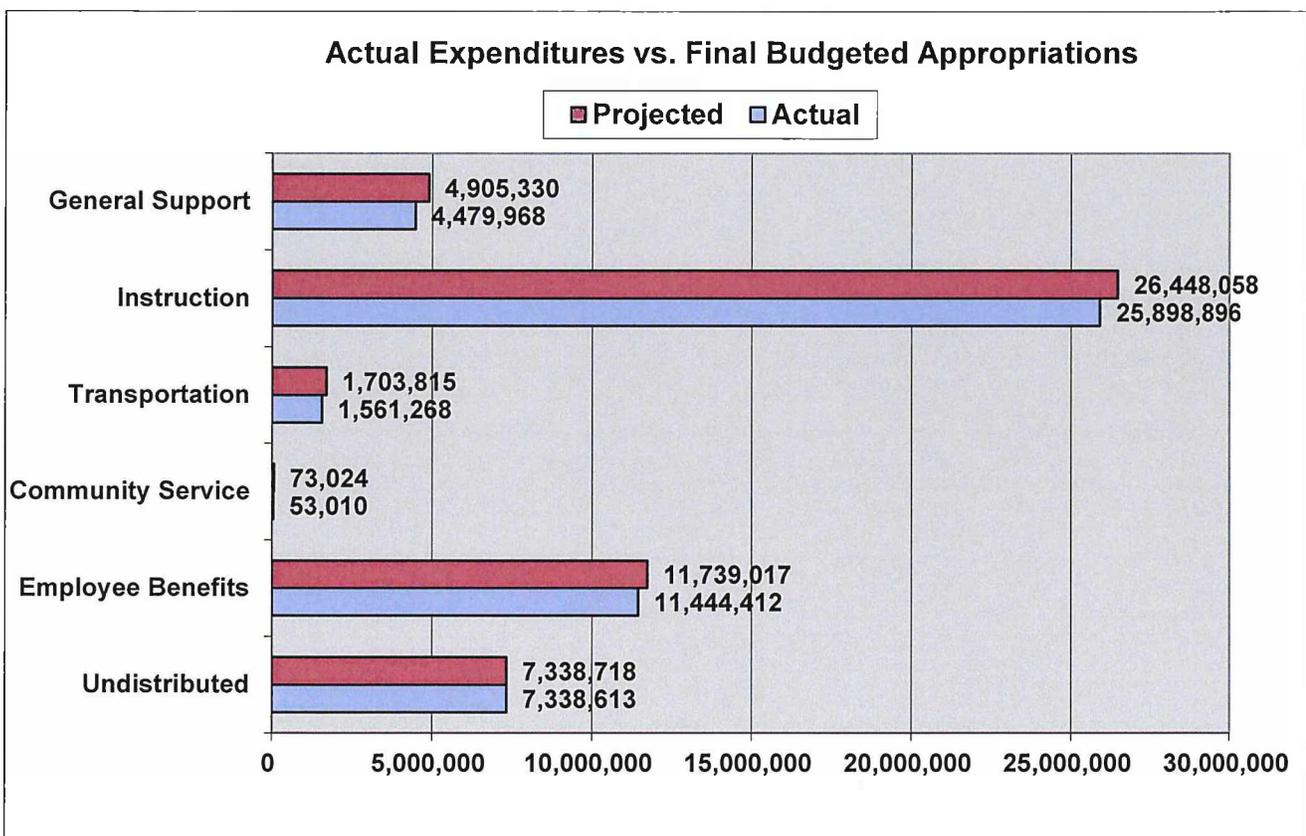
The financial statements also include the activity of the Special Aid funds, which are comprised of a number of state and federal grant programs and the school lunch fund, also known as the cafeteria fund. The cafeteria fund is designed to be self-supporting, with revenues matching expenditures. In the 2006-2007 year, for the first time in many fiscal years, the cafeteria's revenues exceeded its expenditures. In

2017 -18 the district is required to zero all cafeteria balances using funds from the general fund. This is addressed in more detail further in the report.

Finally, the statements also include the related debt service funds and the capital projects fund. These are also discussed later.

### General Fund Budgetary Highlights

The School District’s adjusted budget for the 2017-2018 school year was \$52,207,973. Actual expenditures totaled \$50,776,167, which includes transfers to other funds totaling \$486,044 for a favorable variance of \$1,342,479. The graph below shows, in general terms, how the actual expenditures are distributed and compared to final budgeted appropriations:



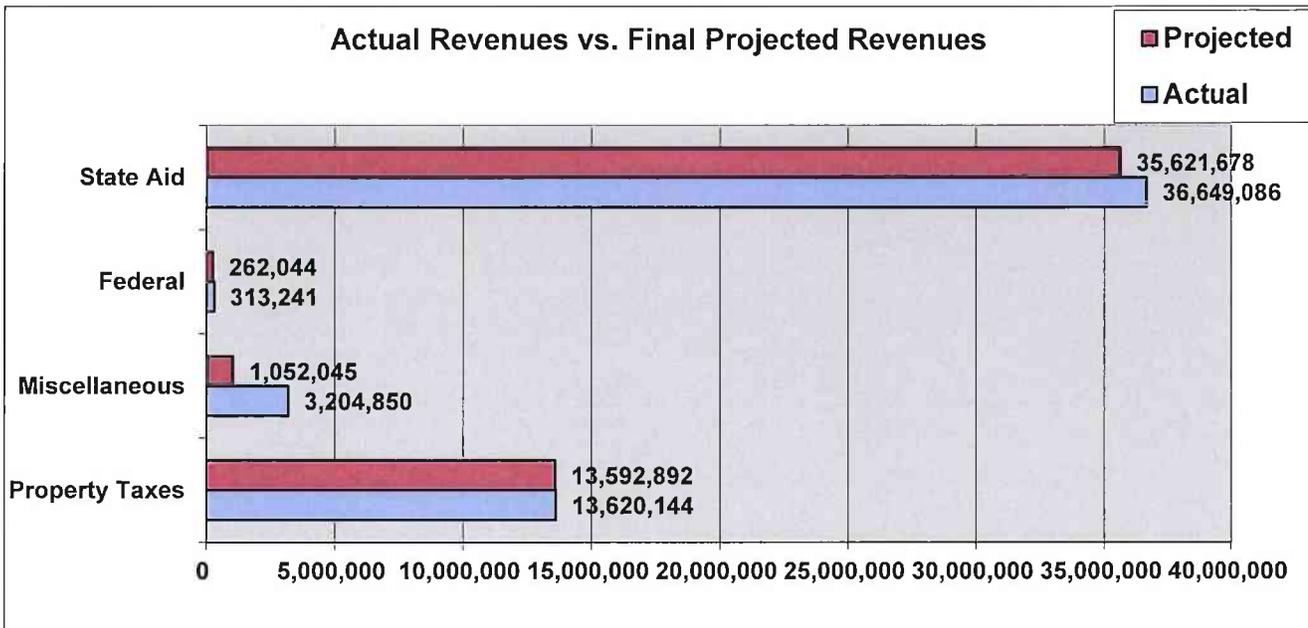
The School District has under-expended its budget by \$1,342,479 (net of encumbrances totaling \$89,326). This is mainly due to lower than expected expenditures for general support, instruction and benefits.

Instruction – As noted above, there was a relatively high variance in instructional services in 2017-2018. The remaining balance in the instructional codes was \$494,754. This accounts for almost 37% of the total variance. This is largely due to unspent funds that were budgeted in the areas of special education, teaching, and pupil services.

General Support – Actual general support expenditures were lower than originally budgeted by \$390,455. This variance was mainly due to a combination of overages and shortages between general support codes. One significant variance within this category was the amount budgeted for utilities, such as fuel oil, propane, water/sewer, and electricity. Fuel oil, propane, and water/sewer expenditures proved to be less than what was budgeted, and electricity expenses ended the year with a positive balance. These factors helped create a positive variance of \$216,365.

Employee Benefits – Actual Employee Benefits were lower than originally budgeted by \$294,605. The largest portion of the variance in employee benefits represents a positive balance of \$138,708 in health insurance and \$96,449 in NYSERS and NYSTRS costs. It is not uncommon to see a significant variance in employee benefits due to the extreme unpredictability of whether an employee will choose an individual or family premium. In addition, some employees forego their health insurance benefit altogether because they can receive an equal or increased benefit through their spouse’s employment. Due to the fact that the District cannot predict whether a particular employee will choose single or family coverage, or no coverage at all, the district must budget sufficient health insurance monies in case each person who is eligible for the benefit chooses to take advantage of the plan.

Transportation – The transportation department under expended its budget by \$142,538 in 2017-2018. This positive variance was due to lower than expected costs.



Revenue receipts in the 2017-2018 school year were higher than anticipated by a total of \$3,258,662. Total revenues were estimated to be \$50,528,659. The fiscal year ended with actual revenues of \$53,787,321, for a positive variance of \$3,258,662. The refund the district receives from BOCES on a yearly basis was \$40,525.62 higher than the district anticipated and other unclassified revenues amounted to lower than expected returns in this area. Interfund transfers revenue was a negative variance of (\$315,000).

State General Revenues – Actual state aid payments were higher than originally estimated by a total of \$1,027,408. As stated above, the state legislature increased the district’s state aid allocation for 2017-2018.

Taxes and Interest –The district ended the year with \$27,252 more than it had anticipated. Speculation on the number of property tax adjustments and tax certiorari proceedings is difficult. In any given year, the district could receive a tax judgment or a number of judgments that decrease or increase the total amount of tax collection significantly. Should this happen, the district has the ability to utilize the tax certiorari reserve to stabilize and wholly fund the projected revenue.

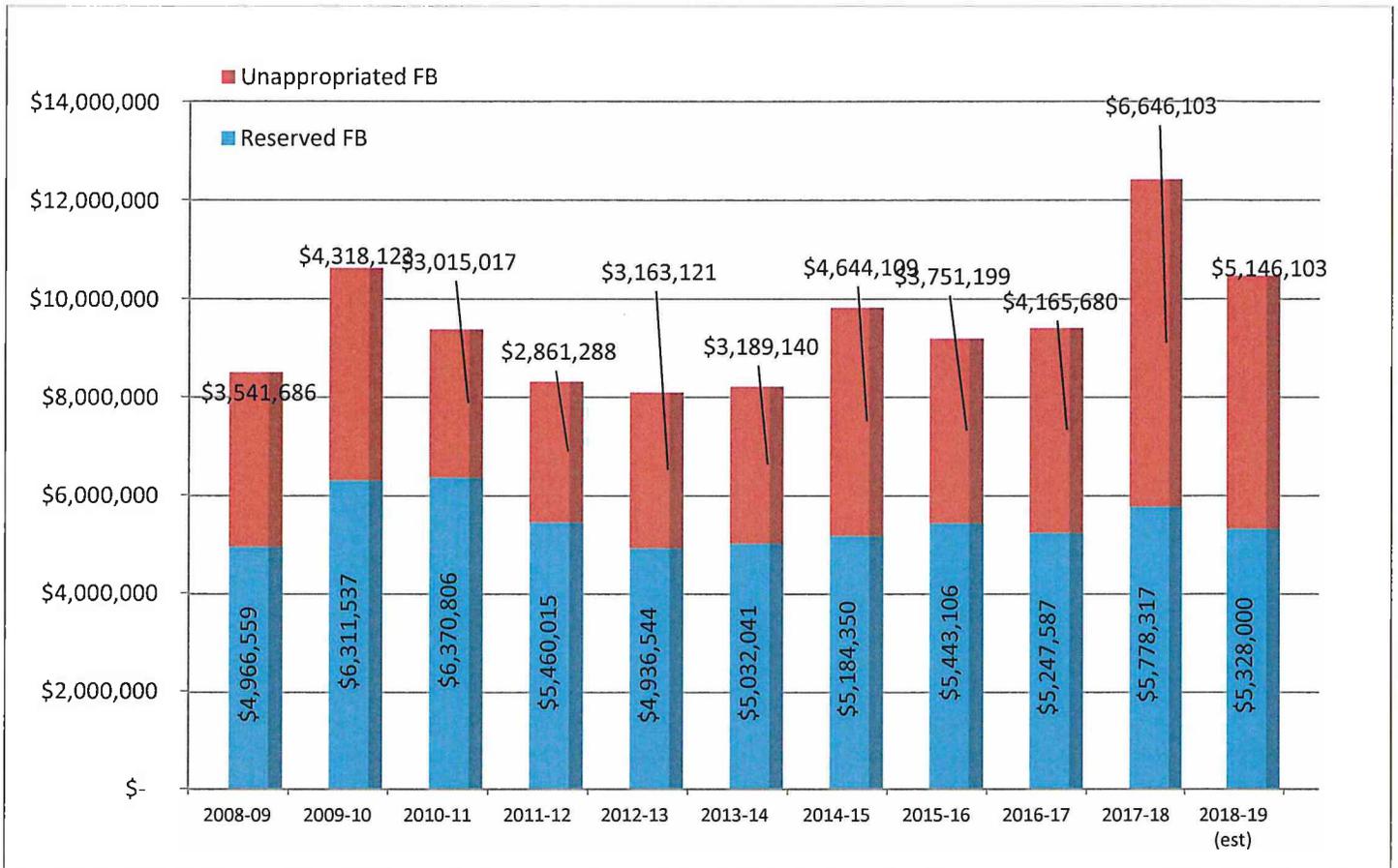
Miscellaneous Revenues – Another positive variance was in miscellaneous revenues. Actual revenues were \$2,475,158 higher than estimated revenues. This accounts for such items as indirect cost transfers, charges for services, prior year refunds, and the sale of real property, BOCES refund, and tuition costs. Most of this variance is due to the fact that in 2017-2018 Malone CSD received a \$2,200,000 settlement from QZAB litigation. Without these funds, miscellaneous revenues would have had a positive variance of \$275,158.

Federal Reimbursement – Actual revenues associated with Medicaid claims was \$151,310 for the 2017-2018 fiscal year.

## **ANALYSIS OF THE SCHOOL DISTRICT’S FUNDS**

### **Financial position (year to year) – General Fund**

The General Fund showed an increase in fund balance of \$3,011,154. Perhaps the most visible way to show this change is to describe the position of revenues compared to expenditures at year end 2018. Expenditures totaled \$50,776,167 at year end, while revenues totaled \$53,787,321. This increase includes the \$2,200,000 settlement received for QZAB litigation. Without the QZAB settlement the General Fund would have shown an increase of \$811,154.



### Debt Service Fund

The total balance in the debt service fund, \$1,002,569, is set aside to pay the local share of debt service payments on capital improvement projects for the 21<sup>st</sup> Century Project and Transportation Facility. In addition, interest gained on revenue in this fund accumulates directly into the fund.

### School Lunch (Cafeteria) Fund

School lunches over the past year decreased by 8,151 compared to the 2016-2017 school year. The Healthy Hunger-Free Kids Act of 2010 set policy by improving the nutrition standards for all meals served under the National School Lunch Program. The program focuses on caloric counts for lunch and limits the amount of protein and other components in an attempt to balance the meal properly. Many children continued to bring lunch instead of buying school lunches because they believe they are not receiving as much food as in years past due to the calorie restrictions placed on schools. The district is working with Aramark the food service company contracted to provide breakfast and lunch to the district's students in effort to increase participation rates.

The net fund balance from one year to the next increased \$9,119 making the total fund balance \$324,508 for the year. The district used fund balances in the account to make multiple improvements to the equipment and cafeteria infrastructure over the course of the 2017-2018 school year.

The district also continued its commitment to using fund balance in the cafeteria fund to offer promotional events and student incentives to participate. Those students who typically pay \$.25 (reduced priced meals) or full priced meals did not pay anything to eat breakfast or lunch on many Fridays during the 2017-2018 school year. The fund also contributed monies to help transition equipment at Franklin Academy to heat with natural gas instead of propane. Due to the availability of gas as a heating and cooking source at the high school all equipment has been transitioned from propane to natural gas.

**Special Aid Funds**

Federal and State grants provide funding for specific purposes ranging from reading improvement, to servicing the needs of students with disabilities, to records management. The chart below indicates for the more significant grants for the 2017-2018 expenditures for each grant.

<b>Program</b>	<b>Purpose</b>	<b>2017-2018</b>
Title I & School Improvement	Improving Academic Achievement	\$971,093
Title IIA	Elementary Class Size Reduction	\$113,203
Universal Pre-K	Pre-School Education	\$490,300
Section 611	School Age Special Education	\$598,511
Section 619	Pre-School Special Education	\$33,810
Incarcerated Youth	Education of Incarcerated Youth	\$72,899

The School District experienced Special Aid revenues of \$2,760,425 when accounting for prior year carry over amounts and grant amendments. Total expenditures equaled \$2,760,425.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

The financial statements provide a picture of capital assets over time. These include land, buildings, and equipment and furniture. The following chart depicts the June 30, 2018 values.

	Balance June 30 2017	2017-18 Additions	2017-18 Sold/Retired	Balance June 30 2018
Land	\$ 656,899	\$ -	\$ -	\$ 656,899
Buildings & improvements	91,767,170	322,078	-	92,089,248
Equipment & furniture	8,291,768	855,339	(189,848)	8,957,259
Improvements	-	-	-	-
Construction in Progress	41,826	3,500	(10,448)	34,878
Less:				
Accumulated depreciation	32,125,909	3,279,596	(189,848)	35,215,657
Net Capital Assets	\$ 68,631,754	\$ (2,098,679)	\$ (10,448)	\$ 66,522,627

For more information refer to Note 7 in the notes to financial statements on page 53.

The following chart depicts the School District's outstanding debt at June 30, 2018:

		ISSUE DATE	FINAL MATURITY	OUTSTANDING
INSTALLMENT PUR.	13/14 BUSES	10/4/2013	2019	101,727
INSTALLMENT PUR	14/15 BUSES	8/4/2014	2020	195,291
INSTALLMENT PUR	15/16 BUSES	9/01/2017	2023	600,917
SERIAL BOND	QZAB	11/15/2011	2026	9,025,000
SERIAL BOND	QZAB	5/15/2013	2026	5,625,000
SERIAL BOND	DASNY	12/15/2011	2027	1,475,000
SERIAL BOND	DASNY	6/13/2013	2028	730,000
SERIAL BOND	DASNY	6/28/2017	2032	13,310,000
				\$31,062,935

## FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

### Internal Revenue Service Audit

The Internal Revenue Service (the "IRS") routinely conducts examinations of bonds and notes to determine compliance with federal tax requirements. The District \$15,170,555 General Obligation Qualified Zone Academy Bonds, 2011, issued on November 29, 2011 (the "2011 QZABs") and its \$8,496,497 General Obligation Qualified Zone Academy Bonds, 2013, issued on May 15, 2013 (the

“2013 QZABs” and together with the 2011 QZABs, the “QZABs”) were the subject of recent IRS examination.

At the time of issuance of the QZABs, the District made irrevocable elections to treat both issues of QZABs as “direct pay” bonds eligible for direct subsidy payments (the “Direct Subsidy Payments”) from the Federal Government rather than as “tax credit bonds”. During the course of the examination, questions surfaced regarding the issue price at which the 2011 QZABs were sold and the direct pay status of a portion of the 2011 QZABS and all of the 2013 QZABs. The District worked with its current bond counsel to address the issues raised during the examinations of the 2011 QZABs and 2013 QZABs. The District did not pledge the Direct Subsidy Payments to the holders of its QZABs.

Based upon the terms of the settlements reached with the IRS, the District paid the United States Treasury approximately \$1,300,000 on account of Direct Subsidy Payments it received in 2013, 2014 and 2015, inclusive of interest, attributable to the District’s QZABs. In addition, the District must forego certain Direct Subsidy Payments to the holder of its QZAB’s.

The District does not expect the settlement of the IRS examinations to have an adverse material impact upon the ability of the District to pay the principal of and interest its outstanding bonds or notes when due, including the bonds now being sold to DASNY.

It should be noted that the District expects to continue to receive State building aid on account of the projects financed with the proceeds of its QZABs. See “*Building Aid*” under the subheading “*State Aid*” herein.

### **Impact of Tax Levy Cap**

Major legislation passed by the NYS legislature limits tax levy growth to no more than 2% by any municipality beginning with the 2012-13 fiscal year. Although commonly referred to as “The Tax Cap”, the true limit placed on schools is on their ability to levy a tax beyond a formula calculation of the lesser than 2% or the CPI for that year. However, many other factors must be accounted for within the complicated formula in order to arrive at the actual allowable levy increase for a particular year. Other factors, such as “tax base growth factor”, payments in lieu of taxes (PILOTS), and various exemptions will all play a part in the eventual calculation. Additionally, districts will be entitled to exempt certain expenditures from the tax cap calculation. Portions of the levy associated with debt service, increases to ERS and TRS over two percentage points and budgeted monies for tax certioraris are to be deducted from the calculation. For the 2017-2018 the CPI increase for district’s in NYS was 2.145%, which generated \$288,954 in additional tax levy, however the District maintained a 0% tax increase in the tax levy for the 2018-2019 school year.

### **STAR Program Changes**

New homeowners will receive a rebate check from NYS instead of receiving the NYS School Tax Relief credit on their annual school taxes. Property owners who buy a home after March 1, 2015 will receive a rebate in the fall of each year and that refund will be taxable when they file their taxes in April of the following year. This move will save the state about \$180 million per year when fully implemented. There is debate amongst school officials on whether this transition will be positive or negative amongst

community members and how the change will affect the perception of school taxes for property owners. Whether property owners will use the rebate check for tax purposes remains to be seen. It is anticipated that some individual property tax escrow accounts will be short due to the change in the way the STAR program is administered if property owners don't fully account for the change.

### **Franklin-Essex-Hamilton BOCES Capital Project**

The district has entered into a joint agreement with the Board of Cooperative Educational Services Sole Supervisory School District Franklin – Essex – Hamilton Counties (“BOCES”) and 9 other component school districts of BOCES who are authorized pursuant to paragraph 14 of Section 1950 of the Education Law, constituting Chapter 16 of the Consolidated Laws of the State of New York, as amended (the “ACT”), to enter into an agreement to provide construction of improvements to the BOCES school facilities designed to house services provided by BOCES. The cost of the project including costs of incidentals is \$18,506,358. Each Component School District agrees to provide BOCES with its share of the Net Project Costs as set forth in installment payments. Malone Central Schools District’s portion is \$4,959,551 and is set to be paid in installment payments of \$626,557 on January 15, 2019, \$2,596,317 on July 15, 2019 and \$1,736,677 on July 15, 2020. In June the District received a settlement in the amount of \$2,200,000. This settlement has been earmarked to pay the District’s portion of the project costs created by the BOCES capital project.

### **CONTACTING THE SCHOOL DISTRICT’S FINANCIAL MANAGEMENT**

This report is designed to provide the School District’s citizens, taxpayers, customers, investors, and creditors with a general overview of the School District’s finances and to demonstrate the School District’s accountability for the money it receives. If you have questions about this report or need additional information, contact the School Business Executive at the following address: Malone Central School District, 42 Husky Lane, Malone, NY 12953

**Malone Central School District**  
Statement of Net Position  
June 30, 2018

**ASSETS**

Cash		
Unrestricted	\$	7,850,046
Restricted		5,068,437
Receivables		
Taxes		-
State and Federal aid		1,559,085
Due from other governments		1,918,835
Due from fiduciary funds		56,188
Other		17,345
Inventories		28,939
Prepaid expenditures		1,137
Capital assets, net		66,522,627
Net pension asset-proportionate share		803,160
Total Assets		<u>83,825,799</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred gain on advance refunding of debt	26,632
Pensions	11,952,693
Other post employment benefits	1,846,376
Total Deferred Outflows of Resources	<u>13,825,701</u>

**LIABILITIES**

Payables		
Accounts payable	521,081	
Accrued liabilities	76,886	
Due to other governments	64,409	
Bond interest and matured bonds	65,442	
Unearned credits		
Unearned revenue	-	
Overpayments	-	
Long-term liabilities		
Due and payable within one year		
Bonds payable	2,634,033	
Due to Teachers' Retirement System	1,842,219	
Due to Employees' Retirement System	204,435	
Compensated absences payable	88,329	
Due and payable after one year		
Bonds payable	28,428,901	
Other post employment benefits payable	109,558,610	
Compensated absences payable	2,812,538	
Net pension liability-proportionate share	467,365	
Total Liabilities	<u>146,764,248</u>	

**DEFERRED INFLOWS OF RESOURCES**

Deferred premiums on debt issuance	2,424,914
Pensions	3,902,445
Other post employment benefits	14,741,664
Total Deferred Inflows of Resources	<u>21,069,023</u>

**NET POSITION**

Investment in capital assets, net of related debt	33,061,411
Restricted	5,068,437
Unrestricted	(108,311,619)
Total Net Position	<u>\$ (70,181,771)</u>

**Malone Central School District**  
Statement of Activities and Changes in Net Position  
For the Year Ended June 30, 2018

	Expenses	Program Revenues		Net
		Charges for Services	Operating Grants	Expenses and Changes in Net Position
<b>FUNCTIONS/PROGRAMS</b>				
General support	\$ 8,151,332	\$ 56,608	\$ -	\$ 8,094,724
Instruction	42,107,339	266,021	-	41,841,318
Pupil transportation	3,515,820	66,756	-	3,449,064
Community service	246,805	-	-	246,805
Employee benefits	-	-	-	-
Debt service-interest	1,493,958	-	-	1,493,958
School lunch program	1,047,155	971,243	68,571	7,341
Total Functions and Programs	<u>56,562,409</u>	<u>1,360,628</u>	<u>68,571</u>	<u>55,133,210</u>
<b>GENERAL REVENUES</b>				
Real property taxes				11,143,521
Other tax items				2,476,623
Use of money and property				13,031
Sale of property and compensation for loss				2,292,084
Miscellaneous				400,570
State sources				37,779,259
Medicaid reimbursement				151,310
Federal sources				1,927,776
Total General Revenues				<u>56,184,174</u>
Change in Net Position				1,050,964
Total Net Position - Beginning of year				(3,732,532)
Prior Period Adjustment-Adoption of GASB 75				(67,500,203)
Total Net Position - End of year				<u>\$ (70,181,771)</u>

**Malone Central School District**  
Balance Sheet-Governmental Funds  
June 30, 2018

	General	Special Aid	Non-Major	Total Governmental Funds
<b>ASSETS</b>				
Cash				
Unrestricted	\$ 7,456,369	\$ -	\$ 393,677	\$ 7,850,046
Restricted	4,065,868	-	1,002,569	5,068,437
Receivables				
Taxes	-	-	-	-
State and Federal aid	680,343	825,479	53,263	1,559,085
Due from other governments	1,918,835	-	-	1,918,835
Due from other funds	653,043	-	558	653,601
Other	17,345	-	-	17,345
Inventories	-	-	28,939	28,939
Prepaid expenditures	1,137	-	-	1,137
Total Assets	<u>\$14,792,940</u>	<u>\$ 825,479</u>	<u>\$ 1,479,006</u>	<u>\$ 17,097,425</u>
<b>LIABILITIES</b>				
Payables				
Accounts payable	\$ 411,838	\$ 9,013	\$ 100,230	\$ 521,081
Accrued liabilities	65,598	310	10,978	76,886
Due to other funds	558	596,855	-	597,413
Due to other governments	-	63,173	1,236	64,409
Due to Teachers' Retirement System	1,692,082	150,137	-	1,842,219
Due to Employees' Retirement System	198,444	5,991	-	204,435
Unearned Credits	-	-	-	-
Unearned revenue	-	-	-	-
Overpayments	-	-	-	-
Total Liabilities	<u>2,368,520</u>	<u>825,479</u>	<u>112,444</u>	<u>3,306,443</u>
<b>FUND BALANCES</b>				
Nonspendable	-	-	28,939	28,939
Restricted	4,065,868	-	1,002,569	5,068,437
Assigned	1,712,450	-	335,054	2,047,504
Unassigned	6,646,102	-	-	6,646,102
Total Fund Balances	<u>12,424,420</u>	<u>-</u>	<u>1,366,562</u>	<u>13,790,982</u>
Total Liabilities and Fund Balances	<u>\$14,792,940</u>	<u>\$ 825,479</u>	<u>\$ 1,479,006</u>	<u>\$ 17,097,425</u>

**Malone Central School District**  
Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds  
For the Year Ended June 30, 2018

	General	Special Aid	Non-Major	Total Governmental Funds
<b>REVENUES</b>				
Real property taxes	\$ 11,143,521	\$ -	\$ -	\$ 11,143,521
Other tax items	2,476,623	-	-	2,476,623
Charges for services	283,298	-	-	283,298
Use of money and property	104,132	-	1,817	105,949
Sale of property and compensation for loss	2,292,084	-	-	2,292,084
Miscellaneous	297,698	105,304	10,737	413,739
Interfund revenue	2,647	-	-	2,647
State sources	36,649,085	759,278	395,931	37,804,294
Medicaid reimbursement	151,310	-	-	151,310
Federal sources	161,931	1,765,844	709,798	2,637,573
Surplus food	-	-	68,571	68,571
Summer food service	-	-	25,480	25,480
Sales - school lunch	-	-	210,931	210,931
Total Revenues	<u>53,562,329</u>	<u>2,630,426</u>	<u>1,423,265</u>	<u>57,616,020</u>
<b>EXPENDITURES</b>				
General support	4,479,967	-	945,036	5,425,003
Instruction	25,898,896	2,154,492	-	28,053,388
Pupil transportation	1,561,267	93,314	-	1,654,581
Community service	53,011	8,580	-	61,591
Employee benefits	11,444,412	504,040	-	11,948,452
Debt service				
Principal	5,174,869	-	-	5,174,869
Interest	1,677,701	-	-	1,677,701
Cost of sales	-	-	102,119	102,119
Other expenditures	-	-	-	-
Capital outlay	-	-	924,181	924,181
Total Expenditures	<u>50,290,123</u>	<u>2,760,426</u>	<u>1,971,336</u>	<u>55,021,885</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>3,272,206</u>	<u>(130,000)</u>	<u>(548,071)</u>	<u>2,594,135</u>
<b>OTHER FINANCING SOURCES AND USES</b>				
Proceeds from debt	-	-	600,917	600,917
Operating transfers in	224,991	130,000	356,044	711,035
Operating transfers out	(486,044)	-	(224,991)	(711,035)
Total Other Sources and Uses	<u>(261,053)</u>	<u>130,000</u>	<u>731,970</u>	<u>600,917</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	3,011,153	-	183,899	3,195,052
Fund Balances - Beginning of year	9,413,267	-	1,182,663	10,595,930
Fund Balances - End of year	<u>\$ 12,424,420</u>	<u>\$ -</u>	<u>\$ 1,366,562</u>	<u>\$ 13,790,982</u>

**Malone Central School District**  
Statement of Fiduciary Net Position - Fiduciary Funds  
June 30, 2018

	Private Purpose Trusts	Agency
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Cash	\$ 15,209	\$ 206,906
Due from governmental funds	-	-
Total Assets	<u>\$ 15,209</u>	<u>\$ 206,906</u>
<b>LIABILITIES</b>		
Due to governmental funds	\$ -	\$ 56,188
Due to other governments	-	-
Extraclassroom activity balances	-	122,898
Other liabilities	-	27,820
Total Liabilities	<u>-</u>	<u>\$ 206,906</u>
<b>NET POSITION</b>		
Reserved for scholarships	<u>\$ 15,209</u>	

Statement of Changes in Fiduciary Net Position - Fiduciary Funds  
For the Year Ended June 30, 2018

	Private Purpose Trusts
	<u>          </u>
<b>ADDITIONS</b>	
Gifts and contributions	\$ 5,150
Investment earnings	3
Total Additions	<u>5,153</u>
<b>DEDUCTIONS</b>	
Scholarships and awards	<u>6,120</u>
Total Deductions	<u>6,120</u>
Change in Net Position	(967)
Net Position - Beginning of year	<u>16,176</u>
Net Position - End of Year	<u>\$ 15,209</u>

**Malone Central School District**  
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position  
June 30, 2018

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Net Position Totals
<b>ASSETS</b>				
Cash	\$ 12,918,483	\$ -	\$ -	\$ 12,918,483
Taxes	-	-	-	-
State and Federal aid	1,559,085	-	-	1,559,085
Due from other governments	1,918,835	-	-	1,918,835
Due from other funds	653,601	-	(597,413)	56,188
Other	17,345	-	-	17,345
Inventories	28,939	-	-	28,939
Prepaid expenditures	1,137	-	-	1,137
Capital assets, net	-	66,522,627	-	66,522,627
Net pension asset-proportionate share	-	803,160	-	803,160
Total Assets	<u>17,097,425</u>	<u>67,325,787</u>	<u>(597,413)</u>	<u>83,825,799</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Total Assets and deferred outflows of resources	<u>\$ 17,097,425</u>	<u>\$ 13,825,701</u>	<u>\$ -</u>	<u>\$ 13,825,701</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 521,081	\$ -	\$ -	\$ 521,081
Accrued liabilities	76,886	-	-	76,886
Due to other funds	597,413	-	(597,413)	-
Due to other governments	64,409	-	-	64,409
Bond interest and matured bonds	-	65,442	-	65,442
Unearned revenue	-	-	-	-
Overpayments and collections in advance	-	-	-	-
Bonds payable	-	31,062,934	-	31,062,934
Due to Teachers' Retirement System	1,842,219	-	-	1,842,219
Due to Employees' Retirement System	204,435	-	-	204,435
Other post employment benefits	-	109,558,610	-	109,558,610
Compensated absences payable	-	2,900,867	-	2,900,867
Net pension liability-proportionate share	-	467,365	-	467,365
Total Liabilities	<u>3,306,443</u>	<u>144,055,218</u>	<u>(597,413)</u>	<u>146,764,248</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Total Liabilities, deferred inflows of resources and fund balances/net position	<u>-</u>	<u>21,069,023</u>	<u>-</u>	<u>21,069,023</u>
<b>FUND BALANCES/NET POSITION</b>				
Total Liabilities, deferred inflows of resources and fund balances/net position	<u>13,790,982</u>	<u>(83,972,753)</u>	<u>-</u>	<u>(70,181,771)</u>
Total Liabilities, deferred inflows of resources and fund balances/net position	<u>\$ 17,097,425</u>	<u>\$ 81,151,488</u>	<u>\$ (597,413)</u>	<u>\$ 97,651,500</u>

**Malone Central School District**  
 Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position  
 June 30, 2018

Fund Balances - total governmental funds		\$ 13,790,982
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets	101,738,283	
Less: accumulated depreciation	<u>(35,215,656)</u>	66,522,627
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Net pension asset		803,160
Interest payable used in governmental activities is not payable from current resources and therefore not reported in the governmental funds		
		(65,442)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
Bonds payable		(31,062,934)
Compensated absences		(2,900,867)
Other post employment benefits		(109,558,610)
Net pension liability		(467,365)
Deferred outflows and inflows of resources related to debt refunding are applicable to future periods and therefore are not reported in the governmental funds		
Deferred gain on advance refunding of debt	26,632	
Deferred premiums on debt issuance	<u>(2,424,914)</u>	(2,398,282)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and therefore are not reported in the governmental funds		
Deferred outflows of resources related to pensions	11,952,693	
Deferred outflows of resources related to OPEB	1,846,376	
Deferred inflows of resources related to pensions	(3,902,445)	
Deferred inflows of resources related to OPEB	<u>(14,741,664)</u>	(4,845,040)
Net Position of Governmental Activities		<u><u>\$ (70,181,771)</u></u>

**Malone Central School District**  
 Reconciliation of Governmental Funds Statement of Revenues, Expenditures  
 and Changes in Fund Balances to Statement of Activities and Changes in Net Position  
 For the Year Ended June 30, 2018

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities Totals
<b>REVENUES</b>				
Real property taxes	\$ 11,143,521	\$ -	\$ -	\$ 11,143,521
Other tax items	2,476,623	-	-	2,476,623
Charges for services	283,298	-	-	283,298
Use of money and property	105,949	-	-	105,949
Sale of property and compensation for loss	2,292,084	-	-	2,292,084
Miscellaneous	413,739	-	-	413,739
Interfund revenue	2,647	-	(2,647)	-
State sources	37,804,294	-	-	37,804,294
Medicaid reimbursement	151,310	-	-	151,310
Federal sources	2,637,573	-	-	2,637,573
Surplus food	68,571	-	-	68,571
Summer Food Service	25,480	-	-	25,480
Sales - school lunch	210,931	-	-	210,931
Total Revenues	<u>57,616,020</u>	<u>-</u>	<u>(2,647)</u>	<u>57,613,373</u>
<b>EXPENDITURES</b>				
General support	5,425,003	283,413	3,387,952	9,096,368
Instruction	28,053,388	2,210,354	11,843,597	42,107,339
Pupil transportation	1,654,581	744,620	1,116,619	3,515,820
Community service	61,591	86	185,128	246,805
Employee benefits	11,948,452	4,587,491	(16,535,943)	-
Debt service	6,852,570	(5,358,612)	-	1,493,958
Cost of sales	102,119	-	-	102,119
Capital outlay	924,181	(924,181)	-	-
Total Expenditures	<u>55,021,885</u>	<u>1,543,171</u>	<u>(2,647)</u>	<u>56,562,409</u>
Excess (Deficiency) of Revenues Over Expenditures	2,594,135	(1,543,171)	-	1,050,964
<b>OTHER SOURCES AND USES</b>				
Proceeds from debt	600,917	(600,917)	-	-
Operating transfers in	711,035	-	(711,035)	-
Operating transfers out	(711,035)	-	711,035	-
Total Other Sources and Uses	<u>600,917</u>	<u>(600,917)</u>	<u>-</u>	<u>-</u>
Net Change for the Year	<u>\$ 3,195,052</u>	<u>\$ (2,144,088)</u>	<u>\$ -</u>	<u>\$ 1,050,964</u>

**Malone Central School District**  
 Reconciliation of Governmental Funds Statement of Revenues, Expenditures  
 and Changes in Fund Balances to Statement of Activities and Changes in Net Position  
 For the Year Ended June 30, 2018

Net Change in Fund Balances - total governmental funds \$ 3,195,052

Amounts reported for governmental activities in the  
 Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However,  
 in the Statement of Activities, the cost of those assets is depreciated  
 over their estimated useful lives

Expenditures for capital assets	1,170,469	
Less: current year depreciation	<u>(3,279,595)</u>	(2,109,126)

Bond proceeds provide current financial resources to governmental  
 funds, but issuing debt increases long-term liabilities in the Statement  
 of Net Position. Repayment of bond principal is an expenditure in the  
 governmental funds, but the repayment reduces long-term liabilities in  
 the Statement of Net Position.

Bond proceeds	(600,917)	
Repayment of bonds	<u>5,174,869</u>	4,573,952

Interest expense reported in the Statement of Activities does not  
 require the use of current financial resources and is therefore  
 not reported as an expenditure in governmental funds

183,743

Some expenses reported in the Statement of Activities do not  
 require the use of current financial resources and therefore are  
 not reported as an expenditure in governmental funds

Compensated absences		(205,166)
Other Post Employment Benefits		(4,359,306)

Government funds report pension contributions as expenditures.  
 However, in the Statement of Activities, the cost of pension benefits earned  
 net of employee contributions is reported as pension expense

Pension contribution expenditures	2,332,702	
Cost of benefits earned net of employee contributions	<u>(2,560,887)</u>	(228,185)

Change in Net Position of Governmental Funds

\$ 1,050,964

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

**Note 1 – Summary of certain significant accounting policies:**

The financial statements of the Malone Central School District (the “District”) have been prepared in conformity with generally accepted accounting principles (GAAP) as apply to governmental units. Those principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Certain significant accounting principles and policies utilized by the District are described below:

A) Reporting entity:

The Malone Central School District is governed by the laws of New York State. The District is an independent entity governed by an elected Board of Education consisting of 9 members. The President of the Board serves as the chief fiscal officer and the Superintendent is the chief executive officer. The Board is responsible for, and controls all activities related to public school education within the District. Board members have authority to make decisions, power to appoint management, and primary accountability for all fiscal matters.

The reporting entity of the District is based upon criteria set forth by GASB Statement 14, The Financial Reporting Entity as amended by GASB Statement 39, Component Units. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable and 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 accompanying financial statements present the activities of the District. The District is not a component unit of another reporting entity. The decision to include a potential component unit in the District’s reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the District’s reporting entity.

i) Extraclassroom Activity Funds:

The Extraclassroom Activity Funds of the District represent funds of the students of the District. The Board of Education exercises general oversight of these funds. The Extraclassroom Activity Funds are independent of the District with respect to its financial transactions and the designation of student management. Separate audited financial statements (cash basis) of the Extraclassroom Activity Funds can be found at the District’s business office. The district accounts for assets held as an agent for various student organizations in an agency fund.

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

ii) Public Library:

The Wead Library jointly shares the services of the District Treasurer, and the District collects taxes and has title to real property used by the Library. The Library is an independent body whose Trustees are elected separately from the School District. Further review of GASB's requirements for component units indicate that the operations of the Library should not be reflected in the District's financial statements.

B) Joint venture:

The District is one of 10 component school districts in the Franklin-Essex-Hamilton Board of Cooperative Educational Services (BOCES). A BOCES is a voluntary, cooperative association of school districts in a geographic area that shares planning, services, and programs which provide educational and support activities. There is no authority or process by which a school district can terminate its status as a BOCES component.

BOCES are organized under §1950 of the New York State Education Law. A BOCES Board is considered a corporate body. Members of a BOCES Board are nominated and elected by their component member boards in accordance with provisions of §1950 of the New York State Education Law. All BOCES property is held by the BOCES Board as a corporation (§1950(6)). In addition, BOCES Boards also are considered municipal corporations to permit them to contract with other municipalities on a cooperative basis under §119-n(a) of the New York State General Municipal Law.

A BOCES' budget is comprised of separate budgets for administrative, program and capital costs. Each component district's share of administrative and capital cost is determined by resident public school district enrollment, as defined in the New York State Education Law, §1950(4)(b)(7). In addition, component districts pay tuition or a service fee for programs in which its students participate.

During the year, the District was billed \$6,886,180 for BOCES administrative and program costs.

Participating school districts issue debt on behalf of BOCES. During the year, the District did not issue serial bonds on behalf of BOCES.

The District's share of BOCES aid amounted to \$3,526,543.

Financial statements for the BOCES are available from the BOCES administrative office.

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

C) Basis of presentation:

i) District-wide statements:

The Statement of Net Position and the Statement of Activities present financial information about the District's governmental activities. These statements include the financial activities of the overall government in its entirety, except those that are fiduciary. Eliminations have been made to minimize the double counting of internal transactions. Governmental activities generally are financed through taxes, State aid, intergovernmental revenues, and other exchange and nonexchange transactions. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits, are allocated to functional areas in proportion to the payroll expended for those areas. Program revenues include charges paid by the recipients of 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. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

ii) Fund financial statements:

The fund statements provide information about the District's funds, including fiduciary funds. Separate statements for each fund category (governmental and fiduciary) are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial transactions that are not required to be accounted for in another fund.

Special Aid Fund: Used to account for proceeds received from State and Federal grants that are restricted for specific educational programs.

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

The District reports the following fiduciary funds:

Fiduciary Funds

Fiduciary activities are those in which the District acts as trustee or agent for resources that belong to others. These activities are not included in the District-wide financial statements, because their resources do not belong to the District, and are not available to be used. There are two classes of fiduciary funds:

Private purpose trust funds: These funds are used to account for trust arrangements in which principal and income benefits annual third party awards and scholarships for students. Established criteria govern the use of the funds and members of the District or representatives of the donors may serve on committees to determine who benefits.

Agency funds: These funds are strictly custodial in nature and do not involve the measurement of results of operations. Assets are held by the District as agent for various student groups or extraclassroom activity funds and for payroll or employee withholding.

D) Measurement focus and basis of accounting:

Accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after the end of the fiscal year.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

E) Property taxes:

Real property taxes are levied annually by the Board of Education no later than September 1, and became a lien on July 25, 2017. Taxes were collected during the period September 1, 2017 to November 3, 2017.

Uncollected real property taxes are subsequently enforced by the County in which the District is located. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the District no later than the following April 1.

F) Restricted resources:

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the District's policy concerning which to apply first varies with the intended use, and with associated legal requirements, many of which are described elsewhere in these Notes.

G) Interfund transactions:

The operations of the District include transactions between funds. These transactions may be temporary in nature, such as with interfund borrowings. The District typically loans resources between funds for the purpose of providing cash flow. These interfund receivables and payables are expected to be repaid within one year. Permanent transfers of funds include the transfer of expenditure and revenues to provide financing or other services.

In the district-wide statements, the amounts reported on the Statement of Net Position for inter-fund receivable and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds, with the exception of those due from or to the fiduciary funds.

The governmental funds report all interfund transactions as originally recorded. Interfund receivables and payables may be netted on the accompanying governmental funds balance sheet when it is the District's practice to settle these amounts at a net balance based upon the right of legal offset.

Refer to Note 9 for a detailed disclosure by individual fund for interfund receivables, payables, expenditures and revenues activity.

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

H) Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, potential contingent liabilities and useful lives of long-lived assets.

I) Cash and investments:

The District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

New York State law governs the District's investment policies. Resources must be deposited in FDIC-insured commercial banks or trust companies located within the State. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements and obligations of New York State or its localities.

Collateral is required for demand and time deposits and certificates of deposit not covered by FDIC insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and Districts.

Investments are stated at fair value.

J) Accounts receivable:

Accounts receivable are shown gross, with uncollectible amounts recognized under the direct write-off method. No allowance for uncollectible accounts has been provided since it is believed that such allowance would not be material.

K) Inventories and prepaid items:

Inventories of food in the School Lunch Fund are recorded at cost on a first-in, first-out basis, or in the case of surplus food, at stated value which approximates market. Purchases of inventoriable items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

Prepaid items represent payments made by the District for which benefits extend beyond year-end. These payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the district-wide and fund financial statements. These items are reported as assets on the statement of Net Position or balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of purchase and an expense/expenditure is reported in the year the goods or services are consumed.

**Malone Central School District**  
Notes to Financial Statements  
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A portion of fund balance in the amount of the inventory has been identified as not available for other subsequent expenditures.

L) Capital assets:

Capital assets are reported at historical cost if actual historical cost is available or estimated historical cost if actual historical cost is not available. Donated assets are reported at estimated fair market value at the time received.

Capitalization thresholds (the dollar value above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Buildings	\$ 1,000	Straight-line	50 years
Machinery and equipment	\$ 1,000	Straight-line	3-20 years

M) Deferred Outflows and Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has four items that qualify for reporting in this category. First is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the effect of the net change in the District's proportion of the collective net pension asset or liability and difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. Third is the District contributions to the pensions systems (TRS and ERS systems) and OPEB subsequent to the measurement date. The fourth item relates to OPEB reporting in the district wide Statement of Net Position. This represents the effect of the net change in the actual and expected experience.

**Malone Central School District**  
Notes to Financial Statements  
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In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. First arises from a premium on refunded debt. The second item is related to pensions reported in the district-wide Statement of Net Position. This represents the net difference between projected and actual earnings on TRS and ERS pension plan investments. The third item is related to OPEB reported in the district-wide Statement of Net Position. This represents the effect of the net changes of assumptions or other inputs.

**Pension Obligations**

New York State and Local Employees' Retirement System (ERS) and the New York State Teachers' Retirement (TRS) (the Systems).

**Plan Descriptions and Benefits Provided**

**Teachers' Retirement System (TRS)**

The District participates in the New York State Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as, death and disability 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 System is governed by a 10 member Board of Trustees. System benefits are established under New York State Law. Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools and BOCES who elected to participate in TRS. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. Additional information regarding the System, may be obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395 or by referring to the NYSSTR Comprehensive Annual Financial report which can be found on the System's website at [www.nystrs.org](http://www.nystrs.org).

**Employees' Retirement System (ERS)**

The District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute.

**Malone Central School District**  
Notes to Financial Statements  
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The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

**Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2018, the District reported the following asset/(liability) for its proportionate share of the net pension asset /(liability) for each of the Systems. The net pension asset/(liability) was measured as of March 31, 2018 for ERS and June 30, 2017 for TRS. The total pension asset/(liability) used to calculate the net pension asset/(liability) was determined by an actuarial valuation. The District's proportion of the net pension asset/(liability) was based on a projection of the District's long-term share of contributions to the Systems relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS and TRS Systems in reports provided to the District.

	<u>ERS</u>	<u>TRS</u>
	March 31, 2018	June 30, 2017
Actuarial valuation date		
Net pension asset/(liability)	\$(467,365)	\$803,160
District's portion of the Plan's total net pension asset/(liability)	.0144810%	.105665%

For the year ended June 30, 2018, the District recognized pension expense of \$573,913 for ERS and pension expense of \$1,986,974 for TRS. At June 30, 2018 the District's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	ERS	TRS	ERS	TRS
Difference between expected and actual experience	\$ 166,694	\$ 660,803	\$ 137,750	\$ 313,143
Change of assumptions	309,902	8,172,309	-	-
Net difference between projected and actual investment earnings	678,810	-	1,339,904	1,891,673
Changes in proportion and difference between the District's contributions and proportionate share of contributions	55,982	2,714	18,709	201,266
District's contributions subsequent to the measurement date	204,435	1,701,044	-	-
<b>Total</b>	<b>\$ 1,415,823</b>	<b>\$ 10,536,870</b>	<b>\$ 1,496,363</b>	<b>\$ 2,406,082</b>

District contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended:

	ERS	TRS
2018		\$ 153,595
2019	\$ 108,942	2,129,877
2020	81,490	1,514,998
2021	(326,724)	351,842
2022	(148,683)	1,510,497
Thereafter		768,933

**Actuarial Assumptions**

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date.

**Malone Central School District**  
Notes to Financial Statements  
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Significant actuarial assumptions used in the valuations were as follows:

	ERS	TRS
Measurement date	March 31, 2018	June 30, 2017
Actuarial valuation date	April 1, 2017	June 30, 2016
Interest rate	7.0%	7.25%
Salary scale	3.8%	1.90%-4.72%
Decrement tables	April 1, 2010 - March 31, 2015 System Experience	July 1, 2009- June 30, 2014 System Experience
Inflation rate	2.5%	2.5%

For ERS, annuitant mortality rates are based on April 1, 2010 – March 31, 2015 System’s experience with adjustments for mortality improvements based on MP-2014. For TRS, annuitant mortality rates are based on July 1, 2009 – June 30, 2014 System’s experience with adjustments for mortality improvements based on Society of Actuaries Scale AA.

For ERS, the actuarial assumptions used in the April 1, 2017 valuation are based on the results of an actuarial experience study for the period April 1, 2010 – March 31, 2015. For TRS, the actuarial assumptions used in the June 30, 2016 valuation are based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

The long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each the target asset allocation percentage and by adding expected inflation.

Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

**Malone Central School District**  
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Measurement date	ERS March 31, 2018	TRS June 30, 2017
Asset Type:		
Domestic Equity	4.55%	5.9%
International Equity	6.35%	7.4%
Private Equity	7.50%	9.0%
Real Estate	5.55%	4.3%
Alternative Investments	0.0%	0.0%
Domestic Fixed Income Securities:	0.0%	1.6%
Global Fixed Income Securities	0.0%	1.3%
High-yield Fixed Income Securities	0.0%	3.9%
Mortgages	1.31%	2.8%
Short-term	0.0%	0.6%
Absolute Return Strategies	3.75%	0.0%
Opportunistic Portfolio	5.68%	0.0%
Real Assets	5.29%	0.0%
Cash	-0.25%	0.0%
Inflation-Indexed Bonds	1.25%	0.0%

**Discount Rate**

The discount rate used to calculate the total pension liability was 7% for ERS and 7.25% for TRS. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the Systems' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption**

The following presents the district's proportionate share of the net pension asset/(liability) calculated using the discount rate of 7% for ERS and 7.25% for TRS, as well as what the district's proportionate share of the net pension asset/(liability) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0% for ERS and 6.25% for TRS) or 1-percentage-point higher (8.0% for ERS and 8.25% for TRS) than the current rate:

**Malone Central School District**  
Notes to Financial Statements  
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	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
<b>ERS</b>			
Employer's proportionate share of the net pension asset (liability)	\$ (3,536,208)	\$ (467,365)	\$ 2,128,754
	1% Decrease (6.25%)	Current Assumption (7.25%)	1% Increase (8.25%)
<b>TRS</b>			
Employer's proportionate share of the net pension asset (liability)	\$ (13,836,067)	\$ 803,160	\$ 13,062,786

**Pension plan fiduciary net position**

The components of the current-year net pension asset/(liability) of the employers as of the respective valuation dates, were as follows:

	(Dollars in Thousands)	
	ERS	TRS
	March 31, 2018	June 30, 2017
Employers' Total Pension Asset/(Liability)	\$ (183,400,590)	\$ (114,708,261)
Plan Net Position	180,173,145	115,468,360
Employers' Net Pension Asset/(Liability)	\$ (3,227,445)	\$ 760,099
Ratio of the Plan Net Position to the Employers' total pension asset/(liability)	98.24%	100.66%

**Payables to the Pension Plan**

For ERS, employer contributions are paid annually based on the System's fiscal year which ends on March 31<sup>st</sup>. Accrued retirement contributions as of June 30, 2018 represent the projected employer contribution for the period of April 1, 2018 through June 30, 2018 based on paid ERS wages multiplied by the employer's contribution rate, by tier. Accrued retirement contributions as of June 30, 2018 amounted to \$204,435.

**Malone Central School District**  
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For TRS, employer and employee contributions for the fiscal year ended June 30, 2018 are paid to the System in September, October and November 2018 through a state aid intercept. Accrued retirement contributions as of June 30, 2018 represent employee and employer contributions for the fiscal year ended June 30, 2018 based on paid TRS wages multiplied by the employer's contribution rate, by tier and employee contributions for the fiscal year as reported to the TRS System. Accrued retirement contributions as of June 30, 2018 amounted to \$1,842,219.

N) Unearned revenue:

The District reports unearned revenues on its Statement of Net Position and its Balance Sheet. On the Statement of Net Position, unearned revenue arises when resources are received by the District before it has legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when the District has legal claim to resources, the liability for unearned revenue is removed and revenue is recognized.

O) Vested employee benefits:

Compensated absences

Compensated absences consist of unpaid accumulated annual sick leave, vacation and sabbatical time.

Sick leave eligibility and accumulation is specified in negotiated labor contracts, and in individual employment contracts. Upon retirement, resignation or death, employees may contractually receive a payment based on unused accumulated sick leave.

District employees are granted vacation in varying amounts, based primarily on length of service and service position. Some earned benefits may be forfeited if not taken within varying time periods.

Consistent with GASB Statement 16, Accounting for Compensated Absences, the liability has been calculated using the vesting/termination method and an accrual for that liability is included in the district-wide financial statements. The compensated absences liability is calculated based on the pay rates in effect at year-end.

In the funds statements only the amount of the matured liabilities is accrued within the General Fund based upon expendable and available future resources. These amounts are expensed on a pay-as-you go basis.

P) Other benefits:

District employees participate in the New York State Employees' Retirement System and the New York State Teachers' Retirement System.

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In addition to providing pension benefits, the District provides health insurance coverage and survivor benefits for retired employees and their survivors in accordance with the provision of various employment contracts in effect at the time of retirement.

Substantially all of the District's employees may become eligible for these benefits if they reach normal retirement age while working for the District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the District and the retired employee. The District recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure.

Q) Short-term debt:

The District may issue Revenue Anticipation Notes and Tax Anticipation Notes, in anticipation of the receipt of revenues. These notes are recorded as a liability of the fund that will actually receive the proceeds from the issuance of the notes. The RANs and TANs represent a liability that will be extinguished by the use of expendable, available resources of the fund.

The District may issue budget notes up to an amount not to exceed 5% of the amount of the annual budget during any fiscal year for expenditures for which an insufficient or no provision is made in the annual budget. The budget note must be repaid no later than the close of the second fiscal year succeeding the year in which the note was issued.

The District may issue Bond Anticipation Notes, in anticipation of proceeds from the subsequent sale of bonds. These notes are recorded as current liabilities of the funds that will actually receive the proceeds from the issuance of bonds. State law requires that BANs issued for capital purposes be converted to long-term financing within five years after the original issue date.

R) Accrued liabilities and long-term obligations:

Payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements. In the governmental funds, payables and accrued liabilities are paid in a timely manner and in full from current financial resources. Claims and judgments, and compensated absences that will be paid from governmental funds, are reported as a liability in the funds financial statements only to the extent that they are due for payment in the current year. Bonds and other long-term obligations that will be paid from governmental funds are recognized as a liability in the fund financial statements when due.

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due in one year or due within more than one year in the Statement of Net Position.

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S) Equity classifications:

District-wide statements:

In the District-wide statements there are three classes of net position:

Invested in capital assets, net of related debt – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvements of those assets.

Restricted Net Position – reports net position when constraints placed on the assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position – reports all other net position that do not meet the definition of the above two classifications and are deemed to be available for general use by the District.

Fund statements:

In the fund basis statements there are five classifications of fund balance:

Nonspendable fund balance – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint

Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the government delegates authority.

Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

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The District's policy is to apply expenditures against nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year. For all funds, nonspendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted fund balance. In the general fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned.

Following is a breakdown of fund balances reported on the balance sheet:

	General	Debt Service	Capital Projects	School Food Service	Total Govt. Funds
Nonspendable:					
Inventory	\$ -	\$ -	\$ -	\$ 28,939	\$ 28,939
Restricted for:					
Unemploy. ins.	150,000	-	-	-	150,000
Retirement cont.	750,000	-	-	-	750,000
Tax certiorari	265,000	-	-	-	265,000
Employ. ben.	2,900,868	-	-	-	2,900,868
Debt service	-	1,002,569	-	-	1,002,569
Assigned to:					
General support	34,909	-	-	-	34,909
Instruction	54,408	-	-	-	54,408
Pupil transport.	10	-	-	-	10
School food svc.	-	-	-	295,569	295,569
Capital project	-	-	39,485	-	39,485
Approp. fund bal.	1,623,123	-	-	-	1,623,123
Unassigned	<u>6,646,102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,646,102</u>
Total Fund Balance	<u>\$ 12,424,420</u>	<u>\$ 1,002,569</u>	<u>\$ 39,485</u>	<u>\$ 324,508</u>	<u>\$ 13,790,982</u>

Fund balance reserves are created to satisfy legal restrictions, plan for future expenditures or relate to resources not available for general use or appropriation. The following reserve funds are available to school districts within the State of New York. These reserves are established through Board action or voter approval and a separate identity must be maintained for each reserve. Earnings on the invested resources become a part of the respective reserve funds; however, separate bank accounts are not necessary for each reserve fund. Fund balance reserves currently in use by the District include the following:

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Unemployment Insurance

Unemployment Insurance Reserve (GML §6-m) is used to pay the cost of reimbursement to the State Unemployment Insurance Fund for payments made to claimants where the employer has elected to use the benefit reimbursement method. The reserve may be established by Board action and is funded by budgetary appropriations and such other funds as may be legally appropriated. Within sixty days after the end of any fiscal year, excess amounts may either be transferred to another reserve or the excess applied to the appropriations of the next succeeding fiscal year's budget. If the District elects to convert to tax (contribution) basis, excess resources in the fund over the sum sufficient to pay pending claims may be transferred to any other reserve fund. This reserve is accounted for in the General Fund.

Reserve for Debt Service

Mandatory Reserve for Debt Service (GML §6-l) is used to establish a reserve for the purpose of retiring the outstanding obligations upon the sale of District property or capital improvement that was financed by obligations that remain outstanding at the time of sale. The funding of the reserve is from the proceeds of the sale of District property or capital improvement. The reserve is accounted for in the Debt Service Fund.

Employee Benefit Accrued Liability Reserve

Reserve for Employee Benefit Accrued Liability (GML §6-p) is used to reserve funds for the payment of accrued employee benefits due an employee upon termination of the employee's service. This reserve may be established by a majority vote of the Board, and is funded by budgetary appropriations and such other reserves and funds that may be legally appropriated. The reserve is accounted for in the General Fund.

Tax Certiorari Reserve

Tax Certiorari Reserve (Education Law § 3651.1-a) is used to establish a reserve fund for tax certiorari and to expend from the fund without voter approval. The monies held in the reserve shall not exceed the amount which might reasonably be deemed necessary to meet anticipated judgments and claims arising out of tax certiorari proceedings. Any resources deposited to the reserve which are not expended for tax certiorari proceedings in the year such monies are deposited must be returned to the General Fund on or before the first day of the fourth fiscal year after deposit of these monies. The reserve is accounted for in the General fund.

Retirement Contribution Reserve

Retirement Contribution Reserve (GML §6-r) is used for the purpose of financing retirement contributions. The reserve must be accounted for separate and apart from all other funds and a detailed report of the operation and condition of the fund must be provided to the Board.

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T) New Accounting Standards

The District has adopted all current Statements of the Governmental Accounting Standards Board (GASB) that are applicable as of June 30, 2018:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

GASB Statement No. 81, *Split Interest Agreements*

GASB Statement No. 85, *Omnibus*

GASB Statement No. 86, *Certain Debt Extinguishment Issues*

U) Future Changes in Accounting Standards

GASB has issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for the year ending June 30, 2019, and GASB Statement No. 87, *Leases*, effective for the year ending June 30, 2021.

V) Subsequent Events

Subsequent events have been evaluated through October 1, 2018, which is the date the financial statements were available to be issued.

**Note 2 – Explanation of certain differences between governmental fund statements and District-wide statements:**

Due to the differences in the measurement focus and basis of accounting used in the governmental fund statements and the District-wide statements, certain financial transactions are treated differently. The basic financial statements contain a full reconciliation of these items. The differences result primarily from the economic focus of the Statement of Activities, compared with the current financial resources focus of the governmental funds.

A) Total fund balances of governmental funds vs. net position of governmental activities:

Total fund balances of the District's governmental funds differ from "net position" of governmental activities reported in the Statement of Net Position. This difference primarily results from the additional long-term economic focus of the Statement of Net Position versus the solely current financial resources focus of the governmental fund Balance Sheets.

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B) Statement of Revenues, Expenditures and Changes in Fund Balance vs. Statement of Activities:

Differences between the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balance and the Statement of Activities fall into one of three broad categories. The amounts shown below represent:

i) Long-term revenue differences:

Long-term revenue differences arise because governmental funds report revenues only when they are considered “available”, whereas the Statement of Activities reports revenues when earned. Differences in long-term expenses arise because governmental funds report on a modified accrual basis, whereas the accrual basis of accounting is used on the Statement of Activities.

ii) Capital related differences:

Capital related differences include the difference between proceeds for the sale of capital assets reported on governmental fund statements and the gain or loss on the sale of assets as reported on the Statement of Activities, and the difference between recording an expenditure for the purchase of capital items in the governmental fund statements and depreciation expense on those items as recorded in the Statement of Activities.

iii) Long-term debt transaction differences:

Long-term debt transaction differences occur because both interest and principal payments are recorded as expenditures in the governmental fund statements, whereas interest payments are recorded in the Statement of Activities as incurred, and principal payments are recorded as a reduction of liabilities in the Statement of Net Position.

iv) Pension differences:

Pension differences occur as a result of changes in the District’s proportion of the collective net pension asset/liability and differences between the District’s contributions and its proportionate share of the total contributions to the pension systems.

v) OPEB differences:

OPEB differences occur as a result of changes in the District’s total OPEB liability and differences between the District’s contributions and OPEB expense.

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**Note 3 – Changes in accounting principles:**

For the fiscal year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of the statement requires Districts to report Other Post-Employment Benefits (OPEB) liabilities, OPEB expenses, deferred outflow of resources and deferred inflow of resources related to OPEB. See Note 13 for the financial statement impact of the implementation of the statement.

**Note 4 – Stewardship, compliance and accountability:**

Budgetary procedures and budgetary accounting:

The District administration prepares a proposed budget for approval by the Board of Education for the following governmental funds for which legal (appropriated) budgets are adopted:

The voters of the District approved the proposed appropriation budget for the General Fund.

Appropriations are adopted at the program line item level. Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. No supplemental appropriations occurred during the year.

Budgets are adopted annually on a basis consistent with GAAP. Appropriations authorized for the year are increased by the amount of encumbrances carried forward from the prior year.

Budgets are established and used for individual capital project funds expenditures as approved by a special referendum of the District's voters. The maximum project amount authorized is based primarily upon the cost of the project, plus any requirements for external borrowings, not annual appropriations. These budgets do not lapse and are carried over to subsequent fiscal years until the completion of the projects.

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**Encumbrances**

Encumbrance accounting is used for budget control and monitoring purposes and is reported as a part of the governmental funds. Under this method, purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve applicable appropriations. Outstanding encumbrances as of year-end do not represent expenditures or liabilities. These commitments will be honored in the subsequent period. Related expenditures are recognized at that time, as the liability is incurred or the commitment is paid. Encumbrances are classified as restricted or assigned fund balance based on the source and strength of constraints placed on them.

The portion of the District's fund balance subject to the New York State Real Property Tax Law 1318 limit exceeded the amount allowable, which is 4% of the District's budget for the upcoming school year. Actions the District plans to pursue to address this issue include the use of these funds in anticipation of state aid reductions, increased costs, and payment of the FEH BOCES capital project.

**Note 5 – Custodial credit and concentration of credit:**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. While the District does not have a specific policy for custodial credit risk, New York State statutes govern the District's investment policies, as discussed previously in these Notes.

The District's aggregate bank balance included balances not covered by depository insurance at year end. All Balances were collateralized with securities held by the pledging financial institution, but not in the District's name. Bank balances totaled approximately \$14,431,000.

Restricted cash represents cash and cash equivalents where use is limited by legal requirements. These assets represent amounts required by statute to be reserved for various purposes. Restricted cash as of year-end includes \$5,068,437 within the governmental funds.

**Note 6 – Investments:**

The District did not hold any investments during the year.

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**Note 7 – Capital assets:**

Capital asset balances and activity were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassific.</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets that are not depreciated:				
Land	\$ 656,899	\$ -	\$ -	\$ 656,899
Construction in progress	41,826	3,500	(10,447)	34,879
Total nondepreciable historical cost	<u>698,725</u>	<u>3,500</u>	<u>(10,447)</u>	<u>691,778</u>
Capital assets that are depreciated:				
Buildings	91,767,170	311,630	10,447	92,089,247
Machinery and equipment	8,291,767	855,339	(189,848)	8,957,258
Total depreciable historical cost	<u>100,058,937</u>	<u>1,166,969</u>	<u>(179,401)</u>	<u>101,046,505</u>
Less accumulated depreciation:				
Buildings	27,576,145	2,474,635	-	30,050,780
Machinery and equipment	4,549,764	804,960	(189,848)	5,164,876
Total accumulated depreciation	<u>32,125,909</u>	<u>3,279,595</u>	<u>(189,848)</u>	<u>35,215,656</u>
Total depreciable historical cost, net	<u>\$ 68,631,753</u>	<u>\$ (2,109,126)</u>	<u>\$ -</u>	<u>\$ 66,522,627</u>

Depreciation was charged to governmental functions as follows:

Administrative services	\$ 370,830
Regular instruction	2,161,119
Pupil transportation	747,560
Community service	86
	<u>\$ 3,279,595</u>

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**Note 8 – Long-term debt:**

Long-term liability balances and activity for the year are summarized as below:

	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Government activities:					
Bonds payable:					
Serial Bonds 2005	\$ 575,000	\$ -	\$ 575,000	\$ -	\$ -
Serial Bonds 2010	670,000	-	670,000	-	-
Serial Bonds 2010	1,590,000	-	1,590,000	-	-
Serial Bonds QZAB 2011	9,965,000	-	940,000	9,025,000	975,000
Serial Bonds DASNY 2011	1,605,000	-	130,000	1,475,000	135,000
Serial Bonds QZAB 2013	6,230,000	-	605,000	5,625,000	620,000
Serial Bonds DASNY 2013	785,000	-	55,000	730,000	60,000
Serial Bonds DASNY 2017	13,620,000	-	310,000	13,310,000	530,000
Lease Purchase Obligations 2012	104,565	-	104,565	-	-
Lease Purchase Obligation 2013	201,879	-	100,152	101,727	101,727
Lease Purchase Obligation 2014	290,442	-	95,152	195,290	96,805
Lease Purchase Obligation 2017	-	600,917	-	600,917	115,501
Total bonds payable	<u>35,636,886</u>	<u>600,917</u>	<u>5,174,869</u>	<u>31,062,934</u>	<u>2,634,033</u>
Other liabilities					
Compensated absences	2,695,701	205,166	-	2,900,867	88,329
Total long-term liabilities	<u>\$38,332,587</u>	<u>\$ 806,083</u>	<u>\$ 5,174,869</u>	<u>\$33,963,801</u>	<u>\$2,722,362</u>

The General Fund has typically been used to liquidate long-term liabilities such as compensated absences.

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Description of issue	Issue Date	Final Maturity	Interest Rate	Outstanding June 30, 2018
Serial Bonds	2005	2018	4.00%	\$ -
Serial Bonds	2010	2018	4.00%	-
Serial Bonds	2010	2018	4.00%	-
Serial Bonds-QZAB	2011	2026	4.00%	9,025,000
Serial Bonds-DASNY	2011	2027	5.00%	1,475,000
Serial Bonds-QZAB	2013	2026	2.375%	5,625,000
Serial Bonds-DASNY	2013	2028	3.00%	730,000
Serial Bonds-DASNY	2017	2037	5.00%	13,310,000
Lease Purchase Obligation	2011	2016	2.05%	-
Lease Purchase Obligation	2012	2017	1.54%	-
Lease Purchase Obligation	2013	2018	1.572%	101,727
Lease Purchase Obligation	2014	2019	1.737%	195,290
Lease Purchase Obligation	2017	2023	1.990%	600,917
				<u>\$31,062,934</u>

The following is a summary of debt service requirements:

	Serial Bonds		Installment Bonds and Notes and Lease Purchase Oblig.	
	Principal	Interest	Principal	Interest
Fiscal year ended June 30,				
2019	\$ 2,320,000	\$ 1,273,346	\$ 314,032	\$ 16,932
2020	2,415,000	1,193,971	216,283	11,356
2021	2,515,000	1,105,121	120,137	7,305
2022	2,610,000	1,012,496	122,524	4,917
2023	2,720,000	908,981	124,958	2,483
2024-2028	10,720,000	2,881,925	-	-
2029-2033	4,220,000	1,282,750	-	-
2034-2037	2,645,000	312,000	-	-
	<u>\$30,165,000</u>	<u>\$ 9,970,590</u>	<u>\$ 897,934</u>	<u>\$ 42,993</u>

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Interest on long-term debt for the year was composed of:

Interest paid	\$ 1,677,701
Less: interest accrued in the prior year	(112,211)
amortization of escrow costs and premium	(136,974)
Plus: interest accrued in the current year	65,442
Total expense	\$ 1,493,958

**Note 9 - Interfund balances and activity:**

	Interfund Receivable	Interfund Payable	Interfund Revenues	Interfund Expenditures
General Fund	\$ 653,043	\$ 558	\$ 2,647	\$ -
Special Aid Fund	-	596,855	-	2,647
School Lunch Fund	-	-	-	-
Debt Service Fund	-	-	-	-
Capital Projects Fund	558	-	-	-
Total Government Agencies	653,601	597,413	2,647	2,647
Fiduciary Funds	-	56,188	-	-
Totals	\$ 653,601	\$ 653,601	\$ 2,647	\$ 2,647

The District typically transfers between the General Fund and the Debt Service to pay debt and the District typically loans resources between funds for the purpose of mitigating the effects of transient cash flow issues. All interfund payables are expected to be repaid within one year.

**Note 10 – Pension plans:**

General information:

The District participates in the New York State Teachers' Retirement System (NYSTRS) and the New York State Employees' Retirement System (NYSERS). These 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.

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Provisions and administration:

The New York State Teachers' Retirement Board administers NYSTRS. 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 (NYSRSSL). Membership is mandatory and automatic for all full-time teachers, teaching assistants, guidance counselors and administrators employed in New York Public Schools who elected to participate in NYSTRS. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. NYSTRS issues a publicly available financial report that contains financial statements and required supplementary information for the System. The report may be obtained by writing to NYSTRS, 10 Corporate Woods Drive, Albany, New York 12211-2395 or by referring to the TRS Comprehensive Annual Financial report, which can be found on the System's website at [www.nystrs.org](http://www.nystrs.org).

NYSERS provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. NYSRSSL govern obligations of employers and employees to contribute, and benefits to employees. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to NYSERS, Office of the State Comptroller, 110 State Street, Albany, New York 12244 or by referring to the ERS Comprehensive Annual Report, which can be found at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php).

Funding policies:

The Systems are noncontributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 contribute 3% to 3.5% of their salary for their entire length of service. In addition employee contribution rates under ERS Tier VI vary based on sliding salary scale. For TRS, contribution rates are established annually by the New York State Teachers' Retirement Board pursuant to Article 11 of the Education Law. For ERS, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions for the ERS' fiscal year ended March 31. The District paid 100% of the required contributions as billed by the TRS and ERS for the current year and each of the two preceding years.

The District's share of the required contributions, based on covered payroll paid for the District's year ended June 30, was:

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<u>Year</u>	<u>ERS</u>	<u>TRS</u>
June 30, 2018	\$ 573,766	\$ 2,026,762
June 30, 2017	573,246	2,247,010
June 30, 2016	569,620	2,786,577

Since 1989, the NYSERS billings have been based on Chapter 62 of the Laws of 1989 of the State of New York. This legislation requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the System's fiscal years ending March 31, 1988 and 1989 over a 17-year period, with an 8.75% interest factor added. Local governments were given the option to prepay this liability. The Malone Central School District elected to make the full payment on December 15, 1989.

The State Legislature authorized local governments to make available retirement incentive programs. Nothing was charged to expenditures in the Governmental Funds in the current fiscal year.

**Note 11 – Risk management:**

The District is exposed to various risks of loss related to torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years.

The District participates in the Franklin-Essex-Hamilton BOCES Health Insurance Consortium, a non-risk-retained public entity risk pool for its employee health and accident insurance coverage. The pool is operated for the benefit of 11 individual governmental units located within the pool's geographic area and is considered a self-sustaining risk pool that will provide unlimited coverage for its members per insured event. The pool obtains independent coverage for insured events, and the District has essentially transferred all related risk to the pool.

The District participates in the Franklin-Essex-Hamilton BOCES Workers' Compensation Insurance Consortium, a risk-sharing pool, to insure Workers' Compensation claims. This is a public entity risk pool created under Article 5 of the Workers' Compensation Law, to finance liability and risks related to Workers' Compensation claims. The District has no liability as of June 30, 2018.

**Note 12– Contingencies and commitments:**

The District 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. Based upon prior audits, the District's administration believes disallowances, if any, will be immaterial.

There is a tax certiorari proceeding, involving a challenge to the assessed value of real property, pending against the Town of Malone and the Malone Central School District. An estimate of the possible settlement cannot be made.

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Notes to Financial Statements  
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The district has entered into a joint agreement with the Board of Cooperative Educational Services Sole Supervisory School District Franklin – Essex – Hamilton Counties (“BOCES”) and 9 other component school districts of BOCES who are authorized pursuant to paragraph 14 of Section 1950 of the Education Law, constituting Chapter 16 of the Consolidated Laws of the State of New York, as amended (the “ACT”), to enter into an agreement to provide construction of improvements to the BOCES school facilities designed to house services provided by BOCES. The cost of the project including costs of incidentals is \$18,506,358. Each Component School District agrees to provide BOCES with its share of the Net Project Costs as set forth in installment payments. Malone Central Schools District’s portion is \$4,959,551 and is set to be paid in installment payments of \$626,557 on January 15, 2019, \$2,596,317 on July 15, 2019 and \$1,736,677 on July 15, 2020.

**Note 13 – Post-employment (health insurance) benefits/Prior period adjustment:**

The District provides post employment (health insurance, life insurance, etc.) coverage to retired employees in accordance with the provisions of various employment contracts. The plan is a single-employer defined benefit OPEB plan administered by the District. The benefit levels, employee contributions and employer contributions are governed by the District’s contractual agreements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

The District has obtained an actuarial valuation report as of July 1, 2017 which indicates that the total liability for other post employment benefits is \$109,558,610, which is reflected in the Statement of Net Position.

**Employees Covered by Benefit Terms**

At June 30, 2018, the following employees were covered by the benefit terms:

Retirees and survivors	258
Terminated vested employees	-
Actives	415
	<u>673</u>

**Actuarial Assumptions and Other Inputs**

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

Inflation	2.2%
Salary Scale	3.5%
Discount Rate	3.6%
Healthcare Cost Trend Rates	6.2% pre 65 and 7.6% post 65 for 2018, decreasing to an ultimate rate of 3.84%
Retirees' Share of Benefit-Related Costs	Teachers required to contribute 50% of premium until age 65, no contribution after CSEA contribute 50% after age 65

The discount rate was based on Bond Buyer Weekly 20-Bond GO Index.

Mortality rates for actives were based on the RPH-2014 Mortality Table for employees, sex distinct, with generational mortality adjusted to 2006 using scale MP-2014, and projected forward with scale MP-2015.

Mortality rates for retirees were based on the RPH-2014 Mortality Table for Healthy Annuitants, sex distinct, with generational mortality adjusted to 2006 using scale MP-2014, and projected forward with scale MP-2015.

**Changes in the Total OPEB Liability**

Balance at July 1, 2016	<u>\$ 120,174,740</u>
Service cost	5,097,678
Interest	3,540,622
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions and other inputs	(17,174,282)
Benefit payments	<u>(2,080,148)</u>
Net changes	<u>(10,616,130)</u>
Balance at July 1, 2017	<u><u>\$ 109,558,610</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.85% on July 1, 2016 to 3.6% on July 1, 2017.

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

**Sensitivity of the Total OPEB Liability to Changes in the Discount Rate**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 - percentage point lower (2.60%) or 1- percentage point higher (4.60%) than the current discount rate.

	1% Decrease	Discount Rate	1% Increase
	2.6%	3.6%	4.6%
Total OPEB Liability	\$ 133,239,956	\$ 109,558,610	\$ 91,227,804

**Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Trend Rates	1% Increase
Total OPEB Liability	\$ 88,408,363	\$ 109,558,610	\$ 138,057,008

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$6,205,682. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change of assumptions or other inputs	-	(14,741,664)
Employer contributions subsequent to the measurement date	1,846,376	-
Total	\$ 1,846,376	\$ (14,741,664)

**Malone Central School District**  
Notes to Financial Statements  
June 30, 2018

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2019	\$ (2,432,618)
2020	(2,432,618)
2021	(2,432,618)
2022	(2,432,618)
2023 and Thereafter	(4,865,236)
	<u>\$ (14,595,708)</u>

**Prior Period Adjustment**

The implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, resulted in the restatement of the District's net position as follows:

Net position, beginning of year as previously stated	\$ (3,732,532)
GASB Statement No. 75 implementation:	
Beginning OPEB payable under GASB No. 45	50,594,389
Beginning net OPEB liability under GASB No. 75	(120,174,740)
Beginning deferred outflow of resources for contributions subsequent to the measurement date	<u>2,080,148</u>
Net position, beginning of year as restated	<u>\$ (71,232,735)</u>

**Note 14 – Tax Abatements:**

The County of Franklin entered into various property tax abatement programs for the purpose of economic development. The School District property tax revenue was reduced \$451,381. The District received payment in Lieu of Tax (PILOT) payments totaling \$53,285.

**Malone Central School District**  
 Required Supplementary Information  
 Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual - General Fund  
 For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Final Budget Variance with Budgetary Actual</u>
<b>REVENUES</b>				
<b>Local Sources</b>				
Real property taxes	\$ 11,020,388	\$ 11,020,388	\$ 11,143,521	\$ 123,133
Other tax items	2,572,504	2,572,504	2,476,623	(95,881)
Charges for services	193,500	193,500	283,298	89,798
Use of money and property	25,000	25,000	104,132	79,132
Sale of property and compensation for loss	4,250	24,554	2,292,084	2,267,530
Miscellaneous	250,500	259,000	297,698	38,698
Interfund revenues	10,000	10,000	2,647	(7,353)
Total Local Sources	14,076,142	14,104,946	16,600,003	2,495,057
State Sources	35,621,678	35,621,678	36,649,085	1,027,407
Federal Sources	262,044	262,044	313,241	51,197
Total Revenues	49,959,864	49,988,668	53,562,329	3,573,661
<b>OTHER FINANCING SOURCES</b>				
Transfers from other funds	539,991	539,991	224,991	(315,000)
Appropriated reserves	-	-	-	-
Total Revenues and Other Financing Sources	50,499,855	50,528,659	53,787,320	3,258,661

See paragraph on required supplementary information included in auditor's report.

**Malone Central School District**  
**Required Supplementary Information**  
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP) and Actual General Fund  
For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Year-End Encumbrances</u>	<u>Final Budget Variance with Budgetary Actual and Encumbrances</u>
<b>EXPENDITURES</b>					
General Support					
Board of education	24,758	24,758	20,531	299	3,928
Central administration	227,155	227,717	225,163	-	2,554
Finance	545,176	589,861	529,837	10,855	49,169
Staff	73,473	115,723	107,847	-	7,876
Central services	2,974,210	3,070,389	2,727,797	23,755	318,837
Special items	878,134	876,882	868,792	-	8,090
Total General Support	<u>4,722,906</u>	<u>4,905,330</u>	<u>4,479,967</u>	<u>34,909</u>	<u>390,454</u>
Instruction					
Instruction, administration and improvement	1,852,339	1,964,699	1,893,395	13,460	57,844
Teaching - regular school	11,751,256	11,867,238	11,704,634	15,830	146,774
Programs for children with handicapping conditions	5,918,199	6,368,863	6,182,380	547	185,936
Occupational education	1,993,002	2,047,458	2,047,458	-	-
Teaching - special school	100,328	111,781	111,781	-	-
Instructional media	1,649,829	1,813,821	1,793,973	-	19,848
Pupil services	2,209,642	2,274,198	2,165,275	24,571	84,352
Total Instruction	<u>25,474,595</u>	<u>26,448,058</u>	<u>25,898,896</u>	<u>54,408</u>	<u>494,754</u>
Pupil Transportation	1,671,276	1,703,815	1,561,267	10	142,538
Community Services	73,024	73,024	53,011	-	20,013
Employee Benefits	12,513,326	11,739,017	11,444,412	-	294,605
Debt Service	6,914,728	6,852,683	6,852,570	-	113
Total Expenditures	<u>51,369,855</u>	<u>51,721,927</u>	<u>50,290,123</u>	<u>89,327</u>	<u>1,342,477</u>
<b>OTHER FINANCING USES</b>					
Transfers (to) other funds	480,000	486,045	486,044	-	1
Total Expenditures and Other Uses	<u>51,849,855</u>	<u>52,207,972</u>	<u>50,776,167</u>	<u>89,327</u>	<u>1,342,478</u>
Net change in fund balances	(1,350,000)	(1,679,313)	3,011,153		
Fund balance - beginning			<u>9,413,267</u>		
Fund balance - ending			<u>\$ 12,424,420</u>		

See paragraph on required supplementary information included in auditor's report.

**Malone Central School District**  
**Required Supplementary Information**  
**Schedule of Change in Net**  
**Other Post Employment Benefit Liability**  
**For the Year Ended June 30, 2018**

Measurement Date

Service cost	\$ 5,097,678
Interest	3,540,622
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions and other inputs	(17,174,282)
Benefit payments	<u>(2,080,148)</u>
Net changes in OPEB liability	<u>(10,616,130)</u>
Total OPEB Liability-beginning	<u>120,174,740</u>
Total OPEB Liability-ending	<u><u>\$ 109,558,610</u></u>
Covered payroll	\$ 22,884,000
Total OPEB as a percentage of covered payroll	479%

**Malone Central School District**  
 Required Supplementary Information  
 Proportionate Share of Net Pension Asset-TRS  
 June 30, 2018

Measurement Date	<u>6/30/14</u>	<u>6/30/15</u>	<u>6/30/16</u>	<u>6/30/17</u>
District's proportion of the net pension asset	0.1009080%	0.1023410%	0.1053640%	0.1056650%
District's prop.share of the net pension asset (liability)	\$ 11,240,469	\$ 10,629,943	\$ (1,128,493)	\$ 803,160
District's covered payroll	\$ 14,884,300	\$ 14,905,600	\$ 15,373,000	\$ 16,258,700
District's prop.share of the net pension asset (liability) as a percentage of its covered employee payroll	75.52%	71.32%	7.34%	4.94%
Plan fiduciary net position as a percentage of the total pension asset (liability)	111.48%	110.46%	99.01%	100.66%

See paragraph on required supplementary information included in auditor's report.

**Malone Central School District**  
 Required Supplementary Information  
 Proportionate Share of Net Pension Liability-ERS  
 June 30, 2018

Measurement Date	<u>3/31/15</u>	<u>3/31/16</u>	<u>3/31/17</u>	<u>3/31/18</u>
District's proportion of the net pension liability	0.0138339%	0.0139186%	0.0137340%	0.0144810%
District's proportionate share of the net pension liability	\$ 467,342	\$ 2,233,966	\$ 1,290,474	\$ 467,365
District's covered payroll	\$ 3,693,000	\$ 3,528,000	\$ 3,725,000	\$ 3,940,000
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	12.65%	63.32%	34.64%	11.86%
Plan fiduciary net position as a percentage of the total pension liability	97.90%	90.70%	94.70%	98.24%

See paragraph on required supplementary information included in auditor's report.

**Malone Central School District**  
 Required Supplementary Information  
 Schedule of District Contributions  
 TRS Pension Plan  
 Last 10 Years  
 For the Year Ended June 30, 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Contractually required contribution (thousands)	\$ 1,412	\$ 1,270	\$ 1,092	\$ 1,454	\$ 1,777	\$ 1,868	\$ 2,520	\$ 2,787	\$ 2,247	\$ 2,027
Contribution in relation to contractually required contribution	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
District's covered employee payroll (thousands)	14,176	14,480	15,076	15,347	14,981	14,884	14,906	15,373	16,259	16,521
Contrib.as a % of covered employee payroll	8.73%	7.63%	6.19%	8.62%	11.11%	11.84%	16.25%	17.53%	13.26%	11.72%

See paragraph on required supplementary information included in auditor's report.

**Malone Central School District**  
 Required Supplementary Information  
 Schedule of District Contributions  
 ERS Pension Plan  
 Last 10 Years  
 For the Year Ended June 30, 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Contractually required contribution (thousands)	\$ 277	\$ 272	\$ 440	\$ 573	\$ 658	\$ 699	\$ 688	\$ 569	\$ 573	\$ 574
Contribution in relation to contractually required contribution	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
District's covered employee payroll (thousands)	3,577	3,600	3,750	3,626	3,589	3,682	3,693	3,528	3,725	3,940
Contributions as a % of covered employee payroll	7.74%	7.56%	11.73%	15.80%	18.33%	18.98%	18.63%	16.13%	15.38%	14.56%

**Malone Central School District**  
Schedules of Change from Adopted Budget to Final Budget and the Real Property Tax Limit  
General Fund  
For the Year Ended June 30, 2018

**CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**

Adopted budget	\$	51,849,855
Add: Prior year's encumbrances		136,886
Original budget		51,986,741
Budget revision		221,231
Final budget	\$	52,207,972

**SECTION 1318 OF REAL PROPERTY TAX LAW LIMIT CALCULATION**

2018-19 voter approved expenditure budget	\$	51,267,070
Maximum allowed 4%		2,050,683
General Fund Balance Subject to Section 1318 of Real Property Tax Law:		
Unrestricted Fund Balance		
Assigned Fund Balance		1,712,450
Unassigned Fund Balance		6,646,102
		8,358,552
Less:		
Appropriated Fund Balance		1,623,123
Insurance Recovery Reserve		-
Tax Reduction Reserve		-
Encumbrances		89,327
Total adjustments		1,712,450
General Fund Balance Subject to Section 1318 of Real Property Tax Law	\$	6,646,102
Actual Percentage		12.96%

**Malone Central School District**  
**Schedule of Project Expenditures - Capital Projects Fund**  
**For the Year Ended June 30, 2018**

Project Title	Original Appropriation	Revised Appropriation	Prior Years' Expenditures	Current Year Expenditures	Total Expenditures	Unexpended Balance	Method of Financing			Fund Balance 6/30/18	
							Debt Proceeds	State Aid	Local Sources		Total
Buses	\$ 600,917	\$ 600,917	\$ -	\$ 600,917	\$ 600,917	\$ -	\$ 600,917	\$ -	\$ -	\$ 600,917	\$ -
Flanders Entrance 0017-010	100,000	100,000	10,448	89,552	100,000	-	-	-	100,000	100,000	-
Flanders Chimney 0017-009	78,655	78,655	-	78,655	78,655	-	-	-	78,655	78,655	-
Middle School Chimney 0001-013	97,613	97,613	-	97,613	97,613	-	-	-	97,613	97,613	-
Smart School Bonds Davis PreK 0018-006	34,878	34,878	31,378	3,500	34,878	-	-	-	74,363	74,363	39,485
Bus Garage 5006-007	110,000	11,830,626	11,830,626	-	11,830,626	-	9,635,815	-	2,194,811	11,830,626	-
Harrison Gym 0002-001	867,329	1,100,716	1,100,716	-	1,100,716	-	511,656	-	589,060	1,100,716	-
Franklin Academy-0019-007	2,437,625	3,246,984	3,246,984	-	3,246,984	-	3,246,984	-	-	3,246,984	-
Smart School Bonds 7999-003	394,957	394,957	316,952	53,944	370,896	24,061	-	370,896	-	370,896	-
Flanders, Davis, St. Joes, MS gas conversion	15,500	433,039	433,039	-	433,039	-	225,545	-	207,494	433,039	-
	<u>\$ 4,737,474</u>	<u>\$ 17,918,385</u>	<u>\$ 16,970,143</u>	<u>\$ 924,181</u>	<u>\$ 17,894,324</u>	<u>\$ 24,061</u>	<u>\$ 14,220,917</u>	<u>\$ 370,896</u>	<u>\$ 3,341,996</u>	<u>\$ 17,933,809</u>	<u>\$ 39,485</u>

See paragraph on supplementary schedules included in auditor's report.

**Malone Central School District**  
**Supplementary Information**  
**Combined Balance Sheet - Non-Major Governmental Funds**  
**June 30, 2018**

	Non-Major Capital Projects	School Food Service	Debt Service	Total Non-Major
<b>ASSETS</b>				
Cash				
Unrestricted	\$ 78,193	\$315,484	\$ -	\$ 393,677
Restricted	-	-	1,002,569	1,002,569
Receivables				
State and Federal aid	-	53,263	-	53,263
Due from other governments	-	-	-	-
Due from other funds	558	-	-	558
Other	-	-	-	-
Inventories	-	28,939	-	28,939
Total Assets	<u>\$ 78,751</u>	<u>\$397,686</u>	<u>\$1,002,569</u>	<u>\$1,479,006</u>
<b>LIABILITIES</b>				
Payables				
Accounts payable	\$ 39,266	\$ 60,964	\$ -	\$ 100,230
Accrued liabilities	-	10,978	-	10,978
Due to other funds	-	-	-	-
Due to other governments	-	1,236	-	1,236
Due to Teachers' Retirement System	-	-	-	-
Due to Employees' Retirement System	-	-	-	-
Total Liabilities	<u>39,266</u>	<u>73,178</u>	<u>-</u>	<u>112,444</u>
<b>FUND BALANCES</b>				
Nonspendable	-	28,939	-	28,939
Restricted	-	-	1,002,569	1,002,569
Assigned	39,485	295,569	-	335,054
Unassigned	-	-	-	-
Total Fund Balances	<u>39,485</u>	<u>324,508</u>	<u>1,002,569</u>	<u>1,366,562</u>
Total Liab. and Fund Balances	<u>\$ 78,751</u>	<u>\$397,686</u>	<u>\$1,002,569</u>	<u>\$1,479,006</u>

**Malone Central School District**  
**Supplementary Information**  
**Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Non Major**  
**Governmental Funds**  
**For the Year Ended June 30, 2018**

	Non-Major Capital Projects	School Food Service	Debt Service	Total Non-Major
<b>REVENUES</b>				
Use of money and property	\$ -	\$ 310	\$ 1,507	\$ 1,817
Miscellaneous	631	10,106	-	10,737
Interfund revenue	-	-	-	-
State sources	370,896	25,035	-	395,931
Federal sources	-	709,798	-	709,798
Surplus food	-	68,571	-	68,571
Summer Food Service	-	25,480	-	25,480
Sales - school lunch	-	210,931	-	210,931
Total Revenues	<u>371,527</u>	<u>1,050,231</u>	<u>1,507</u>	<u>1,423,265</u>
<b>EXPENDITURES</b>				
General support	-	945,036	-	945,036
Instruction	-	-	-	-
Pupil transportation	-	-	-	-
Community service	-	-	-	-
Employee benefits	-	-	-	-
Cost of sales	-	102,119	-	102,119
Capital outlay	924,181	-	-	924,181
Total Expenditures	<u>924,181</u>	<u>1,047,155</u>	<u>-</u>	<u>1,971,336</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(552,654)</u>	<u>3,076</u>	<u>1,507</u>	<u>(548,071)</u>
<b>OTHER FINANCING SOURCES AND USES</b>				
Proceeds from debt	600,917	-	-	600,917
Operating transfers in	350,000	6,044	-	356,044
Operating transfers out	-	-	(224,991)	(224,991)
Total Other Sources and Uses	<u>950,917</u>	<u>6,044</u>	<u>(224,991)</u>	<u>731,970</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	398,263	9,120	(223,484)	183,899
Fund Balances - Beginning of year	(358,778)	315,388	1,226,053	1,182,663
Fund Balances - End of year	<u>\$ 39,485</u>	<u>\$ 324,508</u>	<u>\$ 1,002,569</u>	<u>\$ 1,366,562</u>

See paragraph on supplementary schedules included in auditors' report.

**Malone Central School District**  
Investment in Capital Assets, Net of Related Debt  
June 30, 2018

Capital assets, net		\$ 66,522,627
Add:		
Unamortized excess paid to escrow agent for refunding		26,632
Deduct:		
Unamortized bond premiums	2,424,914	
Short-term portion of bonds payable	2,634,033	
Long-term portion of bonds payable	28,428,901	33,487,848
Investment in capital assets, net of related debt		\$ 33,061,411

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Carl A. Seyfarth Jr. CPA  
Ann E. Seyfarth CPA

**Independent Auditor's Report on the  
Extraclassroom Activity Fund**

To the Board of Education  
Malone Central School District

We have audited the accompanying Statement of Assets and Liabilities Arising From Cash Transactions of the Extraclassroom Activity Fund of Malone Central School District as of June 30, 2018 and the related notes.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting as described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Minimum Program for Audits of Financial Records of New York State School Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statement referred to in the first paragraph presents fairly, in all material respects, the assets and liabilities of the Extraclassroom Activity Fund of Malone Central School District as of June 30, 2018 in accordance with the cash basis of accounting as described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statement which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the Statement of Assets and Liabilities Arising From Cash Transactions. The accompanying Schedule of Extraclassroom Activity Fund Cash Receipts, Disbursements and Ending Balances is presented for purposes of additional analysis and is not a required part of the Statement of Assets and Liabilities Arising From Cash Transactions. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the Statement of Assets and Liabilities Arising From Cash Transactions. The information has been subjected to the auditing procedures applied in the audit of the Statement of Assets and Liabilities Arising From Cash Transactions and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the Statement of Assets and Liabilities Arising From Cash Transactions or to the Statement of Assets and Liabilities Arising From Cash Transactions itself, and other additional procedures in accordance with the cash basis of accounting as described in Note 1. In our opinion, the information is fairly stated in all material respects in relation to the Statement of Assets and Liabilities Arising From Cash Transactions.

Seyfarth & Seyfarth CPAs, P.C.

October 1, 2018

**Malone Central School District**

**Statement of Assets and Liabilities Arising From Cash Transactions - Extraclassroom Activity Fund**  
**June 30, 2018**

Assets	
Cash	<u>\$ 122,898</u>
Liabilities	
Extraclassroom Activity Balances	<u>\$ 122,898</u>

**Malone Central School District**  
Schedule of Receipts, Disbursements and Ending Balances - Extraclassroom Activity Fund  
For the Year Ended June 30, 2018

<u>Activity</u>	<u>Beginning Balance June 30, 2017</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>Ending Balance June 30, 2018</u>
Class of 2015	501	-	501	-
Class of 2016	718	-	718	-
Class of 2017	3,404	-	3,404	-
Class of 2018	1,523	9,540	9,900	1,163
Class of 2019	4,273	7,923	8,383	3,813
Class of 2020	3,942	5,404	2,989	6,357
Class of 2021	-	2,371	-	2,371
Academy Book Store	160	-	-	160
ANIME Club	46	97	-	143
Art Club - FA	943	-	461	482
CDOS Club	619	2,398	1,743	1,274
Chess Club	116	-	-	116
Epsilon	726	1,770	2,131	365
FAADD	2,307	-	504	1,803
FA Players	12,799	14,019	11,775	15,043
Forensics	797	3,049	2,555	1,291
French Club	4,595	2,765	2,508	4,852
Junior Humane Society	-	-	-	-
International Relations	1,741	282	102	1,921
National Honor Society	829	1,356	1,196	989
Outdoor - Science Club	54	100	-	154
Phi Sigma	51	-	-	51
Rotary Interact Club	791	-	-	791
Robotics Club	247	-	-	247
Science Nat. Honor Society	740	942	414	1,268
Spanish Club	19,988	15,621	18,095	17,514
Student Council - FA	4,149	5,389	4,093	5,445
Student Council - Middle School	7,132	33,914	27,057	13,989
Student Yearbook	15,157	19,180	34,328	9
Student Yearbook - Middle School	7,257	4,521	5,355	6,423
Technology Club	212	-	40	172
Travel Club	1,128	3,733	3,117	1,744
Varsity Club	27,361	82,508	76,921	32,948
	<u>\$ 124,306</u>	<u>\$ 216,882</u>	<u>\$ 218,290</u>	<u>\$ 122,898</u>

**Malone Central School District**  
Notes to Financial Statements – Extraclassroom Activity Fund  
June 30, 2018

**Note 1 - Summary of Significant Accounting Policies**

The transactions of the Extraclassroom Activity Funds are not considered part of the reporting entity of the Malone Central School District. Consequently, such transactions are not included in the combined financial statements of the School District.

The books and records of the Malone Central School District's Extraclassroom Activities Funds are maintained on the cash basis of accounting. Under this basis of accounting, revenues are recognized when cash is received and expenditures are recognized when cash is disbursed.

**Malone Central School District**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2018

Federal Grantor/Pass - through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
<b>US Department of Education</b>			
<b>Passed - through NYS Education Department:</b>			
Special Education Cluster:			
IDEA-Part B Section 611	84.027	0032-18-0263	\$ 598,511
IDEA-Part B Section 619	84.173	0033-18-0263	33,810
Total Special Education Cluster			<u>632,321</u> *
Title I:			
ESEA-Title I A & D	84.010	0021-18-0935	743,552
Title I School Imprmt	84.010	0011-18-2098	227,541
			<u>971,093</u>
Title VIB Rural & Low Income	84.358	0006-18-0935	49,227
Title IIA	84.367	0147-18-0935	113,203
Total Passed-through NYS Education Department			<u>1,765,844</u>
<b>US Department of Agriculture</b>			
<b>Passed - through NYS Education Department:</b>			
Child Nutrition Cluster:			
Non-Cash Assistance (food distribution)			
National School Lunch	10.555	n/a	68,571
Non-cash assistance subtotal			<u>68,571</u>
Cash Assistance			
National School Breakfast	10.553	n/a	195,561
National School Lunch	10.555	n/a	514,236
National School - Summer Feeding	10.559	n/a	25,480
			<u>735,277</u>
Total Passed-through NYS Education Department			<u>803,848</u>
Total Child Nutrition Cluster			<u>803,848</u>
Total Federal Awards			<u>\$ 2,569,692</u>

\* Major Programs

**Malone Central School District**  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2018

**Note 1 – Basis of Presentation:**

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of federal award programs administered by the District, which is described in Note 1 to the District's accompanying financial statements, for the year ended June 30, 2018. Federal awards that are included in the schedule may be received directly from federal agencies, as well as federal awards that are passed through from other government agencies. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**Note 2 – Summary of Significant Accounting Policies:**

Expenditures reported on the Schedule are reported using the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect costs may be included in the reported expenditures, to the extent that they are included in the federal financial reports used as the source for the data presented. Certain of the District's federal award programs have been charged with indirect costs, based upon a rate established by New York State. The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance applied to overall expenditures.

Matching costs (the District's share of certain program costs) are not included in the reported expenditures. The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures were obtained from the federal financial reports for the applicable program and periods. The amounts reported in these reports are prepared from records maintained for each program, which are reconciled with the District's financial reporting system.

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Carl A. Seyfarth Jr. CPA  
Ann E. Seyfarth CPA

**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***

**Independent Auditor's Report**

To the Board of Education  
Malone Central School District

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Malone Central School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Malone Central School District's basic financial statements and have issued our report thereon dated October 1, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Malone Central School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Malone Central School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Malone Central School District's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Malone Central School District's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2018-001.

### **Malone Central School District's Response to Findings**

Malone Central School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Malone Central School District's response was not subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we express no opinion on it.

### **Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seyfarth & Seyfarth CPAs, P.C.  
Malone, NY

October 1, 2018

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Ann E. Seyfarth CPA

**Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

**Independent Auditor's Report**

To the Board of Education  
Malone Central School District

**Report on Compliance for Each Major Federal Program**

We have audited Malone Central School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Malone Central school District's major federal programs for the year ended June 30, 2018. Malone Central School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Malone Central School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Malone Central School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Malone Central School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Malone Central School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of Malone Central School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Malone Central School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Malone Central School District'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 deficiency, or combination of 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

### **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Malone Central School District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Malone Central School District's basic financial statements. We issued our report thereon dated October 1, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Seyfarth & Seyfarth CPAs, P.C.  
Malone, NY

October 1, 2018



**Malone Central School District**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**Section II – Financial Statement Findings**

2018-001 Fund Balance

**Criteria:** New York State Real Property Tax Law requires school districts to maintain their unrestricted fund balance at or below 4 percent of the ensuing year's appropriations.

**Condition:** The portion of the District's fund balance subject to the New York State Real Property Tax Law limit exceeded the amount allowable.

**Context:** This is a repeat finding for the past several years. The unrestricted fund balance at June 30, 2018 is approximately \$4.6 million over the limit. The unrestricted fund balance at June 30, 2017 was approximately \$2.1 million over the limit.

**Effect:** Funds were not used in a manner that benefitted taxpayers such as increasing legally adopted reserves, paying off debt and reducing property taxes.

**Cause:** The District adopted budgets with appropriations which exceeded the actual amounts needed.

**Recommendation:** We recommend that the District keep in mind the 4% rule when preparing future budgets.

**Management's Response:** Malone CSD is considered a high-needs, rural school district and is among the poorest in NYS as evidenced by property wealth and personal income statistics. The district's unrestricted fund balance is used as a tool to ensure decreased or flat state aid does not have an adverse impact to the educational and instructional opportunities of Malone youth. There are significant uncertainties each year that the district must protect itself against, including but not limited to the price of ever-fluctuating fuel prices, a high population of special education students that require a significant financial commitment, unpaid cafeteria bills that are now required to be funded by the general fund, a BOCES capital project, the increase in minimum wage that effects contractual obligations and a high population of staff who have declined the district's health insurance plan. Those individuals can decide to opt back in the plan during open enrollment. For those reasons the district must budget adequately to protect itself from unforeseen financial commitments. The district in June 2018 received a settlement in the amount of \$2,200,000. In light of the current financial condition of the district, the settlement will be used to offset the district's portion for a Board of Cooperative Educational Services Supervisory School District Franklin-Essex-Hamilton Counties (BOCES) capital project in the amount of \$4,959,551 set to be paid in installments during the 18-19, 19-20, and 20-21 school years. The district is mindful of the NYS comptroller designations for fiscal stress that are reported each year to the public. It is the opinion of management that should the district drop below the 4% level for unrestricted fund balance there is the potential for the future erosion of the financial health of the district, including lower bond ratings fiscal stress designations, decreased public confidence in the school district and liability to meet unforeseen budget changes throughout the year.

**Malone Central School District**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

**Section III – Federal Award Findings and Questioned Costs**

None noted

**Malone Central School District**  
Schedule of Prior Year Audit Findings  
June 30, 2018

2017-001 Fund Balance  
Status – Not Corrected  
See 2018-001