

ARLINGTON COMMUNITY SCHOOL SYSTEM

FINANCIAL STATEMENTS

June 30, 2017



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ARLINGTON COMMUNITY SCHOOL SYSTEM

ROSTER OF PUBLICLY ELECTED OFFICIALS

For the Year Ended June 30, 2017

Tammy Mason, Superintendent

Kay Williams, Chair

Kevin Yates, Vice Chair

Barbara Fletcher

Danny Young

Dale Viox

Miracle Roberts, Chief Financial Officer

Jeff Mayo, Chief of Staff

Todd Goforth, Director of Academics

Rochelle Douglas, Director of Accountability & Federal Compliance

Tim Ruff, Director of Operations

INDEPENDENT AUDITOR'S REPORT

To the Superintendent and Board Members
Arlington Community School System
Arlington, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the statement of budgetary comparison for the general purpose fund and the aggregate remaining fund information of the Arlington Community School System, (the "System") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 System'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 System'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, the statement of budgetary comparison for the general purpose fund and the aggregate remaining fund information of the System, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

The Arlington community School system has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. Our opinion is not modified with respect to this matter.

Emphasis of a Matter

As discussed in Note 1, the financial statements of the Arlington Community School System are intended to present the net position and the changes in net position of only the governmental activities, each major fund, and fiduciary fund of the Town of Arlington, Tennessee, that is attributable to the System. They do not purport to, and do not, present fairly the financial position of the Town of Arlington, Tennessee, as of June 30, 2017, and the changes in its financial position, or, where applicable, its cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

We draw attention to Note 11 to the financial statements, which describes a restatement increasing the beginning net position for Fiduciary funds by \$703,081. This restatement was necessary because of the transitional requirements of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, 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 System's basic financial statements. The introductory section and supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by Title 2, U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform*

Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The supplementary information and other information section is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 supplementary and other information section is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of the System'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 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 the System's internal control over financial reporting and compliance.

Watkins Mikusall, PLLC

Memphis, Tennessee
December 19, 2017

Management's Discussion and Analysis

As management of the Arlington Community Schools (System), we offer readers of the financial statements for the System, this narrative overview and analysis of the financial activities for the year ended June 30, 2017. Comparative financial information is reported for the fiscal year ended June 30, 2016. We encourage readers to consider the information here in conjunction with the Independent Auditor's Report and the System's financial statements. The accompanying financial statements are presented at the department level and do not purport to represent the government-wide statements of the Town of Arlington (Town). The determination of major and non-major funds is determined at the Town level.

Arlington Community Schools is a K-12 school system located in Arlington, Tennessee, a suburban area of Memphis, Tennessee. Our system serves slightly over 5,000 students and consists of four schools: Arlington Elementary, Donelson Elementary, Arlington Middle, and Arlington High. Our System's mission is to empower and to inspire all students towards lifetime learning, career success and good citizenship. Our System's vision is to fully engage and to inspire our staff, parents and community to create an environment where students can achieve their highest potential and become productive citizens in an ever changing, challenging world.

Arlington Community Schools offers a challenging and supportive academic environment at all schools. Since the establishment as a school district in 2014, Arlington Community Schools has been designated as an Exemplary System by the Tennessee Department of Education. Arlington Elementary, Donelson Elementary, and Arlington High School have all been designated as reward schools during this time period. Our middle school offers a strong emphasis on the 1:1 technology program while offering high school electives of Algebra I, Physical Science and STEM (Science, Technology, Engineering and Math). Arlington Middle School is one of the few middle schools in Tennessee that offer Coding as a full year course. Arlington High School offers Advanced Placement (AP) courses, honor courses, dual enrollment courses and Career & Technical industry certification aligned courses for all of our students in grades 9-12. Scholarships reflect our academic success as the graduating seniors had a total combined figure of \$30.6 million dollars in offered scholarships. The school district also has a strong focus and partnership with the community through our LEAD Arlington Program composed of school leaders, town officials and local businesses.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2017 are as follows:

- The assets and deferred outflows of resources of the System exceeded its liabilities and deferred inflows of resources at June 30, 2017 by \$107 million (net position) that represents a \$7.6 million increase in net position. Of this amount, the unrestricted net position has a balance of \$15.9 million.
- As of the close of the current fiscal year, the System reported combined ending fund balances of \$17.9 million. Approximately 89.6% of this total amount, \$16 million is unassigned in the general purpose fund, \$91,910 represents non-spendable funds in the general purpose and non-major governmental funds, .01% represents funds restricted in the school nutrition fund, and .09% represents funds restricted in the education capital projects fund.
- A change in the System's insurance management policy restricts other post employment benefits (OPEB) to employees employed by the system prior to July 1, 2017 that significantly contributed to a \$4.8 million net reduction in total OPEB liability for the System.
- The System has an outstanding debt to Shelby County Schools in the amount of \$2.9 million and made a payment in the current fiscal year of \$333,333. Other post employment benefits liability is

determined by the actuary to be \$1,521,724 and net pension liability to be \$3,169,249. Compensated absences balance at year-end is \$202,744.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The System's basic financial statements comprise three components: 1) department-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information, supplementary, and other information in addition to the basic financial statements themselves.

Department-wide financial statements The *department-wide financial statements* are designed to provide readers with a broad overview of the System's finances, in a manner similar to a private-sector business.

The *statement of net position* presents all the assets, liabilities and deferred outflows/inflows of resources for the System, with differences reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the department-wide financial statements distinguish functions of the System that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs. The System's governmental activities include general administration, finance and education. The System has no business-type activities to report.

Please refer to the Table of Contents to locate the department-wide financial statements.

Fund financial statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The System, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the System can be grouped into one category: governmental funds.

Governmental funds *Governmental funds* are used to account for essentially the same functions reported as *governmental* activities in the department-wide financial statements. However, unlike the department-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the department-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the department-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The System maintains the general purpose fund and non-major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances – for those funds. The major funds and non-major funds will be re-

evaluated at the Town level. The System adopts an annual appropriated budget for its general purpose and non-major governmental funds. A budgetary comparison statement has been provided as basic financial statements for the general purpose fund to demonstrate compliance with this budget.

Please refer to the Table of Contents to locate the basic governmental fund financial statements.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the department-wide and fund financial statements. Please refer to the Table of Contents to locate the notes to the financial statements.

Other information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This required supplementary information has been presented in the required supplementary information section of this report.

Department-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the System, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$107,131,936 at the close of the fiscal year ended June 30, 2017.

A large portion of the System's net position reflects its investment in capital assets (e.g., buildings, and equipment). The System uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

An additional portion of the System's net position, \$1,813,120 represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position of \$15,908,069. The System uses unrestricted funds to meet the government's ongoing obligations to citizens and creditors.

The System's Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Assets		
Current and other	\$ 21,489,068	\$ 17,204,301
Capital assets - net of accumulated depreciation	<u>89,410,747</u>	<u>85,696,893</u>
Total assets	110,899,815	102,901,194
Deferred outflows of resources	9,963,490	7,028,750
Liabilities		
Long-term liabilities	7,612,068	4,222,378
Other liabilities	<u>2,160,473</u>	<u>1,970,882</u>
Total liabilities	9,772,541	6,193,260
Deferred inflows of resources	3,958,828	4,248,714
Net Position		
Net investment in capital assets	89,410,747	85,696,833
Restricted	1,813,120	1,241,803
Unrestricted	<u>15,908,069</u>	<u>12,549,334</u>
Total net position	<u>\$ 107,131,936</u>	<u>\$ 99,487,970</u>

The above provides a summary of the System's net position for 2017.

The following summary shows the changes in net position for fiscal years ending June 30:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Revenues		
Program revenues		
Charges for services	\$ 1,325,788	\$ 1,256,835
Operating grants and contributions	2,056,838	1,989,290
General revenues		
Property taxes	13,987,851	13,018,121
Sales taxes	5,559,998	5,446,186
Mixed drink tax	10,666	5,984
Payments in lieu of taxes	226,221	254,856
Business tax	1,923	1,882
Wheel tax	1,222,831	521,870
Grants and contributions not restricted to specific programs:		
Basic Education Program	21,654,485	20,727,309
Other	118,099	133,866
Gain (loss) on sale of capital assets	-	(5,107)
Insurance recovery	9,683	9,463
Other miscellaneous revenues	<u>1,657,607</u>	<u>2,493,835</u>
Total revenues	<u>47,831,990</u>	<u>45,854,390</u>
Expenses		
Instruction	23,633,711	22,463,678
Support services	13,308,942	12,186,869
Non-instructional services	<u>3,739,521</u>	<u>3,322,483</u>
Total expenses	<u>40,682,174</u>	<u>37,973,030</u>
Increase (decrease) in net position before transfers and contributed capital	7,149,816	7,881,360
Transfers from the Town of Arlington	<u>494,150</u>	<u>562,554</u>
Increase (decrease) in net position after transfers	7,643,966	8,443,914
Net position, beginning	99,487,970	52,233,902
Prior period adjustment	-	38,810,154
Net position, beginning restated	<u>99,487,970</u>	<u>91,044,056</u>
Net position, ending	<u>\$ 107,131,936</u>	<u>\$ 99,487,970</u>

Governmental activities

Total governmental activities' revenue for the fiscal year was \$47.8 million. The largest single revenue source was state revenues in the form of Basic Education Program payments.

Expenditures and Revenues - Governmental Funds

Certain revenues are generated that are specific to governmental program activities.

The general purpose fund had \$43.2 million in revenues and \$40.4 million in expenditures. The non-major governmental funds had \$3.7 million in revenues, and \$3.1 million in expenditures. Major funding for these funds was provided by federal and state funds.

	<u>June 30, 2017</u>	<u>Percent</u>
Revenues		
Program revenues		
Charges for services	\$ 1,325,788	2.77%
Operating grants and contributions	2,056,838	4.30%
General revenues		
Property taxes	13,987,851	29.24%
Sales taxes	5,559,998	11.62%
Mixed drink tax	10,666	0.02%
Payments in lieu of taxes	226,221	0.47%
Business tax	1,923	0.00%
Wheel tax	1,222,831	2.56%
Grants and contributions not restricted to specific programs:		
Basic Education Program	21,654,485	45.27%
Other	118,099	0.25%
Insurance recovery	9,683	0.02%
Other miscellaneous revenues	<u>1,657,607</u>	<u>3.47%</u>
Total revenues	\$ 47,831,990	100%

Financial Analysis of the Government's Funds

As noted earlier, the System uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds The focus of the System's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the System's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the System itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the System's Board.

At June 30, 2017, the System's governmental funds reported combined fund balances of \$17,924,590. Approximately 89.6% of this amount \$16,057,059 constitutes unassigned fund balance, which is available for spending at the System's discretion. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form \$91,910 2) legally required to be maintained intact \$0, 3) restricted for particular purposes \$1,775,621, 4) committed for particular purposes \$0, or 5) assigned for particular purposes \$0.

The general purpose fund is the chief operating fund of the System. At the end of the current fiscal year, unassigned fund balance was \$16,057,059.

As a measure of the general purpose fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 39.7% of the total general purpose fund expenditures, while total fund balances represents 39.9% of that same amount.

General Purpose Fund Budgetary Highlights

Differences between the original budget and the final amended budget are briefly summarized as follows:

June 30, 2017			
General Purpose Fund			
Revenues	Original	Final	Difference
Taxes	\$ 17,429,591	\$ 19,870,916	\$ 2,441,325
State revenues	21,345,683	21,439,683	94,000
Other local revenues	634,020	634,020	-
Total revenues	<u>39,409,294</u>	<u>41,944,619</u>	<u>2,535,325</u>
Expenditures			
Instruction	24,536,423	27,138,775	2,602,352
Support services	14,072,193	14,522,834	450,641
Non-instructional services	979,333	2,887,605	1,908,272
Total expenditures	<u>39,587,949</u>	<u>44,549,214</u>	<u>4,961,265</u>
Other financing sources (uses):			
Town appropriations	<u>74,855</u>	<u>74,855</u>	<u>-</u>
Net change in fund balance	<u>\$ (103,800)</u>	<u>\$ (2,529,740)</u>	<u>\$ (2,425,940)</u>

Over the course of the year, the System revised its budget several times. The System planned to use \$2.5 million of fund balance for major capital projects. However, an increase in actual revenue received did not require the use of the System's fund balance. The total budget was also amended to include additional revenue allocated by the Shelby County Commission and Tennessee Department of Education. The amendment also included the cost of the initial phases of the construction of a district office for central office employees who service the schools.

Differences between the final budget and the actual expenditures are briefly summarized as follows:

	June 30, 2017		
General Purpose Fund			
Revenues	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
Taxes	\$ 19,870,916	\$ 20,958,615	\$ 1,087,699
State revenues	21,439,683	21,665,181	225,498
Other local revenues	634,020	583,036	(50,984)
Total revenues	<u>41,944,619</u>	<u>43,206,832</u>	<u>1,262,213</u>
Expenditures			
Instruction	27,138,775	25,114,458	2,024,317
Support services	14,522,834	12,872,592	1,650,242
Non-instructional services	2,887,605	2,424,669	462,936
Total expenditures	<u>44,549,214</u>	<u>40,411,719</u>	<u>4,137,495</u>
Other financing sources (uses):			
Town appropriations	74,855	494,150	419,295
Transfers to other funds	-	71,290	71,290
Total other financing sources (uses)	<u>74,855</u>	<u>565,440</u>	<u>490,585</u>

Arlington Community Schools began its operations during the 2014-2015 fiscal year; the 2016-2017 fiscal year is the System's third year of existence. The utilization of conservative estimates has allowed the System to eliminate the necessity for a bridge loan through the Town of Arlington in order to meet its payroll and other expenditure obligations during the months where cash in-flows lag behind cash out-flows. The System has also been able to complete major projects for the schools without the need for the Town to incur any debt on behalf of the System.

Significant variances between the final budgeted revenue and actual revenue received are attributed to a difference in actual property tax, local option sales tax, and wheel tax over projected amounts. Significant variances between the final budgeted expenditures and actual expenditures incurred are attributed to major capital projects carrying over into the next fiscal year. Additionally the System, along with other municipal school systems and municipalities within Shelby County, is self-insured through a medical health trust since its inception in 2014. No additional medical insurance contribution was required from the System, over the covered employee and dependent amount, in order to fully fund the health trust.

Capital Asset and Debt Administration

Capital Assets. The System's investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$89.4 million (net of accumulated depreciation and related debt). This investment in capital assets includes buildings and improvements and other capital assets (including equipment). The major capital asset events that occurred during June 30, 2017 included the transferring of land from the Town of Arlington, Tennessee and the purchase of student technology devices.

	<u>June 30, 2017</u>
Land	\$ 1,996,500
Construction in progress	1,506,668
Buildings and improvements (net of accumulated depreciation)	81,557,734
Furniture and fixtures (net of accumulated depreciation)	86,066
Machinery and equipment (net of accumulated depreciation)	4,172,408
Other capital assets (net of accumulated depreciation)	91,371
Total capital assets	<u>89,410,747</u>
Long-term debt related to capital assets	-
Net investment in capital assets	<u><u>\$ 89,410,747</u></u>

Long-term debt As of June 30, 2017, the System had total debt outstanding of \$7.6 million. All debt is backed by the full faith and credit of the government. The System's obligations include notes payable to Shelby County Schools for the buildings, furniture and fixtures of the four school buildings located within the boundaries of Arlington, Tennessee, compensated absences, net pension liability, and other post employment benefits (OPEB).

	<u>June 30, 2017</u>
Notes payable to Shelby County School System	\$ 2,999,997
Less: Deferred amount for discount	(281,646)
OPEB	1,521,724
Net pension liability	3,169,249
Compensated absences	202,744
	<u><u>\$ 7,612,068</u></u>

Economic Factors and Next Year's Budget

Fiscal Year 2016-17 represents the System's third year in operation. Student enrollment is the primary driver of instruction and school expenditure budgets. Enrollment in the System includes Arlington Residents for grades K-12, Lakeland Residents for grades 6-9, and non-resident students. For the 2017-2018 school year Lakeland Residents for only grades 9-12 are zoned to the System. The System allows open enrollment for non-resident students at schools that have capacity in which those students meet the open enrollment criteria established by the district.

All of these factors were considered in preparing the System's budget for the 2017-2018 fiscal year. The System will continue to maximize all financial resources available in order to provide a quality education for all its students.

Request for Information

This financial report is designed to provide a general overview of the System's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Arlington Community Schools, Chief Financial Officer, 12060 Arlington Trail, Arlington, TN 38002.

ARLINGTON COMMUNITY SCHOOL SYSTEM

STATEMENT OF NET POSITION

June 30, 2017

ASSETS

Cash and cash equivalents	\$ 13,491,536
Accounts receivable	5,148
Due from other governments	7,576,737
Due from other governments - grants	90,075
Inventory	17,865
Prepaid expenses	74,045
Net pension asset	233,662
Capital assets, not being depreciated	3,503,168
Capital assets, being depreciated, net	85,907,579
Total assets	<u>110,899,815</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension - contributions subsequent to the measurement date of June 30, 2016	1,954,397
Pension - net difference between projected and actual earnings on pension plan investments	3,572,920
Pension - changes in proportion of net pension asset	4,299,068
Pension - difference between expected and actual experiences	137,105
Total deferred outflows of resources	<u>9,963,490</u>

LIABILITIES

Accounts payable	339,188
Other accrued expenses	254,910
Accrued payroll and expenses	1,542,691
Unearned revenue	23,684
Noncurrent Liabilities:	
Due within one year	465,917
Due in more than one year	7,146,151
Total liabilities	<u>9,772,541</u>

DEFERRED INFLOWS OF RESOURCES

Pension - difference between expected and actual experiences	<u>3,958,828</u>
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NET POSITION

Net investment in capital assets	89,410,747
Restricted for:	
Net pension asset	233,662
Capital outlay	1,561,593
Inventory	17,865
Unrestricted	15,908,069
Total net position	<u>\$ 107,131,936</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction:				
Regular education	\$ 19,780,028	\$ 532,716	\$ 577,656	\$ (18,669,656)
Alternate education	78,869	-	-	(78,869)
Special education	2,682,210	-	799,477	(1,882,733)
Vocational education	1,092,604	-	361,407	(731,197)
Support Services:				
Attendance	363,161	-	-	(363,161)
Health services	162,167	-	-	(162,167)
Other student support	1,132,702	-	-	(1,132,702)
Regular education	1,476,703	-	-	(1,476,703)
Special education	656,327	-	-	(656,327)
Vocational education	147,262	-	-	(147,262)
Board of Education	754,568	-	-	(754,568)
Office of Director of Schools	536,991	-	-	(536,991)
Office of Principals	2,586,316	-	-	(2,586,316)
Fiscal Services	333,640	-	-	(333,640)
Human services/personnel	129,711	-	-	(129,711)
Operation and maintenance of plant	2,425,986	-	-	(2,425,986)
Student transportation	1,221,848	-	-	(1,221,848)
Central and other transportation	353,432	-	-	(353,432)
Education technology	1,028,128	-	-	(1,028,128)
Noninstructional Services:				
Food service	1,591,181	793,072	318,298	(479,811)
Interest on long-term debt	60,378	-	-	(60,378)
Unallocated depreciation	2,087,962	-	-	(2,087,962)
	<u>40,682,174</u>	<u>1,325,788</u>	<u>2,056,838</u>	<u>(37,299,548)</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

STATEMENT OF ACTIVITIES (CONTINUED)

For the Year Ended June 30, 2017

	Net (Expenses) Revenues and Changes in Net Position
General Revenues:	
Property taxes	13,987,851
Sales taxes	5,559,998
Mixed drink tax	10,666
Payments in lieu of taxes	226,221
Business tax	1,923
Wheel tax	1,222,831
Grants and Contributions Not Restricted to Specific Programs:	
Basic Education Program	21,654,485
Other	118,099
Insurance recovery	9,683
Other miscellaneous revenues	1,657,607
Total general revenues	<u>44,449,364</u>
 Change in net position before transfers and contributed capital	 7,149,816
 Transfers from Town of Arlington	 <u>494,150</u>
 Change in net position	 <u>7,643,966</u>
 Net position, beginning	 <u>99,487,970</u>
Net position, ending	<u><u>\$ 107,131,936</u></u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2017

	<u>General Purpose Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 11,686,233	\$ 1,805,303	\$ 13,491,536
Accounts receivable	5,148	-	5,148
Inventory	-	17,865	17,865
Prepaid expense	74,045	-	74,045
Due from other governmental agencies	7,576,737	-	7,576,737
Due from other funds	47,690	-	47,690
Due from other governments - grants	-	90,075	90,075
Total assets	<u>\$ 19,389,853</u>	<u>\$ 1,913,243</u>	<u>\$ 21,303,096</u>
LIABILITIES			
Accounts payable	330,861	8,327	339,188
Accrued payroll	1,502,635	40,056	1,542,691
Other accrued payables	254,910	-	254,910
Due to other funds	-	47,690	47,690
Unearned revenue	-	23,684	23,684
Total liabilities	<u>2,088,406</u>	<u>119,757</u>	<u>2,208,163</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	<u>1,170,343</u>	<u>-</u>	<u>1,170,343</u>
FUND BALANCES			
Nonspendable			
Inventory	-	17,865	17,865
Prepaid expenses	74,045	-	74,045
Restricted			
Capital projects	-	1,561,593	1,561,593
School nutrition	-	214,028	214,028
Unassigned	16,057,059	-	16,057,059
Total fund balances	<u>16,131,104</u>	<u>1,793,486</u>	<u>17,924,590</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 19,389,853</u>	<u>\$ 1,913,243</u>	<u>\$ 21,303,096</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

June 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

Total governmental fund balances	\$ 17,924,590
Capital assets used in governmental funds are not financial resources and, therefore, are not reported as assets in governmental funds.	89,410,747
Net pension asset is not a financial resource in the current period and, therefore, is not reported an asset in governmental funds	233,662
Revenue not available to pay for current expenditures and, therefore, are deferred in the funds.	1,170,343
Deferred outflows of resources related to pensions in which the consumption of net position will occur in future periods, therefore, it is not reported in the funds	9,963,490
Deferred inflows of resources related to pensions in which the acquisition of net position will occur in future periods, therefore, it is not reported in the funds	(3,958,828)
Long-term liabilities, including notes payable, compensated absences and OPEB, are not due in the current period and therefore, are not reported in the funds	<u>(7,612,068)</u>
Net position of governmental activities	<u><u>\$ 107,131,936</u></u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2017

	<u>General Purpose Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 20,958,615	\$ -	\$ 20,958,615
Intergovernmental	21,665,181	2,164,241	23,829,422
Charges for services	532,716	793,072	1,325,788
Other local revenues	40,637	826,020	866,657
Insurance recovery	9,683	-	9,683
Total revenues	<u>43,206,832</u>	<u>3,783,333</u>	<u>46,990,165</u>
Expenditures			
Instruction	25,114,458	1,338,303	26,452,761
Support services	12,872,592	436,350	13,308,942
Food services	-	994,108	994,108
Non-instructional services	<u>2,424,669</u>	<u>376,986</u>	<u>2,801,655</u>
Total expenditures	<u>40,411,719</u>	<u>3,145,747</u>	<u>43,557,466</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,795,113</u>	<u>637,586</u>	<u>3,432,699</u>
Other financing sources (uses):			
City appropriations	494,150	-	494,150
Transfers from (to) other funds	<u>71,290</u>	<u>(71,290)</u>	<u>-</u>
Total other financing sources and uses	<u>565,440</u>	<u>(71,290)</u>	<u>494,150</u>
Net change in fund balances	<u>3,360,553</u>	<u>566,296</u>	<u>3,926,849</u>
Fund balances - beginning	<u>12,770,551</u>	<u>1,227,190</u>	<u>13,997,741</u>
Fund balances - ending	<u>\$ 16,131,104</u>	<u>\$ 1,793,486</u>	<u>\$ 17,924,590</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2017

Amounts reported for governmental activities in the statement of net activities
are different because:

Net change in fund balance - total governmental funds		\$ 3,926,849
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Expenses on the statement of activities that are not current financial uses are not reported as expenses in governmental funds.

Change in compensated absences	(83,700)	
Change in net pension asset	117,392	
Change in net pension liability	(2,981,872)	
Change in other postemployment benefits	(597,073)	
Change in deferred outflows related to pensions	2,934,740	
Change in deferred inflows related to pensions	<u>289,886</u>	(320,627)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		50,875
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The (addition to) repayment of the principal of long-term debt is a (revenue) expenditure in the governmental funds, but the (proceeds) repayment (increases) reduces long-term liabilities on the statement of activities.

Principal payments on long-term debt	333,333	
Amortization of discount	<u>(60,378)</u>	272,955

Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlays capitalized	5,801,876	
Depreciation expense	<u>(2,087,962)</u>	<u>3,713,914</u>

Change in net position of governmental activities		<u><u>\$ 7,643,966</u></u>
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The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes				
Current property tax	\$ 12,460,591	\$ 14,901,916	\$ 13,588,093	\$ (1,313,823)
Prior years property tax	365,000	365,000	380,266	15,266
Payments in lieu of taxes	220,000	220,000	226,221	6,221
Local option sales tax	4,353,000	4,353,000	5,528,615	1,175,615
Business tax	1,000	1,000	1,923	923
Mixed drink tax	10,000	10,000	10,666	666
Wheel tax	20,000	20,000	1,222,831	1,202,831
Total taxes	<u>17,429,591</u>	<u>19,870,916</u>	<u>20,958,615</u>	<u>1,087,699</u>
Intergovernmental:				
State Education Funds				
Basic Education Program	21,240,000	21,334,000	21,547,082	213,082
Other state education funds	24,000	24,000	29,601	5,601
Career ladder program	81,683	81,683	88,498	6,815
Total state revenues	<u>21,345,683</u>	<u>21,439,683</u>	<u>21,665,181</u>	<u>225,498</u>
Charges for services	588,290	588,290	532,716	(55,574)
Other local revenues	37,730	37,730	40,637	2,907
Insurance recovery	8,000	8,000	9,683	1,683
	<u>634,020</u>	<u>634,020</u>	<u>583,036</u>	<u>(50,984)</u>
Total revenues	<u>39,409,294</u>	<u>41,944,619</u>	<u>43,206,832</u>	<u>1,262,213</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
EXPENDITURES:				
Instruction:				
Regular Education:				
Teachers	14,570,437	14,570,437	14,258,222	312,215
Career ladder program	50,000	50,000	50,000	-
Educational assistants	164,745	164,745	156,721	8,024
Other salaries and wages	112,500	112,500	112,427	73
Social security	923,656	923,656	845,099	78,557
State retirement	1,336,959	1,336,959	1,322,469	14,490
Life insurance	100,970	100,970	42,805	58,165
Medical insurance	1,979,839	1,938,015	1,307,117	630,898
Medicare	216,015	216,015	197,644	18,371
Maintenance and repair	23,000	20,929	9,896	11,033
Contracted services - substitutes	299,999	413,008	413,008	-
Other contracted services	20,000	20,000	15,572	4,428
Instructional supplies and materials	407,790	426,306	312,309	113,997
Textbooks	350,001	175,001	60,288	114,713
Other supplies and materials	20,000	20,000	967	19,033
Other charges	17,850	17,850	15,367	2,483
Equipment	462,058	3,154,002	3,125,449	28,553
Fee waivers	10,000	10,000	10,000	-
Band music	-	1,500	1,500	-
Total regular education	<u>21,065,819</u>	<u>23,671,893</u>	<u>22,256,860</u>	<u>1,415,033</u>
Alternative Instruction				
Teachers	96,353	86,353	46,160	40,193
Educational assistants	11,493	11,493	10,295	1,198
Social security	6,687	6,687	3,257	3,430
State retirement	9,776	9,776	7,248	2,528
Life insurance	673	673	173	500
Medical insurance	15,154	15,154	7,424	7,730
Medicare	1,564	1,564	762	802
Other charges	1,500	1,500	365	1,135
Other supplies and materials	2,600	2,000	517	1,483
Other equipment	300	300	-	300
Teacher discretionary	-	600	200	400
Contracts substitute teachers	2,500	2,500	2,468	32
Total alternative instruction	<u>148,600</u>	<u>138,600</u>	<u>78,869</u>	<u>59,731</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Special Education:				
Teachers	1,237,961	1,237,961	1,084,838	153,123
Career ladder program	1,000	1,000	1,000	-
Homebound teachers	46,056	46,056	20,284	25,772
Educational assistants	240,898	240,898	230,584	10,314
Speech pathologist	133,762	133,761	123,447	10,314
Social Security	102,901	102,901	85,402	17,499
State retirement	150,897	150,897	137,848	13,049
Life insurance	11,086	11,086	4,325	6,761
Medical insurance	246,248	246,248	113,434	132,814
Medicare	24,065	24,065	19,973	4,092
Maintenance and repair - equipment	3,000	3,000	268	2,732
Contracts with other schools	10,000	10,000	1,667	8,333
Other contracted services	106,000	106,000	45,818	60,182
Contracts substitute teachers	50,001	56,280	56,045	235
Instructional supplies and materials	44,500	44,500	18,269	26,231
Special education equipment	10,000	10,000	7,230	2,770
Total special education	<u>2,418,375</u>	<u>2,424,653</u>	<u>1,950,432</u>	<u>474,221</u>
Vocational Education				
Teachers	633,270	628,270	594,777	33,493
Career ladder program	4,000	4,000	4,000	-
Social Security	39,511	39,511	35,113	4,398
State retirement	57,609	57,609	56,008	1,601
Life insurance	4,353	4,353	1,791	2,562
Medical insurance	83,346	76,346	57,306	19,040
Medicare	9,240	9,240	8,212	1,028
Contracts substitute teachers	11,250	23,250	20,439	2,811
Instructional supplies and materials	7,550	7,550	7,530	20
Textbooks	10,000	10,000	778	9,222
Other supplies and materials	1,000	1,000	219	781
Special education equipment	40,000	40,000	40,000	-
STEM	2,500	2,500	2,124	376
Total vocational education	<u>903,629</u>	<u>903,629</u>	<u>828,297</u>	<u>75,332</u>
Total instruction	<u>24,536,423</u>	<u>27,138,775</u>	<u>25,114,458</u>	<u>2,024,317</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Support Services:				
Attendance				
Supervisor/director	176,310	176,310	174,773	1,537
Career ladder program	1,000	1,000	-	1,000
Clerical personnel	20,696	20,696	20,696	-
Other salaries and wages	66,129	66,129	64,969	1,160
Social Security	19,946	19,946	15,230	4,716
State retirement	29,414	29,414	21,935	7,479
Life insurance	2,204	2,204	755	1,449
Medical insurance	49,250	49,250	21,067	28,183
Medicare	4,665	4,665	3,562	1,103
Travel	600	1,100	834	266
Other contracted services	43,962	43,962	24,052	19,910
Other supplies and materials	4,000	5,500	5,449	51
In-services/staff development	15,000	14,500	9,407	5,093
Other charges	600	600	432	168
Attendance equipment	350	1,500	-	1,500
Total attendance	<u>434,126</u>	<u>436,776</u>	<u>363,161</u>	<u>73,615</u>
Education Technology:				
Personnel Wages	102,169	102,169	100,648	1,521
Social Security	6,334	6,334	6,010	324
Pensions	9,471	9,471	8,047	1,424
Life insurance	702	702	300	402
Medical insurance	11,365	11,365	5,870	5,495
Medicare	1,481	1,481	1,406	75
Capital outlay	394,500	433,300	369,957	63,343
Other charges	762,261	956,461	535,890	420,571
Total education technology	<u>1,288,283</u>	<u>1,521,283</u>	<u>1,028,128</u>	<u>493,155</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Health Services:				
Medical personnel	105,699	116,357	115,760	597
Social Security	6,552	6,670	6,629	41
State retirement	9,798	10,476	10,418	58
Life insurance	724	349	351	(2)
Medical insurance	22,731	13,447	13,443	4
Medicare	1,533	1,567	1,550	17
Travel	250	250	-	250
Other contracted services	10,000	12,171	10,331	1,840
Other supplies and materials	2,000	2,000	1,822	178
In-service/staff development	500	500	392	108
Other charges	1,000	1,000	-	1,000
Health equipment	500	2,500	471	2,029
Drugs and medical supplies	1,000	1,000	1,000	-
Total health services	<u>162,287</u>	<u>168,287</u>	<u>162,167</u>	<u>6,120</u>
Other Student Support:				
Career ladder program	4,000	4,000	4,000	-
Guidance personnel	683,650	683,650	680,428	3,222
Clerical personnel	13,933	13,933	12,357	1,576
Other salaries and wages	69,236	69,236	58,736	10,500
Social workers	57,570	57,570	44,856	12,714
Social Security	47,790	47,790	47,790	-
State retirement	69,714	69,714	69,714	-
Life insurance	5,271	5,271	2,393	2,878
Medical insurance	82,058	82,058	37,607	44,451
Medicare	11,177	11,177	11,178	(1)
Evaluation and testing	75,200	75,125	71,962	3,163
Travel	200	275	273	2
Other supplies and materials	5,000	5,000	4,865	135
In-service/staff development	2,500	2,500	125	2,375
Other equipment	5,000	5,000	5,000	-
Total other student support	<u>1,132,299</u>	<u>1,132,299</u>	<u>1,051,284</u>	<u>81,015</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Instructional Staff:				
Regular Education				
Supervisor/director	262,272	308,459	275,452	33,007
Career ladder program	4,000	5,000	4,500	500
Librarians	325,839	316,507	310,523	5,984
Instructional computer personnel	98,571	98,571	98,116	455
Clerical personnel	20,696	20,696	20,696	-
In-service training	26,000	26,000	23,500	2,500
Social Security	50,634	48,577	47,159	1,418
State retirement	64,966	69,992	69,991	1
Life insurance	5,408	5,408	2,305	3,103
Medical insurance	83,346	75,522	75,508	14
Medicare	11,843	11,843	11,029	814
Travel	2,950	3,090	423	2,667
Other contracted services	7,001	7,001	2,713	4,288
Library books	27,513	28,514	27,377	1,137
Other supplies and materials	9,000	6,387	6,376	11
In-service/staff development	60,500	77,121	62,228	14,893
Other charges	5,000	1,851	1,851	-
Other equipment	8,000	8,000	7,672	328
Consultants	10,000	33,000	32,965	35
Other salaries and wages	79,320	79,320	79,320	-
Total regular education	1,162,859	1,230,859	1,159,704	71,155
Special Education				
Supervisor/director	94,350	94,350	94,350	-
Career ladder program	1,000	1,000	1,000	-
Psychological personnel	156,437	146,437	145,311	1,126
Secretary	14,355	14,355	12,732	1,623
Other salaries and wages	81,925	91,925	91,229	696
Social Security	21,686	21,686	19,698	1,988
State retirement	31,923	31,923	30,440	1,483
Life insurance	2,386	2,386	1,033	1,353
Medical insurance	40,461	38,461	29,419	9,042
Medicare	5,072	5,072	4,607	465
Travel	3,000	2,900	62	2,838
Other contracted services	243,680	243,680	179,111	64,569
Other supplies and materials	11,000	11,000	8,529	2,471
In-service/staff development	9,700	11,700	7,900	3,800
Other charges	200	300	207	93
Other equipment	2,000	2,000	1,766	234
Total special education	719,175	719,175	627,394	91,781

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Vocational Education				
Supervisor/director	94,350	94,350	94,350	-
Career ladder program	1,000	1,000	1,000	-
Social Security	6,810	6,810	6,298	512
State retirement	9,963	9,963	9,680	283
Life insurance	748	748	310	438
Medical insurance	13,700	13,700	11,188	2,512
Medicare	1,593	1,593	1,473	120
Travel	2,000	2,000	604	1,396
Other supplies and materials	1,000	1,000	892	108
Secretary	14,487	14,487	12,357	2,130
In-service/staff development	2,100	2,100	110	1,990
Other charges	500	500	-	500
Total vocational education	<u>148,251</u>	<u>148,251</u>	<u>138,262</u>	<u>9,989</u>
Total instructional staff	<u>2,030,285</u>	<u>2,098,285</u>	<u>1,925,360</u>	<u>172,925</u>
General administration:				
Board of Education Services				
Board and committee member fees	18,600	18,600	18,450	150
Social Security	2,179	2,179	2,117	62
Life insurance	12,587	12,587	894	11,693
Medical insurance	568,723	568,723	558,670	10,053
Medicare	510	510	496	14
Audit services	26,000	26,000	26,000	-
Dues and memberships	9,600	9,600	2,718	6,882
Legal services	30,000	30,000	2,552	27,448
Travel	250	250	-	250
Other supplies and materials	4,000	4,000	378	3,622
Liability insurance	35,000	35,000	33,386	1,614
Premium on corporate surety bonds	3,000	3,000	-	3,000
Workmen's compensation insurance	95,500	95,500	78,655	16,845
In-service/staff development	8,000	8,000	5,816	2,184
Other charges	1,767	1,767	1,663	104
Secretary	16,549	16,549	16,549	-
State retirement	1,534	1,534	1,224	310
Other contracted services	10,000	10,000	5,000	5,000
Total board of education services	<u>843,799</u>	<u>843,799</u>	<u>754,568</u>	<u>89,231</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Director of Schools:				
City official/administrative officer	153,500	156,570	156,570	-
Career ladder program	2,000	2,000	2,000	-
Secretary	94,513	95,631	95,631	-
Social Security	24,996	25,256	20,744	4,512
State retirement	37,018	37,399	32,915	4,484
Life insurance	2,764	2,764	1,428	1,336
Medical insurance	27,481	27,481	26,830	651
Dental insurance	500	800	746	54
Medicare	5,846	5,907	5,906	1
Other fringe benefits	400	400	388	12
Dues and membership	4,750	5,750	5,545	205
Postal charges	500	500	-	500
Travel	500	500	-	500
Office supplies	4,000	12,516	8,701	3,815
In-service/staff development	10,000	10,000	4,750	5,250
Other charges	11,540	19,840	17,370	2,470
Administration equipment	1,000	3,984	3,315	669
Other salaries and wages	154,152	154,152	154,152	-
Total director of schools	<u>535,460</u>	<u>561,450</u>	<u>536,991</u>	<u>24,459</u>
Total general administration	<u>1,379,259</u>	<u>1,405,249</u>	<u>1,291,559</u>	<u>113,690</u>
School Administration:				
Office of the Principal:				
Principals	519,282	519,282	514,241	5,041
Career ladder program	7,000	8,000	8,000	-
Assistant principals	918,740	928,740	928,740	-
Secretaries	161,690	161,690	160,065	1,625
Clerical personnel	463,715	463,715	457,179	6,536
Social Security	128,366	128,366	122,073	6,293
State retirement	188,605	188,605	180,781	7,824
Life insurance	14,184	14,184	6,090	8,094
Medical insurance	280,345	279,345	163,918	115,427
Medicare	30,022	30,022	28,549	1,473
Travel	600	600	-	600
In-service/staff development	3,000	3,000	1,680	1,320
Other charges	15,000	15,000	15,000	-
Total school administration	<u>2,730,549</u>	<u>2,740,549</u>	<u>2,586,316</u>	<u>154,233</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Business Administration:				
Fiscal Services:				
Supervisor/director	106,044	114,084	114,084	-
Accountants/bookkeepers	95,722	95,722	92,790	2,932
Social Security	12,509	12,309	12,151	158
State retirement	18,704	16,604	15,986	618
Life insurance	1,387	687	599	88
Medical insurance	22,731	12,801	12,557	244
Medicare	2,926	2,886	2,842	44
Dues and memberships	2,050	2,050	1,961	89
Travel	600	600	393	207
Other contracted services	66,263	61,393	60,339	1,054
Other supplies	1,500	1,500	981	519
Other supplies and materials	1,550	1,550	959	591
In-service/staff development	7,500	19,300	13,827	5,473
Other charges	8,500	6,500	4,013	2,487
Equipment	1,000	1,000	158	842
Total fiscal services	<u>348,986</u>	<u>348,986</u>	<u>333,640</u>	<u>15,346</u>
Human services/personnel:				
Secretary(s)	54,746	54,746	54,746	-
Social Security	3,394	3,394	3,147	247
State retirement	5,075	5,075	4,051	1,024
Life insurance	376	376	165	211
Medical insurance	7,577	7,577	4,756	2,821
Unemployment Compensation	10,000	10,000	2,044	7,956
Medicare	794	794	736	58
Dues and memberships	800	800	770	30
Travel	300	300	-	300
Other contracted services	49,200	49,200	46,683	2,517
Office supplies	1,000	1,000	998	2
In-service/staff development	15,000	15,000	10,334	4,666
Equipment	2,000	2,000	1,281	719
Total human services/personnel	<u>150,262</u>	<u>150,262</u>	<u>129,711</u>	<u>20,551</u>
Total business administration	<u>499,248</u>	<u>499,248</u>	<u>463,351</u>	<u>35,897</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Operation and Maintenance of Plant:				
Operation of Plant:				
Supervisor/director	238,991	238,991	238,992	(1)
Other salaries and wages	15,000	15,000	12,774	2,226
Social Security	15,749	15,749	13,590	2,159
State retirement	23,545	23,545	18,517	5,028
Life insurance	1,644	1,644	645	999
Medical insurance	37,885	44,518	44,513	5
Medicare	3,684	3,684	3,179	505
Janitorial services	578,941	572,308	556,317	15,991
Travel	700	841	183	658
Other contracted services	87,800	92,800	52,411	40,389
Custodial supplies	11,296	11,595	11,131	464
Electricity	760,000	760,000	706,684	53,316
Other supplies and materials	8,500	8,061	1,134	6,927
Building and content insurance	119,000	119,000	79,493	39,507
Other charges	4,100	4,100	200	3,900
Plant operation equipment	15,000	15,000	11,522	3,478
Total operation of plant	<u>1,921,835</u>	<u>1,926,836</u>	<u>1,751,285</u>	<u>175,551</u>
Maintenance of Plant:				
Supervisor/director	77,360	81,199	81,194	5
Secretary(s)	42,220	42,220	41,665	555
Maintenance personnel	237,328	237,328	237,328	-
Social Security	22,128	22,128	21,645	483
State retirement	33,085	33,085	28,721	4,364
Life insurance	2,453	2,453	1,054	1,399
Medical insurance	45,461	41,622	22,488	19,134
Medicare	5,175	5,175	5,062	113
Maintenance and repair - buildings	200,000	200,000	167,297	32,703
Maintenance and repair - equipment	4,000	4,000	1,228	2,772
Travel	3,000	3,000	358	2,642
Other contracted services	33,500	33,500	10,268	23,232
Gasoline	14,000	14,000	7,917	6,083
Other supplies and materials	2,000	2,000	1,577	423
In-service/staff development	2,500	2,500	514	1,986
Other charges	2,200	2,200	621	1,579
Administration equipment	5,000	5,000	1,785	3,215
Maintenance equipment	20,000	50,000	42,985	7,015
Maintenance and repair - vehicle	6,000	6,000	994	5,006
Total maintenance of plant	<u>757,410</u>	<u>787,410</u>	<u>674,701</u>	<u>112,709</u>
Total operation and maintenance of plant	<u>2,679,245</u>	<u>2,714,246</u>	<u>2,425,986</u>	<u>288,260</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Transportation:				
Student transportation:				
Contracts with other school systems	47,587	47,587	46,069	1,518
Contracts with other private agencies	1,040,000	1,040,000	862,275	177,725
Other contracted services	190,000	190,000	190,000	-
Diesel fuel	125,000	125,000	123,504	1,496
Total student transportation	<u>1,402,587</u>	<u>1,402,587</u>	<u>1,221,848</u>	<u>180,739</u>
Central and other transportation:				
Supervisor/director	127,500	127,500	127,500	-
Social Security	7,967	7,967	7,436	531
State retirement	11,619	11,619	11,526	93
Life insurance	876	876	375	501
Medical insurance	11,200	11,200	11,188	12
Medicare	1,863	1,863	1,762	101
Other contracted services	85,000	85,000	42,636	42,364
Office supplies	4,000	4,000	2,255	1,745
In-service/staff development	10,000	10,000	8,535	1,465
Other charges	3,000	3,000	1,359	1,641
Administrative equipment	1,000	1,000	1,000	-
Other equipment	70,000	140,000	137,860	2,140
Total central and other transportation	<u>334,025</u>	<u>404,025</u>	<u>353,432</u>	<u>50,593</u>
Total transportation	<u>1,736,612</u>	<u>1,806,612</u>	<u>1,575,280</u>	<u>231,332</u>
Total support services	<u>14,072,193</u>	<u>14,522,834</u>	<u>12,872,592</u>	<u>1,650,242</u>
Non-instructional services:				
Regular capital outlay:				
Engineering services	5,000	-	-	-
Building improvements	580,000	1,649,455	1,540,976	108,479
Site development	30,000	11,700	7,566	4,134
Consultants	1,000	44,400	36,045	8,355
Other capital outlay	30,000	793,717	452,122	341,595
Other contracted services	-	55,000	54,627	373
Total regular capital outlay	<u>646,000</u>	<u>2,554,272</u>	<u>2,091,336</u>	<u>462,936</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL PURPOSE FUND (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Debt service:				
Principal payment to Shelby Co. Schools	<u>333,333</u>	<u>333,333</u>	<u>333,333</u>	<u>-</u>
Total non-instructional services	<u>979,333</u>	<u>2,887,605</u>	<u>2,424,669</u>	<u>462,936</u>
Total expenditures	<u>39,587,949</u>	<u>44,549,214</u>	<u>40,411,719</u>	<u>4,137,495</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(178,655)</u>	<u>(2,604,595)</u>	<u>2,795,113</u>	<u>5,399,708</u>
Other financing sources (uses):				
Town appropriations	74,855	74,855	494,150	419,295
Transfers to other funds	<u>-</u>	<u>-</u>	<u>71,290</u>	<u>71,290</u>
Total other financing sources (uses)	<u>74,855</u>	<u>74,855</u>	<u>565,440</u>	<u>490,585</u>
Net changes in fund balance	<u>(103,800)</u>	<u>(2,529,740)</u>	<u>3,360,553</u>	<u>5,890,293</u>
Fund balance - beginning	<u>12,770,551</u>	<u>12,770,551</u>	<u>12,770,551</u>	<u>-</u>
Fund balance - ending	<u>\$ 12,666,751</u>	<u>\$ 10,240,811</u>	<u>\$ 16,131,104</u>	<u>\$ 5,890,293</u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

	Other Postemployment Benefits	Agency Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 1,019,811
Inventory	-	11,056
Investments at fair value	<u>1,312,631</u>	<u>-</u>
Total assets	<u>\$ 1,312,631</u>	<u>\$ 1,030,867</u>
LIABILITIES		
Due to student general fund	\$ -	\$ 624,840
Due to student groups	<u>-</u>	<u>406,027</u>
Total liabilities	<u>\$ -</u>	<u>\$ 1,030,867</u>
NET POSITION		
Restricted for OPEB benefits	<u>\$ 1,312,631</u>	

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended June 30, 2017

	<u>Other Postemployment Benefits</u>
ADDITIONS	
Contributions	\$ 517,861
Investment earnings (losses):	
Interest and dividends	16,336
Net appreciation in fair value of investments	<u>78,541</u>
Total investment earnings	
Total additions	612,738
 DEDUCTIONS	
Administrative expenses	<u>3,188</u>
Change in net position	609,550
Net position - beginning of the year	-
Prior period adjustment	<u>703,081</u>
Net position - beginning of the year, as restated	<u>703,081</u>
Net position - end of the year	<u><u>\$ 1,312,631</u></u>

The accompanying notes are an integral part of the financial statements.

ARLINGTON COMMUNITY SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Arlington Community Schools (the System), special revenue fund of the Town of Arlington, Tennessee, was created on July 1, 2014, with purpose of operating and administering the Town of Arlington's public schools. Prior to July 1, 2014, Arlington Schools were a part of the Shelby County School System.

The System operates under a Board of Education form of government and provides educational services as authorized by the Town's charter. The Board consists of five members elected at-large for staggered four-year terms. The System consists of special revenue funds of the Town of Arlington, Tennessee (Town). The financial statements presented herein relate only to the System and are not intended to present fairly the overall position of the Town.

As required by generally accepted accounting principles, these financial statements present all funds, which comprise the System. There are no other component units, entities, which should be included.

The financial statements of the System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. System-wide and Fund Financial Statements

The system-wide financial statements (i.e., the statements of net position and the statement of activities) report information on all of the nonfiduciary activities of the government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are the only activities of the government. The System does not maintain any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) operating grants and contributions restricted to meeting the operational requirements of a particular function or segment, and 3) capital grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Individual governmental funds are reported as separate columns in the fund financial statements. The major and nonmajor funds will be re-determined at the Town level, but for the System, the general purpose is considered a major fund.

C. Measurement focus, basis of accounting, and financial statement presentation

The system-wide 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 when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when cash is received by the government.

Fiduciary funds are accounted for using the "economic resources" measurement focus. Accordingly all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included in the statement of net position. The statement of changes in net position presents revenues (additions) and expenses (deductions) in total net position. Agency funds do not use the economic resources measurement focus.

The System reports the following major governmental fund:

The general purpose fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The System reports the following fiduciary funds:

Other Postemployment Benefit Fund – This fund accounts for the activities and accumulation or resources that are required to be held in trust for the members and beneficiaries of other postemployment benefit plan.

Agency Fund - Internal School Funds consist of transactions related to resources held in a fiduciary capacity as agent for the general school populations, or in some cases, for a specific segment of the school population, are recorded in the Internal School Fund. Agency funds are purely custodial and thus do not involve measurement of results of operations. This fund was audited in a separate report and can be obtained by contacting the Arlington Community School System.

As a general rule, the effect of interfund activity has been eliminated from the system-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the System's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, Deferred outflows/Inflows of Resources, and Net Position/Fund Balances

Deposits and Investments

The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition. State statutes authorize the System to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Investments, including other postemployment benefit investments held in fiduciary funds, are reported at fair value.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e., the current portion of interfund loans) or "advances to / from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds".

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets, in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund type revenues represented by non-current receivables is deferred in the governmental fund statements until they become current receivables.

Inventories

Inventories are valued at lower of average cost or market, using the first-in/first-out (FIFO) method. The school nutrition fund maintains an inventory consisting of food supplies using the purchases method and expenses inventory when purchased throughout the year. At year-end, the actual cost of the items in inventory is used to capitalize the inventory, with a corresponding entry to nonspendable fund balance in the school nutrition fund. For the system-wide statements, inventory is converted to the consumption method.

Realty and Personal Property Taxes

The System recognizes as revenue its net share of realty and personal property taxes collected by Shelby County. The System does not have any taxing authority. Consequently, it relies on a share of realty and personal property taxes collected by Shelby County. The Shelby County tax levy of \$4.37 per \$100 of assessed value included .08 cents for the System. Property taxes attach an enforceable lien on property on January 1 of each year. The levy is made July 1. Taxes are due October 1 and delinquent March of the following year.

Capital Assets

Capital assets, which include buildings and improvements and other fixed assets, are reported in the applicable system-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 (amount not rounded) or more and an estimated useful life in excess of one year.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the System are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Improvements	20 years
Machinery	15 years
Equipment	5-10 years

Compensated Absences

Accumulated Vacation – All full-time twelve month employees will be granted vacation based on the following: six months to one year of employment, ten days of vacation per year; one to five years of employment, ten days of vacation per year; five to ten years of employment, twelve days of vacation per year; ten to fifteen years of employment, fifteen days of vacation per year; fifteen years or more of employment, twenty days of vacation per year. Vacation is accrued on a semi-monthly basis. Unused sick, personal and annual days are not vested by the System. Vacation can be accumulated up to a maximum of twenty-five days.

Long-term Liabilities

In the system-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.

The long-term obligations of the System are included in the system-wide financial statements of the Town.

Deferred Outflows/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 items that qualify for reporting as deferred outflows of resources include pension changes in experience, pension changes in investment earnings, employer contributions to the pension plan after the measurement date, and changes in proportion of net pension asset.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The items that qualify for reporting as a deferred inflow of resources include pension changes in experience, and pension changes in investment earnings. In the governmental funds, sales tax that were receivable and measurable at year-end but were not available to finance expenditures for the current year is reported as a deferred inflows of resources.

Net Position and Fund Balance

In the government-wide financial statements, equity is classified as net position and displayed in three components:

Net investment in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – consists of net position with constraints placed on either use by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislations.

Unrestricted net position – all other net position that does not meet the definition of restricted or net investment in capital assets.

In the fund financial statements, governmental funds report fund balances in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classifications consist of the following five components, as applicable:

Nonspendable fund balance – this classification includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted fund balance – this classification includes amounts that are restricted for specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted with the consent of resource providers.

Committed fund balance – this classification includes amounts that can only be used for the specific purposes determined by a formal action of the System’s highest level of decision-making authority, the Board of Education of the Arlington Community Schools. Commitments may be changed or lifted only by the System taking the same formal action that imposed the constraint originally (for example: resolution).

Assigned fund balance – this classification includes amounts intended to be used by the System for specific purposes that are neither restricted nor committed. The Board and the Director of Schools have the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted, or committed.

Unassigned fund balance – this fund balance is the residual classification for the General Purpose Fund. It is also used to report negative fund balances in other governmental funds.

Fund Balance Flow Assumptions

Sometimes the System will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the System’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Legacy Pension Plan and Teacher Retirement Plan in the Tennessee Consolidated Retirement System (TCRS) and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the TCRS. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Teacher Legacy Pension Plan and Teacher Retirement Plan, respectively. Investments are reported at fair value.

Fair Value Measurement

GASB Statement 72, Fair Value Measurement and Application, categorizes the inputs into valuation techniques used to measure the fair value into three levels. Level 1 inputs include unadjusted quoted prices in active markets for identical assets or liabilities accessible at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities; quoted prices in active markets; or other inputs that can be corroborated by observable market data. Such inputs include market interest rates and volatilities, spreads and yield curves. Level 3 inputs are inputs which are unobservable for the asset or liability and rely on management's own assumptions that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining fair value, the System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at reporting date.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Change in Accounting Principles

The System implemented Governmental Accounting Standards Board ("GASB") Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, in the fiscal year ending June 30, 2017. The implementation of the Statement modified the note disclosures related to the System's OPEB plan and added additional required supplementary information schedules. In implementing this standard, the System determined that the fiduciary net position related to the OPEB should be included in the financial statements. See Note 11 for prior period adjustment relating to implementing GASB Statement No. 74.

NOTE 2 - RECONCILIATION OF SYSTEM-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the system-wide statement of net position

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net position - governmental activities as reported in the system-wide statement of net position. One element of that reconciliation explains that “capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.” The details of this difference are as follows:

Land	\$ 1,996,500
Construction in progress	1,506,668
Buildings and improvements	86,773,827
Furniture and fixtures	225,058
Machinery and equipment	5,173,729
Other capital assets	111,999
	<u>95,787,781</u>
Less accumulated depreciation	(6,377,034)
Total capital assets, net of accumulated depreciation	<u>\$ 89,410,747</u>

The reconciliation also explains that “long-term liabilities, including notes payable, compensated absences, net pension liability, and OPEB, are not due in the current period and therefore, are not reported in the funds.” The details of this difference are as follows:

Notes payable to Shelby County School System	\$ 2,999,997
Less: Deferred amount for discount	(281,646)
OPEB	1,521,724
Net pension liability	3,169,249
Compensated absences	202,744
	<u>\$ 7,612,068</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. These include the general purpose, federal projects, school nutrition, discretionary grants, and education capital projects funds. The Board of Education approves and appropriates the budgets for these funds annually. All annual appropriations lapse at fiscal year-end.

As an extension of the formal budgetary process, the Board of Education may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. The System’s policy does not allow expenditures to exceed budgetary amounts at the total category level without obtaining additional appropriation approval from the Board of Education.

B. Excess of expenditures over appropriations

For the year ended June 30, 2017, expenditures did not exceeded appropriations in any fund.

C. Deficit fund balance

As of June 30, 2017, none of the funds had a deficit fund balance.

NOTE 4 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk

The System's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statute required that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance, by the Tennessee Bank Collateral Pool, by collateral held by the System's agent in the System's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the System to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of June 30, 2017, all bank deposits were fully collateralized or insured.

Investments

The System administers an other postemployment benefits fund whose investments are held by a third party.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

Mutual Funds: Valued at the net asset value of shares held.

Disclosures concerning the investments held by a trust that are reported at fair value are presented below. Fair value has been determined based on the System's assessment of available market information and appropriate valuation methodologies. The following table summarized fair value disclosures and measurements at June 30, 2017.

	<u>Level 1</u>
Investments at Fair Value	
Mutual funds	<u>\$ 1,312,631</u>

The OPEB plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent five percent or more of the OPEB plan's fiduciary net position (FNP) in the following:

<u>Investment</u>	<u>Concentration</u>
American Europacific Grw F2	5.01%
Ishares MSCI EAFE ETF	6.08%
Ishares S&P 500 Growth	5.93%
Oakmark	8.05%
Pioneer Bond Y	9.98%
Prudential Jennison Growth Z	7.90%
Prudential short term corp bd Z	16.99%

B. Receivables

Receivables as of year-end for the System's individual major funds and non-major funds, including the applicable allowances for the uncollectible accounts, are as follows:

	<u>General Purpose Fund</u>	<u>School Nutrition Fund</u>	<u>Federal Projects Fund</u>	<u>Discretionary Grants Fund</u>
Receivables:				
Accounts receivable	\$ 5,148	\$ -	\$ -	\$ -
Due from other governmental agencies	7,576,737	-	-	-
Due from other governmental agencies - grants	-	846	85,713	3,516
Total receivables	<u>\$ 7,581,885</u>	<u>\$ 846</u>	<u>\$ 85,713</u>	<u>\$ 3,516</u>

Amounts in the general purpose fund called due from other governmental agencies represent the normal amounts due from state and county governments for shared revenues and tax allocations. Amounts in the federal projects and discretionary grants funds called due from other governmental agencies – grants, represent amounts due from the state and federal government for related expenditures.

Management determined that all receivables were collectable and no allowance was considered necessary.

C. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Transfers/ Additions	Transfers/ Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,926,800	\$ 69,700	\$ -	\$ 1,996,500
Construction in progress	590,922	3,249,678	(2,333,932)	1,506,668
Total capital assets, not being depreciated	<u>2,517,722</u>	<u>3,319,378</u>	<u>(2,333,932)</u>	<u>3,503,168</u>
Capital assets, being depreciated:				
Buildings and improvements	85,034,249	1,745,236	(5,658)	86,773,827
Machinery, furniture and equipment	2,434,534	3,326,246	(249,994)	5,510,786
Total capital assets, being depreciated	<u>87,468,783</u>	<u>5,071,482</u>	<u>(255,652)</u>	<u>92,284,613</u>
Accumulated depreciation:				
Buildings and improvements	(3,452,854)	(1,763,593)	354	(5,216,093)
Machinery and equipment	(836,818)	(324,369)	246	(1,160,941)
Total accumulated depreciation	<u>(4,289,672)</u>	<u>(2,087,962)</u>	<u>600</u>	<u>(6,377,034)</u>
Total capital assets, being depreciated, net	<u>83,179,111</u>	<u>2,983,520</u>	<u>(255,052)</u>	<u>85,907,579</u>
Total capital assets, net	<u>\$ 85,696,833</u>	<u>\$ 6,302,898</u>	<u>\$ (2,588,984)</u>	<u>\$ 89,410,747</u>

The System had outstanding commitments to contractors of \$2,700,000 at June 30, 2017 for building construction.

D. Interfund Receivables, Payables, and Transfers

The interfund payables from the federal projects fund and the education capital projects fund to the general fund is for the negative cash balance in the pooled bank account at the end of the year. The composition of balances as of June 30, 2017, is as follows:

Receivable Fund	Payable Fund	Amount
General Purpose	Federal Projects	<u>\$ 47,690</u>

The following is a summary of transfers during the year ended June 30, 2017.

Transfers From	Transfers To	Amount
Town	General Purpose	\$ 494,150
Federal Projects	General Purpose	71,290
		<u>\$ 565,440</u>

The transfer from the Town includes the System's portion of local tax revenue per State Statute.

E. Leases

Operating Leases

The System leases computer equipment from Apple under an operating lease, which began on January 1, 2015 and expires December 31, 2017. The System pays \$148,091 annually and is billed in advance. A prepaid expense in the general purpose fund in the amount of \$74,045 reflects the prepaid portion for this fiscal year.

The System also leases a postage machine under an operating lease, which began in August 2014 and expires June 30, 2018. The System pays \$131 monthly.

For financial reporting purposes, these leases have been determined to be operating leases. Future minimum lease payments for the computer equipment is as follows:

2018	<u>\$ 74,045</u>
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During 2016, the System entered into a lease agreement with the Town of Arlington to lease a parcel of land for \$1 per year for 30 years to construct a bus lot. The lease commenced on June 1, 2016 and expires on June 30, 2046. Per the terms of the lease agreement, the System does not have an option to purchase the land at the end of the lease, and as such the lease is determined to be an operating lease.

F. General Long-Term Obligations

On January 14, 2014, the System entered into a settlement agreement with the Board of Commissioners of Shelby County, Shelby County, Tennessee, and the Shelby County Board of Education. The Arlington Community School System agreed to pay the Shelby County Board of Education \$333,333 per year for twelve years with the first payment due by November 1, 2014 and the remaining payments due by November 1 each year following. The System elected to establish the liability incurred through the settlement agreement at its present value with a discount rate of 2.0%. At June 30, 2017, the balance outstanding was \$2,718,351. Future payments under the settlement agreement are as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2018	\$ 333,333
2019	333,333
2020	333,333
2021	333,333
2022	333,333
2023-2027	<u>1,333,332</u>
Total payments	2,999,997
Less amount representing interest	(281,646)
	<u>\$ 2,718,351</u>

Changes in long-term obligations

Long-term obligation activity for the year ended June 30, 2017, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Shelby County Board of Education settlement liability	\$ 3,333,330	\$ -	\$ (333,333)	\$ 2,999,997	\$ 333,333
Less deferred amount for issuance discount	(342,024)	-	60,378	(281,646)	-
OPEB	924,651	597,073	-	1,521,724	-
Net pension liability	187,377	2,981,872	-	3,169,249	
Compensated absences	119,044	223,757	(140,057)	202,744	132,584
Total	<u>\$ 4,222,378</u>	<u>\$ 3,802,702</u>	<u>\$ (413,012)</u>	<u>\$ 7,612,068</u>	<u>\$ 465,917</u>

The general purpose fund is used to liquidate compensated absences, Shelby County Board of Education settlement liability, net pension liability, and OPEB.

NOTE 5 - EMPLOYEE RETIREMENT SYSTEM

The Arlington Community School System participates in the following defined benefit multi-employer Public Employee Retirement Plans administered by the Tennessee Consolidated Retirement System (“TCRS”)

Legacy Public Employee Retirement Plan (“BOE Legacy”) – Certain administrative employees of the Arlington Community School System with membership in TCRS prior to July 1, 2014 are included in this plan. This plan was closed to new membership on June 30, 2014, but continues to provide benefits to existing members. This is an agent multiple-employer pension plan.

Hybrid Public Employee Retirement Plan (“BOE Hybrid”) – Certain administrative employees of the Arlington Community School System with membership in TCRS beginning on or after July 1, 2014 are included in this plan. This plan is a hybrid plan which features both a defined contribution element and a pension plan element. This is an agent multiple-employer pension plan.

Teacher Legacy Pension Plan (“Teacher Legacy”) – Teachers with membership in TCRS prior to July 1, 2014 are included in this plan. The plan was closed to new membership on June 30, 2014, but continues to provide benefits to existing members. The plan is a cost sharing multiple-employer pension plan.

Teacher Retirement Plan (“Teacher Hybrid”) – Teachers with membership in TCRS beginning July 1, 2014 are included in this plan. The plan is a hybrid plan which features both a defined contribution element and a pension plan element. The plan is a cost sharing multiple-employer pension plan.

The net pension assets, deferred outflows of resources, net pension liabilities, and deferred inflows of resources related to pensions reported on the statement of net position are summarized as follows:

	Net Pension Asset	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources
Legacy Public Employee Retirement Plan	\$ 195,141	\$ 211,446	\$ -	\$ 116,992
Hybrid Public Employee Retirement Plan	-	25,349	-	-
Teacher Legacy Pension Plan	-	9,634,037	3,169,349	3,836,910
Teacher Retirement Plan	38,521	92,658	-	4,926
	<u>\$ 233,662</u>	<u>\$ 9,963,490</u>	<u>\$ 3,169,349</u>	<u>\$ 3,958,828</u>

Legacy Public Employee Retirement Plan of TCRS (Plan 80333)

A. General Information About the Pension Plan:

Plan description. Employees of Arlington Community School System are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multi-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Government, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Employees covered by benefit terms. At the measurement date of June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	15
Active employees	<u>77</u>
	<u>97</u>

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary (*alternatively-Employees are non-contributory*). Arlington Community Schools makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2017, the employer contributions for Arlington Community Schools Boe were \$183,342 based on a rate of

7.40% percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Arlington Community Schools Boe's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

B. Net Pension Liability (Asset)

Arlington Community School Systems' net pension liability (asset) was measured as of June 30, 2016, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation

Mortality rates were based on the actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actual assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. Equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Arlington Community School System will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive 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.

C. Changes in the Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 6/30/15	\$ 303,107	\$ 404,888	\$ (101,781)
Changes for the year:			
Service cost	268,523		268,523
Interest	42,617		42,617
Differences between expected and actual experience	(13,936)		(13,936)
Contributions - employer		247,505	(247,505)
Contributions - employees		133,498	(133,498)
Net investment income		15,649	(15,649)
Benefit payments, including refunds of employee contributions	(6,812)	(6,812)	-
Administrative expenses		(6,088)	6,088
Net changes	<u>290,392</u>	<u>383,752</u>	<u>(93,360)</u>
Balance at 6/30/16	<u>\$ 593,499</u>	<u>\$ 788,640</u>	<u>\$ (195,141)</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate. The following presents the net pension liability (asset) of Arlington Community School System calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentagepoint higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Arlington Community School System's proportionate share of the net pension liability (asset)	\$ (94,891)	\$ (195,141)	\$ (277,220)

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2017, Arlington Community School System recognized pension expense of \$132,403.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2017, Arlington Community School System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 116,992
Net difference between projected and actual earnings on pension plan investments	28,104	-
Contributions subsequent to the measurement date of June 30, 2016	<u>183,342</u>	<u>-</u>
Total	<u>\$ 211,446</u>	<u>\$ 116,992</u>

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2016,” will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

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 June 30:		
2018	\$	(7,157)
2019	\$	(7,157)
2020	\$	(7,157)
2021	\$	(8,920)
2022	\$	(14,624)
Thereafter	\$	(43,872)

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

E. Payable to the Pension Plan

At June 30, 2017, Arlington Community School System reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

Hybrid Public Employee Retirement Plan (Plan 81333)

A. General Information About the Pension Plan:

Plan description. Employees of Arlington Community School System are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multi-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Government, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 65 with 5 years of service or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are permitted at age 60 and vested or pursuant to the rule of 80 in which the member's age and service credit total 80. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Employees covered by benefit terms. At the measurement date of June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	-
Inactive employees entitled to but not yet receiving benefits	-
Active employees	-
	<u> </u>
	<u> </u>

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Arlington Community Schools makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2017, employer contributions for Arlington Community Schools were \$25,349 based on a rate of 4 percent of payroll. By law, employer contributions are required to be paid. The TCRS may intercept Arlington Community Schools' state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

B. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities. Since the measurement date is June 30, 2016, which is prior to Arlington Community Schools' October 1, 2016 participation in the Public Employee Retirement Plan, there is not a net pension liability to report at June 30, 2017.

Pension Expense. Since the measurement date is June 30, 2016, Arlington Community Schools did not recognize a pension expense at June 30, 2017.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2017, Arlington Community Schools reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
	<u> </u>
Contributions subsequent to the measurement date of June 30, 2016	<u> \$ 25,349 </u>

Arlington Community School System's employer contributions of \$25,349 reported as pension related deferred outflows of resources, subsequent to the measurement date, will be recognized as a reduction in net pension liability in the year ended June 30, 2018.

C. Payable to the Pension Plan

At June 30, 2017, Arlington Community School System reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

Teacher Legacy Pension Plan of TCRS (Plan 97901)

A. General Information About the Pension Plan:

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Arlington Community School System are provided with pensions through the Teacher Legacy Pension Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Government, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Legacy Pension Plan are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 55 and vested. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Legacy Pension Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions for the Teacher Legacy Pension Plan are required to be paid. TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Arlington Community School System for the year ended June 30, 2017 to the Teacher Legacy Pension Plan were

\$1,663,087 which is 9.04 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

B. Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities (assets). At June 30, 2017, Arlington Community School System reported a liability of \$3,169,249 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial value as of that date. Arlington Community School System’s proportion of the net pension liability was based on Arlington Community School System’s share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2016 Arlington Community School System’s proportion was 0.507125 percent. The proportion measured as of June 30, 2015 was 0.457425 percent.

Pension expense. For the year ended June 30, 2017, Arlington Community School System recognized pension expense of \$1,429,413.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2017, Arlington Community School System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 133,373	\$ 3,836,910
Net difference between projected and actual earnings on pension plan investments	3,538,509	-
Changes in proportion of Net Pension Liability (Asset)	4,299,068	-
Contributions subsequent to the measurement date of June 30, 2016	<u>1,663,087</u>	<u>-</u>
Total	<u>\$ 9,634,037</u>	<u>\$ 3,836,910</u>

Arlington Community School System’s employer contributions of \$1,663,087 reported as pension related deferred outflows of resources subsequent to the measurement date will be recognized as an increase of net pension liability (asset) 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 June 30:

2018	\$	462,901
2019	\$	462,901
2020	\$	2,160,322
2021	\$	1,222,558
2022	\$	(174,641)
Thereafter	\$	-

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of living adjustment	2.5 percent

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included an adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. Equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive 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 net pension liability (asset) to changes in the discount rate. The following presents Arlington Community School System's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Arlington Community School System's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1- percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Arlington Community School System proportionate share of the net pension liability (asset)	\$ 17,402,889	\$ 3,169,249	\$ (8,621,257)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

C. Payable to the Pension Plan

At June 30, 2017, Arlington Community School System reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

Teacher Retirement Plan of TCRS (Plan 97901)

A. General Information About the Pension Plan:

Plan description. Teachers with membership in the Tennessee Consolidated Retirement System (TCRS) before July 1, 2014 of Arlington Community School System are provided with pensions through the Teacher Retirement Plan, a cost sharing multiple-employer pension plan administered by the TCRS. The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit plan. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of all employer pension plans in the TCRS. The Tennessee Treasury Government, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. Members of the Teacher Retirement Plan are

eligible to retire with an unreduced benefit at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member's age and service credit total 90. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. A reduced early retirement benefit is available at age 60 and vested or pursuant to the rule of 80. Members are vested with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Retirement Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Contributions. Contributions for teachers are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or by automatic cost controls set out in law. Teachers contribute 5 percent of salary. The Local Education Agencies (LEAs) make employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. Per the statutory provisions governing the TCRS, the employer contribution rate cannot be less than 4 percent, except in years when the maximum funded level, as established by the TCRS Board of Trustees, is reached. By law, employer contributions for the Teacher Retirement Plan are required to be paid. TCRS may intercept the state shared taxes of the sponsoring governmental entity of the LEA if the required employer contributions are not remitted. Employer contributions by Arlington Community School System for the year ended June 30, 2017 to the Teacher Retirement Plan were \$82,619 which is 4.00 percent of covered payroll. The employer rate, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

B. Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities (assets). At June 30, 2017, Arlington Community School System reported an asset of \$38,521 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2016, and the total pension asset used to calculate the net pension asset was determined by an actuarial value as of that date. Arlington Community School System's proportion of the net pension asset was based on Arlington Community School System's share of contributions to the pension plan relative to the contributions of all participating LEAs. At the measurement date of June 30, 2016 Arlington Community School System's proportion was 0.370023 percent. The proportion measured as of June 30, 2015 was 0.352720 percent.

Pension expense. For the year ended June 30, 2017, Arlington Community School System recognized pension expense of \$32,210.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2017, Arlington Community School System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 3,732	\$ 4,441
Net difference between projected and actual earnings on pension plan investments	6,307	-
Changes in proportion of net pension liability (asset)	-	485
Contributions subsequent to the measurement date of June 30, 2016	<u>82,619</u>	<u>-</u>
Total	<u>\$ 92,658</u>	<u>\$ 4,926</u>

Arlington Community School System's employer contributions of \$82,619 as pension related deferred outflows of resources subsequent to the measurement date, will be recognized as an increase of net pension liability (asset) 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 June 30:	
2018	\$ 1,519
2019	\$ 1,519
2020	\$ 1,519
2021	\$ 1,218
2022	\$ (133)
Thereafter	\$ (528)

In the table above, positive amounts will increase pension expense, while negative amounts will decrease pension expense.

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of living adjustment	2.5 percent

Mortality rates are customized based on the June 30, 2012 actuarial experience study and included an adjustment for expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
U.S. Equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the all LEAs will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive 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 net pension liability (asset) to changes in the discount rate. The following presents Arlington Community School System's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.5 percent, as well as what Arlington Community School System's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1- percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Arlington Community School System's proportionate share of the net pension liability (asset)	\$ 18,190	\$ (38,521)	\$ (80,305)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in a separately issued TCRS financial report.

C. Payable to the Pension Plan

At June 30, 2017, Arlington Community School System reported a payable of \$0 for the outstanding amount of contributions to the pension plan required at the year ended June 30, 2017.

NOTE 6 – Defined Contribution Employee Benefit Plan

401(k) Plan

The Teacher Retirement Plan and the Hybrid Public Employee Retirement Plan (the Hybrid Plans) provides a combination of a defined benefit plan and a defined contribution plan. The defined benefit portion of the Hybrid Plans are managed by TCRS. The defined contribution assets are deposited into the State's 401(k) plan where the employee manages the investments within the 401(k) plan. Public school teachers are required to contribute 2% of their salaries and employers are required to contribute 5% of those salaries to the defined contribution (401(k)) portion of the Hybrid Plans. Contributions are made on a tax-deferred basis. During 2017, the System's employer contribution to the defined contribution plan was \$141,373.

NOTE 7 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)

In addition to the pension benefits described in Note 5, the System administers a single-employer defined benefit other postemployment benefit plan to provide health care benefits to certain employees under the provisions of the System's Other Postemployment Benefit Plan.

Basis of Accounting

The OPEB plan's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Plan member contributions are recognized in the period that the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment in accordance with the terms of the OPEB plan. The OPEB plan does not issue a separate audited financial statement.

Method Used to Value Investments

OPEB plan investments are reported at fair market value.

Plan Description

The Arlington Community Schools participates in the System-administered Employee Group Insurance Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302.

Eligibility

Employees who retire from the System and qualify for full retirement benefits under the Tennessee Consolidated Retirement System (TCRS) may be eligible for post-retirement health benefits at the same cost as current employees until age 65. Eligible employees must have been enrolled in the Arlington Community Schools sponsored insurance plan for twelve consecutive months immediately prior to retirement and have complete 15 years of service with the System. Those who are former employees of Shelby County School District or Memphis City Schools must have 15 years of continuous service with

Arlington, Shelby County, and/or Memphis City Schools prior to retirement. Employees must be enrolled in the System’s health plan immediately preceding retirement to qualify for retirement benefits. Tier 1 employees are those hired directly from Shelby County Schools prior to August 4, 2014 and employees are hired by Arlington Community Schools between January 1, 2014 and June 30, 2014. Tier 2 employees are those whose effective hire date is July 1, 2014. Employees hired on or after July 1, 2017 will not be eligible for retiree health benefits.

At June 30, 2017 membership in the plan consisted of:

Inactive employees or beneficiaries currently receiving benefits	9
Active employees	382
	<u>391</u>

Contributions

The System’s intent is to partially fund the annual required contribution and pay for the pay-go costs from the general purpose school fund until the Trust balance is sufficient to meet future benefit payments. Employer contributions are based on an actuarially determined rate. For the year ended June 30, 2017, the actuarially determined contribution for the plan was \$1,442,649, which exceeded the employer contributions to the plan of \$629,512 by \$813,137.

Spouse Benefit

Surviving spouses of retirees that were eligible to stay on the System’s plan in retirement are able to stay on the plan at their own expense until eligible for Medicare. They are required to pay 100% of the premium.

Explicit Subsidy

Eligible retirees and their dependents hired prior to July 1, 2017 may continue to participate in the System’s plan options that are available to its active employees until age 65. The System and retiree shall share the cost of the premium at the same rate as active employees for pre-65 coverage. Employees that retired prior to July 1, 2017 are eligible to remain on the System’s post-65 Aetna plan by paying the full cost of coverage. Employees retiring after July 1, 2017 will not be eligible for post-65 coverage.

Retiree Cost Sharing

Retirees are required to contribute the portion of premiums not covered by the System’s explicit subsidy.

Medical Benefit

Same benefit options are offered to retirees as active employees for those hired prior to July 1, 2017. The System participates in the self-funded Interlocal Health Benefit Trust. Pre-65 premium rates are developed on the experience of several School Districts, the Town of Collierville, City of Lakeland, and the City of Bartlett. The Aetna post-65 plan is fully-insured. See Note 8 for Interlocal Health Benefits Plan Asset Trust disclosure.

Life Insurance

Current grandfathered retirees have life insurance subsidized by the System’s at varying amounts. Future retirees are not eligible for life insurance benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Allocation of actuarial present value of future benefits for services prior and after the measurement date was determined using the entry age normal level percent of salary method where service cost for each individual participant, payable from date of employment to date of retirement, is sufficient to pay for the participant's benefit at retirement, and annual service cost is a constant percentage of the participant's salary that is assumed to increase according to the payroll growth.

Measurement date	For the fiscal year ending June 30, 2017, a June 30, 2017 measurement date was used.
Actuarial valuation date	June 30, 2017 with no adjustments to get to the June 30, 2017 measurement date. Liabilities as of July 1, 2016 are based on an actuarial valuation date of July 1, 2015 rolled forward to July 1, 2016 on a "no gain/no loss" basis.
Inflation	3%
Salary increases	Payroll growth including general wage inflation plus merit/productivity increases are based on the TCRS valuation as of June 30, 2016
Mortality table	RPH-2016 Total Dataset Mortality Table generational using Scale MP-2016
Health care cost trend rate	9.0% initial rate, 5.0% ultimate rate

Investment Policy

The System has placed funds with the Tennessee School Board Association OPEB Trust ("TSBA OPEB Trust") to be used to pre-fund a portion of the OPEB liability. The assets of the TSBA OPEB Trust are commingled with other participant's funds for investment purposes, but are held in an irrevocable trust for each plan participant and may be used only for the payment of benefits to the members of the plan in accordance with the terms of their plan. The TSBA OPEB Trust's policy in regard to allocation of invested assets is established and may be amended by the TSBA OPEB Trust Board of Trustees by a majority vote of its members. The TSBA OPEB Trust obtains an annual audit, which may be obtained from the TSBA at 525 Brick Church Park Drive, Nashville, TN 37207; however, the audit for the year ended June 30, 2017, was not available from other auditors as of the date of this report.

It is the policy of the TSBA OPEB Trust Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a board selection of distinct asset classes. The investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. equities	30%
International equities	30%
Fixed Income	40%
Cash and cash equivalents	0%
	<u>100%</u>

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investment was 13.13 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The long-term expected rate of return on OPEB investments was established by weighted the 10 year expected rate of return by the target asset allocation and by adding inflation of 3 percent.

Discount Rate Information

The discount rate using in valuating OPEB liabilities in funded plans as of the measurement date must be based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that they are sufficient to pay for the projected benefit payments and the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield of 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale) must be used. The final equivalent single discount rate used for this year's valuation is 8.0% as of June 30, 2017 with the assumption that the System will eventually pay the pay-go costs out of the OPEB Trust at the time the Trust is expected to be sufficient to finance all future benefit payments.

Net OPEB Liability

The components of the System's net OPEB liability at June 30, 2017, were as follows:

Total OPEB liability	\$ 5,619,988
Plan fiduciary net position	<u>1,312,631</u>
System's net OPEB liability	<u>\$ 4,307,357</u>
 Plan fiduciary net position as a percentage of total OPEB liability	 <u>23.4%</u>

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Discount Rate

The following represents the net OPEB liability as of June 30, 2017, calculated using the discount rate of 8.0 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (7.0%) or 1% higher (9.0%) than the current rate:

	1% Decrease <u>7.00%</u>	Current Rate <u>8.00%</u>	1% Increase <u>9.00%</u>
Net OPEB liability (asset)	\$ 4,791,776	\$ 4,307,357	\$ 3,859,680

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rate

The following represents the net OPEB liability calculated using the healthcare cost trend rate of 9.0 percent decreasing to 5.0 percent as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% lower (8.0 percent decreasing to 4.0 percent) or 1% higher (10.0 percent decreasing to 6.0 percent) than the current rate:

	1% Decrease (8% to 4%)	Current Rate (9% to 5%)	1% Increase (10% to 6%)
Net OPEB liability (asset)	\$ 3,713,072	\$ 4,307,357	\$ 4,993,607

Annual OPEB Cost and Net OPEB Obligation

The System's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a funding level that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The annual required contribution for the current year was determined as part of the July 1, 2015 actuarial valuation using the level dollar over 30 years based on a closed group. Actuarial valuations of an ongoing plan involve estimates of the value of the reported amounts about the probability of the occurrence of events far into the future.

The System's annual OPEB cost and net OPEB obligation for the current year were as follows;

Annual required contribution (ARC)	\$ 691,006
Interest on net OPEB obligation	119,925
Adjustment to annual required contribution	438,761
Annual OPEB cost	<u>1,249,692</u>
Contributions or payments made	<u>(652,619)</u>
Increase in net OPEB obligation	597,073
Net OPEB obligation, beginning of year	<u>924,651</u>
Net OPEB obligation, end of year	<u>\$ 1,521,724</u>

Trend information gives an indication of the progress made in accounting sufficient assets to pay benefits when due. Following is a summary of the three-year trend for the years ended June 30:

Fiscal Year Ending	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 1,157,845	20.1%	\$ 924,651
6/30/2016	1,149,683	-30.4%	1,499,060
6/30/2017	1,249,692	-21.8%	1,521,724

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2017, was as follows:

Actuarial accrued liability (AAL)	\$ 5,058,464
Actuarial value of assets	703,081
Unfunded AAL (UAAL)	<u>\$ 4,355,383</u>
Funded ratio	<u>13.9%</u>
Covered payroll	<u>\$ 21,802,679</u>
UAAL as a % of covered payroll	<u>20.0%</u>

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarially accrued liability for benefits.

Amortization of Net OPEB Obligation

The unfunded actuarially accrued liability is being amortized as a level percent of pay over 30 years on a closed basis.

NOTE 8 – Interlocal Health Benefits Plan Asset Trust

The Arlington Community School System participates in the Interlocal Health Benefits Plan Asset Trust for healthcare benefits. Benefits are established and amended by an insurance committee created by Section 8-27-601, *Tennessee Code Annotated (TCA)* for local education employees. Arlington Community School System members have the option of choosing between a Health Reimbursement Account (HRA) option, an Exclusive Provider Organization (EPO) option, or a basic option for healthcare benefits. The plan has a separately issued Comprehensive Annual Report (CAFR) and can be found on the state's website at http://www.comptroller.tn.gov/RA_MA_Financial/.

The premium requirements of plan members are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop a contribution policy in term of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. During the year ended June 30, 2017, the Arlington Community School System contributed premiums of \$3,267,533 to the Interlocal Health Benefits Plan Asset Trust.

NOTE 9 – CONTINGENT LIABILITIES AND LOSSES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may be disallowed by the grantors, and cannot be determined at this time although the System's management expects such amounts, if any, to be immaterial.

NOTE 10 – RISK MANAGEMENT

The System is exposed to various risks related to workers' compensation, general liability, automobile liability, and property. The System felt it was more economically feasible to join public entity risk pools as opposed to purchasing commercial insurance for these areas. The System is a member of the Tennessee Municipal League Risk Management Pool (TML), which is a public entity risk pool. The System pays an annual premium to this pool for coverage under the above areas. The Pool provides the specified coverage and pays all claims from its member premiums charged or through its reinsurance policies. The System's premiums are calculated based on its claim history. The System continues to carry commercial insurance for all other risks of loss, including public officials' bond. Settled claims from these losses have not exceeded commercial insurance coverage in this fiscal year.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

During the 2016-2017 fiscal year, the System implemented GASB Statement No. 74. As a result, it was determined that the System has fiduciary responsibilities with respect to its assets deposited with the TSBA Trust. Therefore, the System has recorded a prior period adjustment of \$703,081 for the value of the OPEB assets held in the TSBA Trust as of June 30, 2016.

REQUIRED SUPPLEMENTARY INFORMATION

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF CHANGES IN ARLINGTON COMMUNITY SCHOOL SYSTEM'S NET PENSION LIABILITY (ASSET) AND RELATED RATIOS BASED ON PARTICIPATION IN THE LEGACY PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Ten Fiscal Years Ending June 30

	<u>2016</u>	<u>2015</u>
Total pension liability (asset)		
Service cost	\$ 268,523	\$ 403,716
Interest	42,617	30,274
Changes in benefit terms	-	-
Differences between actual and expected experience	(13,936)	(130,756)
Change of assumptions	-	-
Benefit payments, including refunds of employee contributions	<u>(6,812)</u>	<u>(127)</u>
Net change in total pension liability (asset)	290,392	303,107
Total pension liability (asset) - beginning	303,107	-
Total pension liability (asset) - ending (a)	<u><u>\$ 593,499</u></u>	<u><u>\$ 303,107</u></u>
 Plan fiduciary net position		
Contributions - employer	\$ 247,505	\$ 262,260
Contributions - employee	133,498	141,457
Net investment income	15,649	6,140
Benefits payments, including refunds of employee contributions	(6,812)	(127)
Administrative expense	<u>(6,088)</u>	<u>(4,842)</u>
Net change in plan fiduciary net position	383,752	404,888
 Plan fiduciary net position - beginning	404,888	-
Plan fiduciary net position - ending (b)	<u><u>788,640</u></u>	<u><u>404,888</u></u>
 Net Pension Liability (asset) - ending (a) - (b)	<u><u>\$ (195,141)</u></u>	<u><u>\$ (101,781)</u></u>
 Plan fiduciary net position as a percentage of total pension liability	132.88%	133.58%
 Covered payroll	\$ 2,669,956	\$ 2,829,235
 Net pension liability (asset) as a percentage of covered payroll	(7.31%)	(3.60%)

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF ARLINGTON COMMUNITY SCHOOL SYSTEM'S CONTRIBUTIONS BASED ON PARTICIPATION IN THE LEGACY PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Ten Fiscal Years Ending June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 183,342	\$ 247,505	\$ 262,260
Contributions in relation to the actuarially determined contribution	<u>183,342</u>	<u>247,505</u>	<u>262,260</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,477,596	\$ 2,669,956	\$ 2,829,235
Contributions as a percentage of covered payroll	7.40%	9.27%	9.27%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to schedule:

Valuation date: Actuarially determined contribution rates for 2017 were calculated based on the June 30, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	Varies by year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF ARLINGTON COMMUNITY SCHOOL SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) TEACHER LEGACY PLAN OF TCRS

Last Ten Fiscal Years Ending June 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Arlington Community School System's proportionate of the net pension liability (asset)	0.010736%	0.45743%	0.50713%
Arlington Community School System's proportionate share of the net pension liability (asset)	\$ (1,744)	\$ 187,377	\$ 3,169,249
Arlington Community School System's covered payroll	\$ 421,371	\$ 17,123,741	\$ 18,306,197
Arlington Community School System's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	(0.414002)%	1.094253%	17.310000%
Plan fiduciary net position as a percentage of the total pension liability	100.08%	99.81%	97.14%

The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF ARLINGTON COMMUNITY SCHOOL SYSTEM'S CONTRIBUTIONS
TEACHER LEGACY PENSION PLAN OF TCRS**

Last Ten Fiscal Years Ending June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required	\$ 37,418	\$ 1,547,985	\$ 1,654,879	\$ 1,663,087
Contribution in relation to the contractually required contribution	<u>37,418</u>	<u>1,547,985</u>	<u>1,654,879</u>	<u>1,663,087</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Arlington Community School System's covered payroll	\$ 421,371	\$ 17,123,741	\$ 18,306,197	\$ 18,396,999
Contributions as a percentage of Arlington Community School System's covered payroll	8.88%	9.04%	9.04%	9.04%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will added to this schedule in future fiscal years until 10 years of information is available.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF ARLINGTON COMMUNITY SCHOOL SYSTEM'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY (ASSET) TEACHER RETIREMENT PLAN OF TCRS**

Last Ten Fiscal Years Ending June 30

	2016	2017
Arlington Community School System's proportion of the net pension liability (asset)	0.360154%	0.370023%
Arlington Community School System's proportionate share of the net pension liability (asset)	\$ (14,489)	\$ (38,521)
Arlington Community School System's covered payroll	\$ 748,310	\$ 1,628,121
Arlington Community School System's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	(1.94)%	(2.37)%
Plan fiduciary net position as a percentage of the total pension liability	127.46%	121.88%

The amounts presented were determined as of June 30 of the prior fiscal year.

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF ARLINGTON COMMUNITY SCHOOL SYSTEM'S CONTRIBUTIONS
TEACHER RETIREMENT PLAN OF TCRS**

Last Ten Fiscal Years Ending June 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required	\$ 18,708	\$ 40,755	\$ 82,619
Contribution in relation to the contractually required contribution	<u>29,932</u>	<u>65,125</u>	<u>82,619</u>
Contribution deficiency (excess)	<u>\$ (11,224)</u>	<u>\$ (24,370)</u>	<u>\$ -</u>
Arlington Community School System's covered payroll	\$ 748,310	\$ 1,628,121	\$ 2,065,462
Contributions as a percentage of Arlington Community School System's covered payroll	4.00%	4.00%	4.00%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF ARLINGTON COMMUNITY SCHOOL SYSTEM'S CONTRIBUTIONS BASED ON PARTICIPATION IN THE HYBRID PUBLIC EMPLOYEE RETIREMENT PLAN OF TCRS

Last Ten Fiscal Years Ending June 30

	<u>2017</u>
Actuarially determined contribution	\$ 25,349
Contributions in relation to the actuarially determined contribution	<u>25,349</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered payroll	\$ 633,729
Contributions as a percentage of covered payroll	4.00%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS FUNDING PROGRESS

Last Ten Fiscal Years Ending June 30

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability - PUC	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2015	\$ -	\$ 6,962,519	\$ 6,962,519	0.0%	N/A	N/A
6/30/2016	703,081	5,058,464	4,355,383	13.9%	21,802,679	20.0%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years Ending June 30

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 574,975
Interest	833,313
Changes of benefit items	(5,817,754)
Differences between expected and actual experience	(402,643)
Changes in assumptions	72,575
Benefit payments	<u>(111,651)</u>
Net change in total OPEB liability	(4,851,185)
Total OPEB liability - beginning	<u>10,471,173</u>
Total OPEB liability - ending	\$ 5,619,988
 Plan Fiduciary Net Position	
Contributions - employer	\$ 629,512
Contributions - employee	-
Net investment income	94,877
Benefit payments	(111,651)
Administrative expense	<u>(3,188)</u>
Net change in plan fiduciary net position	609,550
Plan fiduciary net position - beginning	<u>703,081</u>
Plan fiduciary net position -ending	<u>\$ 1,312,631</u>
 Net OPEB liability (asset)	 <u><u>\$ 4,307,357</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 23.36%
 Covered payroll	 \$ 21,802,679
 Net OPEB liability as a percentage of covered payroll	 19.76%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS CONTRIBUTIONS

Last Ten Fiscal Years Ending June 30

	<u>2017</u>
Actuarially determined contribution	\$ 1,442,649
Contributions	<u>629,512</u>
Contribution deficiency (surplus)	<u>\$ 813,137</u>
Covered payroll	\$ 21,802,679
Contributions as a percentage of covered payroll	2.89%

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

NOTE 1 - VALUATION DATE

Actuarially determined contributions were based on a measurement date of June 30, 2017. Liabilities as of July 1, 2016 are based on an actuarial valuation date of July 1, 2015 rolled forward to July 1, 2016 on a "no gain/no loss" basis.

NOTE 2 - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial cost method	Entry age normal - level percent of pay
Amortization method	Level dollar
Remaining amortization period	28 years
Asset valuation method	Market value
Inflation	3.0%
Healthcare cost trend rates	9% initial, decreasing to an ultimate rate of 5%,
Salary increases	3.0%
Investment rate of return	8.0%, net of investment expenses, including inflation
Mortality	RPH-2016 Total Dataset Mortality Table fully generational using Scale MP-2016

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT PLAN
MONEY-WEIGHTED RATE OF RETURN

Last Ten Fiscal Years Ending June 30

	Annual Money-Weighted Rate of Return Net of Investment Expenses
2017	<u>13.13%</u>

This is a 10-year schedule. However, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

SUPPLEMENTARY INFORMATION

ARLINGTON COMMUNITY SCHOOL SYSTEM

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2017

	Special Revenue Funds				
	School Nutrition Fund	Discretionary Grants Fund	Federal Projects Fund	Education Capital Projects Fund	Total
ASSETS					
Cash and cash equivalents	\$ 236,866	\$ 2,969	3,875	\$ 1,561,593	\$ 1,805,303
Inventory	17,865	-	-	-	17,865
Due from other governments - grants	846	3,516	85,713	-	90,075
Total assets	<u>\$ 255,577</u>	<u>\$ 6,485</u>	<u>\$ 89,588</u>	<u>\$ 1,561,593</u>	<u>\$ 1,913,243</u>
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ 8,327	\$ -	\$ 8,327
Accrued payroll	-	6,485	33,571	-	40,056
Due to other funds	-	-	47,690	-	47,690
Unearned revenue	23,684	-	-	-	23,684
Total liabilities	<u>23,684</u>	<u>6,485</u>	<u>89,588</u>	<u>-</u>	<u>119,757</u>
FUND BALANCES					
Nonspendable - inventory	17,865	-	-	-	17,865
Restricted - capital projects	-	-	-	1,561,593	1,561,593
Restricted - school nutrition	214,028	-	-	-	214,028
Total fund balance	<u>231,893</u>	<u>-</u>	<u>-</u>	<u>1,561,593</u>	<u>1,793,486</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 255,577</u>	<u>\$ 6,485</u>	<u>\$ 89,588</u>	<u>\$ 1,561,593</u>	<u>\$ 1,913,243</u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2017

	Special Revenue Funds				
	School Nutrition Fund	Discretionary Grants Fund	Federal Projects Fund	Education Capital Projects Fund	Total
REVENUES					
Charges for services	\$ 793,072	\$ -	\$ -	\$ -	\$ 793,072
Other local revenues	-	-	-	826,020	826,020
Intergovernmental:					
State revenue	12,631	107,403	-	-	120,034
Federal revenue	305,667	-	1,738,540	-	2,044,207
Total revenues	<u>1,111,370</u>	<u>107,403</u>	<u>1,738,540</u>	<u>826,020</u>	<u>3,783,333</u>
EXPENDITURES					
Instruction	-	-	1,338,303	-	1,338,303
Support services	-	107,403	328,947	-	436,350
Non-instructional services	-	-	-	376,986	376,986
Food services	994,108	-	-	-	994,108
Total expenditures	<u>994,108</u>	<u>107,403</u>	<u>1,667,250</u>	<u>376,986</u>	<u>3,145,747</u>
OTHER FINANCING SOURCES (USES)					
Transfers from (to) other funds	-	-	(71,290)	-	(71,290)
Net change in fund balance	117,262	-	-	449,034	566,296
Fund balance - beginning	114,631	-	-	1,112,559	1,227,190
Fund balance - ending	<u>\$ 231,893</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,561,593</u>	<u>\$ 1,793,486</u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
FEDERAL PROJECTS FUND				
Intergovernmental Revenues:				
Federal through State:				
Vocational education - basic grants to State	\$ 358,670	\$ 363,670	\$ 361,407	\$ (2,263)
Other vocational	-	-	-	-
Title I	414,963	522,242	370,315	(151,927)
Special education - grants to State	929,298	1,071,179	792,721	(278,458)
Special education preschool grant	6,510	9,503	6,756	(2,747)
English language acquisition grant	3,052	3,052	3,050	(2)
Title II	193,362	268,190	204,291	(63,899)
Total intergovernmental revenues	<u>1,905,855</u>	<u>2,237,836</u>	<u>1,738,540</u>	<u>(499,296)</u>
Expenditures:				
Instruction:				
Regular Instruction:				
Teachers	217,575	217,575	215,854	1,721
Social security	13,490	13,490	13,084	406
State retirement	19,669	19,669	19,488	181
Life insurance	1,523	1,523	644	879
Medical insurance	26,520	26,520	7,134	19,386
Medicare	3,155	3,155	3,060	95
Contracts substitute teachers - certified	18,200	24,900	20,007	4,893
Instructional supplies and materials	34,282	43,782	29,259	14,523
Other charges	8,800	7,800	5,985	1,815
Equipment	29,462	115,183	27,703	87,480
Total regular instruction	<u>372,676</u>	<u>473,597</u>	<u>342,218</u>	<u>131,379</u>
Special Education Program:				
Educational assistants	473,973	496,973	458,115	38,858
Speech pathologist	107,412	107,411	99,453	7,958
Social security	36,045	37,472	31,858	5,614
State retirement	53,648	55,780	43,888	11,892
Life insurance	3,996	4,153	1,666	2,487
Medical insurance	108,971	108,971	62,304	46,667
Medicare	8,430	8,765	7,451	1,314
Instructional supplies	21,510	52,500	10,608	41,892
Special education equipment	17,000	40,530	15,908	24,622
Other supplies and materials	2,696	6,000	527	5,473
Total special education	<u>833,681</u>	<u>918,555</u>	<u>731,778</u>	<u>186,777</u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Vocational Education:				
Maintenance and repair services	15,683	243	243	-
Other supplies and materials	100,001	111,001	111,001	-
Equipment	138,886	145,326	145,146	180
Instructional supplies	10,000	10,000	7,917	2,083
Total vocational education	<u>264,570</u>	<u>266,570</u>	<u>264,307</u>	<u>2,263</u>
Total instruction	<u>1,470,927</u>	<u>1,658,722</u>	<u>1,338,303</u>	<u>320,419</u>
Support Services:				
Other Student Support:				
Travel	62,734	65,734	65,734	-
Other contracted services	-	-	-	-
In-service training	15,684	15,684	15,684	-
Total other student support	<u>78,418</u>	<u>81,418</u>	<u>81,418</u>	<u>-</u>
Regular Instruction:				
Supervisor/director	49,500	49,500	49,236	264
In-service training	89,000	79,000	46,125	32,875
Social security	8,463	7,869	5,685	2,184
State retirement	4,475	4,475	4,451	24
Life insurance	347	347	148	199
Medical insurance	3,574	3,574	2,286	1,288
Medicare	2,009	1,825	1,342	483
In-service-staff development	39,845	127,544	91,563	35,981
Other charges	5,744	5,744	3,223	2,521
Contracts with private agencies	25,000	25,000	5,537	19,463
Total regular instruction	<u>227,957</u>	<u>304,878</u>	<u>209,596</u>	<u>95,282</u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Special Education Program:				
In-service training	3,000	3,000	-	3,000
Social security	354	354	50	304
Medicare	-	-	-	-
Other supplies and materials	5,207	9,207	3,311	5,896
In-service-staff development	16,000	26,000	18,551	7,449
Other equipment	7,996	51,996	2,004	49,992
Other charges	2,000	4,000	848	3,152
Pension	8,321	7,386	4,169	3,217
Total special education	<u>42,878</u>	<u>101,943</u>	<u>28,933</u>	<u>73,010</u>
Vocational Education:				
Travel	6,000	6,000	6,000	-
Other charges	2,000	2,000	2,000	-
Equipment	-	-	-	-
In-service-staff development	1,000	1,000	1,000	-
Total vocational education	<u>9,000</u>	<u>9,000</u>	<u>9,000</u>	<u>-</u>
Total support services	<u>358,253</u>	<u>497,239</u>	<u>328,947</u>	<u>168,292</u>
Total expenditures	<u>1,829,180</u>	<u>2,155,961</u>	<u>1,667,250</u>	<u>488,711</u>
Other financing sources (uses):				
Transfers out	(76,675)	(81,875)	(71,290)	10,585
Net change in fund balances	-	-	-	-
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)**

For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
SCHOOL NUTRITION FUND				
Revenues:				
Charges for services:				
Lunch payments - children	\$ 375,000	\$ 375,000	\$ 411,464	\$ 36,464
Lunch payments - adults	26,001	26,001	26,387	386
Income from breakfast	27,000	27,000	25,781	(1,219)
A La Carte sales	264,000	264,000	325,153	61,153
Receipts from individual schools	-	-	4,287	4,287
Total charges for current services	<u>692,001</u>	<u>692,001</u>	<u>793,072</u>	<u>101,071</u>
State Education Funds:				
School food services	<u>8,500</u>	<u>8,500</u>	<u>12,631</u>	<u>4,131</u>
Federal Through State:				
USDA - lunch	230,000	230,000	266,303	36,303
USDA - breakfast	45,000	45,000	39,364	(5,636)
USDA - commodities	2,500	2,500	-	(2,500)
Total federal through state	<u>277,500</u>	<u>277,500</u>	<u>305,667</u>	<u>28,167</u>
Total revenues	978,001	978,001	1,111,370	133,369
Expenditures:				
Non-instructional Services:				
Food Services:				
Supervisor/director	133,692	135,292	135,284	8
Cafeteria personnel	249,334	247,734	240,698	7,036
Social security	23,748	23,748	21,468	2,280
State retirement	19,090	19,090	16,185	2,905
Life insurance	1,381	1,381	614	767
Medical insurance	46,000	46,000	38,562	7,438
Medicare	5,553	5,553	5,021	532
Maintenance and repair - equipment	2,000	2,000	423	1,577
Other contracted services	62,205	61,855	59,779	2,076
Cafeteria substitutes	7,001	7,001	2,278	4,723
Food supplies	455,000	455,000	427,921	27,079
Uniforms	500	500	-	500
Other supplies and materials	44,998	44,998	37,859	7,139
Other charges	8,800	8,800	7,396	1,404
Equipment	12,601	12,601	248	12,353
Travel	200	550	372	178
Total food services	<u>1,072,103</u>	<u>1,072,103</u>	<u>994,108</u>	<u>77,995</u>
Other financing sources (uses)				
Transfers in	<u>94,102</u>	<u>94,102</u>	<u>-</u>	<u>94,102</u>
Net change in fund balance	-	-	117,262	149,476
Fund balance - beginning	<u>114,631</u>	<u>114,631</u>	<u>114,631</u>	<u>-</u>
Fund balance - ending	<u>\$ 114,631</u>	<u>\$ 114,631</u>	<u>\$ 231,893</u>	<u>\$ 149,476</u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)**

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
DISCRETIONARY GRANTS FUND				
Revenues:				
State revenue	\$ 107,600	\$ 107,600	\$ 107,403	\$ (197)
Expenditures:				
Support Services:				
Health Services:				
Supervisor/director	-	64,031	64,031	-
Other salaries and wages	67,112	-	-	-
Social security	4,161	3,794	3,744	50
State retirement	6,221	4,741	4,738	3
Life insurance	461	204	192	12
Employer Medicare	973	887	876	11
Travel	300	150	149	1
Other supplies and materials	3,272	8,352	8,301	51
In-service-staff development	2,000	2,260	2,191	69
Office equipment	500	581	581	-
Total health services	<u>85,000</u>	<u>85,000</u>	<u>84,803</u>	<u>197</u>
Other Student Support:				
Contracts with government agencies	<u>22,600</u>	<u>22,600</u>	<u>22,600</u>	<u>-</u>
Total support services	<u>107,600</u>	<u>107,600</u>	<u>107,403</u>	<u>197</u>
Total expenditures	<u>107,600</u>	<u>107,600</u>	<u>107,403</u>	<u>197</u>
Total change in fund balance	-	-	-	-
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)**

For the Year Ended June 30, 2017

Education Capital Fund	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Other local revenues	\$ -	\$ 826,020	\$ 826,020	\$ -
Expenditures:				
Non-instructional services:				
Capital outlay	<u>1,112,559</u>	<u>1,112,559</u>	<u>376,986</u>	<u>735,573</u>
Net change in fund balance	<u>(1,112,559)</u>	<u>(286,539)</u>	<u>449,034</u>	<u>735,573</u>
Fund balance - beginning	1,112,559	1,112,559	1,112,559	-
Fund balance - ending	<u><u>\$ -</u></u>	<u><u>\$ 826,020</u></u>	<u><u>\$ 1,561,593</u></u>	<u><u>\$ 735,573</u></u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES – AGENCY FUND
INTERNAL SCHOOL FUNDS**

For the Year Ended June 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>
ASSETS				
Cash	\$ 957,939	\$ 2,276,741	\$ (2,214,869)	\$ 1,019,811
Inventories	18,639	74,350	(81,933)	11,056
 Total assets	 <u>\$ 976,578</u>	 <u>\$ 2,351,091</u>	 <u>\$ (2,296,802)</u>	 <u>\$ 1,030,867</u>
 LIABILITIES				
Due to student general fund	\$ 539,375	\$ 573,350	\$ (487,885)	\$ 624,840
Due to student groups	437,203	1,725,107	(1,756,283)	406,027
 Total liabilities	 <u>\$ 976,578</u>	 <u>\$ 2,298,457</u>	 <u>\$ (2,244,168)</u>	 <u>\$ 1,030,867</u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF FEDERAL EXPENDITURES AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor	CFDA Number	Beginning Accrued (Deferred)	Cash receipts	Expenditures	Ending Accrued (Deferred)
<u>Federal Awards</u>					
<u>U.S. Department of Education</u>					
Pass-Through from the Tennessee Department of Education Title I Part A: Grants to Local Educational Agencies	84.010A	\$ 85,970	\$ 447,401	\$ 383,524	\$ 22,093
Pass-Through from the Tennessee Department of Education Title II, Part A: Teacher and Principal Training and Recruiting	84.367A	72,408	244,859	190,055	17,604
Pass-Through from the Tennessee Department of Education Title III, Part A - English Language Acquisition/Language Enhancement	34.365A	1,405	4,455	3,050	-
Pass-Through from the Tennessee Department of Education Special Education Cluster					
IDEA, Pt B	84.027A	204,209	961,352	792,721	35,578
IDEA - Preschool	84.173A	870	7,626	6,756	-
		<u>205,079</u>	<u>968,978</u>	<u>799,477</u>	<u>35,578</u>
Pass-Through from the Tennessee Department of Education Carl Perkins	84.048A	60,667	409,635	361,407	12,439
<u>U.S. Department of Agriculture, Food and Nutrition Services,</u>					
<u>School Nutrition Cluster</u>					
Pass-Through from the Tennessee Department of Human Services School Breakfast Program	10.553	-	39,365	39,365	-
National School Lunch Program	10.555	-	266,303	266,303	-
National School Lunch Program - non cash assistance	10.555	-	66,616	66,616	-
		<u>-</u>	<u>372,284</u>	<u>372,284</u>	<u>-</u>
 Total federal awards		 <u>425,529</u>	 <u>2,447,612</u>	 <u>2,109,797</u>	 <u>87,714</u>

See accompanying notes to schedule of expenditures and federal state awards.

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF FEDERAL EXPENDITURES AND STATE FINANCIAL ASSISTANCE (CONTINUED)

For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor	CFDA Number	Beginning Accrued (Deferred)	Cash receipts	Expenditures	Ending Accrued (Deferred)
<u>State Financial Assistance</u>					
<u>Tennessee Department of Education</u>					
Safe Schools		-	22,600	22,600	-
Coordinated School Health		<u>18,297</u>	<u>99,584</u>	<u>84,803</u>	<u>3,516</u>
Total state financial assistance		<u>18,297</u>	<u>122,184</u>	<u>107,403</u>	<u>3,516</u>
Total federal awards and state financial assistance		<u>\$ 443,826</u>	<u>\$ 2,569,796</u>	<u>\$ 2,217,200</u>	<u>\$ 91,230</u>

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the "Schedule") includes the federal grant activity of the Arlington Community School System (the "System") under programs of those governments for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net position, or cash flows of the System.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the 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.

Pass-through entity contract numbers are presented where available.

Arlington Community Schools has elected not to use the de minimis indirect cost rate as described in the Uniform Guidance.

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

See accompanying notes to schedule of expenditures and federal state awards.

INDEPENDENT AUDITOR’S 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

To the Superintendent and Board Members of the
Arlington Community School System:

We have audited, 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, the financial statements of the governmental activities, each major fund, the statement of budgetary comparison for the general purpose fund and the aggregate remaining fund information of the Arlington Community School System (the “System”) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the System’s basic financial statements, and have issued our report thereon dated December 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System’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 the System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the System’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 System’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 the System’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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Watkins Mikusall, PLLC

Memphis, Tennessee
December 19, 2017

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Superintendent and Board Members of the
Arlington Community School System:

Report on Compliance for Each Major Federal Program

We have audited the Arlington Community School System (the “System”)’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 the System’s major federal programs for the year ended June 30, 2017. The System’s major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the System’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 for 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 the System’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 the System’s compliance.

Opinion on Each Major Federal Program

In our opinion, the System 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, 2017.

Report on Internal Control Over Compliance

Management of the System 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 the System'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 the System'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.

Watkins Mikusall, PLLC

Memphis Tennessee
December 19, 2017

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

A.SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the Arlington Community School System (the "System"), were prepared in accordance with GAAP.
2. No material weaknesses or significant deficiencies were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the System were disclosed during the audit.
4. No significant deficiencies or material weaknesses were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for the System, expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The programs tested as major programs were CFDA No. 10.553 and 10.555 – Child Nutrition Cluster, and CFDA No. 84.027 and 84.173 – Special Education Cluster (IDEA).
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The System did not qualify as a low-risk auditee.

B.FINDINGS – FINANCIAL STATEMENTS AUDIT

None

C.FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2017

Financial Statement Findings

Prior Year Finding Number	Finding Title	Status/Current Year Finding Number
2016-001	Discount on Settlement Liability (original finding # 2016-001)	Corrected
2016-002	Recording Delinquent Property Taxes (original finding #2016-002)	Corrected
2016-003	Recording Unavailable Revenue (original finding # 2016-003)	Corrected
2016-004	Recognizing Revenue (original finding # 2016-004)	Corrected
2016-005	Recording Audit Adjustments (original finding # 2016-005)	Corrected

Federal Award Findings and Questioned Costs - None