

ARLINGTON COMMUNITY SCHOOL SYSTEM

FINANCIAL STATEMENTS

June 30, 2018



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ARLINGTON COMMUNITY SCHOOL SYSTEM

ROSTER OF PUBLICLY ELECTED OFFICIALS

For the Year Ended June 30, 2018

Tammy Mason, Superintendent

Kay Williams, Chair

Barbara Fletcher, Vice Chair

Scott Benjamin

Hugh Lamar

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, 2018, 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, 2018, 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. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ended June 30, 2018. 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, 2018, 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 1D to the financial statements, which describes a restatement decreasing the beginning Governmental Activities by \$3,108,448. This restatement was necessary because of the transitional requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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 17, 2018, 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.

A handwritten signature in black ink that reads "Watkins & Kurall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
December 17, 2018

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, 2018. Comparative financial information is reported for the fiscal year ended June 30, 2017. 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 4,500 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 rigorous and supportive academic environment at all schools. Since the establishment as a school district in 2014, the district and schools have received numerous accolades for academic achievement. Most recently, Donelson Elementary School was named a 2018 National Blue Ribbon School, a prestigious honor granted by the United States Department of Education. Arlington Community Schools offers science, technology, engineering and mathematics (STEM) education opportunities for all students in elementary, middle and high school. Arlington Community Schools offers students in grades five through twelve a 1:1 digital learning environment. Arlington Middle School is one of the few middle schools across the State of Tennessee where all students receive three years of Coding. Arlington High School offers Advanced Placement courses, honor courses, dual enrollment courses and career and technical industry certification aligned courses to all students in grades nine through twelve. Also at Arlington High School, there is the Performing Arts & Visual Experience (PAVE) Fine Arts Academy, the Collegiate Academy, and coming in the 2019-2020 school year, the Engineering and Innovation Academy.

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2018 are as follows:

- The assets and deferred outflows of resources of the System exceeded its liabilities and deferred inflows of resources at June 30, 2018 by \$109 million (net position) that represents a \$2.8 million increase in net position. Of this amount, the unrestricted net position has a balance of \$17.2 million.
- As of the close of the current fiscal year, the System reported combined ending fund balances of \$19.9 million. Approximately 93.8% of this total amount, \$18.7 million is unassigned in the general purpose fund, \$47,645 represents non-spendable funds in the general purpose and non-major governmental funds, .01% represents funds restricted in the school nutrition fund, and .05% represents funds restricted in the education capital projects fund.
- The System has an outstanding debt to Shelby County Schools in the amount of \$2.67 million and made a payment in the current fiscal year of \$333,333. Other postemployment benefits liability is determined by the actuary to be \$4.3 million. Compensated absences balance at year-end is \$201,449.
- The System completed the construction of the district's central office debt-free. The combined cost of the central office was \$4.1 million. The system also began the construction of a new gymnasium at Arlington Middle School. The gymnasium is projected to be completed in fiscal year 2019 at a cost of \$3.5 million.

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 information, 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 \$109,939,343 at the close of the fiscal year ended June 30, 2018.

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, \$1,503,846 represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position of \$17,264,921. The System uses unrestricted funds to meet the government's ongoing obligations to citizens and creditors.

The System's Net Position

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Assets		
Current and other	\$ 25,639,266	\$ 21,489,068
Capital assets - net of accumulated depreciation	91,170,576	89,410,747
Total assets	<u>116,809,842</u>	<u>110,899,815</u>
Deferred outflows of resources	7,150,937	9,963,490
Liabilities		
Long-term liabilities	6,966,298	7,612,068
Other liabilities	2,871,237	2,160,473
Total liabilities	<u>9,837,535</u>	<u>9,772,541</u>
Deferred inflows of resources	4,183,901	3,958,828
Net Position		
Net investment in capital assets	91,170,576	89,410,747
Restricted	1,503,846	1,813,120
Unrestricted	17,264,921	15,908,069
Total net position	<u>\$ 109,939,343</u>	<u>\$ 107,131,936</u>

The above provides a summary of the System's net position for 2018.

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
Revenues		
Program revenues		
Charges for services	\$ 1,304,602	\$ 1,325,788
Operating grants and contributions	2,966,610	2,056,838
General revenues		
Property taxes	12,897,933	13,987,851
Sales taxes	5,616,980	5,559,998
Mixed drink tax	17,833	10,666
Payments in lieu of taxes	220,509	226,221
Business tax	1,472	1,923
Wheel tax	503,669	1,222,831
Grants and contributions not restricted to specific programs:		
Basic Education Program	20,930,427	21,654,485
Other	235,220	118,099
Insurance recovery	123,533	9,683
Other miscellaneous revenues	1,726,118	1,657,607
Total revenues	<u>46,544,906</u>	<u>47,831,990</u>
Expenses		
Instruction	24,707,241	23,633,711
Support services	15,492,760	13,308,942
Non-instructional services	1,086,631	3,739,521
Total expenses	<u>41,286,632</u>	<u>40,682,174</u>
Increase (decrease) in net position before transfers and contributed capital	5,258,274	7,149,816
Transfers from the Town of Arlington	<u>657,581</u>	<u>494,150</u>
Increase (decrease) in net position after transfers	5,915,855	7,643,966
Net position, beginning	107,131,936	99,487,970
Prior period adjustment	(3,108,448)	-
Net position, beginning restated	<u>104,023,488</u>	<u>99,487,970</u>
Net position, ending	<u>\$ 109,939,343</u>	<u>\$ 107,131,936</u>

Governmental activities

Total governmental activities' revenue for the fiscal year was \$46.5 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 \$40.8 million in revenues and \$38.8 million in expenditures. The non-major governmental funds had \$3.8 million in revenues, and \$3.7 million in expenditures. Major funding for these funds was provided by federal and state funds.

	<u>June 30, 2018</u>	<u>Percent</u>
Revenues		
Program revenues		
Charges for services	\$ 1,304,602	2.80%
Operating grants and contributions	2,966,610	6.37%
General revenues		
Property taxes	12,897,933	27.71%
Sales taxes	5,616,980	12.07%
Mixed drink tax	17,833	0.04%
Payments in lieu of taxes	220,509	0.47%
Business tax	1,472	0.00%
Wheel tax	503,669	1.08%
Grants and contributions not restricted to specific programs:		
Basic Education Program	20,930,427	44.97%
Other	235,220	0.51%
Insurance recovery	123,533	0.27%
Other miscellaneous revenues	<u>1,726,118</u>	<u>3.71%</u>
Total revenues	<u>\$ 46,544,906</u>	<u>100%</u>

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, 2018, the System's governmental funds reported combined fund balances of \$19,965,971. Approximately 93.8% of this amount \$18,719,980 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 \$47,645, 2) legally required to be maintained intact \$0, 3) restricted for particular purposes \$1,198,346, 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 \$18,719,980.

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 48.2% of the total general purpose fund expenditures, while total fund balances represents 51.4% 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, 2018			
General Purpose Fund			
Revenues	Original	Final	Difference
Taxes	\$ 18,913,676	\$ 18,913,676	\$ -
State revenues	20,447,716	20,988,256	540,540
Other local revenues	676,577	704,477	27,900
Total revenues	<u>40,037,969</u>	<u>40,606,409</u>	<u>568,440</u>
Expenditures			
Instruction	23,254,861	23,768,535	513,674
Support services	14,549,861	15,028,117	478,256
Non-instructional services	2,244,000	4,633,684	2,389,684
Total expenditures	<u>40,048,722</u>	<u>43,430,336</u>	<u>3,381,614</u>
Other financing sources (uses):			
Town appropriations	33,131	33,131	-
Transfers from (to) other funds	<u>(22,378)</u>	<u>(22,378)</u>	<u>-</u>
Total other financing sources (uses)	<u>10,753</u>	<u>10,753</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (2,813,174)</u>	<u>\$ (2,813,174)</u>

Over the course of the year, the System revised its budget several times. The System planned to use \$2.8 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 Tennessee Department of Education. The amendment also included the cost of a gymnasium at Arlington Middle School.

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

June 30, 2018			
General Purpose Fund			
Revenues	<u>Final Budget</u>	<u>Actual</u>	<u>Difference</u>
Taxes	\$ 18,913,676	\$ 19,023,785	\$ 110,109
State revenues	20,988,256	21,051,564	63,308
Other local revenues	704,477	732,365	27,888
Total revenues	<u>40,606,409</u>	<u>40,807,714</u>	<u>201,305</u>
Expenditures			
Instruction	23,768,535	21,970,785	1,797,750
Support services	15,028,117	13,639,882	1,388,235
Non-instructional services	4,633,684	3,232,195	1,401,489
Total expenditures	<u>43,430,336</u>	<u>38,842,862</u>	<u>4,587,474</u>
Other financing sources (uses):			
Town appropriations	33,131	560,612	527,481
Transfers from (to) other funds	(22,378)	96,969	119,347
Total other financing sources (uses)	<u>10,753</u>	<u>657,581</u>	<u>646,828</u>
Net change in fund balance	<u>\$ (2,813,174)</u>	<u>\$ 2,622,433</u>	<u>\$ 5,435,607</u>

Arlington Community Schools began its operations during the 2014-2015 fiscal year; the 2017-2018 fiscal year is the System's fourth 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. Additional medical insurance contribution may be 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, 2018, amounts to \$91.1 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, 2018 included the completion of construction of the district's central office.

	<u>June 30, 2018</u>
Land	\$ 1,996,500
Construction in progress	811,590
Buildings and improvements (net of accumulated depreciation)	83,648,949
Furniture and fixtures (net of accumulated depreciation)	193,753
Machinery and equipment (net of accumulated depreciation)	4,388,415
Other capital assets (net of accumulated depreciation)	<u>131,369</u>
Total capital assets	91,170,576
Long-term debt related to capital assets	-
Net investment in capital assets	<u><u>\$ 91,170,576</u></u>

Long-term debt As of June 30, 2018, the System had total debt outstanding of \$6.97 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, and other postemployment benefits (OPEB).

	<u>June 30, 2018</u>
Notes payable to Shelby County School System	\$ 2,666,664
Less: Deferred amount for discount	(226,778)
OPEB	4,324,963
Compensated absences	<u>201,449</u>
	<u><u>\$ 6,966,298</u></u>

Economic Factors and Next Year's Budget

Fiscal Year 2017-18 represents the System's fourth 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 9-12, and non-resident students. 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 2018-2019 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, 2018

ASSETS

Cash and cash equivalents	\$ 20,986,345
Accounts receivable	35,685
Due from other governments	3,791,507
Due from other governments - grants	238,778
Inventory	14,088
Prepaid expenses	39,566
Net pension asset	533,297
Capital assets, not being depreciated	2,808,090
Capital assets, being depreciated, net	88,362,486
Total assets	<u>116,809,842</u>

DEFERRED OUTFLOWS OF RESOURCES

Related to pension	6,874,426
Related to OPEB	276,511
Total deferred outflows of resources	<u>7,150,937</u>

LIABILITIES

Accounts payable	1,052,230
Other accrued expenses	262,534
Accrued payroll and expenses	1,526,549
Unearned revenue	29,924
Noncurrent Liabilities:	
Due within one year	333,333
Due in more than one year	2,308,002
Net OPEB obligation	4,324,963
Total liabilities	<u>9,837,535</u>

DEFERRED INFLOWS OF RESOURCES

Related to pension	3,646,320
Related to OPEB	537,581
Total deferred inflows of resources	<u>4,183,901</u>

NET POSITION

Net investment in capital assets	91,170,576
Restricted for:	
Net pension asset	533,297
Capital outlay	956,461
Inventory	14,088
Unrestricted	17,264,921
Total net position	<u>\$ 109,939,343</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, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Instruction:				
Regular education	\$ 20,160,736	\$ 564,003	\$ 1,472,889	\$ (18,123,844)
Alternate education	217,910	-	-	(217,910)
Special education	2,987,333	-	857,580	(2,129,753)
Vocational education	1,341,262	-	320,897	(1,020,365)
Support Services:				
Attendance	380,583	-	-	(380,583)
Health services	244,646	-	-	(244,646)
Other student support	1,299,246	-	-	(1,299,246)
Regular education	1,991,538	-	-	(1,991,538)
Special education	716,058	-	-	(716,058)
Vocational education	158,310	-	-	(158,310)
Board of Education	1,444,150	-	-	(1,444,150)
Office of Director of Schools	579,691	-	-	(579,691)
Office of Principals	2,759,136	-	-	(2,759,136)
Fiscal Services	530,856	-	-	(530,856)
Human services/personnel	262,888	-	-	(262,888)
Operation and maintenance of plant	2,736,342	-	-	(2,736,342)
Student transportation	1,169,755	-	-	(1,169,755)
Central and other transportation	286,523	-	-	(286,523)
Education technology	933,038	-	-	(933,038)
Noninstructional Services:				
Food service	1,031,763	740,599	315,244	24,080
Interest on long-term debt	54,868	-	-	(54,868)
	<u>41,286,632</u>	<u>1,304,602</u>	<u>2,966,610</u>	<u>(37,015,420)</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, 2018

	Net (Expenses) Revenues and Changes in Net Position
General Revenues:	
Property taxes	12,897,933
Sales taxes	5,616,980
Mixed drink tax	17,833
Payments in lieu of taxes	220,509
Business tax	1,472
Wheel tax	503,669
Grants and Contributions Not Restricted to Specific Programs:	
Basic Education Program	20,930,427
Other	235,220
Insurance recovery	123,533
Other miscellaneous revenues	1,726,118
Total general revenues	42,273,694
 Change in net position before transfers and contributed capital	5,258,274
 Transfers from Town of Arlington	657,581
 Change in net position	5,915,855
 Net position, beginning, as previously reported	107,131,936
Effect of change in accounting principle	(3,108,448)
Net position, beginning, as restated	104,023,488
Net position, ending	\$ 109,939,343

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

ARLINGTON COMMUNITY SCHOOL SYSTEM

**BALANCE SHEET –
GOVERNMENTAL FUNDS**

June 30, 2018

	<u>General Purpose Fund</u>	<u>Education Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 19,354,294	\$ 1,359,080	\$ 272,971	\$ 20,986,345
Accounts receivable	35,685	-	-	35,685
Inventory	-	-	14,088	14,088
Prepaid expense	33,557	-	-	33,557
Due from other governmental agencies	2,927,242	863,807	458	3,791,507
Due from other funds	149,214	-	-	149,214
Due from other governments - grants	-	-	238,778	238,778
Total assets	<u>\$ 22,499,992</u>	<u>\$ 2,222,887</u>	<u>\$ 526,295</u>	<u>\$ 25,249,174</u>
LIABILITIES				
Accounts payable	\$ 605,559	\$ 402,619	\$ 38,043	\$ 1,046,221
Accrued payroll	1,473,408	-	53,141	1,526,549
Other accrued payables	262,534	-	-	262,534
Due to other funds	-	-	149,214	149,214
Unearned revenue	-	-	29,924	29,924
Total liabilities	<u>2,341,501</u>	<u>402,619</u>	<u>270,322</u>	<u>3,014,442</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	<u>1,404,954</u>	<u>863,807</u>	<u>-</u>	<u>2,268,761</u>
FUND BALANCES				
Nonspendable				
Inventory	-	-	14,088	14,088
Prepaid expenses	33,557	-	-	33,557
Restricted				
Capital projects	-	956,461	-	956,461
School nutrition	-	-	241,885	241,885
Unassigned	18,719,980	-	-	18,719,980
Total fund balances	<u>18,753,537</u>	<u>956,461</u>	<u>255,973</u>	<u>19,965,971</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 22,499,992</u>	<u>\$ 2,222,887</u>	<u>\$ 526,295</u>	<u>\$ 25,249,174</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, 2018

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

Total governmental fund balances	\$ 19,965,971
Capital assets used in governmental funds are not financial resources and, therefore, are not reported as assets in governmental funds.	91,170,576
Net pension asset is not a financial resource in the current period and, therefore, is not reported an asset in governmental funds	533,297
Revenue not available to pay for current expenditures and, therefore, are deferred in the funds.	2,268,761
Deferred outflows of resources related to pensions and OPEB in which the consumption of net position will occur in future periods, therefore, it is not reported in the funds	7,150,937
Deferred inflows of resources related to pensions and OPEB in which the acquisition of net position will occur in future periods, therefore, it is not reported in the funds	(4,183,901)
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>(6,966,298)</u>
Net position of governmental activities	<u>\$ 109,939,343</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, 2018

	General Purpose Fund	Education Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$ 19,023,785	\$ -	\$ -	\$ 19,023,785
Intergovernmental	21,051,564	-	3,080,693	24,132,257
Charges for services	564,003	-	740,599	1,304,602
Other local revenues	44,829	817,482	-	862,311
Insurance recovery	123,533	-	-	123,533
Total revenues	<u>40,807,714</u>	<u>817,482</u>	<u>3,821,292</u>	<u>45,446,488</u>
Expenditures				
Instruction	21,970,785	-	1,860,773	23,831,558
Support services	13,639,882	-	807,707	14,447,589
Food services	-	-	1,031,763	1,031,763
Non-instructional services	3,232,195	432,919	-	3,665,114
Capital outlay	-	989,695	-	989,695
Total expenditures	<u>38,842,862</u>	<u>1,422,614</u>	<u>3,700,243</u>	<u>43,965,719</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,964,852</u>	<u>(605,132)</u>	<u>121,049</u>	<u>1,480,769</u>
Other financing sources (uses):				
City appropriations	560,612	-	-	560,612
Transfers from (to) other funds	96,969	-	(96,969)	-
Total other financing sources and uses	<u>657,581</u>	<u>-</u>	<u>(96,969)</u>	<u>560,612</u>
Net change in fund balances	<u>2,622,433</u>	<u>(605,132)</u>	<u>24,080</u>	<u>2,041,381</u>
Fund balances - beginning	<u>16,131,104</u>	<u>1,561,593</u>	<u>231,893</u>	<u>17,924,590</u>
Fund balances - ending	<u>\$ 18,753,537</u>	<u>\$ 956,461</u>	<u>\$ 255,973</u>	<u>\$ 19,965,971</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, 2018

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

Net change in fund balance - total governmental funds		\$ 2,041,381
Expenses on the statement of activities that are not current financial uses are not reported as expenses in governmental funds.		
Change in compensated absences		1,295
Payments of contributions to the pension plans and OPEB plan are recorded as expenditures in the governmental funds. Pension expense and OPEB expense are recorded on an actuarially determined basis in the statement of activities.		
Difference between actual contributions and pension expense	692,328	
Difference between actual contributions and OPEB expense	44,139	736,467
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		1,098,418
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	(54,868)	278,465
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	4,504,115	
Depreciation expense	(2,744,286)	1,759,829
Change in net position of governmental activities		\$ 5,915,855

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, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes				
Current property tax	\$ 13,293,061	\$ 13,293,061	\$ 12,656,521	\$ (636,540)
Prior years property tax	344,807	344,807	374,559	29,752
Payments in lieu of taxes	246,262	246,262	220,509	(25,753)
Local option sales tax	3,874,170	3,874,170	5,249,222	1,375,052
Business tax	5,270	5,270	1,472	(3,798)
Mixed drink tax	10,000	10,000	17,833	7,833
Wheel tax	1,140,106	1,140,106	503,669	(636,437)
Total taxes	<u>18,913,676</u>	<u>18,913,676</u>	<u>19,023,785</u>	<u>110,109</u>
Intergovernmental:				
State Education Funds				
Basic Education Program	20,334,624	20,753,000	20,816,344	63,344
Other state education funds	24,408	24,408	33,021	8,613
CTE Equipment	-	122,164	122,164	-
Career ladder program	88,684	88,684	80,035	(8,649)
Total state revenues	<u>20,447,716</u>	<u>20,988,256</u>	<u>21,051,564</u>	<u>63,308</u>
Charges for services	602,977	602,977	564,003	(38,974)
Other local revenues	-	-	44,829	44,829
Insurance recovery	73,600	101,500	123,533	22,033
	<u>676,577</u>	<u>704,477</u>	<u>732,365</u>	<u>27,888</u>
Total revenues	<u>40,037,969</u>	<u>40,606,409</u>	<u>40,807,714</u>	<u>201,305</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, 2018

	<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	13,856,030	14,115,650	13,457,454	658,196
Career ladder program	50,000	50,000	45,000	5,000
Educational assistants	146,440	148,440	145,815	2,625
Other salaries and wages	50,000	115,000	96,078	18,922
Social security	892,166	896,066	824,321	71,745
State retirement	-	-	1,256,387	(1,256,387)
Life insurance	95,241	95,241	40,681	54,560
Medical insurance	1,654,159	1,334,059	1,218,959	115,100
Medicare	208,652	209,652	193,642	16,010
Maintenance and repair	23,000	23,000	11,892	11,108
Other contracted services	20,000	20,000	6,129	13,871
Instructional supplies and materials	282,604	339,304	269,656	69,648
Textbooks	320,000	135,000	105,914	29,086
Other supplies and materials	20,000	16,802	16,640	162
Other charges	17,850	202,850	124,686	78,164
Equipment	415,000	619,148	563,604	55,544
Fee waivers	10,000	10,000	10,000	-
Pension expense	1,426,106	1,486,606	1,253	1,485,353
Band music	1,500	1,500	1,500	-
Substitute teachers	287,300	297,400	296,990	410
Total regular education	<u>19,776,048</u>	<u>20,115,718</u>	<u>18,686,601</u>	<u>1,429,117</u>
Alternative Instruction:				
Teachers	149,367	150,867	148,871	1,996
Homebound teachers	47,587	47,587	12,182	35,405
Social security	12,428	12,528	9,748	2,780
State retirement	13,563	13,903	13,754	149
Life insurance	1,423	1,423	445	978
Medical insurance	22,697	21,497	11,306	10,191
Medicare	2,907	2,937	2,289	648
Other charges	1,250	1,250	599	651
Other supplies and materials	1,500	1,500	1,009	491
Other equipment	300	300	270	30
Teacher discretionary	400	400	400	-
Career ladder program	-	1,000	1,000	-
Contracts substitute teachers	3,500	3,500	1,378	2,122
Total alternative instruction	<u>256,922</u>	<u>258,692</u>	<u>203,251</u>	<u>55,441</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, 2018

	<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	1,156,933	1,251,683	1,203,939	47,744
Career ladder program	1,000	1,000	1,000	-
Homebound teachers	47,587	47,587	2,331	45,256
Educational assistants	234,059	241,059	181,457	59,602
Speech pathologist	127,896	133,896	128,396	5,500
Other salaries and wages	67,738	81,488	-	81,488
Social Security	112,983	118,433	91,143	27,290
State retirement	-	-	135,341	(135,341)
Life insurance	11,960	12,660	4,515	8,145
Medical insurance	218,720	175,220	153,890	21,330
Medicare	23,219	24,319	21,382	2,937
Maintenance and repair - equipment	3,000	3,000	275	2,725
Contracts with other schools	10,000	10,000	-	10,000
Other contracted services	106,000	106,000	77,697	28,303
Contracts substitute teachers	33,800	41,300	40,897	403
Instructional supplies and materials	91,000	44,500	32,433	12,067
Special education equipment	10,000	10,000	6,018	3,982
Total special education	<u>2,255,895</u>	<u>2,302,145</u>	<u>2,080,714</u>	<u>221,431</u>
Vocational Education:				
Teachers	713,808	717,058	661,374	55,684
Career ladder program	4,000	4,000	4,000	-
Social Security	45,552	45,772	40,460	5,312
State retirement	66,711	67,011	59,726	7,285
Life insurance	4,906	4,906	1,879	3,027
Medical insurance	82,536	80,136	62,954	17,182
Medicare	10,653	10,703	9,492	1,211
Instructional supplies and materials	5,930	5,930	5,878	52
Other supplies and materials	4,000	4,000	3,751	249
Special education equipment	10,000	132,164	131,541	623
Substitute teachers	16,900	19,300	18,175	1,125
STEM	1,000	1,000	989	11
Total vocational education	<u>965,996</u>	<u>1,091,980</u>	<u>1,000,219</u>	<u>91,761</u>
Total instruction	<u>23,254,861</u>	<u>23,768,535</u>	<u>21,970,785</u>	<u>1,797,750</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, 2018

	<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	132,121	132,871	132,621	250
Career ladder program	4,000	4,000	-	4,000
Clerical personnel	21,110	21,360	19,655	1,705
Other salaries and wages	803,116	816,466	69,518	746,948
Social Security	50,042	50,312	13,074	37,238
State retirement	73,286	75,136	19,316	55,820
Life insurance	5,547	5,547	662	4,885
Medical insurance	103,170	84,440	21,401	63,039
Medicare	14,907	15,187	3,057	12,130
Travel	700	1,250	831	419
Other contracted services	66,662	66,662	54,618	12,044
Other supplies and materials	6,000	4,900	4,863	37
In-services/staff development	14,000	14,000	12,914	1,086
Other charges	600	600	557	43
Attendance equipment	1,400	1,950	1,894	56
Total attendance	<u>1,296,661</u>	<u>1,294,681</u>	<u>354,981</u>	<u>939,700</u>
Education Technology:				
Personnel Wages	92,437	92,687	91,176	1,511
Supervisor/Director	69,718	69,968	69,968	-
Social Security	10,054	10,094	9,590	504
Pensions	11,999	14,049	13,433	616
Life insurance	1,115	1,115	477	638
Medical insurance	16,095	16,095	12,068	4,027
Medicare	2,351	2,361	2,243	118
Capital outlay	200,040	286,540	211,490	75,050
Other charges	872,551	872,551	657,090	215,461
Total education technology	<u>1,276,360</u>	<u>1,365,460</u>	<u>1,067,535</u>	<u>297,925</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, 2018

	<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	-	-	160,240	(160,240)
Social Security	-	-	9,154	(9,154)
State retirement	-	-	13,776	(13,776)
Life insurance	-	-	491	(491)
Medical insurance	27,512	23,512	20,941	2,571
Medicare	-	-	2,141	(2,141)
Other contracted services	13,000	17,847	16,298	1,549
Other supplies and materials	2,000	288	288	-
In-service/staff development	750	694	694	-
Other charges	1,000	435	435	-
Health equipment	2,500	2,500	2,500	-
Drugs and medical supplies	1,600	1,236	1,231	5
Total health services	<u>48,612</u>	<u>46,512</u>	<u>228,189</u>	<u>(181,677)</u>
Other Student Support:				
Career ladder program	-	-	4,000	(4,000)
Guidance personnel	-	-	634,202	(634,202)
Clerical personnel	13,793	13,793	13,793	-
Other salaries and wages	151,105	150,050	139,630	10,420
Social workers	55,193	62,943	62,768	175
Social Security	13,646	14,246	51,150	(36,904)
State retirement	18,825	20,725	78,050	(57,325)
Life insurance	1,512	1,512	2,541	(1,029)
Medical insurance	12,587	13,892	57,428	(43,536)
Medicare	3,191	3,391	11,962	(8,571)
Evaluation and testing	60,000	67,000	59,418	7,582
Travel	250	250	15	235
Other supplies and materials	5,000	5,000	4,981	19
In-service/staff development	7,000	7,000	6,918	82
Other equipment	5,000	5,000	4,963	37
Total other student support	<u>347,102</u>	<u>364,802</u>	<u>1,131,819</u>	<u>(767,017)</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, 2018

	<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	286,224	287,224	286,974	250
Career ladder program	5,000	5,000	4,500	500
Librarians	332,145	338,395	338,017	378
Instructional computer personnel	181,360	180,610	170,851	9,759
Clerical personnel	21,110	21,110	19,405	1,705
In-service training	26,000	26,000	19,313	6,687
Social Security	57,773	58,445	54,396	4,049
State retirement	84,255	85,655	83,542	2,113
Life insurance	6,192	5,517	2,642	2,875
Medical insurance	83,636	73,002	72,163	839
Medicare	13,511	13,688	12,722	966
Travel	1,200	200	-	200
Other contracted services	7,000	-	-	-
Library books	24,954	25,129	24,970	159
Other supplies and materials	9,000	9,000	8,025	975
In-service/staff development	54,000	72,500	60,906	11,594
Other charges	10,000	10,500	8,873	1,627
Other equipment	8,000	9,000	8,121	879
Consultants	10,000	10,000	6,210	3,790
Other salaries and wages	79,986	87,161	81,156	6,005
Total regular education	1,301,346	1,318,136	1,262,786	55,350
Special Education:				
Supervisor/director	94,350	94,600	94,600	-
Career ladder program	1,000	1,000	1,000	-
Psychological personnel	156,430	156,930	152,511	4,419
Secretary	14,211	14,461	14,461	-
Other salaries and wages	57,813	63,063	62,668	395
Social Security	20,181	20,261	19,119	1,142
State retirement	26,535	42,790	29,707	13,083
Life insurance	2,219	2,219	958	1,261
Medical insurance	29,851	24,716	24,645	71
Medicare	4,720	4,740	4,471	269
Travel	1,500	1,500	130	1,370
Other contracted services	201,000	185,000	170,684	14,316
Other supplies and materials	11,000	11,000	10,978	22
In-service/staff development	11,700	11,700	7,213	4,487
Other charges	300	300	299	1
Other equipment	2,000	2,000	655	1,345
Total special education	634,810	636,280	594,099	42,181

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, 2018

	<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	94,600	94,600	-
Career ladder program	1,000	1,000	1,000	-
Social Security	6,767	6,787	6,401	386
State retirement	9,678	9,978	9,922	56
Life insurance	743	568	325	243
Medical insurance	9,148	11,648	11,605	43
Medicare	1,583	1,593	1,497	96
Travel	1,000	1,000	147	853
Other supplies and materials	1,000	1,000	855	145
Secretary	13,793	13,793	13,793	-
In-service/staff development	500	400	-	400
Total vocational education	<u>139,562</u>	<u>142,367</u>	<u>140,145</u>	<u>2,222</u>
 Total instructional staff	 <u>2,075,718</u>	 <u>2,096,783</u>	 <u>1,997,030</u>	 <u>99,753</u>
General Administration:				
Board of Education Services				
Board and committee member fees	18,972	18,972	18,678	294
Social Security	2,223	2,223	2,172	51
Life insurance	8,071	8,071	953	7,118
Medical insurance	573,031	573,031	566,090	6,941
Medicare	520	520	508	12
Audit services	35,000	35,000	29,100	5,900
Dues and memberships	10,000	10,000	9,509	491
Legal services	30,000	30,000	-	30,000
Travel	250	250	-	250
Other supplies and materials	1,000	1,000	824	176
Liability insurance	38,700	38,700	33,842	4,858
Workmen's compensation insurance	80,000	90,651	90,650	1
In-service/staff development	8,000	16,500	12,822	3,678
Other charges	335,000	335,000	908	334,092
Secretary	16,880	16,880	16,880	-
State retirement	1,249	1,249	1,249	-
Other contracted services	1,500	6,500	5,900	600
Judgements	200,000	184,387	-	184,387
Trustee commissions	325,000	325,000	305,096	19,904
Total board of education services	<u>1,685,396</u>	<u>1,693,934</u>	<u>1,095,181</u>	<u>598,753</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, 2018

	<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	160,000	161,850	161,833	17
Career ladder program	2,000	3,000	3,000	-
Secretary	97,544	98,044	98,044	-
Social Security	25,840	26,072	21,723	4,349
State retirement	33,563	33,904	33,890	14
Life insurance	4,011	4,011	1,529	2,482
Medical insurance	25,449	26,949	26,705	244
Dental insurance	1,000	1,000	930	70
Medicare	6,044	6,104	6,088	16
Other fringe benefits	400	400	399	1
Dues and membership	4,500	4,500	4,464	36
Postal charges	700	700	-	700
Travel	1,000	1,000	422	578
Office supplies	11,000	11,000	7,124	3,876
In-service/staff development	10,000	10,000	4,155	5,845
Other charges	6,100	19,225	12,904	6,321
Administration equipment	2,000	2,000	-	2,000
Other salaries and wages	157,235	157,485	157,485	-
Total director of schools	<u>548,386</u>	<u>567,244</u>	<u>540,695</u>	<u>26,549</u>
Total general administration	<u>2,233,782</u>	<u>2,261,178</u>	<u>1,635,876</u>	<u>625,302</u>
School Administration:				
Office of the Principal:				
Principals	525,340	539,590	537,779	1,811
Career ladder program	8,000	8,000	7,500	500
Assistant principals	870,305	873,555	873,358	197
Secretaries	160,993	162,243	159,892	2,351
Clerical personnel	466,588	474,588	473,995	593
Social Security	125,936	126,536	121,236	5,300
State retirement	173,724	177,224	174,339	2,885
Life insurance	13,838	13,838	6,056	7,782
Medical insurance	247,608	227,508	174,356	53,152
Medicare	29,453	29,603	28,353	1,250
Travel	500	500	82	418
In-service/staff development	3,000	3,000	1,580	1,420
Other charges	15,000	15,000	15,000	-
Total school administration	<u>2,640,285</u>	<u>2,651,185</u>	<u>2,573,526</u>	<u>77,659</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, 2018

	<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	110,735	110,985	110,985	-
Accountants/bookkeepers	56,265	56,515	44,799	11,716
Social Security	17,810	18,310	14,902	3,408
State retirement	21,257	22,057	20,604	1,453
Life insurance	1,975	1,975	754	1,221
Medical insurance	28,681	28,681	22,097	6,584
Medicare	4,165	4,315	3,485	830
Dues and memberships	3,575	3,575	2,469	1,106
Travel	1,000	1,000	161	839
Other contracted services	127,080	127,080	126,577	503
Other supplies	3,000	3,000	2,796	204
Other supplies and materials	1,550	1,550	650	900
In-service/staff development	21,000	31,000	29,100	1,900
Other charges	8,500	8,500	4,280	4,220
Equipment	8,100	15,100	13,519	1,581
Purchasing personnel	37,131	39,881	39,683	198
Clerical personnel	55,420	45,670	31,000	14,670
Other salaries and wages	27,710	32,085	27,284	4,801
Total fiscal services	<u>534,954</u>	<u>551,279</u>	<u>495,145</u>	<u>56,134</u>
Human services/personnel:				
Secretary(s)	56,265	56,515	56,515	-
Social Security	6,330	6,550	6,502	48
State retirement	7,555	9,350	9,168	182
Life insurance	702	702	339	363
Medical insurance	10,317	11,117	11,051	66
Unemployment Compensation	10,000	8,900	7,833	1,067
Medicare	1,480	1,590	1,520	70
Dues and memberships	500	500	275	225
Travel	200	200	-	200
Other contracted services	92,453	92,453	87,367	5,086
Office supplies	1,000	1,000	996	4
In-service/staff development	15,000	9,200	6,680	2,520
Equipment	2,000	3,963	1,963	2,000
Data processing supplies	500	500	-	500
Supervisor/Director	-	45,829	45,828	1
Other salaries and wages	-	10,000	9,166	834
Total human services/personnel	<u>204,302</u>	<u>258,369</u>	<u>245,203</u>	<u>13,166</u>
Total business administration	<u>739,256</u>	<u>809,648</u>	<u>740,348</u>	<u>69,300</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, 2018

	<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	242,180	243,430	243,009	421
Other salaries and wages	15,000	15,000	9,247	5,753
Social Security	15,945	16,025	14,399	1,626
State retirement	19,031	21,156	20,182	974
Life insurance	1,665	1,665	731	934
Medical insurance	34,390	32,532	31,530	1,002
Medicare	3,729	3,749	3,367	382
Janitorial services	596,368	631,568	624,739	6,829
Travel	500	574	134	440
Other contracted services	70,000	70,000	52,269	17,731
Custodial supplies	11,735	12,566	10,985	1,581
Electricity	750,000	780,991	717,632	63,359
Other supplies and materials	1,000	1,000	-	1,000
Building and content insurance	80,000	81,431	81,431	-
Other charges	200	200	112	88
Plant operation equipment	7,500	6,595	5,267	1,328
Total operation of plant	<u>1,849,243</u>	<u>1,918,482</u>	<u>1,815,034</u>	<u>103,448</u>
Maintenance of Plant:				
Supervisor/director	88,964	94,214	90,332	3,882
Secretary(s)	41,796	42,046	35,134	6,912
Maintenance personnel	247,061	251,081	249,943	1,138
Social Security	23,425	23,725	22,360	1,365
State retirement	27,959	32,509	31,587	922
Life insurance	2,597	2,637	1,144	1,493
Medical insurance	41,268	26,826	26,112	714
Medicare	5,478	5,548	5,229	319
Maintenance and repair - buildings	160,000	167,500	163,872	3,628
Maintenance and repair - equipment	4,000	4,000	1,536	2,464
Travel	1,000	1,000	102	898
Other contracted services	13,500	13,500	13,255	245
Gasoline	15,000	15,000	12,825	2,175
Other supplies and materials	2,000	2,000	1,945	55
In-service/staff development	2,500	2,500	413	2,087
Other charges	1,200	1,200	826	374
Administration equipment	5,000	69,500	67,941	1,559
Maintenance equipment	10,000	10,000	9,211	789
Maintenance and repair - vehicle	8,000	8,000	3,465	4,535
Total maintenance of plant	<u>700,748</u>	<u>772,786</u>	<u>737,232</u>	<u>35,554</u>
Total operation and maintenance of plant	<u>2,549,991</u>	<u>2,691,268</u>	<u>2,552,266</u>	<u>139,002</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, 2018

	<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	56,625	56,625	56,625	-
Contracts with other private agencies	757,920	769,920	756,839	13,081
Other contracted services	206,964	206,964	150,810	56,154
Diesel fuel	113,000	133,000	126,790	6,210
Total student transportation	<u>1,134,509</u>	<u>1,166,509</u>	<u>1,091,064</u>	<u>75,445</u>
Central and other transportation:				
Supervisor/director	127,500	127,750	127,750	-
Other salaries and wages	-	47,760	47,464	296
Social Security	7,905	10,605	10,407	198
State retirement	11,577	15,907	15,872	35
Life insurance	876	1,376	495	881
Medical insurance	6,878	14,787	14,593	194
Medicare	1,849	2,479	2,434	45
Other contracted services	14,500	14,500	12,240	2,260
Office supplies	3,000	3,000	2,649	351
In-service/staff development	10,000	12,350	6,060	6,290
Other charges	2,500	4,537	2,281	2,256
Administrative equipment	1,000	5,040	5,027	13
Other equipment	20,000	20,000	19,976	24
Total central and other transportation	<u>207,585</u>	<u>280,091</u>	<u>267,248</u>	<u>12,843</u>
Total transportation	<u>1,342,094</u>	<u>1,446,600</u>	<u>1,358,312</u>	<u>88,288</u>
Total support services	<u>14,549,861</u>	<u>15,028,117</u>	<u>13,639,882</u>	<u>1,388,235</u>
Non-instructional services:				
Regular capital outlay:				
Engineering services	20,000	436,537	249,228	187,309
Architects	200,000	28,000	24,268	3,732
Building improvements	1,103,280	1,405,929	1,355,619	50,310
Consultants	20,000	20,000	15,925	4,075
Other capital outlay	766,720	2,447,418	992,652	1,454,766
Other contracted services	134,000	295,800	261,170	34,630
Total regular capital outlay	<u>2,244,000</u>	<u>4,633,684</u>	<u>2,898,862</u>	<u>1,734,822</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, 2018

	<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	-	-	333,333	(333,333)
Total non-instructional services	2,244,000	4,633,684	3,232,195	1,401,489
Total expenditures	40,048,722	43,430,336	38,842,862	4,587,474
Excess (deficiency) of revenues over (under) expenditures	(10,753)	(2,823,927)	1,964,852	4,788,779
Other financing sources (uses):				
Town appropriations	33,131	33,131	560,612	527,481
Transfers from (to) other funds	(22,378)	(22,378)	96,969	119,347
Total other financing sources (uses)	10,753	10,753	657,581	646,828
Net changes in fund balance	\$ -	\$ (2,813,174)	2,622,433	\$ 5,435,607
Fund balance - beginning			16,131,104	
Fund balance - ending			\$ 18,753,537	

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

ARLINGTON COMMUNITY SCHOOL SYSTEM

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

	<u>Other Postemployment Benefits</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 29,579	\$ 1,047,518
Accounts receivable	500,000	
Inventory	-	13,738
Investments at fair value	<u>1,398,201</u>	<u>-</u>
Total assets	<u>\$ 1,927,780</u>	<u>\$ 1,061,256</u>
LIABILITIES		
Due to student general fund	\$ -	\$ 622,397
Due to student groups	<u>-</u>	<u>438,859</u>
Total liabilities	<u>\$ -</u>	<u>\$ 1,061,256</u>
NET POSITION		
Restricted for OPEB benefits	<u>\$ 1,927,780</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, 2018

	Other Postemployment Benefits
ADDITIONS	
Contributions	\$ 564,720
Investment earnings (losses):	
Interest and dividends	51,350
Net appreciation in fair value of investments	69,703
Total investment earnings	
Total additions	685,773
DEDUCTIONS	
Administrative expenses	70,624
Change in net position	615,149
Net position - beginning of the year	1,312,631
Net position - end of the year	\$ 1,927,780

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

ARLINGTON COMMUNITY SCHOOL SYSTEM

NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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 funds:

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 education capital projects fund is used to account for education capital project income and expenditures.

The System reports the following fiduciary funds:

Other Postemployment Benefit Fund – This fund accounts for the activities and accumulation of 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 purchase 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 System has qualifying items for reporting in this category. Deferred outflows of resources include those related to pension and other postemployment benefits.

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 System has qualifying items for reporting in this category. These items are amounts in the governmental funds that were receivable and measurable at year-end but were not available to finance expenditures for the current year. This includes unavailable revenue from taxes. In addition, deferred inflows of resources include those related to pensions and other postemployment benefits.

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 and Other Postemployment Benefits

The System maintains four defined benefit retirement plans sponsored by Tennessee Consolidated Retirement System and one defined benefit other postemployment benefit plan (“OPEB”) sponsored by the System.

For purposes of measuring the net pension and net OPEB asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position, and additions to/deductions from each plan’s fiduciary net position have been determined on the same basis as they are reported to the actuaries. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of each plan. Expenses of the plans, such as investment fees, trustee fees, and audit fees, are paid by the plans. However, certain administrative functions performed by employees of the System are not reimbursed by the plans. Investments, other than contracts, are reported at fair value. Investment income is recognized as earned.

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 Principle

The System implemented Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, required for fiscal periods beginning after June 15, 2018, in fiscal year 2018. This Statement improves accounting and financial reporting for postemployment benefits other than pensions. The implementation has been accounted for as a change in accounting principle with a prior year adjustment as determined by an actuary. The effect of this adjustment decreases net position for government activities on the statement of activities by \$3,108,448.

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	811,589
Buildings and improvements	90,678,601
Furniture and fixtures	342,163
Machinery and equipment	6,180,624
Other capital assets	170,258
	<u>100,179,735</u>
Less accumulated depreciation	(9,009,159)
Total capital assets, net of accumulated depreciation	<u>\$ 91,170,576</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	\$ 2,666,664
Less: Deferred amount for discount	(226,778)
OPEB	4,324,963
Compensated absences	201,449
	<u>\$ 6,966,298</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, 2018, expenditures did not exceeded appropriations in any fund.

C. Deficit fund balance

As of June 30, 2018, 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, 2018, all bank deposits were fully collateralized or insured.

Investments

The System administers another 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, 2018.

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, 2018.

Investments:	Level 1	Level 2	Level 3	Total
Mutual Funds				
Equity	\$ 886,908	\$ -	\$ -	\$ 886,908
Fixed Income	511,293	-	-	511,293
Total Investments	<u>\$ 1,398,201</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,398,201</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>
Ishares MSCI EAFE ETF	6.07%
Ishares S&P 500 Growth	5.95%
Oakmark	7.80%
Pioneer Bond Y	9.96%
Prudential Jennison Growth Z	7.75%
Prudential short term corp bd Z	13.92%
Vanguard Index FDS S&P	6.98%

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>Education Capital Projects Fund</u>	<u>School Nutrition Fund</u>	<u>Federal Projects Fund</u>	<u>Discretionary Grants Fund</u>	<u>Total</u>
Receivables:						
Accounts receivable	\$ 35,685	\$ -	\$ -	\$ -	\$ -	\$ 35,685
Due from other						
governmental agencies	2,927,242	863,807	-	458	-	3,791,507
Due from other governmental						
agencies - grants	-	-	488	223,740	14,550	238,778
Total receivables	<u>\$ 2,962,927</u>	<u>\$ 863,807</u>	<u>\$ 488</u>	<u>\$ 224,198</u>	<u>\$ 14,550</u>	<u>\$ 4,065,970</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, 2018, was as follows:

	Beginning Balance	Transfers/ Additions	Transfers/ Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,996,500	\$ -	\$ -	\$ 1,996,500
Construction in progress	1,506,668	4,228,091	(4,923,169)	811,590
Total capital assets, not being depreciated	<u>3,503,168</u>	<u>4,228,091</u>	<u>(4,923,169)</u>	<u>2,808,090</u>
Capital assets, being depreciated:				
Buildings and improvements	86,773,827	4,415,374	(510,600)	90,678,601
Machinery, furniture and equipment	5,510,786	1,324,517	(142,259)	6,693,044
Total capital assets, being depreciated	<u>92,284,613</u>	<u>5,739,891</u>	<u>(652,859)</u>	<u>97,371,645</u>
Accumulated depreciation:				
Buildings and improvements	(5,216,093)	(1,888,447)	74,888	(7,029,652)
Machinery and equipment	(1,160,941)	(855,839)	37,273	(1,979,507)
Total accumulated depreciation	<u>(6,377,034)</u>	<u>(2,744,286)</u>	<u>112,161</u>	<u>(9,009,159)</u>
Total capital assets, being depreciated, net	<u>85,907,579</u>	<u>2,995,605</u>	<u>(540,698)</u>	<u>88,362,486</u>
Total capital assets, net	<u>\$ 89,410,747</u>	<u>\$ 7,223,696</u>	<u>\$ (5,463,867)</u>	<u>\$ 91,170,576</u>

The System had outstanding commitments to contractors of \$3,180,000 at June 30, 201 for building construction.

Depreciation expense was charged to function/programs of the System as follows:

Instruction	\$ 1,584,594
Support services	<u>1,159,692</u>
	<u>\$ 2,744,286</u>

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, 2018, is as follows:

Receivable Fund	Payable Fund	Amount
General Purpose	Federal Projects	\$ 141,278
General Purpose	Discretionary Grants	7,936
		<u>\$ 149,214</u>

The following is a summary of transfers during the year ended June 30, 2018.

Transfers From	Transfers To	Amount
Town	General Purpose	\$ 560,612
Federal Projects	General Purpose	96,969
		<u>\$ 657,581</u>

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

E. Leases

Operating Leases

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, 2018, the balance outstanding was \$2,439,886. Future payments under the settlement agreement are as follows:

Year Ended June 30	Amount
2019	\$ 333,333
2020	333,333
2021	333,333
2022	333,333
2023	333,333
2024-2027	999,999
Total payments	2,666,664
Less amount representing interest	(226,778)
	<u>\$ 2,439,886</u>

Changes in long-term obligations

Long-term obligation activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Shelby County Board of Education settlement liability	\$ 2,999,997	\$ -	\$ (333,333)	\$ 2,666,664	\$ 333,333
Less deferred amount for issuance discount	(281,646)	-	54,868	(226,778)	-
Net OPEB liability	1,521,724	2,803,239	-	4,324,963	-
Net pension liability	3,169,249		(3,169,249)	-	-
Compensated absences	202,744	160,225	(161,520)	201,449	-
Total	<u>\$ 7,612,068</u>	<u>\$ 2,963,464</u>	<u>\$ (3,609,234)</u>	<u>\$ 6,966,298</u>	<u>\$ 333,333</u>

The general purpose fund is used to liquidate compensated absences, Shelby County Board of Education settlement 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	Deferred Inflows of Resources
Teacher Legacy Pension Plan	\$ 170,200	\$ 6,525,984	\$ 3,513,842
Hybrid Public Employee Retirement Plan	17,631	50,676	1,426
Legacy Public Employee Retirement Plan	262,109	187,105	119,853
Teacher Retirement Plan	83,357	110,661	11,199
	<u>\$ 533,297</u>	<u>\$ 6,874,426</u>	<u>\$ 3,646,320</u>

Teacher 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, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	10
Inactive employees entitled to but not yet receiving benefits	16
Active employees	67
	<u>93</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, 2018, the employer contributions for Arlington Community Schools BOE were \$161,257 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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent (<i>use only if COLA is provided</i>)

Mortality rates were based on the actual experience from the June 30, 2017 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actual assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes in assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		<u>100%</u>

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 7.25 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)

	Total Pension Liability (Asset)	Fiduciary Net Position	Liability (Asset)
Balance at 6/30/16	\$ 593,499	\$ 788,640	\$ (195,141)
Changes for the year:			
Service cost	258,233	-	258,233
Interest	63,315	-	63,315
Differences between expected and actual experience	(10,817)	-	(10,817)
Changes in Assumptions	29,540	-	29,540
Contributions - employer	-	183,342	(183,342)
Contributions - employees	-	123,880	(123,880)
Net investment income	-	105,712	(105,712)
Benefit payments, including refunds of employee contributions	(15,057)	(15,057)	-
Administrative expenses	-	(5,695)	5,695
Other changes	-	-	-
Net changes	<u>325,214</u>	<u>392,182</u>	<u>(66,968)</u>
Balance at 6/30/17	<u>\$ 918,713</u>	<u>\$ 1,180,822</u>	<u>\$ (262,109)</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 7.25 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 (6.25 percent) or 1-percentage-point higher (8.25 percent) than the current rate:

	1% Decrease 6.25	Discount 7.25	1% Increase 8.25
Arlington Community BOE's proportionate share of the net pension liability (asset)	\$ (110,935)	\$ (262,109)	\$ (385,690)

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

Pension expense. For the year ended June 30, 2018, Arlington Community School System recognized pension expense of \$121,491.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, 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	\$ -	\$ 111,833
Net difference between projected and actual earnings on pension plan investments	-	8,020
Changes in Assumptions	25,848	-
Contributions subsequent to the measurement date of June 30, 2017	161,257	-
Total	\$ 187,105	\$ 119,853

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2017,” 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:	
2019	\$ (11,980)
2020	\$ (11,980)
2021	\$ (13,743)
2022	\$ (19,447)
2023	\$ (12,283)
Thereafter	\$ (24,566)

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, 2018, 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, 2018.

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, 2017, the following employees were covered by the benefit terms:

Employees covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	3
Active employees	<u>27</u>
	<u><u>30</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, 2018, employer contributions for Arlington Community Schools were \$50,676 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 Liabilities (Assets), Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension liabilities (assets). Arlington Community Schools' net pension liability (asset) was measured as of June 30, 2017, and the total pension liability used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods including in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent (<i>use only if COLA is provided</i>)

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

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

Changes in assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living from 2.50 percent to 2.25 percent; and decreased the salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent.

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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best- estimates are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25 percent based on a blending of the factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 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.

	Increase (Decrease)		
	Total Pension Liability (Asset)	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at 6/30/16	\$ -	\$ -	\$ -
Changes for the year:			
Service cost	-	-	-
Interest	-	-	-
Differences between expected and actual experience	80,781	-	80,781
Changes in Assumptions	-	-	-
Contributions - employer	-	42,182	(42,182)
Contributions - employees	-	52,728	(52,728)
Net investment income	-	5,271	(5,271)
Benefit payments, including refunds of employee contributions	(108)	(108)	-
Administrative expenses	-	(1,769)	1,769
Other changes	-	-	-
Net changes	<u>80,673</u>	<u>98,304</u>	<u>(17,631)</u>
Balance at 6/30/17	<u>\$ 80,673</u>	<u>\$ 98,304</u>	<u>\$ (17,631)</u>

Changes of benefit terms. The June 30, 2017 actuarial valuation is the first actuarial valuation since Arlington Community Schools' participation in the Public Employee Retirement Plan of the TCRS. Changes of benefits reflects the initial establishment of Arlington Community Schools' benefit terms.

Sensitivity of the net pension liability (asset) changes in the discount rate. The following presents the net pension liability (asset) of Arlington Community School System calculated using the discount rate of 7.25 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 (6.25 percent) or 1-percentagepoint higher (8.25 percent) than the current rate:

	1% Decrease	Current	1% Increase
	6.25	Discount 7.25	8.25
Arlington Community BOE's proportionate share of the net pension liability (asset)	\$ 2,012	\$ (17,631)	\$ (32,834)

C. Pension Expense (Negative Pension Expense) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense (negative pension expense). For the year ended June 30, 2018, Arlington Community School System recognized pension expense of \$25,977.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, 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	\$ -	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,426
Changes in Assumptions	-	-
Contributions subsequent to the measurement date of June 30, 2017	50,676	-
Total	\$ 50,676	\$ 1,426

The amount shown above for “Contributions subsequent to the measurement date of June 30, 2017,” 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:		
2019	\$	(356)
2020	\$	(356)
2021	\$	(356)
2022	\$	(356)
2023	\$	-
Thereafter	\$	-

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

C. Payable to the Pension Plan

At June 30, 2018, 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, 2018.

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, 2018 to the Teacher Legacy Pension Plan were \$1,644,116 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, 2018, Arlington Community School System reported a liability (asset) of (\$170,200) for its proportionate share of the net pension liability. The net pension liability (asset) was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability (asset) 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, 2017 Arlington Community School System's proportion was 0.520200 percent. The proportion measured as of June 30, 2016 was 0.507125 percent.

Pension expense (negative pension expense). For the year ended June 30, 2018, Arlington Community School System recognized pension expense (negative pension expense) of \$1,088,914.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, 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	\$ 102,609	\$ 3,513,842
Changes in assumptions	1,441,502	-
Net difference between projected and actual earnings on pension plan investments	25,836	-
Changes in proportion of net pension liability (asset)	3,311,921	-
Contributions subsequent to the measurement date of June 30, 2017	<u>1,644,116</u>	<u>-</u>
Total	<u>\$ 6,525,984</u>	<u>\$ 3,513,842</u>

Arlington Community School System’s employer contributions of \$1,644,116 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, 2019. 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:

2019	\$ (130,926)
2020	\$ 1,610,258
2021	\$ 648,316
2022	\$ (759,625)
2023	-
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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent <i>(use only if COLA is provided)</i>

Mortality rates are customized based on actual experience including an adjustment for some anticipated improvement.

The actuarial assumptions used in the June 30, 2017 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Changes of assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased the salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce 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 expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocations 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25 percent based on a blending of the factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 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 7.25 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 (6.25 percent) or 1- percentage-point higher (8.25 percent) than the current rate:

	1% Decrease 6.25	Current Discount Rate 7.25	1% Increase 8.25
Arlington Community School System's proportionate share of the net pension liability (asset)	\$ 15,271,843	\$ (170,200)	\$ (12,934,067)

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, 2018, 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, 2018.

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, 2018 to the Teacher Retirement Plan were \$94,429 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, 2018, Arlington Community School System reported a liability (asset) of (\$83,357) for its proportionate share of the net pension asset. The net pension liability (asset) was measured as of June 30, 2017, and the total pension asset used to calculate the net pension liability (asset) was determined by an actuarial value as of that date. Arlington Community School System’s proportion of the net pension liability (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, 2017 Arlington Community School System’s proportion was 0.315942 percent. The proportion measured as of June 30, 2016 was 0.370023 percent.

Pension expense (negative pension expense). For the year ended June 30, 2018, Arlington Community School System recognized pension expense of \$38,190.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2018, 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	\$ 2,921	\$ 6,269
Net difference between projected and actual earnings on pension plan investments	-	4,485
Changes in assumptions	7,323	-
Changes in proportion of net pension liability (asset)	5,988	445
Contributions subsequent to the measurement date of June 30, 2017	<u>94,429</u>	<u>-</u>
Total	<u>\$ 110,661</u>	<u>\$ 11,199</u>

Arlington Community School System’s employer contributions of \$94,429 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, 2019. 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:		
	2019 \$	(16)
	2020 \$	(16)
	2021 \$	(273)
	2022 \$	(1,427)
	2023 \$	688
	Thereafter \$	6,082

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, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	Graded salary ranges from 8.75 to 3.45 percent based on age, including inflation, averaging 4.00 percent
Investment rate of return	7.25 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.25 percent (<i>use only if COLA is provided</i>)

Mortality rates were based on actual experience including an adjustment for some anticipated improvement.

Changes of assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3.00 percent to 2.50 percent; decreased the investment rate of return from 7.50 percent to 7.25 percent; decreased the cost-of-living adjustment from 2.50 percent to 2.25 percent; decreased the salary growth graded ranges from an average of 4.25 percent to an average of 4.00 percent; and modified mortality assumptions.

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, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce 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 expected inflation of 2.5 percent. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocations 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	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
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 7.25 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.25 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 7.25 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 (6.25 percent) or 1- percentage-point higher (8.25 percent) than the current rate:

	1% Decrease 6.25	Current Discount Rate 7.25	1% Increase 8.25
Arlington Community School System's proportionate share of the net pension liability (asset)	\$ 16,631	\$ (83,357)	\$ (156,698)

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, 2018, 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, 2018.

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. Enrolled employees may, at their option, 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. Employees are immediately vested in contributions. During 2018, the System’s employer contribution to the defined contribution plan was \$180,784.

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 (OPEB).

A. General Information about the OPEB Plan

Benefits Provided

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.

Employees Covered by Benefit Terms

Plan membership as of June 30, 2017, the date of the OPEB valuation, consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	9
Active employees	<u>382</u>
	<u><u>391</u></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, 2018, the actuarially determined contribution for the plan was \$697,756, which exceeded the employer contributions to the plan of \$646,886 by \$50,870.

B. Actuarial Assumptions

Actuarial valuation for the OPEB plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. As such, the actuarial calculations of the OPEB plan reflect a long-term perspective. Actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future.

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, 2018, a June 30, 2018 measurement date was used.
Actuarial valuation date	July 1, 2017 liabilities are actuarially rolled forward to the Jun 30, 2018 measurement date on a "no loss/no gain" basis
Inflation	3% per year
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	8.5% initial rate, 5.0% ultimate rate

Changes in Assumptions

In 2018, the following assumptions were changed, updated the discount rate assumption for updated forward-looking rate of return information for the Trust’s target investment policy. The discount rate is 8.00 percent as of July 1, 2017 and 7.50 percent as of June 30, 2018. This change resulted in an increase in liabilities.

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, 2018, 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 long-term expected rate of return on OPEB plan investments was determined using a building block method in which expected future rates of return are developed for each major asset class. These expected future rates of return are then combined to produce the long-term expected rate of return by weighting them based on the target asset allocation percentage. The best estimates of arithmetic real rates of return for each major asset class including the target asset allocation as of June 30, 2018 as summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
U.S. equities	42%	9.36%
Developed market international equity	18%	7.78%
Emerging market international equity	5%	11.40%
Fixed income	35%	4.69%
	100%	7.55%

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on investment was 8.93 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate Information

The discount rate used to value 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 7.50% as of June 30, 2018 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.

C. Net OPEB Liability

The components of the System's net OPEB liability at June 30, 2018, were as follows:

	Increase (Decrease)		
	Total	Plan Fiduciary	Net OPEB
	OPEB Liability	Net Position	Liability (Asset)
Beginning of year	\$ 5,619,988	\$ 1,312,631	\$ 4,307,357
Changes for the year:			
Service cost	288,645	-	288,645
Interest	466,928	-	466,928
Change of benefit terms	-	-	-
Changes in assumptions	244,396	-	244,396
Differences between expected and actual experience	(220,328)	-	(220,328)
Contributions - employer	-	646,886	(646,886)
Contributions - employee	-	-	-
Net investment income	-	131,066	(131,066)
Benefit payments	(146,886)	(146,886)	-
Administrative expenses	-	(15,917)	15,917
Net changes	632,755	615,149	17,606
End of year	\$ 6,252,743	\$ 1,927,780	\$ 4,324,963

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

The following represents the net OPEB liability (asset) as of June 30, 2018, calculated using the discount rate of 7.5 percent, as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.5 percent) or 1% higher (8.5 percent) than the current rate:

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
Net OPEB liability (asset)	\$ 4,841,695	\$ 4,325,734	\$ 3,846,066

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

The following represents the net OPEB liability (asset) calculated using the healthcare cost trend rate of 8.5 percent decreasing to 5.0 percent as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1% lower (7.5 percent decreasing to 4.0 percent) or 1% higher (9.5 percent decreasing to 6.0 percent) than the current rate:

	1% Decrease (7.5% to 4%)	Current Rate (8.5% to 5%)	1% Increase (9.5% to 6%)
Net OPEB liability (asset)	\$ 3,620,072	\$ 4,325,734	\$ 5,144,176

D. OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

Other Postemployment Benefit Expense

For the year ended June 30, 2018, the System recognized OPEB expense of \$613,531.

Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources of related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 524,672
Changes in assumptions	276,511	-
Net difference between projected and actual earnings on OPEB investments	-	12,909
	<u>\$ 276,511</u>	<u>\$ 537,581</u>

Amounts recognized as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows for the year ending June 30:

2019	\$ (42,486)
2020	(42,486)
2021	(42,486)
2022	(38,800)
2023	(35,834)
Thereafter	(68,991)

In the table shown above, positive amounts will increase OPEB expense while negative amounts will

decrease OPEB expense.

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, 2018, the Arlington Community School System contributed premiums of \$3,038,758 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.

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>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability (asset)			
Service cost	\$ 258,233	\$ 268,523	\$ 403,716
Interest	63,315	42,617	30,274
Changes in benefit terms	-	-	-
Differences between actual and expected experience	(10,817)	(13,936)	(130,756)
Change of assumptions	29,540	-	-
Benefit payments, including refunds of employee contributions	<u>(15,057)</u>	<u>(6,812)</u>	<u>(127)</u>
Net change in total pension liability (asset)	325,214	290,392	303,107
Total pension liability (asset) - beginning	<u>593,499</u>	<u>303,107</u>	<u>-</u>
Total pension liability (asset) - ending (a)	<u><u>\$ 918,713</u></u>	<u><u>\$ 593,499</u></u>	<u><u>\$ 303,107</u></u>
Plan fiduciary net position			
Contributions - employer	\$ 183,342	\$ 247,505	\$ 262,260
Contributions - employee	123,880	133,498	141,457
Net investment income	105,712	15,649	6,140
Benefits payments, including refunds of employee contributions	(15,057)	(6,812)	(127)
Administrative expense	<u>(5,695)</u>	<u>(6,088)</u>	<u>(4,842)</u>
Net change in plan fiduciary net position	392,182	383,752	404,888
Plan fiduciary net position - beginning	<u>788,640</u>	<u>404,888</u>	<u>-</u>
Plan fiduciary net position - ending (b)	<u><u>1,180,822</u></u>	<u><u>788,640</u></u>	<u><u>404,888</u></u>
Net Pension Liability (asset) - ending (a) - (b)	<u><u>\$ (262,109)</u></u>	<u><u>\$ (195,141)</u></u>	<u><u>\$ (101,781)</u></u>
Plan fiduciary net position as a percentage of total pension liability	128.53%	132.88%	133.58%
Covered payroll	\$ 2,477,596	\$ 2,669,956	\$ 2,829,235
Net pension liability (asset) as a percentage of covered payroll	-10.58%	-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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 161,257	\$ 136,763	\$ 247,505	\$ 262,260
Contributions in relation to the actuarially determined contribution	<u>161,257</u>	<u>183,342</u>	<u>247,505</u>	<u>262,260</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (46,579)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 2,179,151	\$ 2,477,596	\$ 2,669,956	\$ 2,829,235
Contributions as a percentage of covered payroll	7.40%	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:

NOTE 1 - VALUATION DATE

Valuation date: Actuarially determined contribution rates for fiscal year 2018 were calculated based on the June 30, 2017 actuarial valuation.

NOTE 2 - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial cost method	Entry Age Normal
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>2017</u>	<u>2016</u>	<u>2015</u>
Arlington Community School System's proportionate of the net pension liability (asset)	\$ (170,201)	\$ 187,377	\$ (1,744)
Arlington Community School System's proportionate share of the net pension liability (asset)	0.520200%	0.457425%	0.010736%
Arlington Community School System's covered payroll	\$ 18,396,999	\$ 17,123,741	\$ 421,371
Arlington Community School System's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-0.93%	1.09%	-0.41%
Plan fiduciary net position as a percentage of the total pension liability	100.14%	99.81%	100.08%

*GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

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

ARLINGTON COMMUNITY SCHOOL SYSTEM

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

Last Ten Fiscal Years Ending June 30

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required	\$ 1,644,116	\$ 1,662,347	\$ 1,654,879	\$ 1,547,985	\$ 37,418
Contribution in relation to the contractually required contribution	<u>1,644,116</u>	<u>1,662,347</u>	<u>1,654,879</u>	<u>1,547,985</u>	<u>37,418</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Arlington Community School System's covered payroll	\$ 18,107,569	\$ 18,396,999	\$ 18,306,197	\$ 17,123,741	\$ 421,371
Contributions as a percentage of Arlington Community School System's covered payroll	9.08%	9.04%	9.04%	9.04%	8.88%

*GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

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

	<u>2017</u>	<u>2016</u>
Arlington Community School System's proportion of the net pension liability (asset)	0.315942%	0.360154%
Arlington Community School System's proportionate share of the net pension liability (asset)	\$ (83,357)	\$ (14,489)
Arlington Community School System's covered payroll	\$ 2,065,462	\$ 748,310
Arlington Community School System's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-4.04%	-1.94%
Plan fiduciary net position as a percentage of the total pension liability	126.81%	127.46%

*GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required	\$ 94,429	\$ 82,946	\$ 40,755	\$ 18,708
Contribution in relation to the contractually required contribution	<u>94,429</u>	<u>82,946</u>	<u>65,125</u>	<u>29,932</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (24,370)</u>	<u>\$ (11,224)</u>
Arlington Community School System's covered payroll	\$ 2,360,717	\$ 2,065,462	\$ 1,628,121	\$ 748,310
Contributions as a percentage of Arlington Community School System's covered payroll	4.00%	4.02%	4.00%	4.00%

*GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

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 HYBRID PUBLIC EMPLOYEE PENSION PLAN OF TCRS

Last Ten Fiscal Years Ending June 30

	2017
Total Pension Liability	
Service cost	\$ -
Interest	-
Changes of benefit items	80,781
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments	(108)
Net change in total pension liability	80,673
Total pension liability - beginning	-
Total pension liability - ending	\$ 80,673
Plan Fiduciary Net Position	
Contributions - employer	\$ 42,182
Contributions - employee	52,728
Net investment income	5,271
Benefit payments	(108)
Administrative expense	(1,769)
Other	-
Net change in plan fiduciary net position	98,304
Plan fiduciary net position - beginning	-
Plan fiduciary net position -ending	\$ 98,304
Net pension liability (asset)	\$ (17,631)
Plan fiduciary net position as a percentage of the total pension liability	121.85%
Covered payroll	\$ 633,729
Net pension liability as a percentage of covered payroll	-2.78%

Changes of assumptions. In 2017, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, cost-of-living adjustment and salary growth.

**GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

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>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 50,676	\$ 7,161
Contributions in relation to the actuarially determined contribution	50,676	42,182
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ (35,021)</u>
Covered payroll	\$ 1,266,904	\$ 633,729
Contributions as a percentage of covered payroll	4.00%	6.66%

**GASB 68 requires a 10-year schedule for this data to be presented starting with the implementation of GASB 68. The information in this schedule is not required to be presented retroactively prior to the implementation date.

NOTE 1 - VALUATION DATE

Actuarially determined contribution rates for fiscal year 2017 were calculated based on the June 30, 2017 actuarial valuation.

NOTE 2 - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial cost method	Entry Age Normal
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 CHANGES IN NET OTHER POSTEMPLOYMENT BENEFITS LIABILITY AND RELATED RATIOS

Last Ten Fiscal Years Ending June 30

	<u>2018</u>	<u>2017</u>
Total OPEB Liability		
Service cost	\$ 288,645	\$ 574,975
Interest	466,928	833,313
Changes of benefit items	-	(5,817,754)
Differences between expected and actual experience	(220,328)	(402,643)
Changes in assumptions	244,396	72,575
Benefit payments	<u>(146,886)</u>	<u>(111,651)</u>
Net change in total OPEB liability	632,755	(4,851,185)
Total OPEB liability - beginning	<u>5,619,988</u>	<u>10,471,173</u>
Total OPEB liability - ending	\$ 6,252,743	\$ 5,619,988
 Plan Fiduciary Net Position		
Contributions - employer	\$ 646,886	\$ 629,512
Contributions - employee	-	-
Net investment income	131,066	94,877
Benefit payments	(146,886)	(111,651)
Administrative expense	<u>(15,917)</u>	<u>(3,188)</u>
Net change in plan fiduciary net position	615,149	609,550
Plan fiduciary net position - beginning	<u>1,312,631</u>	<u>703,081</u>
Plan fiduciary net position -ending	\$ 1,927,780	\$ 1,312,631
 Net OPEB liability (asset)	 <u>\$ 4,324,963</u>	 <u>\$ 4,307,357</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 30.83%	 23.36%
 Covered payroll	 \$ 22,456,759	 \$ 21,802,679
 Net OPEB liability as a percentage of covered payroll	 19.26%	 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>2018</u>	<u>2017</u>
Actuarially determined contribution	\$ 697,756	\$ 1,442,649
Contributions	<u>646,886</u>	<u>629,512</u>
Contribution deficiency (surplus)	<u>\$ 50,870</u>	<u>\$ 813,137</u>
Covered payroll	\$ 22,456,759	\$ 21,802,679
Contributions as a percentage of covered payroll	2.88%	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, 2018. Liabilities as of July 1, 2017 are actuarially rolled forward to the June 30, 2018 measurement date on a "no gain/no loss" basis.

NOTE 2 - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	29 years
Asset valuation method	Market value
Inflation	3.0%
Healthcare cost trend rates	8.5% initial, decreasing to an ultimate rate of 5%,
Salary increases	3.0%
Investment rate of return	7.5%, 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

	<u>Annual Money-Weighted Rate of Return Net of Investment Expenses</u>
2018	8.93%
2017	13.13%

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, 2018

	Special Revenue Funds			
	School Nutrition Fund	Discretionary Grants Fund	Federal Projects Fund	Total
ASSETS				
Cash and cash equivalents	\$ 271,349	\$ -	\$ 1,622	\$ 272,971
Inventory	14,088	-	-	14,088
Due from other government agencies	-	-	458	458
Due from other governments - grants	488	14,550	223,740	238,778
Total assets	<u>\$ 285,925</u>	<u>\$ 14,550</u>	<u>\$ 225,820</u>	<u>\$ 526,295</u>
LIABILITIES				
Accounts payable	\$ 28	\$ -	\$ 38,015	\$ 38,043
Accrued payroll	-	6,614	46,527	53,141
Due to other funds	-	7,936	141,278	149,214
Unearned revenue	29,924	-	-	29,924
Total liabilities	<u>29,952</u>	<u>14,550</u>	<u>225,820</u>	<u>270,322</u>
FUND BALANCES				
Nonspendable - inventory	14,088	-	-	14,088
Restricted - school nutrition	<u>241,885</u>	<u>-</u>	<u>-</u>	<u>241,885</u>
Total fund balance	<u>255,973</u>	<u>-</u>	<u>-</u>	<u>255,973</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 285,925</u>	<u>\$ 14,550</u>	<u>\$ 225,820</u>	<u>\$ 526,295</u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

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

For the Year Ended June 30, 2018

	Special Revenue Funds			
	School Nutrition Fund	Discretionary Grants Fund	Federal Projects Fund	Total
REVENUES				
Charges for services	\$ 740,599	\$ -	\$ -	\$ 740,599
Intergovernmental:				
State revenue	9,207	106,083	-	115,290
Federal revenue	306,037	-	2,659,366	2,965,403
Total revenues	<u>1,055,843</u>	<u>106,083</u>	<u>2,659,366</u>	<u>3,821,292</u>
EXPENDITURES				
Instruction	-	-	1,860,773	1,860,773
Support services	-	106,083	701,624	807,707
Food services	1,031,763	-	-	1,031,763
Total expenditures	<u>1,031,763</u>	<u>106,083</u>	<u>2,562,397</u>	<u>3,700,243</u>
OTHER FINANCING SOURCES (USES)				
Transfers from (to) other funds	-	-	(96,969)	(96,969)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>(96,969)</u>	<u>(96,969)</u>
Net change in fund balance	24,080	-	-	24,080
Fund balance - beginning	<u>231,893</u>	<u>-</u>	<u>-</u>	<u>231,893</u>
Fund balance - ending	<u>\$ 255,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,973</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, 2018

	<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	\$ 296,150	\$ 320,897	\$ 320,897	\$ -
Title I	324,362	1,425,558	1,295,487	(130,071)
Special education - grants to State	929,218	1,129,278	850,264	(279,014)
Special education preschool grant	6,515	9,982	7,316	(2,666)
English language acquisition grant	-	4,810	4,794	(16)
Title II	171,685	183,869	151,830	(32,039)
Title IV	-	14,833	28,778	13,945
Total intergovernmental revenues	<u>1,727,930</u>	<u>3,089,227</u>	<u>2,659,366</u>	<u>(429,861)</u>
Expenditures:				
Instruction:				
Regular Instruction:				
Teachers	200,000	307,011	301,206	5,805
Social security	13,350	19,205	18,933	272
State retirement	18,160	27,488	16,266	11,222
Life insurance	1,375	2,038	528	1,510
Medical insurance	20,000	17,764	4,568	13,196
Medicare	3,120	4,509	4,452	57
Contracts substitute teachers - certified	15,000	34,672	16,862	17,810
Instructional supplies and materials	13,670	53,224	47,366	5,858
Other charges	9,000	15,117	12,053	3,064
Equipment	-	415,947	413,173	2,774
Total regular instruction	<u>293,675</u>	<u>896,975</u>	<u>835,407</u>	<u>61,568</u>
Special Education Program:				
Educational assistants	484,596	484,596	464,414	20,182
Speech pathologist	110,627	110,627	87,073	23,554
Social security	36,904	36,904	32,463	4,441
State retirement	45,905	45,905	43,558	2,347
Life insurance	4,091	4,503	1,708	2,795
Medical insurance	95,000	101,100	55,697	45,403
Medicare	8,631	8,631	7,592	1,039
Instructional supplies	31,765	54,232	11,419	42,813
Special education equipment	25,613	46,613	4,761	41,852
Contracts with private agencies	-	20,678	8,976	11,702
Other salaries and wages	-	60,460	38,196	22,264
Other supplies and materials	5,250	7,750	605	7,145
Total special education	<u>848,382</u>	<u>981,999</u>	<u>756,462</u>	<u>225,537</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, 2018

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Vocational Education:				
Maintenance and repair services	14,807	817	817	-
Other supplies and materials	101,498	97,248	94,806	2,442
Equipment	91,000	137,347	137,347	-
Instructional supplies	-	37,409	35,934	1,475
Total vocational education	<u>207,305</u>	<u>272,821</u>	<u>268,904</u>	<u>3,917</u>
Total instruction	<u>1,349,362</u>	<u>2,151,795</u>	<u>1,860,773</u>	<u>291,022</u>
Support Services:				
Other Student Support:				
Travel	59,230	66,115	63,615	2,500
Other contracted services	-	6,930	4,374	2,556
In-service training	14,808	17,808	17,808	-
Total other student support	<u>74,038</u>	<u>90,853</u>	<u>85,797</u>	<u>5,056</u>
Regular Instruction:				
Supervisor/director	50,374	126,000	124,883	1,117
In-service training	66,500	55,000	53,000	2,000
Social security	7,250	11,200	10,952	248
State retirement	10,615	16,410	11,339	5,071
Life insurance	353	900	726	174
Medical insurance	3,050	9,150	6,396	2,754
Medicare	1,701	2,697	2,566	131
In-service-staff development	34,829	384,173	316,264	67,909
Other charges	4,000	20,925	5,575	15,350
Total regular instruction	<u>178,672</u>	<u>626,455</u>	<u>531,701</u>	<u>94,754</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, 2018

	<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	230	3,720	2,114	1,606
Medicare	-	870	494	376
Other supplies and materials	9,018	12,018	3,520	8,498
In-service-staff development	18,000	33,359	14,851	18,508
Other equipment	10,000	49,822	34,903	14,919
Other charges	4,500	4,500	774	3,726
Pension	271	5,634	19,413	(13,779)
Total special education	<u>45,019</u>	<u>112,923</u>	<u>76,069</u>	<u>36,854</u>
Vocational Education:				
Travel	6,000	5,169	5,169	-
Other charges	1,500	1,852	1,854	(2)
Equipment	1,034	1,034	1,034	-
Total vocational education	<u>8,534</u>	<u>8,055</u>	<u>8,057</u>	<u>(2)</u>
Total support services	<u>306,263</u>	<u>838,286</u>	<u>701,624</u>	<u>136,662</u>
Total expenditures	<u>1,655,625</u>	<u>2,990,081</u>	<u>2,562,397</u>	<u>427,684</u>
Other financing sources (uses):				
Transfers out	<u>(72,305)</u>	<u>(99,146)</u>	<u>(96,969)</u>	<u>2,177</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance - beginning			<u>-</u>	
Fund balance - ending			<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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
SCHOOL NUTRITION FUND				
Revenues:				
Charges for services:				
Lunch payments - children	\$ 400,000	\$ 400,000	\$ 406,827	\$ 6,827
Lunch payments - adults	26,000	26,000	22,077	(3,923)
Income from breakfast	27,000	27,000	17,141	(9,859)
A La Carte sales	290,000	290,000	294,554	4,554
Total charges for current services	<u>743,000</u>	<u>743,000</u>	<u>740,599</u>	<u>(2,401)</u>
State Education Funds:				
School food services	<u>8,500</u>	<u>8,500</u>	<u>9,207</u>	<u>707</u>
Federal Through State:				
USDA - lunch	250,000	275,000	204,920	(70,080)
USDA - breakfast	51,000	51,000	23,413	(27,587)
USDA - commodities	80,000	80,000	77,704	(2,296)
Total federal through state	<u>381,000</u>	<u>406,000</u>	<u>306,037</u>	<u>(99,963)</u>
Total revenues	1,132,500	1,157,500	1,055,843	(101,657)
Expenditures:				
Non-instructional Services:				
Food Services:				
Supervisor/director	164,762	164,762	164,074	688
Cafeteria personnel	256,844	256,844	245,321	11,523
Social security	26,140	26,140	23,327	2,813
State retirement	17,663	18,663	16,305	2,358
Life insurance	1,606	1,606	709	897
Medical insurance	51,850	51,850	50,685	1,165
Medicare	6,113	6,113	5,457	656
Maintenance and repair - equipment	2,000	2,000	1,578	422
Transportation - other than students	500	500	25	475
Other contracted services	4,000	4,000	2,880	1,120
Cafeteria substitutes	7,000	7,000	-	7,000
Food supplies	460,000	459,000	380,846	78,154
Uniforms	500	500	-	500
Commodities expense	80,000	80,000	75,869	4,131
Other supplies and materials	51,000	51,000	32,368	18,632
Other charges	11,500	11,500	8,191	3,309
Equipment	12,600	37,600	21,570	16,030
Pension	-	-	2,051	(2,051)
Travel	800	800	507	293
Total food services	<u>1,154,878</u>	<u>1,179,878</u>	<u>1,031,763</u>	<u>148,115</u>
Other financing sources (uses)				
Transfers in	<u>22,378</u>	<u>22,378</u>	-	<u>22,378</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>24,080</u>	<u>\$ (227,394)</u>
Fund balance - beginning			<u>231,893</u>	
Fund balance - ending			<u>\$ 255,973</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, 2018

	<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	\$ 106,160	\$ 114,160	\$ 106,083	\$ (8,077)
Expenditures:				
Support Services:				
Health Services:				
Supervisor/director	68,598	67,760	67,761	(1)
Social security	4,253	3,923	3,959	(36)
State retirement	5,077	5,014	5,014	-
Life insurance	472	236	206	30
Employer Medicare	995	995	926	69
Travel	200	-	-	-
Other supplies and materials	2,205	4,194	4,179	15
Other equipment	200	-	-	-
In-service-staff development	3,000	10,878	2,878	8,000
Total health services	<u>85,000</u>	<u>93,000</u>	<u>84,923</u>	<u>8,077</u>
Other Student Support:				
Contracts with government agencies	<u>21,160</u>	<u>21,160</u>	<u>21,160</u>	<u>-</u>
Total support services	<u>106,160</u>	<u>114,160</u>	<u>106,083</u>	<u>8,077</u>
Total expenditures	<u>106,160</u>	<u>114,160</u>	<u>106,083</u>	<u>8,077</u>
Total change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Fund balance - beginning			<u>-</u>	
Fund balance - ending			<u>\$ -</u>	

ARLINGTON COMMUNITY SCHOOL SYSTEM

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – EDUCATION CAPITAL FUND**

For the Year Ended June 30, 2018

Education Capital Fund	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Other local revenues	\$ 1,728,520	1,728,520	\$ 817,482	\$ (911,038)
Expenditures:				
Non-instructional services:				
Other contracted services	1,000,000	1,000,000	432,919	567,081
Capital outlay	1,450,370	1,450,370	989,695	460,675
Total expenditures	2,450,370	2,450,370	1,422,614	1,027,756
Net change in fund balance	<u>\$ (721,850)</u>	<u>\$ (721,850)</u>	(605,132)	<u>\$ 116,718</u>
Fund balance - beginning			<u>1,561,593</u>	
Fund balance - ending			<u>\$ 956,461</u>	

ARLINGTON COMMUNITY SCHOOL SYSTEM

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

For the Year Ended June 30, 2018

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>
ASSETS				
Cash	\$ 1,019,811	\$ 2,338,961	\$ (2,311,254)	\$ 1,047,518
Inventories	11,056	68,247	(65,565)	13,738
	<u>\$ 1,030,867</u>	<u>\$ 2,407,208</u>	<u>\$ (2,376,819)</u>	<u>\$ 1,061,256</u>
Total assets	<u>\$ 1,030,867</u>	<u>\$ 2,407,208</u>	<u>\$ (2,376,819)</u>	<u>\$ 1,061,256</u>
LIABILITIES				
Due to student general fund	\$ 624,840	\$ 581,774	\$ (584,217)	\$ 622,397
Due to student groups	406,027	1,762,644	(1,729,812)	438,859
	<u>\$ 1,030,867</u>	<u>\$ 2,344,418</u>	<u>\$ (2,314,029)</u>	<u>\$ 1,061,256</u>
Total liabilities	<u>\$ 1,030,867</u>	<u>\$ 2,344,418</u>	<u>\$ (2,314,029)</u>	<u>\$ 1,061,256</u>

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF FEDERAL EXPENDITURES AND STATE FINANCIAL ASSISTANCE

For the Year Ended June 30, 2018

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	\$ 22,093	\$ 1,247,830	\$ 1,326,390	\$ 100,653
Pass-Through from the Tennessee Department of Education					
Title II, Part A: Teacher and Principal Training and Recruiting	84.367A	17,604	153,614	138,142	2,132
Pass-Through from the Tennessee Department of Education					
Title III, Part A - English Language Acquisition/Language Enhancement	34.365A	-	4,795	4,795	-
Pass-Through from the Tennessee Department of Education					
Title IV, Part A: Student Support and Academic Enrichment	84.424A	-	11,106	11,564	458
Pass-Through from the Tennessee Department of Education					
Special Education Cluster					
IDEA, Pt B	84.027A	35,578	803,726	850,262	82,114
IDEA - Preschool	84.173A	-	7,316	7,316	-
		<u>35,578</u>	<u>811,042</u>	<u>857,578</u>	<u>82,114</u>
Pass-Through from the Tennessee Department of Education					
Carl Perkins	84.048A	12,439	292,495	320,897	40,841
<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	-	23,413	23,413	-
National School Lunch Program	10.555	-	204,919	204,919	-
National School Lunch Program - non cash assistance	10.555	-	75,869	75,869	-
		<u>-</u>	<u>304,201</u>	<u>304,201</u>	<u>-</u>
Total federal awards		<u>87,714</u>	<u>2,825,083</u>	<u>2,963,567</u>	<u>226,198</u>

See independent auditor's report and accompanying notes to the schedule.

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF FEDERAL EXPENDITURES AND STATE FINANCIAL ASSISTANCE (CONTINUED)

For the Year Ended June 30, 2018

<u>Federal Grantor/Pass-Through Grantor</u>	<u>CFDA Number</u>	<u>Beginning Accrued (Deferred)</u>	<u>Cash receipts</u>	<u>Expenditures</u>	<u>Ending Accrued (Deferred)</u>
<u>State Financial Assistance</u>					
<u>Tennessee Department of Education</u>					
Safe Schools		-	21,160	21,160	-
Coordinated School Health		3,516	73,889	84,923	14,550
Total state financial assistance		3,516	95,049	106,083	14,550
Total federal awards and state financial assistance		<u>\$ 91,230</u>	<u>\$ 2,920,132</u>	<u>\$ 3,069,650</u>	<u>\$ 240,748</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, 2018. 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 independent auditor's report and accompanying notes to the schedule.

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, 2018, 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 17, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness: 2018-001, Recording Capital Assets.

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*.

System's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in black ink that reads "Watkins & Kurall, PLLC". The signature is written in a cursive, flowing style.

Memphis, Tennessee
December 17, 2018

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, 2018. 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, 2018.

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.

A handwritten signature in black ink that reads "Watkins Universal, PLLC". The signature is written in a cursive, flowing style.

Memphis Tennessee
December 17, 2018

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2018

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. A material weakness relating to the audit of the financial statements is reported in the 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*.
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 program tested as a major program was CFDA No. 84.010 – Title I, Part A.
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

MATERIAL WEAKNESS

2018-001 Recording Capital Assets

Criteria or Specific Requirement: Assets purchased of similar nature that at the time of purchase exceeded the capitalization threshold should be capitalized.

Condition: Capital expenditures were not properly capitalized and depreciated for presentation at the government wide level.

Questioned Costs: None reported.

Context: During the testing of capital asset additions, various items were not marked as capitalized and therefore, were not depreciated.

Cause: The System did not apply their capitalization policy to bulk purchases of similar assets.

ARLINGTON COMMUNITY SCHOOL SYSTEM

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended June 30, 2018

Effect: Financial statements are materially misstated. Capital assets are not properly capitalized or recorded.

Recommendation: We recommend for the System to review all capital expenditures prior to year-end to assess if all items have been properly recorded and marked as capitalized assets and depreciated as such.

Views of Responsible Officials and Planned Corrective Actions: The System applied its capitalization policy on a per item basis, but not to bulk purchases. The System has implemented a new procedure in the operations department related to fixed assets in order to capture bulk purchases that require capitalization.

Contact Person: Miracle Roberts, CFO

Anticipated Date of Completion: December 31, 2018

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, 2018

Financial Statement Findings - None

Federal Award Findings and Questioned Costs - None