

ARLINGTON CENTRAL  
SCHOOL DISTRICT



MANAGEMENT'S  
DISCUSSION AND  
ANALYSIS

AND

BASIC FINANCIAL  
STATEMENTS

For the Year Ended  
June 30, 2018

**ARLINGTON CENTRAL SCHOOL DISTRICT  
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**Independent Auditor's Report**

Board of Education  
Arlington Central School District

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Arlington Central School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School District'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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Arlington Central School District, 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.

**New Accounting Standard**

As discussed in Note 1 to the financial statements, the School District changed accounting policies related to the financial statement presentation of other postemployment benefits (OPEB) by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. 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 other 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 Arlington Central School District's basic financial statements. The other supplementary information on pages 51 through 53 is presented for purposes of additional analysis as required by New York State Education Department and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal 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 Schedule of Expenditures of Federal Awards and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 other supplementary information and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 2018, on our consideration of the Arlington Central School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Arlington Central School District's internal control over financial reporting and compliance.

*D'Arcangelo + Co., LLP*

October 9, 2018

Rome, New York

**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

(Continued)

The Arlington Central School District's discussion and analysis of financial performance provides an overall review of the District's financial activities for the fiscal years ended June 30, 2018 and 2017. The intent of this discussion and analysis is to look at the District's financial performance as a whole. This should be read in conjunction with the financial statements, which immediately follow this section.

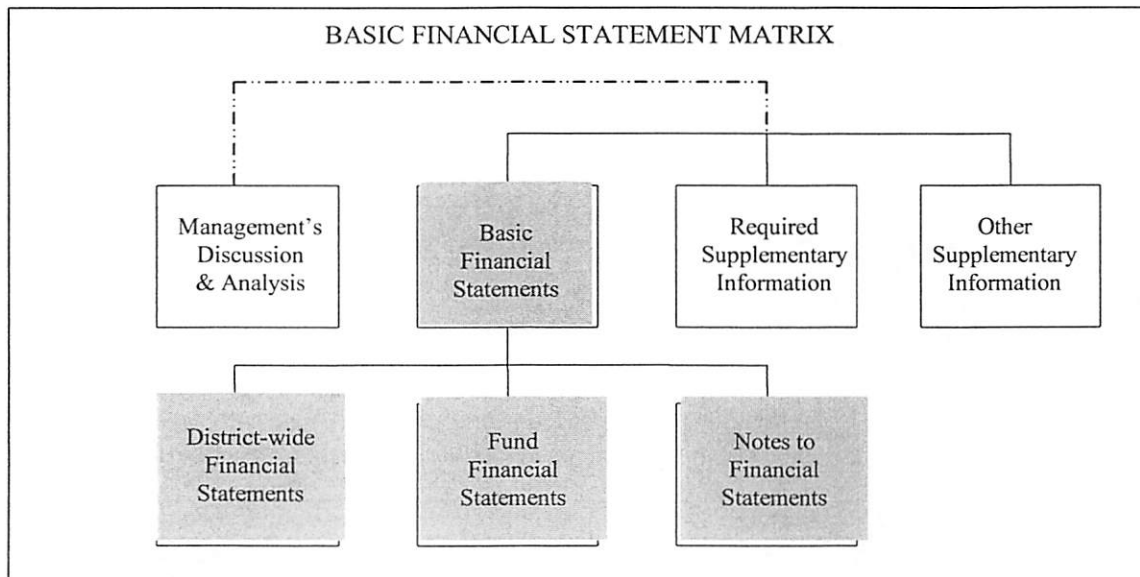
**1. FINANCIAL HIGHLIGHTS**

Key financial highlights for fiscal year 2018 are as follows:

- The District's total net position, as reflected in the District-wide financial statements, decreased by \$21,903,698 to a deficit of \$534,409,944. The opening net position deficit required a prior period adjustment of \$486,122,138 due to the cumulative effect of implementing a new accounting standard for other postemployment benefits (GASB 75) in the current year.
- The District's expenses for the year, as reflected in the District-wide financial statements, totaled \$230,774,895. Of this amount, \$4,247,502, \$5,467,724, and \$312,234 were offset by program charges for services, operating grants and capital grants to support instructional and food service programs, respectively. General revenues of \$198,843,737 amount to 95.2% of total revenues. These revenues covered a significant portion of the remaining program expenses, leaving a deficit of \$21,903,698 for the year.
- State and federal revenue increased by 5.0% to \$60,096,331 in 2018 from \$57,212,428 in 2017. The increase was mainly due to increases in foundation aid and building aid.
- The General Fund's total fund balance, as reflected in the fund financial statements on pages 15 and 17, increased by \$1,141,247 to \$23,469,392. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.
- The District transferred \$1,518,000 from the Building and Improvements Reserve in the General Fund to the Capital Projects Fund to cover the local share of the \$3,275,000 voter approved Athletic Complex Upgrade capital project.

**2. OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of four parts – Management's Discussion and Analysis (MD&A), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements consist of District-wide financial statements, fund financial statements, and notes to the financial statements. A graphic display of the relationship of these statements follows:



See Independent Auditor's Report.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

**(Continued)**

**A. District-wide Financial Statements**

The District-wide financial statements are organized to provide an understanding of the fiscal performance of the District as a whole in a manner similar to a private sector business. There are two District-wide financial statements - the Statement of Net Position and the Statement of Activities. These statements provide both an aggregate and long-term view of the District's finances.

These statements utilize the accrual basis of accounting. This basis of accounting recognizes the financial effects of events when they occur, without regard to the timing of cash flows related to the events.

**The Statement of Net Position**

The Statement of Net Position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows with the difference between them reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating, respectively.

**The Statement of Activities**

The Statement of Activities presents information showing the change in net position during the fiscal year. All changes in net position are recorded at the time the underlying financial event occurs. Therefore, revenues and expenses are reported in the statement for some items that will result in cash flow in future fiscal periods.

**B. Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, not the District as a whole. 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 District also uses fund accounting to ensure compliance with finance-related legal requirements. The funds of the District are reported in the governmental funds and the fiduciary funds.

These statements utilize the modified accrual basis of accounting. This basis of accounting recognizes revenues in the period that they become measurable and available. It recognizes expenditures in the period that they become measurable, funded through available resources and payable within a current period.

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the District-wide financial statements. However, the governmental fund financial statements focus on shorter term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year for spending in future years. Consequently, the governmental fund statements provide a detailed short-term view of the District's operations and the services it provides.

Because the focus of governmental funds is narrower than that of District-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the District-wide financial statements. By doing so, you may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains five individual governmental funds: General Fund, School Lunch Fund, Special Aid Fund, Debt Service Fund, and Capital Fund, each of which is considered to be a major fund and is presented separately in the fund financial statements.

**Fiduciary Funds**

Fiduciary funds are used to account for assets held by the District in its capacity as agent or trustee. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. The fiduciary activities have been excluded from the District's District-wide financial statements because the District cannot use these assets to finance its operations.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

(Continued)

**3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**A. Net Position**

The District's total net position decreased by \$21,903,698 between fiscal year 2017 and 2018. A summary of the District's Statement of Net Position for June 30, 2018 and 2017 is as follows:

	2018	(Restated) 2017	Increase/ (Decrease)	Percentage Change
Current and Other Assets	\$ 51,009,778	\$ 51,025,034	\$ (15,256)	0.0%
Net Pension Asset - Proportionate Share	3,558,458		3,558,458	100.0%
Capital Assets, (Net of Accumulated Depreciation)	<u>150,841,973</u>	<u>151,965,909</u>	<u>(1,123,936)</u>	(0.7%)
Total Assets	<u>205,410,209</u>	<u>202,990,943</u>	<u>2,419,266</u>	1.2%
Deferred Outflows of Resources	<u>56,844,349</u>	<u>56,548,435</u>	<u>295,914</u>	0.5%
Current and Other Liabilities	14,881,883	16,466,501	(1,584,618)	(9.6%)
Net Pension Liability - Proportionate Share	2,139,355	10,939,732	(8,800,377)	(80.4%)
Noncurrent Liabilities	<u>762,748,788</u>	<u>741,919,138</u>	<u>20,829,650</u>	2.8%
Total Liabilities	<u>779,770,026</u>	<u>769,325,371</u>	<u>10,444,655</u>	1.4%
Deferred Inflows of Resources	<u>16,894,476</u>	<u>2,720,253</u>	<u>14,174,223</u>	521.1%
Net Position				
Net Investment in Capital Assets	57,119,620	49,121,478	7,998,142	16.3%
Restricted	25,609,087	24,831,982	777,105	3.1%
Unrestricted (Deficit)	<u>(617,138,651)</u>	<u>(586,459,706)</u>	<u>(30,678,945)</u>	(5.2%)
Total Net Position (Deficit)	<u>\$ (534,409,944)</u>	<u>\$ (512,506,246)</u>	<u>\$ (21,903,698)</u>	(4.3%)

The net pension asset- proportionate share represents the District's share of the TRS total pension asset, which was a pension liability in the prior year.

Capital assets, net of accumulated depreciation, decreased by \$1,123,936 as compared to the prior year. This decrease is due to depreciation exceeding capital additions for the current year. Note 7 to the Financial Statements provides additional information.

Current and other liabilities decreased by \$1,584,618 as compared to the prior year. The decrease is primarily a result of a decrease in the accrued liability due to Teachers' Retirement System in the amount of \$1,095,238. In addition, the bond anticipation note for buses decreased by \$226,800.

The net pension liability – proportionate share decreased by \$8,800,377 as compared to the prior year. This decrease was because the TRS total pension became an asset in the current year, from a liability in the prior year, as noted above.

Noncurrent liabilities increased by \$20,829,650, as compared to the prior year. This increase is primarily due to a net increase in the liability for other postemployment benefits (OPEB) in the amount of \$29,421,658. This was offset by decreases in the balances remaining on serial bonds, unamortized bond premiums, the energy performance contract by \$9,580,237 in total.

The deferred outflows and inflows change resulted in a net decrease in net position of \$13,878,309. These financial statement elements mainly consist of actuarial determined adjustments to the School District's proportionate share of the net pension asset and/or liability for items such as changes in assumptions and differences between actual and projected System investment earnings.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

(Continued)

The net investment in capital assets is calculated by subtracting the amount of outstanding debt used for construction from the total cost of all asset acquisitions, net of accumulated depreciation. The total cost of these acquisitions includes expenditures to purchase land, construct and improve buildings and purchase vehicles, equipment and furniture to support District operations.

The restricted portion of net position at June 30, 2018, is \$25,609,087, which represents the amount of the District's reserves in the General Fund and other restricted funds for Debt Service and Capital Projects.

The unrestricted portion of net position at June 30, 2018, is a deficit of \$617,138,651, which represents the amount by which the District's liabilities and deferred inflows or resources, excluding debt related to capital construction, exceeded the District's assets and deferred outflows or resources, other than capital assets and restricted assets. This deficit is primarily due to the accrual of other postemployment benefits in the amount of \$651,710,694.

**B. Changes in Net Position**

The results of this year's operations as a whole are reported in the Statement of Activities in a programmatic format in the accompanying financial statements. In the accompanying financial statements STAR (school tax relief) revenue is included in the other tax items line. However, in this MD&A, STAR revenue has been combined with property taxes. A summary of this statement for the years ended June 30, 2018 and 2017 is as follows:

Revenues	2018	2017	Increase/ (Decrease)	Percentage Change
Program Revenues				
Charges for Services	\$ 4,247,502	\$ 4,534,413	\$ (286,911)	(6.3%)
Operating Grants	5,467,724	5,449,032	18,692	0.3%
Capital Grants	312,234		312,234	100.0%
General Revenues				
Property Taxes and STAR	136,597,454	134,492,379	2,105,075	1.6%
State and Federal Sources	60,096,331	57,212,428	2,883,903	5.0%
Other	<u>2,149,952</u>	<u>2,430,456</u>	<u>(280,504)</u>	(11.5%)
Total Revenues	<u>208,871,197</u>	<u>204,118,708</u>	<u>4,752,489</u>	2.3%
Expenses				
General Support	22,375,969	23,571,883	(1,195,914)	(5.1%)
Instruction	182,444,450	169,320,999	13,123,451	7.8%
Pupil Transportation	18,913,670	17,000,360	1,913,310	11.3%
Debt Service-Unallocated Interest	3,123,126	3,467,612	(344,486)	(9.9%)
Food Service Program	<u>3,917,680</u>	<u>3,663,592</u>	<u>254,088</u>	6.9%
Total Expenses	<u>230,774,895</u>	<u>217,024,446</u>	<u>13,750,449</u>	6.3%
Total Change in Net Position	<u>\$ (21,903,698)</u>	<u>\$ (12,905,738)</u>	<u>\$ (8,997,960)</u>	

The District's revenues increased by \$4,752,489 in 2018 or 2.3%. The major factors that contributed to the increase were:

- An increase in non-grant state and federal aid in the General Fund in the amount of \$2,883,903, primarily due to an increase in foundation aid and building aid.
- An increase in Property Taxes and STAR in the amount of \$2,105,075.

The District's expenditures increased by \$13,750,449 in 2018 or 6.3%, primarily in the instructional program category. The major factor that contributed to the increase was:

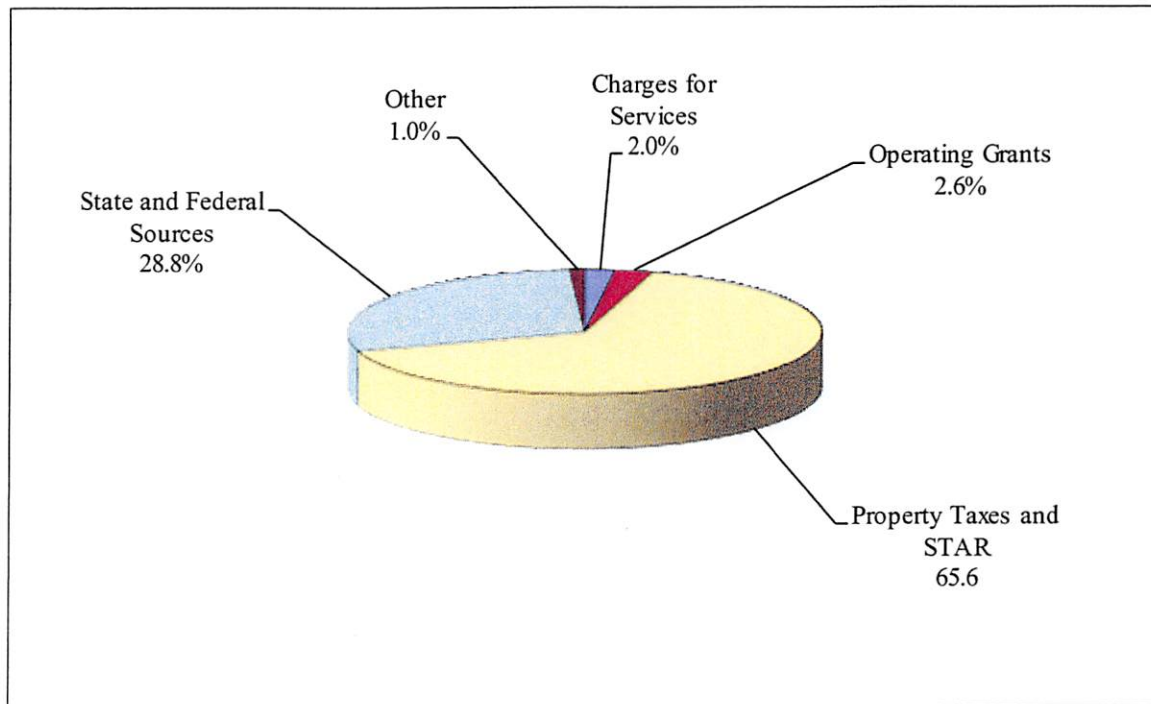
- There was a \$9.5 million increase in the amount of employee benefits allocated to the instructional category. The increase is primarily attributed to significant increases in health insurance expense in the fund statements and long-term compensated absences expense, which are primarily allocated to the instructional category.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

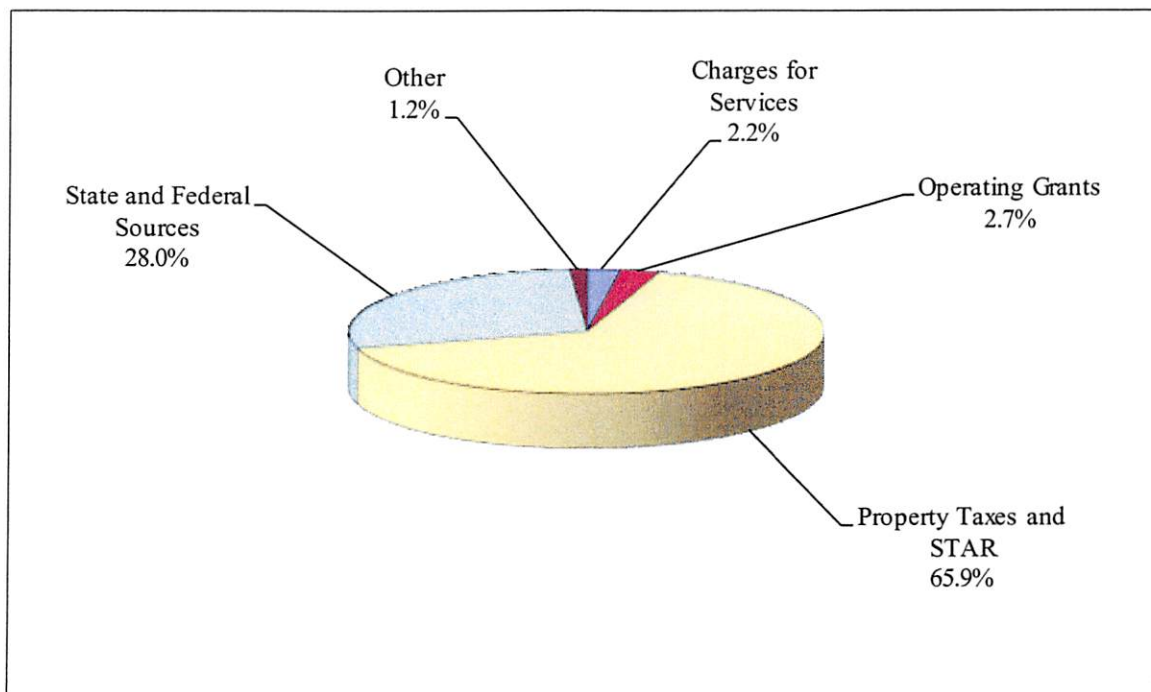
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A graphic display of the distribution of revenues for the two years follows:

**For the Year Ended June 30, 2018**



**For the Year Ended June 30, 2017**



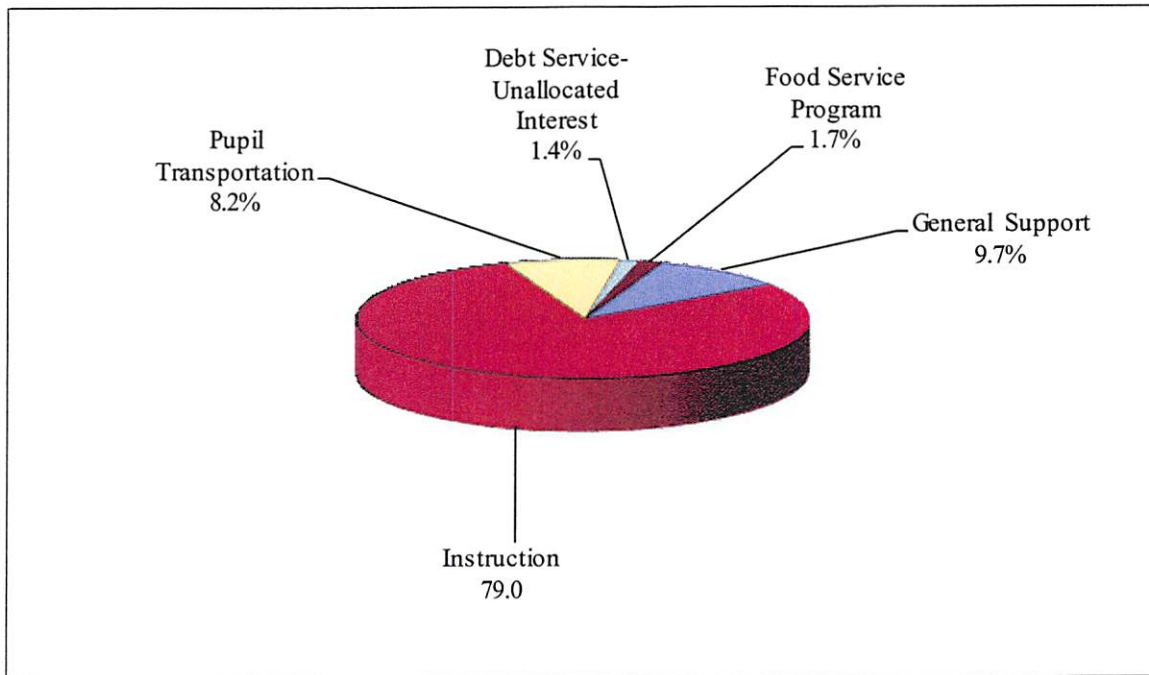
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**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

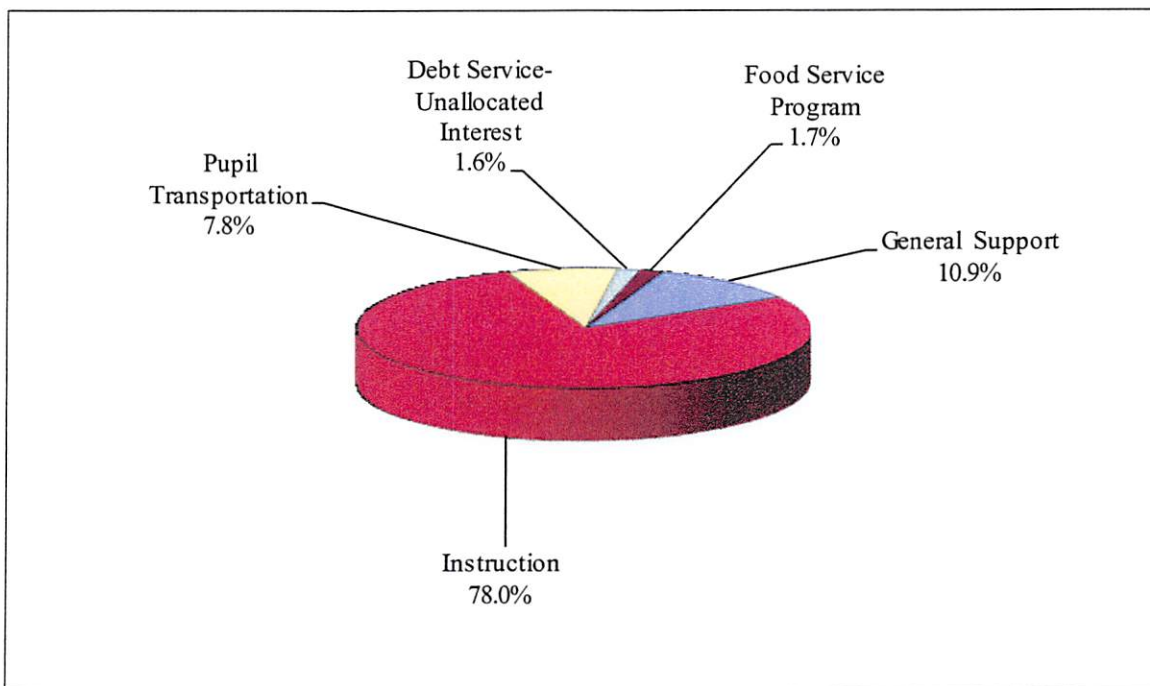
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A graphic display of the distribution of expenses for the two years follows:

**For the Year Ended June 30, 2018**



**For the Year Ended June 30, 2017**



See Independent Auditor's Report.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

(Continued)

**4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUND BALANCES**

At June 30, 2018, the District's governmental funds reported a combined fund balance of \$36,360,267 which is an increase of \$1,517,712 over the prior year. This increase is due to an excess of revenues over expenditures, primarily in the General Fund. A summary of the change in fund balance by fund is as follows:

	2018	2017	Increase/ (Decrease)
<b>General Fund</b>			
<b>Nonspendable</b>	\$ 22,589	\$ 22,005	\$ 584
<b>Restricted</b>			
Unemployment Insurance	131,100	131,040	60
Retirement Contribution	4,536,207	4,535,257	950
Liability	53,269	53,229	40
Tax Certiorari	397,605	392,708	4,897
Employee Benefit Accrued Liability	907,473	906,596	877
Capital	2,001,438	1,515,941	485,497
<b>Total Restricted</b>	<u>8,027,092</u>	<u>7,534,771</u>	<u>492,321</u>
<b>Assigned</b>			
Appropriated for Subsequent Year's Budget	5,743,000	5,000,000	743,000
Encumbrances	1,476,362	1,842,021	(365,659)
<b>Total Assigned</b>	<u>7,219,362</u>	<u>6,842,021</u>	<u>377,341</u>
<b>Unassigned</b>	<u>8,200,349</u>	<u>7,929,348</u>	<u>271,001</u>
<b>Total General Fund</b>	<u>23,469,392</u>	<u>22,328,145</u>	<u>1,141,247</u>
 <b>School Lunch Fund</b>			
Nonspendable	96,595	88,805	7,790
Assigned	412,281	502,456	(90,175)
<b>Total School Lunch Fund</b>	<u>508,876</u>	<u>591,261</u>	<u>(82,385)</u>
 <b>Debt Service Fund</b>			
Restricted	4,117,662	4,117,662	
 <b>Capital Projects Fund</b>			
Restricted	13,464,333	13,179,549	284,784
Unassigned (Deficit)	(5,199,996)	(5,374,062)	174,066
<b>Total Capital Projects Fund</b>	<u>8,264,337</u>	<u>7,805,487</u>	<u>458,850</u>
 <b>Total Fund Balances</b>	<u>\$ 36,360,267</u>	<u>\$ 34,842,555</u>	<u>\$ 1,517,712</u>

Combined increases of \$492,321 to the General Fund restricted fund balance during the year ended June 30, 2018 includes interest earnings on existing balances and Board approved transfers of \$2 million to the buildings and improvements capital reserve, and \$3,440 to the tax certiorari reserve. There was a Board approved transfer of \$1,518,000 to the Capital Projects Fund to cover the local share of the Athletic Complex Upgrade Capital Project.

The unassigned deficit of \$5,199,996 and \$5,374,062 in the Capital Projects Fund at June 30, 2018 and 2017, respectively, was due to temporarily financing for the bus and vehicle purchases and unreimbursed expenditures incurred from projects under the Smart Schools Bond Act.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

(Continued)

**5. GENERAL FUND BUDGETARY HIGHLIGHTS**

**A. 2017-2018 Budget**

The District's General Fund adopted budget for the year ended June 30, 2018, was \$205,055,000. This is an increase of \$3,830,000 over the prior year's adopted budget.

The budget was funded through a combination of revenues and designated fund balance. The majority of this funding source was \$136,540,736 in estimated property taxes and STAR, and \$60,552,443 in State Aid.

**B. Change in General Fund's Unassigned Fund Balance (Budget to Actual)**

The General Fund's unassigned fund balance is the component of total fund balance that is the residual of prior years' excess revenues over expenditures, net of transfers to reserves and designations to fund the subsequent year's budget. It is this balance that is commonly referred to as the "fund balance". The change in this balance demonstrated through a comparison of the actual revenues and expenditures for the year compared to budget follows:

Opening, Unassigned Fund Balance	\$ 7,929,348
Revenues, Transfers, and Appropriated Reserves under Budget	(744,556)
Expenditures, Encumbrances, and Transfers under Budget	7,251,462
Increase in Nonspendable Fund Balance	(584)
Appropriated Fund Balance for 2018-2019	(5,743,000)
Net Increase to Restricted Funds	<u>(492,321)</u>
Closing, Unassigned Fund Balance	<u>\$ 8,200,349</u>

**Opening, Unassigned Fund Balance**

The \$7,929,348 shown in the table is the portion of the District's June 30, 2017, fund balance that was retained as unassigned. This was 3.87% of the District's 2017-2018 approved operating budget.

**Revenues, Transfers, and Appropriated Reserves Under Budget**

The 2017-2018 final budget for revenues, transfers, and appropriated reserves was \$201,573,000. The actual revenues and transfers received for the year were \$200,828,444. The actual revenue and transfers under estimated or budgeted revenue was \$744,556. This variance contributes directly to the change to the unassigned portion of the General Fund fund balance from June 30, 2017 to June 30, 2018.

**Expenditures, Encumbrances and Transfers Under Budget**

The 2017-2018 budget for expenditures and transfers was \$208,415,021. The actual expenditures and transfers, including amounts encumbered, was \$201,163,559. The final budget was under expended by \$7,251,462. This under expenditure contributes directly to the change to the unassigned portion of the General Fund fund balance from June 30, 2017 to June 30, 2018.

**Appropriated Fund Balance for 2018-2019**

The District chose to use \$5,743,000 of its available June 30, 2018 fund balance to partially fund the 2018-2019 approved operating budget. This was \$743,000 more than the amount appropriated for the 2017-2018 budget.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

(Continued)

**Net Increase to Restricted Funds**

Combined increases to the General Fund restricted fund balances represent interest earned of \$6,881 in 2017-2018 and Board approved transfers in of \$2,003,440 offset by a \$1,518,000 transfer from the Buildings and Improvements Capital Reserve to the Capital Projects Fund to cover the local share of the Athletic Complex Upgrade Capital Project.

**Closing, Unassigned Fund Balance**

Based upon the summary changes shown in the above table, the District has an unassigned fund balance of \$8,200,349 at June 30, 2018. The unassigned fund balance is 3.91% of the 2018-2019 approved operating budget. This is an increase of \$271,001 over the unassigned balance from the prior year as of June 30, 2017.

**6. CAPITAL ASSET AND DEBT ADMINISTRATION**

**A. Capital Assets**

At June 30, 2018, the District had invested in a broad range of capital assets, including land, buildings and improvements and equipment. The net decrease in capital assets is due to amounts expended for depreciation exceeding capital additions recorded for the year ended June 30, 2018. A summary of the District's capital assets, net of accumulated depreciation at June 30, 2018 and 2017, is as follows:

	2018	2017	Increase/ (Decrease)
Land	\$ 2,052,309	\$ 2,052,309	\$
Construction in Progress	15,041,869	35,854,070	(20,812,201)
Asset Held for Sale	339,817	339,817	
Buildings and Improvements	123,122,503	103,829,810	19,292,693
Furniture, Equipment, and Vehicles	<u>10,285,475</u>	<u>9,889,903</u>	<u>395,572</u>
Capital Assets, Net	<u>\$ 150,841,973</u>	<u>\$ 151,965,909</u>	<u>\$ (1,123,936)</u>

**B. Debt Administration**

At June 30, 2018, the District had total bonds payable and an energy performance contract of \$85,128,091. A summary of the outstanding debt at June 30, 2018 and 2017 is as follows:

Issue Date	Interest Rate	2018	2017	Increase (Decrease)
5/1/2009	2.0-5.0%	\$ 3,110,000	\$ 6,095,000	\$ (2,985,000)
5/24/2012	2.0-5.0%	30,065,000	31,830,000	(1,765,000)
11/7/2012	2.0-4.0%	5,815,000	8,565,000	(2,750,000)
4/2/2016	2.0-5.0%	27,820,000	27,880,000	(60,000)
8/24/2015	2.6-4.4%	<u>18,318,091</u>	<u>19,473,876</u>	<u>(1,155,785)</u>
		<u>\$ 85,128,091</u>	<u>\$ 93,843,876</u>	<u>\$ (8,715,785)</u>

**7. ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

At the time these financial statements were prepared and audited, the School District was aware of the following existing circumstances that could significantly affect its financial health in the future:

The NYS legislature has imposed a real property tax cap on public school districts which may fail to acknowledge the true cost of increases in unfunded mandates, employee retirement benefits and health insurance costs. Unless these issues are recognized in any new legislation, school districts will be forced to reallocate funds from instruction to these other areas. Another challenge is to maintain and upgrade the existing facilities and to plan for future enrollment sizes. Enrollment will continue to be an important factor in District financial planning. Over the past few years, total student enrollment has been decreasing following a period of

**ARLINGTON CENTRAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2018**

**(Continued)**

significant growth. The District will continue to study, monitor, and trend our demographic data to better predict future enrollments. Any significant change in student enrollment will have implications for financial forecasting and budgeting. The continued rapid growth in the cost of health insurance combined with the high costs of funding the Teachers' Retirement System and Employees' Retirement System are projected to have significant budgetary impact in the near to intermediate future.

The School District receives approximately 30% of its funding through state and federal sources. Possible deficits in both Federal and New York State government finances could reduce future funding from these sources that could affect the School District's financial health. In addition, a decline in the fair market value of real property tax assessments in New York State could also affect the School District's long-term financial health.

The current economic climate of New York State and the nation is stable. If New York State or the Federal government's economic position change from stable to declining then this will diminish the state's ability to adequately fund the public education system.

**8. CONTACTING THE DISTRICT**

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office at 144 Todd Hill Road, LaGrangeville, NY 12540.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
June 30, 2018

<b>Assets</b>	
Cash and Cash Equivalents	\$ 19,658,972
Restricted Cash and Cash Equivalents	25,602,291
Receivables	
State and Federal Aid	3,213,709
Due From Other Governments	1,745,090
Other Receivables	670,532
Inventory	96,595
Other Assets	22,589
Net Pension Asset - Proportionate Share	3,558,458
Capital Assets, Net of Accumulated Depreciation	<u>150,841,973</u>
Total Assets	<u>205,410,209</u>
<b>Deferred Outflows of Resources</b>	
Unamortized Deferred Loss on Refunding	2,884,580
Pensions	<u>53,959,769</u>
Total Deferred Outflows of Resources	<u>56,844,349</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 262,254,558</u></b>
<b>Liabilities</b>	
Accrued Liabilities	\$ 804,716
Due To	
Other Governments	459
Teachers' Retirement System	7,912,447
Employees' Retirement System	804,966
Short-Term Note Payable	
Bond Anticipation Note	5,193,200
Unearned Credits	
Overpayments and Collections in Advance	78,089
Unearned Revenues	88,006
Noncurrent Liabilities	
Due Within One Year	8,417,362
Due in More Than One Year	<u>756,470,781</u>
Total Liabilities	<u>779,770,026</u>
<b>Deferred Inflows of Resources</b>	
Pensions	<u>16,894,476</u>
<b>Net Position</b>	
Net Investment in Capital Assets	57,119,620
Restricted	25,609,087
Unrestricted (Deficit)	<u>(617,138,651)</u>
Total Net Position (Deficit)	<u>(534,409,944)</u>
<b>Total Liabilities, Deferred Inflows, and Net Position (Deficit)</b>	<b><u>\$ 262,254,558</u></b>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Support	\$ 22,375,969	\$	\$	\$	\$ (22,375,969)
Instruction	182,444,450	1,968,475	4,461,901	312,234	(175,701,840)
Pupil Transportation	18,913,670				(18,913,670)
Debt Service - Unallocated Interest	3,123,126				(3,123,126)
Food Service	3,917,680	2,279,027	1,005,823		(632,830)
Total Functions/Programs	<u>\$ 230,774,895</u>	<u>\$ 4,247,502</u>	<u>\$ 5,467,724</u>	<u>\$ 312,234</u>	<u>(220,747,435)</u>
<b>General Revenues</b>					
Real Property Taxes					122,674,449
STAR and Other Real Property Tax Items					13,923,005
Use of Money and Property					787,540
Sale of Property and Compensation for Loss					7,623
State and Federal Sources					60,096,331
Miscellaneous					<u>1,354,789</u>
Total General Revenues					<u>198,843,737</u>
Change in Net Position					(21,903,698)
Net Position (Deficit), Beginning of Year					(26,384,108)
Prior Period Adjustment					<u>(486,122,138)</u>
Net Position (Deficit), Beginning of Year (Restated)					<u>(512,506,246)</u>
Net Position (Deficit), End of Year					<u>\$ (534,409,944)</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2018**

	General	School Lunch	Special Aid	Debt Service	Capital Projects	Total
<b>Assets</b>						
Cash and Cash Equivalents	\$ 19,236,683	\$ 422,289	\$	\$	\$	\$ 19,658,972
Restricted Cash and Cash Equivalents	8,027,092			4,117,662	13,457,537	\$ 25,602,291
Receivables						
Due From						
State and Federal	1,720,856	69,090	1,423,763			3,213,709
Other Governments	1,745,090					1,745,090
Other Funds	1,423,763					1,423,763
Other Receivables	669,825	707				670,532
Inventory		96,595				96,595
Other Assets	22,589					22,589
Total Assets	<u>\$ 32,845,898</u>	<u>\$ 588,681</u>	<u>\$ 1,423,763</u>	<u>\$ 4,117,662</u>	<u>\$ 13,457,537</u>	<u>\$ 52,433,541</u>
<b>Liabilities</b>						
Payables						
Accrued Liabilities	\$ 571,087	\$ 1,257	\$	\$	\$	\$ 572,344
Due To						
Other Governments		459				459
Other Funds			1,423,763			1,423,763
Teachers' Retirement System	7,912,447					7,912,447
Employees' Retirement System	804,966					804,966
Short-Term Note Payable						
Bond Anticipation Note					5,193,200	5,193,200
Unearned Credits						
Overpayments and Collections in Advance		78,089				78,089
Unearned Revenues	88,006					88,006
Total Liabilities	<u>9,376,506</u>	<u>79,805</u>	<u>1,423,763</u>		<u>5,193,200</u>	<u>16,073,274</u>
<b>Fund Balance</b>						
Nonspendable	22,589	96,595				119,184
Restricted	8,027,092			4,117,662	13,464,333	25,609,087
Assigned	7,219,362	412,281				7,631,643
Unassigned (Deficit)	8,200,349				(5,199,996)	3,000,353
Total Fund Balance	<u>23,469,392</u>	<u>508,876</u>		<u>4,117,662</u>	<u>8,264,337</u>	<u>36,360,267</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 32,845,898</u>	<u>\$ 588,681</u>	<u>\$ 1,423,763</u>	<u>\$ 4,117,662</u>	<u>\$ 13,457,537</u>	<u>\$ 52,433,541</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO DISTRICT-WIDE NET POSITION  
June 30, 2018**

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Total Governmental Fund Balances	\$ <u>36,360,267</u>
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Amounts reported for governmental activities in the Statement of Net Position are different because:

The cost of building and acquiring capital assets (land, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the Statement of Net Position includes those capital assets among the assets of the School District as a whole, and their original costs are expensed annually over their useful lives.

Original Cost of Capital Assets	229,100,671
Accumulated Depreciation	<u>(78,258,698)</u>
	<u>150,841,973</u>

A deferred loss from refunding of debt is recorded as a deferred outflow of resources in the Statement of Net Position but recorded as an expenditure in the governmental funds.

Unamortized Deferred Loss on Refunding	<u>2,884,580</u>
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The proportionate share of long-term asset and liability associated with participation in state retirement systems are not current financial resources or obligations and are not reported in the funds.

Net Pension Asset - Proportionate Share	3,558,458
Deferred Outflows - Pensions	53,959,769
Net Pension Liability - Proportionate Share	(2,139,355)
Deferred Inflows - Pensions	<u>(16,894,476)</u>
	<u>38,484,396</u>

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	(66,810,000)
Energy Performance Contract Payable	(18,318,091)
Premiums on Debt	(6,363,902)
Accrued Interest on Bonds Payable	(232,372)
Other Postemployment Benefits	(651,710,694)
Compensated Absences Payable	<u>(19,546,101)</u>
	<u>(762,981,160)</u>

Total Net Position (Deficit)	\$ <u>(534,409,944)</u>
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**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2018**

	General	School Lunch	Special Aid	Debt Service	Capital Projects	Total
<b>Revenues</b>						
Real Property Taxes	\$ 122,674,449	\$	\$	\$	\$	\$ 122,674,449
STAR and Other Real Property Tax Items	13,923,005					13,923,005
Charges for Services	1,968,475					1,968,475
Use of Money and Property	787,368	172				787,540
Sale of Property and Compensation for Loss	7,623					7,623
Miscellaneous	1,354,494	295				1,354,789
State Aid	59,959,838	37,681	1,389,944		312,234	61,699,697
Federal Aid	136,493	968,142	3,071,957			4,176,592
School Lunch Sales		<u>2,279,027</u>				<u>2,279,027</u>
Total Revenues	<u>200,811,745</u>	<u>3,285,317</u>	<u>4,461,901</u>		<u>312,234</u>	<u>208,871,197</u>
<b>Expenditures</b>						
General Support	14,488,183				818,905	15,307,088
Instruction	102,385,724		3,563,431		1,689,023	107,638,178
Pupil Transportation	10,699,321		245,765		2,184,756	13,129,842
Food Service Program		2,796,551				2,796,551
Employee Benefits	54,555,696	571,151	920,475			56,047,322
Debt Service - Principal	10,951,085					10,951,085
Debt Service - Interest	<u>3,718,719</u>					<u>3,718,719</u>
Total Expenditures	<u>196,798,728</u>	<u>3,367,702</u>	<u>4,729,671</u>		<u>4,692,684</u>	<u>209,588,785</u>
Excess (Deficit) Revenues Over Expenditures	<u>4,013,017</u>	<u>(82,385)</u>	<u>(267,770)</u>		<u>(4,380,450)</u>	<u>(717,588)</u>
<b>Other Financing Sources (Uses)</b>						
BANs Redeemed from Appropriations					2,235,300	2,235,300
Transfers from Other Funds	16,699		284,469		2,604,000	2,905,168
Transfers to Other Funds	<u>(2,888,469)</u>		<u>(16,699)</u>			<u>(2,905,168)</u>
Total Other Financing Sources (Uses)	<u>(2,871,770)</u>		<u>267,770</u>		<u>4,839,300</u>	<u>2,235,300</u>
<b>Excess (Deficit) Revenues Over Expenditures and Other Financing Sources (Uses)</b>	<u>1,141,247</u>	<u>(82,385)</u>			<u>458,850</u>	<u>1,517,712</u>
<b>Fund Balance, Beginning of Year</b>	<u>22,328,145</u>	<u>591,261</u>		<u>4,117,662</u>	<u>7,805,487</u>	<u>34,842,555</u>
<b>Fund Balance, End of Year</b>	<u>\$ 23,469,392</u>	<u>\$ 508,876</u>	<u>\$</u>	<u>\$ 4,117,662</u>	<u>\$ 8,264,337</u>	<u>\$ 36,360,267</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES AND  
EXPENDITURES OF THE GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018**

Net Changes in Fund Balance - Total Governmental Funds			\$ 1,517,712
<p>Capital Outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their useful lives as depreciation expenses in the Statement of Activities. This is the amount by which depreciation is exceeded by capital outlays in the period.</p>			
	Depreciation Expense	(6,010,819)	
	Capital Outlays	<u>4,886,883</u>	(1,123,936)
<p>Repayments of bond principal and obligations on an energy performance contract are expenditures in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of payments on the energy performance contract and repayments of bond principal, as well as the amortization of bond premiums in the current year.</p>			
	Amortization of Premiums on Bonds	864,452	
	Repayment Bond Principal	7,560,000	
	Payments on Energy Performance Contract	<u>1,155,785</u>	9,580,237
<p>Certain expenses in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>			
	Amortized Interest Expense for Deferred Loss on Refunding	(320,509)	
	Change in Accrued Interest	51,650	
	Change in Compensated Absences	(988,229)	
	Change in Other Postemployment Benefits	<u>(29,421,658)</u>	(30,678,746)
<p>(Increases) decreases in proportionate share of net pension asset/liability reported in the Statement of Activities do not provide for or require the use of current financial resources and therefore are not reported as revenues or expenditures in the governmental funds.</p>			
	Teachers' Retirement System	(1,423,248)	
	Employees' Retirement System	<u>224,283</u>	(1,198,965)
Change in Net Position Governmental Activities			<u>\$ (21,903,698)</u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2018**

	Private Purpose	
	Trusts	Agency
<b>Assets</b>		
Cash and Cash Equivalents - Unrestricted	\$	\$ 312,961
Cash and Cash Equivalents - Restricted	712,819	
Receivables		265,000
Total Assets	<u>\$ 712,819</u>	<u>\$ 577,961</u>
<b>Liabilities</b>		
Due to Other Governments	\$ 179	\$
Agency Liabilities		265,000
Extraclassroom Activity Balances		312,961
	<u>179</u>	<u>\$ 577,961</u>
<b>Net Position</b>		
Restricted for Scholarships	<u>712,640</u>	
Total Net Position	<u>712,640</u>	
<b>Total Liabilities and Net Position</b>	<u>\$ 712,819</u>	

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**For the Year Ended June 30, 2018**

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	<u>Private Purpose Trusts</u>
<b>Additions</b>	
Use of Money and Property	\$          410
Gifts and Contributions	<u>          451,811</u>
Total Additions	<u>          452,221</u>
 <b>Deductions</b>	
Scholarships and Awards	<u>          446,163</u>
 <b>Change in Net Position</b>	 6,058
 <b>Net Position, Beginning of Year</b>	 <u>          706,582</u>
 <b>Net Position, End of Year</b>	 <u><u>          712,640</u></u>

The Accompanying Notes are an Integral Part of These Financial Statements.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

***Reporting Entity***

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

The reporting entity of the School District is based upon criteria set forth by GASB. The financial reporting entity consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The accompanying financial statements present the activities of the School District. The School District is not a component unit of another reporting entity. The decision to include a potential component unit in the School District's reporting entity is based on several criteria including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief description of certain entities included in the School District's reporting entity.

***Extraclassroom Activity Funds***

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

***Joint Venture***

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

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

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

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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***Basis of Presentation***

***(a) District-Wide Statements***

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

The Statement of Net Position presents the financial position of the School District at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Indirect expenses, principally employee benefits and depreciation expense for the year, are allocated to functional areas in proportion to the payroll expended and total expenditures, respectively, for those areas. Program revenues include charges paid by the recipients of goods or services offered by the programs, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***(b) Fund Financial Statements***

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

***General Fund:*** This is the School District's primary operating fund used to account for and report all financial resources not accounted for in another fund.

***Special Revenue Funds:***

***Special Aid Fund:*** This fund accounts for and reports the proceeds of specific revenue sources, such as federal and state grants, that are legally restricted to expenditures for specified purposes.

***School Lunch Fund:*** This fund is used to account for and report transactions of the School District's food service operations.

***Debt Service Fund:*** This fund accounts for and reports the accumulation of financial resources that are restricted to expenditures for principal and interest on long-term general obligation debt of governmental activities. Debt service funds should be used to report resources if legally mandated.

***Capital Projects Fund:*** This fund is used to account for and report financial resources that are restricted or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

***(c) Fiduciary Funds***

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

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

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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

***Measurement Focus and Basis of Accounting***

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

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

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

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

***Estimates***

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

***Property Taxes***

Real property taxes are levied annually by the Board of Education and become a lien on September 1. Taxes are collected during the period September 1 to October 31. Dutchess County subsequently enforces uncollected real property taxes. The County pays an amount representing uncollected real property taxes transmitted to the County for enforcement to the School District no later than the following April 1.

***Restricted Resources***

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

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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***Interfund Transactions***

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

The amounts reported on the Statement of Net Position for interfund receivables and payables represent amounts due between different fund types (governmental activities and fiduciary funds). Eliminations have been made for all interfund receivables and payables between the funds, except those due from or to the fiduciary funds. Refer to Note 14 for a detailed disclosure by individual fund for interfund receivables, payables, and interfund transactions activity.

***Cash and Cash Equivalents***

The School District's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition. New York State law governs the School District's investment policies. Resources must be deposited in Federal Deposit Insurance Corporation (FDIC) insured commercial banks or trust companies located within the state. Permissible investments include obligations of the United States Treasury, United States Agencies, repurchase agreements, and obligations of New York State or its localities.

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

***Receivables***

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

***Inventories and Prepaid Items***

The inventories of food and/or supplies in the School Lunch Fund are recorded at cost on a first-in, first-out basis or, in the case of surplus food donated by the U.S. Department of Agriculture, at the government's assigned value, which approximates market. Purchases of inventory items in other funds are recorded as expenditures at the time of purchase, and are considered immaterial in amount.

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

A portion of the fund balance in the amount of these non-liquid assets (inventories and prepaid items) has been identified as not available for other subsequent expenditures.

***Capital Assets***

Capital assets are reported at actual cost for acquisitions subsequent to July 1, 2002. For assets acquired prior to July 1, 2002, estimated historical costs, based on appraisals conducted by independent third-party professionals were used. Donated assets are reported at estimated fair market value at the time received.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
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Land, construction in progress, as well as buildings held for sale are not depreciated. The School District uses a capitalization threshold of \$5,000, (the dollar value above which asset acquisitions are added to the capital asset accounts). Depreciation methods and estimated useful lives of capital assets reported in the District-wide statements are as follows:

	<u>Estimated Useful Life</u>	<u>Depreciation Method</u>
Buildings and Improvements	20-50 Years	Straight Line
Furniture, Equipment, and Vehicles	5-15 Years	Straight Line

***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(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The School District has two items that qualify for reporting in this category. The first item is the deferred loss on refunding reported in the district-wide Statement of Net Position. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item is related to pensions reported in the district-wide Statement of Net Position. It represents the effect of the net change in the School District's proportion of the collective net pension asset or liability and the difference during the measurement period between the School District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. This also includes the School District's contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The School District has one item that qualifies for reporting in this category. This item is related to pensions reported in the District-wide Statement of Net Position. It represents the effect of the net change in the School District's proportion of the collective net pension liability and the difference during the measurement periods between the School District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense.

***Short-Term Debt***

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

***Unearned Revenue***

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

***Compensated Absences***

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

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

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

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
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Consistent with GASB, the liability has been calculated using the vesting method and an accrual for that liability is included in the District-wide financial statements. The liability is calculated based on the pay rates in effect at year end.

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

***Other Benefits***

Eligible School District employees participate in the New York State Teachers' Retirement System or the New York State Employees' Retirement System.

In addition to providing pension benefits, the School District provides post-employment health insurance coverage and survivor benefits for retired employees and their survivors. Collective bargaining agreements determine if School District employees are eligible for these benefits. Substantially all of the School District's employees may become eligible for these benefits if they reach normal retirement age while working for the School District. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing postemployment benefits is shared between the School District and the retired employee. The School District recognizes the costs of providing health insurance by recording its share of insurance premiums as an expenditure.

***Accrued Liabilities and Long-Term Obligations***

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

Long-term obligations represent the District's future obligations or future economic outflows. The liabilities are reported as due within one year or due in more than one year in the Statement of Net Position. In the District-wide financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

***Equity classifications***

***(a) District-wide Financial Statements***

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

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

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

***Unrestricted Net Position*** – reports the balance of the net position that does not meet the definition of the above classifications and is deemed to be available for general use by the School District.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

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**(b) Fund Financial Statements**

In the fund financial statements, there are five classifications of fund balance:

***Nonspendable***

This category includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. This category consists of the inventories in the School Lunch Fund and prepaid amounts in the General Fund.

***Restricted***

This category includes amounts with constraints placed on the use of resources either externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. Generally, the School District's policy is to use restricted resources only when appropriated by the Board of Education. The School District has established the following restricted fund balances:

- ***Unemployment Insurance Reserve***

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

- ***Retirement Contribution Reserve***

The Retirement Contribution Reserve Fund (GML §6-r) (Chapter 260 of the NYS Laws of 2004) is used to reserve funds for the payment of retirement contributions to the New York State and Local Employees' Retirement System. This reserve was established by a Board resolution and is funded by budgetary appropriation and such other reserves and funds that may be legally appropriated. A detailed report of the operation and condition of the fund must be provided to the Board. The reserve is accounted for in the General Fund.

- ***Liability Claims Reserve***

Property Loss Reserve and Liability Reserve [Education Law §1709(8-c)] are used to accumulate funds to pay for liability claims incurred. This reserve may not in total exceed 3% of the annual budget, or \$15,000, whichever is greater. This reserve is accounted for in the General Fund.

- ***Tax Certiorari Reserve***

The Tax Certiorari Reserve [Education Law §3651(1-a)] is used to accumulate funds to pay judgments and claims resulting from tax certiorari proceedings. Voter approval is not required provided that the monies held do not exceed the anticipated needs of the School District. If no voter approval is obtained, then any excess monies must be returned to the General Fund on or before the first day of the fourth fiscal year after the deposit of the monies. This reserve is accounted for in the General Fund.

- ***Reserve for Employee Benefit Accrued Liability***

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

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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- ***Buildings and Improvements Capital Projects Reserve***

According to General Municipal Law §6-c, §6-g, this reserve must be used to pay the cost of any object or purpose for which bonds may be issued. The creation of a capital reserve fund requires authorization by a majority of the voters establishing the purpose of reserve, the ultimate amount, its probable term, and the source of the funds. Expenditures may be made from the reserve only for a specific purpose further authorized by the voters. The reserve is accounted for in the General Fund.

On May 17, 2016, voters authorized to establish a capital reserve fund with a maximum amount of \$10,000,000 (plus accrued interest and investment earnings thereon) and a maximum term of 10 years. The reserve was fully funded at June 30, 2017. On May 16, 2017 voters authorized expending \$8,500,000 from this reserve toward an \$18,495,000 Transportation and Facilities Capital Project. On May 15, 2018, an additional \$1,518,000 was authorized by voters and transferred from the reserve towards a \$3,275,000 Athletic Complex Upgrade Capital Project.

Also, on May 15, 2018, voters authorized a new capital reserve with a maximum amount of \$20,000,000 (plus accrued interest and investment earnings thereon) and a maximum term of 20 years. The School District provided \$2,000,000 of funding to this reserve during the year ended June 30, 2018.

- ***Debt Service Fund***

This fund is used to account for and report the financial resources that are restricted to pay debt service. The funds include unused debt proceeds and interest and earnings on the temporary investment of debt proceeds.

- ***Capital Projects Fund***

This fund is used to account for and report the financial resources that are restricted by a voter approved proposition for acquisition, construction or major repair of capital facilities.

- ***Endowment and Scholarships***

The School District maintains funds restricted by donors for the benefit of the School and its students. This reserve is accounted for in the Fiduciary Fund.

***Committed*** - Includes amounts that can only be used for the specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority, i.e., the Board of Education. The School District has no committed fund balances as of June 30, 2018.

***Assigned*** - Includes amounts that are constrained by the School District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by (a) the Board of Education or (b) the designated official, such as the School District's Purchasing Agent, to which the Board has delegated the authority to assign amounts to be used for specific purposes. The purpose of the constraint must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance. Assigned fund balance also includes an amount appropriated to partially fund the subsequent year's budget of the General Fund, as well as encumbrances not classified as restricted at the end of the fiscal year.

***Unassigned*** - Includes all other General Fund amounts that do not meet the definition of the above four classifications and are deemed to be available for general use by the School District and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification is used to report a deficit fund balance from overspending for specific purposes for which amounts had been restricted or assigned.

**(c) *Order of Use of Fund Balance***

The School District's policy is to apply expenditures against non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance at the end of the fiscal year. For all funds, non-spendable fund balances are determined first and then restricted fund balances for specific purposes are determined. Any remaining fund balance amounts for funds other than the General Fund are classified as restricted fund balance. In the General Fund, committed fund balance is determined next and then assigned. The remaining amounts are reported as unassigned. Assignments of fund balance cannot cause a negative unassigned fund balance.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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***New Accounting Standard***

For the fiscal year ended June 30, 2018, the School District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of the statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It requires District's to report OPEB liabilities, OPEB expenses, deferred outflow of resources and deferred inflow of resources related to OPEB. See note 21 for the financial statement impact of the implementation of the statement.

***Future Changes in Accounting Standards***

- GASB Statement No. 84 – Fiduciary Activities      Effective for the year ended June 30, 2020
- GASB Statement No. 87 – Leases      Effective for the year ended June 30, 2021

The School District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

**2. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN GOVERNMENTAL FUND STATEMENTS AND DISTRICT-WIDE STATEMENTS**

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

***Total Fund Balances of Governmental Funds Compared to Net Position of Governmental Activities***

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

***Statement of Revenues, Expenditures, and Changes in Fund Balance Compared to Statement of Activities***

Differences between the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balance and the Statement of Activities fall into one of six broad categories:

***(a) Long-Term Revenue/Expenditure Differences***

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

***(b) Capital Related Differences***

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

***(c) Long-Term Debt Transaction Differences***

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

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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**(d) Pension Differences**

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

**(e) OPEB Differences**

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

**(f) Employee Benefit Allocation**

Expenditures for employee benefits are not allocated to a specific function on the Statement of Revenues, Expenditures, and Changes in Fund Equity based on the requirements of New York State. These costs have been allocated to functional areas based on total salary for each function in the Statement of Activities.

**3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

***Budgetary Procedures and Budgetary Accounting***

The School District administration prepares a proposed budget for approval by the Board of Education for the General Fund for which legal (appropriated) budgets are adopted.

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

Appropriations are adopted at the program line item level.

Appropriations established by the adoption of the budget constitute a limitation on expenditures (and encumbrances) which may be incurred. Appropriations lapse at the end of the fiscal year unless expended or encumbered. Encumbrances will lapse if not expended in the subsequent year. Appropriations authorized for the current year are increased by the planned use of specific reserves, and budget amendments approved by the Board of Education as a result of selected new revenue sources not included in the original budget (when permitted by law). These supplemental appropriations may occur subject to legal restrictions, if the Board approves them because of a need that exists which was not determined at the time the budget was adopted. During the year ended June 30, 2018 the Board of Education approved additional supplemental appropriations totaling \$1,518,000. These supplemental appropriations are detailed on the schedule of change from original budget to revised budget on page 51.

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

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

***Encumbrances***

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

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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***General Fund – Statutory Unassigned Fund Balance Limit***

NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a school district can retain to no more than 4% of the school district's budget for the General Fund for the ensuing fiscal year. Nonspendable and restricted fund balance of the General Fund are excluded from the 4% limitation. Amounts appropriated for the subsequent year and encumbrances are also excluded from the 4% limitation.

At June 30, 2018, the School District's unassigned fund balance was 3.91% of the 2018-2019 budget.

***Statutory Debt Limit***

At June 30, 2018, the School District was in compliance with the statutory debt limit.

***NYS Real Property Tax Cap***

Chapter 97 of the Laws of 2011 established a property tax levy limit (generally referred to as the tax cap) that restricts the amount of property taxes local governments (including school districts) can levy. The School District was in compliance with the tax cap for the year ended June 30, 2018.

**4. CASH AND CASH EQUIVALENTS**

***Custodial Credit Risk***

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. In accordance with the School District's deposit policy, all deposits of the School District in excess of the amount insured under the provisions of the Federal Deposit Insurance Act (FDIC) are required to be collateralized fully.

As of June 30, 2018, the School District's bank balances of \$38,621,425 were collateralized by FDIC insurance of \$1,000,000 and securities held by an agent of the pledging financial institution in an account in the School District's name of \$37,549,741 and not exposed to custodial credit risk, while \$71,684 was considered uninsured and uncollateralized.

***Investment Policy***

The School District follows an investment policy, the overall objective of which is to adequately safeguard the principal amount of funds invested or deposited; minimize risk; ensure that investments mature when cash is required to finance operations; and ensure a competitive rate of return in order to supplement other district revenues for the support of the educational program of the school system.

***Restricted Cash and Cash Equivalents***

Restricted cash and cash equivalents of \$8,027,092 in the General Fund represents amounts in the following reserves:

<u>Description</u>	<u>Amount</u>
Unemployment Insurance Reserve	\$ 131,100
Retirement Contribution Reserve	4,536,207
Liability Reserve	53,269
Tax Certiorari Reserve	397,605
Employee Benefit Accrued Liability Reserve	907,473
Building and Improvements Capital Reserve	2,001,438
	<u>\$ 8,027,092</u>

Restricted cash and cash equivalents of \$13,457,537 in the Capital Projects Fund represents funds held for use on current capital projects.

Restricted cash and cash equivalents of \$4,117,662 in the Debt Service Fund represents reserves for future debt service.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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Restricted cash and cash equivalents of \$712,819 in the fiduciary funds represents funds gifted to the School District for scholarships and awards.

**5. PARTICIPATION IN BOCES**

During the year, the School District was billed \$15,411,227 for BOCES' administrative and program costs. The School District's share of BOCES' aid amounted to \$3,877,978.

Financial statements of the BOCES are available from the Dutchess BOCES administrative office located in Poughkeepsie, New York.

**6. RECEIVABLES**

The amounts due for state and federal aid and from other governments at June 30, 2018, consisted of:

**General Fund**

**Due from State and Federal**

New York State – August Excess Cost Aid	\$ 1,585,347
New York State – September Excess Cost Aid	135,161
New York State – Other	348
	<u>\$ 1,720,856</u>

**Due from Other Governments**

BOCES Aid – September Aid	<u>\$ 1,745,090</u>
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**School Lunch Fund**

**Due from State and Federal**

Federal – June Claims	\$ 66,451
New York State – June Claims	2,639
	<u>\$ 69,090</u>

**Special Aid Fund**

**Due from State and Federal**

Federal Grants	\$ 284,941
New York State Aid and Grants	1,138,822
	<u>\$ 1,423,763</u>

**7. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 2,052,309	\$	\$	\$ 2,052,309
Construction in Progress	35,854,070	2,576,716	23,388,917	15,041,869
Asset Held for Sale	339,817			339,817
Total	<u>38,246,196</u>	<u>2,576,716</u>	<u>23,388,917</u>	<u>17,433,995</u>
<b>Capital Assets Being Depreciated</b>				
Buildings and Improvements	162,958,492	23,388,917		186,347,409
Furniture, Equipment and Vehicles	24,547,883	2,310,167	1,538,783	25,319,267
Total	<u>187,506,375</u>	<u>25,699,084</u>	<u>1,538,783</u>	<u>211,666,676</u>
<b>Accumulated Depreciation</b>				
Buildings and Improvements	59,128,682	4,096,224		63,224,906
Furniture, Equipment and Vehicles	14,657,980	1,914,595	1,538,783	15,033,792
Total	<u>73,786,662</u>	<u>6,010,819</u>	<u>1,538,783</u>	<u>78,258,698</u>
Net Capital Assets Being Depreciated	113,719,713	19,688,265		133,407,978
<b>Net Capital Assets</b>	<u>\$ 151,965,909</u>	<u>\$ 22,264,981</u>	<u>\$ 23,388,917</u>	<u>\$ 150,841,973</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
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Depreciation expense of \$6,010,819 was allocated based on estimated usage by function as follows:

<u>Function/Program</u>	<u>Amount</u>
General Support	\$ 662,541
Instruction	4,658,932
Pupil Transportation	568,302
Food Service Program	121,044
Total Depreciation	<u>\$ 6,010,819</u>

**8. SHORT-TERM NOTES PAYABLE**

The School District had outstanding bond anticipation notes (BANs) as follows:

<u>Payable From/Description</u>	<u>Date of Original Issue</u>	<u>Original Amount</u>	<u>Date of Final Maturity</u>	<u>Interest Rate (%)</u>	<u>Outstanding Amount</u>
General Fund					
2017 Bus BAN	11/17	<u>\$ 5,420,000</u>	11/18	2.25	<u>\$ 5,193,200</u>

Changes in the School District's short-term notes payable for the year ended June 30, 2018, are as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Refinanced / Paid</u>	<u>Ending Balance</u>
2012 BAN for Buses	\$ 182,600	\$	\$ 182,600	\$
2013 BAN for Buses	729,400		364,700	364,700
2014 BAN for Buses	921,000		295,000	626,000
2015 BAN for Buses	1,578,500		372,000	1,206,500
2016 BAN for Buses	2,008,500		1,021,000	987,500
2017 BAN for Buses		<u>2,008,500</u>		<u>2,008,500</u>
	<u>\$ 5,420,000</u>	<u>\$ 2,008,500</u>	<u>\$ 2,235,300</u>	<u>\$ 5,193,200</u>

Interest expense on the BANs was \$113,797 for the year ending June 30, 2018.

**9. NONCURRENT LIABILITIES**

Noncurrent liability balances and activity are as follows:

<u>Description</u>	<u>(Restated) Beginning Balance</u>	<u>Issued</u>	<u>Paid</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
Serial Bonds	\$ 74,370,000	\$	\$ 7,560,000	\$ 66,810,000	\$ 6,365,000
Unamortized Bond Premiums	7,228,354		864,452	6,363,902	864,452
Energy Performance Contract	19,473,876		1,155,785	18,318,091	1,187,910
Other Liabilities					
Other Postemployment Benefits	622,289,036	41,518,919	12,097,261	651,710,694	
Net Pension Liability - Proportionate Share	10,939,732		8,800,377	2,139,355	
Compensated Absences	<u>18,557,872</u>	<u>988,229</u>		<u>19,546,101</u>	
Total Noncurrent Liabilities	<u>\$ 752,858,870</u>	<u>\$ 42,507,148</u>	<u>\$ 30,477,875</u>	<u>\$ 764,888,143</u>	<u>\$ 8,417,362</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2018

**Serial Bonds**

The School District borrows funds on a long-term basis for the purpose of financing acquisitions of land and equipment and construction of buildings and improvements. This policy enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These long-term liabilities for governmental funds are maintained separately and represent a reconciling item between the fund and District-wide statements. Interest associated with long-term debt is recorded as an expenditure when such amounts are due.

Details relating to general obligation (serial) bonds and the energy performance contract of the School District outstanding at June 30, 2018, are summarized as follows:

<u>Payable From/Description</u>	<u>Original Issue</u>	<u>Original Amount</u>	<u>Final Maturity</u>	<u>Interest Rate (%)</u>	<u>Outstanding Amount</u>
<b>General Fund</b>					
Construction Serial Bond	05/01/09	\$ 56,107,212	2019	2.0-5.0	\$ 3,110,000
Refunding Serial Bond	05/24/12	\$ 37,365,000	2031	2.0-5.0	30,065,000
Refunding Serial Bond	11/07/12	\$ 18,615,000	2023	2.0-4.0	5,815,000
Refunding Serial Bond 2009A	04/02/16	\$ 28,540,000	2021	2.0-5.0	27,820,000
Energy Performance Contract	08/24/15	\$ 20,598,439	2031	2.6-4.4	18,318,091
Total					<u>\$ 85,128,091</u>

Principal and interest payments due on the serial bonds are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 6,365,000	\$ 2,765,637	\$ 9,130,637
2020	6,645,000	2,477,738	9,122,738
2021	6,365,000	2,219,337	8,584,337
2022	6,560,000	1,962,338	8,522,338
2023	6,620,000	1,664,387	8,284,387
2024-2028	26,035,000	2,657,400	28,692,400
2029-2031	8,220,000	488,806	8,708,806
	<u>\$ 66,810,000</u>	<u>\$ 14,235,643</u>	<u>\$ 81,045,643</u>

**Other Debt – Energy Performance Contract**

The School District entered into an energy performance contract during the year ended June 30, 2016. The contract is defined in Section 9-102(4) of the New York State Energy Law as: “an agreement for the provision of energy services, including but not limited to electricity, heating, ventilation, cooling, steam, or hot water, in which a person agrees to install, maintain, or manage energy systems or equipment to improve the energy efficiency of, or produce energy in connection with a building or facility in exchange for a portion of the energy savings or revenues.” The contract is accounted for as a capital lease. The total net present value of the lease at June 30, 2018, is \$18,318,091.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

The following is a schedule of future principal and interest payments of the capital lease as of June 30, 2018:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$ 1,187,910	\$ 501,909	\$ 1,689,819
2020	1,220,966	468,853	1,689,819
2021	1,254,982	434,837	1,689,819
2022	1,289,987	399,832	1,689,819
2023	1,326,011	363,808	1,689,819
2024-2028	7,208,380	1,240,715	8,449,095
2029-2031	4,829,855	239,603	5,069,458
	<u>\$ 18,318,091</u>	<u>\$ 3,649,557</u>	<u>\$ 21,967,648</u>

Interest expense on the district-wide financial statements is calculated as follows:

Interest Paid on Long Term Debt	\$ 3,604,922
Interest on BANs	113,797
Amortization of Deferred Loss	320,509
Amortization of Bond Premiums	(864,452)
Less: Interest Accrued in the Prior Year	(284,022)
Plus: Interest Accrued in the Current Year	<u>232,372</u>
Total Interest Expense	<u>\$ 3,123,126</u>

***Prior-Year Defeasance of Debt***

In prior years, the School District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2018, \$67,575,000 of bonds outstanding are considered defeased.

***Deferred Loss on Refunding***

During 2016, the District issued \$28,540,000 in general obligation bonds to advance refund \$30,140,000 of outstanding 2009 serial bonds. The refunding resulted in a deferred loss of \$3,846,107 due to the reacquisition price exceeding the carrying value of the refunded bond. This amount was classified as a deferred outflow of resources in accordance with GASB 63 and GASB 65. The loss is being amortized using the straight-line method over 12 years, the remaining time to maturity of the respective bond issue. The remaining unamortized balance of this loss at June 30, 2018 is \$2,884,580 and is reported as a deferred outflow of resources on the District-wide financial statements.

The amortization charged to interest expense for the year ended June 30, 2018, was \$320,509.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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**11. PENSION PLANS**

**A. New York State and Local Employees' Retirement System (ERS)**

**(a) *Plan Description***

The School District participates in the New York State and Local Employees' Retirement System (ERS). This is a cost-sharing multiple-employer public employee retirement system. The system provides retirement benefits as well as death and disability benefits.

The net position of the System is held in the New York State Common Retirement Fund (the Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The School District also participates in the Public Employees' Group Life Insurance Plan (GLIP), which provides death benefits in the form of life insurance. The System maintains records and accounts, and prepares financial statements using the accrual basis of accounting. Contributions are recognized when due. Benefit payments are recognized when due and payable. Investments are recognized at fair value. The System is included in the state's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at [www.osc.state.ny.us/retire/publications/index.php](http://www.osc.state.ny.us/retire/publications/index.php) or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

**(b) *Contributions***

The System is noncontributory for employees who joined prior to July 28, 1976. For employees who joined after July 27, 1976, and prior to January 1, 2010, employees contribute 3% of their salary for the first ten years of membership. Employees who joined on or after January 1, 2010, but prior to April 1, 2012, are required to contribute 3% of their annual salary for their entire working career. Employees who joined on or after April 1, 2012 must contribute at a specific percentage of earnings (between 3 and 6%) for their entire career. Under the authority of the RSSL, the Comptroller certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the Systems' fiscal year ending March 31. All required contributions for the NYSERS fiscal year ended March 31, 2018, were paid.

The required contributions for the current year and two preceding years were:

	<u>Amount</u>
2016	\$ 3,264,802
2017	\$ 2,768,583
2018	\$ 3,004,083

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

At June 30, 2018, the School District reported a liability of \$2,139,355 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 1, 2017. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. This information was provided by the ERS System in a report provided to the School District.

At June 30, 2018 and 2017, the School District's proportion was .0662863 percent and .0634701 percent, respectively.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

For the year ended June 30, 2018, the School District recognized pension expense of \$2,797,074. At June 30, 2018, the School District reported deferred outflows 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	\$ 763,039	\$ 630,546
Change of assumptions	1,418,569	
Net difference between projected and actual earnings on Pensions plan investments	3,107,244	6,133,388
Changes in proportion and differences between contributions and proportionate share of contributions	754,377	144,595
Contributions subsequent to the measurement date	804,966	
Total	<u>\$ 6,848,195</u>	<u>\$ 6,908,529</u>

At June 30, 2018, \$804,966 was reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension asset or liability 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:

<u>Year ended June 30:</u>	<u>Amount</u>
2019	\$ 668,674
2020	\$ 510,844
2021	\$ (1,433,128)
2022	\$ (611,690)

**(d) Actuarial Assumptions**

The total pension liability at March 31, 2018 was determined by using an actuarial valuation as of April 1, 2017, with update procedures used to roll forward the total pension liability to March 31, 2018. The actuarial valuation used the following significant actuarial assumptions:

Investment rate of return (net of investment expense, including inflation)	7.00%
Salary scale	3.80%
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.50%

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the April 1, 2017 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2018 are summarized below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	36%	4.55%
International equity	14%	6.35%
Private equity	10%	7.50%
Real estate	10%	5.55%
Absolute return strategies	2%	3.75%
Opportunistic portfolio	3%	5.86%
Real assets	3%	5.29%
Bonds and mortgages	17%	1.31%
Cash	1%	-0.25%
Inflation-indexed bonds	4%	1.25%
	<u>100%</u>	

**(e) Discount Rate**

The discount rate used to calculate the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 7.0 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current rate:

	1% Decrease (6.0%)	Current Discount (7.0%)	1% Increase (8.0%)
Proportionate share of the net pension liability (assets)	\$ 16,186,938	\$ 2,139,355	\$ (9,744,338)

**(g) Pension Plan Fiduciary Net Position**

Detailed information about the Plan's fiduciary net position is available in the separately issued ERS financial report.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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**(h) Payables to the Pension Plan**

The School District has recorded an amount due to ERS in amount of \$804,966 at June 30, 2018. This amount represents the three months of the School District's fiscal year that will be covered in the ERS 2018-2019 billing cycle and has been accrued as an expenditure in the current year.

**B. New York State Teachers' Retirement System (TRS)**

**(a) Plan Description**

The School District participates in the New York Teachers' Retirement System (TRS). This is a cost-sharing multiple-employer public employee retirement system. The system provides retirement benefits as well as death and disability benefits.

The TRS was created and exists pursuant to Article 11 of the New York State Education Law. TRS is administered by the system and governed by a ten-member board to provide these benefits to teachers employed by participating employers in the State of New York, excluding New York City. The System provides benefits to plan members and beneficiaries as authorized by the New York State Law and may be amended only by the Legislature with the Governor's approval. Benefit provisions vary depending on date of membership and membership class (6 tiers). The System's financial statements are prepared using the accrual basis of accounting. Contributions are recognized when due. Benefit payments are recognized when due and payable. Investments are recognized at fair value. TRS issues a publicly available financial report that contains basic financial statements and required supplementary information for the System. For additional plan information please refer to the NYSTRS Comprehensive Annual Financial Report which can be found on the TRS website located at [www.nystrs.org](http://www.nystrs.org) or obtained by writing to the New York State Teachers' Retirement System, 10 Corporate Woods Drive, Albany, NY 12211-2395.

**(b) Contributions**

Pursuant to Article 11 of the New York State Education Law, employers are required to contribute at an actuarially determined rate adopted annually by the Retirement Board. Tier 3 and Tier 4 members who have less than 10 years of service or membership are required by law to contribute 3% of salary to the System. Tier 5 members are required by law to contribute 3.5% of salary throughout their active membership. Tier 6 members are required by law to contribute between 3% and 6% of salary throughout their active membership in accordance with a schedule based upon salary earned. Pursuant to Article 14 and Article 15 of the Retirement and Social Security Law, those member contributions are used to help fund the benefits provided by the System. However, if a member dies or leaves covered employment with less than 5 years of credited service for Tiers 3 and 4, or 10 years of credited service for Tiers 5 and 6, the member contributions with interest calculated at 5% per annum are refunded to the employee or designated beneficiary. Eligible Tier 1 and Tier 2 members may make member contributions under certain conditions pursuant to the provisions of Article 11 of the Education Law and Article 11 of the Retirement and Social Security Law. Upon termination of membership, such accumulated member contributions are refunded. At retirement, such accumulated member contributions can be withdrawn or are paid as a life annuity.

The required employer contributions for the current year and two preceding years were:

	<u>Amount</u>
2016	\$ 9,506,198
2017	\$ 8,694,743
2018	\$ 7,574,440

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

At June 30, 2018, the School District reported an asset of \$3,558,458 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2016. The School District's proportion of the net pension asset was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. This information was provided by the TRS System in reports provided to the School District.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

At June 30, 2018 and 2017, the School District's proportion was .468157 percent and .464589 percent, respectively.

For the year ended June 30, 2018, the School District recognized pension expense of \$8,998,273. At June 30, 2018, the School District 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	\$ 2,927,736	\$ 1,387,401
Changes of assumptions	36,207,997	
Net difference between projected and actual earnings on Pensions plan investments		8,381,197
Changes in proportion and differences between contributions and proportionate share of contributions	401,401	217,349
Contributions subsequent to the measurement date	<u>7,574,440</u>	
Total	<u>\$ 47,111,574</u>	<u>\$ 9,985,947</u>

At June 30, 2018, \$7,574,440 was reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date and will be recognized as a reduction of the net pension asset or liability 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:

<u>Year ended June 30:</u>	<u>Amount</u>
2018	\$ 875,355
2019	\$ 9,631,414
2020	\$ 6,907,149
2021	\$ 1,753,703
2022	\$ 6,887,204
Thereafter	\$ 3,496,362

**(d) Actuarial Assumptions**

The total pension asset at June 30, 2017 measurement date was determined by using an actuarial valuation as of June 30, 2016, with update procedures used to roll forward the total pension liability to June 30, 2017. The actuarial valuation used the following significant actuarial assumptions:

Investment Rate of Return	7.25 % compounded annually, net of pension plan investment expense, including inflation.
Salary scale	Rates of increase differ based on service. They have been calculated based upon recent NYSTRS member experience.

Service	Rate
5	4.72%
15	3.46%
25	2.37%
35	1.90%

Projected COLAs	1.5% compounded annually.
Inflation rate	2.5%

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

Annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on the Society of Actuaries Scale MP2014, applied on a generational basis. Active member mortality rates are based on plan member experience.

The actuarial assumptions were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2014.

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice (ASOP) No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance.

Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of the valuation date of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic equity	35.0%	5.9%
International equity	18.0%	7.4%
Real estate	11.0%	4.3%
Alternative investments	8.0%	9.0%
Domestic fixed income securities	16.0%	1.6%
Global fixed income securities	2.0%	1.3%
Mortgages	8.0%	2.8%
High-yield fixed income securities	1.0%	3.9%
Short-term	1.0%	0.6%
	<u>100.0%</u>	

\* Real rates of return are net of the long-term inflation assumption of 2.2% for 2017.

**(e) Discount Rate**

The discount rate used to calculate the total pension asset was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from school districts will be made at statutorily required rates, actuarially determined. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

**(f) Sensitivity of the Proportionate Share of the Net Pension Asset to the Discount Rate Assumption**

The following presents School District's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the School District'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 Assumption (7.25%)	1% Increase (8.25%)
Proportionate share of the net pension liability (asset)	\$ 61,301,682	\$ (3,558,458)	\$ (57,875,605)

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

**(g) Pension Plan Fiduciary Net Position**

Detailed information about the Plan's fiduciary net position is available in the separately issued TRS financial report.

**(h) Payables to the Pension Plan**

The School District has recorded an amount due to TRS in the amount of \$7,574,440, excluding the employees' share, in the General Fund at June 30, 2018. This amount represents contribution for the 2017-2018 fiscal year that will be made in 2018-2019 and has been accrued as an expenditure in the current year.

**12. OTHER POSTEMPLOYMENT BENEFITS**

**(a) Plan Description**

Arlington Central School District provides postemployment medical benefits to eligible retirees and dependents on a fully insured basis through multiple insurance plans, in accordance with the provisions of various employment contracts. The plans are considered single-employer defined benefit OPEB plans administered by the District. Article 11 of the State Compiled Statutes grants the authority to establish and amend the benefit terms and financing requirements to the District Board. No assets are accumulated in a trust that meets all of the criteria in GASB Statement No. 75, paragraph 4.

**(b) Benefits Provided**

The School District provides medical and prescription drug benefits to its eligible retirees. Dental and life insurance benefits are available with select classes of employees. The benefit levels, employee contributions and employer contributions are governed by the School District's contractual agreements. The Plans can be amended by action of the School District through agreements with the bargaining units. The specifics of each contract are on file at the School District offices and are available upon request.

**(c) Employees Covered by Benefit Terms**

	<u>Total</u>
Inactive employees currently receiving benefit payments	828
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	<u>1427</u>
Total	<u>2255</u>

**(d) Total OPEB Liability**

The District's total OPEB liability of \$651,710,694 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017.

**(e) Changes in the Total OPEB Liability**

Changes in the District's total OPEB liability were as follows:

	<u>Total OPEB Liability</u>
Balance at June 30, 2017	\$ 622,289,036
Changes recognized for the year:	
Service cost	18,718,024
Interest on total OPEB liability	22,800,895
Benefit payments	<u>(12,097,261)</u>
Net changes	<u>29,421,658</u>
Balance at June 30, 2018	<u>\$ 651,710,694</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2018

**(f) Sensitivity of the total OPEB liability to changes in the discount rate**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.7 percent) or 1 percentage point higher (4.7 percent) than the current discount rate:

	1% Decrease (2.7%)	Current Assumption (3.7%)	1% Increase (4.7%)
Total OPEB liability	\$ 810,798,259	\$ 651,710,694	\$ 533,735,565

**(g) Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower (8.0 percent decreasing to 4.0 percent) or 1 percentage point higher (10.0 percent decreasing to 6.0 percent) than the current healthcare cost trend rate:

	1% Decrease (8.0%-4.0%)	Current Assumption (9.0%-5.0%)	1% Increase (10.0%-6%)
Total OPEB liability	\$ 512,615,898	\$ 651,710,694	\$ 842,120,502

Sensitivity analysis for healthcare cost inflation (trend) rate is illustrated as of end of year.

**(h) OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$41,518,919. At June 30, 2018, the School District did not report deferred outflows of resources and deferred inflows of resources related to OPEB since this was the first year of implementation.

**(i) Actuarial Methods and Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017 rolled forward to June 30, 2018, the measurement date. The following actuarial assumptions applied to all periods in the measurement, unless otherwise specified:

Healthcare Cost Trend Rates	9.0 percent for 2018, decreasing 1.0 percent per year to an ultimate rate of 5.0 percent for 2022 and later years
Salary Changes	N/A
Discount Rate	3.70%

The School District contributes 100% of single coverage and 35% of the dependent portion of family coverage for pre-65 and post-65 retirees and their covered spouses.

The selected discount rate of 3.7% is based on the prescribed discount interest rate methodology under GASB 75 based on an average of three 20-year bond indices (e.g., Bond Buyer-20 Bond GO, S&P Municipal Bond 20 Year High Grade Rate Index, Fidelity GA AA 20 Years) as of March 28, 2018 with rates rounded to the nearest 0.1%.

Mortality rates were based on the RP 2014 Healthy Male and Female Table, using the Combined Healthy Table for both pre and postretirement projected with mortality improvements using Projection Scale AA for 2.5 years, (i.e., from date of table to valuation date), plus seven (7) years generational improvement.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2018

**13. RISK MANAGEMENT**

***General Information***

The School District is exposed to various risks of loss related to tax certioraris, torts, theft, damage, injuries, errors and omissions, natural disasters, and other risks. Except for tax certiorari, these risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past two years. Sufficient reserves exist to cover any unfavorable settlements of the tax certiorari. The School District continues to carry commercial insurance for all other risks of loss, including general liability and employee health and accident insurance.

***Workers' Compensation Insurance***

The School District participates with 12 other school districts in the Dutchess County Schools Worker's Compensation Self-Insured Consortium for its workers' compensation insurance coverage. This is a public entity risk pool created under Article 5 of the Workers' Compensation Law to finance liability and risks related to Workers Compensation claims. Entities joining the plan must remain members for a minimum of five years; a member may withdraw from the plan after that time by providing 180 days written notice. Plan members are subject to a supplemental assessment in the event of deficiencies. If the plan's assets were to be exhausted, members would be responsible for the plan's liabilities.

The premiums are computed based on an established rate of covered payroll. During the year ended June 30, 2018, the School District paid premiums of \$1,617,006 to the plan.

**14. INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS**

The following is a summary of interfund transactions and balances during the year ended June 30, 2018:

Fund Type	Interfund		Interfund	
	Receivables	Payables	Revenues	Expenditures
General	\$ 1,423,763	\$	\$ 16,699	\$ 2,888,469
Special Aid		1,423,763	284,469	16,699
Capital Projects			2,604,000	
Total	<u>\$ 1,423,763</u>	<u>\$ 1,423,763</u>	<u>\$ 2,905,168</u>	<u>\$ 2,905,168</u>

- The School District typically transfers from the General Fund to the Special Aid Fund as a local match for federal and state grants.
- The School District transferred \$1,086,000 from the General Fund to the Capital Projects Fund to cover the local share of the various roofing and other capital projects. The School District also transferred \$1,518,000 from the Building and Facilities Improvements capital reserve in the General Fund to the Capital Projects Fund for the High School Athletic Complex Project.
- Interfund receivables and payables, other than between governmental activities and fiduciary funds, are eliminated on the Statement of Net Position. These balances are short-term and expected to be repaid within the subsequent year.

**15. FUND BALANCE**

(a) The following is a summary of the change in General Fund restricted reserve funds during the year ended June 30, 2018:

Restricted Reserve	Beginning Balance	Increases	Decreases	Ending Balance
Unemployment	\$ 131,040	\$ 60	\$	\$ 131,100
Retirement Contribution	4,535,257	950		4,536,207
Liability Claims	53,229	40		53,269
Tax Certiorari Reserve	392,708	4,897		397,605
Employee Benefit Accrued Liability Reserve	906,596	877		907,473
Buildings and Improvements Capital Reserve	<u>1,515,941</u>	<u>2,003,497</u>	<u>1,518,000</u>	<u>2,001,438</u>
Total General Fund Restricted	<u>\$ 7,534,771</u>	<u>\$ 2,010,321</u>	<u>\$ 1,518,000</u>	<u>\$ 8,027,092</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended June 30, 2018

- (b) The following is the disaggregation of the fund balance that is reported in summary on the governmental fund's Balance Sheet at June 30, 2018:

	<u>General</u>	<u>School Lunch</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
<b>Nonspendable</b>					
Prepaid Expenditures	\$ 22,589	\$	\$	\$	\$ 22,589
Inventory		96,595			96,595
<b>Total Nonspendable</b>	<u>22,589</u>	<u>96,595</u>			<u>119,184</u>
<b>Restricted</b>					
Unemployment Insurance Reserve	131,100				131,100
Retirement Contribution Reserve	4,536,207				4,536,207
Liability Reserve	53,269				53,269
Tax Certiorari Reserve	397,605				397,605
Reserve for Employee Benefit Accrued Liability	907,473				907,473
Buildings and Improvements Capital Reserve	2,001,438				2,001,438
Debt Service Fund			4,117,662		4,117,662
Capital Projects Fund				13,464,333	13,464,333
<b>Total Restricted</b>	<u>8,027,092</u>		<u>4,117,662</u>	<u>13,464,333</u>	<u>25,609,087</u>
<b>Assigned</b>					
Unappropriated	1,476,362	412,281			1,888,643
Appropriated for Subsequent Year's Budget	5,743,000				5,743,000
<b>Total Assigned</b>	<u>7,219,362</u>	<u>412,281</u>			<u>7,631,643</u>
<b>Unassigned (Deficit)</b>	<u>8,200,349</u>			<u>(5,199,996)</u>	<u>3,000,353</u>
<b>Total Fund Balance</b>	<u>\$ 23,469,392</u>	<u>\$ 508,876</u>	<u>\$ 4,117,662</u>	<u>\$ 8,264,337</u>	<u>\$ 36,360,267</u>

**16. COMMITMENT AND CONTINGENCIES**

***Potential Grantor Liability***

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 constitute a liability of the applicable funds. The amounts, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

***Litigation***

The School District has been named as a defendant in certain other actions. The School District intends to defend itself vigorously in each of these cases. Accordingly, no loss contingency has been accrued.

***Construction Commitments***

The School District had various open capital projects during the year ended June 30, 2018, with a total authorization of \$56,751,401.

At June 30, 2018, the School District has expended \$26,421,558 of the authorizations. The School District also had outstanding construction commitments in the amount of \$2,777,407, which are contingent on performance of contractors.

**17. FUND DEFICIT – CAPITAL PROJECTS FUND**

The Capital Projects Fund has an unassigned deficit of \$5,199,996 at June 30, 2018. This deficit is due to funds expended for bus and vehicle purchases exceeding the amounts of bond anticipation notes redeemed from appropriations to date in the amount of \$5,180,944. In addition, the fund has incurred \$19,052 in expenditures under the Smart Schools Bond Act that have not yet been reimbursed. The deficits will be eliminated when the current BANs are paid from appropriations, or refinanced with long term debt, and once the School District is reimbursed for the additional project expenses completed under the Smart Schools Bond Act.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2018**

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**18. DISTRICT-WIDE NET POSITION DEFICIT**

The District-wide Statement of Net Position has a total net position deficit of \$534,409,944 and an unrestricted net position deficit of \$617,138,651 at June 30, 2018. This is the result of having long-term commitments that are greater than currently available resources, primarily due to the accrual of other postemployment benefits of \$651,710,694.

**19. ASSETS HELD FOR SALE**

During the year ended June 30, 2018, the School District has listed the former Arthur S. May Elementary School building on Raymond Avenue as available for sale. The School District closed and vacated the building at the conclusion of the 2013-2014 school year for school district purposes. As such, the School District has reclassified this building as an asset held for sale in accordance with GASB (See Note 7).

**20. LEASE OBLIGATIONS (OPERATING LEASES):**

On July 1, 2015, the School District, as lessee, entered into a five-year lease of a building. The lease expires on June 30, 2020. Lease expense for the year ended June 30, 2018 was \$68,186. The School District has the option to renew the lease for an additional five year term. Future minimum annual rentals for each of the remaining years of the lease are:

Fiscal Year	Minimum
<u>Ended June 30:</u>	<u>Payment</u>
2019	\$70,226
2020	\$72,339

The District, as lessor, leases certain facilities under the terms of single year non-cancelable lease to Dutchess BOCES. Rental income for the year was \$89,278.

In addition, the School District, as lessor, leases classroom space to Dutchess Community College each semester. Rental income for the year was \$524,853.

**21. PRIOR PERIOD ADJUSTMENT**

As a result of implementing GASB 75, the School District has restated the beginning net position in the District-wide Statement of Net Position, effectively decreasing net position as of July 1, by \$486,122,138. The decrease results from restating the beginning Other Postemployment Benefits liability to the total liability under GASB 75, from the net OPEB obligation required under GASB 45.

The full impact of these adjustments to beginning net position is summarized as follows:

Net Position (Deficit), 7/1/17, as Previously Stated	\$ (26,384,108)
Cumulative Effect of Change to GASB 75	<u>(486,122,138)</u>
Net Position (Deficit), 7/1/17, Restated	\$ <u>(512,506,246)</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended June 30, 2018**

	Original Budget	Final Budget	Actual		Final Budget Variance With Actual
<b>Revenues</b>					
Local Sources					
Real Property Taxes	\$ 122,691,535	\$ 122,691,535	\$ 122,674,449		\$ (17,086)
STAR and Other Real Property Tax Items	13,849,201	13,849,201	13,923,005		73,804
Charges for Services	1,650,352	1,650,352	1,968,475		318,123
Use of Money and Property	501,469	501,469	787,368		285,899
Sale of Property and Compensation for Loss	30,000	30,000	7,623		(22,377)
Miscellaneous	780,000	780,000	1,354,494		574,494
State Aid	60,552,443	60,552,443	59,959,838		(592,605)
Federal Aid			136,493		136,493
Total Revenues	200,055,000	200,055,000	200,811,745		756,745
Other Financing Sources					
Transfers from Other Funds			16,699		16,699
Appropriated Reserve		1,518,000			(1,518,000)
Appropriated Fund Balance	6,842,021	6,842,021			(6,842,021)
Total Revenues and Other Financing Sources	\$ 206,897,021	\$ 208,415,021	200,828,444		\$ (7,586,577)
<b>Expenditures</b>					
General Support				Year-End Encumbrances	Final Budget Variance With Actual
Board of Education	\$ 90,309	\$ 90,844	63,010	\$ 300	\$ 27,534
Central Administration	351,101	401,601	349,302	1,128	51,171
Finance	1,457,524	1,520,124	1,457,171	23,236	39,717
Staff	950,056	973,102	899,136	9,239	64,727
Central Services	11,844,854	11,518,371	9,731,759	245,180	1,541,432
Special Items	2,466,129	2,428,695	1,987,805	160,129	280,761
Total General Support	17,159,973	16,932,737	14,488,183	439,212	2,005,342
Instruction					
Instruction, Administration, and Improvement	6,704,804	6,831,036	6,497,832	1,829	331,375
Teaching - Regular School	58,620,083	58,516,099	56,703,193	183,445	1,629,461
Programs for Children With Special Needs	26,290,116	26,331,916	24,973,833	641,708	716,375
Occupational Education	1,251,000	1,184,500	1,184,500		
Teaching - Special School	656,225	656,225	441,287	4,404	210,534
Instructional Media	4,711,619	4,932,062	4,638,625	44,089	249,348
Pupil Services	8,148,412	8,445,847	7,946,454	35,364	464,029
Total Instruction	106,382,259	106,897,685	102,385,724	910,839	3,601,122
Pupil Transportation	10,869,558	11,054,668	10,699,321	80,872	274,475
Employee Benefits	56,444,822	55,966,122	54,555,696	45,439	1,364,987
Debt Service - Principal	10,951,086	10,951,086	10,951,085		1
Debt Service - Interest	3,713,323	3,718,723	3,718,719		4
Total Expenditures	205,521,021	205,521,021	196,798,728	1,476,362	7,245,931
Other Financing Uses					
Transfers to Other Funds	1,376,000	2,894,000	2,888,469		5,531
Total Expenditures and Other Financing Uses	\$ 206,897,021	\$ 208,415,021	199,687,197	\$ 1,476,362	\$ 7,251,462
Net Change in Fund Balance			1,141,247		
Fund Balance - Beginning of Year			22,328,145		
Fund Balance - End of Year			\$ 23,469,392		

**Notes to Required Supplementary Information:**

The School District administration prepares a proposed budget for approval by the Board of Education for the General Fund, the only fund with a legally adopted budget.

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

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**SCHEDULES OF CHANGES IN THE SCHOOL DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**For the Year Ended June 30, 2018**

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	<u>2018*</u>
Service cost	\$ 18,718,024
Interest	22,800,895
Expected benefit payments	<u>(12,097,261)</u>
Net change in total OPEB liability	29,421,658
Total OPEB liability - beginning	<u>622,289,036</u>
Total OPEB liability - ending	<u>\$ 651,710,694</u>
Covered employee payroll	\$ 87,958,107
Total OPEB liability as a percentage of covered payroll	740.93%

\* 10 years of historical information will not be available upon implementation. An additional year of historical information will be added each year subsequent to the year of implementation until 10 years of historical data is available.

Notes to Schedule:

Changes of benefit terms: Not Applicable.

Changes of Assumptions: Not applicable.

Plan Assets: No assets are accumulated in a trust that meets all of the criteria of GASBS No. 75, paragraph 4, to pay benefits.

**ARLINGTON CENTRAL SCHOOL DISTRICT  
SCHEDULES OF DISTRICT CONTRIBUTIONS  
For the Year Ended June 30, 2018**

**ERS Pension Plan**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 3,004,083	\$ 2,768,583	\$ 3,264,802	\$ 3,690,751	\$ 3,688,809	\$ 3,870,949	\$ 2,981,142	\$ 2,013,954	\$ 1,354,052	\$ 1,488,121
Contributions in Relation to the Contractually Required Contribution	<u>3,004,083</u>	<u>2,768,583</u>	<u>3,264,802</u>	<u>3,690,751</u>	<u>3,688,809</u>	<u>3,870,949</u>	<u>2,981,142</u>	<u>2,013,954</u>	<u>1,354,052</u>	<u>1,488,121</u>
Contribution Deficiency (Excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
School District's Covered-ERS Employee Payroll	\$ 20,173,068	\$ 18,452,035	\$ 18,750,124	\$ 19,161,719	\$ 19,111,550	\$ 20,011,546	\$ 18,777,316	\$ 18,551,290	\$ 19,097,401	\$ 18,138,593
Contributions as a Percentage of Covered-Employee Payroll	14.89%	15.00%	17.41%	19.26%	19.30%	19.34%	15.88%	10.86%	7.09%	8.20%

**TRS Pension Plan**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Contractually Required Contribution	\$ 7,574,440	\$ 8,694,743	\$ 9,506,198	\$ 12,317,992	\$ 11,452,537	\$ 8,374,046	\$ 7,320,806	\$ 5,731,774	\$ 4,192,683	\$ 4,969,053
Contributions in Relation to the Contractually Required Contribution	<u>7,574,440</u>	<u>8,694,743</u>	<u>9,506,198</u>	<u>12,317,992</u>	<u>11,452,537</u>	<u>8,374,046</u>	<u>7,320,806</u>	<u>5,731,774</u>	<u>4,192,683</u>	<u>4,969,053</u>
Contribution Deficiency (Excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
School District's Covered-TRS Employee Payroll	\$ 77,290,204	\$ 74,187,227	\$ 71,690,784	\$ 70,268,066	\$ 70,477,152	\$ 70,726,740	\$ 65,893,842	\$ 66,493,902	\$ 67,733,174	\$ 65,125,201
Contributions as a Percentage of Covered-Employee Payroll	9.80%	11.72%	13.26%	17.53%	16.25%	11.84%	11.11%	8.62%	6.19%	7.63%

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION ASSET / LIABILITY**  
**For the Year Ended June 30, 2018**

**ERS Pension Plan**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's proportion of the net pension asset or liability	0.0662863%	0.0634701%	0.0680750%	0.0710705%	0.0710705%
District's proportionate share of the net pension asset (liability)	\$ (2,139,355)	\$ (5,963,788)	\$ (10,926,228)	\$ (2,400,936)	\$ (3,211,577)
District's covered-employee payroll	\$ 20,173,068	\$ 18,452,035	\$ 18,750,124	\$ 19,161,719	\$ 19,111,550
District's proportionate share of the net pension asset or liability as a percentage of its covered-employee payroll	10.61%	32.32%	58.27%	12.53%	16.80%
Plan fiduciary net position as a percentage of total pension asset or liability	98.24%	94.70%	90.70%	97.90%	97.20%

**TRS Pension Plan**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's Proportion of the net pension asset or liability	0.468157%	0.464589%	0.467788%	0.477114%	0.482848%
District's proportionate share of the net pension asset (liability)	\$ 3,558,458	\$ (4,975,944)	\$ 48,588,238	\$ 53,147,514	\$ 3,178,363
District's covered-employee payroll	\$ 74,187,227	\$ 71,690,784	\$ 70,268,066	\$ 70,477,152	\$ 70,726,740
District's proportionate share of the net pension asset or liability as a percentage of its covered-employee payroll	04.80%	06.94%	69.15%	75.41%	04.49%
Plan fiduciary net position as a percentage of total pension asset or liability	100.66%	99.01%	110.46%	111.48%	100.70%

Information is presented only for the years available.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**SCHEDULES OF CHANGE FROM ADOPTED BUDGET TO FINAL BUDGET**  
**AND THE REAL PROPERTY TAX LIMIT**  
**For the Year Ended June 30, 2018**

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**Change from Adopted Budget to Revised Budget**

Adopted Budget	\$ 205,055,000
Add: Prior Year's Encumbrances	<u>1,842,021</u>
Original Budget	<u>206,897,021</u>
Add: Appropriated Capital Reserves	<u>1,518,000</u>
Final Budget	<u>\$ 208,415,021</u>

**Section 1318 of Real Property Tax Law Limit Calculation**

2018-19 voter-approved expenditure budget	<u>\$ 209,894,000</u>
Maximum allowed (4% of 2018-19 budget)	<u>\$ 8,395,760</u>

**General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law :**

Unrestricted fund balance:	
Assigned fund balance	7,219,362
Unassigned fund balance	<u>8,200,349</u>
Total unrestricted fund balance	<u>15,419,711</u>

**Less:**

Appropriated fund balance	5,743,000
Encumbrances included in assigned fund balance	<u>1,476,362</u>
Total adjustments	<u>7,219,362</u>

General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law	<u>\$ 8,200,349</u>
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Actual Percentage	3.91%
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**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND**  
For the Year Ended June 30, 2018

PROJECT TITLE	Original Authorization	Revised Authorization	Expenditures			Unexpended Balance	Methods of Financing				Fund Balance (Deficit) June 30, 2018
			Prior Years	Current Year	Total		Proceeds of Obligations	State Aid	Local Sources	Total	
Bus and Vehicle Purchases 2013	\$ 913,000	\$ 913,000	\$ 908,601	\$	\$ 908,601	\$ 4,399	\$	\$	\$ 908,601	\$ 908,601	\$
Bus and Vehicle Purchases 2014	1,823,500	1,823,500	1,757,441		1,757,441	66,059			1,392,741	1,392,741	(364,700)
Bus and Vehicle Purchases 2015	1,617,000	1,617,000	1,611,570	5,430	1,617,000				991,000	991,000	(626,000)
Bus and Vehicle Purchases 2016	2,008,500	2,008,500	1,935,569	72,931	2,008,500				802,000	802,000	(1,206,500)
Bus and Vehicle Purchases 2017	2,008,500	2,008,500	1,898,349	110,151	2,008,500				1,021,000	1,021,000	(987,500)
Bus and Vehicle Purchases 2018	2,008,500	2,008,500		1,996,244	1,996,244	12,256					(1,996,244)
Water Project - Beekman Elementary	76,800	862,675	128,076	584,090	712,166	150,509			862,676	862,676	150,510
Health and Safety Proposition	3,605,976	3,605,976	2,264,072	430,581	2,694,653	911,323			3,605,975	3,605,975	911,322
Water Improvement Project	150,000	150,000	5,180		5,180	144,820			84,000	84,000	78,820
Energy Performance Contract	21,180,000	21,180,000	20,935,199		20,935,199	244,801	20,598,439		402,764	21,001,203	66,004
Flooring Project	210,000	216,000	207,670		207,670	8,330			216,000	216,000	8,330
Water Improvement Projects & Other	50,000	2,680,750	230,858	195,468	426,326	2,254,424			2,680,750	2,680,750	2,254,424
Smart Schools Bond Act	5,200,000	5,200,000	142,575	188,712	331,287	4,868,713		312,235		312,235	(19,052)
Transportation and Maintenance Projects	18,495,000	18,495,000		963,563	963,563	17,531,437			8,500,000	8,500,000	7,536,437
High School Athletic Complex Project	3,275,000	3,275,000				3,275,000			1,518,000	1,518,000	1,518,000
Roofing Projects & Other		<u>1,086,000</u>		<u>145,514</u>	<u>145,514</u>	<u>940,486</u>			<u>1,086,000</u>	<u>1,086,000</u>	<u>940,486</u>
Totals	<u>\$ 62,621,776</u>	<u>\$ 67,130,401</u>	<u>\$ 32,025,160</u>	<u>\$ 4,692,684</u>	<u>\$ 36,717,844</u>	<u>\$ 30,412,557</u>	<u>\$ 20,598,439</u>	<u>\$ 312,235</u>	<u>\$ 24,071,507</u>	<u>\$ 44,982,181</u>	<u>\$ 8,264,337</u>

See Independent Auditor's Report.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NET INVESTMENT IN CAPITAL ASSETS**  
**June 30, 2018**

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Capital Assets, Net	<u>\$ 150,841,973</u>
Add:	
Unamortized Loss on Defeasance of Bonds	<u>2,884,580</u>
Deduct:	
Bond Anticipation Notes	5,193,200
Less: Unspent Bond Anticipation Note Proceeds	(12,256)
 Bonds Payable	 66,810,000
Energy Performance Contract	18,318,091
Unamortized Bond Premiums	6,363,902
Less: Unspent Energy Performance Contract Proceeds	<u>(66,004)</u>
	<u>96,606,933</u>
 Net Investment in Capital Assets	 <u><u>\$ 57,119,620</u></u>

See Independent Auditor's Report.

**D'Arcangelo & Co., LLP**  
**Certified Public Accountants & Consultants**

200 E. Garden St., P.O. Box 4300, Rome, N.Y. 13442-4300  
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**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**

Board of Education  
Arlington Central School District

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, and the aggregate remaining fund information of Arlington Central School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Arlington Central School District's basic financial statements, and have issued our report thereon dated October 9, 2018.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A **material weakness** is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. A **significant deficiency** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.*

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Arlington Central School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Purpose of this Report**

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

*D'Arcangelo + Co., LLP*

October 9, 2018

Rome, New York

**D'Arcangelo & Co., LLP**  
**Certified Public Accountants & Consultants**

200 E. Garden St., P.O. Box 4300, Rome, N.Y. 13442-4300  
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**Independent Auditor's Report on Compliance For Each Major Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**

Board of Education  
Arlington Central School District

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

We have audited Arlington Central School District's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of Arlington Central School District's major federal programs for the year ended June 30, 2018. Arlington Central School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with 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 Arlington Central School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements 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 Arlington Central School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on Each Major Federal Program**

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

**Report on Internal Control Over Compliance**

Management of Arlington Central School District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Arlington Central School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Arlington Central School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*D'Arcangelo + Co., LLP*

October 9, 2018

Rome, New York

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass- through Number	Federal Expenditures
<u>United States Department of Agriculture</u>			
Passed Through New York State Department of Education:			
Child Nutrition Cluster			
Cash Assistance			
School Breakfast Program	10.553	N/A	\$ 128,372
National School Lunch Program	10.555	N/A	<u>839,770</u>
Total Child Nutrition Cluster			<u>968,142</u>
Total Department of Agriculture			<u>968,142</u>
<u>United States Department of Education</u>			
Passed Through New York State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	0021170675	111,490
Title I Grants to Local Educational Agencies	84.010	0021180675	<u>696,559</u>
Total			<u>808,049</u>
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	0032170184	3,069
Special Education - Grants to States	84.027	0032180184	2,025,806
Special Education - Preschool Grants	84.173	0033180184	<u>59,177</u>
Total Special Education Cluster (IDEA)			<u>2,088,052</u>
English Language Acquisition State Grants	84.365	0293170675	26,408
English Language Acquisition State Grants	84.365	0293180675	<u>563</u>
Total			<u>26,971</u>
Supporting Effective Instruction State Grants	84.367	0147170675	50,383
Supporting Effective Instruction State Grants	84.367	0147180675	<u>98,502</u>
Total			<u>148,885</u>
Total Department of Education			<u>3,071,957</u>
<u>United States Department of Homeland Security</u>			
Passed Through New York State Division of Homeland Security and Emergency Services:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	UE6IY01	<u>32,164</u>
Total Department of Homeland Security			<u>32,164</u>
Total Federal Awards Expended			<u>\$ 4,072,263</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2018**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Arlington Central School District under programs of the federal government 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).

***Basis of Accounting***

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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

***Use of Subrecipients***

There were no awards passed through to subrecipients.

***De Minimis Indirect Cost Rate***

The District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL COMPLIANCE REQUIREMENTS**  
**For the Year Ended June 30, 2018**

**Summary of Auditor's Results**

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR Section 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	<u>U.S. Department of Agriculture</u> Child Nutrition Cluster CFDA #10.553 School Breakfast Program CFDA #10.555 National School Lunch Program
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

(Continued)

**ARLINGTON CENTRAL SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL COMPLIANCE REQUIREMENTS  
For the Year Ended June 30, 2018**

**(Continued)**

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***Findings – Financial Statement Audit***

None noted.

***Findings and Questioned Costs – Major Federal Award Programs Audit***

None noted.

**ARLINGTON CENTRAL SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS – FEDERAL COMPLIANCE REQUIREMENTS**  
**For the Year Ended June 30, 2018**

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***Findings – Financial Statement Audit***

None noted.

***Findings and Questioned Costs – Major Federal Award Programs Audit***

None noted.