

ARLINGTON CENTRAL
SCHOOL DISTRICT



MANAGEMENT'S
DISCUSSION AND
ANALYSIS

AND

BASIC FINANCIAL
STATEMENTS

For the Year Ended
June 30, 2015

**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, 2015, 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, 2015, 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 District changed accounting policies related to the financial statement presentation of defined benefit pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68, in 2015. The new pronouncements require governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. 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 50 through 52 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 U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2015, 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 7, 2015

Rome, New York

**ARLINGTON CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(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, 2015 and 2014. 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.

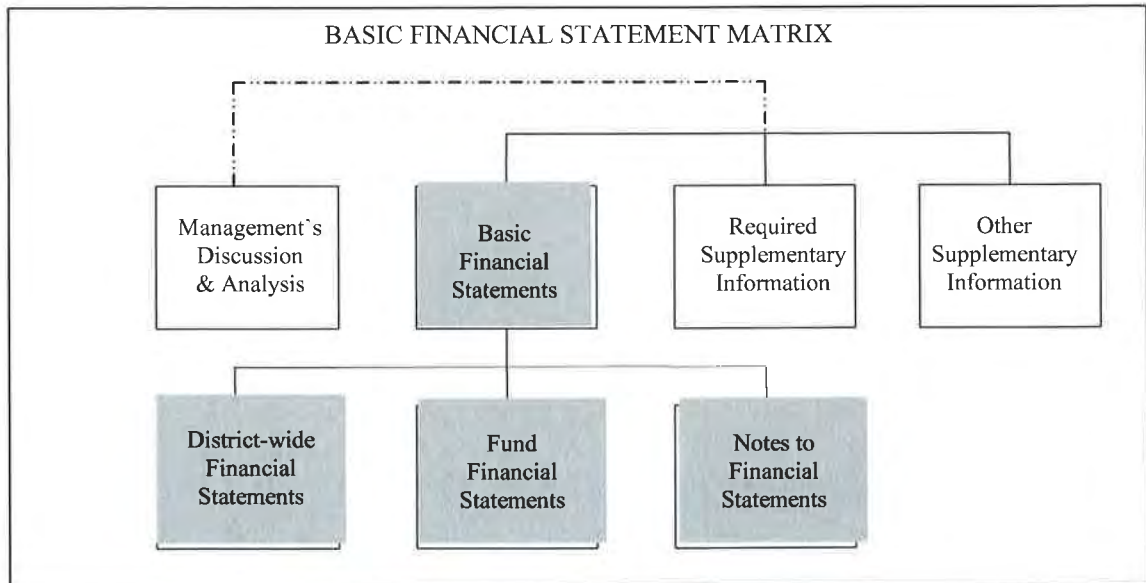
1. FINANCIAL HIGHLIGHTS

Key financial highlights for fiscal year 2015 are as follows:

- The District's total Net Position, as reflected in the District-wide financial statements, increased by \$7,124,585 to a deficit of \$22,114,444. This increase was mainly due to the \$14,907,889 expense for the sixth year of amortization of the actuarial determined liability for other post-employment benefits (GASB 45) that was offset by a net decrease in pension expense for GASB 68 in the amount of \$15,897,564.
- The District's expenses for the year, as reflected in the District-wide financial statements, totaled \$189,994,868. Of this amount, \$4,128,150 and \$5,414,684 were offset by program charges for services and operating grants to support instructional and food service programs, respectively. General revenues of \$187,576,619 amount to 95.2% of total revenues. These revenues covered the remaining program expenses, leaving an excess of \$7,124,585 for the year.
- State and Federal revenue increased by 0.5% to \$52,327,745 in 2015 from \$52,042,888 in 2014. The increase was mainly due to a decrease in the State's GAP Elimination Adjustment and other aid increases offset by the reduction in General Aid for full day kindergarten conversion, which was a one-time allocation in 2014.
- The General Fund's total fund balance, as reflected in the fund financial statements on pages 15 and 17, increased by \$426,633 to \$19,053,093. This was due to an excess of revenues over expenditures based on the modified accrual basis of accounting.

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:



**ARLINGTON CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(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, 2015**

(Continued)

3. FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A. Net Position

The District's total net position increased by \$7,124,585 between fiscal year 2014 and 2015. A summary of the District's Statement of Net Position for June 30, 2015 and 2014 is as follows:

	2015	(Restated) 2014	Increase/ (Decrease)	Percentage Change
Current and Other Assets	\$ 94,351,427	\$ 45,323,428	\$ 49,027,999	108.2%
Capital Assets, (Net of Accumulated Depreciation)	<u>135,430,796</u>	<u>136,765,694</u>	<u>(1,334,898)</u>	(1.0%)
Total Assets	<u>229,782,223</u>	<u>182,089,122</u>	<u>47,693,101</u>	26.2%
Deferred Outflow of Resources	<u>14,058,438</u>	<u>12,469,149</u>	<u>1,589,289</u>	12.7%
Current and Other Liabilities	21,884,758	25,498,465	(3,613,707)	(14.2%)
Non-Current Liabilities	<u>204,309,851</u>	<u>194,617,761</u>	<u>9,692,090</u>	5.0%
Total Liabilities	<u>226,194,609</u>	<u>220,116,226</u>	<u>6,078,383</u>	2.8%
Deferred Inflow of Resources	<u>39,760,496</u>	<u>3,681,074</u>	<u>36,079,422</u>	980.1%
Net Position				
Net Investment in Capital Assets	39,664,137	31,456,409	8,207,728	26.1%
Restricted	14,375,010	11,051,411	3,323,599	30.1%
Unrestricted (Deficit)	<u>(76,153,591)</u>	<u>(71,746,849)</u>	<u>(4,406,742)</u>	(6.1%)
Total Net Position (Deficit)	<u>\$ (22,114,444)</u>	<u>\$ (29,239,029)</u>	<u>\$ 7,124,585</u>	24.4%

The District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27 and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68, in 2015. This required the inclusion of the District's proportionate share of net assets and/or liabilities in the New York State Teachers' Retirement System and Employees' Retirement Systems. In addition, the amounts of deferred inflows and outflows were also recorded. The implementation also required the restatement of the above prior year amounts increasing the net position by \$12,435,935.

Current and other assets increased by \$49,027,999, as compared to the prior year. The increase is primarily due to the increase of the District's proportionate share of net pension asset in the amount of \$49,969,151 for the New York State Teachers' Retirement System.

Capital assets, net of accumulated depreciation, decreased by \$1,334,898, as compared to the prior year. This decrease is due to depreciation amounts exceeding capital additions for the current year. Note 7 to the Financial Statements provides additional information.

Current and other liabilities decreased by \$3,613,707 as compared to the prior year. The decrease is primarily a result of the decrease in accounts payable and accrued liabilities in the amount of \$2,892,292.

Noncurrent liabilities increased by \$9,692,090, as compared to the prior year. This increase is primarily the result of an additional accrual of \$14,907,889 for other postemployment benefits offset by debt service payments on serial bonds.

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, 2015, is \$14,375,010, which represents the amount of the District's reserves in the General Fund and other restricted funds for Debt Service and Capital Projects.

**ARLINGTON CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(Continued)

The unrestricted portion of net position at June 30, 2015, is a deficit of \$76,153,591, 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 \$92,424,244.

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, 2015 and 2014 is as follows.

Revenues	<u>2015</u>	<u>(Restated) 2014</u>	<u>Increase/ (Decrease)</u>	<u>Percentage Change</u>
Program Revenues				
Charges for Services	\$ 4,128,150	\$ 4,059,253	\$ 68,897	1.7%
Operating Grants	5,414,684	5,635,616	(220,932)	(3.9%)
General Revenues				
Property Taxes and STAR	133,514,337	130,893,578	2,620,759	2.0%
State and Federal Sources	52,327,745	52,042,888	284,857	0.5%
Other	<u>1,734,537</u>	<u>1,233,841</u>	<u>500,696</u>	40.6%
Total Revenues	<u>197,119,453</u>	<u>193,865,176</u>	<u>3,254,277</u>	1.7%
Expenses				
General Support	20,008,339	21,016,071	(1,007,732)	(4.8%)
Instruction	147,348,413	148,887,434	(1,539,021)	(1.0%)
Pupil Transportation	15,638,366	15,843,294	(204,928)	(1.3%)
Debt Service-Unallocated Interest	3,678,730	3,920,220	(241,490)	(6.2%)
Food Service Program	<u>3,321,020</u>	<u>3,653,206</u>	<u>(332,186)</u>	(9.1%)
Total Expenses	<u>189,994,868</u>	<u>193,320,225</u>	<u>(3,325,357)</u>	(1.7%)
 Total Change in Net Position	 <u>\$ 7,124,585</u>	 <u>\$ 544,951</u>	 <u>\$ 6,579,634</u>	

The District's revenues increased by 1.7% in 2015 or \$3,254,277. The major factors that contributed to the increase were:

- The District increased its property taxes and star in the amount of \$2,620,759.
- The non-grant State and Federal aid in the General Fund increased in the amount of \$284,857. This was mainly due to a decrease in the GAP elimination adjustment in the amount of \$1,239,324, as well as other increases in basic aid offset by a decrease of \$2,259,304 for Full Day Kindergarten State aid, which was only available in the first year of the conversion.
- The District received other revenues in the amount of \$500,696 representing additional rental income.
- This was offset by a reduction in operating grants in the amount of \$220,932, primarily in the Special Aid Fund.

The District's expenditures for the year decreased by \$3,325,357, primarily in the instructional program and general support categories. The major factors that contributed to the decrease were:

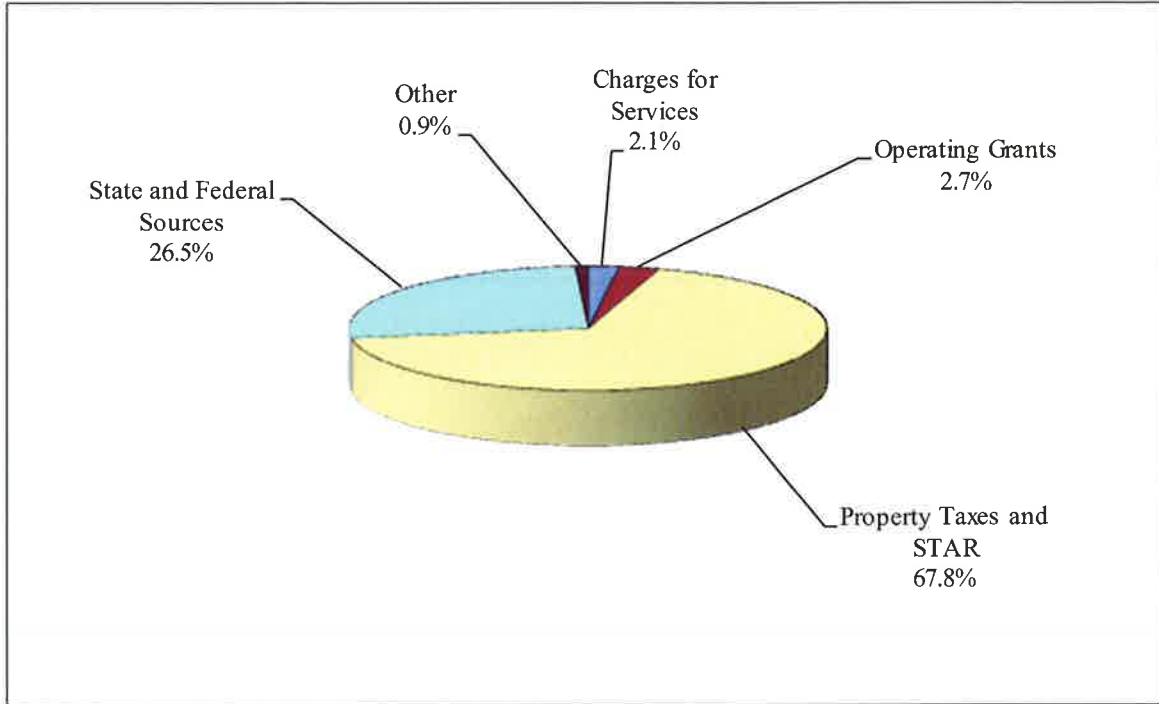
- There was a \$3,461,629 reduction in pension expense due to the implementation of the new pension accounting standards.
- There was a \$2,000,837 reduction in the annual accrual for other postemployment benefits expense.
- This was offset by a \$2,921,279 increase in employee benefits primarily related to health insurance expense.

**ARLINGTON CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

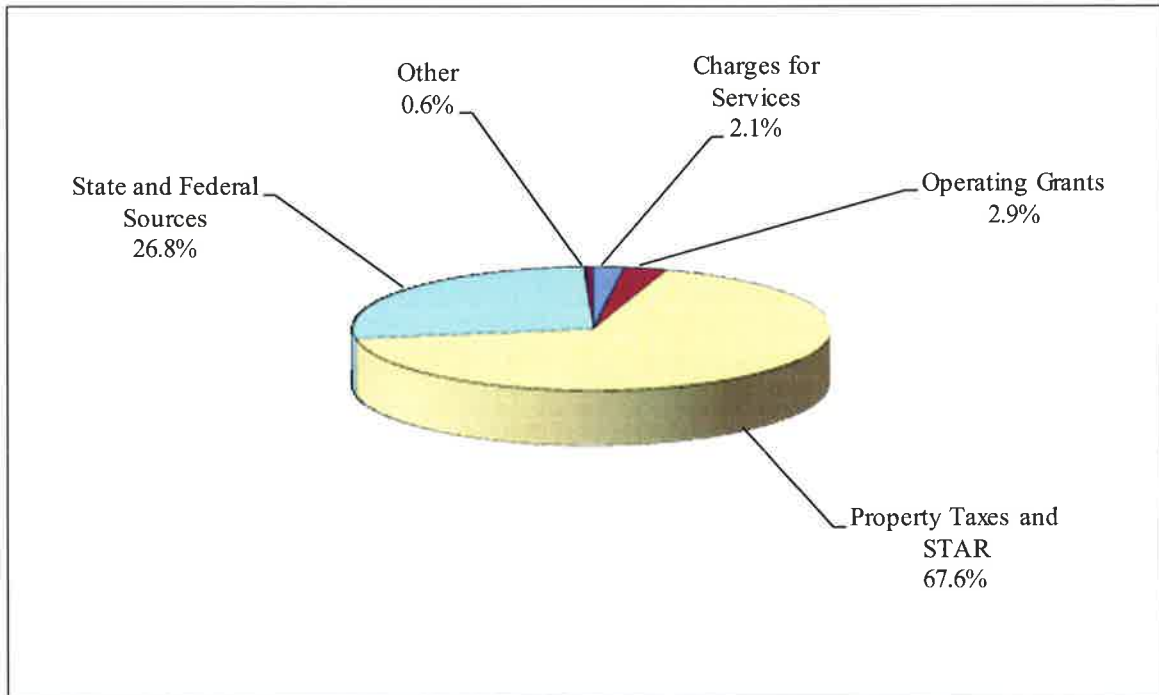
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A graphic display of the distribution of revenues for the two years follows:

For the Year Ended June 30, 2015



For the Year Ended June 30, 2014

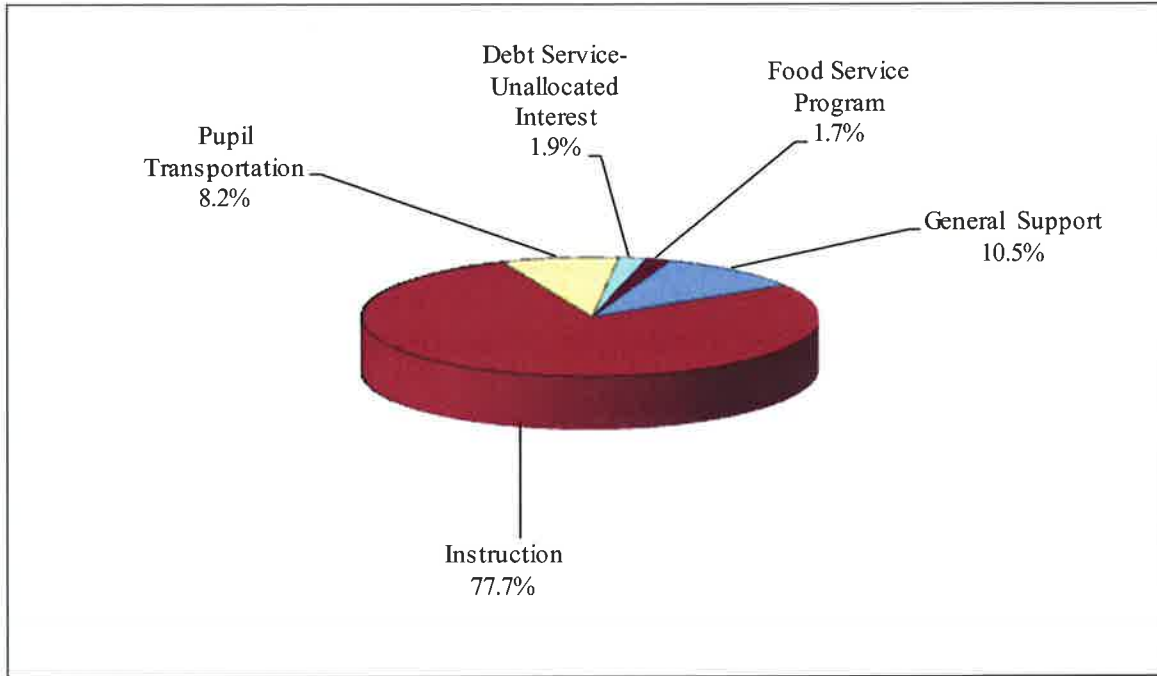


**ARLINGTON CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

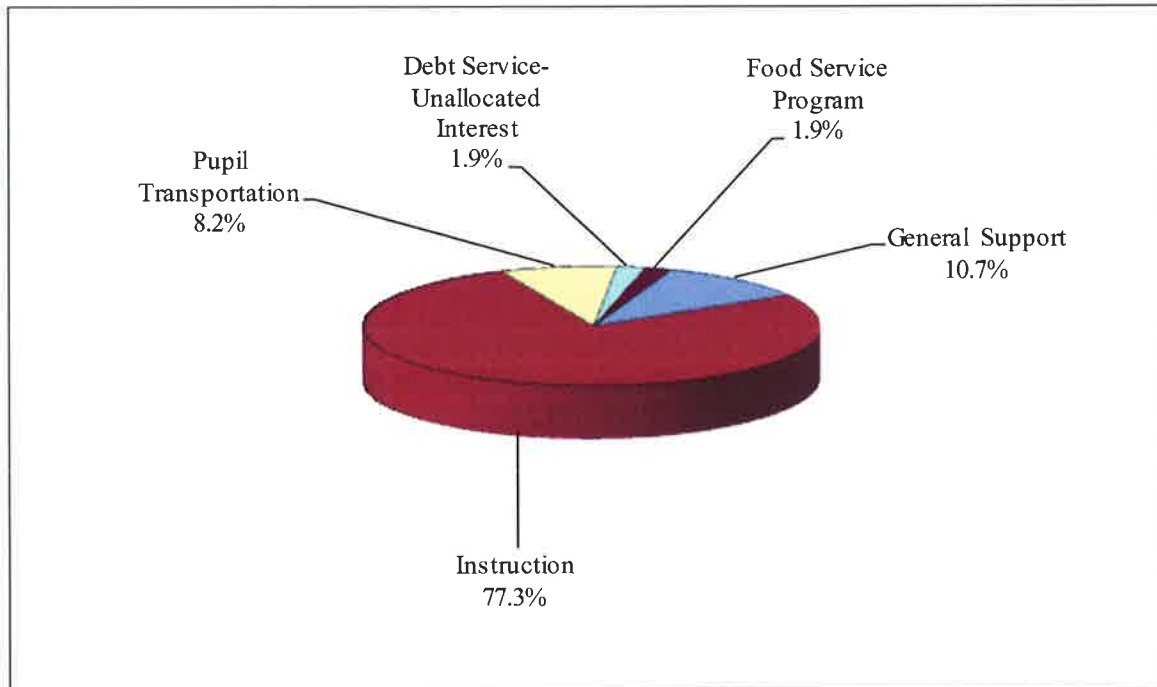
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A graphic display of the distribution of expenses for the two years follows:

For the Year Ended June 30, 2015



For the Year Ended June 30, 2014



**ARLINGTON CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(Continued)

4. FINANCIAL ANALYSIS OF THE DISTRICT'S FUND BALANCES

At June 30, 2015, the District's governmental funds reported a combined fund balance of \$22,041,476 which is an increase of \$1,973,096 over the prior year. This increase is due to an excess of revenues over expenditures, primarily in the Capital Projects Fund. A summary of the change in fund balance by fund is as follows:

	2015	(Restated) 2014	Increase/ (Decrease)
General Fund			
Nonspendable	\$ 6,478	\$ 5,977	\$ 501
Restricted			
Unemployment Insurance	130,943	130,900	43
Retirement Contribution	2,504,045	1,503,347	1,000,698
Liability	53,163	53,135	28
Tax Certiorari	2,304,450	2,303,113	1,337
Employee Benefit Accrued Liability	905,177	904,568	609
Total Restricted	<u>5,897,778</u>	<u>4,895,063</u>	<u>1,002,715</u>
Assigned			
Appropriated for Subsequent Year's Budget	3,860,000	4,600,000	(740,000)
Encumbrances	<u>1,419,566</u>	<u>1,274,536</u>	<u>145,030</u>
Total Assigned	<u>5,279,566</u>	<u>5,874,536</u>	<u>(594,970)</u>
Unassigned	<u>7,869,271</u>	<u>7,850,884</u>	<u>18,387</u>
Total General Fund	<u>19,053,093</u>	<u>18,626,460</u>	<u>426,633</u>
School Lunch Fund			
Nonspendable	76,760	105,116	(28,356)
Assigned	<u>341,641</u>	<u>288,893</u>	<u>52,748</u>
Total School Lunch Fund	<u>418,401</u>	<u>394,009</u>	<u>24,392</u>
Debt Service Fund			
Restricted	<u>4,302,662</u>	<u>5,296,121</u>	<u>(993,459)</u>
Capital Projects Fund			
Restricted	4,174,570	860,227	3,314,343
Unassigned (Deficit)	<u>(5,907,250)</u>	<u>(5,108,437)</u>	<u>(798,813)</u>
Total Capital Projects Fund (Deficit)	<u>(1,732,680)</u>	<u>(4,248,210)</u>	<u>2,515,530</u>
Total Fund Balances	<u>\$ 22,041,476</u>	<u>\$ 20,068,380</u>	<u>\$ 1,973,096</u>

The District restated the fund balance in the General Fund by \$113,419 due a correction in transportation expenses allocated to the Special Aid Fund and covered by additional operating aid.

Combined increases of \$1,002,715 to the General Fund restricted fund balance during the year ended June 30, 2015 includes interest earnings on existing balances and a board approved transfer of \$1 million to the retirement contribution reserve.

The Unassigned deficit of \$5,907,250 and \$5,108,437 in the Capital Projects Fund at June 30, 2015 and 2014, respectively, was due to temporarily financing for the bus and vehicle purchases and expenditures incurred for the energy performance contract that are pending future financing.

**ARLINGTON CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(Continued)

5. GENERAL FUND BUDGETARY HIGHLIGHTS

A. 2014-2015 Budget

The District's General Fund adopted budget for the year ended June 30, 2015, was \$193,518,394. This is an increase of \$2,384,667 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 \$133,529,189 in estimated property taxes and STAR, and \$51,925,674 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, Restated	\$ 7,850,884
Revenues and Transfers over Budget	1,398,433
Expenditures, Encumbrances and Transfers under Budget	3,483,170
Increase in Nonspendable Fund Balance	(501)
Appropriated Fund Balance for 2015-2016	(3,860,000)
Net Increase to Restricted Funds	<u>(1,002,715)</u>
Closing, Unassigned Fund Balance	<u>\$ 7,869,271</u>

Opening, Unassigned Fund Balance (Restated)

The \$7,850,884 shown in the table is the portion of the District's June 30, 2014, restated fund balance that was retained as unassigned. This was 4.06% of the District's 2014-2015 approved operating budget. Note 18 provides more information on the restatement.

Revenues and Transfers Over Budget

The 2014-2015 budget for revenues and transfers was \$188,918,394. The actual revenues and transfers received for the year were \$190,316,827. The actual revenue over estimated or budgeted revenue was \$1,398,433. This variance contributes directly to the change to the unassigned portion of the General Fund fund balance from June 30, 2014 to June 30, 2015.

Expenditures, Encumbrances and Transfers Under Budget

The 2014-2015 budget for expenditures and transfers was \$194,792,930. The actual expenditures and transfers, including amounts encumbered, was \$191,309,760. The final budget was under expended by \$3,483,170. This under expenditure contributes directly to the change to the unassigned portion of the General Fund fund balance from June 30, 2014 to June 30, 2015.

Appropriated Fund Balance for 2015-2016

The District chose to use \$3,860,000 of its available June 30, 2015 fund balance to partially fund the 2015-2016 approved operating budget. This was \$740,000 less than the amount appropriated for the 2014-2015 budget.

Net Increase to Restricted Funds

Combined increases to the General Fund restricted fund balances represent interest earned of \$2,715 in 2014-2015 and a board approved transfer of \$1 million.

**ARLINGTON CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(Continued)

Closing, Unassigned Fund Balance

Based upon the summary changes shown in the above table, the District has an unassigned fund balance of \$7,869,271 at June 30, 2015. The unassigned fund balance is 4.01% of the 2015-2016 approved operating budget. This is an increase of \$18,387 over the restated unassigned balance from the prior year as of June 30, 2014.

6. CAPITAL ASSET AND DEBT ADMINISTRATION

A. Capital Assets

At June 30, 2015, 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, 2015. A summary of the District's capital assets, net of accumulated depreciation at June 30, 2015 and 2014, is as follows:

	2015	2014	Increase/ (Decrease)
Land	\$ 2,067,937	\$ 2,067,937	\$
Construction in Progress	39,898,875	38,532,011	1,366,864
Buildings and Improvements	84,236,253	86,861,936	(2,625,683)
Furniture, Equipment, and Vehicles	9,227,731	9,303,810	(76,079)
Capital Assets, Net	<u>\$ 135,430,796</u>	<u>\$ 136,765,694</u>	<u>\$ (1,334,898)</u>

B. Debt Administration

At June 30, 2015, the District had total bonds payable of \$90,745,000. A summary of the outstanding debt at June 30, 2015 and 2014 is as follows:

Issue Date	Interest Rate	2015	2014	Increase (Decrease)
5/1/2009	2.0-5.0%	\$ 41,840,000	\$ 44,470,000	\$ (2,630,000)
5/24/2012	2.0-5.0%	35,160,000	36,730,000	(1,570,000)
11/7/2012	2.0-4.0%	13,745,000	16,180,000	(2,435,000)
		<u>\$ 90,745,000</u>	<u>\$ 97,380,000</u>	<u>\$ (6,635,000)</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 benefits and rising energy 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 significant growth. The District is in the process of updating its demographic study to better predict future enrollments. Any significant change in student enrollment will have implications for financial forecasting and therefore enrollment projections will need to be monitored and revised accordingly. 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.

**ARLINGTON CENTRAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2015**

(Continued)

The School District receives approximately 28% of its funding through state and federal sources. This percentage of budget support has been decreasing. 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 as a whole will continue to 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, 2015

Assets	
Cash and Cash Equivalents	\$ 25,261,188
Restricted Cash and Cash Equivalents	10,948,176
Receivables	
State and Federal Aid	2,525,760
Due From Other Governments	1,532,117
Due from Fiduciary Funds	1,473
Other Receivables	851,961
Inventory	76,760
Other Assets	6,478
Net Pension Asset - Proportionate Share	53,147,514
Capital Assets (Net of Accumulated Depreciation)	<u>135,430,796</u>
Total Assets	<u>229,782,223</u>
Deferred Outflows of Resources	
Pensions	<u>14,058,438</u>
Total Deferred Outflows of Resources	<u>14,058,438</u>
Total Assets and Deferred Outflow of Resources	<u>243,840,661</u>
Liabilities	
Accounts Payable	70,326
Accrued Liabilities	592,218
Due To	
Other Governments	557
Teachers' Retirement System	12,783,671
Employees' Retirement System	958,490
Short-Term Note Payable	
Bond Anticipation Note	5,031,460
Unearned Revenues	47,100
Net Pension Liability - Proportionate Share	2,400,936
Noncurrent Liabilities	
Due Within One Year	
Bonds Payable	6,925,000
Due in More Than One Year	
Bonds Payable	83,820,000
Compensated Absences	21,140,607
Other Postemployment Benefits	<u>92,424,244</u>
Total Liabilities	<u>226,194,609</u>
Deferred Inflows of Resources	
Premiums on Debt, Net of Amortization	3,288,979
Pensions	<u>36,471,517</u>
Total Deferred Inflows of Resources	<u>39,760,496</u>
Total Liabilities and Deferred Inflows of Resources	<u>265,955,105</u>
Net Position	
Net Investment in Capital Assets	39,664,137
Restricted	14,375,010
Unrestricted (Deficit)	<u>(76,153,591)</u>
Total Net Position (Deficit)	<u>\$ (22,114,444)</u>

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

ARLINGTON CENTRAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
General Support	\$ 20,008,339	\$	\$	\$ (20,008,339)
Instruction	147,348,413	1,699,882	4,603,961	(141,044,570)
Pupil Transportation	15,638,366			(15,638,366)
Debt Service - Unallocated Interest	3,678,730			(3,678,730)
Food Service	3,321,020	2,428,268	810,723	(82,029)
Total Functions/Programs	<u>\$ 189,994,868</u>	<u>\$ 4,128,150</u>	<u>\$ 5,414,684</u>	<u>(180,452,034)</u>
General Revenues				
Real Property Taxes				118,375,058
STAR and Other Real Property Tax Items				15,139,279
Use of Money and Property				520,755
Sale of Property and Compensation for Loss				24,644
State and Federal Sources				52,327,745
Miscellaneous				<u>1,189,138</u>
Total General Revenues				<u>187,576,619</u>
Change in Net Position				<u>7,124,585</u>
Net Position (Deficit), Beginning of Year				(41,788,383)
Prior Period Adjustments				<u>12,549,354</u>
Net Position (Deficit), Beginning of Year (Restated)				<u>(29,239,029)</u>
Net Position (Deficit), End of Year				<u>\$ (22,114,444)</u>

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

ARLINGTON CENTRAL SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

	General	School Lunch	Special Aid	Debt Service	Capital Projects	Total
Assets						
Cash and Cash Equivalents	\$ 24,625,473	\$ 332,506	\$	\$	\$ 303,209	\$ 25,261,188
Restricted Cash and Cash Equivalents	5,897,778			4,302,662	747,736	10,948,176
Receivables						
Due From						
State and Federal	1,604,850	73,102	847,808			2,525,760
Other Governments	1,532,117					1,532,117
Other Funds	2,207,422				3,605,976	5,813,398
Other Receivables	845,045	6,916				851,961
Inventory		76,760				76,760
Other Assets	6,478					6,478
Total Assets	<u>\$ 36,719,163</u>	<u>\$ 489,284</u>	<u>\$ 847,808</u>	<u>\$ 4,302,662</u>	<u>\$ 4,656,921</u>	<u>\$ 47,015,838</u>
Liabilities						
Payables						
Deposits Payable	\$	\$ 70,326	\$	\$	\$	\$ 70,326
Accrued Liabilities	270,833					270,833
Due To						
Other Governments		557				557
Other Funds	3,605,976		847,808		1,358,141	5,811,925
Teachers' Retirement System	12,783,671					12,783,671
Employees' Retirement System	958,490					958,490
Short-Term Note Payable						
Bond Anticipation Note					5,031,460	5,031,460
Unearned Credits						
Unearned Revenues	47,100					47,100
Total Liabilities	<u>17,666,070</u>	<u>70,883</u>	<u>847,808</u>		<u>6,389,601</u>	<u>24,974,362</u>
Fund Balance (Deficit)						
Nonspendable	6,478	76,760				83,238
Restricted	5,897,778			4,302,662	4,174,570	14,375,010
Assigned	5,279,566	341,641				5,621,207
Unassigned (Deficit)	7,869,271				(5,907,250)	1,962,021
Total Fund Balance (Deficit)	<u>19,053,093</u>	<u>418,401</u>		<u>4,302,662</u>	<u>(1,732,680)</u>	<u>22,041,476</u>
Total Liabilities and Fund Balance	<u>\$ 36,719,163</u>	<u>\$ 489,284</u>	<u>\$ 847,808</u>	<u>\$ 4,302,662</u>	<u>\$ 4,656,921</u>	<u>\$ 47,015,838</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, 2015**

Total Governmental Fund Balances	\$ <u>22,041,476</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	203,721,670
Accumulated Depreciation	<u>(68,290,874)</u>
	<u>135,430,796</u>

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	53,147,514
Deferred Outflows - Pensions	14,058,438
Net Pension Liability - Proportionate Share	(2,400,936)
Deferred Inflows - Pensions	<u>(36,471,517)</u>
	<u>28,333,499</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	(90,745,000)
Premiums on Debt	(3,288,979)
Accrued Interest on Bonds Payable	(321,385)
Other Postemployment Benefits	(92,424,244)
Compensated Absences Payable	<u>(21,140,607)</u>
	<u>(207,920,215)</u>

Total Net Position (Deficit)	\$ <u><u>(22,114,444)</u></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, 2015

	General	School Lunch	Special Aid	Debt Service	Capital Projects	Total
Revenues						
Real Property Taxes	\$ 118,375,058	\$	\$	\$	\$	\$ 118,375,058
STAR and Other Real Property Tax Items	15,139,279					15,139,279
Charges for Services	1,699,882					1,699,882
Use of Money and Property	514,071	143		6,541		520,755
Sale of Property and Compensation for Loss	24,644					24,644
Miscellaneous	1,189,004	134				1,189,138
State Aid	52,302,310	32,853	1,443,386			53,778,549
Federal Aid	25,435	777,870	3,290,928			4,094,233
School Lunch Sales		2,428,268				2,428,268
Total Revenues	<u>189,269,683</u>	<u>3,239,268</u>	<u>4,734,314</u>	<u>6,541</u>		<u>197,249,806</u>
Expenditures						
General Support	14,947,005				1,403,068	16,350,073
Instruction	94,881,954		3,675,010		217,565	98,774,529
Pupil Transportation	10,210,214		274,882		1,657,093	12,142,189
Food Service Program		2,667,884				2,667,884
Employee Benefits	53,042,038	546,992	1,028,009			54,617,039
Debt Service - Principal	8,672,280					8,672,280
Debt Service - Interest	4,089,996					4,089,996
Total Expenditures	<u>185,843,487</u>	<u>3,214,876</u>	<u>4,977,901</u>		<u>3,277,726</u>	<u>197,313,990</u>
Excess (Deficit) Revenues Over Expenditures	<u>3,426,196</u>	<u>24,392</u>	<u>(243,587)</u>	<u>6,541</u>	<u>(3,277,726)</u>	<u>(64,184)</u>
Other Financing Sources (Uses)						
BANs Redeemed from Appropriations					2,037,280	2,037,280
Transfers from Other Funds	1,047,144		290,731		3,755,976	5,093,851
Transfers to Other Funds	(4,046,707)		(47,144)	(1,000,000)		(5,093,851)
Total Other Financing Sources (Uses)	<u>(2,999,563)</u>		<u>243,587</u>	<u>(1,000,000)</u>	<u>5,793,256</u>	<u>2,037,280</u>
Excess (Deficit) Revenues Over Expenditures and Other Financing Sources (Uses)	426,633	24,392		(993,459)	2,515,530	1,973,096
Fund Balance (Deficit), Beginning of Year	18,513,041	394,009		5,296,121	(4,248,210)	19,954,961
Prior Period Adjustment	<u>113,419</u>					<u>113,419</u>
Fund Balance (Deficit), End of Year	<u>\$ 19,053,093</u>	<u>\$ 418,401</u>	<u>\$</u>	<u>\$ 4,302,662</u>	<u>\$ (1,732,680)</u>	<u>\$ 22,041,476</u>

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

**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, 2015**

Net Changes in Fund Balance - Total Governmental Funds \$ 1,973,096

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 exceeded capital outlays in the period.

Depreciation Expense	(4,857,442)	
Capital Outlays	<u>3,522,544</u>	(1,334,898)

Repayments of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. This is the amount of repayments and amortization of issuance costs.

Amortized Issue Costs	392,095	
Repayment Bond Principal	<u>6,635,000</u>	7,027,095

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Grant Revenue	(130,353)
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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.

Change in Accrued Interest on Serial Bonds	19,171	
Change in Compensated Absences	(1,419,201)	
Other Postemployment Benefits	<u>(14,907,889)</u>	<u>(16,307,919)</u>

(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.

Teachers' Retirement System	14,480,479	
Employees' Retirement System	<u>1,417,085</u>	<u>15,897,564</u>

Change in Net Position Governmental Activities \$ 7,124,585

ARLINGTON CENTRAL SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2015

	Private Purpose Trusts	Agency
Assets		
Cash and Cash Equivalents - Unrestricted	\$	\$ 450,797
Cash and Cash Equivalents - Restricted	<u>707,685</u>	
Total Assets	<u>707,685</u>	<u>\$ 450,797</u>
Liabilities		
Due to Other Governments	136	\$
Due to Other Funds		1,473
Agency Liabilities		150,000
Extraclassroom Activity Balances		<u>299,324</u>
	<u>136</u>	<u>\$ 450,797</u>
Net Position		
Restricted for Scholarships	<u>707,549</u>	
Total Net Position	<u>\$ 707,549</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, 2015

	<u>Private Purpose Trusts</u>
Additions	
Use of Money and Property	\$ 369
Gifts and Contributions	<u>459,496</u>
Total Additions	<u>459,865</u>
 Deductions	
Scholarships and Awards	<u>466,363</u>
 Change in Net Position	 (6,498)
 Net Position, Beginning of Year	 <u>714,047</u>
 Net Position, End of Year	 <u><u>\$ 707,549</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, 2015**

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, 2015**

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.

The Statement of Activities presents a comparison between program 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, 2015

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

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 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are made in a variety of areas, including computation of encumbrances, compensated absences, 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 no later than September 1, 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.

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 13 for a detailed disclosure by individual fund for interfund receivables, payables, and interfund transactions activity.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

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.

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.

The School District uses capitalization thresholds 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:

	Estimated Useful Life	Depreciation Method
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 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 asset (TRS System) or liability (ERS System) and difference during the measurement period between the School District's contributions and its proportion share of total contributions to the pension systems not included in pension expense. This also includes the School District contributions to the pension systems (TRS and ERS Systems) subsequent to the measurement date.

**ARLINGTON CENTRAL SCHOOL DISTRICT
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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 two items that qualify for reporting in this category. First is the deferred premium on debt, reported in the District-wide Statement of Net Position. This amount is deferred and amortized over the life of the 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 (TRS System) and 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.

Vested Employee Benefits - 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.

Consistent with GASB 16, *Accounting for Compensated Absences*, the sick leave 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.

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.

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.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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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 in one year or due within more than one year in the Statement of Net Position.

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.

(b) Fund Financial Statements

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

Non-spendable

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. When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the School District's policy concerning which to apply first varies with the intended use, and with associated legal requirements. 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.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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- ***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.

- ***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.

Unrestricted

Unrestricted fund balance includes the following classifications:

- ***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, 2015.
- ***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. All encumbrances, other than in the Capital Fund, are classified as Assigned Fund Balance in the applicable fund. The amount appropriated for the subsequent year's budget of the General Fund is also classified as Assigned Fund Balance in the General Fund.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

- **Unassigned** – Includes all other fund amounts that do not meet the definition of the above two classifications and are deemed to be available for general use by the School District. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in the respective fund.

(c) Order of Use of Fund Balance

In circumstances where an expenditure is incurred for the purpose for which amounts are available in multiple fund balance classifications, (e.g. expenditures related to reserves) the Board will assess the current financial condition of the School District and then determine the order of application of expenditures to which the fund balance classification will be charged. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the School District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless School District has provided otherwise in its commitment or assignment actions.

New Accounting Standard

The District changed accounting policies related to the financial statement presentation of defined benefit pensions by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement No. 27, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an amendment of GASB Statement No. 68, in 2015. The new pronouncements require governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. GASB 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

Future Changes in Accounting Standards

GASB has issued Statement No. 72, *Fair Value Measurement and Application*, effective for the year ending June 30, 2016.

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for the year ending June 30, 2018. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the year ending June 30, 2016.

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 Statement of Activities, 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.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

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 five broad categories:

(a) Long-Term Revenue Differences

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

(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.

(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 District’s contributions and its proportionate share of the total contributions to the pension systems.

(e) 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 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. No supplemental appropriations occurred during the current year.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

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.

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, 2015, the School District's unassigned fund balance was 4.01% of the 2015-2016 budget.

Statutory Debt Limit

At June 30, 2015, 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, 2015.

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. While the School District does not have a specific policy for custodial credit risk, New York State statutes govern the School District's investment policies, as discussed previously in these notes.

As of June 30, 2015, the School District's bank balances of \$40,102,437 were collateralized by FDIC insurance of \$1,000,202 and securities held by an agent of the pledging financial institution in an account in the School District's name of \$39,009,663 and not exposed to custodial credit risk, while \$92,572 was considered uninsured and uncollateralized.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents of \$5,897,778 in the General Fund represents amounts in the following reserves:

<u>Description</u>	<u>Amount</u>
Unemployment Insurance Reserve	\$ 130,943
Retirement Contribution Reserve	2,504,045
Liability Reserve	53,163
Tax Certiorari Reserve	2,304,450
Employee Benefit Accrued Liability Reserve	905,177
	<u>\$ 5,897,778</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

Restricted cash and cash equivalents of \$747,736 in the Capital Projects Fund represents funds held for use on current capital projects. In addition, \$3,426,834 in amounts due from other funds is also restricted for this purpose.

Restricted cash and cash equivalents of \$4,302,662 in the Debt Service Fund represents reserves for future debt service.

Restricted cash and cash equivalents of \$707,685 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 \$14,630,871 for BOCES' administrative and program costs. The School District's share of BOCES' aid amounted to \$3,215,853.

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 in the General Fund at June 30, 2015, consisted of:

State and Federal Aid	
New York State – August Excess Cost Aid	\$ 1,573,909
New York State – September Excess Cost Aid	30,941
Total State and Federal Aid	<u>\$ 1,604,850</u>
Due from Other Governments	
BOCES Aid – September Aid	<u>\$ 1,532,117</u>

7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 2,067,937	\$	\$	\$ 2,067,937
Construction in Progress	38,532,011	1,620,633	253,769	39,898,875
Total	<u>40,599,948</u>	<u>1,620,633</u>	<u>253,769</u>	<u>41,966,812</u>
Capital Assets Being Depreciated				
Buildings and Improvements	137,655,657	260,859		137,916,516
Furniture, Equipment and Vehicles	23,406,107	1,894,821	1,462,586	23,838,342
Total	<u>161,061,764</u>	<u>2,155,680</u>	<u>1,462,586</u>	<u>161,754,858</u>
Accumulated Depreciation				
Buildings and Improvements	50,793,721	2,886,542		53,680,263
Furniture, Equipment and Vehicles	14,102,297	1,970,900	1,462,586	14,610,611
Total	<u>64,896,018</u>	<u>4,857,442</u>	<u>1,462,586</u>	<u>68,290,874</u>
Net Capital Assets Being Depreciated	96,165,746	(2,701,762)		93,463,984
Net Capital Assets	<u>\$ 136,765,694</u>	<u>\$ (1,081,129)</u>	<u>\$ 253,769</u>	<u>\$ 135,430,796</u>

ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

Depreciation expense of \$4,857,442 was allocated based on estimated usage by function as follows:

<u>Function/Program</u>	<u>Amount</u>
General Support	\$ 611,227
Instruction	3,692,560
Pupil Transportation	453,920
Food Service Program	99,735
Total Depreciation	<u>\$ 4,857,442</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					
2014 Bus BAN	11/14	<u>\$ 5,031,460</u>	11/15	1.00	<u>\$ 5,031,460</u>

Changes in the School District's short-term notes payable for the year ended June 30, 2015, are as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Refinanced / Paid</u>	<u>Ending Balance</u>
2009 BAN for Buses	\$ 533,600	\$	\$ 533,600	\$
2010 BAN for Buses	1,009,800	504,900	1,009,800	504,900
2011 BAN for Buses	1,354,440	902,960	1,354,440	902,960
2012 BAN for Buses	730,400	547,800	730,400	547,800
2013 BAN for Buses	1,823,500	1,458,800	1,823,500	1,458,800
2014 BAN for Buses		<u>1,617,000</u>		<u>1,617,000</u>
	<u>\$ 5,451,740</u>	<u>\$ 5,031,460</u>	<u>\$ 5,451,740</u>	<u>\$ 5,031,460</u>

Interest expense on the BANs was \$52,089 for the year ending June 30, 2015.

9. NONCURRENT LIABILITIES

Noncurrent liability balances and activity are as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Paid</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds Payable					
Serial Bonds	\$ 97,380,000	\$	\$ 6,635,000	\$ 90,745,000	\$ 6,925,000
Other Liabilities					
Other Postemployment Benefits	77,516,355	22,616,582	7,708,693	92,424,244	
Compensated Absences	<u>19,721,406</u>	<u>1,419,201</u>		<u>21,140,607</u>	
Total Noncurrent Liabilities	<u>\$ 194,617,761</u>	<u>\$ 24,035,783</u>	<u>\$ 14,343,693</u>	<u>\$ 204,309,851</u>	<u>\$ 6,925,000</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

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 of the School District outstanding at June 30, 2015, 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>
General Fund					
Construction Serial Bond	05/01/09	\$ 56,107,212	2027	2.0-5.0	\$ 41,840,000
Refunding Serial Bond	05/24/12	\$ 37,365,000	2031	2.0-5.0	35,160,000
Refunding Serial Bond	11/07/12	\$ 18,615,000	2022	2.0-4.0	13,745,000
Total					<u><u>\$ 90,745,000</u></u>

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

<u>Fiscal Year Ending June 30,</u>	<u>Serial Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,925,000	\$ 3,783,388	\$ 10,708,388
2017	7,190,000	3,477,987	10,667,987
2018	7,500,000	3,158,088	10,658,088
2019	6,305,000	2,854,637	9,159,637
2020	6,575,000	2,568,538	9,143,538
2021-2025	32,045,000	8,553,800	40,598,800
2026-2030	21,375,000	2,280,968	23,655,968
2031	<u>2,830,000</u>	<u>56,600</u>	<u>2,886,600</u>
Total	<u><u>\$ 90,745,000</u></u>	<u><u>\$ 26,734,006</u></u>	<u><u>\$ 117,479,006</u></u>

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

Interest Paid on Long Term Debt	\$ 4,037,907
Interest Accrued on BANs	52,089
Amortization of Bond Premium	(392,095)
Less: Interest Accrued in the Prior Year	(340,556)
Plus: Interest Accrued in the Current Year	<u>321,385</u>
Total Interest Expense	<u><u>\$ 3,678,730</u></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, 2015, \$51,175,000 of bonds outstanding are considered defeased.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

10. 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 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 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 are required to contribute 3% of their annual salary for their entire working 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, 2015, were paid.

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

	<u>Amount</u>
2013	\$ 3,870,949
2014	\$ 3,688,809
2015	\$ 3,690,751

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

At June 30, 2015, the School District reported a liability of \$2,400,936 for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2015 and 2014, the School District's proportion was .0710705 percent.

ARLINGTON CENTRAL SCHOOL DISTRICT
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For the Year Ended June 30, 2015

For the year ended June 30, 2015, the School District recognized pension expense of \$2,215,544. At June 30, 2015, the School District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 76,857
Change of Assumptions	0
Net difference between projected and actual earnings on Pension plan investments	417,012
Changes in proportion and differences between contributions and proportionate share of contributions	170,697
Contributions subsequent to the measurement date	958,490
Total	<u>\$ 1,623,056</u>

\$958,490 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/liability in the year ended June 30, 2016. 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>
2016	\$ 166,142
2017	\$ 166,142
2018	\$ 166,141
2019	\$ 166,141

(d) Actuarial Assumptions

The total pension liability at March 31, 2015 was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liability to March 31, 2015. The actuarial valuation used the following significant actuarial assumptions:

Investment rate of return (net of investment expense, including inflation)	7.50%
Salary scale	4.90%
Decrement tables	April 1, 2005 - March 31, 2010 System's Experience
Inflation rate	2.70%

Annuitant mortality rates are based on April 1, 2005 - March 31, 2011 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2011 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

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, 2015 are summarized below.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	7.30%
International equity	8.55%
Private equity	11.00%
Real estate	8.25%
Absolute return strategies	6.75%
Opportunistic portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation-indexed bonds	4.00%

(e) Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. 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 7.5 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 (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Assumption <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Proportionate share of the net pension (asset)/liability	\$ 16,003,276	\$ 2,400,936	\$ (9,082,812)

(g) Pension Plan Fiduciary Net Position

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

(h) Payables to the Pension Plan

The School District has recorded an amount due to ERS in amount of \$958,490 at June 30, 2015. This amount represents the three months of the School District's fiscal year that will be covered in the ERS 2015-2016 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.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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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). 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 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>
2013	\$ 8,374,046
2014	\$ 11,452,537
2015	\$ 12,317,992

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

At June 30, 2015, the School District reported an asset of \$53,147,514 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2013. 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.

At June 30, 2014, the School District's proportion was .477114 percent, which was a decrease of .005734 percent from its proportion measured as of June 30, 2013.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

For the year ended June 30, 2015, the School District recognized a pension credit of \$2,078,870. At June 30, 2015, 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	\$ 0	\$ 777,185
Net difference between projected and actual earnings on Pension plan investments	0	35,694,332
Changes in proportion and differences between contributions and proportionate share of contributions	33,813	0
Contributions subsequent to the measurement date	12,401,569	0
Total	<u>\$ 12,435,382</u>	<u>\$ 36,471,517</u>

\$12,401,569 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/liability in the year ended June 30, 2016. 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>
2015	\$ (9,010,022)
2016	\$ (9,010,022)
2017	\$ (9,010,022)
2018	\$ (9,010,022)
2019	\$ (86,439)
Thereafter	\$ (311,179)

(d) Actuarial Assumptions

The total pension liability at June 30, 2014 measurement date was determined by using an actuarial valuation as of June 30, 2013, with update procedures used to roll forward the total pension liability to June 30, 2014. The actuarial valuation used the following significant actuarial assumptions.

Investment Rate	
of Return	8.0 % compounded annually, net of pension plan investment expense, including inflation.
Salary scale	Rates of increase differ based on age and gender.
	They have been calculated based upon recent NYSTRS member experience.

Age	Female	Male
25	10.35%	10.91%
35	6.26%	6.27%
45	5.39%	5.04%
55	4.42%	4.01%

Projected COLAs	1.625% compounded annually.
Inflation rate	3.0%

Annuitant mortality rates are based on plan member experience, with adjustments for mortality improvements based on the Society of Actuaries Scale AA.

The actuarial assumptions used in the June 30, 2013 and 2012 valuations were based on the results of an actuarial experience study for the period July 1, 2005 to June 30, 2010.

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
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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, 2013 and June 30, 2012 are summarized in the following table:

Asset Class	Target Allocation		Long-Term Expected Real Rate of Return*	
	2013	2012	2013	2012
Domestic equity	37.0%	37.0%	7.3%	7.0%
International equity	18.0%	18.0%	8.5%	9.1%
Real estate	10.0%	10.0%	5.0%	4.9%
Alternative investments	7.0%	7.0%	11.0%	10.2%
Domestic fixed income securities	18.0%	18.0%	1.5%	2.0%
Global fixed income securities	2.0%	2.0%	1.4%	1.7%
Mortgages	8.0%	8.0%	3.4%	4.0%
Short-term	0.0%	0.0%	0.8%	1.2%

* Real rates of return are net of the long-term inflation assumption of 2.3% for 2013 and 2012.

(e) Discount Rate

The discount rate used to calculate the total pension liability was 8.0%. 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 liability.

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

The following presents School District's proportionate share of the net pension liability calculated using the discount rate of 8.0 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 (7.0 percent) or 1-percentage-point higher (9.0 percent) than the current rate:

	1% Decrease <u>(7.0%)</u>	Current Assumption <u>(8.0%)</u>	1% Increase <u>(9.0%)</u>
Proportionate share of the net pension (asset)/liability	\$ (1,146,466)	\$ (53,147,514)	\$ (97,459,630)

(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 \$12,401,569, excluding the employees' share, in the General Fund at June 30, 2015. This amount represents contribution for the 2014-2015 fiscal year that will be made in 2015-2016 and has been accrued as an expenditure in the current year.

ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

11. 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 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 Plan does not issue a stand-alone publicly available financial report since there are no assets legally segregated for the purpose of paying benefits under the Plan.

Plan Types	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.
Eligibility	Employees are required to reach age 55 and retire from the School District with 5 or 10 years of service, depending on class.
Benefit Cost Sharing	The School District pays 100% of premium costs for single retirees and 35% of the cost of dependent coverage. The School District reimburses for the entire cost of Medicare Part B.
Surviving Spouse Benefit	Surviving dependents do not receive subsidized health insurance or any reimbursements for Medicare Part B coverage.

(b) Funding Policy

The obligations of the Plan members, employers, and other entities are established by action of the School District pursuant to applicable collective bargaining and employment agreements. The required contribution rates of the employer and the members vary depending on the applicable agreement.

(c) Annual OPEB Costs and Net OPEB Obligation

The School District's other postemployment benefit (OPEB) expense for all employee health insurance benefits is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The employer currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you go basis. The costs of administering the Plan are included in the contribution rates since fully insured. The following table shows the components of the School District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the School District's net OPEB obligation:

Normal Cost	\$ 11,181,573
Amortization of UAL	<u>6,338,570</u>
ARC	17,520,143
Interest on Net OPEB Obligation	3,875,818
Adjustment to ARC	<u>1,220,621</u>
Annual OPEB Cost (Expense)	22,616,582
Contributions Made	<u>(7,708,693)</u>
Change in Net OPEB Obligation	14,907,889
Net OPEB Obligation at the Beginning of the Year	<u>77,516,355</u>
Net OPEB Obligation at the End of the Year	<u><u>\$ 92,424,244</u></u>

ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

(d) Trend Information

<u>Fiscal Year Ending</u>	Annual			Net OPEB Obligation
	<u>Net OPEB Expense</u>	<u>OPEB Expense Contributed</u>	<u>% of Expense Contributed</u>	
June 30, 2015	\$ 22,616,582	\$ 7,708,693	34.1%	\$ 92,424,244
June 30, 2014	\$ 24,028,832	\$ 7,120,106	29.6%	\$ 77,516,355
June 30, 2013	\$ 22,641,780	\$ 6,952,130	30.7%	\$ 60,607,629

(e) Funding Status

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. For this reason, the results in this report should be viewed as estimates. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

	<u>Total</u>
Actuarial Accrued Liability	\$ 300,109,249
Actuarial Value of Assets	<u>0</u>
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 300,109,249</u>
Funded Ratio	0%
Annual Covered Payroll	\$ 92,920,338
UAAL as a Percentage of Covered Payroll	323.0%

(f) Actuarial Methods and Assumptions

The projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and on the historical pattern of cost-sharing between the employer and Plan members at that point. In addition, the projections do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and Plan members in the future. The actuarial calculations reflect a long-term perspective; actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial measurement date was dated July 1, 2014.

Significant methods and assumptions were as follows:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar Closed
Amortization Period (Years)	30
Amortization Period Remaining (Years)	23
Amortization Discount	5.0%
Fiscal Year Ultimate Trend Rate Reached	2020
Method Used to Determine Actuarial Value of Assets	N/A
Projected Salary Increase	N/A
Healthcare Cost Trend Rate	9.0% initial; 5.0% ultimate

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

12. 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, 2015, the School District paid premiums of \$1,480,871 to the plan.

13. INTERFUND TRANSACTIONS – GOVERNMENTAL FUNDS

The following is a summary of interfund transactions and balances during the year ended June 30, 2015:

Fund Type	Interfund		Interfund	
	Receivables	Payables	Revenues	Expenditures
General	\$ 2,207,422	\$ 3,605,976	\$ 1,047,144	\$ 4,046,707
Special Aid		847,808	290,731	47,144
Debt Service				1,000,000
Capital Projects	3,605,976	1,358,141	3,755,976	
Fiduciary Funds		1,473		
Total	<u>\$ 5,813,398</u>	<u>\$ 5,813,398</u>	<u>\$ 5,093,851</u>	<u>\$ 5,093,851</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 \$1,000,000 from the Debt Service Fund to the General Fund to offset budgeted debt service expenditures.
- The School District transferred \$3,755,976 from the General Fund to the Capital Projects Fund to cover the local share of the health and safety and flooring projects.

ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

14. FUND BALANCE

(a) The following is a summary of the change in General Fund restricted reserve funds during the year ended June 30, 2015:

Restricted Reserve	Beginning Balance	Increases	Decreases	Ending Balance
Unemployment	\$ 130,900	\$ 43	\$	\$ 130,943
Retirement Contribution	1,503,347	1,000,698		2,504,045
Liability Claims	53,135	28		53,163
Tax Certiorari Reserve	2,303,113	1,337		2,304,450
Employee Benefit Accrued Liability Reserve	904,568	609		905,177
Total General Fund Restricted	<u>\$ 4,895,063</u>	<u>\$ 1,002,715</u>	<u>\$</u>	<u>\$ 5,897,778</u>

(b) The following is the disaggregation of the fund balance that is reported in summary on the governmental fund's Balance Sheet:

	General	School Lunch	Debt Service	Capital Projects	Total
Nonspendable					
Prepaid Expenditures	\$ 6,478	\$	\$	\$	\$ 6,478
Inventory		76,760			76,760
Total Nonspendable	<u>6,478</u>	<u>76,760</u>			<u>83,238</u>
Restricted					
Unemployment Insurance Reserve	130,943				130,943
Retirement Contribution Reserve	2,504,045				2,504,045
Liability Reserve	53,163				53,163
Tax Certiorari Reserve	2,304,450				2,304,450
Reserve for Employee Benefit Accrued Liability	905,177				905,177
Debt Service Fund			4,302,662		4,302,662
Capital Projects Fund				4,174,570	4,174,570
Total Restricted	<u>5,897,778</u>		<u>4,302,662</u>	<u>4,174,570</u>	<u>14,375,010</u>
Assigned					
Unappropriated	1,419,566	341,641			1,761,207
Appropriated for Subsequent Year's Budget	3,860,000				3,860,000
Total Assigned	<u>5,279,566</u>	<u>341,641</u>			<u>5,621,207</u>
Unassigned (Deficit)	<u>7,869,271</u>			<u>(5,907,250)</u>	<u>1,962,021</u>
Total Fund Balance (Deficit)	<u>\$ 19,053,093</u>	<u>\$ 418,401</u>	<u>\$ 4,302,662</u>	<u>\$ (1,732,680)</u>	<u>\$ 22,041,476</u>

**ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

15. 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.

16. FUND DEFICIT – CAPITAL PROJECTS FUND

The Capital Projects Fund has a fund deficit of \$1,732,680 and an unassigned deficit of \$5,907,250 at June 30, 2015. 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 addition, the fund has incurred \$1,179,000 in expenditures under an energy performance contract in 2014-2015. The deficit will be eliminated when the current BANs are paid from appropriations, or refinanced with long term debt, and the energy performance contract financing is completed.

17. DISTRICT-WIDE NET POSITION DEFICIT

The District-wide Statement of Net Position has a total net position deficit of \$22,114,444 and an unrestricted net position deficit of \$76,153,591 at June 30, 2015. 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 \$92,424,244.

18. PRIOR PERIOD ADJUSTMENT

The beginning fund balance of the General Fund has been restated on the governmental fund financial statements to record a prior period adjustment to correct an error in allocation of transportation expenses to the Special Aid Fund. This allocation results in additional operating aid receivable in the Special Aid Fund at June 30, 2014. A reconciliation of the prior period ending fund balance to the current year beginning fund balance for the General Fund is as follows:

Beginning Fund Balance	\$ 18,513,041
Restatement of General Fund Transportation Expenses	<u>113,419</u>
Beginning Fund Balance, Restated	<u>\$ 18,626,460</u>

Similarly, the beginning net position deficit of the District-wide financial statements has also been restated to correct this error. This restatement is included in note 19 below.

ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

19. RESTATEMENT OF NET POSITION

For the fiscal year ended June 30, 2015, the District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – Amendment to GASB Statement No. 27*. The implementation of Statement No. 68 resulted in the reporting of an asset, deferred outflow of resources, liability and deferred inflow of resources related to the District's participation in the New York State Teachers' and Employees' retirement systems. The District's net position has been restated as follows:

Net Position (Deficit) beginning of year, as previously stated	\$ <u>41,788,383</u>
GASB Statement No. 68 implementation	
Beginning System asset – Teachers' Retirement System	3,178,363
Beginning System liability – Employees' Retirement System	(3,211,577)
Beginning deferred outflow of resources for contributions	
Subsequent to the measurement date	
Teachers' Retirement System	11,452,537
Employees' Retirement System	<u>1,016,612</u>
Total Prior Period Adjustment – GASB 68	12,435,935
 Prior Period Adjustment – General Fund	
Transportation Expenses	<u>113,419</u>
 Total Prior Period Adjustments	<u>12,549,354</u>
 Net Position beginning of year, as restated	 \$ <u>29,239,029</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, 2015

	Original Budget	Final Budget	Actual		Final Budget Variance With Actual
Revenues					
Local Sources					
Real Property Taxes	\$ 118,204,359	\$ 118,204,359	\$ 118,375,058	\$	170,699
STAR and Other Real Property Tax Items	15,324,830	15,324,830	15,139,279		(185,551)
Charges for Services	1,171,531	1,171,531	1,699,882		528,351
Use of Money and Property	290,000	290,000	514,071		224,071
Sale of Property and Compensation for Loss	30,000	30,000	24,644		(5,356)
Miscellaneous	972,000	972,000	1,189,004		217,004
State Aid	51,925,674	51,925,674	52,302,310		376,636
Federal Aid			25,435		25,435
Total Revenues	187,918,394	187,918,394	189,269,683		1,351,289
Other Financing Sources					
Transfers from Other Funds	1,000,000	1,000,000	1,047,144		47,144
Appropriated Fund Balance	5,874,536	5,874,536			(5,874,536)
Total Revenues and Other Financing Sources	\$ 194,792,930	\$ 194,792,930	190,316,827	\$	(4,476,103)
Expenditures					
General Support					
Board of Education	\$ 90,909	\$ 74,909	63,535	\$ 801	\$ 10,573
Central Administration	296,956	344,398	329,750	325	14,323
Finance	1,242,350	1,287,414	1,235,831	16,978	34,605
Staff	804,825	815,906	702,756	27,413	85,737
Central Services	11,696,715	11,725,042	10,566,611	343,809	814,622
Special Items	2,584,838	2,341,238	2,048,522	281,330	11,386
Total General Support	16,716,593	16,588,907	14,947,005	670,656	971,246
Instruction					
Instruction, Administration, and Improvement	6,278,353	6,238,536	6,083,266	1,396	153,874
Teaching - Regular School	55,302,360	54,732,402	53,590,297	100,753	1,041,352
Programs for Children With Special Needs	22,978,644	22,682,993	22,221,338	435,267	26,388
Occupational Education	1,090,606	1,108,078	1,108,078		
Teaching - Special School	535,667	547,732	366,592	3,040	178,100
Instructional Media	4,248,336	4,629,897	4,457,754	13,557	158,586
Pupil Services	7,054,645	7,508,584	7,054,629	25,912	428,043
Total Instruction	97,488,611	97,448,222	94,881,954	579,925	1,986,343
Pupil Transportation	11,447,902	10,724,984	10,210,214	141,982	372,788
Employee Benefits	56,019,157	53,217,352	53,042,038	27,003	148,311
Debt Service - Principal	8,672,280	8,672,280	8,672,280		
Debt Service - Interest	4,077,387	4,094,477	4,089,996		4,481
Total Expenditures	194,421,930	190,746,222	185,843,487	1,419,566	3,483,169
Other Financing Uses					
Transfers to Other Funds	371,000	4,046,708	4,046,707		1
Total Expenditures and Other Financing Uses	\$ 194,792,930	\$ 194,792,930	189,890,194	\$ 1,419,566	\$ 3,483,170
Net Change in Fund Balance			426,633		
Fund Balance - Beginning of Year			18,513,041		
Prior Period Adjustment			113,419		
Fund Balance - End of Year			\$ 19,053,093		

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 FUNDING PROGRESS OF THE OTHER POSTEMPLOYMENT BENEFITS
For the Year Ended June 30, 2015

Actuarial Valuation Date	School District's Year End	Actuarial Value of Assets	Actuarial Accrued Liability-Projected Unit Credit	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
		(a)	(b)	(b)-(a)	(a)/(b)	(c)	[(b)-(a)]/(c)
July 01, 2014	June 30, 2015	\$ 0	\$ 300,109,249	\$ 300,109,249	0%	\$ 92,920,338	323.0%
July 01, 2012	June 30, 2014	\$ 0	\$ 294,473,691	\$ 294,473,691	0%	\$ 92,252,991	319.2%
July 01, 2012	June 30, 2013	\$ 0	\$ 275,350,312	\$ 275,350,312	0%	\$ 88,696,914	310.4%

ARLINGTON CENTRAL SCHOOL DISTRICT
SCHEDULE OF LOCAL GOVERNMENT CONTRIBUTIONS
For the Year Ended June 30, 2015

ERS Pension Plan

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually Required Contribution	\$ 3,690,751	\$ 3,688,809	\$ 3,870,949	\$ 2,981,142	\$ 2,013,954	\$ 1,354,052	\$ 1,488,121	\$ 1,478,926	\$ 1,934,341	\$ 1,605,938
Contributions in Relation to the Contractually Required Contribution	3,690,751	3,688,809	3,870,949	2,981,142	2,013,954	1,354,052	1,488,121	1,478,926	1,934,341	1,605,938
Contribution Deficiency (Excess)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
School District's Covered-ERS Employee Payroll	\$ 19,161,719	\$ 19,111,550	\$ 20,011,546	\$ 18,777,316	\$ 18,551,290	\$ 19,097,401	\$ 18,138,593	\$ 17,015,193	\$ 16,653,558	\$ 14,125,949
Contributions as a Percentage of Covered-Employee Payroll	19.26%	19.30%	19.34%	15.88%	10.86%	7.09%	8.20%	8.69%	11.62%	11.37%

TRS Pension Plan

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually Required Contribution	\$ 12,317,992	\$ 11,452,537	\$ 8,374,046	\$ 7,320,806	\$ 5,731,774	\$ 4,192,683	\$ 4,969,053	\$ 5,364,908	\$ 4,969,178	\$ 4,473,022
Contributions in Relation to the Contractually Required Contribution	12,317,992	11,452,537	8,374,046	7,320,806	5,731,774	1,184,826	1,184,826	1,184,826	1,184,826	1,184,826
Contribution Deficiency (Excess)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
School District's Covered-TRS Employee Payroll	\$ 70,268,066	\$ 70,477,152	\$ 70,726,740	\$ 65,893,842	\$ 66,493,902	\$ 67,733,174	\$ 65,125,201	\$ 61,453,696	\$ 57,781,134	\$ 56,123,237
Contributions as a Percentage of Covered-Employee Payroll	17.53%	16.25%	11.84%	11.11%	8.62%	6.19%	7.63%	8.73%	8.60%	7.97%

Information is presented only for the years available.

ARLINGTON CENTRAL SCHOOL DISTRICT
SCHEDULE OF THE LOCAL GOVERNMENT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
For the Year Ended June 30, 2015

ERS Pension Plan

	2015	2014
District's proportion of the net pension liability	0.0710705%	0.0710705%
District's proportionate share of the net pension liability	\$ 2,400,936	\$ 3,211,577
District's covered-employee payroll	\$ 19,161,719	\$ 19,111,550
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	13%	17%
Plan fiduciary net position as a percentage of total pension liability	97.9%	97.2%

TRS Pension Plan

	2014	2013
District's Proportion of the net pension asset	0.477114%	0.482848%
District's proportionate share of the net pension asset	\$ 53,147,514	\$ 3,178,363
District's covered-employee payroll	\$ 70,477,152	\$ 70,726,740
District's proportionate share of the net pension asset as a percentage of its covered-employee payroll	75.41%	04.49%
Plan fiduciary net position as a percentage of total pension asset	111.48%	100.70%

Information is presented only for the years available.

ARLINGTON CENTRAL SCHOOL DISTRICT
SCHEDULES OF CHANGE FROM ORIGINAL BUDGET TO REVISED BUDGET
AND THE REAL PROPERTY TAX LIMIT
For the Year Ended June 30, 2015

Change from Adopted Budget to Revised Budget

Adopted Budget	\$ 193,518,394
Add: Prior Year's Encumbrances	<u>1,274,536</u>
Original Budget	<u>\$ 194,792,930</u>
Final Budget	<u>\$ 194,792,930</u>

Section 1318 of Real Property Tax Law Limit Calculation

2015-16 voter-approved expenditure budget	<u>\$ 196,191,000</u>
Maximum allowed (4% of 2015-16 budget)	<u>\$ 7,847,640</u>

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

Unrestricted fund balance:	
Assigned fund balance	5,279,566
Unassigned fund balance	<u>7,869,271</u>
Total unrestricted fund balance	<u>13,148,837</u>

Less:

Appropriated fund balance	3,860,000
Encumbrances included in assigned fund balance	<u>1,419,566</u>
Total adjustments	<u>5,279,566</u>

General Fund Fund Balance Subject to Section 1318 of Real Property Tax Law	<u>\$ 7,869,271</u>
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Actual Percentage	4.0%
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ARLINGTON CENTRAL SCHOOL DISTRICT
SCHEDULE OF PROJECT EXPENDITURES - CAPITAL PROJECTS FUND
For the Year Ended June 30, 2015

PROJECT TITLE	Original Authorization	Revised Authorization	Expenditures		Unexpended Balance	Proceeds of Obligations	Methods of Financing		Fund Balance (Deficit) June 30, 2015
			Prior Years	Current Year			State Aid	Local Sources	
					Total				Total
Bus and Vehicle Purchases 2010	\$ 2,668,000	\$ 2,668,000	\$ 2,668,000	\$	\$ 2,668,000	\$	\$	\$ 2,668,000	\$ 2,668,000
Bus and Vehicle Purchases 2011	2,524,500	2,524,500	2,524,500		2,524,500			2,019,600	2,019,600
Bus and Vehicle Purchases 2012	2,257,400	2,257,400	2,142,384		2,142,384	115,016		1,354,440	1,354,440
Bus and Vehicle Purchases 2013	913,000	913,000	908,547	54	908,601	4,399		365,200	365,200
Bus and Vehicle Purchases 2014	1,823,500	1,823,500	1,599,666	157,775	1,757,441	66,059		364,700	364,700
Bus and Vehicle Purchases 2015	1,617,000	1,617,000		1,499,264	1,499,264	117,736			(1,392,741)
Water Project - Beekman Elementary	76,800	200,800	113,076	1,500	114,576	86,224		775,421	775,421
Solar Panel Project II	108,000	108,000	63,668	44,332	108,000			108,000	108,000
High School Renovations	59,800,000	60,067,000	59,839,008	3,550	59,842,558	224,442	3,307,788	326,000	59,842,558
Health and Safety Proposition	3,605,976	3,605,976		179,141	179,141	3,426,835		3,605,976	3,605,976
Water Improvement Project	150,000	150,000		5,180	5,180	144,820		84,000	84,000
Energy Performance Contract	21,180,000	21,180,000		1,179,000	1,179,000	20,001,000			(1,179,000)
Flooring Project	210,000	216,000		207,930	207,930	8,070		216,000	216,000
Totals	\$ 96,934,176	\$ 97,331,176	\$ 69,858,849	\$ 3,277,726	\$ 73,136,575	\$ 24,194,601	\$ 3,307,788	\$ 11,887,337	\$ 71,403,895
									\$ (1,732,680)

ARLINGTON CENTRAL SCHOOL DISTRICT
NET INVESTMENT IN CAPITAL ASSETS
For the Year Ended June 30, 2015

Capital Assets, Net	\$ 135,430,796
Deduct:	
Bond Anticipation Notes	5,031,460
Less Unspent Bond Anticipation Note Proceeds	(303,209)
Short-Term Portion of Bonds Payable	6,925,000
Long-Term Portion of Bonds Payable	83,820,000
Unamortized Bond Premium	3,288,979
Less: Unspent Proceeds	<u>(2,995,571)</u>
	<u>95,766,659</u>
Net Investment in Capital Assets	<u>\$ 39,664,137</u>

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

200 E. Garden St., P.O. Box 4300, Rome, N.Y. 13442-4300
315-336-9220 Fax: 315-336-0836

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, 2015, 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 7, 2015.

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 7, 2015

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 OMB Circular A-133**

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 Circular A-133 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, 2015. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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, 2015.

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 OMB Circular A-133, 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

D'Arcangelo & Co., LLP

October 7, 2015

Rome, New York

ARLINGTON CENTRAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Current-Year Expenditures
<u>U.S. Department of Agriculture</u>		
(Passed Through the State Education Department of the State of New York - Pass-Through Grantor's No. 080601-04-0000)		
School Breakfast Program	10.553	\$ 89,716
National School Lunch Program	10.555	<u>688,154</u>
Total U.S. Department of Agriculture		<u>777,870</u>
<u>U.S. Department of Education</u>		
(Passed Through the State Education Department of the State of New York - Pass-Through Grantor's No. 080601-04-0000)		
Title I Grants to Local Educational Agencies	84.010	600,855
Special Education - Grants to States	84.027	2,309,205
Special Education - Preschool Grants	84.173	87,675
English Language Acquisition State Grants	84.365	20,312
Improving Teacher Quality State Grants	84.367	<u>272,881</u>
Total U.S. Department of Education		<u>3,290,928</u>
<u>Total Federal Financial Assistance</u>		<u>\$ 4,068,798</u>

See Notes to Schedule of Expenditures of Federal Awards and Independent Auditor's Report.

ARLINGTON CENTRAL SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The accompanying Schedule of Expenditures of Federal Awards represents all federal awards administered by Arlington Central School District. The School District's organization is defined in Note 1 of the School District's basic financial statements.

Basis of Accounting

The expenditures in the accompanying schedule are presented on an accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Cluster Programs

The following programs are identified by "OMB Circular A-133 Compliance Supplement" to be part of a cluster of programs:

Nutrition Cluster

CFDA #10.553	School Breakfast Program
CFDA #10.555	National School Lunch Program

Special Education Cluster

CFDA #84.027	Special Education – Grants to States
CFDA #84.173	Special Education – Preschool Grants

ARLINGTON CENTRAL SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - FEDERAL COMPLIANCE REQUIREMENTS
For the Year Ended June 30, 2015

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 § .510?	No
(d)(1)(vii)	Major Programs (list):	<u>U.S. Department of Agriculture</u> Nutrition Cluster CFDA #10.553 School Breakfast Program CFDA #10.555 National School Lunch Program <u>U.S. Department of Education</u> CFDA #84.010 Title I Grants to Local Education Agencies
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 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, 2015**

(Continued)

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, 2015**

Findings – Financial Statement Audit

None noted.

Findings and Questioned Costs – Major Federal Award Programs Audit

None noted.