

ARLINGTON COMMUNITY SCHOOL SYSTEM
FINANCIAL STATEMENTS

June 30, 2019



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**ARLINGTON COMMUNITY SCHOOL SYSTEM
ROSTER OF PUBLICLY ELECTED OFFICIALS**
For the Year Ended June 30, 2019

BOARD OF EDUCATION OFFICIALS

Chairman Kay Williams
Vice-Chairman Barbara Fletcher
Board Member Scott Benjamin
Board Member Hugh Lamar
Board Member Dale Viox

BOARD OF EDUCATION ADMINISTRATION

Superintendent..... Tammy Mason
Chief Financial Officer..... Miracle Roberts*
Chief of Staff Jeff Mayo
Director of Academics..... Todd Goforth
Director of Accountability & Federal Compliance Rochelle Douglas
Director of Operations..... Tim Ruff

* Designated CMFO

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, the statement of budgetary comparison for the general purpose fund and the aggregate remaining fund information of the Arlington Community School System, (the "System") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, the statement of budgetary comparison for the general purpose fund and the aggregate remaining fund information of the System, as of June 30, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The introductory section and the combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by Title 2, U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund statements and schedules and the schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules and the schedule of expenditures of federal awards and state financial assistance are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2019, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



Memphis, Tennessee
December 2, 2019

**ARLINGTON COMMUNITY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**
For the Year Ended June 30, 2019

As management of the Arlington Community Schools (System), we offer readers of the financial statements for the System, this narrative overview and analysis of the financial activities for the year ended June 30, 2019. Comparative financial information is reported for the fiscal year ended June 30, 2018. We encourage readers to consider the information here in conjunction with the Independent Auditor's Report and the System's financial statements. The accompanying financial statements are presented at the department level and do not purport to represent the government-wide statements of the Town of Arlington (Town). The determination of major and non-major funds is determined at the Town level.

Arlington Community School System is a K-12 school system located in Arlington, Tennessee, a suburban area of Memphis, Tennessee. Our system serves slightly over 4,500 students and consists of four schools: Arlington Elementary, Donelson Elementary, Arlington Middle, and Arlington High. Our System's mission is to empower and to inspire all students towards lifetime learning, career success and good citizenship. Our System's vision is to fully engage and to inspire our staff, parents and community to create an environment where students can achieve their highest potential and become productive citizens in an ever changing, challenging world.

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

Financial Highlights

Key financial highlights for the fiscal year ended June 30, 2019 are as follows:

- The assets and deferred outflows of resources of the System exceeded its liabilities and deferred inflows of resources by \$116 million (net position) that represents a \$6 million increase in net position. Of this amount, the unrestricted net position has a balance of \$17.8 million.
- As of the close of the current fiscal year, the System reported combined ending fund balances of \$22.146 million. Approximately 92.4% of this total amount, \$20.5 million is unassigned in the general purpose fund, .06% represents non-spendable funds in the general purpose and non-major governmental funds, .1.8% represents funds restricted in the school nutrition fund, and 5.2% represents funds restricted in the education capital projects fund.
- The System has an outstanding debt to Shelby County Schools in the amount of \$2.33 million and made a payment in the current fiscal year of \$333,333. Other postemployment benefits liability is determined by the actuary to be \$4.0 million. Compensated absences balance at year-end is \$201 thousand.
- The System continued the construction of a new gymnasium at Arlington Middle School. The gymnasium is projected to be completed in fiscal year 2020 at a cost of \$4.7 million. The System began construction on an indoor practice facility at Arlington High School. The practice facility is projected to be completed in fiscal year 2020 at a cost of \$5 million.

**ARLINGTON COMMUNITY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**
For the Year Ended June 30, 2019

Overview of the Financial Statements

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

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

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

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

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

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

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

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

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

The System maintains the general purpose fund and non-major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances – for those funds. The major funds and non-major funds will be re-evaluated at the Town level. The System adopts an annual appropriated budget for its general purpose and non-major governmental funds. A budgetary comparison statement has been provided as basic financial statements for the general purpose fund to demonstrate compliance with this budget.

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

**ARLINGTON COMMUNITY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

For the Year Ended June 30, 2019

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

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

System-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the System, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$116 million at the close of the fiscal year ended June 30, 2019.

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

An additional portion of the System's net position, \$4,020,417 represents resources that are subject to external restrictions on how they may be used. The remaining balance is unrestricted net position of \$17,788,925. The System uses unrestricted funds to meet the government's ongoing obligations to citizens and creditors. The following provides a summary of the System's net position for the years ended June 30:

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|--|------------------------------|------------------------------|
| Assets | | |
| Current and other | \$ 28,287,300 | \$ 25,639,266 |
| Capital assets - net of accumulated depreciation | <u>94,427,185</u> | <u>91,170,576</u> |
| Total assets | 122,714,485 | 116,809,842 |
| Deferred outflows of resources | 6,193,568 | 7,150,937 |
| Liabilities | | |
| Long-term liabilities | 6,667,005 | 6,966,298 |
| Other liabilities | <u>2,395,496</u> | <u>2,871,237</u> |
| Total liabilities | 9,062,501 | 9,837,535 |
| Deferred inflows of resources | 3,900,630 | 4,183,901 |
| Net Position | | |
| Net investment in capital assets | 94,135,580 | 91,170,576 |
| Restricted | 4,020,417 | 1,503,846 |
| Unrestricted | <u>17,788,925</u> | <u>17,264,921</u> |
| Total net position | <u><u>\$ 115,944,922</u></u> | <u><u>\$ 109,939,343</u></u> |

**ARLINGTON COMMUNITY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**
For the Year Ended June 30, 2019

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

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|--|-----------------------|-----------------------|
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 1,268,254 | \$ 1,223,852 |
| Operating grants and contributions | 2,817,046 | 3,080,693 |
| Capital grants and contributions | 1,865,009 | 1,681,289 |
| General revenues | | |
| Property taxes | 13,509,837 | 12,897,933 |
| Payments in lieu of taxes | 223,495 | 220,509 |
| Sales taxes | 5,426,559 | 5,616,980 |
| Business tax | 1,621 | 1,472 |
| Mixed drink tax | 13,595 | 17,833 |
| Wheel tax | 1,153,724 | 503,669 |
| Grants and contributions | | |
| not restricted to specific programs: | | |
| Basic Education Program | 21,606,169 | 20,816,344 |
| Contributions from the Town of Arlington | 584,642 | 657,581 |
| Other state allocations | 135,807 | 235,220 |
| Interest income | 128,599 | - |
| Other miscellaneous revenues | 290,554 | 249,112 |
| Total revenues | <u>49,024,911</u> | <u>47,202,487</u> |
| Expenses | | |
| Instruction | 26,225,571 | 24,707,241 |
| Support Services | 5,186,223 | 4,790,381 |
| Administration | 4,819,801 | 5,576,721 |
| Operation and maintenance of plant | 2,699,612 | 2,736,342 |
| Transportation | 1,784,678 | 1,456,278 |
| Technology | 1,170,257 | 933,038 |
| Food service | 1,081,441 | 1,031,763 |
| Interest on long-term debt | 51,749 | 54,868 |
| Total expenses | <u>43,019,332</u> | <u>41,286,632</u> |
| Change in net position | 6,005,579 | 5,915,855 |
| Net position, beginning | 109,939,343 | 107,131,936 |
| Prior period adjustment | - | (3,108,448) |
| Net position, beginning restated | <u>109,939,343</u> | <u>104,023,488</u> |
| Net position, ending | <u>\$ 115,944,922</u> | <u>\$ 109,939,343</u> |

Governmental activities

Total governmental activities' revenue for the fiscal year was \$49.1 million. The largest single revenue source was state revenues in the form of Basic Education Program payments.

**ARLINGTON COMMUNITY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**
For the Year Ended June 30, 2019

Expenditures and Revenues - Governmental Funds

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

The general purpose fund had \$43.9 million in revenues and \$42.6 million in expenditures. The nonmajor governmental funds had \$3.7 million in revenues, and \$3.5 million in expenditures. Major funding for these funds was provided by federal and state funds.

| | <u>June 30, 2019</u> | <u>Percent</u> |
|--|----------------------|----------------|
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 1,268,254 | 2.5% |
| Operating grants and contributions | 2,817,046 | 5.6% |
| Capital grants and contributions | 2,320,751 | 4.7% |
| General revenues | | |
| Property taxes | 13,663,505 | 27.4% |
| Payments in lieu of taxes | 223,495 | 0.4% |
| Sales taxes | 5,693,621 | 11.4% |
| Business tax | 1,621 | 0.0% |
| Mixed drink tax | 13,595 | 0.0% |
| Wheel tax | 1,153,724 | 2.3% |
| Grants and contributions not restricted to specific programs: | | |
| Basic Education Program | 21,606,169 | 43.3% |
| Contributions from the Town of Arlington | 584,642 | 1.2% |
| Other state allocations | 135,807 | 0.3% |
| Interest income | 128,599 | 0.3% |
| Other miscellaneous revenues | 290,554 | 0.6% |
| Total revenues | <u>\$ 49,901,383</u> | <u>100%</u> |

Financial Analysis of the Government's Funds

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

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

At June 30, 2019, the System's governmental funds reported combined fund balances of \$22.146 million. Approximately 91.9% of this amount \$20,356,277 constitutes unassigned fund balance, which is available for spending at the System's discretion. The remainder of the fund balance is either non-spendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form \$122,821, 2) restricted for particular purposes \$1,666,457, 3) committed for particular purposes \$0, or 4) assigned for particular purposes \$0.

The general purpose fund is the chief operating fund of the System. At the end of the current fiscal year, unassigned fund balance was \$20,356,277.

**ARLINGTON COMMUNITY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**
For the Year Ended June 30, 2019

As a measure of the general purpose fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 47.8% of the total general purpose fund expenditures, while total fund balances represents 48.2% of that same amount.

General Purpose Fund Budgetary Highlights

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

| General Purpose Fund | June 30, 2019 | | Variance with Original Budget Pos (Neg) |
|--|--------------------|-------------------|---|
| | Original Budget | Final Budget | |
| Revenues | | | |
| Taxes | \$ 18,440,860 | \$ 18,940,860 | \$ 500,000 |
| State revenues | 21,336,000 | 21,336,000 | - |
| Charges for services | 361,126 | 361,126 | - |
| Contributions from Town of Arlington | 2,259,234 | 6,627,658 | 4,368,424 |
| Other income | 149,300 | 149,300 | - |
| Total revenues | <u>42,546,520</u> | <u>47,414,944</u> | <u>4,868,424</u> |
| Expenditures | | | |
| Instruction | 25,407,280 | 27,527,339 | (2,120,059) |
| Support Services | 4,275,526 | 4,297,026 | (21,500) |
| Administration | 5,160,815 | 4,968,602 | 192,213 |
| Operation and maintenance of plant | 2,818,546 | 2,824,545 | (5,999) |
| Transportation | 1,794,114 | 1,863,164 | (69,050) |
| Technology | 1,278,047 | 1,346,047 | (68,000) |
| Debt service | - | 333,333 | (333,333) |
| Capital outlay | 1,750,805 | 4,193,501 | (2,442,696) |
| Total expenditures | <u>42,485,133</u> | <u>47,353,557</u> | <u>(4,868,424)</u> |
| Other financing sources (uses): | | | |
| Transfers from (to) other funds | <u>(61,387)</u> | <u>(61,387)</u> | - |
| Total other financing sources (uses) | <u>(61,387)</u> | <u>(61,387)</u> | - |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Over the course of the year, the System revised its budget several times. The System planned to use \$5.9 million of fund balance for major capital projects. However, an increase in actual revenue received did not require the use of the System's fund balance. The total budget was also amended to include additional revenue from local option sales tax.

**ARLINGTON COMMUNITY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**
For the Year Ended June 30, 2019

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

| General Purpose Fund | June 30, 2019 | | Variance with Final Budget Pos (Neg) |
|--|-------------------|---------------------|--|
| | Final Budget | Actual | |
| Revenues | | | |
| Taxes | \$ 18,940,860 | \$ 20,749,561 | \$ 1,808,701 |
| State revenues | 21,336,000 | 21,741,976 | 405,976 |
| Charges for services | 361,126 | 390,226 | 29,100 |
| Contributions from Town of Arlington | 6,627,658 | 584,642 | (6,043,016) |
| Other income | 149,300 | 418,701 | 269,401 |
| Total revenues | <u>47,414,944</u> | <u>43,885,106</u> | <u>(3,529,838)</u> |
| Expenditures | | | |
| Instruction | 27,527,339 | 24,972,167 | 2,555,172 |
| Support Services | 4,297,026 | 4,005,928 | 291,098 |
| Administration | 4,968,602 | 4,490,692 | 477,910 |
| Operation and maintenance of plant | 2,824,545 | 2,515,275 | 309,270 |
| Transportation | 1,863,164 | 1,661,236 | 201,928 |
| Technology | 1,346,047 | 1,079,979 | 266,068 |
| Debt service | 333,333 | 485,199 | (151,866) |
| Capital outlay | 4,193,501 | 3,420,719 | 772,782 |
| Total expenditures | <u>47,353,557</u> | <u>42,631,195</u> | <u>4,722,362</u> |
| Other financing sources (uses): | | | |
| Issuance of debt | - | 440,970 | 440,970 |
| Sale of capital assets | - | 44,133 | 44,133 |
| Transfers from (to) other funds | (61,387) | 70,260 | 131,647 |
| Total other financing sources (uses) | <u>(61,387)</u> | <u>555,363</u> | <u>616,750</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ 1,809,274</u> | <u>\$ 1,809,274</u> |

Arlington Community Schools began its operations during the 2014-2015 fiscal year; the 2018-2019 fiscal year is the System's fifth year of existence. The utilization of conservative estimates has allowed the System to eliminate the necessity for a bridge loan through the Town of Arlington in order to meet its payroll and other expenditure obligations during the months where cash in-flows lag behind cash out-flows. The System has also been able to complete major projects for the schools without the need for the Town to incur any debt on behalf of the System.

Significant variances between the final budgeted revenue and actual revenue received are attributed to a difference in actual property tax, local option sales tax, and wheel tax over projected amounts. Additional Basic Education Program (BEP) funds were received due to student growth. Significant variances between the final budgeted expenditures and actual expenditures incurred are attributed to the System, along with other municipal school systems and municipalities within Shelby County, is self-insured through a medical health trust since its inception in 2014. Additional medical insurance contribution may be required from the System, over the covered employee and dependent amount, in order to fully fund the health trust. Budgeted expenditures anticipated additional contributions to the medical insurance trust may have been necessary.

**ARLINGTON COMMUNITY SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

For the Year Ended June 30, 2019

Capital Asset and Debt Administration

Capital Assets. The System's investment in capital assets for its governmental activities as of June 30, 2019, amounts to \$94.4 million, net of accumulated depreciation. This investment in capital assets includes buildings and improvements and other capital assets (including equipment). The major capital asset investments that occurred during June 30, 2019 included a new roof at Arlington Middle School and computer equipment refreshment.

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|--|----------------------|----------------------|
| Land | \$ 1,996,500 | \$ 1,996,500 |
| Construction in progress | 4,830,921 | 811,590 |
| Buildings and improvements, net of depreciation | 82,669,905 | 83,648,949 |
| Machinery, furniture, and equipment, net of depreciation | 4,929,859 | 4,713,537 |
| Total capital assets | <u>\$ 94,427,185</u> | <u>\$ 91,170,576</u> |

Long-term debt As of June 30, 2019, the System had total debt outstanding of \$2.45 million. All debt is backed by the full faith and credit of the government. The System's obligations include notes payable to Shelby County Schools for the buildings, furniture and fixtures of the four school buildings located within the boundaries of Arlington, Tennessee, and capital lease obligations.

| | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
|--|----------------------|----------------------|
| Notes payable to Shelby County School System | \$ 2,333,331 | \$ 2,666,664 |
| Less: Deferred amount for discount | <u>(177,530)</u> | <u>(226,778)</u> |
| | 2,155,801 | 2,439,886 |
| Capital Lease | 291,605 | - |
| | <u>\$ 2,447,406</u> | <u>\$ 2,439,886</u> |

Economic Factors and Next Year's Budget

Fiscal Year 2018-19 represents the System's fifth year in operation. Student enrollment is the primary driver of instruction and school expenditure budgets. Enrollment in the System includes Arlington Residents for grades K-12, Lakeland Residents for grades 9-12, and non-resident students. The System allows open enrollment for non-resident students at schools that have capacity in which those students meet the open enrollment criteria established by the district.

All of these factors were considered in preparing the System's budget for the 2019-2020 fiscal year. The System will continue to maximize all financial resources available in order to provide a quality education for all its students.

Request for Information

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

BASIC FINANCIAL STATEMENTS

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF NET POSITION
June 30, 2019

| | Primary Government <u>Governmental Activities</u> |
|--|---|
| ASSETS | |
| Cash and cash equivalents | \$ 21,512,263 |
| Accounts receivable | 70,405 |
| Due from other governments | 4,124,422 |
| Inventories | 19,716 |
| Prepaid expenses | 103,105 |
| Capital assets, not being depreciated | 6,827,421 |
| Capital assets, being depreciated, net | 87,599,764 |
| Restricted investments | 103,429 |
| Net pension asset | <u>2,353,960</u> |
| Total assets | <u>122,714,485</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Related to pensions | 5,914,525 |
| Related to OPEB | <u>279,043</u> |
| Total deferred outflows of resources | <u>6,193,568</u> |
| LIABILITIES | |
| Accounts payable | 470,808 |
| Accrued payroll and benefits | 1,897,206 |
| Unearned revenue | 27,482 |
| Noncurrent liabilities: | |
| Due within one year | 659,653 |
| Due in more than one year | 1,989,476 |
| Net OPEB liability | <u>4,017,876</u> |
| Total liabilities | <u>9,062,501</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Related to pensions | 3,035,798 |
| Related to OPEB | <u>864,832</u> |
| Total deferred inflows of resources | <u>3,900,630</u> |
| NET POSITION | |
| Net investment in capital assets | 94,135,580 |
| Restricted for: | |
| Net pension asset | 2,353,960 |
| Stabilization reserve trust | 103,429 |
| Capital projects | 1,154,427 |
| Nutrition | 408,601 |
| Unrestricted | <u>17,788,925</u> |
| Total net position | <u><u>\$ 115,944,922</u></u> |

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position |
|------------------------------------|----------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental Activities: | | | | | |
| Instruction | \$ 26,225,571 | \$ 390,226 | \$ 2,441,741 | \$ - | \$ (23,393,604) |
| Support Services | 5,186,223 | - | - | - | (5,186,223) |
| Administration | 4,819,801 | - | - | - | (4,819,801) |
| Operation and maintenance of plant | 2,699,612 | - | - | 1,865,009 | (834,603) |
| Transportation | 1,784,678 | - | - | - | (1,784,678) |
| Technology | 1,170,257 | - | - | - | (1,170,257) |
| Food service | 1,081,441 | 878,028 | 375,305 | - | 171,892 |
| Interest on long-term debt | 51,749 | - | - | - | (51,749) |
| | <u>\$ 43,019,332</u> | <u>\$ 1,268,254</u> | <u>\$ 2,817,046</u> | <u>\$ 1,865,009</u> | (37,069,023) |
| General Revenues: | | | | | |
| | | | | | 20,328,831 |
| | | | | | 21,741,976 |
| | | | | | 584,642 |
| | | | | | 290,554 |
| | | | | | 128,599 |
| | | | | | <u>43,074,602</u> |
| | | | | | 6,005,579 |
| | | | | | <u>109,939,343</u> |
| | | | | | <u>\$ 115,944,922</u> |

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

| | General Purpose Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|-------------------------------------|--------------------------------------|--|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 20,240,682 | \$ 836,982 | \$ 434,599 | \$ 21,512,263 |
| Accounts receivable | 70,405 | - | - | 70,405 |
| Due from other governments | 3,122,124 | 866,644 | 135,654 | 4,124,422 |
| Due from other funds | 76,609 | - | - | 76,609 |
| Inventory | - | - | 19,716 | 19,716 |
| Prepaid items | 103,105 | - | - | 103,105 |
| Restricted investments | 103,429 | - | - | 103,429 |
| | <u>\$ 23,716,354</u> | <u>\$ 1,703,626</u> | <u>\$ 589,969</u> | <u>\$ 26,009,949</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 317,682 | \$ 141,134 | \$ 11,992 | \$ 470,808 |
| Accrued payroll | 1,851,637 | - | 45,569 | 1,897,206 |
| Due to other funds | - | - | 76,609 | 76,609 |
| Unearned revenue | - | - | 27,482 | 27,482 |
| Total liabilities | <u>2,169,319</u> | <u>141,134</u> | <u>161,652</u> | <u>2,472,105</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue | 984,224 | 408,065 | - | 1,392,289 |
| FUND BALANCES | | | | |
| Nonspendable | | | | |
| Inventory | - | - | 19,716 | 19,716 |
| Prepaid expenses | 103,105 | - | - | 103,105 |
| Restricted | | | | |
| Stabilization reserve trust | 103,429 | - | - | 103,429 |
| Capital projects | - | 1,154,427 | - | 1,154,427 |
| Nutrition | - | - | 408,601 | 408,601 |
| Unassigned | 20,356,277 | - | - | 20,356,277 |
| Total fund balances | <u>20,562,811</u> | <u>1,154,427</u> | <u>428,317</u> | <u>22,145,555</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 23,716,354</u> | <u>\$ 1,703,626</u> | <u>\$ 589,969</u> | <u>\$ 26,009,949</u> |

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET POSITION

June 30, 2019

| | | |
|--|--------------------|------------------------------|
| Total fund balances, governmental funds | | \$ 22,145,555 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| (1) Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | 94,427,185 |
| (2) Other long-term assets are not available to pay for current-period expenditures and, therefore, are unearned or unavailable in the funds. | | 1,392,289 |
| (3) Long-term debt is not due and payable in the current period and, therefore is not reported in the funds. | | |
| Less: settlement obligation | (2,333,331) | |
| Less: capital leases payable | (291,605) | |
| Less: unamortized premiums and discounts on debt | <u>177,530</u> | (2,447,406) |
| (4) Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | | |
| Less: compensated absences payable | <u>(201,723)</u> | (201,723) |
| (5) Pension assets and other postemployment benefit (OPEB) liabilities result from the excess (deficiency) of trust assets over (under) total pension and OPEB liabilities. The amounts are not available for use in the current period; therefore, are not reported in the funds. | | |
| Add: net pension asset | 2,353,960 | |
| Less: net OPEB liability | <u>(4,017,876)</u> | (1,663,916) |
| (6) Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years. | | |
| Add: deferred outflows of resources related to pensions | 5,914,525 | |
| Less: deferred inflows of resources related to pensions | (3,035,798) | |
| Add: deferred outflows of resources related to OPEB | 279,043 | |
| Less: deferred inflows of resources related to OPEB | <u>(864,832)</u> | <u>2,292,938</u> |
| Net position of governmental activities | | <u><u>\$ 115,944,922</u></u> |

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF REVENUES EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2019

| | General Purpose Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|--|-------------------------------------|--------------------------------------|--|---|
| REVENUES | | | | |
| Taxes | \$ 20,749,561 | \$ - | \$ - | \$ 20,749,561 |
| Intergovernmental | 21,741,976 | - | - | 21,741,976 |
| Charges for services | 390,226 | - | 878,028 | 1,268,254 |
| Federal, state and other grants | - | - | 2,817,046 | 2,817,046 |
| General contributions | 584,642 | 2,320,751 | - | 2,905,393 |
| Interest | 128,599 | - | - | 128,599 |
| Other | 290,102 | - | 452 | 290,554 |
| Total revenues | <u>43,885,106</u> | <u>2,320,751</u> | <u>3,695,526</u> | <u>49,901,383</u> |
| EXPENDITURES | | | | |
| Instructional | | | | |
| Regular education | 21,514,339 | - | 673,648 | 22,187,987 |
| Alternative education | 211,481 | - | - | 211,481 |
| Special education | 2,326,967 | - | 764,284 | 3,091,251 |
| Technical education | 919,380 | - | 45,141 | 964,521 |
| Support services | | | | |
| Attendance | 387,401 | - | - | 387,401 |
| Health services | 237,388 | - | 85,000 | 322,388 |
| Other student support | 1,214,620 | - | 124,052 | 1,338,672 |
| Regular instruction support | 1,392,360 | - | 643,853 | 2,036,213 |
| Special education support | 693,854 | - | 32,808 | 726,662 |
| Technical education support | 80,305 | - | 1,000 | 81,305 |
| Administration | | | | |
| Board of education | 592,657 | - | - | 592,657 |
| Office of superintendent | 597,649 | - | - | 597,649 |
| Office of principal | 2,631,639 | - | - | 2,631,639 |
| Fiscal services | 429,961 | - | - | 429,961 |
| Human resources | 238,786 | - | - | 238,786 |
| Operation and maintenance of plant | | | | |
| Transportation | 1,661,236 | - | 1,695 | 1,662,931 |
| Technology | 1,079,979 | - | - | 1,079,979 |
| Food services | - | - | 1,081,441 | 1,081,441 |
| Debt service | 485,199 | - | - | 485,199 |
| Capital outlays | <u>3,420,719</u> | <u>2,122,785</u> | <u>-</u> | <u>5,543,504</u> |
| Total expenditures | <u>42,631,195</u> | <u>2,122,785</u> | <u>3,452,922</u> | <u>48,206,902</u> |
| Excess of revenues over expenditures | 1,253,911 | 197,966 | 242,604 | 1,694,481 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of debt | 440,970 | - | - | 440,970 |
| Sales of capital assets | 44,133 | - | - | 44,133 |
| Transfers in | 70,260 | - | - | 70,260 |
| Transfers out | - | - | (70,260) | (70,260) |
| Total other financing sources and uses | <u>555,363</u> | <u>-</u> | <u>(70,260)</u> | <u>485,103</u> |
| Net change in fund balances | 1,809,274 | 197,966 | 172,344 | 2,179,584 |
| Fund balances - beginning | <u>18,753,537</u> | <u>956,461</u> | <u>255,973</u> | <u>19,965,971</u> |
| Fund balances - ending | <u>\$ 20,562,811</u> | <u>\$ 1,154,427</u> | <u>\$ 428,317</u> | <u>\$ 22,145,555</u> |

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2019

| | | |
|--|------------------|----------------------------|
| Net change in fund balance - total governmental funds | | \$ 2,179,584 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| (1) Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | | |
| Add: Capital outlays capitalized | 6,578,139 | |
| Less: Depreciation expense | (3,053,920) | |
| Less: Loss from the disposition of capital assets | <u>(267,610)</u> | 3,256,609 |
| (2) Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | (876,472) |
| (3) The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | |
| Add: principal payments on long-term debt | 482,698 | |
| Less: current year debt issuance | <u>(440,970)</u> | 41,728 |
| (4) Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | |
| Amortization of premiums and discounts | (49,248) | |
| Change in compensated absences | <u>(274)</u> | (49,522) |
| (7) Payments of contributions to the pension plans and OPEB plan are recorded as expenditures in the governmental funds. Pension expense and OPEB expense are recorded on an actuarially determined basis in the statement of activities. | | |
| Difference between actual contributions and pension expense | 1,471,284 | |
| Difference between actual contributions and OPEB expense | <u>(17,632)</u> | <u>1,453,652</u> |
| Change in net position of governmental activities | | <u><u>\$ 6,005,579</u></u> |

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND
For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|------------------------------|-------------------------|-------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| TAXES | | | | |
| Property tax - current | \$ 12,550,000 | \$ 12,550,000 | \$ 13,328,168 | \$ 778,168 |
| Property tax - prior year | 355,000 | 355,000 | 335,337 | (19,663) |
| Payments in lieu of tax | 232,000 | 232,000 | 223,495 | (8,505) |
| Local option sales tax | 4,700,000 | 5,200,000 | 5,693,621 | 493,621 |
| Business tax | 1,500 | 1,500 | 1,621 | 121 |
| Mixed drink tax | 15,000 | 15,000 | 13,595 | (1,405) |
| Wheel tax | 587,360 | 587,360 | 1,153,724 | 566,364 |
| Total taxes | 18,440,860 | 18,940,860 | 20,749,561 | 1,808,701 |
| INTERGOVERNMENTAL | | | | |
| State Education Funds | | | | |
| Basic education program | 21,225,000 | 21,225,000 | 21,606,169 | 381,169 |
| Career ladder program | 86,000 | 86,000 | 88,788 | 2,788 |
| Other | 25,000 | 25,000 | 47,019 | 22,019 |
| Total intergovernmental | 21,336,000 | 21,336,000 | 21,741,976 | 405,976 |
| CHARGES FOR SERVICES | 361,126 | 361,126 | 390,226 | 29,100 |
| GENERAL CONTRIBUTIONS | | | | |
| Town appropriations | 2,259,234 | 6,627,658 | 584,642 | (6,043,016) |
| INTEREST INCOME | - | - | 128,599 | 128,599 |
| OTHER | 149,300 | 149,300 | 290,102 | 140,802 |
| Total Revenues | <u>42,546,520</u> | <u>47,414,944</u> | <u>43,885,106</u> | <u>(3,529,838)</u> |
| EXPENDITURES | | | | |
| INSTRUCTION | | | | |
| Regular Education | | | | |
| Salaries | 20,687,762 | 21,400,706 | 15,000,469 | 6,400,237 |
| Benefits | - | 1,134,058 | 4,696,543 | (3,562,485) |
| Contractual services | 15,000 | 15,000 | 9,782 | 5,218 |
| Materials and supplies | 561,636 | 803,693 | 1,751,483 | (947,790) |
| Other charges | 41,150 | 72,150 | 56,062 | 16,088 |
| | 21,305,548 | 23,425,607 | 21,514,339 | 1,911,268 |
| Alternative Education | | | | |
| Salaries | 211,800 | 211,800 | 166,376 | 45,424 |
| Benefits | 65,212 | 65,212 | 42,684 | 22,528 |
| Materials and supplies | 2,950 | 2,950 | 2,421 | 529 |
| | 279,962 | 279,962 | 211,481 | 68,481 |

(CONTINUED ON NEXT PAGE)

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND
For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|-----------------------------|-------------------------|-------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Special Education | | | | |
| Salaries | \$ - | \$ - | \$ 1,734,939 | \$ (1,734,939) |
| Benefits | - | - | 492,402 | (492,402) |
| Contractual services | 2,771,087 | 2,745,287 | 58,818 | 2,686,469 |
| Materials and supplies | 12,200 | 38,000 | 40,808 | (2,808) |
| | <u>2,783,287</u> | <u>2,783,287</u> | <u>2,326,967</u> | <u>456,320</u> |
| Vocational Education | | | | |
| Salaries | 779,130 | 769,130 | 674,415 | 94,715 |
| Benefits | 224,353 | 224,353 | 184,532 | 39,821 |
| Contractual services | - | - | 1,948 | (1,948) |
| Materials and supplies | 35,000 | 35,000 | 54,556 | (19,556) |
| Other charges | - | 10,000 | 3,929 | 6,071 |
| | <u>1,038,483</u> | <u>1,038,483</u> | <u>919,380</u> | <u>119,103</u> |
| Total instruction | <u>25,407,280</u> | <u>27,527,339</u> | <u>24,972,167</u> | <u>2,555,172</u> |
| SUPPORT SERVICES | | | | |
| Attendance | | | | |
| Salaries | 286,754 | 286,754 | 284,399 | 2,355 |
| Benefits | 94,375 | 94,375 | 68,278 | 26,097 |
| Contractual services | 28,450 | 31,450 | 11,409 | 20,041 |
| Materials and supplies | 8,000 | 9,950 | 9,897 | 53 |
| Other charges | 17,200 | 15,250 | 13,418 | 1,832 |
| | <u>434,779</u> | <u>437,779</u> | <u>387,401</u> | <u>50,378</u> |
| Health Services | | | | |
| Salaries | - | - | 160,682 | (160,682) |
| Benefits | - | - | 56,444 | (56,444) |
| Contractual services | 238,659 | 246,494 | 14,535 | 231,959 |
| Materials and supplies | 5,800 | 5,058 | 5,028 | 30 |
| Other charges | 1,750 | 957 | 699 | 258 |
| | <u>246,209</u> | <u>252,509</u> | <u>237,388</u> | <u>15,121</u> |
| Other Student Support | | | | |
| Salaries | 883,192 | 883,192 | 880,935 | 2,257 |
| Benefits | 322,966 | 338,316 | 320,305 | 18,011 |
| Materials and supplies | 9,000 | 10,000 | 9,253 | 747 |
| Other charges | 12,200 | 7,050 | 4,127 | 2,923 |
| | <u>1,227,358</u> | <u>1,238,558</u> | <u>1,214,620</u> | <u>23,938</u> |
| Regular Instruction Support | | | | |
| Salaries | 1,030,822 | 1,031,822 | 989,343 | 42,479 |
| Benefits | 285,597 | 285,597 | 264,330 | 21,267 |
| Contractual services | 10,000 | 4,100 | 4,100 | - |
| Materials and supplies | 41,100 | 38,829 | 35,756 | 3,073 |
| Other charges | 101,900 | 110,071 | 98,831 | 11,240 |
| | <u>1,469,419</u> | <u>1,470,419</u> | <u>1,392,360</u> | <u>78,059</u> |

(CONTINUED ON NEXT PAGE)

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND

For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|-----------------------------|-------------------------|------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Special Education Support | | | | |
| Salaries | \$ 394,580 | \$ 400,580 | \$ 399,651 | \$ 929 |
| Benefits | 113,704 | 111,204 | 109,705 | 1,499 |
| Contractual services | 281,550 | 278,050 | 164,529 | 113,521 |
| Materials and supplies | 13,000 | 13,000 | 9,714 | 3,286 |
| Other charges | 11,000 | 11,000 | 10,255 | 745 |
| | <u>813,834</u> | <u>813,834</u> | <u>693,854</u> | <u>119,980</u> |
| Technical Education Support | | | | |
| Salaries | 62,830 | 62,830 | 62,829 | 1 |
| Benefits | 17,597 | 17,597 | 16,034 | 1,563 |
| Materials and supplies | 1,000 | - | - | - |
| Other charges | 2,500 | 3,500 | 1,442 | 2,058 |
| | <u>83,927</u> | <u>83,927</u> | <u>80,305</u> | <u>3,622</u> |
| Total support services | <u>4,275,526</u> | <u>4,297,026</u> | <u>4,005,928</u> | <u>291,098</u> |
| ADMINISTRATION | | | | |
| Board of Education Services | | | | |
| Salaries | 37,147 | 45,647 | 45,584 | 63 |
| Benefits | 157,722 | 167,022 | 156,075 | 10,947 |
| Contractual services | 404,500 | 417,000 | 374,000 | 43,000 |
| Materials and supplies | 1,000 | 1,000 | 1,353 | (353) |
| Other charges | 480,844 | 173,211 | 15,645 | 157,566 |
| | <u>1,081,213</u> | <u>803,880</u> | <u>592,657</u> | <u>211,223</u> |
| Office of Superintendent | | | | |
| Salaries | 443,227 | 454,487 | 443,228 | 11,259 |
| Benefits | 104,532 | 109,492 | 102,186 | 7,306 |
| Contractual services | 6,128 | 38,902 | 26,617 | 12,285 |
| Materials and supplies | 16,200 | 30,426 | 5,288 | 25,138 |
| Other charges | 29,250 | 27,150 | 20,330 | 6,820 |
| | <u>599,337</u> | <u>660,457</u> | <u>597,649</u> | <u>62,808</u> |
| Office of Principal | | | | |
| Salaries | 2,090,900 | 2,090,900 | 2,057,307 | 33,593 |
| Benefits | 643,122 | 641,922 | 556,494 | 85,428 |
| Other charges | 18,600 | 19,800 | 17,838 | 1,962 |
| | <u>2,752,622</u> | <u>2,752,622</u> | <u>2,631,639</u> | <u>120,983</u> |
| Fiscal Services | | | | |
| Salaries | 311,251 | 311,251 | 310,840 | 411 |
| Benefits | 82,733 | 82,733 | 77,541 | 5,192 |
| Contractual services | 8,500 | 8,500 | 5,829 | 2,671 |
| Materials and supplies | 7,500 | 9,500 | 7,437 | 2,063 |
| Other charges | 48,500 | 48,500 | 28,314 | 20,186 |
| | <u>458,484</u> | <u>460,484</u> | <u>429,961</u> | <u>30,523</u> |

(CONTINUED ON NEXT PAGE)

The accompanying notes are an integral part of the financial statements

**ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND**

For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|-------------------------|------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Human Resources | | | | |
| Salaries | \$ 162,037 | \$ 162,037 | \$ 162,036 | \$ 1 |
| Benefits | 60,722 | 60,722 | 49,538 | 11,184 |
| Contractual services | 19,400 | 19,400 | 11,621 | 7,779 |
| Materials and supplies | 8,800 | 8,800 | 2,563 | 6,237 |
| Other charges | 18,200 | 40,200 | 13,028 | 27,172 |
| | <u>269,159</u> | <u>291,159</u> | <u>238,786</u> | <u>52,373</u> |
| Total administration | 5,160,815 | 4,968,602 | 4,490,692 | 477,910 |
| OPERATION AND MAINTENANCE OF PLANT | | | | |
| Operation of Plant | | | | |
| Salaries | 272,890 | 278,890 | 269,779 | 9,111 |
| Benefits | 80,343 | 80,343 | 69,924 | 10,419 |
| Contractual services | 820,716 | 820,716 | 1,435,693 | (614,977) |
| Materials and supplies | 859,300 | 859,379 | 14,795 | 844,584 |
| Other charges | 275 | 346 | 256 | 90 |
| | <u>2,033,524</u> | <u>2,039,674</u> | <u>1,790,447</u> | <u>249,227</u> |
| Maintenance of Plant | | | | |
| Salaries | 392,762 | 392,762 | 385,625 | 7,137 |
| Benefits | 103,060 | 103,059 | 92,924 | 10,135 |
| Contractual services | 227,500 | 227,500 | 200,227 | 27,273 |
| Materials and supplies | 52,000 | 51,850 | 45,188 | 6,662 |
| Other charges | 9,700 | 9,700 | 864 | 8,836 |
| | <u>785,022</u> | <u>784,871</u> | <u>724,828</u> | <u>60,043</u> |
| Total operation and maintenance of plant | 2,818,546 | 2,824,545 | 2,515,275 | 309,270 |
| TRANSPORTATION | | | | |
| Student Transportation | | | | |
| Contractual services | 1,209,400 | 1,209,400 | 1,077,889 | 131,511 |
| Materials and supplies | 140,000 | 140,000 | 126,744 | 13,256 |
| | <u>1,349,400</u> | <u>1,349,400</u> | <u>1,204,633</u> | <u>144,767</u> |
| Central and Other Transportation | | | | |
| Salaries | 279,873 | 295,073 | 292,516 | 2,557 |
| Benefits | 51,841 | 67,691 | 64,567 | 3,124 |
| Contractual services | 52,400 | 78,900 | 50,310 | 28,590 |
| Materials and supplies | 33,500 | 45,000 | 39,181 | 5,819 |
| Other charges | 27,100 | 27,100 | 10,029 | 17,071 |
| | <u>444,714</u> | <u>513,764</u> | <u>456,603</u> | <u>57,161</u> |
| Total transportation | 1,794,114 | 1,863,164 | 1,661,236 | 201,928 |

(CONTINUED ON NEXT PAGE)

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL PURPOSE FUND
For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---------------------------------------|-------------------------|-------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| TECHNOLOGY | | | | |
| Salaries | \$ 210,453 | \$ 210,453 | \$ 208,913 | \$ 1,540 |
| Benefits | 59,719 | 59,719 | 52,928 | 6,791 |
| Contractual services | 393,230 | 458,930 | 364,125 | 94,805 |
| Materials and supplies | 411,800 | 514,100 | 360,842 | 153,258 |
| Other charges | 202,845 | 102,845 | 93,171 | 9,674 |
| Total technology | <u>1,278,047</u> | <u>1,346,047</u> | <u>1,079,979</u> | <u>266,068</u> |
| Total education | 40,734,328 | 42,826,723 | 38,725,277 | 4,101,446 |
| DEBT SERVICE | | | | |
| Principal | - | 333,333 | 433,450 | (100,117) |
| Interest | - | - | 51,749 | (51,749) |
| Total debt service | <u>-</u> | <u>333,333</u> | <u>485,199</u> | <u>(151,866)</u> |
| CAPITAL OUTLAY | | | | |
| Engineering services | 180,000 | 165,338 | 145,183 | 20,155 |
| Architects | 50,000 | 50,000 | 41,600 | 8,400 |
| Building improvements | 940,805 | 3,345,338 | 2,508,789 | 836,549 |
| Other capital outlay | 580,000 | 620,500 | 712,822 | (92,322) |
| Other contracted services | - | 12,325 | 12,325 | - |
| Total capital outlay | <u>1,750,805</u> | <u>4,193,501</u> | <u>3,420,719</u> | <u>772,782</u> |
| Total expenditures | <u>42,485,133</u> | <u>47,353,557</u> | <u>42,631,195</u> | <u>4,722,362</u> |
| Excess of revenues over expenditures | 61,387 | 61,387 | 1,253,911 | 1,192,524 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Issuance of debt | - | - | 440,970 | 440,970 |
| Sale of capital assets | - | - | 44,133 | 44,133 |
| Transfers in | - | - | 70,260 | 70,260 |
| Transfers out | (61,387) | (61,387) | - | 61,387 |
| Total other financing sources (uses) | <u>(61,387)</u> | <u>(61,387)</u> | <u>555,363</u> | <u>616,750</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>1,809,274</u> | <u>\$ 1,809,274</u> |
| Fund balances - beginning | | | <u>18,753,537</u> | |
| Fund balances - ending | | | <u>\$ 20,562,811</u> | |

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2019

| | <u>OPEB Trust Fund</u> | <u>Agency Fund</u> |
|-----------------------------|----------------------------|------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 39,765 | \$ 1,154,773 |
| Accounts receivable | 454 | - |
| Inventory | - | 13,205 |
| Investments | | |
| Mutual funds | <u>2,473,496</u> | <u>-</u> |
| Total assets | 2,513,715 | <u>\$ 1,167,978</u> |
| LIABILITIES | | |
| Due to student general fund | - | \$ 688,391 |
| Due to student groups | - | 479,587 |
| Accounts Payable | <u>677</u> | <u>-</u> |
| Total liabilities | <u>677</u> | <u>\$ 1,167,978</u> |
| NET POSITION | | |
| Restricted for OPEB | <u>\$ 2,513,038</u> | |

The accompanying notes are an integral part of the financial statements

**ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND**

For the Year Ended June 30, 2019

| | OPEB Trust Fund |
|---|----------------------------|
| ADDITIONS | |
| Employer contributions | \$ 588,184 |
| Investment earnings (losses): | |
| Interest and dividends | 77,077 |
| Net appreciation in fair value of investments | 16,313 |
| Total investment earnings | <u>93,390</u> |
| Total additions | 681,574 |
| DEDUCTIONS | |
| Benefits | 88,184 |
| Administrative expense | 8,132 |
| Total deductions | <u>96,316</u> |
| Change in net position | 585,258 |
| Net position - beginning of the year | <u>1,927,780</u> |
| Net position - end of the year | <u><u>\$ 2,513,038</u></u> |

The accompanying notes are an integral part of the financial statements

ARLINGTON COMMUNITY SCHOOL SYSTEM
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The financial statements of the System have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As required by generally accepted accounting principles, these financial statements present all funds, which comprise the System. There are no other component units which should be included.

B. Basis of Presentation

1. System-Wide Financial Statements

The system-wide financial statements (i.e., the statements of net position and the statement of activities) report information on all of the nonfiduciary activities of the government and are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. Governmental activities, which are supported by taxes and intergovernmental revenues, are the only activities of the government. The System does not maintain any business-type activities. Certain eliminations have been made in regards to interfund activities, payables, and receivables.

The statement of net position presents information on all the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources, with the differences presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted, or unrestricted. Restricted net position is further classified as either net position restricted by enabling legislation or net position that is otherwise restricted.

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

2. Fund Financial Statements

Separate financial statements are provided for governmental funds and the fiduciary fund, even though the fiduciary fund is excluded from the system-wide financial statements. The activities of the System are organized into funds, each of which are considered to be separate entities. Each fund is accounted for by providing a set of self-balancing accounts which constitute its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures/expenses. The major and nonmajor funds will be re-determined at the Town level, but the System has presented all major funds that met the quantitative or qualitative qualifications to be reported as a major fund as separate columns in the fund financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The System's major funds are as follows:

Major Governmental Funds: General Purpose Fund and Capital Projects Fund.

Detailed descriptions of these funds are presented below.

3. Governmental Fund Financial Statements

Governmental fund financial statements include a balance sheet and statement of revenues, expenditures, and changes in fund balance individually for all major funds and in the aggregate for the remaining nonmajor funds. An accompanying schedule is presented to reconcile and explain the difference in fund balance and changes in fund balances as presented in these statements to net position and changes in net position presented in the system-wide financial statements. The governmental funds of the System are described below:

- a. **General Purpose Fund** – The government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- b. **Special Revenue Funds** – These funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted or committed to expenditures for specific purposes. The special revenue funds include the Federal Projects Fund, Nutrition Fund, and Discretionary Grants Fund.
- c. **Capital Projects Fund** – These funds account for all the financing of major System capital asset purchases.

4. Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a statement of fiduciary net position and statement of changes in fiduciary net position. Agency funds are fiduciary funds used to account for assets held in a purely custodial capacity. Since agency funds are custodial in nature (i.e. assets equal liabilities), they do not involve measurement results of operations.

- a. **Other Postemployment Benefit Trust Fund** – This fund accounts for the activities and accumulation of resources that are required to be held in trust for the members and beneficiaries of the defined other postemployment benefit plan.
- b. **Agency Fund** – Internal School Funds consist of transactions related to resources held in a fiduciary capacity as agent for the general school populations, or in some cases, for a specific segment of the school population, are recorded in the Internal School Fund. This fund was audited in a separate report and can be obtained by contacting the Arlington Community School System.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the system-wide statement of net position and statement of activities, governmental activities are presented using the "economic resources" measurement focus. Accordingly, all of the System's assets and liabilities, including capital assets and long-term liabilities, along with deferred inflows and outflows of resources, are included in the accompanying statement of net position. The statement of activities presents changes in net position.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets, deferred outflows of resources, liabilities, and deferred inflows of resources are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period. These funds use fund balance as their measure of available resources at the end of the period.

Basis of Accounting

The system-wide financial statements are presented using the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available to finance expenditures of the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the System considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

The primary revenue sources, which have been treated as susceptible to accrual by the System, are property taxes, sales taxes, grants, and interest. All other revenue items are considered to be measurable and available only when cash is received by the System. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The issuance of long-term debt is reported as other financing sources.

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

1. Deposits and Investments

The System considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. Cash equivalents held by the trustee of the OPEB Fund are included in cash and cash equivalents.

Investments, including other postemployment benefit investments held in the fiduciary fund, are reported at fair value except for investments measured using Net Asset Value (“NAV”) per share which have no readily determinable fair value and have been determined using amortized cost which approximates fair value. Restricted investments consist of assets held in an irrevocable trust for future TCRS pension benefits.

2. Receivables

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

Receivables due from other governments are primarily from the United States government, the State of Tennessee, and Shelby County, Tennessee. No allowance for uncollectible amounts has been recognized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental funds report unavailable revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned as “unearned revenue”. At the end of the current fiscal year, unavailable revenue principally represents amounts relating to taxes.

3. Interfund Transactions

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

Permanent reallocations of resources between funds of the System are classified as interfund transfers. For the purpose of the statement of activities, all transfers between individual governmental funds have been eliminated.

4. Inventories and Prepaid Items

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

5. Capital Assets

Capital assets, which include buildings, improvements, and equipment, are reported in the applicable system-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 (amount not rounded) or more and an estimated useful life in excess of one year. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction in progress are not depreciated. Capital assets of the System are depreciated using the straight-line method over the following useful lives:

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

6. Long-term Obligations

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

7. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The System has qualifying items for reporting in this category. These items are amounts in the governmental funds that were receivable and measurable at year-end but were not available to finance expenditures for the current year. This includes unavailable revenue from taxes. In addition, amounts include those related to pensions and OPEB changes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

8. Net Position and Fund Balance

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

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

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

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

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

Nonspendable fund balance – amounts that cannot be spent because they are either in a (a) non-spendable form, including items not expected to be converted to cash (i.e. inventories, prepaid amounts, long-term portion of loans and notes receivable), or (b) legally or contractually required to be maintained intact (i.e. the principal of a permanent fund).

Restricted fund balance – amounts constrained to be used for a specific purpose as per external parties, constitutional provision, or enabling legislation.

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

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

Unassigned fund balance – represents the residual balance available for any purpose in the General Purpose Fund or deficit balances in other governmental funds.

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

9. Pensions and Other Postemployment Benefits

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For purposes of measuring the net pension and net OPEB asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, and pension and OPEB expense, information about the fiduciary net position, and additions to/deductions from each plan's fiduciary net position have been determined on the same basis as they are reported to the actuaries. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of each plan. Expenses of the plans, such as investment fees, trustee fees, and audit fees, are paid by the plans. However, certain administrative functions performed by employees of the System are not reimbursed by the plans. Investments, other than contracts, are reported at fair value. Investment income is recognized as earned. Plan assets do not include any securities of the System nor have any of the plans made loans to the System.

10. Fair Value Measurement

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Assets and liabilities recorded at fair value in the statements of net position are categorized based on the level of judgment associated with the inputs used to measure their value. The three categories of level inputs are as follows: Level 1 inputs include unadjusted quoted prices in active markets for identical assets or liabilities accessible at the measurement date; Level 2 inputs include quoted prices for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in inactive markets; or other inputs that can be corroborated by observable market data. Such inputs include market interest rates and volatilities, spreads and yield curves; Level 3 inputs are inputs which are unobservable for the asset or liability and rely on management's own assumptions that market participants would use in pricing the asset or liability.

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

11. Estimates

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

E. New Governmental Accounting Standards Board (GASB) Pronouncements

The System implemented GASB Statement No. 82, *Certain Asset Retirement Obligations* which requires accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. As of June 30, 2019, the System has not identified asset retirement obligations that have been incurred.

GASB Statement No. 84, *Fiduciary Activities* was issued to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The requirements of GASB Statement No. 84 are effective for fiscal year 2020. The System is currently evaluating the impact of GASB Statement No. 84 may have on its financial statements.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of the Construction Period*, was issued to enhance the relevance and comparability of information about capital assets and the costs of borrowing for a period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements are effective for fiscal periods beginning after December 15, 2019, with early implementation encouraged. The System implemented the new standard as of June 30, 2019.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

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

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

B. Excess of expenditures over appropriations

For the year ended June 30, 2019, expenditures did not exceed appropriations in any fund.

C. Deficit fund balance

As of June 30, 2019, none of the funds had a deficit fund balance.

NOTE 3 - DEPOSITS

Legal Provisions – Deposits must be collateralized by federal depository insurance, the Tennessee Bank Collateral Pool, collateral held by the System's agent in the System's name, collateral held by the Federal Reserve Banks acting as third party agents, or a combination of these methods. State statute requires that all uninsured deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the average daily balance of public deposits held. Collateral securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the state treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

Custodial Risk – Custodial risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System's policy for custodial risk is to follow state guidelines. As of June 30, 2019, all bank deposits were entirely insured by federal depository insurance and collateralized by the Bank Collateral Pool of the State of Tennessee.

NOTE 4 - INVESTMENTS

Legal Provisions – Investments of the System are limited to those authorized by Tennessee State Law. State statutes authorize the System to make direct investments in in bonds, notes or treasury bills of the U.S. government and obligations guaranteed by the U.S. government or any of its agencies; deposit accounts at state and federal chartered banks and savings and loan associations; repurchase agreements; the Local Government Investment Pool ("LGIP"); bonds of any state or political subdivision rated A or higher by any nationally recognized rating service; and nonconvertible debt securities of certain federal government sponsored enterprises. Statutes also require that securities underlying repurchase agreements must have a market value at least equal to the amount of funds invested in the repurchase transaction. State statutes limit maturities of the above investments to four years from the date of investment unless a greater maturity is approved by the State Director of Finance.

NOTE 4 – INVESTMENTS (CONTINUED)

The System is a member of the Tennessee Consolidated Retirement System (“TCRS”) Stabilization Reserve Trust. The School has placed funds into the irrevocable trust as authorized by statute under *Tennessee Code Annotated*, Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the trust. Funds of trust members are held and invested in the name of the trust for the benefit of each member. Each member’s funds are restricted for the payment of retirement benefits of that member’s employees. Trust funds are not subject to the claims of general creditors of the System. The trust is authorized to make investments as directed by the TCRS Board of Trustees. The System may not impose restrictions on investments placed by the trust on their behalf.

In addition to investments allowed by the System, the fiduciary fund’s investment policy authorizes investments in mutual funds, common stocks, and other equities. The OPEB’s investment policy has been formally adopted by the System’s Board of Directors.

A. Restricted Investments – TCRS Stabilization Reserve Trust

Assets of the TCRS, including the Stabilization Reserve Trust, are invested in the Tennessee Retiree Group Trust (“TRGT”). The TRGT is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State of Tennessee has not obtained a credit quality rating for the TRGT from a nationally recognized credit ratings agency. The fair value of investment positions in the TRGT is determined daily based on the fair value of the pool’s underlying portfolio. Furthermore, TCRS had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year. There are no restrictions on the sale or redemption of shares. For further information concerning the System’s investments with the TCRS Stabilization Reserve Trust, audited financial statements of the Tennessee Consolidated Retirement System may be obtained at <https://comptroller.tn.gov/content/dam/cot/sa/advanced-search/disclaimer/2019/ag18092.pdf>. The following table summarizes fair value disclosures and measurements for the System’s investments held by the TRGT on its behalf June 30, 2019:

| Investments at Fair Value | Level 1 | Level 2 | Level 3 | Total |
|--|------------------|------------------|------------------|-------------------|
| U.S. equity | \$ 32,063 | \$ - | \$ - | \$ 32,063 |
| Developed market international equity | 14,480 | - | - | 14,480 |
| Emerging market international equity | 4,137 | - | - | 4,137 |
| U.S. fixed income | - | 20,686 | - | 20,686 |
| Short-term securities | - | 1,034 | - | 1,034 |
| Real estate | - | - | 10,343 | 10,343 |
| | 50,680 | 21,720 | 10,343 | 82,743 |
| Investments at amortized cost using NAV | | | | |
| Private equity and strategic lending | - | - | - | 20,686 |
| Total restricted investments | \$ 50,680 | \$ 21,720 | \$ 10,343 | \$ 103,429 |

B. Fiduciary Investments

The System administers a fiduciary fund whose investments are held by a third party trustee bank. Additionally, the System utilizes an advisor to select appropriate investment choices. The following table summarizes fair value disclosures and measurements for fiduciary investments at June 30, 2019:

| Investments at Fair Value | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|---------------------|-------------|-------------|---------------------|
| Mutual funds | | | | |
| U.S. equity | \$ 1,118,603 | \$ - | \$ - | \$ 1,118,603 |
| International equity | 475,092 | - | - | 475,092 |
| Fixed income | 728,977 | - | - | 728,977 |
| Emerging market | 100,549 | - | - | 100,549 |
| Alternatives | 50,275 | - | - | 50,275 |
| Total Investments | \$ 2,473,496 | \$ - | \$ - | \$ 2,473,496 |

NOTE 4 – INVESTMENTS (CONTINUED)

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019:

- *Short-term securities*: generally include investments in money market-type securities reported at cost plus accrued interest.
- *Equity and equity derivative securities*: Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Level 2 are securities whose values are derived daily from associated traded securities. Level 3 are valued with last trade data having limited trading volume.
- *US Treasury Bills, Bonds, Notes and Futures*: Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Level 2 are valued using a bid-ask spread price from multiple independent brokers, dealers, or market principals, which are known to be actively involved in the market. Level 3 are valued using proprietary information, a single pricing source, or other unobservable inputs related to similar assets or liabilities.
- *Real estate investments*: Level 3 are valued using the last valuations provided by external investment advisors or independent external appraisers. Generally, all direct real estate investments are appraised by a qualified independent appraiser(s) with the professional designation of Member of the Appraisal Institute (“MAI”), or its equivalent, every three (3) years beginning from the acquisition date of the property. The appraisals are performed using generally accepted valuation approaches applicable to the property type.
- *Private mutual funds, traditional private equity funds, strategic lending funds and real estate funds*: Those funds that report using GAAP, the fair value, as well as the unfunded commitments, were determined using the prior quarter’s NAV, as reported by the fund managers, plus the current cash flows. These assets were then categorized by investment strategy. In instances where the fund investment reported using non-GAAP standards, the investment was valued using the same method, but was classified in Level 3.

Risks and Uncertainties – The fiduciary fund trust’s and TRGT’s investments include various types of investment funds, which in turn invest in any combination of stock, bonds and other investments exposed to various risks, such as interest rate, credit, and market risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported for trust investments.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System does not have the ability to limit TRGT investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The System manages its exposure to declines in fair value by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System does not have the ability to limit the credit ratings of individual investments made by the trust.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer. The System places no limit on the amount the TRGT may invest in one issuer. The System has adopted the investment policy established by TCA 6-5-106 for investments other than those held for pension and OPEB benefits. The System diversifies its fiduciary fund investment portfolios so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. The System had no investments that comprised more than 5% of its total investments at June 30, 2019.

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty to a transaction, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The third party bank is also a participant in the State collateral pool. Pursuant to the trust agreements, investments held in the TRGT and fiduciary trust are for the benefit the System to pay retirement benefits of their respective employees.

NOTE 5 – INTERFUND TRANSACTIONS

The composition of interfund balances as of June 30, 2019, is as follows:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|---------------------------|---------------------------------|------------------------------|
| General Purpose Fund | | |
| Federal Projects Fund | \$ 54,059 | \$ - |
| Discretionary Grants Fund | 22,550 | - |
| | <u>76,609</u> | <u>-</u> |
| Federal Projects Fund | | |
| General Purpose Fund | - | 54,059 |
| Discretionary Grants Fund | | |
| General Purpose Fund | - | 22,550 |
| | <u>\$ 76,609</u> | <u>\$ 76,609</u> |

The interfund payables from the federal projects fund and the discretionary grants fund to the general fund are for the negative cash balance in the pooled bank account at the end of the year.

The composition of interfund transfers during the year ended June 30, 2019 is as follows:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|-----------------------|---------------------|----------------------|
| General Purpose Fund | | |
| Federal Projects Fund | 70,260 | - |
| Federal Projects Fund | | |
| General Purpose Fund | - | 70,260 |
| | <u>\$ 70,260</u> | <u>\$ 70,260</u> |

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

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

| | Beginning Balance | Transfers/ Additions | Transfers/ Reductions | Ending Balance |
|--|----------------------|-------------------------|--------------------------|----------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,996,500 | \$ - | \$ - | \$ 1,996,500 |
| Construction in progress | 811,590 | 4,753,414 | (734,083) | 4,830,921 |
| Total capital assets, not being depreciated | <u>2,808,090</u> | <u>4,753,414</u> | <u>(734,083)</u> | <u>6,827,421</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 90,678,601 | 1,010,021 | - | 91,688,622 |
| Machinery, furniture and equipment | 6,693,044 | 1,548,787 | (539,808) | 7,702,023 |
| Total capital assets, being depreciated | <u>97,371,645</u> | <u>2,558,808</u> | <u>(539,808)</u> | <u>99,390,645</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | (7,029,652) | (1,989,065) | - | (9,018,717) |
| Machinery, furniture and equipment | (1,979,507) | (1,064,855) | 272,198 | (2,772,164) |
| Total accumulated depreciation | <u>(9,009,159)</u> | <u>(3,053,920)</u> | <u>272,198</u> | <u>(11,790,881)</u> |
| Total capital assets, being depreciated, net | <u>88,362,486</u> | <u>(495,112)</u> | <u>(267,610)</u> | <u>87,599,764</u> |
| Total capital assets, net | <u>\$ 91,170,576</u> | <u>\$ 4,258,302</u> | <u>\$ (1,001,693)</u> | <u>\$ 94,427,185</u> |

The System had outstanding commitments to contractors of \$757,000 at June 30, 2019 for building construction. The Arlington High School indoor practice facility was not under construction at year end, but has a projected cost of \$5 million.

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

| | |
|------------------------------------|---------------------|
| Instruction | \$ 2,034,867 |
| Support Services | 293,582 |
| Administration | 329,109 |
| Operation and maintenance of plant | 184,337 |
| Transportation | 121,747 |
| Technology | 90,278 |
| | <u>\$ 3,053,920</u> |

NOTE 7 – LONG-TERM LIABILITIES

1. Long-Term Debt

In January 2014, the System entered into a settlement agreement with the Board of Commissioners of Shelby County, Shelby County, Tennessee, and the Shelby County Board of Education. The System agreed to pay the Shelby County Board of Education twelve annual installments of \$333,333 due by November 1 of each year. The System elected to establish the liability incurred through the settlement agreement at its present value with a discount rate of 2.0%.

In June 2018, the System entered into a lease agreement for financing the acquisition of computer equipment to be used in the classroom at an interest rate of 2.76%. The cumulative amount of assets under the capital lease total \$440,970.

Future payments under the long-term debt are as follows:

| Year Ended June 30 | Settlement Obligation | Capital Lease |
|-----------------------------------|--------------------------|-------------------|
| 2020 | \$ 333,333 | \$ 151,866 |
| 2021 | 333,333 | 151,866 |
| 2022 | 333,333 | - |
| 2023 | 333,333 | - |
| 2024 | 333,333 | - |
| 2025-2026 | 666,666 | - |
| Total payments | 2,333,331 | 303,732 |
| Less amount representing interest | (177,530) | (12,127) |
| | <u>\$ 2,155,801</u> | <u>\$ 291,605</u> |

2. Changes in Long-Term Obligations

Long-term obligation activity for the year ended June 30, 2019, was as follows:

| | Beginning Balance | Additions | Retirements | Ending Balance | Due Within One Year |
|-----------------------|----------------------|-------------------|---------------------|---------------------|------------------------|
| Settlement obligation | \$ 2,666,664 | \$ - | \$ (333,333) | \$ 2,333,331 | \$ 333,333 |
| Capital lease payable | - | 440,970 | (149,365) | 291,605 | 151,886 |
| Unamortized discount | (226,778) | - | 49,248 | (177,530) | - |
| Total long-term debt | 2,439,886 | 440,970 | (433,450) | 2,447,406 | 485,219 |
| Compensated absences | 201,449 | 206,289 | (206,015) | 201,723 | 174,434 |
| Net OPEB liability* | 4,324,963 | - | (307,087) | 4,017,876 | - |
| Total | <u>\$ 6,966,298</u> | <u>\$ 647,259</u> | <u>\$ (946,552)</u> | <u>\$ 6,667,005</u> | <u>\$ 659,653</u> |

*net increase (decrease) shown

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

3. Operating Leases

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

NOTE 8 - PENSIONS

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

- I. **Legacy Public Employee Retirement Plan ("Administrative Legacy")** – Certain administrative employees of the Arlington Community School System with membership in TCRS prior to July 1, 2014 are included in this plan. This plan was closed to new membership on June 30, 2014, but continues to provide benefits to existing members. This is an agent multiple-employer pension plan.
- II. **Hybrid Public Employee Retirement Plan ("Administrative Hybrid")** – Certain administrative employees of the Arlington Community School System with membership in TCRS beginning on or after July 1, 2014 are included in this plan. This plan is a hybrid plan which features both a defined contribution element and a pension plan element. This is an agent multiple-employer pension plan.
- III. **Teacher Legacy Pension Plan ("Teacher Legacy")** – Teachers with membership in TCRS prior to July 1, 2014 are included in this plan. The plan was closed to new membership on June 30, 2014, but continues to provide benefits to existing members. The plan is a cost-sharing multiple-employer pension plan.
- IV. **Teacher Retirement Plan ("Teacher Hybrid")** – Teachers with membership in TCRS beginning July 1, 2014 are included in this plan. The plan is a hybrid plan which features both a defined contribution element and a pension plan element. The plan is a cost-sharing multiple-employer pension plan.

The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute.

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

| | Net Pension Asset | Deferred Outflows of Resources | Deferred Inflows of Resources |
|------------------------------------|----------------------|--------------------------------------|-------------------------------------|
| Administrative Legacy Pension Plan | \$ 361,206 | \$ 184,011 | \$ 161,944 |
| Administrative Hybrid Pension Plan | 50,620 | 60,318 | 2,352 |
| Teacher Legacy Pension Plan | 1,819,616 | 5,576,239 | 2,859,297 |
| Teacher Hybrid Pension Plan | 122,518 | 93,957 | 12,205 |
| | <u>\$ 2,353,960</u> | <u>\$ 5,914,525</u> | <u>\$ 3,035,798</u> |

NOTE 8 – PENSIONS (CONTINUED)

A. General Information about the Pension Plan

Benefits Provided

Under the Administrative Legacy Plan and Teacher Legacy Plan, members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Under the Administrative Hybrid Plan and Teacher Hybrid Plan, members are eligible to retire with an unreduced benefit at age 65 with 5 years of service credit or pursuant to the rule of 90 in which the member’s age and service credit total 90. A reduced early retirement benefit is available at age 60 and vested or pursuant to the rule of 80. Benefits are determined by a formula using the member’s highest five consecutive year average compensation and the member’s years of service credit. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest. Under the Teacher Legacy Plan and Teacher Hybrid Plan, benefit terms and conditions, including COLAs, can be adjusted on a prospective basis. Moreover, under the Administrative Hybrid Plan, Teacher Legacy Plan, and Teacher Hybrid Plan, there are defined cost controls and unfunded liability controls that provide for the adjustment of benefit terms and conditions on an automatic basis.

Employees Covered by Benefit Terms

At the measurement date of June 30, 2018, the following employees were covered by the benefit terms of the agent plans:

| | Administrative | |
|--|----------------|-------------|
| | Legacy Plan | Hybrid Plan |
| Inactive employees or beneficiaries currently receiving benefits | 11 | - |
| Inactive employees entitled to but not yet receiving benefits | 20 | 6 |
| Active employees | 59 | 40 |
| | <u>90</u> | <u>46</u> |

Contributions

Under the TCRS Plans, contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly or, for the Administrative Hybrid Plan and Teacher Hybrid Plan, by automatic cost controls set by law. Employees contribute 5 percent of salary. The Board of Education makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. By law, employer contributions are required to be paid. The TCRS may intercept the Board of Education’s state shared taxes if required employer contributions are not remitted. The employer rate and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability. Per statutory provisions governing TCRS, the employer contribution rate for the Hybrid Plans cannot be less than 4 percent, except in years when the maximum funded level, as established by the TCRS Board of Trustees is reached.

Employer contributions to each plan for the year ended June 30, 2019 were as follows:

| | Administrative | | Teacher | |
|------------------------------------|----------------|--------------|---------------|--------------|
| | Legacy Plan | Hybrid Plan | Legacy Plan | Hybrid Plan |
| Employer contributions | \$ 161,857 | \$ 32,061 | \$ 1,894,950 | \$ 64,626 |
| Covered payroll | 2,187,254 | 1,644,131 | 18,130,264 | 3,293,188 |
| As a percentage of covered payroll | <u>7.40%</u> | <u>1.95%</u> | <u>10.45%</u> | <u>1.96%</u> |

NOTE 8 – PENSIONS (CONTINUED)

B. Actuarial Assumptions

The total pension liability as of June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.5% |
| Salary increases | Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4.00% |
| Investment rate of return | 7.25%, net of investment expense, including inflation |
| Cost-of-living adjustment | 2.25% |
| Mortality rates | Actual experience including an adjustment for anticipated movement |

The actuarial assumptions used in the June 30, 2018 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012 through June 30, 2016. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

Investment Policy

The long-term expected rate of return on pension plan investments were established by the TCRS Board of Trustees in conjunction with the June 30, 2016 actuarial experience study. A blend of future capital market projections and historical market returns was used in a building-block method in which a best-estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best-estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best-estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Long-Term Expected Real Rate of Return</u> | <u>Target Allocation</u> |
|---------------------------------------|---|------------------------------|
| U.S. equity | 5.69% | 31% |
| Developed market international equity | 5.29% | 14% |
| Emerging market international equity | 6.36% | 4% |
| Private equity and strategic lending | 5.79% | 20% |
| U.S. fixed income | 2.01% | 20% |
| Real estate | 4.32% | 10% |
| Short-term securities | 0.00% | 1% |
| | | <u>100%</u> |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a blending of the three factors described above.

Discount Rate

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Board of Education will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine total pension liability.

NOTE 8 – PENSIONS (CONTINUED)

C. Net Pension Liability (Asset)

The net pension liability (asset) for each TCRS administered plan was measured as of June 30, 2018. The total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of the respective dates. The components of the net pension liability (asset) as of those dates are as follows:

| | Administrative | | Teacher | |
|---|---------------------|--------------------|-----------------------|---------------------|
| | Agent Plans | | Cost-Sharing Plans | |
| | Legacy Plan | Hybrid Plan | Legacy Plan | Hybrid Plan |
| Total Pension Liability | | | | |
| Service cost | \$ 240,205 | \$ 52,779 | | |
| Interest | 83,556 | 9,498 | | |
| Changes of benefit items | - | - | | |
| Differences between expected and actual experience | (54,602) | 30,826 | | |
| Changes in assumptions | - | - | | |
| Benefit payments, including refunds | (12,842) | (4,889) | | |
| Net change in total pension liability | 256,317 | 88,214 | | |
| Total pension liability - beginning | 918,713 | 80,673 | | |
| Total pension liability - ending | 1,175,030 | 168,887 | | |
| Plan Fiduciary Net Position | | | | |
| Contributions - employer | \$ 158,364 | \$ 51,925 | | |
| Contributions - employee | 107,397 | 64,907 | | |
| Net investment income | 108,271 | 12,664 | | |
| Benefit payments | (12,842) | (4,889) | | |
| Administrative expense | (5,699) | (3,404) | | |
| Other changes | (78) | - | | |
| Net change in plan fiduciary net position | 355,413 | 121,203 | | |
| Plan fiduciary net position - beginning | 1,180,823 | 98,304 | | |
| Plan fiduciary net position -ending | 1,536,236 | 219,507 | | |
| Net pension liability (asset) | <u>\$ (361,206)</u> | <u>\$ (50,620)</u> | | |
| Proportionate share of net pension liability (asset) | | | <u>\$ (1,819,616)</u> | <u>\$ (122,518)</u> |
| Proportionate share at June 30, 2018 measurement date | | | 0.517096% | 0.270144% |
| Proportionate share at June 30, 2017 measurement date | | | 0.520200% | 0.315942% |

The System's proportion of the net pension liability (asset) was based on the System's share of contributions to each cost-sharing plan relative to the contributions of all participating LEAs. Detailed information about each cost-sharing pension plan's fiduciary net position is available in a separately issued TCRS financial reports.

NOTE 8 – PENSIONS (CONTINUED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability (asset) or proportionate share of net pension liability (asset) of the System related to each plan calculated using the current discount rates as well as what the net pension liability (asset) or proportionate share of net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

| | <u>Current Rate</u> | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|--|---------------------|--------------------|---------------------|--------------------|
| Net pension liability (asset) | | | | |
| Administrative Legacy Plan | 7.25% | \$ (172,306) | \$ (361,206) | \$ (516,263) |
| Administrative Hybrid Plan | 7.25% | (7,657) | (50,620) | (83,929) |
| Proportionate share of the net pension asset | | | | |
| Teacher Legacy Plan | 7.25% | \$ 14,026,744 | \$ (1,819,616) | \$ (14,930,270) |
| Teacher Hybrid Plan | 7.25% | 18,941 | (122,518) | (226,740) |

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

For the year ended June 30, 2019, the System reported pension expense and deferred outflows of resources and deferred inflows of resources related to each plan from the following sources:

| | <u>Administrative</u> | | <u>Teacher Plans</u> | |
|--|-----------------------|--------------------|----------------------|--------------------|
| | <u>Legacy Plan</u> | <u>Hybrid Plan</u> | <u>Legacy Plan</u> | <u>Hybrid Plan</u> |
| Pension Expense (Negative Pension Expense) | <u>\$ 105,052</u> | <u>\$ (8,395)</u> | <u>\$ 540,732</u> | <u>\$ 43,174</u> |
| Deferred Outflows of Resources | | | | |
| Differences between expected and actual experience | \$ - | \$ 28,257 | \$ 367,806 | \$ 6,939 |
| Net difference between projected and actual earnings on plan investments | - | - | - | - |
| Changes in assumptions | 22,154 | - | 1,074,674 | 5,780 |
| Change in proportion of net pension liability (asset) | - | - | 2,238,809 | 16,612 |
| Contributions subsequent to the measurement date of June 30, 2018 | 161,857 | 32,061 | 1,894,950 | 64,626 |
| | <u>\$ 184,011</u> | <u>\$ 60,318</u> | <u>\$ 5,576,239</u> | <u>\$ 93,957</u> |
| Deferred Inflows of Resources | | | | |
| Differences between expected and actual experience | \$ 142,659 | \$ - | \$ 2,454,806 | \$ 4,880 |
| Net difference between projected and actual earnings on plan investments | 19,285 | 2,352 | 396,024 | 6,921 |
| Changes in assumptions | - | - | - | - |
| Change in proportion of net pension liability (asset) | - | - | 8,467 | 404 |
| | <u>\$ 161,944</u> | <u>\$ 2,352</u> | <u>\$ 2,859,297</u> | <u>\$ 12,205</u> |

The amounts shown above for "Contributions subsequent to the measurement date of June 30, 2018," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

NOTE 8 – PENSIONS (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

| | School Administrative | | Teacher Plans | |
|------------|-----------------------|-------------|---------------|-------------|
| | Legacy Plan | Hybrid Plan | Legacy Plan | Hybrid Plan |
| 2020 | \$ (22,520) | \$ 1,893 | \$ 1,436,710 | \$ 437 |
| 2021 | (24,283) | 1,893 | 480,508 | 217 |
| 2022 | (29,987) | 1,893 | (924,883) | (769) |
| 2023 | (22,823) | 2,249 | (170,343) | 1,039 |
| 2024 | (20,083) | 2,569 | - | 1,961 |
| Thereafter | (20,094) | 15,408 | - | 14,241 |

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

NOTE 9 – DEFINED CONTRIBUTION EMPLOYEE BENEFIT PLAN

TCRS Hybrid 401(k) Plan

The Teacher Retirement Plan and the Hybrid Public Employee Retirement Plan (the Hybrid Plans) provides a combination of a defined benefit plan and a defined contribution plan. The defined benefit portion of the Hybrid Plans are managed by TCRS. The defined contribution assets are deposited into the State’s 401(k) plan where the employee manages the investments within the 401(k) plan. Enrolled employees may, at their option, contribute 2% of their salaries and employers are required to contribute 5% of those salaries to the defined contribution (401(k)) portion of the Hybrid Plans. Contributions are made on a tax-deferred basis. Employees are immediately vested in contributions. During 2019, the System’s employer contribution to the defined contribution plan was \$286,515.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)

The System administers a single-employer defined benefit other postemployment benefit plan to provide health care benefits to certain employees under the provisions of the System’s Other Postemployment Benefit Plan.

A. General Information about the OPEB Plan

Benefits Provided

Employees who retire from the System and qualify for full retirement benefits under the Tennessee Consolidated Retirement System (TCRS) may be eligible for postemployment health benefits at the same cost as current employees until age 65. Eligible employees must have been enrolled in the Arlington Community School sponsored insurance plan for twelve consecutive months immediately prior to retirement and have complete 15 years of service with the System. Those who are former employees of Shelby County School District or Memphis City Schools must have 15 years of continuous service with Arlington, Shelby County, and/or Memphis City Schools prior to retirement. Employees must be enrolled in the System’s health plan immediately preceding retirement to qualify for retirement benefits. Tier 1 employees are those hired directly from Shelby County Schools prior to August 4, 2014 and employees are hired by the System between January 1, 2014 and June 30, 2014. Tier 2 employees are those whose effective hire date is July 1, 2014. Employees hired on or after July 1, 2017 will not be eligible for retiree health benefits.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (CONTINUED)

Employees Covered by Benefit Terms

Plan membership as of June 30, 2019, the date of the OPEB valuation, consisted of the following:

| | |
|--|------------|
| Inactive employees or beneficiaries receiving benefits | 26 |
| Active employees | 444 |
| | <u>470</u> |

Contributions

The System's intent is to partially fund the annual required contribution and pay for the pay-go costs from the general purpose fund until the Trust balance is sufficient to meet future benefit payments. Employer contributions are based on an actuarially determined rate and are as follows for the year ended June 30, 2019:

| | |
|------------------------------------|--------------|
| Employer contributions | \$ 588,184 |
| Covered payroll | 23,825,256 |
| As a percentage of covered payroll | <u>2.47%</u> |

B. Actuarial Assumptions

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

The total OPEB liability was determined as part of the June 30, 2019 actuarial valuation using the entry age normal level percent of pay actuarial cost method. Liabilities as of July 1, 2018 are based on an actuarial valuation date of July 1, 2017 projected to July 1, 2018 on a "no loss/no gain" basis.

| | |
|-----------------------------|---|
| Inflation | 3.0% |
| Salary increases | Payroll growth including general wage inflation plus merit/productivity increases are based on the TCRS valuation as of June 30, 2016 |
| Investment rate of return | 7.5%, net of investment expense, including inflation |
| Health care cost trend rate | 8.0% initial rate, 4.5% ultimate rate |
| Mortality rates | RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018 |

Change in Assumptions

In 2019, the following assumptions were changed: updated mortality tables from SOA RPH-2016 Total Dataset Mortality Table fully generational using scale MP-2016 to SOA RPH-2018 Total Dataset Mortality Table fully generational using Seale MP-2018; and the health care trend rates have been set to an initial rate of 8% decreasing by 0.5% annually to an ultimate rate of 4.5%. The changes resulted in a decrease in liabilities.

Investment Policy

The System has placed funds with the Tennessee School Board Association OPEB Trust ("TSBA OPEB Trust") to be used to pre-fund a portion of the OPEB liability. The assets of the TSBA OPEB Trust are commingled with other participant's funds for investment purposes, but are held in an irrevocable trust for each plan participant and may be used only for the payment of benefits to the members of the plan in accordance with the terms of their plan. The TSBA OPEB Trust's policy in regard to allocation of invested assets is established and may be amended by the TSBA OPEB Trust Board of Trustees by a majority vote of its members. The TSBA OPEB Trust obtains an annual audit, which may be obtained from the TSBA at 525 Brick Church Park Drive, Nashville, TN 37207; however, the audit for the year ended June 30, 2018, was not available from other auditors as of the date of this report.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (CONTINUED)

It is the policy of the TSBA OPEB Trust Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a board selection of distinct asset classes. The investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The long-term expected rate of return on OPEB plan investments was determined using a building block method in which expected future rates of return are developed for each major asset class. These expected future rates of return are then combined to produce the long-term expected rate of return by weighting them based on the target asset allocation percentage. The best estimates of arithmetic real rates of return for each major asset class including the target asset allocation as of June 30, 2019 as summarized as follows:

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

Rate of Return

For the year ended June 30, 2019, the annual money-weighted rate of return on investment was 4.74 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate Information

The discount rate used to value OPEB liabilities in funded plans as of the measurement date must be based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance future benefit payments to the extent that they are sufficient to pay for the projected benefit payments and the OPEB plan assets are invested using a strategy that will achieve that return. When the OPEB plan investments are insufficient to cover future benefit payments, a yield of 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale) must be used. The final equivalent single discount rate used for this year's valuation is 7.50% as of June 30, 2019 with the assumption that the System will eventually pay the pay-go costs out of the OPEB Trust at the time the Trust is expected to be sufficient to finance all future benefit payments.

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (CONTINUED)

C. Net OPEB Liability

The components of the System’s net OPEB liability at June 30, 2019, were as follows:

| | Increase (Decrease) | | |
|---|-------------------------|--------------------------------|-------------------------------|
| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability (Asset) |
| Beginning of year | \$ 6,252,743 | \$ 1,927,009 | \$ 4,325,734 |
| Changes for the year: | | | |
| Service cost | 338,969 | - | 338,969 |
| Interest | 491,131 | - | 491,131 |
| Change of benefit terms | - | - | - |
| Changes in assumptions | (182,915) | - | (182,915) |
| Differences between expected and actual experience | (280,153) | - | (280,153) |
| Contributions - employer | - | 588,184 | (588,184) |
| Contributions - employee | - | - | - |
| Net investment income | - | 94,615 | (94,615) |
| Benefit payments | (88,184) | (88,184) | - |
| Administrative expenses | - | (7,909) | 7,909 |
| Net changes | 278,848 | 586,706 | (307,858) |
| End of year | <u>\$ 6,531,591</u> | <u>\$ 2,513,715</u> | <u>\$ 4,017,876</u> |

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

The following represents the net OPEB liability (asset) as of June 30, 2019, calculated using the discount rate of 7.5%, as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate:

| | Current Rate | 1% Decrease | Current Rate | 1% Increase |
|----------------------------|--------------|--------------|--------------|--------------|
| Net OPEB liability (asset) | 7.50% | \$ 4,550,166 | \$ 4,017,876 | \$ 3,526,575 |

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

The following represents the net OPEB liability (asset) calculated using the healthcare cost trend rate of 8.0% decreasing to 4.5% as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is 1% lower (7.0% decreasing to 3.5%) or 1% higher (9% decreasing to 5.5%) than the current rate:

| | Current Rate | 1% Decrease | Current Rate | 1% Increase |
|----------------------------|--------------|--------------|--------------|--------------|
| Net OPEB liability (asset) | 8% to 4.5% | \$ 3,390,440 | \$ 4,017,876 | \$ 4,740,515 |

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (CONTINUED)

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

For the year ended June 30, 2019, the System recognized OPEB expense of \$595,032.

For the year ended June 30, 2019, the System reported deferred outflows of resources and deferred inflows of resources of related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ 702,241 |
| Changes in assumptions | 240,889 | 162,591 |
| Net difference between projected and actual earnings on OPEB investments | 38,154 | - |
| | <u>\$ 279,043</u> | <u>\$ 864,832</u> |

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

| | |
|------------|-------------|
| 2019 | \$ (80,332) |
| 2020 | (80,332) |
| 2021 | (76,646) |
| 2022 | (73,680) |
| 2023 | (87,286) |
| Thereafter | (187,513) |

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

NOTE 10 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) (CONTINUED)

E. Trusted OPEB Plans without Stand-Alone Financial Statements

The System's OPEB plan does not issue stand-alone financial reports and they are not included in the report of a public employee retirement system or report of another entity. The plan financial statements are as follows:

Statement of OPEB Trust Net Position

| ASSETS | |
|---------------------------|----------------------------|
| Cash and cash equivalents | \$ 39,765 |
| Accounts receivable | 454 |
| Investments | |
| Mutual funds | <u>2,473,496</u> |
| Total assets | <u>2,513,715</u> |
| LIABILITIES | |
| Accounts payable | <u>677</u> |
| NET POSITION | |
| Restricted for OPEB | <u><u>\$ 2,513,038</u></u> |

Statement of Changes in OPEB Plan Net Position

| ADDITIONS | |
|---|----------------------------|
| Contributions: | |
| Employer | <u>\$ 588,184</u> |
| Total contributions | <u>588,184</u> |
| Investment earnings (losses): | |
| Interest and dividends | 77,077 |
| Net appreciation in fair value of investments | <u>16,313</u> |
| Total investment earnings | <u>93,390</u> |
| Total additions | <u>681,574</u> |
| DEDUCTIONS | |
| Benefits | 88,184 |
| Administrative expense | <u>8,132</u> |
| Total deductions | <u>96,316</u> |
| Change in net position | 585,258 |
| NET POSITION RESTRICTED FOR OPEB | |
| Beginning of year | <u>1,927,780</u> |
| End of year | <u><u>\$ 2,513,038</u></u> |

NOTE 11 – RISK MANAGEMENT

Insurance Other Than Health Insurance

The System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The System considers it more economically feasible to participate in a public entity risk pool as opposed to purchasing commercial insurance for certain general liability, workers' compensation, and property insurance. As such, the System participates in the Public Entity Partners Risk Management Pool (the "Pool"), which is a public entity risk pool consisting of member political subdivisions of the State of Tennessee. The System pays an annual premium to the Pool and each political subdivision that has participated in the Pool is subject to assessment if the funds it paid as premiums are insufficient to meet the obligations of the Pool. The Pool may reinsure through the Local Government Reinsurance Fund of Tennessee or a commercial insurance company. The System continues to carry commercial insurance for all other risks of loss, including public officials' bond. The City has replacement cost insurance, including earthquake coverage, on all buildings and on mobile equipment and vehicles costing more than \$25,000 each.

The City has not incurred any losses in excess of commercial insurance coverage for the past 3 fiscal years. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

Health Insurance

The System participates in the Interlocal Health Benefits Plan Asset Trust in order to reduce costs of benefit plan administration and lower premium rates related to healthcare benefits. The Interlocal Health Plan is accounted for as a public entity risk pool but operates solely as a risk-sharing pool. Benefits and premium requirements are established and may be amended by an insurance committee. Members have the option of choosing between a Health Reimbursement Account (HRA) option, an Exclusive Provider Organization (EPO) option, and a basic option for healthcare benefits. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop a contribution policy in term of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The plan has a separately issued Comprehensive Annual Report (CAFR) and can be found on the state's website at http://www.comptroller.tn.gov/RA_MA_Financial/.

The System is only liable for their portion of plan premiums plus any outstanding capital requirements from the Interlocal Health Plan. The liability for any incurred-but-not-reported claims is borne by the Interlocal Health Plan and not by the individual members. During the year ended June 30, 2019, the System contributed premiums of \$3,888,829 to the Interlocal Health Benefits Plan Asset Trust.

REQUIRED SUPPLEMENTARY INFORMATION

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
LEGACY PUBLIC EMPLOYEE PENSION PLAN OF TCRS
Last Ten Fiscal Years June 30

| | 2018 | 2017 | 2016 | 2015 |
|---|---------------------|---------------------|---------------------|---------------------|
| Total Pension Liability | | | | |
| Service cost | \$ 240,205 | \$ 258,233 | \$ 268,523 | \$ 403,716 |
| Interest | 83,556 | 63,315 | 42,617 | 30,274 |
| Changes of benefit items | - | - | - | - |
| Differences between expected and actual experience | (54,602) | (10,817) | (13,936) | (130,756) |
| Changes in assumptions | - | 29,540 | - | - |
| Benefit payments | (12,842) | (15,057) | (6,812) | (127) |
| Net change in total pension liability | 256,317 | 325,214 | 290,392 | 303,107 |
| Total pension liability - beginning | 918,713 | 593,499 | 303,107 | - |
| Total pension liability - ending | 1,175,030 | 918,713 | 593,499 | 303,107 |
| Plan Fiduciary Net Position | | | | |
| Contributions - employer | 158,364 | 183,342 | 247,505 | 262,260 |
| Contributions - employee | 107,397 | 123,880 | 133,498 | 141,457 |
| Net investment income | 108,271 | 105,712 | 15,649 | 6,140 |
| Benefit payments | (12,842) | (15,057) | (6,812) | (127) |
| Administrative expense | (5,699) | (5,694) | (6,088) | (4,842) |
| Other | (78) | - | - | - |
| Net change in plan fiduciary net position | 355,413 | 392,183 | 383,752 | 404,888 |
| Plan fiduciary net position - beginning | 1,180,823 | 788,640 | 404,888 | - |
| Plan fiduciary net position -ending | 1,536,236 | 1,180,823 | 788,640 | 404,888 |
| Net pension liability (asset) | \$ (361,206) | \$ (262,110) | \$ (195,141) | \$ (101,781) |
| Plan fiduciary net position as a percentage of the total pension liability | 130.74% | 128.53% | 132.88% | 133.58% |
| Covered payroll | \$ 2,179,151 | \$ 2,477,596 | \$ 2,669,956 | \$ 2,829,235 |
| Net pension liability as a percentage of covered payroll | -16.58% | -10.58% | -7.31% | -3.60% |

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

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

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF CONTRIBUTIONS
LEGACY PUBLIC EMPLOYEE RETIREMENT PLAN OF TCRS
Last Ten Fiscal Years June 30

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|--------------------|--------------------|--------------------|----------------|----------------|
| Actuarially determined contribution | \$ 114,612 | \$ 120,943 | \$ 136,763 | \$ 247,505 | \$ 262,260 |
| Contributions | <u>161,857</u> | <u>158,364</u> | <u>183,342</u> | <u>247,505</u> | <u>262,260</u> |
| Contribution deficiency (surplus) | <u>\$ (47,245)</u> | <u>\$ (37,421)</u> | <u>\$ (46,579)</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 2,187,254 | \$ 2,179,151 | \$ 2,477,596 | \$ 2,669,956 | \$ 2,829,235 |
| Contributions as a percentage of covered payroll | 7.40% | 7.27% | 7.40% | 9.27% | 9.27% |

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

NOTE 1 - VALUATION DATE

Actuarially determined contributions rates for fiscal year 2019 were calculated based on the June 30, 2017 actuarial valuation.

NOTE 2 - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

| | |
|-------------------------------|--|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level dollar, closed (not to exceed 20 years) |
| Remaining amortization period | Varies by year |
| Asset valuation method | 10 year smoothed with a 20% corridor to market value |
| Inflation | 2.5% |
| Salary increases | Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4% |
| Investment rate of return | 7.25%, net of investment expenses, including inflation |
| Retirement age | Pattern of retirement determined by experience study |
| Mortality | Customized table based on actual experience including an adjustment for some anticipated improvement |
| Cost of Living Adjustments | 2.25% |

NOTE 3 - CHANGES OF ASSUMPTIONS

In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
HYBRID PUBLIC EMPLOYEE PENSION PLAN OF TCRS
Last Ten Fiscal Years June 30

| | 2018 | 2017 |
|---|---------------------|--------------------|
| Total Pension Liability | | |
| Service cost | \$ 52,779 | \$ - |
| Interest | 9,498 | - |
| Changes of benefit items | - | 80,781 |
| Differences between expected and actual experience | 30,826 | - |
| Changes in assumptions | - | - |
| Benefit payments | (4,889) | (108) |
| Net change in total pension liability | 88,214 | 80,673 |
| Total pension liability - beginning | 80,673 | - |
| Total pension liability - ending | 168,887 | 80,673 |
| Plan Fiduciary Net Position | | |
| Contributions - employer | 51,925 | 42,182 |
| Contributions - employee | 64,907 | 52,728 |
| Net investment income | 12,664 | 5,271 |
| Benefit payments | (4,889) | (108) |
| Administrative expense | (3,404) | (1,769) |
| Net change in plan fiduciary net position | 121,203 | 98,304 |
| Plan fiduciary net position - beginning | 98,304 | - |
| Plan fiduciary net position -ending | 219,507 | 98,304 |
| Net pension liability (asset) | \$ (50,620) | \$ (17,631) |
| Plan fiduciary net position as a percentage of the total pension liability | 129.97% | 121.85% |
| Covered payroll | \$ 1,266,904 | \$ 633,729 |
| Net pension liability as a percentage of covered payroll | -4.00% | -2.78% |

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

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

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF CONTRIBUTIONS
HYBRID PUBLIC EMPLOYEE RETIREMENT PLAN OF TCRS
Last Ten Fiscal Years June 30

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|---------------|--------------------|--------------------|
| Actuarially determined contribution | \$ 32,061 | \$ 17,592 | \$ 7,161 |
| Contributions | <u>32,061</u> | <u>51,925</u> | <u>42,182</u> |
| Contribution deficiency (surplus) | <u>\$ -</u> | <u>\$ (34,333)</u> | <u>\$ (35,021)</u> |
| Covered payroll | \$ 1,644,131 | \$ 1,266,904 | \$ 633,729 |
| Contributions as a percentage of covered payroll | 1.95% | 4.10% | 6.66% |

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

NOTE 1 - VALUATION DATE

Actuarially determined contribution rates for fiscal year 2019 were calculated based on the June 30, 2017 actuarial valuation.

NOTE 2 - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

| | |
|-------------------------------|---|
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level dollar, closed (not to exceed 20 years) |
| Remaining amortization period | Varies by year |
| Asset valuation method | 10 year smoothed with a 20% corridor to market value |
| Inflation | 2.5% |
| Salary increases | Graded salary ranges from 8.72% to 3.44% based on age, including inflation, averaging 4%. |
| Investment rate of return | 7.25%, net of investment expenses, including inflation |
| Retirement age | Pattern of retirement determined by experience study |
| Mortality | Customized table based on actual experience including an adjustment for some anticipated |
| Cost of Living Adjustments | 2.25% |

NOTE 3 - CHANGES OF ASSUMPTIONS

In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%.

In fiscal year 2019, the actuarially determined contribution rate of 1.95% of covered payroll was placed into the pension plan and 2.08% of covered payroll was placed into the Pension Stabilization Reserve Trust.

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
TEACHER LEGACY PENSION PLAN OF TCRS
Last Ten Fiscal Years June 30

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------------|---------------|---------------|---------------|------------|
| Proportion of the net pension liability (asset) | 0.517096% | 0.520200% | 0.507125% | 0.457425% | 0.010736% |
| Proportionate share of the net pension liability (asset) | \$ (1,819,616) | \$ (170,201) | \$ 3,169,249 | \$ 187,377 | \$ (1,744) |
| Covered payroll | \$ 18,107,569 | \$ 18,396,999 | \$ 18,306,197 | \$ 17,123,741 | \$ 421,371 |
| Proportionate share of the net pension liability (asset) as a percentage of its covered payroll | -10.05% | -0.93% | 17.31% | 1.09% | 0.00% |
| Plan fiduciary net position as a percentage of the total pension liability | 101.49% | 100.14% | 97.14% | 97.14% | 99.81% |

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

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF CONTRIBUTIONS
TEACHER LEGACY PENSION PLAN OF TCRS
Last Ten Fiscal Years June 30

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|------------------|------------------|------------------|------------------|------------------|---------------|
| Contractually required | \$ 1,894,950 | \$ 1,644,116 | \$ 1,662,347 | \$ 1,654,879 | \$ 1,547,985 | \$ 37,418 |
| Contribution in relation to the contractually required contribution | <u>1,894,950</u> | <u>1,644,116</u> | <u>1,662,347</u> | <u>1,654,879</u> | <u>1,547,985</u> | <u>37,418</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 18,130,264 | \$ 18,107,569 | \$ 18,396,999 | \$ 18,306,197 | \$ 17,123,741 | \$ 421,371 |
| Contributions as a percentage of covered payroll | 10.45% | 9.08% | 9.04% | 9.04% | 9.04% | 8.88% |

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

Changes of assumptions. In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
TEACHER RETIREMENT PLAN OF TCRS
Last Ten Fiscal Years June 30

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|---------------------|-------------------|
| Proportion of the net pension liability (asset) | 0.270144% | 0.315942% | 0.370023% | 0.360154% |
| Proportionate share of the net pension liability (asset) | \$ (122,518) | \$ (83,357) | \$ (38,521) | \$ (14,489) |
| Covered payroll | <u>\$ 2,360,717</u> | <u>\$ 2,065,462</u> | <u>\$ 1,628,121</u> | <u>\$ 748,310</u> |
| Proportionate share of the net pension liability (asset) as a percentage of its covered payroll | -5.19% | -4.04% | -2.37% | -1.94% |
| Plan fiduciary net position as a percentage of the total pension liability | 126.97% | 126.81% | 121.88% | 127.46% |

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

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF CONTRIBUTIONS
TEACHER RETIREMENT PLAN OF TCRS
Last Ten Fiscal Years June 30

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---------------|--------------------|---------------|--------------------|--------------------|
| Contractually required | \$ 64,626 | \$ 38,498 | \$ 82,946 | \$ 40,755 | \$ 18,708 |
| Contribution in relation to the contractually required contribution | <u>64,626</u> | <u>94,429</u> | <u>82,946</u> | <u>65,125</u> | <u>29,932</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ (55,931)</u> | <u>\$ -</u> | <u>\$ (24,370)</u> | <u>\$ (11,224)</u> |
| Covered payroll | \$ 3,293,188 | \$ 2,360,717 | \$ 2,065,462 | \$ 1,628,121 | \$ 748,310 |
| Contributions as a percentage of covered payroll | 1.96% | 4.00% | 4.02% | 4.00% | 4.00% |

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

Changes of assumptions . In 2017, the following assumptions were changed: decreased inflation rate from 3% to 2.5%; decreased the investment rate of return from 7.5% to 7.25%; decreased the cost-of-living adjustment from 2.5% to 2.25%; decreased salary growth graded ranges from an average of 4.25% to an average of 4%; and modified mortality assumptions.

In fiscal year 2019, the actuarially determined contribution rate of 1.96% of covered payroll was placed into the pension plan and 1.95% of covered payroll was placed into the Pension Stabilization Reserve Trust.

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN
Last Ten Fiscal Years June 30

| | 2019 | 2018 | 2017 |
|--|---------------------|---------------------|---------------------|
| Total OPEB Liability | | | |
| Service cost | \$ 338,969 | \$ 288,645 | \$ 574,975 |
| Interest | 491,131 | 466,928 | 833,313 |
| Changes of benefit items | - | - | (5,817,754) |
| Differences between expected and actual experience | (280,153) | (220,328) | (402,643) |
| Changes in assumptions | (182,915) | 244,396 | 72,575 |
| Benefit payments | (88,184) | (146,886) | (111,651) |
| Net change in total OPEB liability | 278,848 | 632,755 | (4,851,185) |
| Total OPEB liability - beginning | 6,252,743 | 5,619,988 | 10,471,173 |
| Total OPEB liability - ending | 6,531,591 | 6,252,743 | 5,619,988 |
| Plan Fiduciary Net Position | | | |
| Contributions - employer | 588,184 | 646,886 | 629,512 |
| Contributions - employee | - | - | - |
| Net investment income | 94,615 | 131,066 | 94,877 |
| Benefit payments | (88,184) | (146,886) | (111,651) |
| Administrative expense | (7,909) | (16,688) | (3,188) |
| Net change in plan fiduciary net position | 586,706 | 614,378 | 609,550 |
| Plan fiduciary net position - beginning | 1,927,009 | 1,312,631 | 703,081 |
| Plan fiduciary net position -ending | 2,513,715 | 1,927,009 | 1,312,631 |
| Net OPEB liability (asset) | <u>\$ 4,017,876</u> | <u>\$ 4,325,734</u> | <u>\$ 4,307,357</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 38.49% | 30.82% | 23.36% |
| Covered payroll | \$ 23,825,256 | \$ 22,456,759 | \$ 21,802,679 |
| Net OPEB liability as a percentage of covered payroll | 16.86% | 19.26% | 19.76% |

Changes of assumptions. In 2018, amounts reported as changes of assumptions resulted from changes to the inflation rate, investment rate of return, payroll growth rate, and mortality tables. In 2019, amounts reported as changes to the mortality tables and health care cost trend rates.

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

**ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFIT PLAN
Last Ten Fiscal Years June 30**

| | 2019 | 2018 | 2017 |
|--|-------------------|------------------|-------------------|
| Actuarially determined contribution | \$ 738,157 | \$ 697,756 | \$ 1,442,649 |
| Contributions | <u>588,184</u> | <u>646,886</u> | <u>629,512</u> |
| Contribution deficiency (surplus) | <u>\$ 149,973</u> | <u>\$ 50,870</u> | <u>\$ 813,137</u> |
| Covered payroll | \$ 23,825,256 | \$ 22,456,759 | \$ 21,802,679 |
| Contributions as a percentage of covered payroll | 2.47% | 2.88% | 2.89% |

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

NOTE 1 - VALUATION DATE

Actuarially determined contributions were based on a measurement date of June 30, 2019.

NOTE 2 - METHODS AND ASSUMPTIONS USED TO DETERMINE CONTRIBUTION RATES

| | |
|-----------------------------|--|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll |
| Asset valuation method | Market value |
| Inflation | 3.0% |
| Healthcare cost trend rates | 8.0% initial, decreasing to an ultimate rate of 4.5% |
| Salary increases | Payroll growth including general wage inflation plus merit/ productivity increases are based on the TCRS valuation as of June 30, 2016 |
| Investment rate of return | 7.5%, net of investment expenses, including inflation |
| Mortality | SOA RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018 |

NOTE 3 - CHANGES OF ASSUMPTIONS

In 2019, the following assumptions were changed; updated mortality tables from SOA RPH-2016 Total Dataset Mortality Table fully generational using scale MP-2016 to SOA RPH-2018 Total Dataset Mortality Table fully generational using Scale MP-2018; and the health care trend rates have been set to initial rate of 8% decreasing by 0.5% annually to an ultimate rate of 4.5%.

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF MONEY-WEIGHTED RATE OF RETURN
OTHER POSTEMPLOYMENT BENEFIT PLAN
Last Ten Fiscal Years June 30

| | Annual Money-Weighted Rate of Return <u>Net of Investment Expenses</u> |
|------|--|
| 2019 | 4.74% |
| 2018 | 8.93% |
| 2017 | 13.13% |

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

SUPPLEMENTARY INFORMATION

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

ARLINGTON COMMUNITY SCHOOL SYSTEM
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2019

| | <u>Special Revenue Funds</u> | | | Total Nonmajor Governmental Funds |
|-------------------------------------|--------------------------------------|---------------------------|--|--|
| | Federal Projects Fund | Nutrition Fund | Discretionary Grants Fund | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,623 | \$ 436,112 | \$ (3,136) | \$ 434,599 |
| Due from other governments | 103,224 | - | 32,430 | 135,654 |
| Inventory | - | 19,716 | - | 19,716 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total assets | <u>\$ 104,847</u> | <u>\$ 455,828</u> | <u>\$ 29,294</u> | <u>\$ 589,969</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 11,963 | \$ 29 | \$ - | \$ 11,992 |
| Accrued payroll | 38,825 | - | 6,744 | 45,569 |
| Due to other funds | 54,059 | - | 22,550 | 76,609 |
| Unearned revenue | - | 27,482 | - | 27,482 |
| Total liabilities | <u>104,847</u> | <u>27,511</u> | <u>29,294</u> | <u>161,652</u> |
| FUND BALANCES | | | | |
| Nonspendable | - | 19,716 | - | 19,716 |
| Restricted | - | 408,601 | - | 408,601 |
| Total fund balances | <u> </u> | <u>428,317</u> | <u> </u> | <u>428,317</u> |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total liabilities and fund balances | <u>\$ 104,847</u> | <u>\$ 455,828</u> | <u>\$ 29,294</u> | <u>\$ 589,969</u> |

ARLINGTON COMMUNITY SCHOOL SYSTEM
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

| | Special Revenue Funds | | | Total Nonmajor Governmental Funds |
|---|--------------------------------------|---------------------------|--|--|
| | Federal Projects Fund | Nutrition Fund | Discretionary Grants Fund | |
| REVENUES | | | | |
| Charges for services | \$ - | \$ 878,028 | \$ - | \$ 878,028 |
| Federal, state and other grants | 2,208,741 | 375,305 | 233,000 | 2,817,046 |
| Other | - | 452 | - | 452 |
| Total revenues | <u>2,208,741</u> | <u>1,253,785</u> | <u>233,000</u> | <u>3,695,526</u> |
| EXPENDITURES | | | | |
| Current | | | | |
| Instruction | 1,481,873 | - | 1,200 | 1,483,073 |
| Support services | 654,913 | - | 231,800 | 886,713 |
| Transportation | 1,695 | - | - | 1,695 |
| Food services | - | 1,081,441 | - | 1,081,441 |
| Total expenditures | <u>2,138,481</u> | <u>1,081,441</u> | <u>233,000</u> | <u>3,452,922</u> |
| Excess of revenues over expenditures | 70,260 | 172,344 | - | 242,604 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | (70,260) | - | - | (70,260) |
| Total other financing uses | <u>(70,260)</u> | <u>-</u> | <u>-</u> | <u>(70,260)</u> |
| Net change in fund balances | - | 172,344 | - | 172,344 |
| Fund balances - beginning | - | 255,973 | - | 255,973 |
| Fund balances - ending | <u>\$ -</u> | <u>\$ 428,317</u> | <u>\$ -</u> | <u>\$ 428,317</u> |

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FEDERAL PROJECTS FUND
For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---------------------------------|-------------------------|------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Federal, state and other grants | | | | |
| Title I cluster | \$ 1,250,454 | \$ 1,521,360 | \$ 1,324,840 | \$ (196,520) |
| Special education cluster | 877,272 | 1,159,279 | 827,354 | (331,925) |
| Other federal grants | 90,170 | 59,982 | 56,547 | (3,435) |
| Total revenues | <u>2,217,896</u> | <u>2,740,621</u> | <u>2,208,741</u> | <u>(531,880)</u> |
| EXPENDITURES: | | | | |
| Instruction | | | | |
| Regular Education | | | | |
| Salaries | 547,936 | 398,522 | 288,704 | 109,818 |
| Benefits | - | - | 74,704 | (74,704) |
| Contractual services | 122,018 | 23,013 | 21,058 | 1,955 |
| Materials and supplies | 2,883 | 289,395 | 280,669 | 8,726 |
| Other charges | 7,290 | 12,000 | 8,513 | 3,487 |
| | <u>680,127</u> | <u>722,930</u> | <u>673,648</u> | <u>49,282</u> |
| Special education | | | | |
| Salaries | - | - | 586,460 | (586,460) |
| Benefits | - | - | 156,554 | (156,554) |
| Contractual services | 776,422 | 808,795 | - | 808,795 |
| Materials and supplies | 21,497 | 169,645 | 21,270 | 148,375 |
| | <u>797,919</u> | <u>978,440</u> | <u>764,284</u> | <u>214,156</u> |
| Vocational education | | | | |
| Materials and supplies | 78,378 | 47,378 | 43,941 | 3,437 |
| Total instruction | <u>1,556,424</u> | <u>1,748,748</u> | <u>1,481,873</u> | <u>266,875</u> |
| Support Services | | | | |
| Other student support | | | | |
| Other charges | 90,329 | 34,614 | 28,391 | 6,223 |
| Regular instruction support | | | | |
| Salaries | 152,900 | 161,900 | 155,626 | 6,274 |
| Benefits | 36,363 | 37,226 | 33,499 | 3,727 |
| Contractual services | 20,860 | 95,736 | 62,757 | 32,979 |
| Materials and supplies | - | 2,500 | 224 | 2,276 |
| Other charges | 228,274 | 422,226 | 340,608 | 81,618 |
| | <u>438,397</u> | <u>719,588</u> | <u>592,714</u> | <u>126,874</u> |
| Special education support | | | | |
| Salaries | 3,000 | 10,000 | - | 10,000 |
| Benefits | 230 | 765 | - | 765 |
| Materials and supplies | 9,835 | 21,468 | 2,835 | 18,633 |
| Other charges | 17,000 | 88,754 | 29,973 | 58,781 |
| | <u>30,065</u> | <u>120,987</u> | <u>32,808</u> | <u>88,179</u> |

(CONTINUED ON NEXT PAGE)

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FEDERAL PROJECTS FUND
For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---------------------------------------|-------------------------|------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Technical education support | | | | |
| Other charges | 1,000 | 1,000 | 1,000 | - |
| Total support services | <u>559,791</u> | <u>876,189</u> | <u>654,913</u> | <u>221,276</u> |
| Transportation | | | | |
| Student transportation | | | | |
| Contractual services | 4,937 | 15,500 | 1,695 | 13,805 |
| Materials and supplies | 2,500 | 2,500 | - | 2,500 |
| Total transportation | <u>7,437</u> | <u>18,000</u> | <u>1,695</u> | <u>16,305</u> |
| Total expenditures | <u>2,123,652</u> | <u>2,642,937</u> | <u>2,138,481</u> | <u>504,456</u> |
| Excess of revenues over expenditures | 94,244 | 97,684 | 70,260 | (27,424) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers out | <u>(94,244)</u> | <u>(97,684)</u> | <u>(70,260)</u> | <u>27,424</u> |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> |
| Fund balances - beginning | | | <u>-</u> | |
| Fund balances - ending | | | <u>\$ -</u> | |

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
SCHOOL NUTRITION FUND
For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|-------------------------|------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Charges for services | | | | |
| Lunch fees - children | \$ 400,000 | \$ 400,000 | \$ 474,600 | \$ 74,600 |
| Lunch fees - adults | 26,000 | 26,000 | 28,904 | 2,904 |
| Breakfast fees | 25,000 | 25,000 | 26,082 | 1,082 |
| A la carte fees | 280,000 | 280,000 | 348,442 | 68,442 |
| Total charges for services | <u>731,000</u> | <u>731,000</u> | <u>878,028</u> | <u>147,028</u> |
| Federal, state and other grants | | | | |
| State assistance | 9,200 | 9,200 | - | (9,200) |
| Nutrition cluster | 365,000 | 365,000 | 364,760 | (240) |
| Other state funding | - | - | 10,545 | 10,545 |
| Total federal, state and other grants | <u>374,200</u> | <u>374,200</u> | <u>375,305</u> | <u>1,105</u> |
| Other income | 707 | 707 | 452 | (255) |
| Total revenues | <u>1,105,907</u> | <u>1,105,907</u> | <u>1,253,785</u> | <u>147,878</u> |
| EXPENDITURES: | | | | |
| Food Services | | | | |
| Cafeteria | | | | |
| Salaries | 464,158 | 464,158 | 434,960 | 29,198 |
| Benefits | 126,636 | 126,636 | 109,638 | 16,998 |
| Contractual services | 6,000 | 6,000 | 1,920 | 4,080 |
| Materials and supplies | 557,000 | 557,000 | 524,766 | 32,234 |
| Other charges | 13,500 | 13,500 | 10,157 | 3,343 |
| Total expenditures | <u>1,167,294</u> | <u>1,167,294</u> | <u>1,081,441</u> | <u>85,853</u> |
| Excess (deficiency) of revenues over (under) expenditures | (61,387) | (61,387) | 172,344 | 233,731 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 61,387 | 61,387 | - | (61,387) |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | 172,344 | <u>\$ 172,344</u> |
| Fund balances - beginning | | | <u>255,973</u> | |
| Fund balances - ending | | | <u>\$ 428,317</u> | |

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
DISCRETIONARY GRANTS FUND
For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---------------------------------|-------------------------|--------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Federal, state and other grants | | | | |
| State assistance | \$ 135,000 | \$ 237,073 | \$ 233,000 | \$ (4,073) |
| EXPENDITURES: | | | | |
| Instruction | | | | |
| Technical education | | | | |
| Salaries | - | 162 | - | 162 |
| Contractual services | - | 1,200 | 1,200 | - |
| Total instruction | - | 1,362 | 1,200 | 162 |
| Support Services | | | | |
| Health services | | | | |
| Salaries | 72,821 | 70,324 | 70,290 | 34 |
| Benefits | 10,467 | 10,000 | 10,033 | (33) |
| Materials and supplies | 1,712 | 4,677 | 4,677 | - |
| | 85,000 | 85,001 | 85,000 | 1 |
| Other student support | | | | |
| Contractual services | 50,000 | 25,000 | 21,160 | 3,840 |
| Materials and supplies | - | 74,501 | 74,501 | - |
| | 50,000 | 99,501 | 95,661 | 3,840 |
| Regular instruction support | | | | |
| Salaries | - | 36,522 | 36,522 | - |
| Benefits | - | 11,987 | 11,987 | - |
| Materials and supplies | - | 2,700 | 2,630 | 70 |
| Other charges | - | - | - | - |
| | - | 51,209 | 51,139 | 70 |
| Total support services | 135,000 | 235,711 | 231,800 | 3,911 |
| Total expenditures | 135,000 | 237,073 | 233,000 | 4,073 |
| Net change in fund balances | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> |
| Fund balances - beginning | | | <u>-</u> | |
| Fund balances - ending | | | <u>\$ -</u> | |

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
For the Year Ended June 30, 2019

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|------------------------------|-------------------------|-----------------------|-----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Shelby county CIP allocation | \$ 1,636,816 | \$ 743,816 | \$ 2,320,751 | \$ 1,576,935 |
| EXPENDITURES: | | | | |
| Capital outlay | | | | |
| Building improvements | 2,276,195 | 1,383,195 | 1,381,487 | 1,708 |
| Other contracted services | 750,000 | 750,000 | 741,298 | 8,702 |
| Total expenditures | <u>3,026,195</u> | <u>2,133,195</u> | <u>2,122,785</u> | <u>10,410</u> |
| Net change in fund balances | <u>\$ (1,389,379)</u> | <u>\$ (1,389,379)</u> | 197,966 | <u>\$ 1,587,345</u> |
| Fund balances - beginning | | | <u>956,461</u> | |
| Fund balances - ending | | | <u>\$ 1,154,427</u> | |

ARLINGTON COMMUNITY SCHOOL SYSTEM
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS - INTERNAL SCHOOL FUNDS
For the Year Ended June 30, 2019

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|-----------------------------|------------------------------|---------------------|-----------------------|---------------------------|
| Assets | | | | |
| Cash | \$ 1,047,518 | \$ 2,303,271 | \$ (2,196,016) | \$ 1,154,773 |
| Inventory | 13,738 | 59,976 | (60,509) | 13,205 |
| | <u>\$ 1,061,256</u> | <u>\$ 2,363,247</u> | <u>\$ (2,256,525)</u> | <u>\$ 1,167,978</u> |
| Liabilities | | | | |
| Due to student general fund | \$ 622,397 | \$ 682,360 | \$ (616,366) | \$ 688,391 |
| Due to student groups | 438,859 | 1,680,887 | (1,640,159) | 479,587 |
| | <u>\$ 1,061,256</u> | <u>\$ 2,363,247</u> | <u>\$ (2,256,525)</u> | <u>\$ 1,167,978</u> |

GOVERNMENT AUDITING STANDARDS SECTION

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 2019

| Federal Grantor/Pass-Through Grantor/Program | CFDA Number | Beginning Accrued | Cash Receipts | Expenditures | Ending Accrued |
|---|----------------|----------------------|---------------------|---------------------|-------------------|
| U.S. Department of Agriculture | | | | | |
| <u>Passed through TN Department of Education</u> | | | | | |
| <i>Child Nutrition Cluster</i> | | | | | |
| School Breakfast Program | 10.553 | \$ - | \$ 31,750 | \$ 31,750 | \$ - |
| National School Lunch Program - Non-Cash Assistance | 10.555 | - | 81,772 | 81,772 | - |
| National School Lunch Program - Cash Assistance | 10.555 | - | 234,523 | 234,523 | - |
| Subtotal - CFDA 10.555 | | - | 316,295 | 316,295 | - |
| Subtotal - Child Nutrition Cluster | | - | 348,045 | 348,045 | - |
| National School Lunch Program - Equipment Assistance Grants | 10.579 | - | 16,715 | 16,715 | - |
| Total U.S. Department of Agriculture | | - | 364,760 | 364,760 | - |
| U.S. Department of Education | | | | | |
| <u>Passed through TN Department of Education</u> | | | | | |
| Title I Grants to Local Education Agencies | 84.010 | 100,867 | 1,219,535 | 1,194,868 | 76,200 |
| <i>Special Education Cluster (IDEA)</i> | | | | | |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 82,115 | 877,720 | 818,264 | 22,659 |
| Special Education - Preschool Grants (IDEA Preschool) | 84.173 | - | 9,090 | 9,090 | - |
| Subtotal - Special Education Cluster (IDEA) | | 82,115 | 886,810 | 827,354 | 22,659 |
| Career and Technical Education State Grants | 84.048 | 40,841 | 97,388 | 56,547 | - |
| English Language Acquisition State Grants | 84.365 | - | 2,730 | 2,730 | - |
| Supporting Effective Instruction State Grants | 84.367 | 1,917 | 117,178 | 121,367 | 6,106 |
| Education Technology State Grants, Recovery Act | 84.386 | - | - | - | - |
| Student Support and Academic Enrichment Program | 84.424 | 458 | 6,073 | 5,875 | 260 |
| Total U.S. Department of Education | | 226,198 | 2,329,714 | 2,208,741 | 105,225 |
| Total Federal Awards | | 226,198 | 2,694,474 | 2,573,501 | 105,225 |
| <u>State Financial Assistance</u> | | | | | |
| Child Nutrition State Funding | N/A | - | 10,545 | 10,545 | - |
| Safe Schools | N/A | - | 21,160 | 39,220 | 18,060 |
| School Safety | N/A | - | 104,444 | 107,580 | 3,136 |
| Coordinated School Health | N/A | - | - | 1,200 | 1,200 |
| New Skills for Youth | N/A | 14,550 | 89,516 | 85,000 | 10,034 |
| Total State Financial Assistance | | 14,550 | 225,665 | 243,545 | 32,430 |
| Total Federal Awards and State Financial Assistance | | \$ 240,748 | \$ 2,920,139 | \$ 2,817,046 | \$ 137,655 |

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

**ARLINGTON COMMUNITY SCHOOL SYSTEM
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL
ASSISTANCE**

For the Year Ended June 30, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance (the “Schedule”) includes the federal and state grant activity of the Arlington Community School System (the “System”) under programs of those governments for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the System, it is not intended to and does not present the financial position, changes in net position, or cash flows of the System.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- 2) Pass-through entity identifying numbers are presented where available.
- 3) There were no federal awards passed through to subrecipients.
- 4) The System has elected not to use the de minimis indirect cost rate as allowed under the Uniform Guidance.
- 5) Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, the statement of budgetary comparison for the general purpose fund and the aggregate remaining fund information of the Arlington Community School System (the "System") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 2, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 – 2019-003 that we consider to be material weaknesses.

Compliance and Other Matters

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

System's Responses to Findings

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

Purpose of this Report

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

Watkins Mikusall, PLLC

Memphis, Tennessee
December 2, 2019

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

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

Report on Compliance for Each Major Federal Program

We have audited the Arlington Community School System (the “System”)’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the System’s major federal programs for the year ended June 30, 2019. The System’s major federal programs are identified in the summary of auditor results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the System’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the System’s compliance.

Opinion on Each Major Federal Program

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

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

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

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



Memphis Tennessee
December 2, 2019

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

SECTION I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued on whether financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America Unmodified

Internal control over financial reporting:
Material weakness(es) identified? X Yes ___ No

Significant deficiency(ies) identified not considered to be material weakness(es)? ___ Yes X None Reported

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Type of auditors report issued on compliance for major programs: Unmodified

Internal control over major programs:
Material weakness(es) identified? ___ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? ___ Yes X None Reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ___ Yes X No

Identification of major programs:

Child Nutrition Cluster

CFDA Number: 10.553 – School Breakfast Program

CFDA Number: 10.555 – School Lunch Program

Special Education Cluster

CFDA Number: 84.027 – Grants to States (IDEA, Part B)

CFDA Number: 84.173 – Preschool Grants (IDEA Preschool)

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Did auditee qualify as a low-risk auditee? ___ Yes X No

**ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**
For the Year Ended June 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

Material Weaknesses

2019-001 Reverse Unavailable Revenue in Subsequent Period upon Receipt

Condition: In fiscal year 2018, unavailable revenue was appropriately recorded to reflect accounts receivable not collected within the 60 day availability period. In fiscal year 2019, upon receipt of the revenue, the receivable was relieved but unavailable revenue was not reversed to revenue.

Criteria: Under the modified accrual basis of accounting, revenues are recognized when they are both measurable and available to finance expenditures in the current period i.e. within 60 days of fiscal year end.

Effect: Revenue was understated and unavailable revenue was overstated by material amounts.

Recommendation: As unavailable revenue is recorded through top-level journal entries that do not run through system sub-ledgers, we recommend that the detail of unavailable revenue be reviewed at year end to identify items that need to be added or removed through journal entries. A comparison of unavailable revenue to the prior year may aid in identify unaccounted for or duplicated amounts.

Managements Comments: See Corrective Action Plan.

2019-002 Recording Delinquent Taxes and CIP Allocation from County Government

Condition: Annually the County government fails to notify the Arlington Community School System of amounts allocated related to delinquent property taxes and CIP appropriations. Internal control procedures over year end financial close and reporting do not include steps to gather the receivable amounts from the County government, but rely on audit procedures to identify the misstatements.

Criteria: A good system of internal controls over financial reporting should include procedures to identify and collect all significant transactions for inclusion in the financial statements.

Effect: Understatement of receivables and unavailable revenue at the fund level.

Recommendation: We recommend that System implement procedures to gather information related to the amounts due from the County.

Managements Comments: See Corrective Action Plan.

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2019

2019-003 Recording Other Postemployment Benefit Trust Activity

Condition: During the audit of the Other Postemployment Benefit Fund, multiple errors were identified including unreconciled cash and investments and misstatements in contributions, investment income and expenses. These errors were due to misinterpretations of accounting for pre-funding and pay-go OPEB activity within the OPEB fund and general purpose fund.

Criteria: OPEB expenditures accounted for in the general purpose fund should also be reflected in the OPEB fund along with other OPEB trust activity.

Effect: Understatement of changes in fiduciary net position of material amounts.

Recommendation: We recommend that management revisit the proper accounting for pre-funding and pay-go activity with the general purpose fund and OPEB fund. While OPEB trust pre-funding contributions are accounted for as expenditures in the general purpose fund, they are accounted for as increases to employer contribution revenue and cash or investment in the OPEB fund. In addition, while pay-go premiums are accounted for as expenditures in the general purpose fund when incurred, they are also accounted for as both employer contributions and premium payments in the OPEB fund, thereby, having a zero effect changes in fiduciary net position.

Managements Comments: See Corrective Action Plan.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

ARLINGTON COMMUNITY SCHOOL SYSTEM
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

SECTION IV – PRIOR YEAR AUDIT FINDINGS

A.PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

| Prior Year Finding Number | Finding Title | Status |
|----------------------------------|--|---------------|
| 2018-001 | Recording Capital Assets – Material Weakness (Original Finding #2018-001) | Corrected |

B.PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.



MANAGEMENT'S CORRECTIVE ACTION PLAN

The Arlington Community School System respectfully submits the following corrective action plan for the year ended June 30, 2019. The findings from the June 30, 2019, schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

2019-001: Reverse Unavailable Revenue in Subsequent Period upon Receipt

Planned Corrective Action: Unavailable revenue will be reviewed by the Finance Department to identify items that need to be adjusted via journal entries.

2019-002: Recording Delinquent Taxes and CIP Allocation from County Government

Planned Corrective Action: Annually the County government failed to notify the Arlington Community School System of amounts allocated related to delinquent property taxes and CIP appropriations. Arlington Community Schools met with Shelby County Government's Director of Education and Director of Administration and Finance in order to develop a schedule to provide all municipal school districts with delinquent property taxes and CIP appropriations in a timely manner. Arlington Community Schools will ensure that delinquent property taxes and CIP appropriations are appropriately entered at year end.

2019-003: Recording Other Postemployment Benefit Trust Activity

Planned Corrective Action: In previous fiscal years Arlington Community Schools reflected pay-go Other Postemployment Benefit (OPEB) activity in the general-purpose fund with year-end journal entries to reflect expenditures and contribution in the Other Postemployment Benefit Trust. During the fiscal year 2018 audit process it was communicated by the on-site audit team to move all activity related to OPEB to the Other Postemployment Benefit fund. The district will revert back to the appropriate way of reporting activity and will obtain written documentation in future communications in order to ensure interpretation of recommendations are clear.

Management will also revisit the proper accounting for pre-funding and pay-go activity with the general purpose fund and OPEB fund. While OPEB trust pre-funding contributions are accounted for as expenditures in the general purpose fund, they are accounted for as increases to employer contribution revenue and cash or investment in the OPEB fund. In addition, while pay-go premiums are accounted for as expenditures in the general purpose fund when incurred, they are also accounted for as both employer contributions and premium payments in the OPEB fund, thereby, having a zero effect changes in fiduciary net position.

Contact Person Responsible for Each Corrective Action: Miracle Roberts, Chief Financial Officer
Anticipated Completion Date for Each Corrective Action: June 30, 2020

Respectively submitted,

Miracle Roberts
Chief Financial Officer, Arlington Community School System

Think. Create. Achieve.

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