

Arlington Fire District, New York

**Regulatory Basis Financial Statements
and Supplementary Information**

December 31, 2015

Arlington Fire District, New York

**Financial Statements
and Supplementary Information**

December 31, 2015

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Independent Auditors' Report

**Board of Fire Commissioners
Arlington Fire District, New York**

Report on the Financial Statements

We have audited the accompanying regulatory basis financial statements of the Arlington Fire District, New York (the "District") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's regulatory basis 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 the regulatory basis of accounting prescribed and permitted by the New York State Office of the State Comptroller, which includes determining that this regulatory basis of accounting is an acceptable basis for the preparation of the financial statements. Management is also responsible for 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these regulatory basis 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the regulatory basis financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of December 31, 2015 and for the year then ended in conformity with the regulatory basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. As described in Note 2, these financial statements were prepared in conformity with the financial statement practices prescribed or permitted by the Office of the State Comptroller of the State of New York, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the State Comptroller of the State of New York. Our opinion is not modified with respect to this matter.

Emphasis of Matter

We draw attention to Note 2 and Note 4 in the notes to financial statements which disclose the effects of the District's adoption of the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68 "Accounting and Financial Reporting for Pensions" and No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date". Our opinion is not modified with respect to this matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's regulatory basis financial statements. The information included under supplementary information in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the regulatory basis financial statements.

Information included under supplementary information in the table of contents are not a required part of the financial statements under the regulatory basis of accounting described in Note 2. Such information has been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole on the basis of accounting described in Note 2.

Management's Discussion and Analysis has not been subjected to the auditing procedures applied in the audit of the regulatory basis financial statements and accordingly, we do not express an opinion or provide any assurance on them.

**Board of Fire Commissioners
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Restriction of Use

Our report is intended solely for the information and use of the Board of Fire Commissioners of the District and the Office of the State Comptroller of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

PKF O'Connor Davies, LLP
PKF O'Connor Davies, LLP
Newburgh, New York
February 14, 2017

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Arlington Fire District
Management's Discussion and Analysis (MD&A)
December 31, 2015

Introduction

This discussion and analysis of the Arlington Fire District, (the "District") financial statements provides an overview of the financial activities of the District for the year ended December 31, 2015. Please read it in conjunction with the basic financial statements and the accompanying notes to those statements that follow this section.

Financial Highlights for Fiscal Year 2015

- As of the close of the current fiscal year, the District's General Fund reported ending fund balance of \$3,651,139, which represents an increase of \$415,670 from fiscal year 2014. Of this amount, the unassigned fund balance is \$572,370.
- For the year ended December 31, 2015, the District implemented the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 68, "Accounting and Financial Reporting for Pensions". This pronouncement established new accounting and financial reporting requirements associated with the District's participation in the cost sharing multiple employer pension plans administered by the New York State and Local Employees' Retirement System ("ERS") and New York State and Local Police and Fire Retirement System ("PFRS"). Under the new standards, cost-sharing employers are required to report a net pension liability (asset), pension expense and pension-related deferred inflows and outflows of resources based on their proportionate share of the collective amounts for all of the municipalities in the plan. At December 31, 2015, the District reported in its General Long Term Debt account group a net pension liability of \$746,288 for its proportionate share of the ERS and PFRS net pension liability. More detailed information about the District's pension plan reporting in accordance with the provisions of GASB Statement No. 68, including amounts reported as deferred inflows/outflows of resources, is presented in the notes to financial statements.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the financial statements and provides analysis and overview of the District's financial activities. The financial statements are comprised of two components: 1) fund and account group financial statements and 2) notes to the financial statements. This report also includes other supplementary information as listed in the table of contents.

Fund Financial Statements

A fund is an accounting entity with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances/net position, revenues and expenditures/expenses, as appropriate. Government resources are allocated to and accounted for in an individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related and legal requirements. All of the funds of the District can be divided into three categories: governmental funds, fiduciary funds and account groups.

Governmental Funds: Most of the basic services provided by the District are financed and accounted for through governmental funds. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources as well as balances of spendable resources available at the end of the fiscal year. This information is useful in determining the District's financing requirements for the subsequent fiscal period. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting.

Fiduciary Funds: These funds are used to account for assets held by the District in an agency capacity on behalf of others. The District maintains one type of fiduciary fund, the Pension Trust Fund. The Pension Trust Fund accounts for the Service Awards Program for volunteer firefighters. Resources are held in the Agency fund by the district purely in a custodial capacity. The activity in this fund is limited to the receipt and remittance of resources to the appropriate individual, organization or government.

The District has one Governmental fund: The General Fund.

The District adopts an annual budget for its General Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the respective budget.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found following the basic financial statements.

Other Information

Additional statements and schedules can be found immediately following the notes to financial statements. These include the budget to actual comparisons.

Financial Analysis of the Government's Funds

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

Governmental Funds - The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental fund reported an ending fund balance of \$3,651,139, an increase of \$415,670 from 2014. Of this amount, \$572,370 is unassigned. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for prepaid expenditures (\$462,626) and for the purchase of equipment, building and grounds, and employee benefit accrued liability (\$2,616,143).

Budgetary Highlights of the Government's Funds

General Fund actual revenues exceeded budgeted revenues by \$467,268. The largest components of the surplus were insurance recoveries \$129,051, state aid of \$159,498 and federal aid of \$141,903. General Fund actual expenditures were \$51,598 less than budgeted expenditures.

Fixed Assets

The District's investment in fixed assets as of December 31, 2015, amounted to \$7,199,559. This investment in fixed assets includes buildings and machinery and equipment.

	Fixed Assets	
	December 31,	
	2015	2014
Buildings	2,044,632	2,044,632
Machinery and equipment	<u>5,154,927</u>	<u>5,314,504</u>
Total	<u>\$ 7,199,559</u>	<u>\$ 7,359,136</u>

Additional information on the District's capital assets can be found in Note 4 in the notes to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Treasurer, Arlington Fire District, 11 Burnett Blvd., Poughkeepsie, NY 12603.

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Arlington Fire District, New York
Combined Balance Sheets - Regulatory Basis
December 31, 2015

	Account Groups				
	General Fund	Agency Fund	Fixed Assets	General Long Term Debt	Total
ASSETS					
Cash and equivalents	\$ 3,068,121	\$ -	\$ -	\$ -	\$ 3,068,121
Cash and equivalents, special reserves	137,551	-	-	-	137,551
Service awards program assets	-	2,202,083	-	-	2,202,083
Accounts receivable	24,344	-	-	-	24,344
State and federal receivables	127,284	-	-	-	127,284
Prepaid expenditures	462,626	-	-	-	462,626
Fixed assets	-	-	7,199,559	-	7,199,559
Amount to be provided for general long-term debt	-	-	-	6,156,072	6,156,072
Total Assets	\$ 3,819,926	\$ 2,202,083	\$ 7,199,559	\$ 6,156,072	\$ 19,377,640
DEFERRED OUTFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ 326,231	\$ 326,231
LIABILITIES					
Liabilities					
Accounts payable	\$ 168,787	\$ -	\$ -	\$ -	\$ 168,787
Compensated absences	-	-	-	5,419,910	5,419,910
Net pension liability	-	-	-	746,288	746,288
Agency liabilities	-	2,202,083	-	-	2,202,083
Total Liabilities	\$ 168,787	\$ 2,202,083	\$ -	\$ 6,166,198	\$ 8,537,068
DEFERRED INFLOWS OF RESOURCES	\$ -	\$ -	\$ -	\$ 316,105	\$ 316,105
FUND BALANCE					
Investment in fixed assets	-	-	7,199,559	-	7,199,559
Nonspendable	462,626	-	-	-	462,626
Restricted	2,616,143	-	-	-	2,616,143
Unassigned	572,370	-	-	-	572,370
Total Fund Balance	3,651,139	-	7,199,559	-	10,850,698
Total Liabilities and Fund Balance	\$ 3,819,926	\$ 2,202,083	\$ 7,199,559	\$ 6,482,303	\$ 19,703,871

Arlington Fire District, New York
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Regulatory Basis
Year Ended December 31, 2015

REVENUES

Real property taxes	\$ 15,849,700
Payments in lieu of taxes	563,865
Interest and earnings	8,114
Insurance recoveries	129,051
Sale of property and compensation for loss	13,500
Gifts and donations	3,939
State aid	159,498
Federal aid	141,903
Miscellaneous	<u>7,998</u>
 Total Revenues	 16,877,568

EXPENDITURES

Public safety	10,675,554
Employee benefits	<u>5,786,344</u>
 Total Expenditures	 <u>16,461,898</u>
Excess of Revenues Over Expenditures	 415,670

FUND BALANCE

Beginning of Year	<u>3,235,469</u>
End of Year	<u>\$ 3,651,139</u>

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis December 31, 2015

1. Organization

The Arlington Fire District, New York ("District") operates in accordance with various applicable laws of the State of New York. The Board of Fire Commissioners is the legislative body responsible for the overall operation of the District. The primary function of the District is to provide fire protection and emergency medical services to residents of the District.

2. Summary of Significant Accounting Policies

The accounting policies of the District conform to generally accepted accounting principles as applicable to governmental units and the Uniform System of Accounts as prescribed by the State of New York. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the District's more significant accounting policies:

Financial Reporting Entity

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

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the District's reporting entity was made by applying the criteria set forth by GASB, including legal standing, fiscal dependency and financial accountability. Based upon the application of these criteria, there are no other entities which would be included in the financial statements.

Basis of Presentation

The accounts of the District are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts which comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues and expenditures/expenses. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions. The District maintains the minimum number of funds consistent with legal and managerial requirements. The District's resources are reflected in the fund financial statements in two generic fund types within one broad fund category, in accordance with generally accepted accounting principles as follows:

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis December 31, 2015

2. Summary of Significant Accounting Policies (*continued*)

Fund Categories

Governmental Funds - Governmental Funds are those through which most general government functions are financed. The acquisition, use and balances of expendable financial resources and the related liabilities are accounted for through governmental funds. The following is the District's governmental funds:

General Fund - The General Fund constitutes the primary operating fund of the District and is used to account for and report all financial resources not accounted for and reported in another fund.

Fiduciary Fund - The Fiduciary Fund is used to account for assets held by a third party, in an agency capacity on behalf of others. The Agency Fund is provided to account for the District's Length of Service Awards Program and is not included in the general purpose statements.

Account Group

An account group is used to establish accounting control and accountability for the District's general fixed assets or long term debt.

General Long Term Debt Account Group – This account group is established to account for all long-term obligations.

General Fixed Asset Account Group – This account group is established to account for the land, buildings, improvements, and other equipment utilized by the District for general operating purposes.

Measurement Focus/Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within sixty days of the fiscal year end.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis December 31, 2015

2. Summary of Significant Accounting Policies (*continued*)

Measurement Focus/Basis of Accounting and Financial Statement Presentation (continued)

A ninety day availability period is generally used for revenue recognition for most other governmental fund revenues. Property taxes associated with the current fiscal period as well as charges for services and intergovernmental revenues are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Fees and other similar revenues are not susceptible to accrual because generally they are not measurable until received in cash. If expenditures are the prime factor for determining eligibility, revenues from Federal and State grants are accrued when the expenditure is made. 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 other post employment benefit obligations are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Balances

Deposits, Investments and Risk Disclosure

Cash and Equivalents - Cash and equivalents consist of funds deposited in demand deposit accounts, time deposit accounts and certificates of deposit with original maturities of less than three months.

The District's investment policies are governed by State statutes. The District has adopted its own written investment policy to provide for the deposit of funds in FDIC insured commercial banks or trust companies located within the State. The District is authorized by State statutes to use demand deposit accounts, time deposit accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury, U.S. Agencies and obligations of New York State or its political subdivisions.

Collateral is required for demand deposit accounts, time deposit accounts and certificates of deposit at 100% of all deposits not covered by Federal Deposit Insurance. The District has entered into custodial agreements with the various banks which hold their deposits. These agreements authorize the obligations that may be pledged as collateral. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipal and school district subdivisions.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB Statement No. 40 directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are either uncollateralized, collateralized by securities held by the pledging financial institution or collateralized by securities held by the pledging financial institution's trust District but not in the District's name. The District's aggregate bank balances that were not covered by depository insurance were not exposed to custodial credit risk at December 31, 2015.

The District was invested only in the above mentioned obligations and, accordingly, was not exposed to any interest rate risk or credit risk.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

2. Summary of Significant Accounting Policies (*continued*)

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Balances (continued)

Investments - All investments are stated at fair value, which is based on quoted market prices.

Taxes Receivable - The Town of Poughkeepsie ("Town") collects the District's taxes. The Town remits the entire levy to the District in accordance with a mutually agreed upon payment schedule.

Inventory - There are no inventory values presented in the balance sheets of the respective funds of the District. Purchases of inventoriable items are recorded as expenditures at the time of purchase and year-end balances are not material.

Prepaid Expenditures - Certain payments to vendors reflect costs applicable to future accounting periods, and are recorded as prepaid items using the consumption method in the financial statements. Prepaid expenditures consist of other costs which have been satisfied prior to the end of the fiscal year, but represent items which have been provided for in the subsequent year's budget and will benefit such periods. Reported amounts in the financial statements are equally offset by nonspendable fund balance, in the financial statements, which indicates that these amounts do not constitute "available spendable resources" even though they are a component of current assets.

Fixed Assets - Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in governmental funds and are valued at historical cost or estimated historical cost if actual cost is not available. Donated assets are recorded at their fair value on the date donated. No provision for depreciation is made on general fixed assets. Interest incurred during construction is not capitalized in general fixed assets.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not included in the General Fixed Assets Account Group.

No depreciation has been provided on general fixed assets. The District has not maintained historical costs records for some of its capital asset inventory. Due to this lack of cost basis information, the District has valued their land and certain equipment using the estimated historical costs of the capital asset calculated by back – trending.

Deferred Outflows/Inflows of Resources - In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenues) until that time.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

2. Summary of Significant Accounting Policies (*continued*)

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Balances (continued)

The District also reported deferred outflows of resources and deferred inflows of resources in relation to its pension obligations. These amounts are detailed in the discussion of the District's pension plans in Note 3.

Long-Term Liabilities - The District records long-term debt of governmental funds at face value in the General Long-Term Debt Account Group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the General Long-Term Debt Account group.

Compensated Absences – Vested or accumulated vacation or sick leave of governmental funds that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the respective fund which will pay it. Amounts of vested or accumulated vacation of governmental fund that are not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. No expenditure is reported for these amounts. In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits, when applicable.

Net Pension Liability - The net pension liability represents the District's proportionate share of the net pension liability of the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System. The financial reporting of these amounts are presented in accordance with the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date."

Fund Balance - Generally, fund balance represents the difference between the current assets and deferred outflows of resources and current liabilities and deferred inflows of resources. In the financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Under this standard the fund balance classifications are as follows:

Nonspendable fund balance includes amounts that cannot be spent because they are either not in spendable form (inventories, prepaid amounts, long-term receivables, advances) or they are legally or contractually required to be maintained intact (the corpus of a permanent fund).

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis December 31, 2015

2. Summary of Significant Accounting Policies (*continued*)

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Balances (continued)

Fund Balances (*continued*)

Restricted fund balance is reported when constraints placed on the use of the resources are imposed by grantors, contributors, laws or regulations of other governments or imposed by law through enabling legislation. Enabling legislation includes a legally enforceable requirement that these resources be used only for the specific purposes as provided in the legislation. This fund balance classification is used to report funds that are restricted for debt service obligations and for other items contained in General Municipal Law of the State of New York.

Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to formal action of the entity's highest level of decision making authority. The Board of Fire Commissioners is the highest level of decision making authority for the District that can, by the adoption of a resolution prior to the end of its fiscal year, commit fund balance. Once adopted, these funds may only be used for the purpose specified unless the entity removes or changes the purpose by taking the same action that was used to establish the commitment. This classification includes certain designations established and approved by the District's Board.

Assigned fund balance, in the General Fund, represents amounts constrained either by a person with delegated authority from the governing board to assign amounts. An assignment cannot result in a deficit in the unassigned fund balance in the General Fund. Assigned fund balance in all other governmental funds represents any positive remaining amount after classifying nonspendable, restricted or committed fund balance amounts.

Unassigned fund balance, in the General Fund, represents amounts not classified as nonspendable, restricted, committed or assigned. The General Fund is the only fund that would report a positive amount in unassigned fund balance. For all governmental funds other than the General Fund, unassigned fund balance would necessarily be negative, since the fund's liabilities and deferred inflows of resources, together with amounts already classified as nonspendable, restricted and committed would exceed the fund's assets and deferred as inflows of resources.

In order to calculate the amounts to report as restricted and unrestricted 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. When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the District's policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the District's policy to use fund balance in the following order: committed, assigned, and unassigned.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis December 31, 2015

2. Summary of Significant Accounting Policies (*continued*)

Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Balances (continued)

Use of Estimates

The preparation of the financial statements under the modified accrual basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Encumbrances

In governmental funds, encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve applicable appropriation, is generally employed as an extension of formal budgetary integration in the General Fund. Encumbrances outstanding at year-end are reported as assigned fund balance since they do not constitute expenditures or liabilities. The District has not implemented an encumbrance system.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is February 14, 2017.

3. Stewardship, Compliance and Accountability

Budgetary Data

The District follows the procedures enumerated below in establishing the budgetary data reflected in the financial statements:

- a) The District budget shall be in the form described in Section 107 of District Law and shall be adopted in the manner provided in Section 181 of District Law.
- b) On or before the 21st day prior to the budget hearing, the Board of Fire Commissioners must adopt the proposed budget, file a copy with the District's secretary and post the budget on the District's website, if they maintain one.
- c) No sooner than the 20th day prior to the budget hearing, the District must post a notice of the budget hearing for 15 days on the District's website, if they maintain one, and sign board and provide a copy of the notice of the budget hearing to the District Clerk of the District in which the District is located and in which the District contracts.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

3. Stewardship, Compliance and Accountability (*continued*)

Budgetary Data (continued)

- d) On or before 15 days prior to the budget hearing, the District must publish a notice of the budget hearing in its official newspaper, post a published notice on the District's website, if they maintain one, and provide a copy of the proposed budget for public inspection to the District Clerk of the District in which the District is located.
- e) On the 3rd Tuesday in October, the Board of Fire Commissioners shall hold a public hearing to discuss the contents of the proposed budget. The hearing shall be conducted and scheduled in a manner that maximizes participation. At such hearing, any person may be heard in favor of or against the proposed budget as compiled, or for or against any item or items therein contained.
- f) After the public hearing, the Board of Fire Commissioners may adopt changes, alterations and revisions to the proposed budget, except that the Board of Fire Commissioners shall not add or increase an appropriation to a capital reserve fund not contained in the proposed budget.
- g) On or before November 4th, the board shall adopt the District's annual budget.
- h) On or before November 7th, the District's secretary shall deliver two certified copies of the District's annual budget to the District Clerk of the District in which the District is located.
- i) Formal budgetary integration is employed during the year as a management control device for the General Fund.
- j) The General Fund budget is legally adopted annually on a basis consistent with generally accepted accounting principles.
- k) The Board of Fire Commissioners has established legal control of the budget at the function level of expenditures. Transfers between appropriation accounts, at the function level, require approval by the Board of Fire Commissioners. Any modifications to appropriations resulting from increases in revenue estimates or supplemental reserve appropriations also require a majority vote by the Board.
- l) Appropriations in the General Fund lapse at the end of the fiscal year, except that outstanding encumbrances are reappropriated in the succeeding year pursuant to the Uniform System of Accounts promulgated by the Office of the State Comptroller.

Budgeted amounts are as originally adopted, or as amended by the Board of Fire Commissioners.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

3. Stewardship, Compliance and Accountability (*continued*)

Property Tax Limitation

The District is not limited as to the maximum amount of real property taxes which may be raised. However, on June 24, 2011, the Governor signed Chapter 97 of the Laws of 2011 ("Tax Levy Limitation Law"). This applies to all Local Governments.

The Tax Levy Limitation Law restricts the amount of real property taxes that may be levied by a District in a particular year. The original legislation that established the Tax Limitation Law was set to expire on June 16, 2016. Chapter 20 of the Laws of 2015 extends the Tax Levy Limitation Laws through June 2020.

The following is a brief summary of certain relevant provisions of the Tax Levy Limitation Law. The summary is not complete and the full text of the Tax Levy Limitation Law should be read in order to understand the details and implementations thereof.

The Tax Levy Limitation Law imposes a limitation on increases in the real property tax levy, subject to certain exceptions. The Tax Levy Limitation Law permits the District to increase its overall real property tax levy over the tax levy of the prior year by no more than the "Allowable Levy Growth Factor," which is the lesser of one and two-one hundredths or the sum of one plus the Inflation Factor; provided, however that in no case shall the levy growth factor be less than one. The "Inflation Factor" is the quotient of: (i) the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the coming fiscal year minus the average of the National Consumer Price Indexes determined by the United States Department of Labor for the twelve-month period ending six months prior to the start of the prior fiscal year, divided by (ii) the average of the National Consumer Price Indexes determined by the United States with the result expressed as a decimal to four places. The District is required to calculate its tax levy limit for the upcoming year in accordance with the provision above and provide all relevant information to the New York State Comptroller prior to adopting its budget. The Tax Levy Limitation Law sets forth certain exclusions to the real property tax levy limitation of the District, including exclusions for certain portions of the expenditures for retirement system contributions and tort judgments payable by the District. The District Board may adopt a budget that exceeds the tax levy limit for the coming fiscal year, only if the District Board first enacts, by a vote of at least sixty percent of the total voting power of the District Board, a local law to override such limit for such coming fiscal year. In 2015, the District did not exceed the tax levy limit.

Expenditure Limitation

The District, pursuant to Section 176(18) of District Law, is subject to an expenditure limitation. The limitation is calculated on a formula which includes the full value of taxable real estate and certain statutory exclusions. The 2015 computation indicates that the District has not exceeded the statutory limitation.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

3. Stewardship, Compliance and Accountability (*continued*)

Expenditures in Excess of Budget

The following functional expenditure category exceeded its budgetary authorization by the amount indicated:

General Fund	
Public Safety	\$ 51,598

Effect of Change in Accounting Principle

For the year ended December 31, 2015, the District implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date". These statements seek to improve accounting and financial reporting by state and local governments for pensions by establishing standards for measuring and recognizing liabilities, deferred outflows/inflows of resources. These statements also require the identification of the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value and attribute that present value to periods of employee service. As a result of adopting these standards, the financial statements reflects an effect for the change in accounting principle of \$736,162.

4. Detailed Notes on All Funds and Account Groups

Pension Plan

New York State and Local Retirement System

The District participates in the New York State and Local Employees' Retirement System ("ERS") and the New York State and Local Police and Fire Retirement System ("PFRS") which are collectively referred to as the New York State and Local Retirement System ("System"). These are cost-sharing, multiple-employer defined benefit pension plans. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund ("Fund"), which was established to hold all net assets and record changes in plan net position. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law ("NYSRSSL"). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The District also participates in the Public Employees' Group Life Insurance Plan, which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis December 31, 2015

4. Detailed Notes on All Funds and Account Groups (*continued*)

Pension Plan (*continued*)

*New York State and Local Retirement System (*continued*)*

The System is noncontributory except for employees who joined after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010, who generally contribute between 3% and 6% of their salary for their entire length of service. Under the authority of the NYSSRSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31. The employer contribution rates for the plan's year ending in 2016 are as follows:

	<u>Tier/Plan/Option</u>	<u>Rate</u>
ERS	4 A15	18.6%
PFRS	1 384E	25.8
	2 375I	18.1
	2 384E	25.1
	5 384E	23.9
	6 384E	14.5
	6 384E	21.3

At December 31, 2015, the District reported a liability of \$57,141 for its proportionate share of the net pension liability of ERS and a liability of \$689,147 for its proportionate share of the net pension liability of PFRS. The net pension liability was measured as of March 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a computation of the actuarially determined indexed present value of future compensation by employer relative to the total of all participating members. At December 31, 2015, the District's proportion was .0016915% for ERS and .2503627% for PFRS. For this first year of implementation, the System reported no change in the allocation percentage measured as of March 31, 2014.

For the year ended December 31, 2015, the District recognized Pension expenditures of \$34,079 for ERS and \$1,878,060 for PFRS were recorded in the general fund financial statements.

At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

4. Detailed Notes on All Funds and Account Groups (*continued*)

Pension Plan (*continued*)

New York State and Local Retirement System (*continued*)

	ERS		PFRS	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,829	\$ -	\$ 83,107	\$ -
Net difference between projected and actual earnings on pension plan investments	9,925	-	231,370	-
Changes in proportion and differences between Village/Town contributions and proportionate share of contributions	-	1,116	-	314,989
	\$ 11,754	\$ 1,116	\$ 314,477	\$ 314,989

Amounts reported as deferred outflows of resources and deferred inflows of resources related to ERS and PFRS will be recognized in pension expense as follows:

Year Ended March 31,	ERS	PFRS
2016	\$ 2,659	\$ 11,466
2017	2,659	11,466
2018	2,659	11,466
2019	2,661	11,466
2020	-	(46,376)

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

4. Detailed Notes on All Funds and Account Groups (*continued*)

Pension Plan (*continued*)

New York State and Local Retirement System (*continued*)

The total pension liability for the March 31, 2015 measurement date was determined by using an actuarial valuation as of April 1, 2014, with update procedures used to roll forward the total pension liabilities to March 31, 2015. The total pension liabilities for the March 31, 2014 measurement date were determined by using an actuarial valuation as of April 1, 2014. Significant actuarial assumptions used in the April 1, 2014 valuation were as follows:

Actuarial cost method	Entry age normal
Inflation	2.7%
Salary scale	4.9% in ERS, 6.0% in PFRS indexed by service
Investment rate of return	7.5% compounded annually, net of investment expenses, including inflation
Cost of living adjustments	1.4% annually

Annuitant mortality rates are based on the April 1, 2005 – March 31, 2010 System's experience with adjustments for mortality improvements based on Society of Actuaries Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

The long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice ("ASOP") No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for equities and fixed income as well as historical investment data and plan performance. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2015 and 2014 are summarized below.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

4. Detailed Notes on All Funds and Account Groups (*continued*)

Pension Plan (*continued*)

New York State and Local Retirement System (*continued*)

Asset Type	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	38 %	7.30 %
International Equity	13	8.55
Private Equity	10	11.00
Real Estate	8	8.25
Absolute Return Strategies	3	6.75
Opportunistic Portfolio	3	8.60
Real Assets	3	8.65
Bonds and Mortgages	18	4.00
Cash	2	2.25
Inflation Indexed Bonds	2	4.00
	<hr/> <u>100 %</u>	

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based upon those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis December 31, 2015

4. Detailed Notes on All Funds and Account Groups (*continued*)

Pension Plan (*continued*)

*New York State and Local Retirement System (*continued*)*

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the District's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
District's proportionate share of the ERS net pension liability (asset)	<u>\$ 380,872</u>	<u>\$ 57,141</u>	<u>\$ (216,167)</u>
District's proportionate share of the PFRS net pension liability (asset)	<u>\$ 9,175,636</u>	<u>\$ 689,147</u>	<u>\$ (6,423,043)</u>

The components of the collective net pension liability as of the March 31, 2015 measurement date were as follows:

	ERS	PFRS	Total
Total pension liability	<u>\$ 164,591,504,000</u>	<u>\$ 28,474,417,000</u>	<u>\$ 193,065,921,000</u>
ERS fiduciary net position	<u>161,213,259,000</u>	<u>28,199,157,000</u>	<u>189,412,416,000</u>
Employers' net pension liability	<u>\$ 3,378,245,000</u>	<u>\$ 275,260,000</u>	<u>\$ 3,653,505,000</u>
ERS fiduciary net position as a percentage of total pension liability	<u>97.9%</u>	<u>99.0%</u>	<u>98.1%</u>

Employer contributions to ERS and PFRS are paid annually and cover the period through the end of the System's fiscal year, which is March 31st.

The current ERS and PFRS contributions were charged to the General Fund.

Fund Balances

The Restricted for Apparatus and Building have been established pursuant to General Municipal Law. The funds are to be used for the financing of all or part of the cost of construction, acquisition or repair of an apparatus or building. Expenditures can only be made following the adoption of a resolution from the governing board, subject to permissive referendum.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

4. Detailed Notes on All Funds and Account Groups (*continued*)

Fund Balances (*continued*)

Certain elements of fund balance are described above. These additional elements reported in the governmental fund balance sheet are described below:

Nonspendable- Prepaid Expenditures	<u>\$ 462,626</u>
Restricted	
Restricted for Building	459,098
Restricted for Apparatus	1,853,781
Restricted for Employee Benefit Accrued Liability	<u>303,264</u>
Total Restricted	<u>2,616,143</u>
Unassigned	<u>572,370</u>
Total Fund Balances	<u>\$ 3,651,139</u>

Prepaid Expenditures has been established to account for payments made in advance. The amount has been classified as nonspendable to indicate that these funds are not "available" for appropriation or expenditure even though they are a component of current assets.

Unassigned fund balance in the General Fund represents amounts not classified as nonspendable, restricted, committed or assigned.

5. Contingencies

Litigation

The firefighters union has filed a grievance on behalf of four firefighters who were enrolled in an incorrect retirement plan. The grievance has been placed on hold until June 2017. If a correction is not made, the grievance will proceed. The exposure to the District is not known at this time.

Risk Management

The District purchases various conventional insurance policies to reduce its exposure to loss. The general liability policy provides for coverage up to \$1 million per occurrence. In addition, the District maintains an umbrella policy with policy limits of \$20 million. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years. The District purchases conventional workers' compensation insurance with coverage at statutory levels.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis December 31, 2015

6. Defined Benefit Service Award Program

The District financial statements are for the year ended December 31, 2015. The information contained in this note is based on information for the Arlington Fire District Service Award Program for the Program year ending on December 31, 2015, which is the most recent information available.

Length of Service Awards Program – LOSAP

The District established a defined benefit Service Award Program (referred to as a "LOSAP" - Length of Service Award Program - under Section 457(e)(11) of the Internal Revenue Code) effective January 1, 1992 for the active volunteer firefighter members of the Arlington Fire Department. The Program was established pursuant to Article 11-A of the New York State General Municipal Law. The Program provides municipally-funded deferred compensation to volunteer firefighters to facilitate the recruitment and retention of active volunteer firefighters. The Arlington Fire District is the Sponsor of the Program and the Program administrator.

Program Description

Participation, Vesting and Service Credit

In a defined benefit LOSAP, participating volunteers begin to be paid a Service Award upon attainment of the Program's Entitlement Age. An eligible Program Participant is defined by the Program Sponsor to be an active volunteer firefighter who is at least 16 years of age and has earned one year of Service Credit. The amount of the Service Award paid to a participant is based upon the number of years of Service Credit the volunteer earned under the Program for performing active volunteer firefighter activities.

Participants acquire a non-forfeitable right to be paid a Service Award after earning credit for five years of service or upon attaining the Program's Entitlement Age while an active volunteer. The Program's Entitlement Age is age 60. An active volunteer firefighter earns a year of Service Credit for each calendar year after the establishment of the Program in which he or she accumulates 50 points. Points are granted for the performance of certain firefighter activities in accordance with a system established by the Sponsor on the basis of a statutory list of activities and point values. A Participant may also receive Service Credit for five years of active volunteer firefighting service rendered prior to the establishment of the Program as an active volunteer firefighter member of the District.

Benefits

A Participant's Service Award benefit is paid as a ten-year certain and continuous monthly payment life annuity. The amount payable each month equals \$20 multiplied by the total number of years of Service Credit earned by the Participant under the point system. The maximum number of years of Service Credit a Participant may earn under the Program is 40 years. Currently, there are no other forms of payment of a volunteer's earned Service Award under the Program.

Except in the case of Pre-Entitlement Age death or total and permanent disablement, a Participant's Service Award will not be paid until he or she attains the Entitlement Age. Volunteers who are active after attaining the Entitlement Age and who may have commenced receiving a Service Award have the opportunity to earn Service Credit and thereby increase their Service Award payments. The Pre-Entitlement Age disability benefit is equal to the actuarial value of the Participant's earned service award at the time of disablement. The Program provides a Pre-Entitlement Age death benefit equal to the

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

6. Defined Benefit Service Award Program (*continued*)

actuarial value of the participant's earned service award at the time of death. If the volunteer was an active member who earned a year of service credit within the last five years, the minimum Pre-Entitlement Age death benefit payable is \$10,000. The Program does not provide extra line-of-duty death or disability benefits. All death and disability benefits are self-insured and are paid from the Program Trust Fund.

For a complete explanation of the Program, see the Program Document, a copy of which is available from the District Secretary.

Fiduciary Investment and Control

After the end of each calendar year, each fire department prepares and certifies a list of names of all persons who were active volunteer members of the fire department during the year indicating which volunteers earned 50 points. The certified list is delivered to the Board of Fire Commissioners for the Board's review and approval. The fire departments must maintain the point system records to verify each volunteer's points on forms provided and/or approved by the Board of Fire Commissioners.

The Board of Fire Commissioners has retained Penflex, Inc. to assist in the administration of the Program. The services provided by Penflex are described in the attached agreement between Penflex and the District.

Based on the certified calendar year volunteer firefighter listings Penflex determines and certifies in writing to the Board of Fire Commissioners the amount of the Service Award to be paid to a Participant or to a Participant's designated beneficiary. As authorized by the Board of Fire Commissioners, Penflex then directs the paying agent to pay the Service Award. No Service Award benefit payment is made without the written certification from Penflex and written confirmation to the District.

Penflex bills the District for the services it provides. Penflex invoices are authorized for payment by the Board of Fire Commissioners in the same manner as any other invoice presented to the Fire District for payment. The District pays Penflex invoices from the Service Award Program Trust Fund and then reimburses the Trust Fund for the amount paid.

Program assets are required to be held in trust by Article 11-A, for the exclusive purpose of providing benefits to Participants and their beneficiaries or for the purpose of defraying the reasonable expenses of the operation and administration of the Program. The Board of Fire Commissioners created a Service Award Program Trust Fund through the adoption of a Trust Document, a copy of which is available from the District secretary. The Board of Fire Commissioners is the Program Trustee.

Authority to invest the Program assets is vested in the Program Trustee. Program assets are invested in accordance with a statutory prudent person rule and in accordance with an investment policy adopted by the Board of Fire Commissioners.

The Board of Fire Commissioners has retained RBC Wealth Management to provide investment management and custodial services and Comerica Bank to pay benefits to participants.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

6. Defined Benefit Service Award Program (*continued*)

Fiduciary Investment and Control (*continued*)

The sponsor is required to retain an actuary to determine the amount of the District's contributions to the plan. The actuarial firm retained by the District for this purpose is Penflex, Inc. Portions of the following information are derived from the January 1, 2016 Annual Report.

Actuarial Present Value of Benefits at January 1, 2016	\$ 2,619,314
Less: Assets Available for Benefits	
Cash and money market	\$ 64,815
U.S.equities	348,478
International equities	344,752
Fixed income	1,005,928
Mixed assets	<u>438,110</u>
Total Assets Available for Benefits	<u>2,202,083</u>
Total Unfunded Benefits	417,231
Less: Unfunded Liability for Separately Amortized Costs	<u>417,231</u>
Unfunded (Overfunded) Normal Benefits	<u>\$ -</u>

Separately Amortized Costs

The unfunded liability for additional Service Awards earned after attainment of the entitlement age is being amortized over five years at 5.50% from the year they are accrued. The remaining unfunded liability is being amortized over 20 years at 5.50%.

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

6. Defined Benefit Service Award Program (*continued*)

Receipts and Disbursements

Plan Net Assets, beginning of year	\$ 2,367,307
Changes during the year:	
Sponsor contributions	\$ 69,108
Changes in fair market value of investments	(168,741)
Investment income earned	75,592
Change in investment income receivable	(8)
Investment expense [RBC]	(15,137)
Administrative fees [Comerica]	(1,200)
Administrative fees [Penflex]	(6,385)
Benefits paid/payable	<u>(118,453)</u>
Plan Net Assets, end of year	<u>\$ 2,202,083</u>

Contributions

Contribution recommended by actuary	\$ 69,108
Actual contribution made by the sponsor	69,108

Administration Fees

Fees paid to administrative/actuarial services provider [Penflex]	\$ 6,385
Fees paid for investment management [RBC]	15,137
Other administration fees [Comerica]	1,200

Funding Methodology and Actuarial Assumptions

Normal Costs

The actuarial valuation methodology used by the actuary to determine the Sponsor's contribution is the Attained Age Normal Frozen Initial Liability method. The assumptions used by the actuary to determine the Sponsor's contribution and the actuarial present value of benefits are:

Assumed rate of return on Program investments: 5.50%

Actuarial Tables:

Post-Entitlement Age mortality	1994 Uninsured Pensioner Male Mortality Table projected with scale AA to 2007
*Pre-Entitlement Age mortality	None
*Pre-Entitlement Age disability	None
*Pre-Entitlement Age withdrawal	None
*Pre-Entitlement Age Service Credit accruals	100%

Arlington Fire District, New York

Notes to Financial Statements – Regulatory Basis
December 31, 2015

6. Defined Benefit Service Award Program (*continued*)

Fiduciary Investment and Control

The Actuarial Value of Assets reflects a simple linear smoothing of actuarial investment gains/losses over 3 years.

*For Program cost calculation purposes, all Pre-Entitlement Age active volunteer firefighter Participants are assumed to survive to the Entitlement Age, remain active and earn 50 points each year, and begin to be paid Service Awards upon attainment of the Entitlement Age.

7. Fixed Assets

Property, Buildings and Equipment - A summary of changes in the general fixed assets during fiscal year 2015 follows:

	Balance Beginning	Increases	Decreases	Balance Ending
Building	\$ 2,044,632	\$ -	\$ -	\$ 2,044,632
Machinery and Equipment	<u>5,314.504</u>	<u>169,267</u>	<u>(328,844)</u>	<u>5,154,927</u>
Total Fixed Assets	<u>\$ 7,359,136</u>	<u>\$ 169,267</u>	<u>\$ (328,844)</u>	<u>\$ 7,199,559</u>

8. Lease Commitments

The District has a multiyear lease agreement with Croft Corners Fire Company, Inc. beginning January 1, 2015 and expiring on December 31, 2017. The District also has a multiyear lease with Rochdale Fire Company No.1, Inc. beginning on January 1, 2015 and expiring on December 31, 2017, for use of the fire house. The annual lease obligations for the life of the agreements are as follows:

2016	\$ 84,929
2017	<u>85,777</u>
	<u>\$ 170,706</u>

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Arlington Fire District, New York

Supplementary Information

December 31, 2015 and 2014

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Arlington Fire District, New York

**Schedule of Funding Progress
Service Awards Program
Last Six Fiscal Years**

Valuation Date	Actuarial		Unfunded (Overfunded) Actuarial Accrued Liability		Funded Ratio
	Value of Assets	Accrued Liability	\$	(139,381)	
1/1/2015	\$ 2,367,307	\$ 2,425,680	\$ 58,373	98%	
1/1/2014	2,411,691	2,348,663	(63,028)	103%	
1/1/2013	2,412,968	2,273,587	(139,381)	106%	
1/1/2012	2,180,061	2,174,446	(5,615)	100%	
1/1/2011	2,128,878	2,084,721	(44,157)	102%	
1/1/2010	1,954,396	1,975,621	21,225	99%	

Arlington Fire District, New York

**Schedule of Contributions
Service Awards Program
Last Six Fiscal Years**

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
2010	\$ 92,001	\$ -	0%
2011	94,201	218,201	232%
2012	85,491	98,880	116%
2013	74,128	75,000	101%
2014	70,910	70,910	100%
2015	69,108	69,108	100%

Arlington Fire District, New York

**Schedule of the District's Proportionate Share of the Net Pension Liability
New York State and Local Employees' Retirement System
Last Ten Fiscal Years (1)**

	<u>2015</u>
District's proportion of the net pension liability (asset)	<u>0.0016915%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 57,141</u>
District's covered-employee payroll	<u>\$ 288,347</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>19.82%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>97.90%</u>

Note - The amounts presented for each fiscal year were determined as of the March 31 measurement date.

(1) Data not available prior to fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Arlington Fire District, New York

Schedule of Contributions
New York State and Local Employees' Retirement System
Last Ten Fiscal Years (1)

	<u>2015</u>
Contractually required contribution	\$ 34,079
Contributions in relation to the contractually required contribution	<u>(34,079)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	<u>\$ 294,114</u>
Contributions as a percentage of covered-employee payroll	<u>11.59%</u>

(1) Data not available prior to fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Arlington Fire District, New York

**Schedule of the District's Proportionate Share of the Net Pension Liability
New York State and Local Police and Fire Retirement System
Last Ten Fiscal Years (1)**

	<u>2015</u>
District's proportion of the net pension liability (asset)	<u>0.2503627%</u>
District's proportionate share of the net pension liability (asset)	<u>\$ 689,147</u>
District's covered-employee payroll	<u>\$ 7,680,390</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>8.97%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>99.00%</u>

Note - The amounts presented for each fiscal year were determined as of the March 31 measurement date.

(1) Data not available prior to fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Arlington Fire District, New York

Schedule of Contributions
New York State and Local Police and Fire Retirement System
Last Ten Fiscal Years (1)

	<u>2015</u>
Contractually required contribution	\$ 1,816,546
Contributions in relation to the contractually required contribution	<u>(1,816,546)</u>
Contribution deficiency (excess)	\$ _____ -
District's covered-employee payroll	<u>\$ 7,833,998</u>
Contributions as a percentage of covered-employee payroll	<u>23.19%</u>

(1) Data not available prior to fiscal year 2015 implementation of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Arlington Fire District, New York
General Fund
Balance Sheet - Regulatory Basis

December 31, 2015

ASSETS

Cash and equivalents	\$ 3,068,121
Cash and equivalents, special reserves	137,551
Accounts receivable	24,344
State and Federal aid receivables	127,284
Prepaid expenditures	<u>462,626</u>
Total Assets	<u>\$ 3,819,926</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	<u>\$ 168,787</u>
Fund Balance	
Nonspendable	462,626
Restricted	2,616,143
Unassigned	<u>572,370</u>
Total Fund Balance	<u>3,651,139</u>
Total Liabilities and Fund Balance	<u>\$ 3,819,926</u>

Arlington Fire District, New York
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Regulatory Basis
Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Real property taxes	\$ 15,849,700	\$ 15,849,700	\$ 15,849,700	\$ -
Payments in lieu of taxes	550,600	550,600	563,865	13,265
Interest and earnings	10,000	10,000	8,114	(1,886)
Insurance recoveries	-	-	129,051	129,051
Sale of property and compensation for loss	-	-	13,500	13,500
Gifts and donations	-	-	3,939	3,939
State aid	-	-	159,498	159,498
Federal aid	-	-	141,903	141,903
Miscellaneous	-	-	7,998	7,998
Total Revenues	<u>16,410,300</u>	<u>16,410,300</u>	<u>16,877,568</u>	<u>467,268</u>
EXPENDITURES				
Public safety	10,623,956	10,623,956	10,675,554	(51,598)
Employee Benefits	<u>5,786,344</u>	<u>5,786,344</u>	<u>5,786,344</u>	<u>-</u>
Total Expenditures	<u>16,410,300</u>	<u>16,410,300</u>	<u>16,461,898</u>	<u>(51,598)</u>
Excess of Revenues Over Expenditures	-	-	415,670	518,866
FUND BALANCE				
Beginning of Year	-	-	<u>3,235,469</u>	<u>3,235,469</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,651,139</u>	<u>\$ 3,754,335</u>

Arlington Fire District, New York

General Fund
 Schedule of Expenditures Compared to Budget - Regulatory Basis
 Year Ended December 31, 2015

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
PUBLIC SAFETY				
Communications	\$ 15,716	\$ 15,716	\$ 15,716	-
Administration	349,769	349,769	349,769	-
Equipment	375,161	375,161	375,161	-
Equipment Repairs	254,652	254,652	254,652	-
Fuel	59,621	59,621	59,621	-
Utilities	77,790	77,790	77,790	-
Refuse and Garbage	3,718	3,718	3,718	-
Rental Stations	83,946	83,946	83,946	-
Tuition Fees	930	930	930	-
Training	54,221	54,221	54,221	-
Personal services	9,133,345	9,133,345	9,133,345	-
Contractual expenditures	176,502	176,502	228,100	(51,598)
Uniforms	38,585	38,585	38,585	-
	10,623,956	10,623,956	10,675,554	(51,598)
EMPLOYEE BENEFITS				
Retirement	1,912,139	1,912,139	1,912,139	-
Medical buyout	1,757	1,757	1,757	-
MTA payroll tax	28,526	28,526	28,526	-
Social security	605,300	605,300	605,300	-
Workers compensation	444,484	444,484	444,484	-
Hospital, medical and accident insurance	2,725,030	2,725,030	2,725,030	-
Length of Service Awards Program	69,108	69,108	69,108	-
	5,786,344	5,786,344	5,786,344	-
Total Expenditures	\$ 16,410,300	\$ 16,410,300	\$ 16,461,898	\$ (51,598)

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**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***

INDEPENDENT AUDITORS' REPORT

**Board of Fire Commissioners
Arlington Fire District, New York**

We have audited, in accordance with the 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 regulatory basis financial statements of Arlington Fire District, New York (the "District") as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's regulatory basis financial statements, and have issued our report thereon dated February 14, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

PKF O'Connor Davies, LLP

Newburgh, New York
February 14, 2017

Arlington Fire District, New York

**Communication of Internal Control Matters Identified in the Audit to
Those Charged with Governance and Management**

December 31, 2015



Communication of Internal Control Matters Identified in the Audit to Those Charged with Governance and Management

Board of Fire Commissioners
Arlington Fire District
11 Burnett Blvd
Poughkeepsie, NY 12603

Auditors' Communication on Internal Control

In planning and performing our audit of the financial statements of the Arlington Fire District, New York (the "District") as of and for the year ended December 31, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, as indicated in the attached Addendum A, we share for your consideration observations about the internal control and operations.

This communication and addendum are intended solely for the information and use of management and the District's Board and are not intended to be and should not be used by anyone other than these specified parties. We will be pleased to discuss these communications and comments in further detail at your convenience, or to assist you in implementing the recommendations.

PKF O'Connor Davies, LLP

PKF O'Connor Davies, LLP

Newburgh, New York

February 14, 2017

PKF O'CONNOR DAVIES, LLP
32 Fostertown Road, Newburgh, NY 12550 | Tel: 845.565.5400 | Fax: 845.565.9487 | www.pkfod.com

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Arlington Fire District, New York

Addendum A

• **Length of Service Awards Program “LOSAP”**

Attendance Report Information

During our audit we noted the following discrepancies in our test work:

- One employee had 20 points from drills when it should have been for training
- One employee was missing the documentation for one out of three meetings attended
- One employee was missing the documentation for four out of seven drills
- One employee had 15 training points recorded as drills, but was missing documentation for some of the emergency calls and for five out of nine miscellaneous points
- One employee was missing documentation for six out of nine meetings attended
- One employee was missing documentation for 15 out of 41 EMS calls, 37 out of 79 fire calls and four out of six meetings and two out of five miscellaneous points

Recommendation

We recommend that the District review all employees files to ensure the correct documentation is on file.

Auditors' Communication with Those Charged with Governance

Board of Fire Commissioners Arlington Fire District, New York

We have audited the financial statements of the Arlington Fire District, New York (the "District") as of and for the year ended December 31, 2015, and have issued our report thereon dated February 14, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 23, 2016. This letter provides additional required communications related to our audit.

Our responsibility under professional standards

Our responsibility is to form and express an opinion about whether the financial statements, which are the responsibility of management, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Those individuals charged with governance of the District are responsible for the oversight of the financial reporting process, and our audit does not relieve management and those charged with governance of their respective responsibilities.

Our responsibility for the supplementary information accompanying the financial statements is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

With respect to such supplementary information, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. GAAP, the method of preparing it has not changed from the prior year, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Planned scope and timing of the audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Qualitative aspects of significant accounting practices

Significant accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during the reporting period that had a significant impact on the financial statements other than the adoption of the provisions of the Governmental Accounting Standards Board ("GASB") Statement Nos. 68, "Accounting and Financial Reporting for Pensions" and 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date" as disclosed in the notes to the financial statements. No matters have come to our attention that would require us to inform you about (1) the methods used to account for significant unusual transactions, and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant accounting estimates

Accounting estimates made by management are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Actual results could differ from those estimates.

Certain accounting estimates are particularly sensitive because of their significance to financial statements and their susceptibility to change, such as:

- Actuarial assumptions and proportionate share calculations related to pension obligations
- Asset lives for depreciable capital assets
- Estimates for certain operating and long-term liabilities

Management believes that the estimates used and assumptions made are adequate based on the information currently available. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements as a whole.

Financial statement disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements relate to:

- Pension plan information
- Fund balances

The financial statement disclosures are consistent and clear.

Significant difficulties encountered during the audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and corrected misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management.

We are required to communicate to you misstatements that remain uncorrected, including any related to prior periods, and the effect, if any, that they may have on the opinion in our report, and request their correction. There are no such financial statement misstatements that remain uncorrected.

In addition, we are required to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The adjusting journal entries following this communications letter summarize that were corrected by management.

Disagreements with management

For purposes of this letter, a disagreement with management is a matter, whether or not resolved to our satisfaction, concerning financial accounting, reporting, or auditing, which could be significant to the financial statements or the auditors' report. No such disagreements arose during the course of the audit.

Representations requested from management

We have requested certain written representations from management in a separate letter dated February 14, 2017.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other matters discussed with management

We generally discuss with management a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the District, and plans and strategies that may affect the risks of material misstatement. None of the matters discussed and our responses thereto were a condition to our retention as auditors.

We have provided our comments regarding deficiencies and other matters noted during our audit in the attached addenda.

Auditor independence

We affirm that PKF O'Connor Davies, LLP is independent with respect to the District in accordance with professional standards.

This communication is intended solely for the information and use of the Board of Fire Commissioners and the management of the District is not intended to be and should not be used by anyone other than these specified parties.

PKF O'Connor Davies, LLP

February 14, 2017

Arlington Fire District, New York

Adjusting/Client Report Journal Entries

<u>Account</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
Checks that were recorded in 2015 but are applicable to 2016			
1200	Accounts receivable	\$ 24,344	
1000	1000 + HSBC - General Fund MM		24,344
		<u>\$ 24,344</u>	<u>\$ 24,344</u>
CJE -To reclassify FEMA Heart Monitors Grant reimbursement out of expenses and in to revenue			
542698	542698 + PR Heart Monitors (2015)	\$ 130,500	
3163	3163 + FEMA REIMBURSEMENT		130,500
		<u>\$ 130,500</u>	<u>\$ 130,500</u>
CJE -To record accrual for PFRS			
1202	1202 + Prepaid Expense	\$ 462,626	
6030	6030 + Police and Fire Retire System	61,514	
3900	3900 + Net Assets		524,140
		<u>\$ 524,140</u>	<u>\$ 524,140</u>
CJE -To reverse PY payroll accrual			
3900	3900 + Net Assets	\$ 267,068	
4140	4140 + Firemen		248,889
6050	6050 + Social Security		18,179
		<u>\$ 267,068</u>	<u>\$ 267,068</u>
CJE -To adjust transfer to the EBAL fund			
3900	3900 + Net Assets	\$ 303,263	
3901	3901 + Transfer of PR FB to EBALRF		303,263
		<u>\$ 303,263</u>	<u>\$ 303,263</u>