

THE BOARD OF EDUCATION OF CAROLINE COUNTY

FINANCIAL REPORT

JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Education of Caroline County
Denton, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Caroline County, a component unit of Caroline County, Maryland, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise The Board of Education of Caroline County'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.

Auditors' 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 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 entity'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, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Caroline County as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof 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, budgetary comparison information, schedule of funding progress by valuation date and schedule of employer contributions, schedule of the proportionate share of the net pension liability, and the schedule of contributions 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 Board of Education of Caroline County's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional supplementary information is the responsibility of management and was 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 additional supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017 on our consideration of The Board of Education of Caroline County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Board of Education of Caroline County's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "JHM Group LLC".

Salisbury, Maryland
September 29, 2017

Herbert J. Geary III
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INDEPENDENT AUDITORS' 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*

The Board of Education of Caroline County
Denton, Maryland

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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Caroline County, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise The Board of Education of Caroline County's basic financial statements, and have issued our report thereon dated September 29, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Board of Education of Caroline County'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 Board of Education of Caroline County's internal control. Accordingly, we do not express an opinion on the effectiveness of The Board of Education of Caroline County'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 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 Board of Education of Caroline County'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "JHM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
September 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

This section of The Board of Education of Caroline County's (Board) financial report provides management's overview and analysis of the Board's financial performance for the fiscal year that ended on June 30, 2017. This discussion and analysis is intended to serve as an introduction to the basic financial statements.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. One of the requirements of the Management's Discussion and Analysis (MD&A) is to provide a comparison of the current year results with the results of the prior year.

The intent of MD&A is to present an analysis of the Board's financial activities based on currently known facts, decisions and conditions.

OVERVIEW OF THE FINANCIAL STATEMENTS

District-wide Financial Statements

The first set of financial statements, the *district-wide statements*, are designed to provide readers with a complete picture regarding the financial status of the Board of Education of Caroline County. The district-wide statements include the *statement of net position* and the *statement of activities*. The *statement of net position* presents information on all of the assets and liabilities of the Board, with the difference between the two reported as net position. The *statement of activities* reports revenues and expenses; it presents information showing how the Board's net position changed during the most recent fiscal year.

In the *statement of net position* and the *statement of activities*, the Board's activities are divided into two categories:

Governmental Activities - Most of the Board's programs and services are included here, such as instruction, administration, special education, pupil services, health services, pupil transportation, operation and maintenance of plant, fixed charges, community services, school activities, and capital outlay.

Business-type activities - The Board's food service operation is reported as a business-type activity. Fees are charged to staff, students, and visitors to help cover the costs of the food service operation.

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

The *district-wide statements*, measure the change in total economic resources during the period and are presented on a full accrual basis. This means that any change in net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The District-wide perspective is unrelated to budget and accordingly, budget comparisons are not provided.

Fund Financial Statements

The second set of statements, the *fund financial statements*, view the government as a collection of separate funds. A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Board of Education of Caroline County uses fund accounting to ensure and demonstrate compliance with fiscal requirements. The Board's activities are classified into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - Most of the Board's activities are reported in governmental funds, which focus on an entity's financial position and change in financial position. The governmental fund statements provide a detailed short-term view of the Board's operations and the services it provides. This information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. The Board's major governmental funds are the general fund, capital projects fund, and school activity fund.

The measurement focus of these statements is current financial resources; therefore the emphasis is placed on the cash flows of the organization within the reporting period or near future. Accordingly, the modified accrual basis of accounting is used.

Proprietary funds - Proprietary funds are used to account for the business-type activities of a government. The Board's food service fund falls under this classification since a significant portion of the funding is provided through user charges.

Fiduciary funds - Fiduciary funds are used to account for resources held by the government as either a trustee (a party that administers property for a beneficiary) or an agent (one who acts on behalf of another). The Board's fiduciary funds consist of funds accumulating for retirees health benefits and an agency fund.

Fund financial statements are also unrelated to budget, therefore budget comparisons are not provided in the presentation.

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

A budgetary presentation of individual fund financial information is presented as part of the required supplementary information. The budgetary statements utilize the current financial resources measurement focus. In these statements, available cash flows of the Board are measured as well as the commitment to acquire goods or services with that cash. Open encumbrances at year-end are reported as expenditures.

THE BOARD OF EDUCATION OF CAROLINE COUNTY AS A WHOLE

The largest portion of the Board's net position reflects the investment in capital assets such as land, buildings, vehicles and equipment. These capital assets are used to provide services to the students and citizens of Caroline County and are not available for future spending.

Figure 1-1
Statement of Net Position

	June 30, 2017	June 30, 2016	\$ Change	% Change
Current and other assets	14,865,348	16,152,596	(1,287,248)	-7.97%
Capital assets	89,383,568	90,284,100	(900,532)	-1.00%
Total Assets	<u>104,248,916</u>	<u>106,436,696</u>	<u>(2,187,780)</u>	<u>-2.06%</u>
Deferred outflows of resources	<u>1,392,855</u>	<u>1,019,721</u>	<u>373,134</u>	<u>36.59%</u>
Current and other liabilities	8,724,485	9,514,040	(789,555)	-8.30%
Long-term liabilities	52,700,146	46,048,099	6,652,047	14.45%
Total Liabilities	<u>61,424,631</u>	<u>55,562,139</u>	<u>5,862,492</u>	<u>10.55%</u>
Deferred inflows of resources	<u>294,547</u>	<u>348,293</u>	<u>(53,746)</u>	<u>-15.43%</u>
Net investment in capital assets	85,673,804	86,242,176	(568,372)	-0.66%
Unrestricted	(41,751,211)	(34,696,191)	(7,055,020)	20.33%
Total Net Position	<u><u>43,922,593</u></u>	<u><u>51,545,985</u></u>	<u><u>(7,623,392)</u></u>	<u><u>-14.79%</u></u>

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

Net position can be used to serve as an indicator of a district's financial position. As illustrated in figure 1-1, the Boards total net position at the close of the fiscal year was \$44 million, which represents a decrease of approximately \$7.6 million from the prior year. This fluctuation is due to a decrease in total assets combined with an increase in total liabilities. The decrease in capital assets is due to current year depreciation. The large fluctuation in long-term liabilities was caused by an increase in the Board's net OPEB (other post-employment benefits) obligation and net pension liability.

Results of operations for the Board as a whole are presented in the table below.

Figure 1-2
Statement of Activities

	June 30, 2017	June 30, 2016	\$ Change	% Change
Revenues				
Program Revenues				
Charges for services	4,915,260	4,779,670	135,590	2.84%
Operating grants and contributions	11,313,068	10,977,953	335,115	3.05%
Capital grants and contributions	1,250,379	4,864,719	(3,614,340)	-74.30%
General Revenues				
County	13,983,229	13,765,180	218,049	1.58%
State aid	50,860,322	49,058,301	1,802,021	3.67%
Investment earnings	52,797	16,321	36,476	223.49%
Other	621,209	714,321	(93,112)	-13.04%
Total Revenues	82,996,264	84,176,465	(1,180,201)	-1.40%
Expenses				
Administration	2,060,654	1,974,061	86,593	4.39%
School management and support	5,184,648	4,911,747	272,901	5.56%
Instructional salaries and wages	27,958,583	26,129,153	1,829,430	7.00%
Textbooks and instructional supplies	1,084,949	1,074,564	10,385	0.97%
Other instructional costs	4,672,879	4,241,417	431,462	10.17%
Special education	7,564,987	7,332,073	232,914	3.18%
Pupil personnel services	508,542	552,674	(44,132)	-7.99%
Health services	707,585	717,889	(10,304)	-1.44%
Pupil transportation	3,886,794	3,676,595	210,199	5.72%
Operation of plant	3,815,221	3,953,640	(138,419)	-3.50%

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

Maintenance of plant	976,868	869,671	107,197	12.33%
Fixed charges	21,700,408	19,303,790	2,396,618	12.42%
Community Services	985,275	939,533	45,742	4.87%
Capital outlay	211,000	233,632	(22,632)	-9.69%
School activity	998,567	1,050,281	(51,714)	-4.92%
On-behalf state retirement	4,493,188	4,344,011	149,177	3.43%
Food services	3,809,508	3,643,546	165,962	4.55%
<i>Total Expenses</i>	<u>90,619,656</u>	<u>84,948,277</u>	<u>5,671,379</u>	<u>6.68%</u>
<i>Change in Net Position</i>	(7,623,392)	(771,812)	(6,851,580)	887.73%
<i>Net Position End of Year</i>	43,922,593	51,545,985	(7,623,392)	-14.79%

As shown in figure 1-2, there was a significant drop in the amount of revenue received for capital projects. This is due to the fact that the Preston Elementary renovation project was in the final stages of completion compared to the prior year when it was in full swing. The other large fluctuation on the revenue side was an increase in the amount of state aid. Unrestricted state aid is direct mandated funding, which is calculated on a yearly basis by the Maryland State Department of Education Division of Business Services. This funding is formula driven based on student enrollment, FARMS (Free and Reduced Price Meals) and wealth data.

The largest variances on the expenditure side took place in instructional salaries and wages, other instructional costs and fixed charges. Spending for instructional salaries and wages increased as a result of negotiated changes to the salary schedules as well as new positions that were added to the budget. Other instructional costs increased due to prior year encumbrances that were liquidated during the current year as well as depreciation expense for the current year. Fixed charges spiked due to the benefit costs associated with the salary changes, new positions, increases in health insurance premiums and the increase in net OPEB obligation.

FUND PERFORMANCE

As mentioned earlier, funds are self-balancing sets of accounts used by the Board to control and manage money for particular purposes. The balance sheet for the Board's governmental funds is shown on page 20, and the results of operations are presented on page 21. As shown by the results of operations, the fund balance for the general fund decreased by \$500,874. It is important to note that this negative change in fund balance is based on the GAAP basis of accounting (Generally Accepted Accounting Principles), which differs from the budgetary basis of accounting.

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

The Food Service program is designed to be self-funded. As shown on page 23, the food service program generated a profit of \$124,340. A variety of enhancements including: internal catering, new and innovative menu items, a larger selection of fresh fruits and vegetables and more scratch cooked meals, have been implemented to ensure this program remains fiscally sound.

The general fund statement of revenues, expenditures, and changes in fund balance on a budgetary basis is shown on pages 49-52. Instructional salaries and wages as well as the fixed charges associated with these costs account for the largest percentage of the general fund unrestricted expenditures.

It is critical for the reader to understand that the county appropriation and unrestricted state aid account for approximately 92% of the total operating budget. Local revenue, provided by the Caroline County Government, is dependent upon the economic condition of the County. However, the education statute requires a minimum level of funding equal to the prior year's per pupil contribution times the current year projected enrollment. State aid is largely formula driven based on student enrollment and wealth. Both of these revenue streams are stable and highly predictable.

Additional revenue items include: state and federal restricted revenue, interest revenue and E-rate rebates. It is important to note that restricted federal and restricted state revenue may be one-time and tend to vary from one year to the next. Recurring but unpredictable are the E-rate rebates received from the Federal Communications Commission.

On the budgetary statements for both the general fund and the food services fund, the original budget is the same as the final budget. The Board follows a policy of not amending the original budget until our financial report has been issued. The Board notifies the county in advance of any categories that are over budget. After the financial report has been issued, any necessary changes are presented to the County for approval.

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2017, the Board had invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. As shown in figure 1-3, these assets totaled \$130.9 million.

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

Figure 1-3
Capital Assets - Governmental Activities

	June 30, 2017	June 30, 2016	\$ Change	% Change
Construction in progress and land	238,327	17,655,063	(17,416,736)	-98.65%
Buildings and improvements	125,652,321	106,804,141	18,848,180	17.65%
Furniture and equipment	1,897,990	1,810,181	87,809	4.85%
Software	675,517	675,517	-	0.00%
Vehicles	2,459,842	2,389,791	70,051	2.93%
<i>Total capital assets</i>	<u>130,923,997</u>	<u>129,334,693</u>	<u>1,589,304</u>	<u>1.23%</u>

Projects which contributed to the increase in total capital assets include: the renovation of Preston Elementary School, replacement school buses and security upgrades at various locations. More detailed information about the Board's capital assets can be found in Note 5 of the financial statements.

School Districts in Maryland are fiscally dependent on the state and county governments. Thus, the Board of Education of Caroline County has ownership of its assets, but does not issue the debt associated with them. Accordingly, the Board carries no bond rating. As mentioned in the notes to the financial statements, the Board has capital lease obligations for energy equipment upgrades.

FACTORS BEARING ON THE BOARD'S FUTURE

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

- Caroline County continues to cope with overcrowding in many of the schools. In addition, several of the buildings are in need of renovation. Funding for capital projects is shared by the State and County Government.
- Beginning with fiscal year 2009, the system was required to adhere to the standard issued by the Government Accounting Standards Board (GASB) for reporting other post-employment benefits (OPEB) known as GASB 45. GASB 45 requires the measurement and disclosure of OPEB expenses as well as the associated accrued financial obligations. While we have the vehicle to invest funds through the OPEB Investment Trust

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

administered by the Maryland Association of Boards of Education, funding of the obligation is optional and dependent upon the current economic climate. As a result, the unfunded liability associated with other post-employment benefits continues to grow.

- Funding the net pension liability, in accordance with GASB 68, now recognized in the government-wide financial statements, becomes a concern. GASB 68 is an accounting standard for all governmental agencies that addresses pension obligations to retirees. Under GASB 68, the Board must recognize the pension cost and liability of future pension obligations that have been earned by current and retired employees. Currently, pension costs for retirees and active employees are expensed when paid. This practice is expected to continue given the economic conditions our funding entities face at this time. Whether or not this liability is funded in the future may impact our budget, and the bond rating of county and state governments.
- The Commission on Innovation and Excellence in Education, known as the Kirwan Commission, has been tasked with making recommendations as to how the state's funding for public education can improve in order to adequately and equitably fund Maryland's public schools. The commission is scheduled to produce a final report in December 2017 so that it can be considered in the legislature's 2018 session. The goal is to improve the overall quality of education, but at this point it is still unclear how this will impact the state funding formula.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents and students with a general overview of the Board's finances and to demonstrate its compliance and show its accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Erin B. Thornton, Comptroller, 410-479-3263 ext. 1124 or Milton E. Nagel, Assistant Superintendent for Administrative Services, 410-479-3252 ext. 1110, at The Board of Education of Caroline County, 204 Franklin Street, Denton, Maryland 21629.

FINANCIAL STATEMENTS

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF NET POSITION

June 30, 2017

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 12,375,624	\$ 142,070	\$ 12,517,694
Accounts receivable:			
Federal funds from State of Maryland	1,261,774	58,817	1,320,591
State of Maryland	532,936	3,940	536,876
Internal balances	(184,311)	184,311	-
Other	126,986	425	127,411
External parties (fiduciary fund)	326,156	-	326,156
Inventory	-	36,620	36,620
Non depreciable capital assets	238,327	-	238,327
Depreciable capital assets, net	88,990,301	154,940	89,145,241
TOTAL ASSETS	103,667,793	581,123	104,248,916
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (see Note 6)	1,392,855	-	1,392,855
LIABILITIES			
Accounts payable:			
Vendors	341,635	21,029	362,664
State of Maryland	2,451	-	2,451
Accrued payroll	5,229,535	123,223	5,352,758
Other accrued expenses	2,049,095	-	2,049,095
Unearned revenue - Federal	263,808	-	263,808
Unearned revenue - other	143,006	-	143,006
Long-term liabilities:			
Due within one year	550,703	-	550,703
Due in more than one year	52,700,146	-	52,700,146
TOTAL LIABILITIES	61,280,379	144,252	61,424,631
DEFERRED INFLOWS OF RESOURCES			
Pensions (see Note 6)	294,547	-	294,547
NET POSITION			
Net investment in capital assets	85,518,864	154,940	85,673,804
Unrestricted	(42,033,142)	281,931	(41,751,211)
TOTAL NET POSITION	\$ 43,485,722	\$ 436,871	\$ 43,922,593

The Notes to Financial Statements are an integral part of this statement.

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities				
Current:				
Administration	\$ 2,060,654	\$ -	\$ 111,991	\$ -
School management and support	5,184,648	-	94,485	-
Instructional salaries and wages	27,958,583	-	1,226,775	-
Textbooks and instructional supplies	1,084,949	-	332,574	-
Other instructional costs	4,672,879	-	730,586	-
Special education	7,564,987	-	2,057,547	-
Pupil personnel services	508,542	-	-	-
Health services	707,585	-	70,746	-
Pupil transportation	3,886,794	-	133,575	-
Operation of plant	3,815,221	-	33,717	-
Maintenance of plant	976,868	-	2,943	-
Fixed charges	21,700,408	-	1,039,666	-
Community services	985,275	-	985,275	-
School activity expenditures	998,567	981,412	-	-
On-behalf State Retirement contributions	4,493,188	-	4,493,188	-
Capital outlay	211,000	-	-	1,250,379
Total Governmental Activities	86,810,148	981,412	11,313,068	1,250,379
Business-Type Activities				
Food Services	3,809,508	3,933,848	-	-
Total Business-Type Activities	3,809,508	3,933,848	-	-
Totals	\$ 90,619,656	\$ 4,915,260	\$ 11,313,068	\$ 1,250,379

General Revenues

Caroline County
State of Maryland
Investment earnings
Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

The Notes to Financial Statements are an integral part of this statement.

Net (Expenses) Revenue
and changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,948,663)	\$ -	\$ (1,948,663)
(5,090,163)	-	(5,090,163)
(26,731,808)	-	(26,731,808)
(752,375)	-	(752,375)
(3,942,293)	-	(3,942,293)
(5,507,440)	-	(5,507,440)
(508,542)	-	(508,542)
(636,839)	-	(636,839)
(3,753,219)	-	(3,753,219)
(3,781,504)	-	(3,781,504)
(973,925)	-	(973,925)
(20,660,742)	-	(20,660,742)
-	-	-
(17,155)	-	(17,155)
-	-	-
1,039,379	-	1,039,379
<hr/>		
(73,265,289)	-	(73,265,289)
<hr/>		
-	124,340	124,340
<hr/>		
-	124,340	124,340
<hr/>		
(73,265,289)	124,340	(73,140,949)
<hr/>		
13,983,229	-	13,983,229
50,860,322	-	50,860,322
52,386	411	52,797
621,209	-	621,209
<hr/>		
65,517,146	411	65,517,557
<hr/>		
(7,748,143)	124,751	(7,623,392)
<hr/>		
51,233,865	312,120	51,545,985
<hr/>		
\$ 43,485,722	\$ 436,871	\$ 43,922,593

THE BOARD OF EDUCATION OF CAROLINE COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
ASSETS			
Cash and investments	\$ 11,914,317	\$ 17,484	\$ 443,823
Accounts receivable:			
Federal funds from State of Maryland	1,261,774	-	-
State of Maryland	532,936	-	-
Other Board of Education funds	140,864	981	-
Other	126,986	-	-
	<hr/>		
TOTAL ASSETS	\$ 13,976,877	\$ 18,465	\$ 443,823
	<hr/> <hr/>		
LIABILITIES AND FUND BALANCES			
Accounts payable:			
Vendors	\$ 341,635	\$ -	\$ -
State of Maryland	2,451	-	-
Accrued payroll	5,229,535	-	-
Accrued leave	104,483	-	-
Other accrued expenses	2,049,095	-	-
Unearned revenue - Federal	263,808	-	-
Unearned revenue - other	112,987	-	30,019
TOTAL LIABILITIES	<hr/> 8,103,994	<hr/> -	<hr/> 30,019
	<hr/> <hr/>		
COMMITMENTS AND CONTINGENCIES			
FUND BALANCES			
Assigned to:			
Accrued leave	746,847	-	-
School construction projects	-	18,465	-
School activities	-	-	413,804
Other purposes (encumbrances)	117,392	-	-
Unassigned	5,008,644	-	-
TOTAL FUND BALANCES	<hr/> 5,872,883	<hr/> 18,465	<hr/> 413,804
	<hr/> <hr/>		
TOTAL LIABILITIES AND FUND BALANCES	\$ 13,976,877	\$ 18,465	\$ 443,823
	<hr/> <hr/>		

The Notes to Financial Statements are an integral part of this statement.

Total Governmental Funds	Total Governmental Funds Balances	\$ 6,305,152
\$ 12,375,624	Amounts reported for governmental activities in the statement of net position are different because	
1,261,774	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	89,228,628
532,936		
141,845	Deferred outflows of resources - pensions (see Note 6)	1,392,855
<u>126,986</u>		
<u>\$ 14,439,165</u>	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
\$ 341,635	Accrued leave	(746,847)
2,451	Capital leases	(3,709,764)
5,229,535	Net pension liability	(4,693,266)
104,483	Post-employment benefits	<u>(43,996,489)</u>
2,049,095		(53,146,366)
263,808	Deferred inflows of resources - pensions (see Note 6)	<u>(294,547)</u>
143,006		
<u>8,134,013</u>	Net Position of Governmental Activities	<u>\$ 43,485,722</u>
746,847		
18,465		
413,804		
117,392		
5,008,644		
<u>6,305,152</u>		
<u>\$ 14,439,165</u>		

THE BOARD OF EDUCATION OF CAROLINE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
REVENUES			
County Appropriation	\$ 13,983,229	\$ 1,159,630	\$ -
State of Maryland	50,860,322	-	-
Restricted Federal revenues	5,451,851	-	-
Restricted State revenues	1,187,494	90,749	-
Restricted other revenues	180,535	-	-
On-behalf State Retirement contributions	4,493,188	-	-
Other sources	671,926	1,669	-
School activity revenues	-	-	981,412
TOTAL REVENUES	76,828,545	1,252,048	981,412
EXPENDITURES			
Current:			
Administration	1,992,459	-	-
School management and support	5,156,309	-	-
Instructional salaries and wages	27,929,228	-	-
Instructional textbooks and supplies	1,084,949	-	-
Other instructional costs	2,337,210	-	-
Special education	7,564,987	-	-
Pupil personnel services	508,542	-	-
Health services	715,380	-	-
Pupil transportation	4,007,293	-	-
Operation of plant	4,208,899	-	-
Maintenance of plant	970,381	-	-
Fixed charges	15,058,377	-	-
Community services	985,275	-	-
School activity expenditures	-	-	998,567
On-behalf State Retirement contributions	4,493,188	-	-
Capital outlay	316,942	1,250,379	-
TOTAL EXPENDITURES	77,329,419	1,250,379	998,567
Net change in fund balances	(500,874)	1,669	(17,155)
Fund balances, beginning	6,373,757	16,796	430,959
Fund balances, ending	\$ 5,872,883	\$ 18,465	\$ 413,804

The Notes to Financial Statements are an integral part of this statement.

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF FUND NET POSITION
 PROPRIETARY FUND

June 30, 2017

	<u>Business-Type Activities</u>
	<u>Food Services</u>
ASSETS	
Current assets:	
Cash and investments	\$ 142,070
Accounts receivable:	
Federal funds from State	58,817
State funds receivable	3,940
Other Board of Education funds	184,311
Other receivables	425
Inventory	<u>36,620</u>
Total current assets	<u>426,183</u>
Capital assets, net	<u>154,940</u>
TOTAL ASSETS	<u>581,123</u>
LIABILITIES	
Current liabilities:	
Accounts payable	21,029
Accrued payroll	<u>123,223</u>
TOTAL LIABILITIES	<u>144,252</u>
COMMITMENTS AND CONTINGENCIES	
NET POSITION	
Net investment in capital assets	154,940
Unrestricted	<u>281,931</u>
TOTAL NET POSITION	<u><u>\$ 436,871</u></u>

The Notes to Financial Statements are an integral part of this statement.

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUND
Year Ended June 30, 2017

	Business-Type Activities
	<u>Food</u>
	<u>Services</u>
OPERATING REVENUES	
Sale of meals	\$ 777,398
Federal assistance	2,614,692
State assistance	270,869
USDA donated commodities	221,585
Other sources	49,304
TOTAL OPERATING REVENUES	<u>3,933,848</u>
OPERATING EXPENSES	
Food	1,845,041
Salaries and wages	1,122,731
Fixed charges	429,159
Contracted services	25,152
Supplies and materials	127,974
Other charges	15,863
USDA donated commodities	221,585
Depreciation	19,177
Additional equipment	2,826
TOTAL OPERATING EXPENSES	<u>3,809,508</u>
OPERATING INCOME	124,340
NON-OPERATING REVENUES	
Interest income	411
Change in net position	124,751
Net position beginning of year	<u>312,120</u>
Net position end of year	<u>\$ 436,871</u>

The Notes to Financial Statements are an integral part of this statement.

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF CASH FLOWS
 FOOD SERVICE FUND
 Year Ended June 30, 2017

CASH FLOWS FROM OPERATIONS:	
Receipts from students	\$ 777,398
Operating grants received	2,960,373
Other operating receipts	49,441
Payments to food and other suppliers	(2,015,948)
Payments to employees and employee related benefits	(1,538,403)
Net cash provided by operating activities	232,861
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash transfers to other Board funds	(237,323)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of equipment	(11,202)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	411
Net decrease in cash	(15,253)
Cash and investments, beginning of year	157,323
Cash and investments, end of year	\$ 142,070
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 124,340
Adjustments:	
Depreciation	19,177
(Increase) decrease in assets:	
Federal receivables	65,132
State receivables	9,680
Other receivables	137
Inventory	4,867
Increase (decrease) in liabilities:	
Accounts payable	(3,959)
Accrued payroll	13,487
Total adjustments	108,521
Net cash provided by operating activities	\$ 232,861

The Notes to Financial Statements are an integral part of this statement.

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

	Retiree Benefit <u>Trust Fund</u>	Agency <u>Funds</u>
ASSETS		
Investments	\$ 1,130,460	\$ -
Accounts receivable:		
Federal funds from State	-	238,961
State of Maryland	-	260,767
Other	-	5,236
	<u>1,130,460</u>	<u>\$ 504,964</u>
TOTAL ASSETS	<u>1,130,460</u>	<u>\$ 504,964</u>
LIABILITIES		
Accounts payable:		
Vendors	-	\$ 12,425
State of Maryland	-	77,883
Unearned revenue - other	-	88,500
Other Board of Education funds	-	326,156
	<u>-</u>	<u>\$ 504,964</u>
TOTAL LIABILITIES	<u>-</u>	<u>\$ 504,964</u>
NET POSITION		
Held in trust for other post-employment benefits	<u>\$ 1,130,460</u>	

The Notes to Financial Statements are an integral part of this statement.

THE BOARD OF EDUCATION OF CAROLINE COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
RETIREE BENEFIT TRUST FUND
Year Ended June 30, 2017

	<u>Retiree Benefit Trust Fund</u>
ADDITIONS	
Contributions:	
Investment income	\$ 113,022
TOTAL ADDITIONS	<u>113,022</u>
DEDUCTIONS	
Administrative expenses	7,655
TOTAL DEDUCTIONS	<u>7,655</u>
Change in net position	105,367
Net position held in trust for other post-employment benefits beginning of year	<u>1,025,093</u>
Net position held in trust for other post-employment benefits end of year	<u><u>\$ 1,130,460</u></u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. The Board of Education of Caroline County and Its Significant Accounting Policies

The Board of Education of Caroline County (the “Board”) is empowered by Title 13A of the Code of Maryland Regulations to fulfill the elementary and secondary educational needs of students in Caroline County, Maryland (the “County”).

Financial Reporting Entity

The Board is the basic level of government that has financial accountability and control over all activities related to the public school education in Caroline County, Maryland. The Board receives funding from local, State and Federal government sources and must comply with the requirements of these funding source entities.

The Board is a component unit of Caroline County, Maryland and is included in the County’s reporting entity. This conclusion has been reached based on the following criteria: (1) The County is responsible for approving the Board’s budget and establishing spending limitations and; (2) The Board cannot issue bonded debt, but the County can and does issue bonds to finance school system operations. In addition, there are no component units which are included in the Board's reporting entity.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the Board’s accounting policies are described below.

A. Basis of Presentation

The Board’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Board as a whole. These statements include the financial activities of the Board. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities of the Board at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Board’s governmental activities and for business-type activities of the Board. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Board.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

FUND FINANCIAL STATEMENTS

During the year, the Board segregates transactions related to certain Board functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Board at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. In addition, the Board has presented the School Activities Fund as a major fund because the Board believes this fund is significant to the Board as a whole.

B. Fund Accounting

The Board uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Board's major governmental funds:

General Fund - The General Fund is the general operating fund of the Board. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Capital Projects Fund - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Board administers the construction and repair of public schools and uses the School Construction Fund to record the revenues from the County and other governmental units and the expenditures in connection therewith.

School Activities Fund - The School Activities Fund is used to account for revenues and expenditures at the schools for, among other things, student insurance and pictures, athletics, clubs and other student activities, and principals' miscellaneous expenditures.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net position, financial position and cash flows and are classified as enterprise.

Enterprise funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Board's major enterprise fund is:

Food service fund - This fund accounts for the financial transactions related to the food service operations of the Board.

FIDUCIARY FUNDS

Agency funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Retiree benefit trust fund – This fund consists of contributions of the Board to establish a reserve to pay for health and welfare benefits of future retirees. Contributions to the Trust qualify as contributions and are reported using the economic resource measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred. Fiduciary funds are not reported in the government-wide financial statements.

C. Measurement Focus

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Board are included on the statement of net position.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the Board finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

Revenues-Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursable basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: interest, tuition, grants, fees and rentals.

Unearned revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants received before the eligibility requirements are met are also recorded as unearned revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The budget is prepared on the budgetary basis of accounting. The budget establishes a limit on the amounts that the Board may appropriate and sets annual limits as to the amount of expenditures at a level of control selected by the Board. The legal level of control has been established by the Board at the object level within each fund and function.

The budget may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts when the original budget was adopted.

F. Inventory

On government-wide financial statements and the fund financial statements of proprietary funds, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of five thousand dollars. The Board does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land, land improvements and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	15 – 50 years	N/A
Furniture and Equipment	5 – 20 years	15 years
Vehicles	6 – 12 years	6 years
Software	5 years	5 years

H. Compensated Absences

ACCRUED LEAVE

Employees are allowed to carryover up to 20 days of unused vacation. The Board of Education expenses the cost of vacations as they are earned and the accrued leave account presented in the balance sheet represents vacations earned but not taken at year-end. Compensated absences are reported as accrued in the government wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees, which would be included in accrued leave.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

J. Net Position

In the government-wide financial statements, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

The Board applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that period. The Board has one item that qualifies for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension obligation (Note 6) for changes in assumptions, for the net difference between projected and actual investment earnings on pension plan investments, and for contributions subsequent to the measurement date. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an 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 Board has one item that qualifies for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension obligation (Note 6) for differences in actual and expected experience and the net difference between projected and actual investment earnings on pension plan investments. These amounts are deferred and recognized as an inflow from resources in the period that the amounts become available.

The deferred outflows and inflows of resources represent reconciling items between the governmental fund financial statements and the government-wide financial statements.

L. Fund Balance Reserves

Fund balances are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable (i.e. inventory or long term receivables), restricted (by external parties or legislation), committed (by the highest level of authorities of the government), assigned (i.e. residual amounts in other funds), and unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board. Assigned fund balances is a limitation imposed by a designee of the Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Proprietary fund equity is classified the same as in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Board, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Cash and Cash Equivalents

For purposes of the statement of cash flows for the proprietary fund, the Board considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

P. Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Transfers are fund balance amounts reserved and/or designated in the prior year that received County approval to be spent on capital projects.

Q. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are reported as assigned fund balance in the governmental fund financial statements. Encumbrances outstanding at June 30, 2017 that were provided for in the current year's budget for the budgetary basis of accounting but will be accounted for under generally accepted accounting principles in the subsequent year totaled \$117,392.

Note 3. Cash and Investments

At June 30, 2017, the Board of Education had bank deposits with various commercial banks totaling \$3,094,244 (carrying value \$1,416,962). As required by law, the depository is to pledge securities in addition to FDIC insurance at least equal to that amount on deposit at all times. The depository banks pledge collateral for specific accounts that are held in the Board's name at the Bank of New York Mellon. As of June 30, 2017, bank deposits were fully collateralized. Investments of \$11,100,732 (carrying value \$11,100,732) consist solely of U.S. Government Securities made through the State of Maryland Local Government Investment Pool which provide local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 §22G of the Annotated Code of Maryland and more recently defined by Title 17, subtitle 3 of the Local Government Article of the Maryland Annotated Code. The MLGIP is managed by PNC Capital Advisors, LLC and custodied by PNC Bank, N.A., which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a semi-annual basis and provide suggestions to enhance the pool. The MLGIP is rated AAAM by Standard and Poor's. The fair value of the pool is the same as the value of the pool shares. Investments are recorded at cost, which approximates market value. Statutes authorize the Board to invest in obligations of the U.S. Treasury and U.S. Agencies, municipal securities and repurchase agreements, collateralized certificates of deposit, banker's acceptance or money market funds.

The Board's exposure to investment rate and credit risk is minimal, as all investments are in cash and MLGIP and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by attempting to have all investments fully collateralized by securities.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (continued)

At June 30, 2017, the Board has an agreement with its primary bank to maintain a cash balance of \$200,000 in lieu of payment of service fees.

Reconciliation to Statement of Net Position:

Cash at carrying value	\$	1,416,962
Investments		11,100,732
Total cash and investments	\$	12,517,694

Investment in External Investment Pool

The Board has funds designated for Other Postemployment Benefits (OPEB) that are held by the Maryland Association of Boards of Education (MABE) in the MABE Pooled OPEB Investment Trust (MABE Trust). The MABE Trust is administered by MABE, and is a wholly-owned instrumentality of its members. The ten members who are the sole contributors to the MABE Trust are the Allegany Fiduciary Fund and the boards of education of the following counties in Maryland: Allegany, Caroline, Cecil, Charles, Harford, Kent, Prince George's, St. Mary's and Washington.

The investments of the MABE Trust are stated at fair value and are deposited with Fidelity as of July 31, 2016. Prior to July 31, 2016, the investments were deposited with Wells Fargo Advisors. Investments consist of money market funds, U.S. government and agency fixed income and asset backed securities, equity securities, mutual funds and exchange traded funds, corporate bonds and corporate asset backed securities, and municipal bonds. The MABE trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs. Although all investments of the MABE Trust are considered Level 1 and Level 2, the Board's membership investment in the MABE Trust is considered Level 2. As of June 30, 2017, the pooled position of the MABE Trust was \$292,672,933 in total, of which the Board's allocated investment balance was \$1,130,460. The Board may terminate its membership interest in the MABE Trust and withdraw its allocated investment balance by providing written notice six months prior to the intended date of withdraw.

The MABE Trust is audited annually by an independent CPA firm and issues a publicly available audited report. The report may be obtained by sending a request to the Administrator of the MABE Pooled OPEB Investment Trust, 621 Ridgely Avenue, Suite 300, Annapolis, MD 21401-1112 or calling (410) 841-5414.

Note 4. Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds	
General Fund	\$ 140,864	\$ -	
School Construction Fund	981		
Food Service - Enterprise Fund	184,311		
External Parties - Fiduciary Fund	-	326,156	
	\$ 326,156	\$ 326,156	

Due to/from other funds represent advances of cash for operating needs. There were no transfers during the year.

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance				Balance	
	June 30, 2016	Additions	Deductions	Transfers	June 30, 2017	
Governmental Activities						
Capital Assets, not being depreciated						
Construction in progress	\$17,449,734	\$ 32,998	\$ -	\$(17,449,734)	\$ 32,998	
Land	205,329	-	-	-	205,329	
Total capital assets, not being depreciated	<u>17,655,063</u>	<u>32,998</u>	<u>-</u>	<u>(17,449,734)</u>	<u>238,327</u>	
Capital assets, being depreciated						
Buildings and improvements	106,804,141	1,398,446	-	17,449,734	125,652,321	
Furniture and equipment	1,810,181	87,809	-	-	1,897,990	
Software	675,517	-	-	-	675,517	
Vehicles	2,389,791	238,843	(168,792)	-	2,459,842	
Total capital assets, being depreciated	<u>111,679,630</u>	<u>1,725,098</u>	<u>(168,792)</u>	<u>17,449,734</u>	<u>130,685,670</u>	
Less accumulated depreciation:						
Buildings and improvements	(35,944,056)	(2,396,672)	-	-	(38,340,728)	
Furniture and equipment	(1,202,258)	(66,238)	-	-	(1,268,496)	
Software	(648,503)	(13,432)	-	-	(661,935)	
Vehicles	(1,418,691)	(174,311)	168,792	-	(1,424,210)	
Total accumulated depreciation	<u>(39,213,508)</u>	<u>(2,650,653)</u>	<u>168,792</u>	<u>-</u>	<u>(41,695,369)</u>	
Total capital assets, being depreciated, net	<u>72,466,122</u>	<u>(925,555)</u>	<u>-</u>	<u>17,449,734</u>	<u>88,990,301</u>	
Governmental activities capital assets, net	<u>\$90,121,185</u>	<u>\$ (892,557)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$89,228,628</u>	
Business-type activities						
Equipment	\$ 981,858	\$ 11,202	\$ -	\$ -	\$ 993,060	
Software	27,122	-	-	-	27,122	
Vehicles	55,670	-	-	-	55,670	
Total capital assets, being depreciated	<u>1,064,650</u>	<u>11,202</u>	<u>-</u>	<u>-</u>	<u>1,075,852</u>	
Less accumulated depreciation:						
Equipment	(829,131)	(15,101)	-	-	(844,232)	
Software	(27,122)	-	-	-	(27,122)	
Vehicles	(45,482)	(4,076)	-	-	(49,558)	
Total accumulated depreciation	<u>(901,735)</u>	<u>(19,177)</u>	<u>-</u>	<u>-</u>	<u>(920,912)</u>	
Business-type activities capital assets, net	<u>\$ 162,915</u>	<u>\$ (7,975)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 154,940</u>	

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 68,195
School management and support	28,339
Other instructional costs	2,400,350
Pupil transportation	106,487
Maintenance of plant	<u>47,282</u>
Total depreciation expense	<u>\$ 2,650,653</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plans

The State Retirement Agency is the administrator of the Maryland State Retirement and Pension System (the System). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits. The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System. Responsibility for the System's administration and operation is vested in a 15 member Board of Trustees. The State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1660, Baltimore, Maryland 21202-1600 or on-line at www.sra.maryland.gov.

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Generally, all regular employees of the Board participate in the Employees' Retirement and Pension Systems (Employees' Systems). Teachers employed by the Board generally participate in the Teachers' Retirement and Pensions Systems (Teachers' Systems). Both the Employees' Systems and the Teachers' Systems (collectively the Systems) are cost sharing multiple-employer defined benefit pension plans.

Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems

General Plan Policies

The Teachers' Retirement System of the State of Maryland was established on August 1, 1927 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland for the purpose of providing retirement allowances and other benefits to teachers in the State. In addition, on January 1, 1980, the Teachers' Pension System of the State of Maryland was established. In this regard, teachers hired on or after January 1, 1980 become members of the Teachers' Pension System, unless they elect to join an optional retirement program. Until December 31, 2004, existing members of the Teachers' Retirement System had the option of remaining in the Teachers' Retirement System or transferring to the Teachers' Pension System.

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension system was established. Until December 31, 2004, existing members of the Employees' Retirement System had the option of remaining in the Employees' Retirement System or transferring to the Employees' Pension System.

Significant Plan Benefits and Policies

The following is a general description of the significant plan benefits and related contribution requirements for the Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems:

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plans (continued)

Teachers' and Employees' Retirement Systems

Retirement Benefits:

A member may retire with full benefits after attaining the age of 60, or after completing 30 years of creditable service regardless of age. The annual retirement allowance is equal to 1/55 of a member's average final compensation (i.e. average of the member's three highest years of annual earnable compensation) multiplied by the number of years and months of accumulated creditable service. A member may retire with reduced benefits after completing 25 years of creditable service regardless of age. Retirement allowances are adjusted each year based on the Consumer Price Index. Cost-of-living adjustments (COLAs) are applied to all allowances payable for the year, however, the method by which the COLA is computed depends upon elections made by members and is tied to member contributions.

Vested Allowance:

A member terminating employment before attaining retirement age but after completing 5 years of creditable service becomes eligible for a vested retirement allowance, provided the member lives to the age of 60 and does not withdraw his or her accumulated contributions. Members terminating employment before attaining retirement age and before completing 5 years of creditable service are refunded their accumulated contributions plus earned interest.

Employee Contributions:

Members of the Teachers' and Employees' Retirement System are required to contribute to the systems a fixed percentage of their regular salaries and wages (e.g. 7% or 5%, depending on the COLA option selected). The contributions are deducted from each member's salary and wage payment and are remitted to the systems on a regular, periodic basis.

Teachers' and Employees' Pension System

Pension Benefits:

A member may retire with full benefits after completing 30 years of eligibility service regardless of age, or at age 62 or older with specified years of eligibility service. On retirement from service, a member shall receive an annual service pension allowance. The annual pension allowance is equal to 1.2% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued prior to July 1, 1998 and 1.8% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued on or after July 1, 1998. Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Vested Allowance:

A member terminating employment before attaining retirement age, but after completing 5 years of eligibility service, becomes eligible for a vested pension allowance provided the member lives to age 62. Members terminating employment before attaining retirement age and before completing 5 years of eligibility service are refunded their accumulated contributions plus earned interest.

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plans (continued)

Employee Contributions:

Effective July 1, 2011, members of the Teachers' and Employees' Pension Systems are required to contribute to the systems 7% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2017. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

For members enrolled on and after July 1, 2011, the employee contribution is 7%; vesting requires ten years of eligible service; service retirement is at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement is age 60 with 15 years of eligibility service; average final compensation is a five year average; and the benefit multiplier per year is 1.5%.

Teachers' and Employees' Retirement Systems and Teachers' and Employees' Pension Systems

Employer Contributions:

For the year ended June 30, 2017 the Board's total payroll for all employees was \$46,003,047. Total covered payroll was \$37,308,221. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay 100% of the normal cost portion of the total pension cost for teachers beginning in fiscal year 2017. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. The related payment for fiscal year ending 2017 was \$1,528,849, net of a \$115,786 adjustment in accordance with Chapter 5 of the Laws of Maryland – 2017 Session (House Bill 1109). In addition, the State of Maryland contributed \$4,493,188 on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense.

During fiscal year 2017, the Board reported expense of \$462,805 related to the Employees' Systems in the fund financial statements.

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

Because the State of Maryland pays the unfunded liability for the Teachers' Systems and the Board pays the normal cost for the Teachers' Systems, the Board is not required to record its' share of the unfunded pension liability for the Teachers' Systems, the State of Maryland is required to record that liability. The Board is required to record a liability for the Employees' Systems.

At June 30, 2017, the Board reported a liability for its proportionate share of the net pension liability. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

	2017
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 4,693,266
State's proportionate share of the net pension liability (Teachers' Systems)	<u>52,612,087</u>
Total	<u><u>\$ 57,305,353</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plans (continued)

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was calculated as follows by the System(s):

1. Net pension liability for the entire System was calculated. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland and one for primary government employees.
2. Determined the total contributions to the System by the State and by the primary governments, inclusive of any underfunding of contributions.
3. Based on the number of participants at each Board of Education, calculate the difference between what each Board would have contributed if they funded at the rate of all other participating governments and what the Board actually contributed. The difference between what the Board contributed and what they would have contributed if they funded at the rate of the other participating governments, is then added to the total contribution to the System, to calculate the System's adjusted contribution.
4. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each primary government contribution. At June 30, 2016, the Board's proportion was approximately .0198918%.

For the year ended June 30, 2017, the Board recognized pension expense of \$2,088,012 in the government-wide financial statements. \$1,991,654 was recognized in the fund financial statements. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Year Ending June 30,	2016 Balance Amortization		2015 Balance Amortization			2014 Balance Amortization	
	Deferred Outflows	Deferred Inflows	Deferred Outflows		Deferred Inflows	Deferred Outflows	Deferred Inflows
	Net Difference in Investment Earnings	Actual and Expected Experience	Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings
2018	\$ 116,385	\$ (10,571)	\$ 91,823	\$ 42,863	\$ (17,536)	\$ 11,581	\$ (87,631)
2019	116,385	(10,571)	91,823	42,863	(17,536)	11,581	(87,631)
2020	116,385	(10,570)	91,823	42,863	(17,535)	-	-
2021	116,384	(10,570)	-	37,291	(15,256)	-	-
2022	-	(9,140)	-	-	-	-	-
Total	\$ 465,539	\$ (51,422)	\$ 275,469	\$ 165,880	\$ (67,863)	\$ 23,162	\$ (175,262)

In addition, there is \$462,805 of deferred outflows of resources resulting from the Board's contributions to the Employees' Systems subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.8647, 5.87, and 5 years for the years ended June 30, 2016, 2015 and 2014, respectively. The net difference in investment earnings for 2016, 2015, and 2014 are being amortized over a closed five-year period.

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plans (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.70% general, 3.20% wage
Salary increases	3.30% to 9.20%, including inflation
Discount rate	7.55%
Investment rate of return	7.55%
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board of Trustees after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	6.60%
Private Equity	10%	7.40%
Rate Sensitive	20%	1.30%
Credit Opportunity	9%	4.20%
Real Assets	15%	4.70%
Absolute Return	9%	3.70%
Total	<u>100%</u>	

Discount rate

A single discount rate of 7.55% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plans (continued)

members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Boards Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>Discount Rate</u>	<u>Board's Net Pension</u>
1% decrease	6.55%	\$ 6,446,610
Current discount rate	7.55%	\$ 4,693,267
1% increase	8.55%	\$ 3,234,224

Note 7. Other Post-Employment Benefits

Plan Description

The Caroline County Public Schools Post-Retirement Medical and Life Insurance Benefits Plan (the "Plan") is a single employer defined benefit healthcare plan administered by the Board. The Plan provides medical, prescription drug, dental, and vision benefits to eligible retirees, their spouses and eligible dependents. All classes of employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teachers' pension system, which are age 55 with 15 years of service, age 62 with 5 years of service, age 63 with 4 years of service, age 64 with 3 years of service, age 65 with 2 years of service, or 30 years of service regardless of age. In addition, eligible spouses and dependents desiring coverage through the eligible retiree's plan must be enrolled in the Plan immediately prior to the retiree's effective date of retirement. The Board is required to perform an actuarial valuation of its postemployment benefits other than pensions at least biennially. As of July 1, 2016, the census date of the last actuarial valuation, approximately 380 retirees and their beneficiaries were receiving benefits, and an estimated 690 active employees are potentially eligible to receive future benefits.

Funding Policy

The Board provides dental and basic major medical insurance (Medicare supplemental program for those over 65) for its retired employees. It is the Board's policy to pay 90% of the cost of such benefits for eligible retirees and to make such coverage available on a 100% reimbursement basis for dependents, spouses and non-eligible retirees. Eligible retirees are all employees who are under 65 years old and hired after July 1, 2013 with fifteen years of service in Caroline County; teachers who are under 65 years old, hired before July 1, 2013, and retired after July 1, 1977 with five years of service in Caroline County; and classified employees who are under 65 years old, hired before July 1, 2013, and retired after July 1, 1981 with five years of service in Caroline County. At age 65, eligible retirees with at least fifteen years of service will receive free Medicare Supplementary Program coverage, up to the dollar amount of the current individual insurance allowance. The Board pays for the cost of these benefits on a pay as you go basis. For the year ended June 30, 2017, the Board paid for coverage of 386 retirees at a total cost to the Board of \$2,325,327.

In May 2009, the Board created the Retiree Benefit Trust of the Board of Education of Caroline County (the "Trust") in order to arrange for the establishment of a reserve to pay promised future health and welfare benefits for employee services that have already occurred. The Board intends the contributions to the Trust will qualify as "contributions in relation to the actuarial required contribution" within the meaning of GASB Statement Number

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Post-Employment Benefits (continued)

45 and that the Trust will qualify as a “trust or equivalent arrangement” within the meaning of GASB Statement 45.

Contributions by the Board are solely dependent on the governmental entities that provide funding for the Board. Employee and retiree contributions are not permitted. The Assistant Superintendent for Administrative Services and the Comptroller are the trustees of the Trust with final authority in all matters pertaining to the Trust.

In May 2009, the Trust established a trust account with, and became a member of, the Maryland Association of Boards of Education Pooled OPEB Investment Trust (MABE Trust). It is a member owned trust that provides the Board and the other nine members a structure to pool assets to reduce investment costs and share administrative expenses. The Board reserves the right to establish and amend the provisions of its relationship with the MABE Trust with respect to participants, and benefit provided thereunder, or its participation therein, in whole or in part at any time, by resolution of the governing body and upon advance notice to the Trustees of the MABE Trust.

The MABE Trust was established to pool assets of its members for investment purposes only. Each member of the MABE Trust is required to designate a member trustee. The member trustees of the MABE Trust shall ensure that the MABE Trust keep such records as are necessary in order to maintain a separation of the assets of the MABE Trust from the assets of trusts maintained by other governmental employers. Assets of the member trusts are reported in the respective financial statements using the economic resources measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, as available. The Trust prohibits any part of the Trust to be used for or diverted to purposes other than providing benefits to participants and beneficiaries under the Plan. The Trust provides that in no event will the assets of the Trust be transferred to an entity that is not a state, a political subdivision, or an entity the income of which is excluded from taxation under Section 115 of the IRS Code.

The MABE Trust issues a publicly available audited GAAP-basis report that includes financial statements and required supplementary information for the MABE Trust. This report may be obtained by writing to the Trust Administrator, Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, MD 21401 or calling (410) 841-5414.

Annual OPEB Cost and Net OPEB Obligation

The Board’s annual other post-employment benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year plus any unfunded liability amortized over a period not to exceed thirty years. The Board pays post-retirement medical benefits (normal cost) from the General Fund, not from the Trust. The following table shows the components of the Board’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board’s net OPEB obligation.

Annual required contribution	\$ 9,234,000
Amortization of net OPEB obligation	(1,861,000)
Interest on net OPEB obligation	1,498,000
Annual OPEB cost	<u>8,871,000</u>
Contributions made	<u>(2,325,327)</u>
Increase in net OPEB obligation	6,545,673
Net OPEB obligation at beginning of year	<u>37,450,816</u>
Net OPEB obligation at end of year	<u>\$ 43,996,489</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Post-Employment Benefits (continued)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the last three years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	6,904,000	28.84%	32,556,259
June 30, 2016	7,296,000	32.91%	37,450,816
June 30, 2017	8,871,000	26.21%	43,996,489

Funding Status and Funding Progress

As of July 1, 2016, the plan was 1.10% funded. The actuarial accrued liability (AAL) for benefits was \$102.9 million with \$882,945 in actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$102.0 million. The annual payroll of active employees covered by the Plan was \$37.3 million and the ratio of the UAAL to covered payroll was 272.68%. As of June 30, 2017, there was \$1.1 million held in trust for other post-employment benefits.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designated to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Investments

The MABE Trust's policy in regard to the allocation of invested assets is established and may be amended by the Trustees by a majority vote of its members. It is the policy of the Trust to pursue an investment strategy that emphasizes growth of principal while avoiding excess risk. Short-term volatility will be tolerated inasmuch as it is consistent with volatility of a comparable market index. The MABE Trust's 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 following was the Board's adopted asset allocation policy as of June 30, 2017:

Asset Class	Target Allocation
Equity	59.90%
Fixed income	37.10%
Cash	3.00%
Total	100.00%

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Post-Employment Benefits (continued)

Investments (continued)

Best estimates of real rates of return for each major asset class included in the target asset allocations as of June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	5.73%
Fixed income	2.48%
Cash	1.00%

For the year ended June 30, 2017, the total rate of return, net of investment expense, was 10.52%. The total rate of return represents a hypothetical return on capital balance invested in the Trust during the entire year. Actual returns may vary due to the timing of capital contributions and redemptions.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and Plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of net assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the cost method used was the projected unit credit, with linear pro-ration to assumed benefit commencement date. Assets are valued using market value of assets. The actuarial assumptions include a 4% investment return per annum, a 2.3% rate of inflation, and a 3.5% payroll increase. The projected annual healthcare cost trend rate is 6.0% initially, reduced by decrements to an ultimate rate of 3.9% and is based upon the Cadillac Tax Calculator using inputs from the output of the Society of Actuaries Long Term Medical Trend Model released in 2016. The UAAL is being amortized over a closed twenty-two year period based on a level percentage of projected payrolls.

Note 8. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the Maryland Association of Boards of Education Group Insurance Pool (the Pool) was formed when several Maryland boards of education joined together to pool their casualty risks. Property insurance coverage was added in 1988. The Board pays an annual premium to the Pool that is calculated by an actuary. It is intended that the Pool be self-sustaining through member premiums. Reinsurance is carried through commercial companies for claims that exceed coverage limits as specified in the agreement. Should the Pool encounter deficits in its casualty and/or property funds, such deficits may be made up from assessments of the participating boards on a pro rata basis.

The Board continues to carry commercial insurance for all other risks of loss, including workers' compensation and employee health and accident insurance. The Board purchases health insurance from a provider through a modified retrospective rating arrangement agreement. The Board is a member of the Eastern Shore of Maryland Educational Consortium Health Insurance Alliance (the Alliance), a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that the Alliance be self-sustaining through member premiums. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are

NOTES TO FINANCIAL STATEMENTS

Note 8. Risk Management (continued)

8% of total premiums. Currently, ESMEC keeps on hand 16% as a recommended conservative reserve. As of January 20, 2017, the Board's funds held by ESMEC exceeded the recommended reserve by \$2,311,982. All funds held by ESMEC are restricted to being used only for health care expenses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Capital Leases

The Board has entered into non-cancelable leases that transfer ownership at the end of the lease, thus the Board has recorded the lease obligations and the related assets in the appropriate funds.

Capital lease obligations at June 30, 2017 consist of the following:

Energy equipment, bank, interest at 4.78%; payable in semiannual installments of \$47,080, including interest through 2017	\$ 45,981
Energy equipment, bank, interest at 3.816%; payable in annual installments ranging from approximately \$42,000 to \$470,000 through October 2025	2,130,854
Energy equipment, General Capital Management, Inc., interest at 3.126%; payable in annual installments ranging from approximately \$111,000 to \$175,000 through October 2029	1,532,929
	\$ 3,709,764

Future minimum lease payments under these capital leases, which will be funded from the General Fund, are as follows:

2018	\$ 446,220
2019	429,168
2020	542,757
2021	564,665
2022	587,926
2023-2027	1,351,049
2028-2030	509,465
	4,431,250
Less amounts representing interest	721,486
Present value of net minimum lease payments	\$ 3,709,764

Interest expense on the above capital leases was approximately \$143,000 for the year ended June 30, 2017.

The cost of items acquired under capital lease arrangements, as included in capital assets and construction in progress, totaled \$5,464,040 and the related accumulated depreciation was \$890,636 at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

Note 10. Long-Term Liabilities

Changes in long-term liabilities were as follows:

	Beginning	Additions	Reductions	Ending	Due within one year
Capital leases	\$ 4,041,924	\$ -	\$ 332,160	\$ 3,709,764	\$ 446,220
Retirement incentive plan	169,412	-	169,412	-	-
Compensated absences	821,976	565,909	536,555	851,330	104,483
Net pension liability	4,170,028	523,238	-	4,693,266	-
Net OPEB obligation	37,450,816	6,545,673	-	43,996,489	-
	<u>\$46,654,156</u>	<u>\$ 7,634,820</u>	<u>\$ 1,038,127</u>	<u>\$ 53,250,849</u>	<u>\$ 550,703</u>

Long-term liabilities are generally liquidated by the General Fund.

Note 11. Operating Lease

The Board leases administrative copy machines, computer equipment, and office space over terms ranging from three to five years.

Approximate future minimum lease commitments are as follows:

Fiscal year ending June 30,

2018	\$	280,648
2019		284,885
2020		117,404
2021		-
2022		-

Rent expense, under these leases, totaled approximately \$468,000 for the year ended June 30, 2017.

Note 12. Required Fund Disclosures

The Food Service Fund had an excess of actual expenditures over budgeted expenditures of \$389,645 for the year ended June 30, 2017.

NOTES TO FINANCIAL STATEMENTS

Note 13. Commitments and Contingencies

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. In the opinion of the Board, there are no approved contracts that would have a material effect on the financial statements.

The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Board.

There are various legal claims pending against the Board that arise in the normal course of the Board's activities. In the opinion of legal counsel and management, the ultimate disposition of these various claims will have no adverse impact on the financial position of the Board.

The Board has active school construction projects as of June 30, 2017. At June 30, 2017, the Board's commitments with contractors were as follows:

Projects	Expenditures to Date	Remaining Commitments
Colonel Richardson High School Roof	\$ -	\$ 1,955,672

REQUIRED SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS

GENERAL FUND

Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
REVENUES				
County appropriation	\$ 13,983,229	\$ 13,983,229	\$ 13,983,229	\$ -
State revenues:				
Current expense	26,959,060	26,959,060	26,959,060	-
Transportation	2,656,582	2,656,582	2,652,582	(4,000)
Guaranteed tax base	1,239,947	1,239,947	1,239,947	-
Handicapped children	2,407,765	2,407,765	2,407,765	-
Limited English proficiency	2,114,741	2,114,741	2,114,741	-
Supplemental grant	966,820	966,820	966,820	-
Compensatory education	14,519,407	14,519,407	14,519,407	-
Total state revenues	50,864,322	50,864,322	50,860,322	(4,000)
Other sources:				
Tuition	23,000	23,000	2,533	(20,467)
Interest income	10,000	10,000	53,425	43,425
Miscellaneous	432,000	432,000	615,968	183,968
Total other sources	465,000	465,000	671,926	206,926
Total unrestricted revenues	65,312,551	65,312,551	65,515,477	202,926
Restricted revenues:				
Restricted Federal revenues	4,876,047	4,876,047	5,457,246	581,199
Restricted State revenues	1,050,000	1,050,000	1,187,494	137,494
Restricted other revenues	-	-	180,535	180,535
Total restricted revenues	5,926,047	5,926,047	6,825,275	899,228
TOTAL REVENUES	71,238,598	71,238,598	72,340,752	1,102,154
EXPENDITURES				
Administration:				
Salaries and wages	1,193,156	1,193,156	1,251,348	(58,192)
Contracted services	262,577	262,577	318,678	(56,101)
Supplies and materials	111,950	111,950	118,025	(6,075)
Other charges	221,256	221,256	268,964	(47,708)

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS

GENERAL FUND

Year Ended June 30, 2017

(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
Equipment	\$ 2,000	\$ 2,000	\$ -	\$ 2,000
Transfers	-	-	(87,577)	87,577
Total Administration	1,790,939	1,790,939	1,869,438	(78,499)
School management and support:				
Salaries and wages	4,306,502	4,306,502	4,342,761	(36,259)
Contracted services	4,500	4,500	3,398	1,102
Supplies and materials	128,291	128,291	124,044	4,247
Other charges	350,648	350,648	586,818	(236,170)
Equipment	9,700	9,700	4,804	4,896
Total school management and support	4,799,641	4,799,641	5,061,825	(262,184)
Instructional salaries and wages:				
Salaries and wages	26,891,878	26,891,878	26,702,452	189,426
Instructional textbooks and supplies:				
Supplies and materials	925,151	925,151	723,605	201,546
Other instructional costs:				
Contracted services	493,775	493,775	617,701	(123,926)
Other charges	151,350	151,350	138,051	13,299
Equipment	832,123	832,123	616,140	215,983
Transfers	51,400	51,400	(5,448)	56,848
Total other instructional costs	1,528,648	1,528,648	1,366,444	162,204
Special education:				
Salaries and wages	3,908,570	3,908,570	4,099,490	(190,920)
Contracted services	24,980	24,980	37,745	(12,765)
Supplies and materials	62,008	62,008	56,429	5,579
Other charges	28,500	28,500	22,436	6,064
Equipment	8,941	8,941	3,115	5,826
Transfers	1,258,005	1,258,005	1,288,225	(30,220)
Total special education	5,291,004	5,291,004	5,507,440	(216,436)

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS

GENERAL FUND

Year Ended June 30, 2017

(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
Pupil personnel services:				
Salaries and wages	\$ 536,921	\$ 536,921	\$ 475,116	\$ 61,805
Contracted services	7,550	7,550	6,777	773
Supplies and materials	16,000	16,000	12,489	3,511
Other charges	10,100	10,100	7,910	2,190
Total pupil personnel services	570,571	570,571	502,292	68,279
Health services:				
Salaries and wages	637,864	637,864	608,281	29,583
Contracted services	10,000	10,000	5,247	4,753
Supplies and materials	27,200	27,200	9,890	17,310
Other charges	4,500	4,500	3,556	944
Equipment	5,500	5,500	17,659	(12,159)
Total health services	685,064	685,064	644,633	40,431
Pupil transportation:				
Salaries and wages	1,573,306	1,573,306	1,639,528	(66,222)
Contracted services	2,312,480	2,312,480	1,770,612	541,868
Supplies and materials	220,836	220,836	211,450	9,386
Other charges	51,664	51,664	57,573	(5,909)
Equipment	156,720	156,720	102,819	53,901
Total pupil transportation	4,315,006	4,315,006	3,781,982	533,024
Operation of plant:				
Salaries and wages	1,778,981	1,778,981	1,844,161	(65,180)
Contracted services	364,623	364,623	346,077	18,546
Supplies and materials	241,650	241,650	285,320	(43,670)
Other charges	1,713,698	1,713,698	1,651,767	61,931
Equipment	10,000	10,000	32,299	(22,299)
Total operation of plant	4,108,952	4,108,952	4,159,624	(50,672)

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGETARY BASIS

GENERAL FUND

Year Ended June 30, 2017

(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
Maintenance of plant:				
Salaries and wages	\$ 550,384	\$ 550,384	\$ 560,552	\$ (10,168)
Contracted services	208,400	208,400	242,457	(34,057)
Supplies and materials	113,500	113,500	105,002	8,498
Other charges	16,260	16,260	15,666	594
Equipment	60,086	60,086	43,761	16,325
Total maintenance of plant	948,630	948,630	967,438	(18,808)
Fixed charges:				
Insurance and employee benefits	13,232,723	13,232,723	14,018,711	(785,988)
	13,232,723	13,232,723	14,018,711	(785,988)
Capital outlay:				
Contracted services	18,000	18,000	48,384	(30,384)
Building improvements	206,344	206,344	144,248	62,096
Total capital outlay	224,344	224,344	192,632	31,712
TOTAL EXPENDITURES OF LOCAL AND UNRESTRICTED FUNDS	65,312,551	65,312,551	65,498,516	(185,965)
Restricted programs				
Restricted Federal programs	4,876,047	4,876,047	5,457,246	(581,199)
Restricted State programs	1,050,000	1,050,000	1,187,494	(137,494)
Restricted other programs	-	-	180,535	(180,535)
Total restricted programs	5,926,047	5,926,047	6,825,275	(899,228)
TOTAL UNRESTRICTED AND RESTRICTED EXPENDITURES	71,238,598	71,238,598	72,323,791	(1,085,193)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 16,961	\$ 16,961

THE BOARD OF EDUCATION OF CAROLINE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

SCHEDULE OF FUNDING PROGRESS BY VALUATION DATE

Actuarial Valuation Date **	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2008	\$ -	\$ 63,588,000	\$ 63,588,000	0.00%	\$ 35,427,815	179.49%
July 1, 2009	128,510	67,769,000	67,640,490	0.19%	37,664,864	179.59%
July 1, 2010	131,379	75,003,000	74,871,621	0.18%	38,007,682	196.99%
July 1, 2011	278,927	79,089,000	78,810,073	0.35%	35,359,702	222.88%
July 1, 2012	301,000	71,837,000	71,536,000	0.42%	37,446,711	191.03%
July 1, 2013	650,534	76,218,000	75,567,466	0.85%	32,957,476	229.29%
July 1, 2014	899,345	80,164,000	79,264,655	1.12%	33,545,377	236.29%
July 1, 2015	1,025,093	84,344,000	83,318,907	1.22%	34,560,151	241.08%
July 1, 2016	1,130,460	102,861,000	101,730,540	1.10%	37,308,221	272.68%

** The actuarial reports are based on data as of July 1, 2006, April 1, 2009, November 1, 2011, July 1, 2014, and July 1, 2016.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
June 30, 2009	\$ 5,534,000	24.47%	\$ 4,179,911
June 30, 2010	6,032,000	24.63%	8,726,415
June 30, 2011	6,032,000	30.48%	12,919,609
June 30, 2012	6,407,000	24.20%	17,776,095
June 30, 2013	6,425,000	31.29%	22,190,553
June 30, 2014	6,815,000	19.99%	27,643,426
June 30, 2015	6,904,000	28.84%	32,556,259
June 30, 2016	7,296,000	32.91%	37,450,816
June 30, 2017	8,871,000	26.21%	43,996,489

THE BOARD OF EDUCATION OF CAROLINE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Board's Proportion of the NPL (Percentage) A	Board's Proportionate Share of the NPL B	State's Proportionate Share of the NPL C	Total (B+C)	Board's Covered Employee Payroll D	Board's Proportionate Share as a Percentage of Covered Payroll (B / D)	Plan's Total Fiduciary Net Position E	Plan's Total Pension Liability F	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (E / F)
2015	June 30, 2014	0.0180451%	\$ 3,202,423	\$32,296,888	\$ 35,499,311	\$ 33,545,377	9.55%	\$45,339,988,000	\$63,086,719,000	71.87%
2016	June 30, 2015	0.0200659%	\$ 4,170,028	\$42,446,720	\$ 46,616,748	\$ 34,560,151	12.07%	\$45,789,840,000	\$66,571,552,000	68.78%
2017	June 30, 2016	0.0198918%	\$ 4,693,266	\$52,612,087	\$ 57,305,353	\$ 37,308,221	12.58%	\$45,365,927,000	\$68,959,954,000	65.79%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

THE BOARD OF EDUCATION OF CAROLINE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2017

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Measurement Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Board's Covered Employee Payroll	Actual Contribution as a Percentage of Covered Payroll
		A	B	(A - B)	C	(B / C)
2015	June 30, 2014	\$ 1,721,938	\$ 1,721,938	\$ -	\$ 33,545,377	5.13%
2016	June 30, 2015	\$ 1,889,117	\$ 1,889,117	\$ -	\$ 34,560,151	5.47%
2017	June 30, 2016	\$ 1,991,654	\$ 1,991,654	\$ -	\$ 37,308,221	5.34%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Comparison Schedule

The Board of Education annually adopts budgets for the General Fund and Food Service Fund. All appropriations are legally controlled at the departmental level for the General Fund and the Food Service Fund.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedule for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. The budgetary schedule for the Food Service Fund is included in the additional supplementary information section. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Adjustments necessary to convert the results of operations and fund balances at the end of the year on the GAAP basis to the budgetary basis are as follows:

June 30, 2017			
GENERAL FUND			
	Revenues and other financing sources	Expenditures and other financing uses	Fund Balance
GAAP BASIS	\$ 76,828,545	\$ 77,329,419	\$ 5,872,883
Encumbrances at June 30, 2016	(2,750)	(629,832)	-
Encumbrances at June 30, 2017	8,145	117,392	(109,247)
Payments made on-behalf of the Board by the State of Maryland	(4,493,188)	(4,493,188)	-
BUDGETARY BASIS	\$ 72,340,752	\$ 72,323,791	\$ 5,763,636

June 30, 2017			
FOOD SERVICE FUND			
	Revenues	Expenditures	Fund Balance
GAAP BASIS	\$ 3,934,259	\$ 3,809,508	\$ 436,871
Capital asset additions	-	11,202	(11,202)
Commodities donated by the State of Maryland	(221,585)	(221,585)	-
BUDGETARY BASIS	\$ 3,712,674	\$ 3,599,125	\$ 425,669

Note 2. Required Fund Disclosures

The General Fund had an excess of actual expenditures over budgeted expenditures of \$1,085,193 for the year ended June 30, 2017 attributable to an increase in grant funds. Additional revenues of \$1,102,154 provided for the excess expenditures as restricted expenditures were over budget by \$899,228 and unrestricted expenditures were over budget by \$185,965.

Note 3. Pensions

Change in Benefit Terms

There were no benefit changes during the year.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 3. Pensions (continued)

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2016 valuation:

- Inflation assumption changed from 2.90% to 2.70%

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 years for State system
Asset valuation method	5-year smoothed market; 20% collar
Inflation	2.70% general, 3.20% wage
Salary increases	3.30% to 9.20%, including inflation
Investment rate of return	7.55%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

ADDITIONAL SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF CAROLINE COUNTY
SCHOOL ACTIVITIES FUND

BALANCE SHEET AND STATEMENT OF
REVENUES, EXPENDITURES AND FUND BALANCE
June 30, 2017

<u>Fund title</u>	<u>Fund Number</u>	June 30, 2016 <u>Fund Balance</u>	<u>Year Ended June 30, 2017</u>							<u>Fund Balance</u>
			<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers</u>	<u>Cash</u>	<u>Receivables</u>	<u>Payables</u>		
Central Office	100	\$ 14,848	\$ 22,024	\$ 16,635	\$ (15,469)	\$ 4,768	\$ -	\$ -	\$ 4,768	
Administration and Faculty	150	5,701	14,256	16,924	1,284	4,317	-	-	4,317	
Athletics	200	95,857	286,015	293,011	(10,161)	78,700	-	-	78,700	
Graduating Class Activities	250	55,907	61,263	76,815	1,204	41,559	-	-	41,559	
Clubs, Groups and Organizations	300	59,042	132,162	120,601	(5,799)	64,804	-	-	64,804	
School Publications	350	24,225	30,909	22,262	220	33,092	-	-	33,092	
General Instruction Fund	400	80,465	257,682	243,699	148	94,596	-	-	94,596	
Additional Sports Materials, Supplies, Equipment and Expenses	600	-	-	-	-	-	-	-	-	
School General Fund	650	94,914	177,101	208,620	28,573	91,968	-	-	91,968	
Certificate of deposit		-	-	-	-	30,019	-	-	-	
Total		\$ 430,959	\$ 981,412	\$ 998,567	\$ -	\$ 443,823	\$ -	\$ -	\$ 413,804	

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES AND EXPENSES - BUDGETARY BASIS
 FOOD SERVICES FUND
 Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Sale of meals	\$ 764,280	\$ 764,280	\$ 777,398	\$ 13,118
Federal assistance	2,125,000	2,125,000	2,614,692	489,692
State assistance	195,000	195,000	270,869	75,869
Interest income	200	200	411	211
Other	125,000	125,000	49,304	(75,696)
TOTAL REVENUES	3,209,480	3,209,480	3,712,674	503,194
EXPENDITURES				
Current:				
Food	1,612,000	1,612,000	1,845,041	(233,041)
Depreciation	-	-	19,177	(19,177)
Salaries and wages	1,020,288	1,020,288	1,122,731	(102,443)
Fixed charges	373,642	373,642	429,159	(55,517)
Contracted services	35,500	35,500	25,152	10,348
Supplies and materials	102,000	102,000	127,974	(25,974)
Other charges	25,050	25,050	15,863	9,187
Capital outlay	41,000	41,000	14,028	26,972
TOTAL EXPENDITURES	3,209,480	3,209,480	3,599,125	(389,645)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 113,549	\$ 113,549