

THE BOARD OF EDUCATION OF CAROLINE COUNTY

FINANCIAL REPORT

JUNE 30, 2018

CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	3 - 5
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 <i>GOVERNMENT AUDITING STANDARDS</i>	6 - 7
MANAGEMENT'S DISCUSSION AND ANALYSIS	9 - 16
FINANCIAL STATEMENTS	
Statement of Net Position	18
Statement of Activities	19
Balance Sheet - Governmental Funds	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	21
Statement of Net Position - Proprietary Fund	22
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	23
Statement of Cash Flows - Proprietary Fund	24
Statement of Fiduciary Net Position	25
Statement of Changes in Fiduciary Net Position - Retiree Benefit Trust Fund	26
NOTES TO FINANCIAL STATEMENTS	27 - 51
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	53 - 56
Schedule of Changes in the Net OPEB Liability and Related Ratios	57
Schedule of Investment Returns	58
Schedule of the Proportionate Share of the Net Pension Liability	59
Schedule of Contributions	60
Notes to Required Supplementary Information	61 - 63
ADDITIONAL SUPPLEMENTARY INFORMATION	
School Activities Fund Operations	65
Budgetary Comparison Schedule - Food Services Fund	66

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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, 2018, 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, 2018, 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, during the year ended June 30, 2018, The Board of Education of Caroline County adopted new accounting guidance from the Government Accounting Standards Board (GASB) Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the net OPEB liability and related ratios, schedule of investment returns, 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 28, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Board of Education of Caroline County's 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.



Salisbury, Maryland
September 28, 2018

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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, 2018, 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 28, 2018.

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 "JSM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
September 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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, 2018. 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, 2018

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, 2018

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 total assets 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, 2018	June 30, 2017 (as restated)	\$ Change	% Change
Current and other assets	15,313,577	14,865,348	448,229	3.02%
Capital assets	89,713,528	89,383,568	329,960	0.37%
Total Assets	105,027,105	104,248,916	778,189	0.75%
Deferred outflows of resources	1,234,101	1,392,855	-158,754	-11.40%
Current and other liabilities	10,410,450	8,724,485	1,685,965	19.32%
Long-term liabilities	128,918,673	123,712,465	5,206,208	4.21%
Total Liabilities	139,329,123	132,436,950	6,892,173	5.20%
Deferred inflows of resources	1,258,389	294,547	963,842	327.23%
Net investment in capital assets	86,145,557	85,673,804	471,753	0.55%
Unrestricted	(120,471,863)	(112,763,530)	(7,708,333)	6.84%
Total Net Position	(34,326,306)	(27,089,726)	(7,236,580)	26.71%

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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 (\$34 million), which represents a decrease of approximately \$7.2 million from the prior year. This fluctuation is due to an increase in current and long-term liabilities. The increase in current liabilities is due to accrued payroll and other accrued expenses such as July and August health insurance premiums. The large fluctuation in long-term liabilities was caused by an increase in the Board's net OPEB (other postemployment benefits) liability. During fiscal year 2018, the Board implemented Governmental Accounting Standard Board's Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement's objective is to improve the accounting and financial reporting for postemployment benefits other than pensions.

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

Figure 1-2
Statement of Activities

	June 30, 2018	June 30, 2017	\$ Change	% Change
Revenues				
Program Revenues				
Charges for services	5,039,927	4,915,260	124,667	2.54%
Operating grants and contributions	11,512,828	11,313,068	199,760	1.77%
Capital grants and contributions	2,613,942	1,250,379	1,363,563	109.05%
General Revenues				
County	14,207,361	13,983,229	224,132	1.60%
State aid	53,050,265	50,860,322	2,189,943	4.31%
Investment earnings	122,499	52,797	69,702	132.02%
Other	572,742	621,209	(48,467)	-7.80%
Total Revenues	87,119,564	82,996,264	4,123,300	4.97%
Expenses				
Administration	1,966,521	2,060,654	(94,133)	-4.57%
School management and support	5,309,722	5,184,648	125,074	2.41%
Instructional salaries and wages	28,601,388	27,958,583	642,805	2.30%
Textbooks and instructional supplies	982,758	1,084,949	(102,191)	-9.42%
Other instructional costs	5,921,652	4,672,879	1,248,773	26.72%

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Special education	7,489,640	7,564,987	(75,347)	-1.00%
Pupil personnel services	543,451	508,542	34,909	6.86%
Health services	729,979	707,585	22,394	3.16%
Pupil transportation	4,122,104	3,886,794	235,310	6.05%
Operation of plant	4,026,136	3,815,221	210,915	5.53%
Maintenance of plant	871,791	976,868	(105,077)	-10.76%
Fixed charges	22,911,723	21,700,408	1,211,315	5.58%
Community Services	1,333,546	985,275	348,271	35.35%
Capital outlay	284,947	211,000	73,947	35.05%
School activity	1,081,674	998,567	83,107	8.32%
On-behalf state retirement	4,323,883	4,493,188	(169,305)	-3.77%
Food services	3,855,229	3,809,508	45,721	1.20%
<i>Total Expenses</i>	<u>94,356,144</u>	<u>90,619,656</u>	<u>3,736,488</u>	<u>4.12%</u>
<i>Change in Net Position</i>	(7,236,580)	(7,623,392)	386,812	-5.07%
<i>Net Position End of Year</i>	(34,326,306)	(27,089,726)	(7,236,580)	26.71%

As shown in figure 1-2, there was a significant increase in the amount of revenue received for capital grants and contributions. This is a result of county and state funding that was obtained for the roof replacement project at Colonel Richardson High School. 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 the implementation of Essentials for Learning. Fixed charges spiked due to the benefit costs associated with new positions as well as increases in health insurance premiums and employer retirement contributions.

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

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

results of operations, the fund balance for the general fund decreased by \$1,286,766. 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 Food Service program is designed to be self-funded. As shown on page 23, the food service program generated a profit of \$65,407. 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 the budgetary basis of accounting is shown on pages 53-56. 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 89% 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 years 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.

During the year, the budget was amended by \$1,330,560 to appropriate fund balance to cover the costs associated with the Essentials for Learning. The Board is required by law to bring the budget in line with actual expenses. After the financial report has been issued, any necessary changes for categories that are over budget are presented to the County for approval. On the budgetary statements for the food services fund, the original budget is the same as the final budget.

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

At June 30, 2018, 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 \$134 million.

Figure 1-3
Capital Assets - Governmental Activities

	June 30, 2018	June 30, 2017	\$ Change	% Change
Construction in progress and land	308,929	238,327	70,602	29.62%
Buildings and improvements	128,089,710	125,652,321	2,437,389	1.94%
Furniture and equipment	2,063,293	1,897,990	165,303	8.71%
Software	675,517	675,517	-	0.00%
Vehicles	2,831,349	2,459,842	371,507	15.10%
<i>Total capital assets</i>	<u>133,968,798</u>	<u>130,923,997</u>	<u>3,044,801</u>	<u>2.33%</u>

Projects which contributed to the increase in total capital assets include: the acquisition of the VFW building on Greensboro Road, the roof replacement at Colonel Richardson High School, school bus purchases and the installation of Voice Over Internet Protocol phone systems 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.

THE BOARD OF EDUCATION OF CAROLINE COUNTY
Denton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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:

- 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 has moved into its final phase of writing a highly-anticipated report for the General Assembly and Governor Larry Hogan. 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.
- Caroline County continues to cope with overcrowding in many of the schools. As a result, several of our buildings are in need of renovation. Funding for capital projects requires a lengthy approval process and is shared by both the State and County Government.

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, 2018

	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 11,289,143	\$ 159,760	\$ 11,448,903
Accounts receivable:			
Federal funds from State of Maryland	1,103,850	168,973	1,272,823
State of Maryland	503,283	23,943	527,226
Internal balances	(110,682)	110,682	-
Other	1,527,075	6,895	1,533,970
External parties (fiduciary fund)	477,116	-	477,116
Prepays	3,949	-	3,949
Inventory	-	49,590	49,590
Non depreciable capital assets	308,929	-	308,929
Depreciable capital assets, net	89,268,118	136,481	89,404,599
TOTAL ASSETS	104,370,781	656,324	105,027,105
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (see Note 6)	1,188,101	-	1,188,101
Other post-employment benefits (see Note 7)	46,000	-	46,000
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,234,101	-	1,234,101
LIABILITIES			
Accounts payable:			
Vendors	577,688	38,751	616,439
Accrued payroll	5,464,198	115,295	5,579,493
Other accrued expenses	3,231,828	-	3,231,828
Unearned revenue - Federal	130,983	-	130,983
Unearned revenue - State	710	-	710
Unearned revenue - other	187,245	-	187,245
Long-term liabilities:			
Due within one year	663,752	-	663,752
Due in more than one year	128,918,673	-	128,918,673
TOTAL LIABILITIES	139,175,077	154,046	139,329,123
DEFERRED INFLOWS OF RESOURCES			
Pensions (see Note 6)	546,497	-	546,497
Other post-employment benefits (see Note 7)	711,892	-	711,892
TOTAL DEFERRED INFLOWS OF RESOURCES	1,258,389	-	1,258,389
NET POSITION			
Net investment in capital assets	86,009,076	136,481	86,145,557
Unrestricted	(120,837,660)	365,797	(120,471,863)
TOTAL NET POSITION	\$ (34,828,584)	\$ 502,278	\$ (34,326,306)

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, 2018

	<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	\$ 1,966,521	\$ -	\$ 94,724	\$ -
School management and support	5,309,722	-	100,341	-
Instructional salaries and wages	28,601,388	-	1,309,450	-
Textbooks and instructional supplies	982,758	-	208,207	-
Other instructional costs	5,921,652	-	734,222	-
Special education	7,489,640	-	1,951,590	-
Pupil personnel services	543,451	-	-	-
Health services	729,979	-	89,329	-
Pupil transportation	4,122,104	-	113,964	-
Operation of plant	4,026,136	-	21,609	564,600
Maintenance of plant	871,791	-	-	-
Fixed charges	22,911,723	-	1,231,963	-
Community services	1,333,546	-	1,333,546	-
School activity expenditures	1,081,674	1,119,898	-	-
On-behalf State Retirement contributions	4,323,883	-	4,323,883	-
Capital outlay	284,947	-	-	2,049,342
Total Governmental Activities	90,500,915	1,119,898	11,512,828	2,613,942
Business-Type Activities				
Food Services	3,855,229	3,920,029	-	-
Total Business-Type Activities	3,855,229	3,920,029	-	-
Totals	\$ 94,356,144	\$ 5,039,927	\$ 11,512,828	\$ 2,613,942

General Revenues

Caroline County
State of Maryland
Investment earnings
Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year, as restated (see Note 14)

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
\$ (1,871,797)	\$ -	\$ (1,871,797)
(5,209,381)	-	(5,209,381)
(27,291,938)	-	(27,291,938)
(774,551)	-	(774,551)
(5,187,430)	-	(5,187,430)
(5,538,050)	-	(5,538,050)
(543,451)	-	(543,451)
(640,650)	-	(640,650)
(4,008,140)	-	(4,008,140)
(3,439,927)	-	(3,439,927)
(871,791)	-	(871,791)
(21,679,760)	-	(21,679,760)
-	-	-
38,224	-	38,224
-	-	-
1,764,395	-	1,764,395
<hr/>		
(75,254,247)	-	(75,254,247)
<hr/>		
-	64,800	64,800
<hr/>		
-	64,800	64,800
<hr/>		
(75,254,247)	64,800	(75,189,447)
<hr/>		
14,207,361	-	14,207,361
53,050,265	-	53,050,265
121,892	607	122,499
572,742	-	572,742
<hr/>		
67,952,260	607	67,952,867
<hr/>		
(7,301,987)	65,407	(7,236,580)
<hr/>		
(27,526,597)	436,871	(27,089,726)
<hr/>		
\$ (34,828,584)	\$ 502,278	\$ (34,326,306)

THE BOARD OF EDUCATION OF CAROLINE COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
ASSETS			
Cash and investments	\$ 10,795,332	\$ 14,394	\$ 479,417
Accounts receivable:			
Federal funds from State of Maryland	1,103,850	-	-
State of Maryland	482,323	20,960	-
Other Board of Education funds	383,115	-	-
Local	1,409,194	-	-
Other	117,881	-	-
Prepays	749	-	3,200
TOTAL ASSETS	\$ 14,292,444	\$ 35,354	\$ 482,617
LIABILITIES AND FUND BALANCES			
Accounts payable:			
Vendors	\$ 577,118	\$ -	\$ 570
Other Board of Education funds	-	16,681	-
Accrued payroll	5,464,198	-	-
Accrued leave	144,264	-	-
Other accrued expenses	3,231,828	-	-
Unearned revenue - Federal	130,983	-	-
Unearned revenue - State	710	-	-
Unearned revenue - other	157,226	-	30,019
TOTAL LIABILITIES	9,706,327	16,681	30,589
COMMITMENTS AND CONTINGENCIES			
FUND BALANCES			
Committed	749	-	3,200
Assigned to:			
Accrued leave	705,426	-	-
School construction projects	-	18,673	-
School activities	-	-	448,828
Other purposes (encumbrances)	152,332	-	-
Unassigned	3,727,610	-	-
TOTAL FUND BALANCES	4,586,117	18,673	452,028
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,292,444	\$ 35,354	\$ 482,617

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

Total Governmental Funds	Total Governmental Funds Balances	\$ 5,056,818
\$ 11,289,143	Amounts reported for governmental activities in the statement of net position are different because	
1,103,850	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	89,577,047
503,283		
383,115		
1,409,194		
117,881	Deferred outflows of resources not reported in the fund financial statements	
<u>3,949</u>		
<u>\$ 14,810,415</u>	Pension (see Note 6)	1,188,101
	Other post-employment benefits (see Note 7)	<u>46,000</u>
		1,234,101
\$ 577,688	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
16,681	Accrued leave	(705,426)
5,464,198	Accrued leave - retirement	(611,036)
144,264	Retirement incentive plan	(368,954)
3,231,828	Capital leases	(3,567,971)
130,983	Net pension liability	(4,159,121)
710	Post-employment benefits	<u>(120,025,653)</u>
187,245		(129,438,161)
<u>9,753,597</u>	Deferred inflows of resources not reported in the fund financial statements	
3,949	Pension (see Note 6)	(546,497)
705,426	Other post-employment benefits (see Note 7)	<u>(711,892)</u>
18,673		(1,258,389)
448,828		
152,332		
3,727,610	Net Position of Governmental Activities	<u>\$ (34,828,584)</u>
<u>5,056,818</u>		
<u>\$ 14,810,415</u>		

THE BOARD OF EDUCATION OF CAROLINE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	<u>GENERAL</u> <u>FUND</u>	<u>SCHOOL</u> <u>CONSTRUCTION</u>	<u>SCHOOL</u> <u>ACTIVITIES</u>
REVENUES			
County Appropriation	\$ 14,207,361	\$ 435,329	\$ -
State of Maryland	53,050,265	-	-
Restricted Federal revenues	5,635,577	-	-
Restricted State revenues	1,373,004	1,614,013	-
Restricted other revenues	180,364	-	-
On-behalf State Retirement contributions	4,323,883	-	-
Other sources	730,925	208	-
School activity revenues	-	-	1,119,898
TOTAL REVENUES	79,501,379	2,049,550	1,119,898
EXPENDITURES			
Current:			
Administration	1,907,162	-	-
School management and support	5,276,048	-	-
Instructional salaries and wages	28,642,809	-	-
Instructional textbooks and supplies	982,758	-	-
Other instructional costs	3,612,045	-	-
Special education	7,489,640	-	-
Pupil personnel services	543,451	-	-
Health services	729,979	-	-
Pupil transportation	4,430,790	-	-
Operation of plant	4,342,032	-	-
Maintenance of plant	893,545	-	-
Fixed charges	16,326,437	-	-
Community services	1,333,546	-	-
School activity expenditures	-	-	1,081,674
On-behalf State Retirement contributions	4,323,883	-	-
Capital outlay	211,994	2,049,342	-
TOTAL EXPENDITURES	81,046,119	2,049,342	1,081,674
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,544,740)	208	38,224
OTHER FINANCING SOURCES			
Proceeds from capital leases	257,974	-	-
TOTAL OTHER FINANCING SOURCES	257,974	-	-
Net change in fund balances	(1,286,766)	208	38,224
Fund balances, beginning	5,872,883	18,465	413,804
Fund balances, ending	\$ 4,586,117	\$ 18,673	\$ 452,028

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, 2018

	<u>Business-Type Activities</u>
	<u>Food Services</u>
ASSETS	
Current assets:	
Cash and investments	\$ 159,760
Accounts receivable:	
Federal funds from State	168,973
State funds receivable	23,943
Other Board of Education funds	110,682
Other receivables	6,895
Inventory	<u>49,590</u>
Total current assets	<u>519,843</u>
Capital assets, net	<u>136,481</u>
TOTAL ASSETS	<u>656,324</u>
LIABILITIES	
Current liabilities:	
Accounts payable	38,751
Accrued payroll	<u>115,295</u>
TOTAL LIABILITIES	<u>154,046</u>
COMMITMENTS AND CONTINGENCIES	
NET POSITION	
Net investment in capital assets	136,481
Unrestricted	<u>365,797</u>
TOTAL NET POSITION	<u><u>\$ 502,278</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, 2018

	Business-Type Activities
	<u>Food</u>
	<u>Services</u>
OPERATING REVENUES	
Sale of meals	\$ 810,968
Federal assistance	2,588,900
State assistance	267,255
USDA donated commodities	215,411
Other sources	37,495
TOTAL OPERATING REVENUES	<u>3,920,029</u>
OPERATING EXPENSES	
Food	1,848,273
Salaries and wages	1,156,206
Fixed charges	453,411
Contracted services	23,860
Supplies and materials	108,561
Other charges	25,072
USDA donated commodities	215,411
Depreciation	18,459
Additional equipment	5,976
TOTAL OPERATING EXPENSES	<u>3,855,229</u>
OPERATING INCOME	64,800
NON-OPERATING REVENUES	
Interest income	<u>607</u>
Change in net position	65,407
Net position beginning of year	<u>436,871</u>
Net position end of year	<u><u>\$ 502,278</u></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, 2018

CASH FLOWS FROM OPERATIONS:	
Receipts from students	\$ 810,968
Operating grants received	2,725,996
Other operating receipts	31,025
Payments to food and other suppliers	(2,006,990)
Payments to employees and employee related benefits	(1,617,545)
Net cash used by operating activities	(56,546)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Cash transfers to other Board funds	73,629
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	607
Net increase in cash	17,690
Cash and investments, beginning of year	142,070
Cash and investments, end of year	\$ 159,760
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 64,800
Adjustments:	
Depreciation	18,459
(Increase) decrease in assets:	
Federal receivables	(110,156)
State receivables	(20,003)
Other receivables	(6,470)
Inventory	(12,970)
Increase (decrease) in liabilities:	
Accounts payable	17,722
Accrued payroll	(7,928)
Total adjustments	(121,346)
Net cash used by operating activities	\$ (56,546)
Noncash items:	
Donation of food commodities	\$ 215,411

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, 2018

	Retiree Benefit <u>Trust Fund</u>	Agency <u>Funds</u>
ASSETS		
Investments	\$ 1,208,439	\$ -
Accounts receivable:		
Contribution receivable	46,000	
Federal funds from State	-	224,886
State of Maryland	-	377,359
Other	-	22,676
	<u>1,254,439</u>	<u>\$ 624,921</u>
TOTAL ASSETS	<u>1,254,439</u>	<u>\$ 624,921</u>
LIABILITIES		
Accounts payable:		
Vendors	-	\$ 14,732
State of Maryland	-	84,823
Unearned revenue - other	-	48,250
Other Board of Education funds	-	477,116
	<u>-</u>	<u>\$ 624,921</u>
TOTAL LIABILITIES	<u>-</u>	<u>\$ 624,921</u>
NET POSITION		
Held in trust for other post-employment benefits	<u>\$ 1,254,439</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, 2018

	<u>Retiree Benefit Trust Fund</u>
ADDITIONS	
Contributions:	
Employer	\$ 46,000
Investment income	83,936
TOTAL ADDITIONS	<u>129,936</u>
DEDUCTIONS	
Administrative expenses	<u>5,957</u>
TOTAL DEDUCTIONS	<u>5,957</u>
Change in net position	123,979
Net position held in trust for other post-employment benefits beginning of year	<u>1,130,460</u>
Net position held in trust for other post-employment benefits end of year	<u><u>\$ 1,254,439</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. In addition, certain employees are allowed to carry-over an additional 20 days of unused vacation to be used in the year of retirement. Sick leave vests for certain employees under certain limited circumstances. 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 two items that qualify for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension liability (Note 6) and OPEB liability (Note 7) for changes in assumptions, the net difference between projected and actual investment earnings on plan investments, and 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 two items that qualify for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension liability (Note 6) and OPEB liability (Note 7) for changes in assumptions, the difference between actual and expected experience, and the net difference between projected and actual investment earnings on plan investments. This item is 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. Pensions

Certain employees of the Board are members of the Maryland State Retirement and Pension System (“the System”). The Maryland State Retirement and Pension System is considered a single, multi-employer cost-sharing plan.

For purposes of measuring the 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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

M. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Retiree Benefit Trust of the Board of Education of Caroline County and additions to/deductions from the Retiree Benefit Trust of the Board of Education of Caroline County's fiduciary net position have been determined on the same basis as they are reported by the Retiree Benefit Trust of the Board of Education of Caroline County. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

N. 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.

O. 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.

P. 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.

Q. 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.

R. 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.

S. 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, 2018 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 \$152,332.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments

At June 30, 2018, the Board of Education had bank deposits with various commercial banks totaling \$1,210,643 (carrying value \$571,214). 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, 2018, bank deposits were fully collateralized. Investments of \$10,877,689 (carrying value \$10,877,689) 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.

At June 30, 2018, 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	\$	571,214
Investments		10,877,689
Total cash and investments	\$	11,448,903

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 June 30, 2018. 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. All investments of the MABE Trust are considered Level 1, Level 2 or are measured using the net asset value practical expedient, the Board's membership investment in the MABE Trust are considered Level 2 or as being measured at the net asset value practical expedient. For investments measured using the net asset value practical expedient, there are no unfunded commitments and investments are able to be fully redeemed on a daily basis. As of June 30, 2018, the pooled position of the MABE Trust was \$339,856,458 in total, of which the Board's allocated investment balance was \$1,208,439. 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.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (continued)

Investment in External Investment Pool (continued)

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	\$ 383,115	\$ -
School Construction Fund	(16,681)	
Food Service - Enterprise Fund	110,682	
External Parties - Fiduciary Fund	-	477,116
	\$ 477,116	\$ 477,116

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, 2018, was as follows:

	Balance				Balance
	June 30, 2017	Additions	Deductions	Transfers	June 30, 2018
Governmental Activities					
Capital Assets, not being depreciated					
Construction in progress	\$ 32,998	\$ -	\$ -	\$ (32,998)	\$ -
Land	205,329	103,600	-	-	308,929
Total capital assets, not being depreciated	<u>238,327</u>	<u>103,600</u>	<u>-</u>	<u>(32,998)</u>	<u>308,929</u>
Capital assets, being depreciated					
Buildings and improvements	125,652,321	2,437,389	-	-	128,089,710
Furniture and equipment	1,897,990	132,305	-	32,998	2,063,293
Software	675,517	-	-	-	675,517
Vehicles	2,459,842	436,228	(64,721)	-	2,831,349
Total capital assets, being depreciated	<u>130,685,670</u>	<u>3,005,922</u>	<u>(64,721)</u>	<u>32,998</u>	<u>133,659,869</u>
Less accumulated depreciation:					
Buildings and improvements	(38,340,728)	(2,441,430)	-	-	(40,782,158)
Furniture and equipment	(1,268,496)	(74,466)	-	-	(1,342,962)
Software	(661,935)	(8,432)	-	-	(670,367)
Vehicles	(1,424,210)	(184,002)	11,948	-	(1,596,264)
Total accumulated depreciation	<u>(41,695,369)</u>	<u>(2,708,330)</u>	<u>11,948</u>	<u>-</u>	<u>(44,391,751)</u>
Total capital assets, being depreciated, net	<u>88,990,301</u>	<u>297,592</u>	<u>(52,773)</u>	<u>32,998</u>	<u>89,268,118</u>
Governmental activities capital assets, net	<u>\$89,228,628</u>	<u>\$ 401,192</u>	<u>\$ (52,773)</u>	<u>\$ -</u>	<u>\$89,577,047</u>
Business-type activities					
Equipment	\$ 993,060	\$ -	\$ -	\$ -	\$ 993,060
Software	27,122	-	-	-	27,122
Vehicles	55,670	-	-	-	55,670
Total capital assets, being depreciated	<u>1,075,852</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,075,852</u>
Less accumulated depreciation:					
Equipment	(844,232)	(14,383)	-	-	(858,615)
Software	(27,122)	-	-	-	(27,122)
Vehicles	(49,558)	(4,076)	-	-	(53,634)
Total accumulated depreciation	<u>(920,912)</u>	<u>(18,459)</u>	<u>-</u>	<u>-</u>	<u>(939,371)</u>
Business-type activities capital assets, net	<u>\$ 154,940</u>	<u>\$ (18,459)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 136,481</u>

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 59,359
School management and support	33,674
Other instructional costs	2,441,912
Pupil transportation	127,343
Maintenance of plant	46,042
Total depreciation expense	<u>\$ 2,708,330</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.

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, 2018 the Board's total payroll for all employees was \$48,408,542. Total covered payroll was \$38,356,101. 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. 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 2018 was \$1,660,016. In addition, the State of Maryland contributed \$4,323,883 on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense.

During fiscal year 2018, the Board reported expense of \$499,998 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, 2018, 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:

	2018
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 4,159,121
State's proportionate share of the net pension liability (Teachers' Systems)	<u>47,736,155</u>
Total	<u>\$ 51,895,276</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plans (continued)

The net pension liability was measured as of June 30, 2017, 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, 2017, the Board's proportion was approximately .0192341%.

For the year ended June 30, 2018, the Board recognized pension expense of \$2,082,573 in the government-wide financial statements. \$2,160,014 was recognized in the fund financial statements. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 155,303	\$ -
Net difference between projected and actual investment earnings on pension plan investments	532,800	253,798
Differences between expected and actual experience	-	292,699
Board contributions subsequent to measurement date	499,998	-
	\$ 1,188,101	\$ 546,497
Total	\$ 1,188,101	\$ 546,497

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plans (continued)

The \$499,998 of deferred outflows of resources resulting from the Board's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life ranging from 5.00 to 5.87 years. The net difference in investment earnings are being amortized over a closed five-year period. The following table shows the amortization of these balances:

Year Ending June 30,	Deferred Outflows	Deferred Inflows
2019	\$ 266,985	\$ (199,449)
2020	255,404	(111,817)
2021	158,007	(109,537)
2022	4,332	(92,850)
2023	3,375	(32,844)
	\$ 688,103	\$ (546,497)

Actuarial Assumptions

The total pension liability in the June 30, 2017 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	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15%, including inflation
Discount rate	7.50%
Investment rate of return	7.50%
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:

NOTES TO FINANCIAL STATEMENTS

Note 6. Pension Plans (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	36%	5.30%
Private Equity	11%	7.00%
Rate Sensitive	21%	1.20%
Credit Opportunity	9%	3.60%
Real Assets	15%	5.70%
Absolute Return	8%	3.10%
Total	<u><u>100%</u></u>	

Discount rate

A single discount rate of 7.50% 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 7.50%. 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 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 7.50%, 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	6.50%	\$ 5,894,295
Current discount rate	7.50%	\$ 4,159,121
1% increase	8.50%	\$ 2,719,413

Note 7. Other Postemployment Benefits

Plan Description

The Board administers a single employer defined benefit plan, The Caroline County Public Schools Post-Retirement Medical and Life Insurance Benefits Plan (the "Plan"), that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees, their spouses and eligible dependents. The Plan does not issue a publicly available financial report.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (continued)

Plan Administration

In May 2009, the Board created the Retiree Benefit Trust of the Board of Education of Caroline County (the "Trust") in order to facilitate the funding or partial funding of the actuarially calculated OPEB liability. 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, if 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.

Plan Membership

At July 1, 2016 (valuation date), the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	349
Inactive plan members or beneficiaries entitled but not yet receiving benefits	-
Active plan members	684
	<u>1,033</u>

Benefits Provided

The Plan provides medical, prescription drug, dental, and vision benefits to eligible retirees, their spouses and eligible dependents. The benefits provided are the same as those provided to active employees. Retirees receive a subsidy for their post-retirement medical insurance based on the years of service with the Board. Retirees with at least 5 years of service receive a subsidy based on 90% of the single rate prior to age 65. Retirees with less than 15 years of service receive no employer subsidy after attaining age 65. After attaining age 65, retirees with at least 15 years of service receive a subsidy of up to 100% of the pre-Medicare subsidy amount. There is no explicit subsidy for dependents or surviving spouses, although they are allowed access to the plan and pay 100% of the costs. There is no subsidy for dental premiums once the participant reaches Medicare age.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (continued)

Benefits Provided (continued)

Participants must meet the eligibility requirements of the Maryland State Teachers'/Employees' pension system (EPS). For members hired before July 1, 2011, the earliest retirement eligibility is 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. For members hired after July 1, 2011, the earliest eligibility is age 60 with 15 years of service, age 65 with 10 years of service, or age plus service is at least 90 (Rule of 90). Participants must also have at least 5 years of service in Caroline County (15 years of service if hired after 7/1/2013). Disability health benefits require the participant meet the retirement eligibility requirements noted above or have 5 years of service (15 years if hired after 7/1/2013). The disability benefit is until age 65 unless the retirement eligibility requirements above are met. Eligible spouses and dependents must be enrolled in the plan immediately prior to the retiree's effective date of retirement to receive coverage.

Contributions

The employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon annual approval of the operating budget.

Investment Policy

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, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Equity	61.00%
Fixed income	29.60%
Cash	9.40%
Total	<u>100.00%</u>

Rate of Return

Best estimates of real rates of return for each major asset class included in the target asset allocations as of June 30, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	6.97%
Fixed income	4.00%
Cash	2.60%

For the year ended June 30, 2018, the total rate of return, net of investment expense, was 6.84%. 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.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (continued)

Net OPEB Liability

The Board's net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016 rolled forward to the June 30, 2018 measurement date. The methods, assumptions, and participant data used are detailed in the fiscal year 2017 GASB 45 actuarial valuation report dated September 25, 2017 with the exception of the actuarial cost method and the discount rate. These calculations are based on the entry age normal cost method as required by GASB 74 and GASB 75. The entry age normal actuarial cost method requires a salary scale assumption. The State of Maryland Teachers' Pension salary assumption was used. The discount rate used to determine liabilities under GASB 75 is based on an index rate for 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The rate was 3.58% as of June 30, 2017 and 3.62% as of June 30, 2018.

Actuarial 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.

Significant valuation methods and assumptions are as follows:

Valuation date	July 1, 2016
Actuarial cost method - GASB 74 and 75	Entry age normal
Amortization method	Closed, level percentage of payroll
Remaining amortization period	22 years (as of July 1, 2016)
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2017	3.58%
Discount rate - June 30, 2018	3.62%
Investment rate of return	7.00%
Payroll increases	3.50%
Inflation rate	2.30%
Medical trend	Based on Society of Actuaries Long Term Medical Trend Model, the 2016 rate is 6.0% decreasing gradually. The post Medicare rate in 2050 is 4.9%. The ultimate post Medicare trend rate is 3.9% and is attained in 2075.
Mortality	The mortality rates for healthy retirees was calculated using the RP 2000 Combined Healthy Table, sex distinct, fully generational with Scale AA. The mortality rates for disabled retirees was calculated using the RP 2000 Combined Healthy Table, with base qx set forward three years for both males and females, fully generational with Scale AA.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (continued)

Actuarial Assumptions (continued)

The long-term expected rate of return on OPEB 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 OPEB 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.

Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is selected from a range of 20-Year Municipal Bond Indices and include the Bond Buyer 20-Bond GO Index, the S&P Municipal Bond 20-Year High Grade Rate Index, and the Fidelity 20-Year GO Municipal Bond Index. The final equivalent single discount rate used for this year's valuation is 3.62 percent as of June 30, 2018. This rate has been adjusted from 3.58 percent as of June 30, 2017.

Change in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2017	\$ 116,139,269	\$ 1,130,461	\$ 115,008,808
Changes for the Year			
Service Cost	5,201,246		5,201,246
Interest	4,096,803		4,096,803
Changes of Benefit Terms	-		-
Esperience Losses/Gains	-		-
Trust Contributions - Employer		3,406,860	(3,406,860)
Net Investment Income		83,935	(83,935)
Changes in Assumptions	(796,367)		(796,367)
Benefit Payments (net of retiree contributions)	(3,406,859)	(3,406,859)	-
Administrative Expense		(5,958)	5,958
Net Changes	5,094,823	77,978	5,016,845
Balance as of June 30, 2018	\$ 121,234,092	\$ 1,208,439	\$ 120,025,653

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

The following amounts present the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.62%) or one percentage point higher (4.62%) than the current discount rate:

	Discount Rate	Net OPEB Liability
1% decrease	2.62%	\$ 142,237,255
Current discount rate	3.62%	\$ 120,025,653
1% increase	4.62%	\$ 102,223,246

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.00% decreasing to 2.90%) or one percentage point higher (7.00% decreasing to 4.90%) than the current healthcare cost trend rates:

	Healthcare Cost Trend Rate	Net OPEB Liability
1% decrease (5.00% decreasing to 2.90%)	2.90%	\$ 97,526,169
6.00% decreasing to 3.90%	3.90%	\$ 120,025,653
1% increase (7.00% decreasing to 4.90%)	4.90%	\$ 149,874,794

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Board will recognize OPEB expense in the amount of \$9,089,597 on the government-wide statements. At June 30, 2018, the Board reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 707,882
Net difference between projected and actual investment earnings	-	4,010
Differences between expected and actual experience	-	-
Board's contributions subsequent to measurement date	46,000	-
 Total	 \$ 46,000	 \$ 711,892

The \$46,000 of deferred outflows of resources resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The deferred inflows and outflows related to non-investment activity are being amortized over nine years. The net difference in investment earnings are being amortized over a closed five-year period. The following table shows the amortization of these balances:

Year Ending June 30,	Deferred Outflows	Deferred Inflows
2019	\$ -	\$ (89,487)
2020	-	(89,487)
2021	-	(89,487)
2022	-	(89,489)
2023	-	(88,485)
Thereafter	-	(265,457)
	\$ -	\$ (711,892)

NOTES TO FINANCIAL STATEMENTS

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 8% of total premiums. Currently, ESMEC keeps on hand 12% as a recommended conservative reserve. As of February 8, 2018, the Board's funds held by ESMEC exceeded the recommended reserve by \$1,038,464. 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, 2018 consist of the following:

Vehicles, bank, interest at 2.50%; payable in annual installments of approximately \$90,000, including interest through 2020	\$ 174,103
Energy equipment, bank, interest at 3.816%; payable in annual installments ranging from approximately \$42,000 to \$470,000 through October 2025	1,927,137
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	1,466,731
	<hr/> <hr/> \$ 3,567,971

NOTES TO FINANCIAL STATEMENTS

Note 9. Capital Leases (continued)

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

2019		\$		519,488
2020				633,096
2021				564,665
2022				587,926
2023				611,687
2024-2028				904,189
2029-2030				344,637
				4,165,688
Less amounts representing interest				597,717
Present value of net minimum lease payments				\$ 3,567,971

Interest expense on the above capital leases was approximately \$137,000 for the year ended June 30, 2018.

The cost of items acquired under capital lease arrangements, as included in capital assets and construction in progress, totaled \$4,722,014 and the related accumulated depreciation was \$760,186 at June 30, 2018.

Note 10. Long-Term Liabilities

Changes in long-term liabilities were as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Due within one year
Capital leases	\$ 3,709,764	\$ 257,974	\$ 399,767	\$ 3,567,971	\$ 519,488
Compensated absences	851,330	675,688	677,328	849,690	144,264
Compensated absences - retirement	-	611,036	-	611,036	-
Retirement incentive plan	-	368,954	-	368,954	-
Net pension liability (Note 6)	4,693,266	-	534,145	4,159,121	-
Net OPEB liability, as restated (Note 7)	115,008,808	5,016,845	-	120,025,653	-
	\$124,263,168	\$ 6,930,497	\$ 1,611,240	\$129,582,425	\$ 663,752

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

NOTES TO FINANCIAL STATEMENTS

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,		
2019	\$	362,383
2020		293,745
2021		259,442
2022		-
2023		-

Rent expense, under these leases, totaled approximately \$571,000 for the year ended June 30, 2018.

Note 12. Required Fund Disclosures

The Food Service Fund had an excess of actual expenditures over budgeted expenditures of \$143,015 for the year ended June 30, 2018.

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, 2018. At June 30, 2018 the Board's commitments with contractors were as follows:

Projects	Expenditures to Date	Remaining Commitments
Greensboro Elementary School Architectural Design	\$ -	\$ 2,095,980
Lockerman Middle School Partial Roof Replacement	-	426,250

NOTES TO FINANCIAL STATEMENTS

Note 14. Prior Period Restatement

During fiscal year 2018, the Board implemented Governmental Accounting Standard Board's Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and in accordance, has applied its effects retrospectively. The statement's objective is to improve the accounting and financial reporting for postemployment benefits other than pensions (OPEB) as well as to improve the information provided by employers about financial support for OPEB (see Note 7).

The following table is a summary of the effects of these changes on net position as of June 30, 2017.

	<u>GOVERNMENTAL ACTIVITIES</u>
	Net Position
As previously reported	\$ 43,922,593
Adjustment to net OPEB liability	<u>(71,012,319)</u>
As restated	<u>\$ (27,089,726)</u>

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, 2018

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
County appropriation	\$ 14,207,361	\$ 14,207,361	\$ 14,207,361	\$ -
State revenues:				
Current expense	28,033,184	28,033,184	28,033,184	-
Transportation	2,700,841	2,700,841	2,700,841	-
Guaranteed tax base	1,576,206	1,576,206	1,576,206	-
Handicapped children	2,487,264	2,487,264	2,487,264	-
Limited English proficiency	2,108,846	2,108,846	2,108,846	-
Supplemental grant	966,820	966,820	966,820	-
Compensatory education	15,177,104	15,177,104	15,177,104	-
Total state revenues	53,050,265	53,050,265	53,050,265	-
Other sources:				
Tuition	7,000	7,000	14,960	7,960
Interest income	10,000	10,000	122,099	112,099
Miscellaneous	523,000	523,000	593,866	70,866
Total other sources	540,000	540,000	730,925	190,925
Total unrestricted revenues	67,797,626	67,797,626	67,988,551	190,925
Restricted revenues:				
Restricted Federal revenues	5,546,620	5,546,620	5,627,432	80,812
Restricted State revenues	1,221,320	1,221,320	1,395,210	173,890
Restricted other revenues	-	-	180,364	180,364
Total restricted revenues	6,767,940	6,767,940	7,203,006	435,066
TOTAL REVENUES	74,565,566	74,565,566	75,191,557	625,991
OTHER FINANCING SOURCES				
Reserved and unexpended funds	-	1,330,560	1,330,560	-
TOTAL OTHER FINANCING SOURCES	-	1,330,560	1,330,560	-
TOTAL REVENUE AND OTHER FINANCING SOURCES	74,565,566	75,896,126	76,522,117	625,991

THE BOARD OF EDUCATION OF CAROLINE COUNTY

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

GENERAL FUND

Year Ended June 30, 2018

(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
EXPENDITURES				
Administration:				
Salaries and wages	\$ 1,088,061	\$ 1,088,061	\$ 1,181,489	\$ (93,428)
Contracted services	315,277	315,277	286,840	28,437
Supplies and materials	81,950	81,950	81,005	945
Other charges	221,256	221,256	285,211	(63,955)
Equipment	2,000	2,000	335	1,665
Transfers	-	-	(22,544)	22,544
Total Administration	1,708,544	1,708,544	1,812,336	(103,792)
School management and support:				
Salaries and wages	4,405,084	4,405,084	4,436,313	(31,229)
Contracted services	4,500	4,500	3,623	877
Supplies and materials	127,552	127,552	126,385	1,167
Other charges	458,884	458,884	604,240	(145,356)
Equipment	10,200	10,200	5,146	5,054
Total school management and support	5,006,220	5,006,220	5,175,707	(169,487)
Instructional salaries and wages:				
Salaries and wages	27,945,010	27,945,010	27,333,359	611,651
Instructional textbooks and supplies:				
Supplies and materials	907,051	907,051	819,270	87,781
Other instructional costs:				
Contracted services	549,893	1,880,453	1,983,462	(103,009)
Other charges	181,350	181,350	163,723	17,627
Equipment	922,123	922,123	667,502	254,621
Transfers	51,400	51,400	13,819	37,581
Total other instructional costs	1,704,766	3,035,326	2,828,506	206,820
Special education:				
Salaries and wages	4,344,000	4,344,000	4,241,868	102,132
Contracted services	24,980	24,980	74,190	(49,210)
Supplies and materials	60,963	60,963	30,608	30,355

THE BOARD OF EDUCATION OF CAROLINE COUNTY

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

GENERAL FUND

Year Ended June 30, 2018

(Continued)

	Budgeted Amounts			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Favorable (Unfavorable)
Other charges	\$ 28,500	\$ 28,500	\$ 21,327	\$ 7,173
Equipment	9,441	9,441	4,311	5,130
Transfers	1,238,005	1,238,005	1,165,746	72,259
Total special education	5,705,889	5,705,889	5,538,050	167,839
Pupil personnel services:				
Salaries and wages	514,567	514,567	518,441	(3,874)
Contracted services	7,550	7,550	7,925	(375)
Supplies and materials	16,000	16,000	7,256	8,744
Other charges	10,100	10,100	9,829	271
Total pupil personnel services	548,217	548,217	543,451	4,766
Health services:				
Salaries and wages	620,796	620,796	617,098	3,698
Contracted services	10,000	10,000	4,979	5,021
Supplies and materials	27,200	27,200	12,104	15,096
Other charges	4,500	4,500	2,990	1,510
Equipment	5,500	5,500	3,947	1,553
Total health services	667,996	667,996	641,118	26,878
Pupil transportation:				
Salaries and wages	1,604,501	1,604,501	1,709,325	(104,824)
Contracted services	2,290,211	2,290,211	1,856,156	434,055
Supplies and materials	220,836	220,836	234,343	(13,507)
Other charges	51,664	51,664	67,502	(15,838)
Equipment	181,720	181,720	191,526	(9,806)
Total pupil transportation	4,348,932	4,348,932	4,058,852	290,080
Operation of plant:				
Salaries and wages	1,798,712	1,798,712	1,915,677	(116,965)
Contracted services	366,623	366,623	379,599	(12,976)
Supplies and materials	257,650	257,650	244,513	13,137
Other charges	1,721,084	1,721,084	1,771,964	(50,880)
Equipment	17,500	17,500	8,669	8,831
Total operation of plant	4,161,569	4,161,569	4,320,422	(158,853)

THE BOARD OF EDUCATION OF CAROLINE COUNTY

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

GENERAL FUND

Year Ended June 30, 2018

(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
Maintenance of plant:				
Salaries and wages	\$ 545,092	\$ 545,092	\$ 491,568	\$ 53,524
Contracted services	216,400	216,400	239,743	(23,343)
Supplies and materials	106,000	106,000	100,516	5,484
Other charges	16,260	16,260	15,323	937
Equipment	60,086	60,086	46,395	13,691
Total maintenance of plant	943,838	943,838	893,545	50,293
Fixed charges:				
Insurance and employee benefits	13,925,250	13,925,250	15,094,474	(1,169,224)
	13,925,250	13,925,250	15,094,474	(1,169,224)
Capital outlay:				
Contracted services	18,000	18,000	19,389	(1,389)
Building improvements	206,344	206,344	217,717	(11,373)
Total capital outlay	224,344	224,344	237,106	(12,762)
TOTAL EXPENDITURES OF LOCAL AND UNRESTRICTED FUNDS	67,797,626	69,128,186	69,296,196	(168,010)
Restricted programs				
Restricted Federal programs	5,546,620	5,546,620	5,627,432	(80,812)
Restricted State programs	1,221,320	1,221,320	1,395,210	(173,890)
Restricted other programs	-	-	180,364	(180,364)
Total restricted programs	6,767,940	6,767,940	7,203,006	(435,066)
TOTAL UNRESTRICTED AND RESTRICTED EXPENDITURES	74,565,566	75,896,126	76,499,202	(603,076)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 22,915	\$ 22,915

THE BOARD OF EDUCATION OF CAROLINE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2018

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

As of June 30,	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2015	2017	2018
Total OPEB liability										
Service cost										\$ 5,201,246
Interest										4,096,803
Changes of benefit terms										-
Differences between expected and actual experience										-
Changes of assumptions										(796,367)
Benefit payments										(3,406,859)
Net change in OPEB liability										5,094,823
Total OPEB liability - beginning										116,139,269
Total OPEB liability - ending (a)										<u>\$ 121,234,092</u>
Plan fiduciary net position										
Contributions - employer										\$ 3,406,860
Net investment income										83,935
Benefit payments										(3,406,859)
Administrative expenses										(5,958)
Net change in plan fiduciary net position										77,978
Plan fiduciary net position - beginning										1,130,461
Plan fiduciary net position - ending (b)										<u>\$ 1,208,439</u>
Board's net OPEB liability - ending (a) - (b)										<u>\$120,025,653</u>
Plan fiduciary net position as a percentage of the total OPEB liability										1.01%
Covered employee payroll										\$ 38,356,101
Board's net OPEB liability as a percentage of covered employee payroll										312.92%
Expected Average Remaining Service Years of All Participants										9

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, OPEB 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, 2018

SCHEDULE OF INVESTMENT RETURNS

	<u>Fiscal Year</u>									
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2017</u>	<u>2018</u>
Annual money-weighted rate of return, net of investment									10.52%	6.84%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, OPEB 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, 2018

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Board's	Board's	State's	Total (B+C)	Board's Covered Payroll D	Board's	Plan's Total Fiduciary Net Position E	Plan's Total Pension Liability F	Plan's
		Proportion (Percentage) of the NPL A	Proportionate Share of the NPL B	Proportionate Share of the NPL C			Proportionate Share as a Percentage of Covered Payroll (B / D)			Fiduciary Net Position as a Percentage of Total Pension Liability (E / F)
2009										
2010										
2011										
2012										
2013										
2014										
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%
2018	June 30, 2017	0.0192341%	\$ 4,159,121	\$47,736,155	\$ 51,895,276	\$ 38,356,101	10.84%	\$48,987,184,000	\$70,610,885,000	69.38%

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, 2018

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Board's Covered Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
2009						
2010						
2011						
2012						
2013						
2014						
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%
2018	June 30, 2017	\$ 2,160,014	\$ 2,160,014	\$ -	\$ 38,356,101	5.63%

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, 2018		
	GENERAL FUND		
	Revenues and other financing sources	Expenditures and other financing uses	Fund Balance
GAAP BASIS	\$ 79,759,353	\$ 81,046,119	\$ 4,586,117
Encumbrances at June 30, 2017	(8,145)	(117,392)	-
Encumbrances at June 30, 2018	22,206	152,332	(130,126)
Purchase of vehicles under capital lease	(257,974)	(257,974)	-
Payments made on-behalf of the Board by the State of Maryland	(4,323,883)	(4,323,883)	-
BUDGETARY BASIS	\$ 75,191,557	\$ 76,499,202	\$ 4,455,991

	June 30, 2018		
	FOOD SERVICE FUND		
	Revenues	Expenditures	Fund Balance
GAAP BASIS	\$ 3,920,636	\$ 3,855,229	\$ 502,278
Commodities donated by the State of Maryland	(215,411)	(215,411)	-
BUDGETARY BASIS	\$ 3,705,225	\$ 3,639,818	\$ 502,278

Note 2. Required Fund Disclosures

The General Fund had an excess of actual expenditures over budgeted expenditures of \$603,076 for the year ended June 30, 2018 attributable to an increase in grant funds. Additional revenues of \$625,991 provided for the excess expenditures as restricted expenditures were over budget by \$435,066 and unrestricted expenditures were over budget by \$168,010.

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 2017 valuation:

- Inflation assumption changed from 2.90% to 2.65%

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	21 years for State system
Asset valuation method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15%, including inflation
Investment rate of return	7.50%
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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 4. Other Postemployment Benefits (OPEB)

Change in Benefit Terms

There were no benefit changes during the year.

Change in Assumptions

- Calculations are based on the entry age normal cost method as required by GASB 74 and GASB 75.
- The discount rate was changed from 3.58% at June 30, 2017 to 3.62% at June 30, 2018.

Methods and Assumptions used in Calculations of the Net OPEB Liability

Valuation date	July 1, 2016
Actuarial cost method - GASB 74 and	Entry age normal
Amortization method	Closed, level percentage of payroll
Remaining amortization period	22 years (as of July 1, 2016)
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2017	3.58%
Discount rate - June 30, 2018	3.62%
Investment rate of return	7.00%
Payroll increases	3.50%
Inflation rate	2.30%
Medical trend	Based on Society of Actuaries Long Term Medical Trend Model, the 2016 rate is 6.0% decreasing gradually. The post Medicare rate in 2050 is 4.9%. The ultimate post Medicare trend rate is 3.9% and is attained in 2075.
Mortality	The mortality rates for healthy retirees was calculated using the RP 2000 Combined Healthy Table, sex distinct, fully generational with Scale AA. The mortality rates for disabled retirees was calculated using the RP 2000 Combined Healthy Table, with base qx set forward three years for both males and females, fully generational with Scale

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, 2018

Fund title	Fund Number	June 30, 2017 Fund Balance	Year Ended June 30, 2018								Fund Balance
			Revenues	Expenditures	Transfers	Cash	Receivables	Prepaid Asset	Payables		
Central Office	100	\$ 4,768	\$ 54,081	\$ 44,967	\$ (3,448)	\$ 10,552	\$ -	\$ -	\$ -	\$ 10,434	
Administration and Faculty	150	4,317	21,803	20,291	14	5,843	-	-	-	5,843	
Athletics	200	78,700	335,374	312,774	(19,498)	81,841	-	-	39	81,802	
Graduating Class Activities	250	41,559	64,218	82,880	18,048	41,253	-	-	308	40,945	
Clubs, Groups and Organizations	300	64,804	161,053	151,698	(3,702)	70,457	-	-	-	70,457	
School Publications	350	33,092	24,179	26,371	1,150	32,050	-	-	-	32,050	
General Instruction Fund	400	94,596	261,866	251,502	(1,575)	103,461	-	-	-	103,385	
Additional Sports Materials, Supplies, Equipment and Expenses	600	-	-	-	-	-	-	-	-	-	
School General Fund	650	91,968	197,324	191,191	9,011	103,941	-	3,200	223	107,112	
Certificate of deposit		-	-	-	-	30,019	-	-	-	-	
Total		\$ 413,804	\$ 1,119,898	\$ 1,081,674	\$ -	\$ 479,417	\$ -	\$ 3,200	\$ 570	\$ 452,028	

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES AND EXPENSES - BUDGETARY BASIS
 FOOD SERVICES FUND
 Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
Sale of meals	\$ 721,603	\$ 721,603	\$ 810,968	\$ 89,365
Federal assistance	2,475,000	2,475,000	2,588,900	113,900
State assistance	260,000	260,000	267,255	7,255
Interest income	200	200	607	407
Other	40,000	40,000	37,495	(2,505)
TOTAL REVENUES	3,496,803	3,496,803	3,705,225	208,422
EXPENDITURES				
Current:				
Food	1,827,000	1,827,000	1,848,273	(21,273)
Depreciation	-	-	18,459	(18,459)
Salaries and wages	1,073,783	1,073,783	1,156,206	(82,423)
Fixed charges	381,470	381,470	453,411	(71,941)
Contracted services	35,500	35,500	23,860	11,640
Supplies and materials	112,000	112,000	108,561	3,439
Other charges	26,050	26,050	25,072	978
Capital outlay	41,000	41,000	5,976	35,024
TOTAL EXPENDITURES	3,496,803	3,496,803	3,639,818	(143,015)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 65,407	\$ 65,407