

THE BOARD OF EDUCATION OF  
DORCHESTER COUNTY

FINANCIAL REPORT

JUNE 30, 2016

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Herbert J. Geary III  
Corey N. Duncan  
Roy J. Geiser  
Chris A. Hall  
Ronald W. Hickman  
Charles M. Meenehan  
Craig A. Walter  
Mark A. Welsh



## INDEPENDENT AUDITORS' REPORT

The Board of Education of Dorchester County  
Cambridge, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of The Board of Education of Dorchester County, a component unit of Dorchester County, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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, and each major fund of The Board of Education of Dorchester County as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress and employer contributions on pages 8 through 17 and 45 through 54 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.

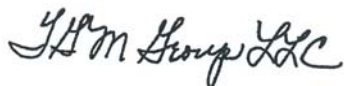
### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of Dorchester 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, 2016 on our consideration of The Board of Education of Dorchester County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Board of Education of Dorchester County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "YAM Group LLC". The signature is written in a cursive, stylized font.

Salisbury, Maryland  
September 28, 2016

Herbert J. Geary III  
Corey N. Duncan  
Roy J. Geiser  
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Charles M. Meenehan  
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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 Dorchester County  
Cambridge, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of The Board of Education of Dorchester County, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise The Board of Education of Dorchester County's basic financial statements, and have issued our report thereon dated September 28, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered The Board of Education of Dorchester 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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



Salisbury, Maryland  
September 28, 2016

# **THE BOARD OF EDUCATION OF DORCHESTER COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

The discussion and analysis of The Board of Education of Dorchester County's (the "Board") financial performance provides an overall review of the Board's financial activities for the fiscal year ended June 30, 2016, and a comparison with the results of the fiscal year ended June 30, 2015. Please read this in conjunction with the Board's financial statements, notes to financial statements, and supplemental information, which immediately follow this section.

## **FINANCIAL HIGHLIGHTS**

- The Board's net position is \$55,031,423, a decrease of \$7,255,672 or 11.6% from the prior year.
- Among major funds (see page 22), the General Fund had \$67,937,392 in revenues and \$67,607,349 in expenditures. Additionally, \$210,000 of prior year fund balance was transferred from the General Fund to the School Construction Fund to cover critical projects related to enrollment growth, building renovations, energy conservation, and HVAC systems. This resulted in a net increase in the General Fund fund balance of \$120,043.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

A review of the Budgetary Comparison Schedule, which is a required supplemental report, is also included in this MD&A.

**Government-wide Financial Statements** The government-wide financial statements are designed to provide a broad overview of the Board's finances, in a manner similar to a private-sector business.

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. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The Statement of Activities presents information showing how the net position of the Board changed during the most recent fiscal year. All changes in net position are reported utilizing the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.



In the Statement of Net Position, and the Statement of Activities, the Board has two kinds of activities:

- Governmental Activities – basic services of a school system are reported such as instructional costs, special education, transportation, operation and maintenance of plant, and administration.
- Business-type Activities – our Food Services department, which charges a fee to its customers, is reported here.

The government-wide financial statements can be found on pages 19-20.

**Fund Financial Statements** A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements. The Board's two types of funds – governmental and proprietary – use different accounting approaches.

- Governmental funds – Most of the Board's basic operations are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the Board's general operations. The Board maintains three governmental funds – General Fund (which includes both unrestricted and restricted funding sources), School Construction, and School Activities.
- Proprietary Funds- When the Board charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities, but provide more detail and additional information, such as a Statement of Cash Flows. The Board's only proprietary fund is Food Services.

The fund financial statements can be found on pages 21-25.

**Notes to the Financial Statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 26-44.

## FINANCIAL ANALYSIS

### The School System as a Whole

Table 1  
Condensed Statement of Net Position

	<u>All Activities</u>		Increase (Decrease) From FY 2015
	<u>FY 2016</u>	<u>FY 2015</u>	
<b>Assets</b>			
Current and Other Assets	\$6,969,670	\$ 6,212,111	\$757,559
Capital Assets	<u>79,784,274</u>	<u>82,028,588</u>	<u>(2,244,314)</u>
Total Assets	<u>86,753,944</u>	<u>88,240,699</u>	<u>(1,486,755)</u>
<b>Deferred Outflows of Resources</b>			
	<u>844,128</u>	<u>397,619</u>	<u>446,509</u>
<b>Liabilities</b>			
Long-Term Liabilities	27,434,576	21,864,893	5,569,683
Other Liabilities	<u>4,836,409</u>	<u>4,188,565</u>	<u>647,844</u>
Total Liabilities	<u>32,270,985</u>	<u>26,053,458</u>	<u>6,217,527</u>
<b>Deferred Inflows of Resources</b>			
	<u>295,664</u>	<u>297,765</u>	<u>(2,101)</u>
<b>Net Position</b>			
Invested in Capital Assets, Net of Debt	79,784,274	82,028,588	(2,244,314)
Restricted	363,642	362,680	962
Unrestricted	<u>(25,116,493)</u>	<u>(20,104,173)</u>	<u>(5,012,320)</u>
<b>Total Net Position</b>	<u>\$55,031,423</u>	<u>\$ 62,287,095</u>	<u>\$ (7,255,672)</u>

**Net Position** Table 1 provides a comparison of the Board's net position for FY 2016 and FY 2015. For all activities in FY 2016, the Board's assets exceeded its liabilities by \$55,031,423. However, this is a decrease of \$7,255,672 from FY 2015. This decrease was due to the continuing recognition of Other Post Employment Benefits (OPEB) as required by the Governmental Accounting Standards Board (GASB) pronouncement #45; the implementation of GASB 68 which requires the estimation of the long term liability of future pension obligations; and a year in which depreciation expense was greater than the value of new capital assets.

The largest portion of the Board's net position, \$79,784,274 reflects its investment in capital assets (e.g. buildings and improvements, and furniture and equipment). The Board uses these capital assets to provide services to students; consequently, these assets are not available for future spending.

The remaining net position consists of restricted school activity funds totaling \$363,642 and an unrestricted deficit balance of \$25,116,493.

Table 2  
Statement of Activities

	<u>All Activities</u>		Increase (Decrease) From FY 2015
	<u>FY 2016</u>	<u>FY 2015</u>	
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$ 4,031,317	\$ 3,816,515	\$ 214,802
Operating Grants and Contributions	9,680,370	9,781,235	(100,865)
General Revenues:			
Dorchester County			
General Fund	18,963,336	18,531,907	431,429
School Construction	1,628,593	211,000	1,417,593
State of Maryland			
General Fund	38,709,643	36,411,936	2,297,707
School Construction	736,738	832,538	(95,800)
Interest	7,220	1,970	5,250
Other	576,822	522,411	54,411
<b>Total Revenues</b>	<u>74,334,039</u>	<u>70,109,512</u>	<u>4,224,527</u>
<b>Governmental Activity Expenses</b>			
Administration	1,752,130	1,502,941	249,189
School Management & Support	5,538,355	5,279,134	259,221
Instruction			
Salaries	24,052,828	22,498,593	1,554,235
Textbooks & Supplies	2,227,945	2,687,284	(459,339)
Other	6,558,620	6,188,585	370,035
Special Education	5,967,770	5,692,347	275,423
Student Personnel Services	653,358	609,682	43,676
Student Health Services	559,496	559,496	0
Student Transportation	3,733,990	3,665,739	68,251
Operation of Plant	3,641,598	3,820,240	(178,642)
Maintenance of Plant	1,510,372	1,276,674	233,698
Fixed Charges	17,619,488	17,128,817	490,671
School Activity Expenses	1,221,673	1,268,402	(46,729)
State Retirement Contributions	3,590,109	3,674,155	(84,046)
Capital Outlay	222,453	178,159	44,294
<b>Business-Type Activities</b>			
Food Services Expenses	2,739,526	2,610,842	128,684
<b>Total Expenses</b>	<u>81,589,711</u>	<u>78,641,090</u>	<u>2,948,621</u>
<b>Change in Net Position</b>	\$ <u>(7,255,672)</u>	\$ <u>(8,531,578)</u>	\$ <u>1,275,906</u>

**Changes in Net Position** Table 2 (page 11) shows the key elements for the decrease of the Board's net position for the year ended June 30, 2016. The results of fiscal year 2015 are shown as a comparison. Total Revenues were \$74,334,039, an increase of \$4,224,527 from FY 2015, and total expenses were \$81,589,711, an increase of \$2,948,621 over FY 2015. Revenues were positively impacted by the increase in enrollment, the continuing depressed county economy, and increased capital funding. Expenses were impacted by the addition of 18 teaching and related support positions, negotiated wage increases, GASB 45, and depreciation expense. The negative change in net position for FY 2016 was \$7,255,672.

The Board's expenses are primarily related to instructing, caring for (food and health), and transporting students. As shown in Table 2, regular education instructional salaries, textbooks & supplies, and other instructional charges total \$32,839,393, an increase of \$1,464,931 over FY 2015. Special Education costs total \$5,967,770, an increase of \$275,423 over FY 2015. Transportation costs total \$3,733,990, an increase of \$68,251 over FY 2015. Operation and Maintenance of Plant costs total \$5,151,970, an increase of \$55,056 from FY 2015.

### The Board's Funds

**Table 3**  
**Statement of Expenditures – Governmental Funds**  
**(General, School Construction, & School Activities)**

	<u>Total Cost</u>		Increase (Decrease) From FY 2015
	<u>FY 2016</u>	<u>FY 2015</u>	
Administration	\$ 1,704,825	\$ 1,450,864	\$ 253,961
School Management & Support	5,538,355	5,279,134	259,221
Instruction:			
Salaries & Wages	24,099,647	22,300,808	1,798,839
Textbooks & Supplies	2,227,945	2,687,284	(459,339)
Other	1,884,430	1,566,367	318,063
Special Education	5,967,770	5,692,347	275,423
Pupil Personnel Services	653,358	609,682	43,676
Health Services	559,496	559,496	0
Pupil Transportation	3,689,791	3,637,788	52,003
Operation of Plant	3,641,598	3,820,240	(178,642)
Maintenance of Plant	1,509,978	1,270,944	239,034
Fixed Charges	16,041,573	15,838,853	202,720
School Activity Expenditures	1,221,673	1,268,402	(46,729)
Capital Outlay	<u>2,745,305</u>	<u>1,624,936</u>	<u>1,120,369</u>
Total Cost of Services	<u>\$ 71,485,744</u>	<u>\$ 67,607,145</u>	<u>\$ 3,878,599</u>

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

**Governmental Funds** The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements. Fund balance in the Governmental Funds is divided between assigned balances and unassigned balances. Unassigned balances in the general fund are required by state law to be appropriated in the following year's budget. Assigned balances of capital projects, school activities, and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the Board's discretion.

The Board's three Governmental Funds are the General Fund, the School Construction Fund, and the School Activities Fund. Table 3 (see page 12) presents the cost of 14 major school system functions within these Governmental Funds: Administration, School Management & Support, Instruction (comprised of Salaries, Textbooks and Supplies, and Other Costs), Special Education, Pupil Personnel Services, Health Services, Pupil Transportation, Operation of Plant, Maintenance of Plant, Fixed Charges, School Activity Expenditures, and Capital Outlay.

The *General Fund* is the chief operating fund of the Board. It includes both unrestricted and restricted funding sources. Restricted funding sources are generally in the form of federal and state grants. On page 22, the Statement of Revenues, Expenditures and Changes in Fund Balances reflects a total fund balance of \$1,224,807 at the end of fiscal year 2016. The total fund balance at June 30, 2015 was \$1,104,764. The increase of \$120,043 is attributed mainly to a greater use of grant funds.

Of the \$1,224,807 fund balance, \$187,293 is assigned for accrued leave reserve, \$250,000 for FY 2017 operating budget, \$98,017 for FY 2016 encumbrances, \$253,497 for FY 2017 school construction projects, \$186,000 for FY 2018 Workforce, Class-Size Reduction and Technology Initiatives, and \$250,000 for the FY 2018 operating budget.

General Fund salaries totaled \$37,744,722, while the associated fringe benefits of retirement, social security, unemployment, industrial insurance, and health and accident insurance added \$16,041,573 to arrive at 75.2% of total General Fund expenditures.

**Proprietary Funds** Proprietary funds focus on the determination of changes in net position and cash flows. The Board's sole proprietary fund is the Food Service Fund. The Food Service net position balance at June 30, 2015 was \$144,171. It increased by \$69,156 to \$213,327 at June 30, 2016. This increase is attributed mainly to an increase in participation of Federal and State reimbursed meals. See pages 23 through 25 for the Food Service Fund financial statements.

**Table 4**  
**Original Budget, Final Budget, and Actual Results**  
**General Fund**  
**FY 2016**

	<u>Budgeted Amounts</u>		<u>Actual Results</u>	Variance With Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
County Appropriations	\$ 18,963,336	\$ 18,963,336	\$ 18,963,336	\$ 0
State of Maryland	38,595,343	38,711,343	38,709,643	(1,700)
Other Sources	807,600	357,600	584,042	226,442
Restricted Revenues	4,009,347	4,009,347	6,090,262	2,080,915
Fund Balance Appropriated	250,000	250,000	(210,000)	(460,000)
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<b>Total Revenues</b>	<b>62,625,626</b>	<b>62,291,626</b>	<b>64,137,283</b>	<b>1,845,657</b>
<b>Governmental Activity Expenses</b>				
Administration	1,632,577	1,725,877	1,704,828	21,049
School Management & Support	5,396,291	5,371,291	5,325,904	45,387
Instruction				
Salaries	22,034,484	22,157,684	22,080,450	77,234
Textbooks & Supplies	1,496,406	1,725,406	1,651,444	73,962
Other	1,087,880	1,101,680	1,095,040	6,640
Special Education	4,388,305	4,538,305	4,529,456	8,849
Student Personnel Services	622,974	657,974	653,359	4,615
Health Services	559,496	559,496	559,496	0
Student Transportation	3,723,309	3,585,309	3,580,962	4,347
Operation of Plant	3,901,729	3,643,998	3,602,117	41,881
Maintenance of Plant	1,411,606	1,584,883	1,518,892	65,991
Fixed Charges	12,304,564	11,539,264	11,482,835	56,429
Capital Outlay	56,658	91,112	88,583	2,529
Restricted Expenditures	4,009,347	4,009,347	6,090,262	(2,080,915)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Expenses</b>	<b>62,625,626</b>	<b>62,291,626</b>	<b>63,963,628</b>	<b>(1,672,002)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Change in Fund Balance</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 173,655</b>	<b>\$ 173,655</b>

**General Fund Budgetary Highlights**

The General Fund operates under a legally adopted annual budget. The budget is subdivided into State mandated categories of expenditures including Administration, School Management & Support, Instructional Salaries, Instructional Supplies and Textbooks, Other Instructional Costs, Special Education, Student Personnel Services, Student Health Services, Student Transportation, Operation of Plant, Maintenance of Plant, Fixed Charges, and Capital Outlay. The legal level of budgetary control is at the category level. The Board may approve amendments to the budget recommended by the Board's administration by transferring funds within categories, but transfers between categories must also be approved by the County Council.

During fiscal year 2016 the Board presented, and the County Council approved, two budget amendment/transfer requests.

The budget amendments utilized savings in Transportation, Utilities, and Fixed Costs to purchase a new reading series for our elementary schools, and to offset higher costs in Special Education, Administration, and capital maintenance activities.

As shown in Table 4, during the fiscal year actual revenues and actual expenses resulted in an increase in fund balance of \$173,655.

**Capital Assets**

The School Construction Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the County.

At the end of fiscal year 2016, the Board had \$79,784,274 invested in land, buildings, furniture and equipment, and vehicles, net of accumulated depreciation. Table 5 gives the breakdown by asset type.

Table 5  
Capital Assets  
(Net of Depreciation)  
FY 2016

Construction in Progress	\$	1,818,812
Buildings and Improvements		76,705,205
Furniture and Equipment		969,835
Vehicles		<u>290,422</u>
<b>Total Capital Assets</b>	<b>\$</b>	<b><u>79,784,274</u></b>

The Capital Improvement Budget for FY 2017 includes \$3,021,435 in local funding for the North Dorchester High School replacement project. Additionally, prior year fund balance and Qualified Zone Academy Bond (QZAB) sources will be utilized to fund the following capital projects during FY 2017:

- \$200,000 for capital maintenance projects at various schools
- \$450,000 for hardscape renovations at Cambridge-South Dorchester High School

## **FACTORS BEARING ON THE BOARD'S FUTURE**

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

- Unstable economic conditions continue to adversely affect County and State revenues. This in turn could lead to cuts in County and State aid for Dorchester County Public Schools.
- On December 10, 2015, the Every Student Succeeds Act (ESSA) was signed by President Obama. This reauthorization of the Elementary and Secondary Education Act, formerly known as No Child Left Behind, provides a long-term, stable federal policy that gives states additional flexibility and encourages states, local school systems, and schools to innovate while at the same time holding all accountable for results. ESSA is to be fully implemented in the 2017-2018 school year. Until more is known about the operational changes needed to implement ESSA, the budgetary effects cannot be quantified.
- Funding other post-retirement benefits (OPEB) in accordance with GASB 45 remains a concern. GASB 45 is an accounting standard for all governmental agencies which addresses post-employment benefits, other than pensions, such as health care. Under GASB 45, the District must recognize the present cost and liability of future health care that has been earned by current and retired employees. There is no requirement to fund this obligation, however, it does become a liability against the Board's assets as reported in the financial statements. Currently, health care expenses for retirees and active employees are expensed when paid. This practice is expected to continue especially with the economic conditions our funding entities face at this time. Whether or not this liability is funded in the future may affect our budget, and the bond rating of county and state governments. See Notes 6 and 9 for detailed information on the impact of implementing GASB 45.
- During FY 2015, the Board implemented provisions of GASB 68, Accounting and Financial Reporting for Pensions. GASB 68 requires the Board to report their proportionate share of the Maryland State Retirement and Pension System's net pension liability. The Board's proportionate share is calculated by the System's actuary, and is reported as a liability on the Board's government-wide statement of net position. Currently, pension costs for retirees and active employees are expensed when paid. See Notes 2-K, 6, and 7 for detailed information on the impact of implementing GASB 68.



### **Contacting the Board's Financial Management**

This financial report is designed to provide a general overview of the finances of the Board of Education of Dorchester County, and to demonstrate the Board's accountability for the resources it receives. If you have any questions about this report or need additional financial information, contact the Superintendent's Office, Dorchester County Public Schools, 700 Glasgow Street, Cambridge, MD 21613

## FINANCIAL STATEMENTS

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF NET POSITION

June 30, 2016

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 4,420,442	\$ 13,912	\$ 4,434,354
Accounts receivable:			
Federal funds from State of Maryland	1,145,580	8,295	1,153,875
State of Maryland	438,908	8,618	447,526
Other	926,444	-	926,444
Internal balances	(197,212)	197,212	-
Inventory	-	7,471	7,471
Construction in progress	1,818,812	-	1,818,812
Other capital assets, net	77,960,507	4,955	77,965,462
<b>TOTAL ASSETS</b>	<b>86,513,481</b>	<b>240,463</b>	<b>86,753,944</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	844,128	-	844,128
<b>LIABILITIES</b>			
Accounts payable:			
Vendors	1,129,413	17,279	1,146,692
Accrued payroll and other employee withholdings	2,020,206	-	2,020,206
Unearned revenue - Federal	796,025	-	796,025
Unearned revenue - State	946	-	946
Unearned revenue - other	38,724	-	38,724
Scholarships	16,250	-	16,250
Other accrued expenses	817,566	-	817,566
Long-term liabilities:			
Due within one year	64,078	-	64,078
Due in more than one year	27,360,641	9,857	27,370,498
<b>TOTAL LIABILITIES</b>	<b>32,243,849</b>	<b>27,136</b>	<b>32,270,985</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	295,664	-	295,664
<b>NET POSITION</b>			
Net investment in capital assets	79,779,319	4,955	79,784,274
Restricted for:			
Other purposes (school activity funds)	363,642	-	363,642
Unrestricted	(25,324,865)	208,372	(25,116,493)
<b>TOTAL NET POSITION</b>	<b>\$ 54,818,096</b>	<b>\$ 213,327</b>	<b>\$ 55,031,423</b>

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

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities</b>				
Current:				
Administration	\$ 1,752,130	\$ -	\$ -	\$ -
School management and support	5,538,355	-	170,113	-
Instructional salaries and wages	24,052,828	-	2,019,196	-
Textbooks and instructional supplies	2,227,945	-	578,557	-
Other instructional costs	6,558,620	-	794,939	-
Special education	5,967,770	-	1,438,313	-
Pupil personnel services	653,358	-	-	-
Health services	559,496	-	-	-
Pupil transportation	3,733,990	-	81,032	-
Operation of plant	3,641,598	-	39,482	-
Maintenance of plant	1,510,372	-	-	-
Fixed charges	17,619,488	-	968,629	-
School activity expenditures	1,221,673	1,222,635	-	-
On-behalf State Retirement contributions	3,590,109	-	3,590,109	-
Capital outlay	222,453	-	-	2,365,331
Total Governmental Activities	78,850,185	1,222,635	9,680,370	2,365,331
<b>Business-Type Activities</b>				
Food Services	2,739,526	2,808,682	-	-
Total Business-Type Activities	2,739,526	2,808,682	-	-
Totals	\$ 81,589,711	\$ 4,031,317	\$ 9,680,370	\$ 2,365,331

**General Revenues**

Dorchester County  
State of Maryland  
Investment Earnings  
Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

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

Net (Expenses) Revenue  
and changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,752,130)	\$ -	\$ (1,752,130)
(5,368,242)	-	(5,368,242)
(22,033,632)	-	(22,033,632)
(1,649,388)	-	(1,649,388)
(5,763,681)	-	(5,763,681)
(4,529,457)	-	(4,529,457)
(653,358)	-	(653,358)
(559,496)	-	(559,496)
(3,652,958)	-	(3,652,958)
(3,602,116)	-	(3,602,116)
(1,510,372)	-	(1,510,372)
(16,650,859)	-	(16,650,859)
962	-	962
-	-	-
2,142,878	-	2,142,878
(65,581,849)	-	(65,581,849)
-	69,156	69,156
-	69,156	69,156
(65,581,849)	69,156	(65,512,693)
18,963,336	-	18,963,336
38,709,643	-	38,709,643
7,220	-	7,220
576,822	-	576,822
58,257,021	-	58,257,021
(7,324,828)	69,156	(7,255,672)
62,142,924	144,171	62,287,095
\$ 54,818,096	\$ 213,327	\$ 55,031,423

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2016

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
<b>ASSETS</b>			
Cash and investments	\$ 4,056,800	\$ -	\$ 363,642
Accounts receivable:			
Federal funds from State of Maryland	1,145,580	-	-
State of Maryland	148,334	290,574	-
Other Board of Education funds	132,272	-	-
Other	474,734	451,710	-
<b>TOTAL ASSETS</b>	<b>\$ 5,957,720</b>	<b>\$ 742,284</b>	<b>\$ 363,642</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable:			
Vendors	\$ 1,043,196	\$ 86,217	\$ -
Other Board of Education funds	-	329,484	-
Accrued payroll and other employee withholdings	2,020,206	-	-
Unearned Federal funds	796,025	-	-
Unearned State funds	946	-	-
Other unearned revenues	38,724	-	-
Scholarships	16,250	-	-
Other accrued expenses	817,566	-	-
<b>TOTAL LIABILITIES</b>	<b>4,732,913</b>	<b>415,701</b>	<b>-</b>
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>FUND BALANCES</b>			
Assigned to:			
Accrued leave reserve	187,293	-	-
School construction and capital maintenance projects	253,497	326,583	-
School activities	-	-	363,642
Technology/workforce/class-size initiatives	186,000	-	-
Subsequent year's budget	250,000	-	-
Other purposes (encumbrances)	98,017	-	-
Unassigned	250,000	-	-
<b>Total fund balances</b>	<b>1,224,807</b>	<b>326,583</b>	<b>363,642</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,957,720</b>	<b>\$ 742,284</b>	<b>\$ 363,642</b>

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

Total Governmental Funds	<b>Total Governmental Funds Balances</b>		\$ 1,915,032
\$ 4,420,442	<b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
1,145,580	Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements		79,779,319
438,908			
132,272			
926,444	Deferred outflows of resources related to pensions not reported in the funds		844,128
<u>\$ 7,063,646</u>			
	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		
\$ 1,129,413	Accrued leave	(1,071,316)	
329,484	Net pension liability	(3,532,417)	
2,020,206	Post-employment benefits	<u>(22,820,986)</u>	(27,424,719)
796,025			
946			
38,724	Deferred inflows of resources related to pensions not reported in the funds		<u>(295,664)</u>
16,250			
817,566			
<u>5,148,614</u>	<b>Net Position of Governmental Activities</b>		<u>\$ 54,818,096</u>
187,293			
580,080			
363,642			
186,000			
250,000			
98,017			
<u>250,000</u>			
<u>1,915,032</u>			
<u>\$ 7,063,646</u>			

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2016

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
<b>REVENUES</b>			
County Appropriation	\$ 18,963,336	\$ 1,628,593	\$ -
State of Maryland	38,709,643	736,738	-
Restricted Federal revenues	5,467,529	-	-
Restricted State revenues	451,633	-	-
Restricted County, Agency and Local revenues	171,100	-	-
On-behalf State Retirement contributions	3,590,109	-	-
Other sources	584,042	-	-
School activity revenues	-	-	1,222,635
<b>TOTAL REVENUES</b>	<b>67,937,392</b>	<b>2,365,331</b>	<b>1,222,635</b>
<b>EXPENDITURES</b>			
Current:			
Administration	1,704,825	-	-
School management and support	5,538,355	-	-
Instructional salaries and wages	24,099,647	-	-
Textbooks and instructional supplies	2,227,945	-	-
Other instructional costs	1,884,430	-	-
Special education	5,967,770	-	-
Pupil personnel services	653,358	-	-
Health services	559,496	-	-
Pupil transportation	3,689,791	-	-
Operation of plant	3,641,598	-	-
Maintenance of plant	1,509,978	-	-
Fixed charges	12,451,464	-	-
School activity expenditures	-	-	1,221,673
On-behalf State Retirement contributions	3,590,109	-	-
Capital outlay	88,583	2,656,722	-
<b>TOTAL EXPENDITURES</b>	<b>67,607,349</b>	<b>2,656,722</b>	<b>1,221,673</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>	<b>330,043</b>	<b>(291,391)</b>	<b>962</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers - school construction fund	(210,000)	210,000	-
<b>Net change in fund balances</b>	<b>120,043</b>	<b>(81,391)</b>	<b>962</b>
Fund balances, beginning	1,104,764	407,974	362,680
Fund balances, ending	<b>\$ 1,224,807</b>	<b>\$ 326,583</b>	<b>\$ 363,642</b>

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



	<b>Net change in fund balances-total Governmental Funds</b>	\$ 39,614
Total Governmental Funds  \$ 20,591,929 39,446,381 5,467,529 451,633 171,100 3,590,109 584,042 <u>1,222,635</u> <u>71,525,358</u>	<b>Amounts reported for governmental activities in the statement of activities are different because:</b>  Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. Fixed asset additions <span style="float: right;">2,522,852</span> Current year depreciation <span style="float: right;"><u>(4,766,089)</u></span>  Total <span style="float: right;">(2,243,237)</span>	
1,704,825 5,538,355 24,099,647 2,227,945 1,884,430 5,967,770 653,358 559,496 3,689,791 3,641,598 1,509,978 12,451,464 1,221,673 3,590,109 <u>2,745,305</u> <u>71,485,744</u>	Some expenses reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  Decrease in accrued leave, net <span style="float: right;">46,819</span> Increase in pension liability, net <span style="float: right;">(363,411)</span> Increase in post-employment benefits, net <span style="float: right;"><u>(4,804,613)</u></span>  Total <span style="float: right;"><u>(5,121,205)</u></span>	
39,614  <hr style="width: 100%;"/> 39,614  <u>1,875,418</u>  <u>\$ 1,915,032</u>	Change in net position of Governmental Activities <span style="float: right;"><u>\$ (7,324,828)</u></span>	

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF NET POSITION  
 PROPRIETARY FUND

June 30, 2016

	<u>Business-Type Activities</u>
	<u>Food Service</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 13,912
Accounts receivable:	
Federal funds from State of Maryland	8,295
State receivables	8,618
Inventory	7,471
Other Board of Education funds	<u>197,212</u>
Total current assets	<u>235,508</u>
Capital assets, net	<u>4,955</u>
<b>TOTAL ASSETS</b>	<u>240,463</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	4,900
Unearned revenue	12,379
Accrued leave	<u>9,857</u>
<b>TOTAL LIABILITIES</b>	<u>27,136</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	
<b>NET POSITION</b>	
Net investment in capital assets	4,955
Unrestricted	<u>208,372</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 213,327</u></u>

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

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
PROPRIETARY FUND  
Year Ended June 30, 2016

	Business-Type Activities
	Food <u>Service</u>
OPERATING REVENUES	
Sale of meals	\$ 362,023
Federal assistance	2,155,217
State assistance	113,326
USDA donated commodities	178,116
TOTAL OPERATING REVENUES	<u>2,808,682</u>
OPERATING EXPENSES	
Food	1,088,300
Salaries and wages	848,620
Fixed charges	471,283
Contracted services	29,439
Supplies and materials	70,274
Other charges	8,505
USDA donated commodities	178,116
Depreciation	1,077
Additional equipment	43,912
TOTAL OPERATING EXPENSES	<u>2,739,526</u>
OPERATING INCOME	69,156
Change in net position	69,156
Net position beginning of year	<u>144,171</u>
Net position end of year	<u>\$ 213,327</u>

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

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF CASH FLOWS

FOOD SERVICE FUND

Year Ended June 30, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from students	\$ 362,835
Operating grants received	2,396,593
Payments to food and related suppliers	(1,087,338)
Payments to other suppliers	(183,366)
Payments to employees and employee related benefits	(1,320,035)
Net cash provided by operating activities	168,689
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Cash transfers received from other Board funds	(179,703)
Net decrease in cash	(11,014)
Cash, beginning of year	24,926
Cash, end of year	\$ 13,912
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating income	\$ 69,156
Adjustments:	
Depreciation	1,077
(Increase) decrease in assets:	
Inventory	2,060
Accounts receivable	128,050
(Decrease) increase in liabilities:	
Accounts payable	(30,424)
Deferred revenue	(1,098)
Accrued leave	(132)
Total adjustments	99,533
Net cash provided by operating activities	\$ 168,689
<b>Noncash items:</b>	
Donation of food commodities	\$ 178,116

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

## NOTES TO FINANCIAL STATEMENTS

### **Note 1. Description of The Board of Education of Dorchester County**

The Board of Education of Dorchester 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 Dorchester County, Maryland (the “County”).

#### **Financial Reporting Entity**

The Board is the basic level of government which has financial accountability and control over all activities related to public school education in Dorchester 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 Dorchester 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. Internal activity between funds is eliminated from the statements.

The statement of net position presents the financial condition of the governmental and business-type activities of the Board at year-end, excluding fiduciary funds. 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 (the Board has no fiduciary funds).

##### 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.

School Construction Fund - School Construction 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. The State of Maryland made payments to the Board or directly to contractors on-behalf of the Board amounting to \$736,738 for the year ended June 30, 2016.

School Activity Fund - The School Activity 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 funds are:

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

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (Continued)

#### 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 government 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 total assets. 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 deferred 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.

Non-exchange 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 non-exchange 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (Continued)

#### D. Basis of Accounting (continued)

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 category level within each fund.

The budget may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original budget was adopted. The amounts reported in the final budgeted amounts reflect amendments approved by the County government during the year between categories and those approved by the Board within categories.

#### 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. Food received from the USDA is included at values stated by the USDA and is offset by a deferred credit until consumed.

#### 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 twenty-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.



## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (Continued)

#### G. Capital Assets (continued)

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and Improvements	10 – 50 years	N/A
Furniture and Equipment	2 – 20 years	15 years
Vehicles	8 years	N/A

#### H. Compensated Absences

##### ACCRUED LEAVE

Upon retirement, employees of the Board receive severance pay for unused sick leave accumulated for service while employed at the Board. This estimated liability is computed on the accumulated sick leave of Board employees who have 20 years of service with the Board at the rate of \$30 per day. In addition, employees are granted vacation benefits in varying amounts depending on tenure. Compensated absences are reported as accrued in the government wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees, which are included in other accrued expenses.

#### 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.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (Continued)

#### K. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that period. The Board has one item that qualifies for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension obligation (Note 7) for changes in assumptions, the net difference between projected and actual investment earnings on pension 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 one item that qualifies for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension obligation (Note 7) for the difference between actual and expected experience. 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. Fund Balance

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 resolution of the Board of Education), assigned (by management approval for specific purposes) 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.

#### M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (Continued)

#### N. Estimates

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

#### O. Cash and Cash Equivalents

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

#### P. Interfund Receivables and Payables and Transfers

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

#### Q. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are reported as assigned fund balance in the governmental fund financial statements. Encumbrances outstanding at June 30, 2016 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 \$98,017.

### Note 3. Cash and Investments

#### Deposits:

At June 30, 2016, the Board had bank deposits with various commercial banks totaling \$3,258,327 (carrying value \$1,976,016). As required by law, each depository is to pledge securities at least equal to the amount on deposit at all times in addition to insurance provided by the Federal Deposit Insurance Corporation (FDIC). The depository banks pledge collateral for specific accounts which are held in the Board's name at The Bank of New York Mellon. As of June 30, 2016, the bank deposits were fully insured or collateralized.

#### Investments:

Investments consist of \$2,458,338 of U.S. Government Securities made through the State of Maryland Local Government Investment Pool (MLGIP) 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 94 22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Safe Deposit and Trust Company, 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 quarterly basis and provide suggestions to enhance the pool. The MLGIP is rated AAAM by Standard and Poors. 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, bankers' acceptance or money market funds.

NOTES TO FINANCIAL STATEMENTS

**Note 3. Cash and Investments (Continued)**

The Board’s exposure to interest 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. Cash is invested pursuant to the Annotated Code of Maryland and County Code.

Reconciliation to Statement of Net Position:

Cash at carrying value	\$	1,976,016
<u>Investments</u>		<u>2,458,338</u>
<u>Total cash and investments</u>	<u>\$</u>	<u>4,434,354</u>

**Note 4. Interfund Receivables and Payables**

	Due From Other Funds	Due To Other Funds
<b>GOVERNMENTAL ACTIVITIES</b>		
General Fund		
Due from School Construction fund	\$ 329,484	\$ -
Due to Food Service Fund	-	197,212
School Construction Fund		
Due to General Fund	-	329,484
<b>BUSINESS-TYPE ACTIVITIES</b>		
Enterprise Fund		
Due from General Fund	197,212	-
<b>TOTAL ALL FUNDS</b>	<b>\$ 526,696</b>	<b>\$ 526,696</b>

Due to/from other funds represent advances of cash for operating needs. Transfers of \$210,000 from the General Fund to the School Construction Fund are for capital projects.

NOTES TO FINANCIAL STATEMENTS

**Note 5. Capital Assets**

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	Deductions	Transfers	Balance June 30, 2016
<b>Governmental Activities</b>					
<b>Capital Assets, not being depreciated</b>					
Construction in progress	\$ 78,955	\$ 2,340,498	\$ -	\$ (600,641)	\$ 1,818,812
Total capital assets, not being depreciated	78,955	2,340,498	-	(600,641)	1,818,812
<b>Capital assets, being depreciated</b>					
Buildings and improvements	134,274,677	-	-	600,641	134,875,318
Furniture and equipment	2,997,094	-	-	-	2,997,094
Vehicles	886,239	182,354	(65,277)	-	1,003,316
Total capital assets, being depreciated	138,158,010	182,354	(65,277)	600,641	138,875,728
Less accumulated depreciation:					
Buildings and improvements	(53,584,514)	(4,585,599)	-	-	(58,170,113)
Furniture and equipment	(1,899,231)	(132,983)	-	-	(2,032,214)
Vehicles	(730,664)	(47,507)	65,277	-	(712,894)
Total accumulated depreciation	(56,214,409)	(4,766,089)	65,277	-	(60,915,221)
Total capital assets, being depreciated, net	81,943,601	(4,583,735)	-	600,641	77,960,507
Governmental activities capital assets, net	\$ 82,022,556	\$ (2,243,237)	\$ -	\$ -	\$ 79,779,319
<b>Business-type activities</b>					
Equipment	\$ 36,250	\$ -	\$ -	\$ -	\$ 36,250
Accumulated depreciation	(30,218)	(1,077)	-	-	(31,295)
Business-type activities capital assets, net	\$ 6,032	\$ (1,077)	\$ -	\$ -	\$ 4,955

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 47,306
Instructional costs	4,674,190
Pupil transportation	44,199
Maintenance of plant	394
Total governmental depreciation expense	<u>4,766,089</u>

Depreciation expense was charged to business-type functions as follows:

Food Service	<u>1,077</u>
Total business-type depreciation expense	<u>1,077</u>
Total depreciation expense	<u>\$ 4,767,166</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Long-Term Liabilities

A summary of long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016	Due within one year
<b>GOVERNMENTAL ACTIVITIES</b>					
Accrued leave	\$ 1,118,135	\$ 411,477	\$ 458,296	\$ 1,071,316	\$ 64,078
Net pension liability (Note 7)	2,720,396	1,170,287	358,266	3,532,417	-
Other post-employment benefits (Note 9)	18,016,373	6,872,000	2,067,387	22,820,986	-
<b>Total</b>	<b>\$ 21,854,904</b>	<b>\$ 8,453,764</b>	<b>\$ 2,883,949</b>	<b>\$ 27,424,719</b>	<b>\$ 64,078</b>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Accrued leave	\$ 9,989	\$ 8,201	\$ 8,333	\$ 9,857	-

Long-term liabilities are normally paid from the General Fund.

### Note 7. Pension Plans

#### Plan Description

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](http://www.sra.maryland.gov).

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

Generally, all regular employees of the Board participate in the Employees' Retirement and Pension Systems (Employee's 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

#### 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:

#### 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

#### 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 Systems

#### 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.

#### 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, 2016. 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 the Teachers' and Employees' Pension Systems**

#### Employer Contributions:

For the year ended June 30, 2016 the Board's total payroll for all employees was \$38,521,806. Total covered payroll was \$33,689,148. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

During fiscal year 2016, the State of Maryland contributed \$3,590,109 to the Systems on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense in the General Fund.



## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

#### Teachers' Retirement and Pension Systems:

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay the State a specified percentage 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 specified percentage increases each fiscal year, until fiscal year 2017, when the Board will be paying 100% of the normal cost for each teacher. As contractually required, during fiscal year 2016, the Board contributed \$1,224,028 to the Teachers' Retirement and Pension System.

#### Employees' Retirement and Pension Systems:

During fiscal year 2016, the Board contributed \$326,656 to the Employees' Retirement and Pension System.

#### **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, 2016, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. 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:

	<b>2016</b>
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 3,532,417
State's proportionate share of the net pension liability (Teachers' Systems)	<u>36,226,287</u>
Total	\$ 39,758,704

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Boards 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

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, 2015, the Board's proportion was approximately .0169977%.

For the year ended June 30, 2016, the Board recognized pension expense of \$1,550,684 in the fund financial statements and \$1,914,095 in the government-wide financial statements.

At June 30, 2016, 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	\$ 206,340	\$ -
Net difference between projected and actual investment earnings on pension plan investments	311,132	(223,323)
Difference between actual and expected experience		(72,341)
Board contributions subsequent to measurement date	326,656	-
<b>Total</b>	<b>\$ 844,128</b>	<b>\$ (295,664)</b>

The \$326,656 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, 2017. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.87 years. The 2014 deferred outflows not related to investment activity are being amortized over the remaining service life of 5 years. The net difference in investment earnings for both 2015 and 2014 is being amortized over a closed five year period. The following table shows the amortization of these balances:

	2015 BALANCE AMORTIZATION			2014 BALANCE AMORTIZATION	
	DEFERRED OUTFLOWS			DEFERRED OUTFLOWS	DEFERRED INFLOWS
Year End June 30,	Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings
2017	77,783	36,309	(14,854)	9,838	(74,441)
2018	77,783	36,309	(14,854)	9,838	(74,441)
2019	77,783	36,309	(14,854)	9,839	(74,441)
2020	77,783	36,309	(14,854)	-	-
2021	-	31,589	(12,925)	-	-
	311,132	176,825	(72,341)	29,515	(223,323)

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

#### *Actuarial Assumptions*

The total pension liability in the June 30, 2015 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
Remaining Amortization Period	23 years for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.95% general, 3.45% wage
Salary Increases	3.45% to 10.70% including inflation
Investment Rate of Return	7.55%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 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.

#### *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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board of Trustees after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	1%	0.00%
Total	<u>100%</u>	

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

#### *Discount rate*

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

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

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

	<b>Discount Rate</b>		<b>Board's Net Pension Liability</b>
1% decrease	6.55%	\$	4,992,524
Current discount rate	7.55%	\$	3,532,417
1% increase	8.55%	\$	2,321,690

### 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 and workers compensation in fiscal year 2000. The Board pays an annual premium to the Pool each year which 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 which 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 employee health and accident insurance. The Board purchases health insurance from a provider through a modified retrospective rating arrangement agreement. Settled claims have not exceeded insurance coverage for each of the past three fiscal years.

In September 2001, the Board joined the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self-sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 16% as a recommended conservative reserve. As of January 15, 2016, the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$2,879,601. All funds held by ESMEC are restricted to being used only for health care expenses.

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Post-Employment Health Care Benefits

#### Plan Description

The Board of Education of Dorchester County administers a single-employer defined benefit healthcare plan (“the Plan”). The plan provides healthcare insurance for eligible retirees and their spouses through the Board’s group health insurance plan, which covers both active and retired members. Benefit provisions are based on contractual agreements with employee groups. Employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teachers’ pension system, which are age 55 with 15 years of service, 30 years of service or age 62 with 5 years of service. The Board is required to perform an actuarial valuation of its postemployment benefits other than pensions at least biennially. As of April 1, 2016, the date of the last actuarial valuation, approximately 327 retirees were receiving benefits, and 661 active employees are potentially eligible to receive future benefits. The Plan does not issue a stand-alone report.

#### Funding Policy

The Board pays retiree healthcare premiums based on years-of-service ranging from 51% or \$3,196 for 15 years of service to 63% or \$3,948 for 30 plus years of service until the retiree reaches age 65 up to a maximum of 78% or \$4,955 per year based on years of service. The retiree pays the remaining premium, including the cost of eligible dependents. For fiscal year 2016, the Board contributed \$1,299,387 to the plan for 281 eligible retirees.

#### Annual OPEB Cost and Net OPEB Obligation

The Board’s annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Board pays post-retirement benefits (normal cost) from the General Fund.

The following table shows the components of the Board’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board’s net OPEB obligation.

Annual required contribution	\$ 6,241,000
Interest on net OPEB obligation	631,000
Adjustment to annual required contribution	<u>(768,000)</u>
Annual OPEB cost (expense)	6,104,000
Contributions made	<u>(1,299,387)</u>
Net OPEB obligation	4,804,613
Net OPEB obligation at beginning of year	<u>18,016,373</u>
Net OPEB obligation at end of year	<u><u>\$ 22,820,986</u></u>

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Post-Employment Health Care Benefits (Continued)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$ 4,273,000	23.73%	\$ 4,883,637
6/30/2013	4,549,000	23.82%	8,349,099
6/30/2014	5,868,000	20.22%	13,030,767
6/30/2015	6,274,000	20.54%	18,016,373
6/30/2016	6,104,000	21.29%	22,820,986

#### Funding Status and Funding Progress

As of July 1, 2015, the plan was zero percent funded. The actuarial accrued liability, as determined in the last actuarial valuation, for benefits was \$73,135,000, all of which was unfunded. As of July 1, 2015, the covered payroll (annual payroll of active employees covered by the plan) was \$33,689,148, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 217.09 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the last actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 3.5% investment rate of return (net of administrative expenses) based on the Board's own investments; an annual healthcare cost trend rate of 5.9% decreasing gradually to 4.10% Pre-Medicare and 3.90% Post-Medicare by 2075; and payroll growth of 4%. The UAAL is being amortized on a closed level of percentage of payroll basis over a 30 year period. As of July 1, 2015, the remaining amortization period was 23 years.

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Operating Leases

The Board leases copy machines and internet access service for the majority of the educational system over three to five year terms.

Approximate future minimum lease commitments are as follows:

Fiscal year ending June 30,	
2017	\$ 421,000
2018	421,000
2019	22,000
2020	11,000
2021	1,000

Expenses under these leases totaled approximately \$421,000 for the year ended June 30, 2016.

### Note 11. 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. The Board has signed contracts for the construction of North Dorchester High School in the amount of \$50,425,753. At June 30, 2016, \$1,679,475 had been expended on the planning, design, and construction of North Dorchester High School related to these contracts.

The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2016 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Board is a defendant in various lawsuits. After considering all relevant facts and the opinion of legal counsel, it is management's opinion that such litigation will not have a material adverse effect on the financial position of the Board.

**REQUIRED SUPPLEMENTARY INFORMATION**



THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE-BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
County appropriation	\$ 18,963,336	\$ 18,963,336	\$ 18,963,336	\$ -
State of Maryland revenues:				
Current expense	20,200,321	20,200,321	20,198,621	(1,700)
Compensatory education	11,521,552	11,521,552	11,521,552	-
Limited English proficient	612,644	612,644	612,644	-
Special education	1,544,218	1,544,218	1,544,218	-
Guaranteed tax base	662,973	662,973	662,973	-
Supplemental grant	1,321,515	1,321,515	1,321,515	-
Transportation	2,463,041	2,463,041	2,463,041	-
Net Taxable Income Adjustment	269,079	269,079	269,079	-
Quality Teacher Incentive Program	-	116,000	116,000	-
Total State of Maryland revenues	38,595,343	38,711,343	38,709,643	(1,700)
Other sources:				
Tuition and transfers	50,500	50,500	56,241	5,741
Interest income	4,000	4,000	7,220	3,220
Miscellaneous	256,500	256,500	450,061	193,561
ESMEC health alliance	450,000	-	-	-
Rental income - building	21,600	21,600	29,042	7,442
Bus rental	25,000	25,000	41,478	16,478
Total other sources	807,600	357,600	584,042	226,442
Restricted revenues	4,009,347	4,009,347	6,090,262	2,080,915
TOTAL REVENUES	62,375,626	62,041,626	64,347,283	2,305,657
EXPENDITURES				
Administration:				
Salaries and wages	1,135,855	1,135,855	1,127,137	8,718
Contracted services	322,787	352,787	332,896	19,891
Supplies and materials	76,785	140,085	140,629	(544)
Other charges	87,150	87,150	104,166	(17,016)
Equipment	10,000	10,000	-	10,000
Transfers	-	-	-	-
Total administration	1,632,577	1,725,877	1,704,828	21,049

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE-BUDGET AND ACTUAL  
GENERAL FUND

Year Ended June 30, 2016  
(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
School management and support:				
Salaries and wages	\$ 4,741,722	\$ 4,741,722	\$ 4,697,283	\$ 44,439
Contracted services	89,300	89,300	78,842	10,458
Supplies and materials	138,569	113,569	104,828	8,741
Other charges	426,700	426,700	444,951	(18,251)
Total school management and support	5,396,291	5,371,291	5,325,904	45,387
Instructional salaries and wages:				
Salaries and wages and contingency	22,034,484	22,157,684	22,080,450	77,234
Textbooks and instructional supplies:				
Supplies and materials and contingency	1,496,406	1,725,406	1,651,444	73,962
Other instructional costs:				
Contracted services	587,952	576,752	563,348	13,404
Other charges	464,928	489,928	467,360	22,568
Transfers	35,000	35,000	64,332	(29,332)
Total other instructional costs	1,087,880	1,101,680	1,095,040	6,640
Special education:				
Salaries and wages	3,347,874	3,347,874	3,246,504	101,370
Contracted services	998,331	1,148,331	1,231,509	(83,178)
Supplies and materials	20,500	20,500	27,254	(6,754)
Other charges	21,600	21,600	24,189	(2,589)
Total special education	4,388,305	4,538,305	4,529,456	8,849
Pupil personnel services:				
Salaries and wages	604,574	639,574	633,026	6,548
Supplies and materials	7,000	7,000	6,726	274
Other charges	11,400	11,400	13,607	(2,207)
Total pupil personnel services	622,974	657,974	653,359	4,615

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE-BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2016

(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Health services contracted services:				
Contracted services	\$ 559,496	\$ 559,496	\$ 559,496	\$ -
Pupil transportation:				
Salaries and wages	517,070	529,070	546,645	(17,575)
Contracted services	2,863,487	2,713,487	2,615,761	97,726
Supplies and materials	206,034	206,034	192,228	13,806
Other charges	46,718	46,718	41,036	5,682
Equipment	90,000	90,000	185,292	(95,292)
Total pupil transportation	3,723,309	3,585,309	3,580,962	4,347
Operation of plant:				
Salaries and wages	1,662,373	1,662,373	1,651,130	11,243
Contracted services	122,534	122,534	159,831	(37,297)
Supplies and materials	189,400	189,400	227,233	(37,833)
Other charges	1,927,422	1,669,691	1,540,091	129,600
Equipment	-	-	23,832	(23,832)
Total operation of plant	3,901,729	3,643,998	3,602,117	41,881
Maintenance of plant:				
Salaries and wages	608,143	608,143	614,268	(6,125)
Contracted services	390,854	445,454	447,846	(2,392)
Supplies and materials	351,846	436,523	354,207	82,316
Other charges	14,650	14,650	16,164	(1,514)
Equipment	46,113	80,113	86,407	(6,294)
Total maintenance of plant	1,411,606	1,584,883	1,518,892	65,991
Fixed charges:				
Insurance and employee benefits	12,304,564	11,539,264	11,482,835	56,429
Total fixed charges	12,304,564	11,539,264	11,482,835	56,429

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE-BUDGET AND ACTUAL  
GENERAL FUND  
Year Ended June 30, 2016  
(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Capital outlay:				
Salaries and wages	\$ 52,878	\$ 52,878	\$ 52,829	\$ 49
Contracted services	-	34,454	34,454	-
Supplies and materials	1,780	1,780	303	1,477
Other charges	2,000	2,000	997	1,003
Total capital outlay	56,658	91,112	88,583	2,529
Total unrestricted expenditures	58,616,279	58,282,279	57,873,366	408,913
Restricted expenditures	4,009,347	4,009,347	6,090,262	(2,080,915)
TOTAL EXPENDITURES	62,625,626	62,291,626	63,963,628	(1,672,002)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	(250,000)	(250,000)	383,655	633,655
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	250,000	250,000	-	(250,000)
Appropriation to school construction fund	-	-	(210,000)	(210,000)
TOTAL OTHER FINANCING SOURCES (USES)	250,000	250,000	(210,000)	(460,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ 173,655	\$ 173,655

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS

Schedule of Proportionate Share of Net Pension Liability

	2015	2016
Board's proportion of the net pension liability	0.0153290%	0.0169977%
Board's proportionate share of the net pension liability	\$ 2,720,396	\$ 3,532,417
State's proportionate share of the net pension liability	<u>27,301,668</u>	<u>36,226,287</u>
Total	<u>\$ 30,022,064</u>	<u>\$ 39,758,704</u>
Board's covered-employee payroll	\$ 31,967,186	\$ 33,689,148
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	8.51%	10.49%
Total pension liability as a percentage of the plan fiduciary net position	0.07%	0.09%

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS  
Schedule of Board Contributions

	2015	2016
Contractually required contributions	\$ 1,422,891	\$ 1,550,684
Contributions in relation to the contractually required contribution	<u>1,422,891</u>	<u>1,550,684</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 31,967,186	\$ 33,689,148
Contributions as a percentage of covered-employee payroll	4.45%	4.60%

THE BOARD OF EDUCATION OF DORCHESTER COUNTY  
REQUIRED SUPPLEMENTARY INFORMATION

POST-EMPLOYMENT HEALTH CARE BENEFITS  
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
July 1, 2011	\$ -	\$ 55,846,000	\$ 55,846,000	0.00%	\$29,853,746	187.07%
July 1, 2012	\$ -	\$ 58,473,000	\$ 58,473,000	0.00%	\$30,524,124	191.56%
July 1, 2013	\$ -	\$ 69,303,000	\$ 69,303,000	0.00%	\$30,688,767	225.83%
July 1, 2014	\$ -	\$ 73,359,000	\$ 73,359,000	0.00%	\$31,967,186	229.48%
July 1, 2015	\$ -	\$ 73,135,000	\$ 73,135,000	0.00%	\$33,689,148	217.09%

Year Ended June 30	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2012	\$ 4,273,000	23.7%	\$ 4,883,637
2013	\$ 4,549,000	23.8%	\$ 8,349,099
2014	\$ 5,868,000	20.2%	\$ 13,030,767
2015	\$ 6,274,000	20.5%	\$ 18,016,373
2016	\$ 6,104,000	21.3%	\$ 22,820,986

## 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 categorical 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 and Food Service Funds 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. 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, 2016 GENERAL FUND			
	Revenues	Expenditures	Fund Balances
GAAP BASIS	\$ 67,937,392	\$ 67,607,349	\$ 1,224,807
Encumbrances at June 30, 2015	-	(151,629)	-
Encumbrances at June 30, 2016	-	98,017	(98,017)
Payments made on-behalf of the Board by State of Maryland to the Maryland State Retirement System	(3,590,109)	(3,590,109)	-
<b>BUDGETARY BASIS</b>	<b>\$ 64,347,283</b>	<b>\$ 63,963,628</b>	<b>\$ 1,126,790</b>

### Note 2. Pension Plans

#### Changes in Benefit Terms

There were no significant benefit changes during the year.

#### Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2015 valuation:

- Investment return assumption changed from 7.65% to 7.55%
- Inflation assumption changed from 2.90% to 2.95% for general and 3.45% for wage



## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### Note 2. Pension Plans (Continued)

#### Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.95% general, 3.45% wage
Salary Increases	3.45% to 10.70% including inflation
Investment Rate of Return	7.55%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 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.

### Note 3. Post-Employment Health Care Benefits

#### Changes in Benefit Terms

There were no significant benefit changes during the year.

#### Changes in Assumptions

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

- The decrements (retirement, termination, disability) were updated consistent with changes in assumptions used to value the Maryland State Teachers' Pension System.
- The trend assumption was updated to the most recent table released by the Society of Actuaries. The trend was adjusted to include the Cadillac tax that takes effect in 2018.

#### Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Projected Unit Credit method
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 years
Asset Valuation Method	Market Value of Assets
Inflation	2.30%
Salary Increases	4.00%
Investment Rate of Return	3.50%
Medical Trend	Based on the Society of Actuaries Long Term Medical Trend Model, the 2016 rate is 5.90% decreasing gradually to the ultimate rate of 4.10% Pre-Medicare and 3.90% Post-Medicare and is reached in 2075.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014 as utilized by MSRPS

ADDITIONAL SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

SCHOOL ACTIVITIES FUND OPERATIONS

Year Ended June 30, 2016

<u>School Name</u>	June 30, 2015 Fund <u>Balance</u>	<u>Year Ended June 30, 2016</u>		
		<u>Additions -</u> <u>Revenues</u>	<u>Deductions -</u> <u>Expenditures</u>	<u>Fund</u> <u>Balance</u>
Hurlock Elementary School	\$ 27,812	\$ 46,668	\$ 46,832	\$ 27,648
Maple Elementary School	11,884	24,801	27,031	9,654
Choptank Elementary School	20,699	33,308	32,507	21,500
Sandy Hill Elementary School	11,753	44,581	42,222	14,112
South Dorchester K-8 School	43,272	84,896	76,759	51,409
Vienna Elementary School	25,767	27,975	25,464	28,278
Warwick Elementary School	14,984	75,842	74,142	16,684
Maces Lane Middle School	15,717	50,667	47,739	18,645
North Dorchester Middle School	10,856	52,403	41,658	21,601
Cambridge South Dorchester High School	61,960	331,269	317,947	75,282
North Dorchester High School	67,090	273,841	311,361	29,570
School of Technology	50,886	176,384	178,011	49,259
Total	\$ 362,680	\$ 1,222,635	\$ 1,221,673	\$ 363,642

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET POSITION - BUDGET AND ACTUAL

FOOD SERVICES FUND

Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
<b>OPERATING REVENUES</b>				
Sale of meals	\$ 571,388	\$ 571,388	\$ 362,023	\$ (209,365)
Federal assistance	1,923,628	1,923,628	2,155,217	231,589
State assistance	100,000	100,000	113,326	13,326
USDA donated commodities	130,413	130,413	178,116	47,703
<b>TOTAL REVENUES</b>	<b>2,725,429</b>	<b>2,725,429</b>	<b>2,808,682</b>	<b>83,253</b>
<b>OPERATING EXPENSES</b>				
Current:				
Food	1,002,487	1,002,487	1,088,300	(85,813)
Salaries and wages	938,814	938,814	848,620	90,194
Fixed charges	482,715	482,715	471,283	11,432
Contracted services	48,000	48,000	29,439	18,561
Supplies and materials	100,000	100,000	70,274	29,726
Other charges	8,000	8,000	8,505	(505)
Depreciation	-	-	1,077	(1,077)
USDA donated commodities	130,413	130,413	178,116	(47,703)
Capital outlay	20,000	20,000	43,912	(23,912)
<b>TOTAL EXPENSES</b>	<b>2,730,429</b>	<b>2,730,429</b>	<b>2,739,526</b>	<b>(9,097)</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>69,156</b>	<b>74,156</b>
<b>NON-OPERATING REVENUE</b>				
Interest income	5,000	5,000	-	(5,000)
<b>Change in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 69,156</b>	<b>\$ 69,156</b>

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

FOOD SERVICES FUND

SCHEDULE OF CHANGES IN NET POSITION BY AREA OF RESPONSIBILITY

Year Ended June 30, 2016

	<u>Total</u>	<u>Board Admin.</u>	<u>C.S.D.H.S.</u>	<u>N.D.H.S.</u>	<u>Maces Lane</u>	<u>N.D.M.S.</u>
Net position, beginning of year	\$ 144,171	\$ 144,171	\$ -	\$ -	\$ -	\$ -
Revenue:						
Food sales:						
Breakfast	8,009	-	4,078	1,346	-	-
Lunch	196,294	-	31,919	39,344	19,548	19,839
A la carte	157,720	(2,520)	28,994	31,246	12,779	14,818
Other and rebates	39,248	-	5,887	3,534	5,102	3,140
Summer school and migrant programs	28,818	28,818	-	-	-	-
Federal reimbursements	2,126,399	326	244,929	111,318	287,949	146,772
State reimbursements	71,439	-	-	-	6,054	16,006
USDA donated commodities	178,116	-	21,621	12,791	22,690	13,737
Other	2,639	1,209	130	130	130	130
Total revenue	2,808,682	27,833	337,558	199,709	354,252	214,442
Cost of food used:						
Beginning inventory	9,530	4,162	934	377	697	355
Purchased food	1,086,241	19,022	130,922	75,051	125,906	105,958
USDA donated commodities	178,116	-	21,621	12,791	22,690	13,737
Supplies	61,245	12,378	8,408	4,963	6,744	4,236
Salaries and wages	736,301	42,124	96,631	58,495	76,090	63,337
Food available for use	2,071,433	77,686	258,516	151,677	232,127	187,623
Less: Ending inventory	7,471	555	1,303	349	404	522
Total cost of food used	2,063,962	77,131	257,213	151,328	231,723	187,101
Net revenue (expense)	744,720	(49,298)	80,345	48,381	122,529	27,341
Expenses:						
Salaries and wages	112,319	112,319	-	-	-	-
Fixed charges	471,283	85,770	53,664	32,485	42,257	35,174
Contract services	29,439	-	4,574	1,740	2,868	3,769
Supplies/materials	9,029	-	1,798	821	633	405
Other charges	8,505	(651)	2,142	3,155	292	796
Depreciation	1,077	1,077	-	-	-	-
Equipment	43,912	31,279	54	63	823	690
Total expenditures	675,564	229,794	62,232	38,264	46,873	40,834
Change in net position	69,156	(279,092)	18,113	10,117	75,656	(13,493)
Transfers	-	348,248	(18,113)	(10,117)	(75,656)	13,493
Net position, end of year	\$ 213,327	\$ 213,327	\$ -	\$ -	\$ -	\$ -

<u>Hurlock Elementary</u>	<u>Maple Elementary</u>	<u>Sandy Hill Elementary</u>	<u>South Dorchester K-8</u>	<u>Choptank Elementary</u>	<u>Vienna Elementary</u>	<u>Warwick Elementary</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	2,585	-	-	-
12,603	9,383	11,903	13,831	7,029	8,509	22,386
11,812	4,745	12,514	10,046	13,024	7,053	13,209
4,317	3,925	5,102	1,570	4,317	1,177	1,177
-	-	-	-	-	-	-
245,951	300,672	271,021	44,611	294,295	88,613	89,942
8,001	5,193	6,724	-	2,627	5,648	21,186
19,354	22,176	21,036	4,980	21,996	7,605	10,130
130	130	130	130	130	130	130
302,168	346,224	328,430	77,753	343,418	118,735	158,160
644	442	338	186	308	620	467
105,448	139,602	116,498	27,378	127,225	47,741	65,490
19,354	22,176	21,036	4,980	21,996	7,605	10,130
3,950	5,374	3,852	1,483	2,178	4,860	2,819
67,264	56,496	74,741	39,585	78,988	36,369	46,181
196,660	224,090	216,465	73,612	230,695	97,195	125,087
954	870	1,022	330	297	203	662
195,706	223,220	215,443	73,282	230,398	96,992	124,425
106,462	123,004	112,987	4,471	113,020	21,743	33,735
-	-	-	-	-	-	-
37,355	31,375	41,508	21,984	43,866	20,198	25,647
2,265	3,362	2,307	1,392	3,003	1,977	2,182
640	1,160	1,171	626	821	651	303
160	1,178	401	706	192	60	74
-	-	-	-	-	-	-
195	1,138	227	6,020	2,104	624	695
40,615	38,213	45,614	30,728	49,986	23,510	28,901
65,847	84,791	67,373	(26,257)	63,034	(1,767)	4,834
(65,847)	(84,791)	(67,373)	26,257	(63,034)	1,767	(4,834)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -