

THE BOARD OF EDUCATION OF  
DORCHESTER COUNTY

FINANCIAL REPORT

JUNE 30, 2017

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## 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, 2017, 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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of proportionate share of net pension liability, schedule of board contributions - pension plan, and schedule of funding progress and employer contributions - OPEB 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, 2017 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.



Salisbury, Maryland  
September 28, 2017

Herbert J. Geary III  
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Education of 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, 2017, 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, 2017.

**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, 2017

**THE BOARD OF EDUCATION OF DORCHESTER COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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, 2017, and a comparison with the results of the fiscal year ended June 30, 2016. 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 \$51,228,046 a decrease of \$3,803,377 or 6.9%, from the prior year.
- Among major funds (see page 22), the General Fund had \$69,479,565 in revenues and \$68,898,009 in expenditures. Additionally, \$200,000 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 \$381,556.

**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 2016
	<u>FY 2017</u>	<u>FY 2016</u>	
<b>Assets</b>			
Current and Other Assets	\$7,727,951	\$6,969,670	\$758,281
Capital Assets	<u>80,459,811</u>	<u>79,784,274</u>	<u>675,537</u>
Total Assets	<u>88,187,762</u>	<u>86,753,944</u>	<u>1,433,818</u>
<b>Deferred Outflows of Resources</b>	<u>1,129,371</u>	<u>844,128</u>	<u>285,243</u>
<b>Liabilities</b>			
Long-Term Liabilities	32,905,504	27,434,576	5,470,928
Other Liabilities	<u>4,933,867</u>	<u>4,836,409</u>	<u>97,458</u>
Total Liabilities	<u>37,839,371</u>	<u>32,270,985</u>	<u>5,568,386</u>
<b>Deferred Inflows of Resources</b>	<u>249,716</u>	<u>295,664</u>	<u>(45,948)</u>
<b>Net Position</b>			
Invested in Capital Assets, Net of Debt	80,459,811	79,784,274	675,537
Restricted	397,920	363,642	34,278
Unrestricted	<u>(29,629,685)</u>	<u>(25,116,493)</u>	<u>(4,513,192)</u>
<b>Total Net Position</b>	<u>\$51,228,046</u>	<u>\$55,031,423</u>	<u>\$ (3,803,377)</u>

**Net Position** Table 1 provides a comparison of the Board's net position for FY 2017 and FY 2016. For all activities in FY 2017, the Board's assets exceeded its liabilities by \$51,228,046. However, this is a decrease of \$3,803,377 from FY 2016. 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; GASB 68 which requires the estimation of the long-term liability of future pension obligations; but was somewhat offset by an increase in capital assets, mainly the initial construction phase of the North Dorchester High School replacement.

The largest portion of the Board's net position, \$80,459,811 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 \$397,920 and an unrestricted deficit balance of \$29,629,685.

Table 2  
Statement of Activities

	<u>All Activities</u>		Increase (Decrease) From FY 2016
	<u>FY 2017</u>	<u>FY 2016</u>	
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$ 4,242,686	\$ 4,031,317	\$ 211,369
Operating Grants and Contributions	10,433,835	9,680,370	753,465
General Revenues:			
Dorchester County			
General Fund	18,938,559	18,963,336	(24,777)
School Construction	194,391	1,628,593	(1,434,202)
State of Maryland			
General Fund	39,393,936	38,709,643	684,293
School Construction	4,921,133	736,738	4,184,395
Interest	20,752	7,220	13,532
Other	<u>692,483</u>	<u>576,822</u>	<u>115,661</u>
<b>Total Revenues</b>	<u>78,837,775</u>	<u>74,334,039</u>	<u>4,503,736</u>
<b>Governmental Activity Expenses</b>			
Administration	1,752,764	1,752,130	634
School Management & Support	5,567,518	5,538,355	29,163
Instruction			
Salaries	24,355,358	24,052,828	302,530
Textbooks & Supplies	2,050,699	2,227,945	(177,246)
Other	6,469,797	6,558,620	(88,823)
Special Education	6,372,023	5,967,770	404,253
Student Personnel Services	654,326	653,358	968
Student Health Services	613,767	559,496	54,271
Student Transportation	3,576,662	3,733,990	(157,328)
Operation of Plant	3,931,715	3,641,598	290,117
Maintenance of Plant	1,474,833	1,510,372	(35,539)
Fixed Charges	17,974,431	17,619,488	354,943
School Activity Expenses	1,262,053	1,221,673	40,380
State Retirement Contributions	3,786,589	3,590,109	196,480
Capital Outlay	73,465	222,453	(148,988)
<b>Business-Type Activities</b>			
Food Services Expenses	<u>2,725,152</u>	<u>2,739,526</u>	<u>(14,374)</u>
<b>Total Expenses</b>	<u>82,641,152</u>	<u>81,589,711</u>	<u>1,051,441</u>
<b>Change in Net Position</b>	<u>\$(3,803,377)</u>	<u>\$(7,255,672)</u>	<u>\$ 3,452,295</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, 2017. The results of fiscal year 2016 are shown as a comparison. Total Revenues were \$78,837,775, an increase of \$4,503,736 from FY 2016, and total expenses were \$82,641,152, an increase of \$1,051,441 over FY 2016. Revenues were positively impacted by the increase in State capital funding, general State Aid, and operating grants. Expenses were impacted by negotiated wage increases, special education costs, and unexpected maintenance expenses. The negative change in net position for FY 2017 was \$3,803,377.

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 \$32,875,854 an increase of \$36,461 over FY 2016. Special Education costs total \$6,372,023 an increase of \$404,253 over FY 2016. Transportation costs total \$3,576,662, a decrease of \$157,328 over FY 2016. Operation and Maintenance of Plant costs total \$5,406,548, an increase of \$254,578 from FY 2016.

### **The Board's Funds**

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

	<u>Total Cost</u>		Increase (Decrease) From FY 2016
	<u>FY 2017</u>	<u>FY 2016</u>	
Administration	\$ 1,709,488	\$ 1,704,825	\$ 4,663
School Management & Support	5,567,518	5,538,355	29,163
Instruction:			
Salaries & Wages	24,431,332	24,099,647	331,685
Textbooks & Supplies	2,050,699	2,227,945	(177,246)
Other	1,726,066	1,884,430	(158,364)
Special Education	6,372,023	5,967,770	404,253
Pupil Personnel Services	654,326	653,358	968
Health Services	613,767	559,496	54,271
Pupil Transportation	3,695,074	3,689,791	5,283
Operation of Plant	3,931,715	3,641,598	290,117
Maintenance of Plant	1,544,300	1,509,978	34,322
Fixed Charges	16,546,682	16,041,573	505,109
School Activity Expenditures	1,262,053	1,221,673	40,380
Capital Outlay	<u>5,349,207</u>	<u>2,745,305</u>	<u>2,603,902</u>
Total Cost of Services	<u>\$ 75,454,250</u>	<u>\$ 71,485,744</u>	<u>\$ 3,968,506</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 \$1,606,363 at the end of fiscal year 2017. The total fund balance at June 30, 2016 was \$1,224,807. The increase of \$381,556 is attributed mainly to under budget expenditures in all categories.

Of the \$1,606,363 fund balance, \$213,361 is assigned for accrued leave reserve, \$250,000 for FY 2018 operating budget, \$200,880 for FY 2017 encumbrances, \$400,000 for FY 2018 school construction projects, and \$542,122 for the FY 2019 operating budget.

General Fund salaries totaled \$38,347,328, while the associated fringe benefits of retirement, social security, unemployment, industrial insurance, and health and accident insurance added \$16,546,682 to arrive at 72.8% 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, 2016 was \$213,327. It increased by \$221,203 to \$434,530 at June 30, 2017. This increase is attributed mainly to an increase in reimbursable meals served during the year through dinner and summer meal programs. See pages 23 through 25 for the Food Service Fund financial statements.

**Table 4**  
**Original Budget, Final Budget, and Actual Results**  
**General Fund**  
**FY 2017**

	<u>Budgeted Amounts</u>		<u>Actual Results</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
County Appropriations	\$ 18,938,559	\$ 18,938,559	\$ 18,938,559	\$ 0
State of Maryland	39,392,736	39,392,736	39,393,936	1,200
Other Sources	1,063,327	666,327	713,235	46,908
Restricted Revenues	4,440,429	4,440,429	6,647,246	2,206,817
Fund Balance Appropriated	250,000	250,000	(200,000)	(450,000)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Revenues</b>	<b>64,085,051</b>	<b>63,688,051</b>	<b>65,492,976</b>	<b>1,804,925</b>
<b>Governmental Activity Expenses</b>				
Administration	1,697,476	1,747,476	1,718,599	28,877
School Management & Support	5,545,510	5,415,510	5,349,168	66,342
Instruction				
Salaries	22,421,978	22,421,978	22,348,629	73,349
Textbooks & Supplies	1,391,198	1,391,198	1,350,720	40,478
Other	1,129,116	1,129,116	1,083,124	45,992
Special Education	4,551,915	4,551,915	4,472,075	79,840
Student Personnel Services	660,499	660,499	654,325	6,174
Health Services	602,584	632,584	613,767	18,817
Student Transportation	3,625,882	3,625,882	3,621,187	4,695
Operation of Plant	3,925,474	3,980,474	3,973,981	6,493
Maintenance of Plant	1,437,791	1,625,791	1,603,184	22,607
Fixed Charges	12,598,041	12,008,041	11,723,260	284,781
Capital Outlay	57,158	57,158	55,018	2,140
Restricted Expenditures	4,440,429	4,440,429	6,647,246	(2,206,817)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Expenses</b>	<b>64,085,051</b>	<b>63,688,051</b>	<b>65,214,283</b>	<b>(1,526,232)</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Change in Fund Balance</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 278,693</b>	<b>\$ 278,693</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 2017 the Board presented, and the County Council approved, two budget amendment/transfer requests.

The budget amendments utilized additional revenue, and savings in mid-level administration, to offset higher costs in Administration, Health Services, and Operations and Maintenance activities.

As shown in Table 4, during the fiscal year actual revenues and actual expenses resulted in an increase in fund balance of \$278,693.

### **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 2017, the Board had \$80,459,811 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 2017

Construction in Progress	\$ 5,869,570
Buildings and Improvements	73,274,071
Furniture and Equipment	837,476
Vehicles	<u>478,694</u>
<b>Total Capital Assets</b>	<b>\$ <u>80,459,811</u></b>

The Capital Improvement Budget for FY 2018 includes \$11,899,354 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 2018:

- \$150,000 for capital maintenance projects at various schools
- \$420,000 for hardscape renovations at Sandy Hill Elementary 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:

- On December 10, 2015, 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. GASB 75 is an update to GASB 45 and will be effective for fiscal years beginning after June 15, 2017. A much larger OPEB liability will be reflected on our financial statement due to this new regulation.
- 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.
- The Bridge to Excellence in Public Schools Act enacted the recommendations of the Thornton Commission concerning school funding at the State level. This Act also calls for an update to the State's school finance formula. The Kirwan Commission is currently leading this discussion and is expected to make recommendations for changes by December 2017. Their recommendations could affect the amount of State Aid we receive in the future.



### **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, 2017

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 5,321,363	\$ 11,642	\$ 5,333,005
Accounts receivable:			
Federal funds from State of Maryland	835,176	80,403	915,579
State of Maryland	1,166,037	1,080	1,167,117
Other	308,826	-	308,826
Internal balances	(388,908)	388,908	-
Inventory	-	3,424	3,424
Construction in progress	5,869,570	-	5,869,570
Other capital assets, net	74,586,363	3,878	74,590,241
<b>TOTAL ASSETS</b>	<b>87,698,427</b>	<b>489,335</b>	<b>88,187,762</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	1,129,371	-	1,129,371
<b>LIABILITIES</b>			
Accounts payable:			
Vendors	1,279,996	43,575	1,323,571
Accrued payroll and other employee withholdings	1,841,274	-	1,841,274
Unearned revenue - Federal	257,339	-	257,339
Unearned revenue - State	296	-	296
Unearned revenue - other	67,805	-	67,805
Scholarships	9,250	-	9,250
Other accrued expenses	1,434,332	-	1,434,332
Long-term liabilities:			
Due within one year	54,855	-	54,855
Due in more than one year	32,839,419	11,230	32,850,649
<b>TOTAL LIABILITIES</b>	<b>37,784,566</b>	<b>54,805</b>	<b>37,839,371</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	249,716	-	249,716
<b>NET POSITION</b>			
Net investment in capital assets	80,455,933	3,878	80,459,811
Restricted for:			
Other purposes (school activity funds)	397,920	-	397,920
Unrestricted	(30,060,337)	430,652	(29,629,685)
<b>TOTAL NET POSITION</b>	<b>\$ 50,793,516</b>	<b>\$ 434,530</b>	<b>\$ 51,228,046</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, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities</b>				
Current:				
Administration	\$ 1,752,764	\$ -	\$ -	\$ -
School management and support	5,567,518	-	176,028	-
Instructional salaries and wages	24,355,358	-	2,082,703	-
Textbooks and instructional supplies	2,050,699	-	704,296	-
Other instructional costs	6,469,797	-	637,392	-
Special education	6,372,023	-	1,899,949	-
Pupil personnel services	654,326	-	-	-
Health services	613,767	-	-	-
Pupil transportation	3,576,662	-	73,887	-
Operation of plant	3,931,715	-	36,158	-
Maintenance of plant	1,474,833	-	-	-
Fixed charges	17,974,431	-	1,036,833	-
School activity expenditures	1,262,053	1,296,331	-	-
On-behalf State Retirement contributions	3,786,589	-	3,786,589	-
Capital outlay	73,465	-	-	5,115,524
Total Governmental Activities	79,916,000	1,296,331	10,433,835	5,115,524
<b>Business-Type Activities</b>				
Food Services	2,725,152	2,946,355	-	-
Total Business-Type Activities	2,725,152	2,946,355	-	-
Totals	\$ 82,641,152	\$ 4,242,686	\$ 10,433,835	\$ 5,115,524

**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
\$ (1,752,764)	\$ -	\$ (1,752,764)
(5,391,490)	-	(5,391,490)
(22,272,655)	-	(22,272,655)
(1,346,403)	-	(1,346,403)
(5,832,405)	-	(5,832,405)
(4,472,074)	-	(4,472,074)
(654,326)	-	(654,326)
(613,767)	-	(613,767)
(3,502,775)	-	(3,502,775)
(3,895,557)	-	(3,895,557)
(1,474,833)	-	(1,474,833)
(16,937,598)	-	(16,937,598)
34,278	-	34,278
-	-	-
5,042,059	-	5,042,059
(63,070,310)	-	(63,070,310)
-	221,203	221,203
-	221,203	221,203
(63,070,310)	221,203	(62,849,107)
18,938,559	-	18,938,559
39,393,936	-	39,393,936
20,752	-	20,752
692,483	-	692,483
59,045,730	-	59,045,730
(4,024,580)	221,203	(3,803,377)
54,818,096	213,327	55,031,423
\$ 50,793,516	\$ 434,530	\$ 51,228,046

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
<b>ASSETS</b>			
Cash and investments	\$ 4,923,443	\$ -	\$ 397,920
Accounts receivable:			
Federal funds from State of Maryland	835,176	-	-
State of Maryland	29,927	1,136,110	-
Other	256,941	51,885	-
<b>TOTAL ASSETS</b>	<b>\$ 6,045,487</b>	<b>\$ 1,187,995</b>	<b>\$ 397,920</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable:			
Vendors	\$ 738,592	\$ 541,404	\$ -
Other Board of Education funds	90,236	298,672	-
Accrued payroll and other employee withholdings	1,841,274	-	-
Unearned Federal funds	257,339	-	-
Unearned State funds	296	-	-
Other unearned revenues	67,805	-	-
Scholarships	9,250	-	-
Other accrued expenses	1,434,332	-	-
<b>TOTAL LIABILITIES</b>	<b>4,439,124</b>	<b>840,076</b>	<b>-</b>
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>FUND BALANCES</b>			
Assigned to:			
Accrued leave reserve	213,361	-	-
School construction and capital maintenance projects	400,000	347,919	-
School activities	-	-	397,920
Subsequent year's budget	250,000	-	-
Other purposes (encumbrances)	200,880	-	-
Unassigned	542,122	-	-
<b>Total fund balances</b>	<b>1,606,363</b>	<b>347,919</b>	<b>397,920</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,045,487</b>	<b>\$ 1,187,995</b>	<b>\$ 397,920</b>

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

	<b>Total Governmental Funds Balances</b>	\$ 2,352,202
Total Governmental Funds	<b>Amounts reported for governmental activities in the statement of net position are different because:</b>	
\$ 5,321,363		
835,176	Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund financial statements	80,455,933
1,166,037		
308,826		
\$ 7,631,402	Deferred outflows of resources related to pensions not reported in the funds	1,129,371
	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
\$ 1,279,996		
388,908	Accrued leave	(995,342)
1,841,274	Net pension liability	(3,956,270)
257,339	Post-employment benefits	<u>(27,942,662)</u>
296		(32,894,274)
67,805		
9,250	Deferred inflows of resources related to pensions not reported in the funds	<u>(249,716)</u>
1,434,332		
5,279,200	<b>Net Position of Governmental Activities</b>	<u>\$ 50,793,516</u>
213,361		
747,919		
397,920		
250,000		
200,880		
542,122		
2,352,202		
\$ 7,631,402		

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2017

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
<b>REVENUES</b>			
County Appropriation	\$ 18,938,559	\$ 194,391	\$ -
State of Maryland	39,393,936	4,921,133	-
Restricted Federal revenues	6,334,241	-	-
Restricted State revenues	251,365	-	-
Restricted County, Agency and Local revenues	61,640	-	-
On-behalf State Retirement contributions	3,786,589	-	-
Other sources	713,235	-	-
School activity revenues	-	-	1,296,331
<b>TOTAL REVENUES</b>	<b>69,479,565</b>	<b>5,115,524</b>	<b>1,296,331</b>
<b>EXPENDITURES</b>			
Current:			
Administration	1,709,488	-	-
School management and support	5,567,518	-	-
Instructional salaries and wages	24,431,332	-	-
Textbooks and instructional supplies	2,050,699	-	-
Other instructional costs	1,726,066	-	-
Special education	6,372,023	-	-
Pupil personnel services	654,326	-	-
Health services	613,767	-	-
Pupil transportation	3,695,074	-	-
Operation of plant	3,931,715	-	-
Maintenance of plant	1,544,300	-	-
Fixed charges	12,760,093	-	-
School activity expenditures	-	-	1,262,053
On-behalf State Retirement contributions	3,786,589	-	-
Capital outlay	55,019	5,294,188	-
<b>TOTAL EXPENDITURES</b>	<b>68,898,009</b>	<b>5,294,188</b>	<b>1,262,053</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>	<b>581,556</b>	<b>(178,664)</b>	<b>34,278</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers - school construction fund	(200,000)	200,000	-
<b>Net change in fund balances</b>	<b>381,556</b>	<b>21,336</b>	<b>34,278</b>
Fund balances, beginning	1,224,807	326,583	363,642
Fund balances, ending	<b>\$ 1,606,363</b>	<b>\$ 347,919</b>	<b>\$ 397,920</b>

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



	<b>Net change in fund balances-total Governmental Funds</b>	\$ 437,170
Total Governmental Funds	<b>Amounts reported for governmental activities in the statement of activities are different because:</b>	
\$ 19,132,950	Governmental funds report capital outlays as expenditures.	
44,315,069	However, in the statement of activities, the cost of those	
6,334,241	assets is allocated over their estimated useful lives as depreciation	
251,365	expense. This is the amount by which depreciation	
61,640	exceeded capital outlays in the current period.	
3,786,589	Fixed asset additions	5,542,098
713,235	Current year depreciation	<u>(4,865,484)</u>
1,296,331		
<u>75,891,420</u>	Total	676,614
	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.	
1,709,488	Decrease in accrued leave, net	75,974
5,567,518	Increase in pension liability, net	(92,662)
24,431,332	Increase in post-employment benefits, net	<u>(5,121,676)</u>
2,050,699		
1,726,066	Total	<u>(5,138,364)</u>
6,372,023	Change in net position of Governmental Activities	<u>\$ (4,024,580)</u>
654,326		
613,767		
3,695,074		
3,931,715		
1,544,300		
12,760,093		
1,262,053		
3,786,589		
5,349,207		
<u>75,454,250</u>		
437,170		
<u>-</u>		
437,170		
<u>1,915,032</u>		
<u>\$ 2,352,202</u>		

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF NET POSITION  
 PROPRIETARY FUND

June 30, 2017

	<u>Business-Type Activities</u>
	<u>Food Service</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 11,642
Accounts receivable:	
Federal funds from State of Maryland	80,403
State receivables	1,080
Inventory	3,424
Other Board of Education funds	<u>388,908</u>
Total current assets	<u>485,457</u>
Capital assets, net	<u>3,878</u>
<b>TOTAL ASSETS</b>	<u>489,335</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	34,324
Unearned revenue	9,251
Accrued leave	<u>11,230</u>
<b>TOTAL LIABILITIES</b>	<u>54,805</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	
<b>NET POSITION</b>	
Net investment in capital assets	3,878
Unrestricted	<u>430,652</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 434,530</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, 2017

	Business-Type Activities
	Food <u>Service</u>
OPERATING REVENUES	
Sale of meals	\$ 372,688
Federal assistance	2,287,608
State assistance	101,044
USDA donated commodities	185,015
TOTAL OPERATING REVENUES	<u>2,946,355</u>
OPERATING EXPENSES	
Food	1,054,576
Salaries and wages	900,739
Fixed charges	428,949
Contracted services	36,105
Supplies and materials	75,980
Other charges	11,573
USDA donated commodities	185,015
Depreciation	1,077
Additional equipment	31,138
TOTAL OPERATING EXPENSES	<u>2,725,152</u>
OPERATING INCOME	221,203
Change in net position	221,203
Net position beginning of year	<u>213,327</u>
Net position end of year	<u>\$ 434,530</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, 2017

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from students	\$ 369,823
Operating grants received	2,324,082
Payments to food and related suppliers	(1,053,657)
Payments to other suppliers	(122,507)
Payments to employees and employee related benefits	(1,328,316)
Net cash provided by operating activities	189,425
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Cash transfers received from other Board funds	(191,695)
Net decrease in cash	(2,270)
Cash, beginning of year	13,912
Cash, end of year	\$ 11,642
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating income	\$ 221,203
Adjustments:	
Depreciation	1,077
(Increase) decrease in assets:	
Inventory	4,047
Accounts receivable	(64,570)
(Decrease) increase in liabilities:	
Accounts payable	29,423
Deferred revenue	(3,128)
Accrued leave	1,373
Total adjustments	(31,778)
Net cash provided by operating activities	\$ 189,425
<b>Noncash items:</b>	
Donation of food commodities	\$ 185,015

*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 \$4,921,133 for the year ended June 30, 2017.

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 position. The statement of cash flows provides information about how the Board finances and meets the cash flow needs of its proprietary activities.

#### D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of 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, 2017 that were provided for in the current year's budget for the budgetary basis of accounting but will be accounted for under generally accepted accounting principles in the subsequent year totaled \$200,880.

### **Note 3. Cash and Investments**

#### **Deposits:**

At June 30, 2017, the Board had bank deposits with various commercial banks totaling \$2,128,885 (carrying value \$1,878,630). 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, 2017, the bank deposits were fully insured or collateralized.

#### **Investments:**

Investments consist of \$3,454,375 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	\$	1,878,630
Investments		3,454,375
Total cash and investments	\$	5,333,005

### 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	\$ 298,672	\$ -
Due to Food Service Fund	-	388,908
School Construction Fund		
Due to General Fund	-	298,672
<b>BUSINESS-TYPE ACTIVITIES</b>		
Enterprise Fund		
Due from General Fund	388,908	-
<b>TOTAL ALL FUNDS</b>	<b>\$ 687,580</b>	<b>\$ 687,580</b>

Due to/from other funds represent advances of cash for operating needs. Transfers of \$200,000 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, 2017, was as follows:

	Balance June 30, 2016	Additions	Deductions	Transfers	Balance June 30, 2017
<b>Governmental Activities</b>					
<b>Capital Assets, not being depreciated</b>					
Construction in progress	\$ 1,818,812	\$ 5,275,742	\$ -	\$ (1,224,984)	\$ 5,869,570
Total capital assets, not being depreciated	1,818,812	5,275,742	-	(1,224,984)	5,869,570
<b>Capital assets, being depreciated</b>					
Buildings and improvements	134,875,318	-	-	1,224,984	136,100,302
Furniture and equipment	2,997,094	-	-	-	2,997,094
Vehicles	1,003,316	266,356	-	-	1,269,672
Total capital assets, being depreciated	138,875,728	266,356	-	1,224,984	140,367,068
Less accumulated depreciation:					
Buildings and improvements	(58,170,113)	(4,656,118)	-	-	(62,826,231)
Furniture and equipment	(2,032,214)	(131,282)	-	-	(2,163,496)
Vehicles	(712,894)	(78,084)	-	-	(790,978)
Total accumulated depreciation	(60,915,221)	(4,865,484)	-	-	(65,780,705)
Total capital assets, being depreciated, net	77,960,507	(4,599,128)	-	1,224,984	74,586,363
Governmental activities capital assets, net	\$ 79,779,319	\$ 676,614	\$ -	\$ -	\$ 80,455,933
<b>Business-type activities</b>					
Equipment	\$ 36,250	\$ -	\$ -	\$ -	\$ 36,250
Accumulated depreciation	(31,295)	(1,077)	-	-	(32,372)
Business-type activities capital assets, net	\$ 4,955	\$ (1,077)	\$ -	\$ -	\$ 3,878

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 43,276
Instructional costs	4,743,731
Pupil transportation	68,104
Maintenance of plant	10,373
Total governmental depreciation expense	<u>4,865,484</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>\$ 4,866,561</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Long-Term Liabilities

A summary of long-term liabilities for the year ended June 30, 2017 is as follows:

	Balance June 30, 2016	Increases	Decreases	Balance June 30, 2017	Due within one year
<b>GOVERNMENTAL ACTIVITIES</b>					
Accrued leave	\$ 1,071,316	\$ 371,873	\$ 447,847	\$ 995,342	\$ 54,855
Net pension liability (Note 7)	3,532,417	750,509	326,656	3,956,270	-
Other post-employment benefits (Note 9)	22,820,986	7,491,000	2,369,324	27,942,662	-
Total	<u>\$ 27,424,719</u>	<u>\$ 8,613,382</u>	<u>\$ 3,143,827</u>	<u>\$ 32,894,274</u>	<u>\$ 54,855</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Accrued leave	<u>\$ 9,857</u>	<u>\$ 10,437</u>	<u>\$ 9,064</u>	<u>\$ 11,230</u>	<u>\$ -</u>

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, 2017. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

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

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

#### Employer Contributions:

For the year ended June 30, 2017 the Board's total payroll for all employees was \$39,184,916. Total covered payroll was \$34,546,250. 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 2017, the State of Maryland contributed \$3,786,589 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 100% of the normal cost portion of the total pension cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. As contractually required, during fiscal year 2017, the Board contributed \$1,288,928, net of a \$97,616 adjustment in accordance with Chapter 5 of the Acts of 2017 (House Bill 1109), to the Teachers' Retirement and Pension System.

#### Employees' Retirement and Pension Systems:

During fiscal year 2017, the Board contributed \$343,396 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, 2017, 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>2017</b>
Board's proportionate share of the net pension liability (Employees' Systems)	\$	3,956,270
State's proportionate share of the net pension liability (Teachers' Systems)		43,481,273
Total	\$	47,437,543

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2016, the Board's proportion was approximately .0167681%.

For the year ended June 30, 2017, the Board recognized pension expense of \$1,632,324 in the fund financial statements and \$1,724,986 in the government-wide financial statements.

At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 160,192	\$ -
Net difference between projected and actual investment earnings on pension plan investments	625,783	(148,882)
Difference between actual and expected experience		(100,834)
Board contributions subsequent to measurement date	343,396	-
<b>Total</b>	<b>\$ 1,129,371</b>	<b>\$ (249,716)</b>

The \$343,396 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, 2018. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.8647, 5.87, and 5 years for 2016, 2015, and 2014, respectively. The net difference in investment earnings for 2016, 2015, and 2014 is being amortized over a closed five year period for each period. The following table shows the amortization of these balances:

	2016 BALANCE AMORTIZATION		2015 BALANCE AMORTIZATION		2014 BALANCE AMORTIZATION		
	DEFERRED OUTFLOWS	DEFERRED INFLOWS	DEFERRED OUTFLOWS		DEFERRED INFLOWS	DEFERRED INFLOWS	
Year End June 30,	Net Difference in Investment Earnings	Actual and Expected Experience	Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings
2018	98,109	(8,911)	77,783	36,309	(14,854)	9,838	(74,441)
2019	98,109	(8,911)	77,783	36,309	(14,854)	9,838	(74,441)
2020	98,109	(8,911)	77,783	36,309	(14,854)	-	-
2021	98,107	(8,911)	-	31,589	(12,925)	-	-
2022	-	(7,703)	-	-	-	-	-
	392,434	(43,347)	233,349	140,516	(57,487)	19,676	(148,882)

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

#### *Actuarial Assumptions*

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

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.70% general, 3.20% wage
Salary Increases	3.30% to 9.20% including inflation
Investment Rate of Return	7.55%
Retirement Age	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	37%	6.6%
Private Equity	10%	7.4%
Rate Sensitive	20%	1.3%
Credit Opportunity	9%	4.2%
Real Assets	15%	4.7%
Absolute Return	9%	3.7%
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%	\$	5,434,280
Current discount rate	7.55%	\$	3,532,417
1% increase	8.55%	\$	2,726,344

### 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 20, 2017, the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$1,253,448. 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 \$3,187 for 15 years of service to 63% or \$3,937 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 2017, the Board contributed \$1,349,324 to the plan for 293 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	\$ 6,692,000
Interest on net OPEB obligation	799,000
Adjustment to annual required contribution	<u>(1,020,000)</u>
Annual OPEB cost (expense)	6,471,000
Contributions made	<u>(1,349,324)</u>
Net OPEB obligation	5,121,676
Net OPEB obligation at beginning of year	<u>22,820,986</u>
Net OPEB obligation at end of year	<u><u>\$ 27,942,662</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
6/30/2013	\$ 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
6/30/2017	\$ 6,471,000	20.85%	\$ 27,942,662

#### Funding Status and Funding Progress

As of July 1, 2016, the plan was zero percent funded. The actuarial accrued liability, as determined in the last actuarial valuation, for benefits was \$75,164,000, all of which was unfunded. As of July 1, 2016, the covered payroll (annual payroll of active employees covered by the plan) was \$34,546,250, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 217.57 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, 2016, the remaining amortization period was 22 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.

During fiscal year 2017, the Board entered into a fifteen year equipment lease totaling \$4,188,274 for systemic replacements, repairs, restorations, modifications, and improvements across the school district. Payments are due annually with interest at 2.67% and final payment due December 21, 2031.

Approximate future minimum lease commitments are as follows:

Fiscal year ending June 30,	
2018	\$ 799,000
2019	299,000
2020	398,000
2021	387,000
2022	339,000
Thereafter	3,589,000

Expenses under these leases totaled approximately \$467,000 for the year ended June 30, 2017.

### 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, 2017, \$5,869,571 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, 2017 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, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
County appropriation	\$ 18,938,559	\$ 18,938,559	\$ 18,938,559	\$ -
State of Maryland revenues:				
Current expense	20,075,275	20,075,275	20,075,475	200
Compensatory education	12,068,497	12,068,497	12,068,497	-
Limited English proficient	578,508	578,508	578,508	-
Special education	1,541,883	1,541,883	1,541,883	-
Guaranteed tax base	864,825	864,825	864,825	-
Supplemental grant	1,321,515	1,321,515	1,321,515	-
Transportation	2,478,611	2,478,611	2,478,611	-
Net Taxable Income Adjustment	463,622	463,622	463,622	-
Quality Teacher Incentive Program	-	-	1,000	1,000
Total State of Maryland revenues	39,392,736	39,392,736	39,393,936	1,200
Other sources:				
Tuition and transfers	50,500	50,500	39,762	(10,738)
Interest income	4,000	4,000	20,752	16,752
Miscellaneous	427,227	565,227	564,805	(422)
ESMEC health alliance	535,000	-	-	-
Rental income - building	21,600	21,600	46,202	24,602
Bus rental	25,000	25,000	41,714	16,714
Total other sources	1,063,327	666,327	713,235	46,908
Restricted revenues	4,440,429	4,440,429	6,647,246	2,206,817
TOTAL REVENUES	63,835,051	63,438,051	65,692,976	2,254,925
EXPENDITURES				
Administration:				
Salaries and wages	1,165,673	1,165,673	1,169,799	(4,126)
Contracted services	356,868	381,868	345,321	36,547
Supplies and materials	76,785	101,785	97,171	4,614
Other charges	88,150	88,150	106,308	(18,158)
Equipment	10,000	10,000	-	10,000
Transfers	-	-	-	-
Total administration	1,697,476	1,747,476	1,718,599	28,877

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, 2017

(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
School management and support:				
Salaries and wages	\$ 4,864,105	\$ 4,734,105	\$ 4,730,827	\$ 3,278
Contracted services	98,336	98,336	118,802	(20,466)
Supplies and materials	136,569	136,569	109,648	26,921
Other charges	446,500	446,500	389,891	56,609
Total school management and support	5,545,510	5,415,510	5,349,168	66,342
Instructional salaries and wages:				
Salaries and wages and contingency	22,421,978	22,421,978	22,348,629	73,349
Textbooks and instructional supplies:				
Supplies and materials and contingency	1,391,198	1,391,198	1,350,720	40,478
Other instructional costs:				
Contracted services	578,438	578,438	529,874	48,564
Other charges	515,678	515,678	490,428	25,250
Transfers	35,000	35,000	62,822	(27,822)
Total other instructional costs	1,129,116	1,129,116	1,083,124	45,992
Special education:				
Salaries and wages	3,501,377	3,501,377	3,358,523	142,854
Contracted services	1,008,438	1,008,438	1,067,864	(59,426)
Supplies and materials	20,500	20,500	21,552	(1,052)
Other charges	21,600	21,600	24,136	(2,536)
Total special education	4,551,915	4,551,915	4,472,075	79,840
Pupil personnel services:				
Salaries and wages	642,099	642,099	635,724	6,375
Supplies and materials	7,000	7,000	6,706	294
Other charges	11,400	11,400	11,895	(495)
Total pupil personnel services	660,499	660,499	654,325	6,174

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, 2017  
(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Health services contracted services:				
Contracted services	\$ 602,584	\$ 632,584	\$ 613,767	\$ 18,817
Pupil transportation:				
Salaries and wages	518,025	518,025	569,825	(51,800)
Contracted services	2,771,025	2,771,025	2,681,707	89,318
Supplies and materials	198,496	198,496	137,422	61,074
Other charges	48,336	48,336	42,757	5,579
Equipment	90,000	90,000	189,476	(99,476)
Total pupil transportation	3,625,882	3,625,882	3,621,187	4,695
Operation of plant:				
Salaries and wages	1,681,598	1,681,598	1,722,540	(40,942)
Contracted services	122,534	177,534	297,882	(120,348)
Supplies and materials	189,400	189,400	192,702	(3,302)
Other charges	1,931,942	1,931,942	1,760,857	171,085
Equipment	-	-	-	-
Total operation of plant	3,925,474	3,980,474	3,973,981	6,493
Maintenance of plant:				
Salaries and wages	634,328	634,328	607,087	27,241
Contracted services	380,854	430,854	417,113	13,741
Supplies and materials	361,846	499,846	483,270	16,576
Other charges	14,650	14,650	15,874	(1,224)
Equipment	46,113	46,113	79,840	(33,727)
Total maintenance of plant	1,437,791	1,625,791	1,603,184	22,607
Fixed charges:				
Insurance and employee benefits	12,598,041	12,008,041	11,723,260	284,781
Total fixed charges	12,598,041	12,008,041	11,723,260	284,781

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, 2017

(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Capital outlay:				
Salaries and wages	\$ 53,378	\$ 53,378	\$ 53,086	\$ 292
Contracted services	-	-	-	-
Supplies and materials	1,780	1,780	843	937
Other charges	2,000	2,000	1,089	911
Total capital outlay	57,158	57,158	55,018	2,140
Total unrestricted expenditures	59,644,622	59,247,622	58,567,037	680,585
Restricted expenditures	4,440,429	4,440,429	6,647,246	(2,206,817)
TOTAL EXPENDITURES	64,085,051	63,688,051	65,214,283	(1,526,232)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	(250,000)	(250,000)	478,693	728,693
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	250,000	250,000	-	(250,000)
Appropriation to school construction fund	-	-	(200,000)	(200,000)
TOTAL OTHER FINANCING SOURCES (USES)	250,000	250,000	(200,000)	(450,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ 278,693	\$ 278,693

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS

Schedule of Proportionate Share of Net Pension Liability

	2015	2016	2017
Board's proportion of the net pension liability	0.0153290%	0.0169977%	0.0167681%
Board's proportionate share of the net pension liability	\$ 2,720,396	\$ 3,532,417	\$ 3,956,270
State's proportionate share of the net pension liability	27,301,668	36,226,287	43,481,273
Total	<u>\$ 30,022,064</u>	<u>\$ 39,758,704</u>	<u>\$ 47,437,543</u>
Board's covered-employee payroll	\$ 31,967,186	\$ 33,689,148	\$ 34,546,250
Board's proportionate share of the net pension liability as a percentage of its covered-employee payroll	8.51%	10.49%	11.45%
Total pension liability as a percentage of the plan fiduciary net position	0.07%	0.09%	0.10%

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS  
Schedule of Board Contributions

	2015	2016	2017
Contractually required contributions	\$ 1,422,891	\$ 1,550,684	\$ 1,632,324
Contributions in relation to the contractually required contribution	1,422,891	1,550,684	1,632,324
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 31,967,186	\$ 33,689,148	\$ 34,546,250
Contributions as a percentage of covered-employee payroll	4.45%	4.60%	4.73%

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 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, 2008	\$ -	\$ 18,101,000	\$ 18,101,000	0.00%	\$31,602,015	57.28%
July 1, 2009	\$ -	\$ 23,385,000	\$ 23,385,000	0.00%	\$30,573,404	76.49%
July 1, 2010	\$ -	\$ 23,867,000	\$ 23,867,000	0.00%	\$29,687,607	80.39%
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%
July 1, 2016	\$ -	\$ 75,164,000	\$ 75,164,000	0.00%	\$34,546,250	217.57%

Year Ended June 30	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
2009	\$ 1,174,000	66.4%	\$ 394,254
2010	\$ 1,469,000	55.7%	\$ 1,045,440
2011	\$ 1,542,000	62.4%	\$ 1,624,831
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
2017	\$ 6,471,000	20.9%	\$ 27,942,662

## 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, 2017 GENERAL FUND			
	Revenues	Expenditures	Fund Balances
GAAP BASIS	\$ 69,479,565	\$ 68,898,009	\$ 1,606,363
Encumbrances at June 30, 2016	-	(98,017)	-
Encumbrances at June 30, 2017	-	200,880	(200,880)
Payments made on-behalf of the Board by State of Maryland to the Maryland State Retirement System	(3,786,589)	(3,786,589)	-
<b>BUDGETARY BASIS</b>	<b>\$ 65,692,976</b>	<b>\$ 65,214,283</b>	<b>\$ 1,405,483</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 2016 valuation:

- Inflation assumption changed from 2.95% to 2.70% for general and from 3.45% to 3.20% for wage
- Salary increase assumption changed from 3.45% - 10.70% to 3.30% - 9.20%, including inflation



## 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	22 years for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.70% general, 3.20% wage
Salary Increases	3.30% to 9.20% including inflation
Investment Rate of Return	7.55%
Retirement Age	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

There were no significant adjustments to the assumptions during the year.

#### 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	22 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, 2017

<u>School Name</u>	June 30, 2016 Fund <u>Balance</u>	<u>Year Ended June 30, 2017</u>		
		<u>Additions -</u> <u>Revenues</u>	<u>Deductions -</u> <u>Expenditures</u>	<u>Fund</u> <u>Balance</u>
Hurlock Elementary School	\$ 27,648	\$ 45,966	\$ 49,763	\$ 23,851
Maple Elementary School	9,654	32,900	28,529	14,025
Choptank Elementary School	21,500	36,275	35,244	22,531
Sandy Hill Elementary School	14,112	33,037	32,982	14,167
South Dorchester K-8 School	51,409	77,271	70,591	58,089
Vienna Elementary School	28,278	47,454	44,663	31,069
Warwick Elementary School	16,684	77,926	75,732	18,878
Maces Lane Middle School	18,645	65,712	71,825	12,532
North Dorchester Middle School	21,601	50,061	57,938	13,724
Cambridge South Dorchester High School	75,282	375,230	361,915	88,597
North Dorchester High School	29,570	284,220	282,263	31,527
School of Technology	49,259	170,279	150,608	68,930
Total	\$ 363,642	\$ 1,296,331	\$ 1,262,053	\$ 397,920

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, 2017

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
<b>OPERATING REVENUES</b>				
Sale of meals	\$ 521,388	\$ 521,388	\$ 372,688	\$ (148,700)
Federal assistance	2,024,226	2,024,226	2,287,608	263,382
State assistance	100,000	100,000	101,044	1,044
USDA donated commodities	130,413	130,413	185,015	54,602
<b>TOTAL REVENUES</b>	<b>2,776,027</b>	<b>2,776,027</b>	<b>2,946,355</b>	<b>170,328</b>
<b>OPERATING EXPENSES</b>				
Current:				
Food	1,066,987	1,066,987	1,054,576	12,411
Salaries and wages	911,334	911,334	900,739	10,595
Fixed charges	492,793	492,793	428,949	63,844
Contracted services	48,000	48,000	36,105	11,895
Supplies and materials	100,000	100,000	75,980	24,020
Other charges	11,500	11,500	11,573	(73)
Depreciation	-	-	1,077	(1,077)
USDA donated commodities	130,413	130,413	185,015	(54,602)
Capital outlay	20,000	20,000	31,138	(11,138)
<b>TOTAL EXPENSES</b>	<b>2,781,027</b>	<b>2,781,027</b>	<b>2,725,152</b>	<b>55,875</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>221,203</b>	<b>226,203</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>\$ 221,203</b>	<b>\$ 221,203</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, 2017

	<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	\$ 213,327	\$ 213,327	\$ -	\$ -	\$ -	\$ -
Revenue:						
Food sales:						
Breakfast	7,793	-	3,931	964	-	-
Lunch	225,171	-	33,658	38,565	23,074	21,698
A la carte	139,724	2,661	22,995	27,237	11,475	8,937
Other and rebates	37,734	-	5,750	3,395	4,965	3,000
Summer school and migrant programs	41,561	41,561	-	-	-	-
Federal reimbursements	2,246,047	-	246,820	125,310	282,484	165,092
State reimbursements	63,310	-	-	-	5,712	18,834
USDA donated commodities	185,015	-	21,323	13,310	22,315	14,814
Other	-	-	-	-	-	-
Total revenue	2,946,355	44,222	334,477	208,781	350,025	232,375
Cost of food used:						
Beginning inventory	7,471	555	1,303	349	404	522
Purchased food	1,050,529	27,604	120,024	65,839	126,696	88,416
USDA donated commodities	185,015	-	21,323	13,310	22,315	14,814
Supplies	66,209	9,378	7,599	8,228	7,429	2,493
Salaries and wages	783,968	47,304	101,978	62,878	78,155	67,674
Food available for use	2,093,192	84,841	252,227	150,604	234,999	173,919
Less: Ending inventory	3,424	75	192	178	621	239
Total cost of food used	2,089,768	84,766	252,035	150,426	234,378	173,680
Net revenue (expense)	856,587	(40,544)	82,442	58,355	115,647	58,695
Expenses:						
Salaries and wages	116,771	116,771	-	-	-	-
Fixed charges	428,949	78,135	48,564	29,944	37,219	32,228
Contract services	36,105	-	3,428	3,137	3,683	2,692
Supplies/materials	9,771	93	851	855	788	696
Other charges	11,573	-	2,728	3,580	433	1,082
Depreciation	1,077	1,077	-	-	-	-
Equipment	31,138	2,259	10,446	413	5,919	33
Total expenditures	635,384	198,335	66,017	37,929	48,042	36,731
Change in net position	221,203	(238,879)	16,425	20,426	67,605	21,964
Transfers	-	460,082	(16,425)	(20,426)	(67,605)	(21,964)
Net position, end of year	\$ 434,530	\$ 434,530	\$ -	\$ -	\$ -	\$ -

<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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	2,898
18,081	14,547	15,122	19,165	5,483	10,612	25,166
8,582	6,052	11,340	10,328	11,967	5,360	12,790
4,180	4,964	4,180	1,178	3,650	1,432	1,040
-	-	-	-	-	-	-
268,068	339,485	289,410	68,949	310,980	89,118	60,331
7,456	5,014	5,822	11,664	3,748	5,060	-
20,861	25,198	22,190	7,578	22,867	7,598	6,961
-	-	-	-	-	-	-
327,228	395,260	348,064	118,862	358,695	119,180	109,186
954	870	1,022	330	297	203	662
102,592	148,932	118,306	47,357	122,471	46,410	35,882
20,861	25,198	22,190	7,578	22,867	7,598	6,961
7,655	5,521	5,067	3,017	5,851	1,926	2,045
73,352	78,763	70,152	46,178	79,981	37,830	39,723
205,414	259,284	216,737	104,460	231,467	93,967	85,273
282	388	309	271	348	315	206
205,132	258,896	216,428	104,189	231,119	93,652	85,067
122,096	136,364	131,636	14,673	127,576	25,528	24,119
-	-	-	-	-	-	-
34,932	37,508	33,408	21,991	38,088	18,015	18,917
3,697	4,381	3,968	3,004	4,471	1,323	2,321
799	1,839	1,027	480	1,060	888	395
439	1,356	405	748	251	187	364
-	-	-	-	-	-	-
213	357	-	47	85	4,371	6,995
40,080	45,441	38,808	26,270	43,955	24,784	28,992
82,016	90,923	92,828	(11,597)	83,621	744	(4,873)
(82,016)	(90,923)	(92,828)	11,597	(83,621)	(744)	4,873
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -