

THE BOARD OF EDUCATION OF  
DORCHESTER COUNTY

FINANCIAL REPORT

JUNE 30, 2020

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



## INDEPENDENT AUDITORS' REPORT

The Board of Education of Dorchester County  
Cambridge, Maryland

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of The Board of Education of Dorchester County, a component unit of Dorchester County, Maryland, as of and for the year ended June 30, 2020, 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.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2020, 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 plans, and schedule of total OPEB liability and related ratios, as listed in the table of contents, 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, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Board of Education of Dorchester County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Board of Education of Dorchester County's internal control over financial reporting and compliance.

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

Salisbury, Maryland  
September 28, 2020

Herbert J. Geary III  
Corey N. Duncan  
Roy J. Geiser  
Chris A. Hall  
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Craig A. Walter  
Mark A. Welsh



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, 2020, 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, 2020.

**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) as a basis for designing 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Board of Education of 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 financial statements. 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, 2020

# **THE BOARD OF EDUCATION OF DORCHESTER COUNTY MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

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, 2020, and a comparison with the results of the fiscal year ended June 30, 2019. 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 \$29,621,376 an increase of \$1,350,853 or 4.8%, from the prior year. This is primarily due to an increase in capital assets – new construction, and a favorable decrease in long-term liabilities – Other Post Employment Benefits, and Pensions.
- Among major funds (see page 22), the General Fund had \$79,721,168 in revenues and \$76,810,928 in expenditures. Additionally, \$484,577 of prior year fund balance was transferred from the General Fund to the School Construction Fund to cover critical projects related to security vestibules, and building access controls. There was a resulting net increase in the General Fund fund balance of \$2,425,663.

## **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 26-47.

## **FINANCIAL ANALYSIS**

### **The School System as a Whole**

Table 1  
Condensed Statement of Net Position

	<u>All Activities</u>		Increase (Decrease)
	<u>FY 2020</u>	<u>FY 2019</u>	<u>From FY 2019</u>
<b>Assets</b>			
Current and Other Assets	\$14,216,846	\$9,731,831	\$4,485,015
Capital Assets	<u>110,522,729</u>	<u>109,761,000</u>	<u>761,729</u>
Total Assets	<u>124,739,575</u>	<u>119,492,831</u>	<u>5,246,744</u>
<b>Deferred Outflows of Resources</b>			
	<u>4,609,922</u>	<u>2,186,756</u>	<u>2,423,166</u>
<b>Liabilities</b>			
Long-Term Liabilities	74,098,328	78,851,264	(4,752,936)
Other Liabilities	<u>7,191,701</u>	<u>5,647,153</u>	<u>1,544,548</u>
Total Liabilities	<u>81,290,029</u>	<u>84,498,417</u>	<u>(3,208,388)</u>
<b>Deferred Inflows of Resources</b>			
	<u>18,438,092</u>	<u>8,910,647</u>	<u>9,527,445</u>
<b>Net Position</b>			
Invested in Capital Assets, Net of Debt	110,522,729	109,761,000	761,729
Restricted	484,164	370,375	113,789
Unrestricted	<u>(81,385,517)</u>	<u>(81,860,852)</u>	<u>475,335</u>
<b>Total Net Position</b>	<u>\$29,621,376</u>	<u>\$28,270,523</u>	<u>\$1,350,853</u>

**Net Position** Table 1 provides a comparison of the Board's net position for FY 2020 and FY 2019. For all activities in FY 2020, the Board's assets exceeded its liabilities by \$29,621,376. This is an increase of \$1,350,853 from FY2019. This increase was due mainly to the continuing construction of the replacement for North Dorchester High School. There was also a favorable decrease in liabilities related to the recognition and reporting of Other Post-Employment Benefits (OPEB) as required by the Governmental Accounting Standards Board (GASB) pronouncement #75, and GASB 68 which requires the estimation of the long-term liability of future pension obligations.

The largest portion of the Board's net position, \$110,522,729 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 \$484,164 and an unrestricted deficit balance of \$81,385,517.

Table 2  
Statement of Activities

	<u>All Activities</u>		Increase (Decrease) From FY 2019
	<u>FY 2020</u>	<u>FY 2019</u>	
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$3,894,414	\$4,461,718	(\$567,304)
Operating Grants and Contributions	12,995,624	11,118,379	1,877,245
General Revenues:			
Dorchester County			
General Fund	20,077,482	19,252,162	825,320
School Construction	2,391,871	5,103,220	(2,711,349)
State of Maryland			
General Fund	45,851,946	42,125,112	3,726,834
School Construction	2,952,142	11,691,520	(8,739,378)
Interest	133,934	131,323	2,611
Other	729,455	643,513	85,942
<b>Total Revenues</b>	<u>89,026,868</u>	<u>94,526,947</u>	<u>(5,500,079)</u>
<b>Governmental Activity Expenses</b>			
<b>Administration</b>	1,605,728	2,166,089	(560,361)
School Management & Support	5,774,590	5,609,024	165,566
Instruction			
Salaries	26,548,581	25,415,437	1,133,144
Textbooks & Supplies	1,912,116	2,232,791	(320,675)
Other	7,540,946	6,827,724	713,222
Special Education	6,959,899	6,175,457	784,442
Student Personnel Services	1,279,693	779,973	499,720
Student Health Services	734,543	630,861	103,682
Student Transportation	3,663,949	3,879,864	(215,915)
Operation of Plant	3,450,184	4,090,772	(640,588)
Maintenance of Plant	1,920,905	1,773,191	147,714
Fixed Charges	18,504,076	17,935,611	568,465
School Activity Expenses	774,664	1,220,562	(445,898)
State Retirement Contributions	3,872,850	3,696,136	176,714
Capital Outlay	53,498	55,912	(2,414)
<b>Business-Type Activities</b>			
Food Services Expenses	3,079,793	3,139,358	(59,565)
<b>Total Expenses</b>	<u>87,676,015</u>	<u>85,628,762</u>	<u>2,047,253</u>
Change in Net Position	<u>\$1,350,853</u>	<u>\$8,898,185</u>	<u>(\$7,547,332)</u>

**Changes in Net Position** Table 2 (page 11) shows the key elements for the increase of the Board's net position for the year ended June 30, 2020. The results of fiscal year 2019 are shown as a comparison. Total Revenues were \$89,026,868 a decrease of \$5,500,079 from FY 2019. Total expenses were \$87,676,015 an increase of \$2,047,253 over FY 2019. Revenues decreased in State and County capital funding, which was expected due to the schedule of cash flow for the High School project. Expenses were impacted by negotiated wage increases and health care premiums, and by the expected increase in spending on instructional equipment and contracted services.

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 \$36,001,643 an increase of \$1,525,691 over FY 2019. Special Education costs total \$6,959,899, an increase of \$784,442 over FY 2019. Transportation costs total \$3,663,949, a decrease of \$215,915 over FY 2019. Operation and Maintenance of Plant costs total \$5,371,089 a decrease of \$492,874 from FY 2019. Expenses were affected by the COVID-19 shutdown.

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

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

	<u>Total Cost</u>		Increase (Decrease)
	<u>FY 2020</u>	<u>FY 2019</u>	<u>From FY 2019</u>
Administration	\$1,806,026	\$1,655,771	\$150,255
School Management & Support	5,774,590	5,609,024	165,566
Instruction:			
Salaries & Wages	26,521,238	25,316,476	1,204,762
Textbooks & Supplies	1,976,616	2,232,791	(256,175)
Other	2,277,703	1,976,303	301,400
Special Education	6,959,899	6,175,457	784,442
Pupil Personnel Services	1,279,693	779,973	499,720
Health Services	734,543	630,861	103,682
Pupil Transportation	3,577,033	3,787,267	(210,234)
Operation of Plant	4,123,360	4,090,772	32,588
Maintenance of Plant	1,903,664	1,755,950	147,714
Fixed Charges	19,820,300	18,441,618	1,378,682
School Activity Expenditures	774,664	1,220,562	(445,898)
Capital Outlay	<u>5,481,859</u>	<u>17,444,656</u>	<u>(11,962,797)</u>
Total Cost of Services	<u>\$83,011,188</u>	<u>\$91,117,481</u>	<u>(\$8,106,293)</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 \$4,367,625 at the end of fiscal year 2020. The total fund balance at June 30, 2019 was \$1,941,962. The increase of \$2,425,663 is attributed mainly to grants covering salary and fixed costs typically covered by the General Fund. Additional net savings were encountered due to the COVID-19 closure of schools beginning March 13, 2020.

Of the \$4,367,625 fund balance, \$841,114 is assigned for FY2020 encumbrances, \$335,978 is assigned for accrued leave and severance reserve, \$533,086 for the FY 2021 operating budget, \$500,000 for FY 2021 capital construction projects, \$1,757,447 for extraordinary FY 2021 costs related to COVID-19, and \$400,000 for the FY 2022 operating budget.

General Fund salaries totaled \$41,177,945 while the associated fringe benefits of retirement, social security, unemployment, industrial insurance, and health and accident insurance added \$19,820,300 to arrive at 79.4% 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, 2019 was \$781,753. It decreased by \$73,832 to \$707,921 at June 30, 2020. This decrease is attributed mainly to an increase in expenses related to the COVID-19 pandemic. Though school buildings were closed, food preparation and delivery activities continued from March 13, 2020 into the summer months.

**Table 4**  
**Original Budget, Final Budget, and Actual Results**  
**General Fund**  
**FY 2020**

	<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	\$20,077,482	\$20,077,482	\$20,077,482	\$0
State of Maryland	45,851,946	45,851,946	45,851,946	0
Other Sources	468,275	468,275	796,116	327,841
Restricted Revenues	8,042,486	8,042,486	9,122,774	1,080,288
Fund Balance Appropriated	551,603	551,603	(484,577)	(1,036,180)
<b>Total Revenues</b>	<b>74,991,792</b>	<b>74,991,792</b>	<b>75,363,741</b>	<b>371,949</b>
<b>Governmental Activity Expenses</b>				
Administration	1,706,541	1,831,541	1,808,558	22,983
School Management & Support Instruction	5,731,642	5,606,642	5,478,888	127,754
Salaries	24,676,193	24,226,193	23,433,091	793,102
Textbooks & Supplies	2,386,428	1,868,928	1,799,734	69,194
Other	1,093,913	2,061,413	2,046,516	14,897
Special Education	5,165,697	5,165,697	5,153,906	11,791
Student Personnel Services	709,014	604,014	566,590	37,424
Health Services	633,625	738,625	734,543	4,082
Student Transportation	3,790,333	3,790,333	3,590,880	199,453
Operation of Plant	3,868,649	3,793,649	3,693,400	100,249
Maintenance of Plant	1,854,506	1,929,506	1,899,535	29,971
Fixed Charges	15,273,864	15,273,864	14,330,064	943,800
Capital Outlay	58,901	58,901	56,263	2,638
Restricted Expenditures	8,042,486	8,042,486	9,122,774	(1,080,288)
<b>Total Expenses</b>	<b>74,991,792</b>	<b>74,991,792</b>	<b>73,714,742</b>	<b>1,277,050</b>
<b>Net Change in Fund Balance</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,648,999</b>	<b>\$1,648,999</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.

For fiscal year 2020 the Board presented, and the County Council approved, two budget amendment/transfer requests.

The first budget amendment transferred funds from the Instructional Supplies category to the Instructional Other category to reflect the intention of buying equipment rather than supplies. The second budget amendment utilized savings from personnel vacancies to allow the purchase of additional textbooks, and student health services.

As shown in Table 4, during the fiscal year actual revenues and actual expenses resulted in an increase in fund balance of \$1,648,999.

**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 2020, the Board had \$110,522,729 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 2020

Construction in Progress	\$	1,056,596
Buildings and Improvements		107,689,334
Furniture and Equipment		1,317,756
Vehicles		<u>459,043</u>
<b>Total Capital Assets</b>	<b>\$</b>	<b><u>110,522,729</u></b>

The Capital Improvement Budget for FY 2021 will utilize State funding, prior year fund balance, and specialized grants to complete the following capital projects:

- North Dorchester High School replacement
- Replacement roofs at three schools
- Security vestibules at two schools
- Portable classrooms at two schools
- Security cameras, and facility access controls
- Various capital maintenance projects

## **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:

- The COVID-19 pandemic forced the closure of school buildings between March 13, 2020 and June 30, 2020. The closure continued into the new school year. Reacting to the pandemic has forced a change in the way we operate, and how we provide a public education. Local effects of these changes are continually being reviewed and projected. The economic effects to our funding authorities are also being projected and could cause a significant change in future revenues. Expenses are being affected in both negative and positive ways. The uncertainty of the effects of the pandemic will continue into fiscal year 2021.
- The Maryland Commission on Innovation and Excellence in Education, known as the Kirwan Commission, was tasked with updating the State's school funding formula. Based on Commission recommendations, Senate Bill 1030 established The Blueprint for Maryland's Future as current State education policy. Funding has been mandated for FY 2020 and FY 2021, however, due to the economic effects of COVID-19, funding in FY 2022 is uncertain. Without the continuation of this funding, our revenues will be impacted in a significantly negative way.
- Funding other post-retirement benefits (OPEB) in accordance with GASB 75 remains a concern. GASB 75 is an accounting standard for all governmental agencies which addresses post-employment benefits, other than pensions, such as health care. Under GASB 75 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 Government-wide Statement of Net Position. 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 2-K, 6, and 9 for detailed information on the impact of implementing GASB 75.
- During FY 2015 the Board implemented provisions of GASB 68, Accounting and Financial Reporting for Pensions. GASB 68 requires the Board to report their proportionate share of the Maryland State Retirement and Pension System's net pension liability. The Board's proportionate share is calculated by the System's actuary and is reported as a liability on the Board's Government-wide Statement of Net Position. Currently, pension costs for retirees and active employees are expensed when paid. See Notes 2-K, 6, and 7 for detailed information on the impact of implementing GASB 68.



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

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

## FINANCIAL STATEMENTS

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF NET POSITION

June 30, 2020

	<u>Governmental</u>	<u>Business-</u>	<u>Total</u>
	<u>Activities</u>	<u>Type</u>	
		<u>Activities</u>	
<b>ASSETS</b>			
Cash and investments	\$ 11,614,473	\$ 5,472	\$ 11,619,945
Accounts receivable:			
Federal funds from State of Maryland	778,261	160,343	938,604
State of Maryland	779,946	4	779,950
Other	850,837	-	850,837
Internal balances	(546,826)	546,826	-
Inventory	-	27,510	27,510
Construction in progress	1,056,596	-	1,056,596
Other capital assets, net	109,437,825	28,308	109,466,133
<b>TOTAL ASSETS</b>	<b>123,971,112</b>	<b>768,463</b>	<b>124,739,575</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	494,425	-	494,425
Other post-employment benefits (OPEB)	4,115,497	-	4,115,497
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>4,609,922</b>	<b>-</b>	<b>4,609,922</b>
<b>LIABILITIES</b>			
Accounts payable:			
Vendors	1,705,783	24,342	1,730,125
Accrued payroll and other employee withholdings	3,333,222	-	3,333,222
Unearned revenue - federal and state	406,329	-	406,329
Unearned revenue - other	23,969	23,780	47,749
Scholarships	24,750	-	24,750
Other accrued expenses	1,649,526	-	1,649,526
Long-term liabilities:			
Due within one year	270,895	-	270,895
Due in more than one year	73,815,013	12,420	73,827,433
<b>TOTAL LIABILITIES</b>	<b>81,229,487</b>	<b>60,542</b>	<b>81,290,029</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	272,985	-	272,985
Other post-employment benefits (OPEB)	18,165,107	-	18,165,107
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>18,438,092</b>	<b>-</b>	<b>18,438,092</b>
<b>NET POSITION</b>			
Net investment in capital assets	110,494,421	28,308	110,522,729
Restricted for:			
Other purposes (school activity funds)	484,164	-	484,164
Unrestricted (deficit)	(82,065,130)	679,613	(81,385,517)
<b>TOTAL NET POSITION</b>	<b>\$ 28,913,455</b>	<b>\$ 707,921</b>	<b>\$ 29,621,376</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, 2020

	<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	\$ 1,605,728	\$ -	\$ -	\$ -
School management and support	5,774,590	-	234,523	-
Instructional salaries and wages	26,548,581	-	3,088,146	-
Textbooks and instructional supplies	1,912,116	-	484,116	-
Other instructional costs	7,540,946	-	614,086	-
Special education	6,959,899	-	1,805,995	-
Pupil personnel services	1,279,693	-	717,405	-
Health services	734,543	-	-	-
Pupil transportation	3,663,949	-	83,517	-
Operation of plant	3,450,184	-	432,075	-
Maintenance of plant	1,920,905	-	45,525	-
Fixed charges	18,504,076	-	1,617,386	-
School activity expenditures	774,664	888,453	-	-
On-behalf State Retirement contributions	3,872,850	-	3,872,850	-
Capital outlay	53,498	-	-	5,344,013
<b>Total Governmental Activities</b>	<b>84,596,222</b>	<b>888,453</b>	<b>12,995,624</b>	<b>5,344,013</b>
<b>Business-Type Activities</b>				
Food Services	3,079,793	3,005,961	-	-
<b>Total Business-Type Activities</b>	<b>3,079,793</b>	<b>3,005,961</b>	<b>-</b>	<b>-</b>
<b>Totals</b>	<b>\$ 87,676,015</b>	<b>\$ 3,894,414</b>	<b>\$ 12,995,624</b>	<b>\$ 5,344,013</b>

**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

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	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>		<u>Total</u>
\$	(1,605,728)	-	\$	(1,605,728)
	(5,540,067)	-		(5,540,067)
	(23,460,435)	-		(23,460,435)
	(1,428,000)	-		(1,428,000)
	(6,926,860)	-		(6,926,860)
	(5,153,904)	-		(5,153,904)
	(562,288)	-		(562,288)
	(734,543)	-		(734,543)
	(3,580,432)	-		(3,580,432)
	(3,018,109)	-		(3,018,109)
	(1,875,380)	-		(1,875,380)
	(16,886,690)	-		(16,886,690)
	113,789	-		113,789
	-	-		-
	5,290,515	-		5,290,515
	(65,368,132)	-		(65,368,132)
	-	(73,832)		(73,832)
	-	(73,832)		(73,832)
	(65,368,132)	(73,832)		(65,441,964)
	20,077,482	-		20,077,482
	45,851,946	-		45,851,946
	133,934	-		133,934
	729,455	-		729,455
	66,792,817	-		66,792,817
	1,424,685	(73,832)		1,350,853
	27,488,770	781,753		28,270,523
\$	28,913,455	\$ 707,921	\$	29,621,376

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2020

	GENERAL <u>FUND</u>	SCHOOL <u>CONSTRUCTION</u>	SCHOOL <u>ACTIVITIES</u>
<b>ASSETS</b>			
Cash and investments	\$ 11,130,309	\$ -	\$ 484,164
Accounts receivable:			
Federal funds from State of Maryland	778,261	-	-
State of Maryland	494,638	285,308	-
Other	276,431	574,406	-
Due from other Board of Education funds	-	1,175,689	-
<b>TOTAL ASSETS</b>	<b>\$ 12,679,639</b>	<b>\$ 2,035,403</b>	<b>\$ 484,164</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable:			
Vendors	\$ 1,151,703	\$ 554,080	\$ -
Due to other Board of Education funds	1,722,515	-	-
Accrued payroll and other employee withholdings	3,333,222	-	-
Unearned federal and state funds	406,329	-	-
Other unearned revenues	23,969	-	-
Scholarships	24,750	-	-
Other accrued expenses	1,649,526	-	-
<b>TOTAL LIABILITIES</b>	<b>8,312,014</b>	<b>554,080</b>	<b>-</b>
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>FUND BALANCES</b>			
Assigned to:			
Accrued leave reserve	235,978	-	-
Accrued severance	100,000	-	-
School construction and capital maintenance projects	500,000	1,481,323	-
School activities	-	-	484,164
Subsequent year's budget	533,086	-	-
Future costs	1,757,447	-	-
Other purposes (encumbrances)	841,114	-	-
Unassigned	400,000	-	-
<b>Total fund balances</b>	<b>4,367,625</b>	<b>1,481,323</b>	<b>484,164</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 12,679,639</b>	<b>\$ 2,035,403</b>	<b>\$ 484,164</b>

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



THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2020

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
<b>REVENUES</b>			
County Appropriation	\$ 20,077,482	\$ 2,391,871	\$ -
State of Maryland	45,851,946	323,514	-
On behalf State of Maryland	-	2,628,628	-
Restricted Federal revenues	5,612,155	-	-
Restricted State revenues	3,436,379	-	-
Restricted County, Agency and Local revenues	74,240	-	-
On-behalf State Retirement contributions	3,872,850	-	-
Other sources	796,116	67,273	-
School activity revenues	-	-	888,453
<b>TOTAL REVENUES</b>	<b>79,721,168</b>	<b>5,411,286</b>	<b>888,453</b>
<b>EXPENDITURES</b>			
Current:			
Administration	1,806,026	-	-
School management and support	5,774,590	-	-
Instructional salaries and wages	26,521,238	-	-
Textbooks and instructional supplies	1,976,616	-	-
Other instructional costs	2,277,703	-	-
Special education	6,959,899	-	-
Pupil personnel services	1,279,693	-	-
Health services	734,543	-	-
Pupil transportation	3,577,033	-	-
Operation of plant	4,123,360	-	-
Maintenance of plant	1,903,664	-	-
Fixed charges	15,947,450	-	-
School activity expenditures	-	-	774,664
On-behalf State Retirement contributions	3,872,850	-	-
Capital outlay	56,263	5,425,596	-
<b>TOTAL EXPENDITURES</b>	<b>76,810,928</b>	<b>5,425,596</b>	<b>774,664</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>	<b>2,910,240</b>	<b>(14,310)</b>	<b>113,789</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers - school construction fund	(484,577)	484,577	-
<b>Net change in fund balances</b>	<b>2,425,663</b>	<b>470,267</b>	<b>113,789</b>
Fund balances, beginning	1,941,962	1,011,056	370,375
Fund balances, ending	<b>\$ 4,367,625</b>	<b>\$ 1,481,323</b>	<b>\$ 484,164</b>

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





THE BOARD OF EDUCATION OF DORCHESTER COUNTY

STATEMENT OF NET POSITION

PROPRIETARY FUND

June 30, 2020

	Business-Type Activities
	<u>Food Service</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ 5,472
Accounts receivable:	
Federal funds from State of Maryland	160,343
State receivables	4
Inventory	27,510
Due from other Board of Education funds	<u>546,826</u>
Total current assets	<u>740,155</u>
Capital assets, net	<u>28,308</u>
<b>TOTAL ASSETS</b>	<u>768,463</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	24,342
Unearned revenue	23,780
Accrued leave	<u>12,420</u>
<b>TOTAL LIABILITIES</b>	<u>60,542</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	
<b>NET POSITION</b>	
Net investment in capital assets	28,308
Unrestricted	<u>679,613</u>
<b>TOTAL NET POSITION</b>	<u>\$ 707,921</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, 2020

	Business-Type Activities
	<u>Food Service</u>
OPERATING REVENUES	
Sale of meals	\$ 76,426
Federal assistance	2,619,937
State assistance	88,785
USDA donated commodities	220,813
TOTAL OPERATING REVENUES	<u>3,005,961</u>
OPERATING EXPENSES	
Food	997,949
Salaries and wages	1,149,112
Fixed charges	586,089
Contracted services	27,891
Supplies and materials	52,138
Other charges	2,521
USDA donated commodities	220,813
Depreciation	3,120
Additional equipment	40,160
TOTAL OPERATING EXPENSES	<u>3,079,793</u>
OPERATING LOSS	(73,832)
Change in net position	(73,832)
Net position beginning of year	<u>781,753</u>
Net position end of year	<u>\$ 707,921</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, 2020

<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from students	\$ 79,638
Operating grants received	2,557,851
Payments to food and related suppliers	(1,003,176)
Payments to other suppliers	(130,726)
Payments to employees and employee related benefits	(1,733,742)
Net cash provided by operating activities	(230,155)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Payments to other Board funds	228,832
Net decrease in cash	(1,323)
Cash, beginning of year	6,795
Cash, end of year	\$ 5,472
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating loss	\$ (73,832)
Adjustments:	
Depreciation	3,120
(Increase) decrease in assets:	
Inventory	(17,668)
Accounts receivable	(150,871)
(Decrease) increase in liabilities:	
Accounts payable	(4,805)
Unearned revenue	12,441
Accrued leave	1,460
Total adjustments	(156,323)
Net cash provided by operating activities	\$ (230,155)
<b>Noncash items:</b>	
Donation of food commodities	\$ 220,813

*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 \$2,952,142 for the year ended June 30, 2020.

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 fund is:

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 unearned revenue, and in the presentation of expenses versus expenditures.

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

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.

The Board entered into a Separation Agreement with one employee for which a liability is accrued as of June 30, 2020 on the government-wide statements. Settlement payments will be paid in annual installments through fiscal year 2023.

#### 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.

## NOTES TO FINANCIAL STATEMENTS

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

#### J. Net Position (Continued)

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

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

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that period. The Board has two items that qualify for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension liability (Note 7) and OPEB liability (Note 9) for changes in assumptions, the net difference between projected and actual investment earnings on plan investments, and contributions subsequent to the measurement date. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two items that qualify for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension liability (Note 7) and OPEB liability (Note 9) for changes in assumptions, the difference between actual and expected experience, and the net difference between projected and actual investment earnings on plan investments. This item is deferred and recognized as an inflow from resources in the period that the amounts become available.

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

#### L. 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, 2020 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 \$841,114.

### Note 3. Cash and Investments

#### Deposits:

At June 30, 2020, the Board had bank deposits with various commercial banks totaling \$2,641,047 (carrying value \$2,341,365). 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, 2020, the bank deposits were exposed to custodial credit risk as follows:

	Governmental Activities	Business-Type Activities
Insured	\$ 713,832	\$ 5,473
Uninsured and Collateral Held by Pledging Bank's Trust Department in the Board's Name	1,881,524	-
Uninsured and Undercollateralized	40,218	-
Total	\$ 2,635,574	\$ 5,473

#### Investments:

Investments consist of \$9,278,580 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

## NOTES TO FINANCIAL STATEMENTS

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

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.

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	\$	2,341,365
Investments		9,278,580
Total cash and investments	\$	11,619,945

### Note 4. Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
<b>GOVERNMENTAL ACTIVITIES</b>		
General Fund		
Due to School Construction fund	\$ -	\$ 1,175,689
Due to Food Service Fund	-	546,826
School Construction Fund		
Due from General Fund	1,175,689	-
<b>BUSINESS-TYPE ACTIVITIES</b>		
Enterprise Fund		
Due from General Fund	546,826	-
<b>TOTAL ALL FUNDS</b>	<b>\$ 1,722,515</b>	<b>\$ 1,722,515</b>

Due to/from other funds represent advances of cash for operating needs. Transfers of \$484,577 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, 2020, was as follows:

	Balance June 30, 2019	Additions	Deductions	Transfers	Balance June 30, 2020
<b>Governmental Activities</b>					
<b>Capital Assets, not being depreciated</b>					
Construction in progress	\$ 42,855,007	\$ 5,989,331	\$ -	\$ (47,787,742)	\$ 1,056,596
Total capital assets, not being depreciated	42,855,007	5,989,331	-	(47,787,742)	1,056,596
<b>Capital assets, being depreciated</b>					
Buildings and improvements	137,994,978	-	-	47,651,132	185,646,110
Furniture and equipment	2,997,094	737,676	-	136,610	3,871,380
Vehicles	1,585,518	-	-	-	1,585,518
Total capital assets, being depreciated	142,577,590	737,676	-	47,787,742	191,103,008
Less accumulated depreciation:					
Buildings and improvements	(72,291,013)	(5,665,763)	-	-	(77,956,776)
Furniture and equipment	(2,397,411)	(184,521)	-	-	(2,581,932)
Vehicles	(1,014,601)	(111,874)	-	-	(1,126,475)
Total accumulated depreciation	(75,703,025)	(5,962,158)	-	-	(81,665,183)
Total capital assets, being depreciated, net	66,874,565	(5,224,482)	-	47,787,742	109,437,825
Governmental activities capital assets, net	\$ 109,729,572	\$ 764,849	\$ -	\$ -	\$ 110,494,421
<b>Business-type activities</b>					
Equipment	\$ 70,522	\$ -	\$ -	\$ -	\$ 70,522
Accumulated depreciation	(39,094)	(3,120)	-	-	(42,214)
Business-type activities capital assets, net	\$ 31,428	\$ (3,120)	\$ -	\$ -	\$ 28,308

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 33,788
Instructional costs	5,824,213
Pupil transportation	86,916
Maintenance of plant	17,241
Total governmental depreciation expense	<u>5,962,158</u>

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

Food Service	<u>3,120</u>
Total business-type depreciation expense	<u>3,120</u>
Total depreciation expense	<u>\$ 5,965,278</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Long-Term Liabilities

A summary of long-term liabilities for the year ended June 30, 2020 is as follows:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Due within one year
<b>GOVERNMENTAL ACTIVITIES</b>					
Accrued leave	\$ 1,092,702	\$ 420,783	\$ 393,440	\$ 1,120,045	\$ 36,809
Accrued severance	568,172	-	234,086	334,086	234,086
Net pension liability (Note 7)	3,836,287	165,174	-	4,001,461	-
Net OPEB liability (Note 9)	73,343,143	-	4,712,827	68,630,316	-
Total	<u>\$78,840,304</u>	<u>\$ 585,957</u>	<u>\$ 5,340,353</u>	<u>\$74,085,908</u>	<u>\$ 270,895</u>
<b>BUSINESS-TYPE ACTIVITIES</b>					
Accrued leave	<u>\$ 10,960</u>	<u>\$ 6,551</u>	<u>\$ 5,091</u>	<u>\$ 12,420</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.

#### 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,

## NOTES TO FINANCIAL STATEMENTS

### **Note 7. Pension Plans (Continued)**

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.

##### 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

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

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, 2020. 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, 2020 the Board's total payroll for all employees was \$42,251,256. Total covered payroll was \$37,297,818. 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 2020, the State of Maryland contributed \$3,872,850 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.

#### 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 2020, the Board contributed \$1,466,013 to the Teachers' Retirement and Pension System.

#### Employees' Retirement and Pension Systems:

During fiscal year 2020, the Board contributed \$433,919 to the Employees' Retirement and Pension System.



## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

#### 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, 2020, 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>2020</b>
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 4,001,461
State's proportionate share of the net pension liability (Teachers' Systems)	<u>37,124,469</u>
Total	<u><u>\$ 41,125,930</u></u>

The net pension liability was measured as of June 30, 2019, 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.
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, 2019, the Board's proportion was approximately .0194004%, which was substantially the same as its proportion measured as of June 30, 2018. Due to the proportion remaining substantially the same, the pension expense related to the change in proportion from June 30, 2018 to June 30, 2019 for the net pension liability, deferred financing outflows and deferred financing inflows is recognized as pension expense in the government-wide financial statements.

For the year ended June 30, 2020, the Board recognized pension expense of \$1,899,932 in the fund financial statements and \$2,317,870 in the government-wide financial statements.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 60,506	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	(27,694)
Difference between actual and expected experience	-	(245,291)
Board contributions subsequent to measurement date	433,919	-
<b>Total</b>	<b>\$ 494,425</b>	<b>\$ (272,985)</b>

The \$433,919 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, 2020. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.682, 5.722, 5.7789, 5.8647, and 5.87 years for 2019, 2018, 2017, 2016, and 2015, respectively. The net difference in investment earnings for 2019, 2018, 2017, 2016, and 2015 is being amortized over a closed five year period for each period. The following table shows the amortization of these balances over the next five years:

2021	\$ 2,259
2022	(113,302)
2023	(61,824)
2024	(21,714)
2025	(17,898)
	<u>\$ (212,479)</u>

#### ***Actuarial Assumptions***

The total pension liability in the June 30, 2019 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	19 years for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary Increases	3.10% to 11.6% including wage inflation
Investment Rate of Return	7.40%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018.
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Pension Plans (Continued)

#### *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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37%	6.3%
Private Equity	13%	7.5%
Rate Sensitive	19%	1.3%
Credit Opportunity	9%	3.9%
Real Assets	14%	4.5%
Absolute Return	8%	3.0%
Total	100%	

#### *Discount rate*

A single discount rate of 7.40% 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 7.40%. 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 7.40%, 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:

	Discount Rate	Board's Net Pension Liability
1% decrease	6.40%	\$ 5,791,700
Current discount rate	7.40%	\$ 4,001,461
1% increase	8.40%	\$ 2,510,399

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the Maryland Association of Boards of Education Group Insurance Pool (the "Pool") was formed when several Maryland boards of education joined together to pool their casualty risks. Property insurance coverage was added in 1988 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 5% of medical premiums and 8% of drug, dental, and vision premiums. Currently, ESMEC keeps on hand 7.5% and 12%, respectively, as a recommended conservative reserve. As of December 13, 2019, the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$327,153. All funds held by ESMEC are restricted to being used only for health care expenses.

### 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. The Plan does not issue a stand-alone report. 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 described below:

For members hired before July 1, 2011, the earliest retirement eligibility is the earlier of:

- Age 55 with 15 years of service,
- Age 62 with 5 years of service,
- Age 63 with 4 years of service,
- Age 64 with 3 years of service,
- Age 65 with 2 years of service, or
- 30 years of service, regardless of age.

For members hired after July 1, 2011, the earliest retirement eligibility is the earlier of

- Rule of 90 (age plus service is at least 90),
- Age 65 with 10 years of service,
- Age 60 with 15 years of service

As of January 1, 2020, the date of the last actuarial valuation, approximately 369 retirees were receiving benefits, and 673 active employees are potentially eligible to receive future benefits.

## NOTES TO FINANCIAL STATEMENTS

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

#### Funding Policy

The Board pays a portion of retiree healthcare premiums based on years-of-service ranging from 15 years of service to 30+ years of service until the retiree becomes Medicare-eligible. The retiree pays the remaining premium, including the cost of eligible dependents. Pre-Medicare retirees may choose between two medical plans (a PPN plan and an EPO plan). Both plans include medical and prescription benefits. Once a participant is Medicare eligible, the participant must switch to a Medicare supplement plan, which is also packaged with a prescription plan. Retirees have the option of electing dental and vision coverage in addition to medical coverage.

Commencing July 1, 2013, at the time of retirement, the employee must make an election to continue in the Board sponsored health care plan or to receive the Board subsidy as a payment towards the cost of a health insurance plan selected by the retiree. In order to receive the Board subsidy, the retiree must either enroll in the Board's health care program or, at least annually, provide proof of payments to a health insurance program where the amount paid by the retiree equals or exceeds the Board subsidy. The subsidy paid by the Board shall not exceed the total premium for the plan selected and paid for by the retiree. Retirees can opt out of the Board health care plan only at the time of retirement. Benefits continue for the lifetime of the retiree. Dependents and surviving spouses can stay in the plan but must pay the full cost of coverage.

#### Employer Contribution

The employer subsidy is a flat dollar amount based upon a participant's service. The subsidy amount is different for retirees before being eligible for Medicare than for participants who are eligible for Medicare. The subsidy requires a minimum of 15 years of service with the Board and retirement from the State of Maryland Pension System.

The chart below summarizes the annual employer subsidy for the most recent fiscal year:

Years of Service	EPO Plan Pre-Medicare Employer Subsidy	PPO Plan Pre-Medicare Employer Subsidy	Post-Medicare Employer Subsidy
15 - 19	\$3,993	\$3,976	\$3,539
20 - 29	\$4,463	\$4,463	\$3,741
30 or more	\$4,932	\$4,868	\$3,943

#### Net OPEB Liability

The annual OPEB expense under GASB Statement No. 75 is equal to the change in the unfunded actuarial accrued liability from the prior year's measurement date to the current year measurement date, with some of the liability changes being deferred to future years. Changes in the actuarial accrued liability due to experience gains or losses or changes in assumptions are recognized over the expected future working lifetime of all plan participants, including retirees. For the fiscal year ended June 30, 2020, the Board recognized an OPEB expense of \$3,502,704.

## NOTES TO FINANCIAL STATEMENTS

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

The Board's total OPEB liability is an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The following table shows the components of the Board's total OPEB liability as of June 30, 2020:

Total OPEB liability	
Service cost	\$ 3,077,799
Interest cost	2,625,283
Experience losses/(gains)	(12,258,435)
Changes of assumptions	3,251,349
Benefit payments	<u>(1,408,823)</u>
Net change in total OPEB liability	<u>(4,712,827)</u>
Total OPEB liability, beginning of year	<u>73,343,143</u>
Total OPEB liability, end of year (a)	<u>\$ 68,630,316</u>

Payments have typically been liquidated from the General Fund in prior years.

#### Funding Status and Funding Progress

The Board has not established an irrevocable trust and funds benefits on a pay-as-you-go basis. Contributions to the plan are made as benefit payments and expenses become due. Benefit payments totaled \$1,225,409 for the year ended June 30, 2020. As of the most recent actuarial valuation, the plan was zero percent funded. The total OPEB liability for benefits was \$68,630,316, all of which was unfunded. The covered employee payroll was \$37,297,818, and the ratio of the net OPEB liability to the covered payroll was 184.01%.

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 total OPEB liability, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the total OPEB liability is increasing or decreasing over time relative to the total OPEB liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

- *Measurement date* – The Board selected a June 30, 2019 measurement date for fiscal year-end 2020. The measurement date can be any date between the last day of the prior fiscal year and the last day of the current fiscal year.
- *Cost method* – This valuation uses the Entry Age Normal Funding Method calculated on an individual basis with level percentage of payroll.
- *Claims data* – Monthly paid claims, administrative expenses and enrollment for employees and retirees from February 1, 2017 through January 31, 2020 were supplied by the carrier.
- *Demographic data* – Data included current medical coverage for current employees and retirees as of January 1, 2020.
- *Discount rate assumption* - Benefits are discounted based on the Bond Buyer GO 20-year Bond Municipal Bond Index, an index rate for 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

## NOTES TO FINANCIAL STATEMENTS

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

- *Health care trend* – The medical trend assumption was developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model. The SOA model was released in October 2010 and updated in September 2019. The following assumptions were used as input variables into this model:

Rate of Inflation	2.5%
Rate of growth in real income / GDP per year	1.5%
Extra trend due to technology and other factors	1.1%
Expected Health Share of GDP in 2029	20.0%
Health Share of GDP Resistance Point	25.0%
Year for limiting cost growth to GDP growth	2075

Due to the projected impact of the “Cadillac Tax”, the Pre-65 medical care trend was adjusted. Effective in 2022, the Cadillac Tax, a provision of the Affordable Care Act, applies to plans that cost \$10,200 or more for an individual or \$27,500 per family. Under the provision, there will be a 40% excise tax for expenditures over these thresholds. The cost thresholds are indexed by general inflation each year after 2018. Because medical trends are projected to be higher than general inflation, the percentage of the premium that is subject to the excise tax is expected to increase over time.

- *Salary Scale* – Annual rates of salary increase include a 2.2% inflation rate and vary based on years of service and age:

Annual rates of Salary Increase for the first 10 years of service:

Years of Service	Rate
0	6.45%
1	4.95%
2	3.45%
3	3.45%
4	3.45%
5	3.45%
6	3.45%
7	3.45%
8	3.45%
9	3.45%

Annual rates of Salary Increase with 10 or more years of service:

Age	Rate
15	3.45%
20	3.45%
25	3.45%
30	3.20%
35	2.95%
40	2.70%
45	2.45%
50	1.95%
55	1.45%
60	0.95%
65	0.95%

## NOTES TO FINANCIAL STATEMENTS

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

- *Decrement Assumptions* –

Healthy Pre-Retirement	Pub-2010 Teacher Employees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale
Healthy Post-Employment	Pub-2010 Teacher Retirees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale
Disabled	Pub-2010 Disabled Teacher Retirees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale

#### Sensitivity of the Total and Net OPEB Liability

The following table presents the Board’s total OPEB liability using the discount rate of 3.13%, as well as what the total OPEB 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 Total OPEB Liability</b>
1% decrease	2.13%	\$ 83,157,499
Current discount rate	3.13%	\$ 68,630,316
1% increase	4.13%	\$ 57,318,935

The following table presents the Board’s total OPEB liability using the health care trend rate of 4.0%, as well as what the total OPEB liability would be if it were calculated using a trend rate that is 1% point lower or 1% point higher than the current rate:

	<b>Health Care Trend Rate</b>	<b>Board's Total OPEB Liability</b>
1% decrease	3.00%	\$ 56,084,690
Current trend rate	4.00%	\$ 68,630,316
1% increase	5.00%	\$ 85,572,345

#### Deferred Inflows/Outflows of Resources related to OPEB

At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 2,890,088	\$ (29,144,534)
Net difference between projected and actual investment earnings on OPEB plan investments	-	-
Difference between actual and expected experience	-	10,979,427
Board contributions subsequent to measurement date	1,225,409	-
Total	\$ 4,115,497	\$ (18,165,107)



## NOTES TO FINANCIAL STATEMENTS

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

The \$4,115,497 of deferred outflows of resources resulting from changes in assumptions and the Board's contributions to the OPEB plan subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Amounts reported as deferred inflows of resources related to changes in assumptions and the difference between actual and expected experience will be amortized and expensed over the expected average remaining service life of participants as follows:

Year End June 30,	
2021	\$ (2,200,378)
2022	(2,200,378)
2023	(2,200,378)
2024	(2,200,378)
2025	(2,200,378)
Thereafter	<u>(4,273,129)</u>
	<u>\$ (15,275,019)</u>

Changes in assumptions in the most recent actuarial valuation included adjusting the discount rate to the latest 20-year Municipal GO AA Index as June 30, 2019, adjusting the medical trend using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions, and updating the Medicare claims and total costs and mortality assumptions to the latest SOA public sector experience study rates.

### 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,	
2021	\$ 882,000
2022	835,000
2023	851,000
2024	359,000
2025	359,000
Thereafter	2,512,000

Expenses under these leases totaled approximately \$894,000 for the year ended June 30, 2020.

### 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 for approximately \$49 million. At June 30, 2020, approximately \$48.1 had been expended on the planning, design, and construction of North Dorchester High School related to these contracts.

## NOTES TO FINANCIAL STATEMENTS

### **Note 11. Commitments and Contingencies (Continued)**

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, 2020 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.

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic and resulting global disruptions have had significant impacts on the traditional education model of Boards of Education across the Country. In addition, there has been significant economic uncertainty and volatility in financial markets. The impact on future funding and on defined benefit plan (pensions and other post-employment benefit) actuarial assumptions used to estimate the net pension and other post-employment liabilities of the Board are not reasonably estimated at this time.

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, 2020

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
County appropriation	\$ 20,077,482	\$ 20,077,482	\$ 20,077,482	\$ -
State of Maryland revenues:				
Current expense	21,643,078	21,643,078	21,643,078	-
Compensatory education	13,501,936	13,501,936	13,501,936	-
Limited English proficient	931,240	931,240	931,240	-
Special education	1,698,779	1,698,779	1,698,779	-
Guaranteed tax base	1,413,088	1,413,088	1,413,088	-
Supplemental grant	1,321,515	1,321,515	1,321,515	-
Transportation	2,729,544	2,729,544	2,729,544	-
Teacher Salary Incentive	525,025	525,025	525,025	-
Declining enrollment grant	34,193	34,193	34,193	-
PreKindergarten Supplemental	1,036,765	1,036,765	1,036,765	-
Net Taxable Income Adjustment	1,016,783	1,016,783	1,016,783	-
Total State of Maryland revenues	45,851,946	45,851,946	45,851,946	-
Other sources:				
Tuition and transfers	50,500	50,500	69,607	19,107
Interest income	45,000	45,000	133,934	88,934
Miscellaneous	317,775	317,775	502,827	185,052
Rental income - building	30,000	30,000	67,956	37,956
Bus rental	25,000	25,000	21,792	(3,208)
Total other sources	468,275	468,275	796,116	327,841
Restricted revenues	8,042,486	8,042,486	9,122,774	1,080,288
TOTAL REVENUES	74,440,189	74,440,189	75,848,318	1,408,129
EXPENDITURES				
Administration:				
Salaries and wages	1,250,992	1,250,992	1,272,218	(21,226)
Contracted services	288,014	413,014	384,546	28,468
Supplies and materials	74,785	74,785	68,718	6,067
Other charges	92,750	92,750	83,076	9,674
Total administration	1,706,541	1,831,541	1,808,558	22,983

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, 2020

(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
School management and support:				
Salaries and wages	\$ 4,978,878	\$ 4,853,878	\$ 4,764,237	\$ 89,641
Contracted services	107,921	107,921	103,552	4,369
Supplies and materials	145,819	145,819	99,773	46,046
Other charges	499,024	499,024	511,326	(12,302)
Total school management and support	5,731,642	5,606,642	5,478,888	127,754
Instructional salaries and wages:				
Salaries and wages and contingency	24,676,193	24,226,193	23,433,091	793,102
Textbooks and instructional supplies:				
Supplies and materials and contingency	2,386,428	1,868,928	1,799,734	69,194
Other instructional costs:				
Contracted services	551,388	551,388	574,826	(23,438)
Other charges	507,525	507,525	470,911	36,614
Equipment	-	967,500	934,077	33,423
Transfers	35,000	35,000	66,702	(31,702)
Total other instructional costs	1,093,913	2,061,413	2,046,516	14,897
Special education:				
Salaries and wages	3,956,530	3,956,530	3,533,397	423,133
Contracted services	1,167,067	1,167,067	1,588,628	(421,561)
Supplies and materials	20,500	20,500	14,919	5,581
Other charges	21,600	21,600	16,962	4,638
Total special education	5,165,697	5,165,697	5,153,906	11,791
Pupil personnel services:				
Salaries and wages	671,714	566,714	524,800	41,914
Contracted services	-	-	8,564	(8,564)
Supplies and materials	20,900	20,900	21,854	(954)
Other charges	16,400	16,400	11,372	5,028
Total pupil personnel services	709,014	604,014	566,590	37,424

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, 2020

(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Health services contracted services:				
Contracted services	\$ 630,625	\$ 735,625	\$ 733,183	\$ 2,442
Supplies and materials	3,000	3,000	1,360	1,640
Total health services contracted services	633,625	738,625	734,543	4,082
Pupil transportation:				
Salaries and wages	569,383	569,383	590,410	(21,027)
Contracted services	2,992,954	2,992,954	2,734,909	258,045
Supplies and materials	178,496	178,496	110,808	67,688
Other charges	49,500	49,500	57,388	(7,888)
Equipment	-	-	97,365	(97,365)
Total pupil transportation	3,790,333	3,790,333	3,590,880	199,453
Operation of plant:				
Salaries and wages	1,897,266	1,897,266	1,819,382	77,884
Contracted services	155,444	155,444	218,204	(62,760)
Supplies and materials	196,490	196,490	326,749	(130,259)
Other charges	1,619,449	1,544,449	1,322,200	222,249
Equipment	-	-	6,865	(6,865)
Total operation of plant	3,868,649	3,793,649	3,693,400	100,249
Maintenance of plant:				
Salaries and wages	710,910	710,910	724,414	(13,504)
Contracted services	371,854	371,854	321,204	50,650
Supplies and materials	356,846	431,846	472,794	(40,948)
Other charges	354,783	354,783	349,048	5,735
Equipment	60,113	60,113	32,075	28,038
Total maintenance of plant	1,854,506	1,929,506	1,899,535	29,971
Fixed charges:				
Insurance and employee benefits	15,273,864	15,273,864	14,330,064	943,800
Total fixed charges	15,273,864	15,273,864	14,330,064	943,800

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, 2020  
(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Capital outlay:				
Salaries and wages	\$ 55,121	\$ 55,121	\$ 54,141	\$ 980
Supplies and materials	1,780	1,780	850	930
Other charges	2,000	2,000	1,272	728
Total capital outlay	58,901	58,901	56,263	2,638
Total unrestricted expenditures	66,949,306	66,949,306	64,591,968	2,357,338
Restricted expenditures	8,042,486	8,042,486	9,122,774	(1,080,288)
<b>TOTAL EXPENDITURES</b>	<b>74,991,792</b>	<b>74,991,792</b>	<b>73,714,742</b>	<b>1,277,050</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES</b>	<b>(551,603)</b>	<b>(551,603)</b>	<b>2,133,576</b>	<b>2,685,179</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Fund balance appropriated	551,603	551,603	-	(551,603)
Appropriation to school construction fund	-	-	(484,577)	(484,577)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>551,603</b>	<b>551,603</b>	<b>(484,577)</b>	<b>(1,036,180)</b>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,648,999</b>	<b>\$ 1,648,999</b>

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS

Schedule of Proportionate Share of Net Pension Liability

	2015	2016	2017	2018	2019	2020
Board's proportion of the net pension liability	0.0153290%	0.0169977%	0.0167681%	0.0168716%	0.0182841%	0.0194004%
Board's proportionate share of the net pension liability	\$ 2,720,396	\$ 3,532,417	\$ 3,956,270	\$ 3,648,275	\$ 3,836,287	\$ 4,001,461
State's proportionate share of the net pension liability	27,301,668	36,226,287	43,481,273	40,229,165	39,277,026	37,124,469
Total	<u>\$ 30,022,064</u>	<u>\$ 39,758,704</u>	<u>\$ 47,437,543</u>	<u>\$ 43,877,440</u>	<u>\$ 43,113,313</u>	<u>\$ 41,125,930</u>
Board's covered payroll	\$ 31,967,186	\$ 33,689,148	\$ 34,546,250	\$ 35,613,901	\$ 35,699,566	\$ 37,297,818
Board's proportionate share of the net pension liability as a percentage of its covered payroll	8.51%	10.49%	11.45%	10.24%	10.75%	10.73%
Total pension liability as a percentage of the plan fiduciary net position	0.07%	0.09%	0.10%	0.09%	0.08%	0.08%

*Schedules are intended to provide 10-year trend information. Additional years will be displayed as available.*

*GASB No. 68 was implemented in fiscal year 2015.*



THE BOARD OF EDUCATION OF DORCHESTER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS  
Schedule of Board Contributions

	2015	2016	2017	2018	2019	2020
Contractually required contributions	\$ 1,422,891	\$ 1,550,684	\$ 1,632,324	\$ 1,798,058	\$ 1,823,817	\$ 1,899,932
Contributions in relation to the contractually required contribution	1,422,891	1,550,684	1,632,324	1,798,058	1,823,817	1,899,932
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered payroll	\$31,967,186	\$33,689,148	\$34,546,250	\$35,613,901	\$35,699,566	\$37,297,818
Contributions as a percentage of covered payroll	4.45%	4.60%	4.73%	5.05%	5.11%	5.09%

*Schedules are intended to provide 10-year trend information. Additional years will be displayed as available. GASB No. 68 was implemented in fiscal year 2015.*

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST-EMPLOYMENT BENEFITS (OPEB) LIABILITY

Schedule of Total OPEB Liability and Related Ratios

	2018	2019	2020
Total OPEB liability			
Service cost	\$ 3,623,705	\$ 2,996,190	\$ 3,077,799
Interest cost	2,139,195	2,477,278	2,625,283
Changes in benefit terms	-	-	-
Differences between expected and actual experience	-	(106,766)	(12,258,435)
Changes of assumptions	(10,155,753)	(533,800)	3,251,349
Benefit payments	(1,349,324)	(1,481,721)	(1,408,823)
Net change in total OPEB liability	<u>\$ (5,742,177)</u>	<u>\$ 3,351,181</u>	<u>\$ (4,712,827)</u>
Total OPEB liability, beginning of year	<u>75,734,139</u>	<u>69,991,962</u>	<u>73,343,143</u>
Total OPEB liability, end of year (a)	<u><u>\$69,991,962</u></u>	<u><u>\$73,343,143</u></u>	<u><u>\$68,630,316</u></u>
Covered employee payroll	\$35,613,901	\$35,699,566	\$37,297,818
Total OPEB liability as of % of covered-employee payroll	196.53%	205.45%	184.01%

*Schedules are intended to provide 10-year trend information. Additional years will be displayed as available. GASB No. 75 was implemented in fiscal year 2018.*

## 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, 2020 GENERAL FUND			
	Revenues	Expenditures	Fund Balances
GAAP BASIS	\$ 79,721,168	\$ 76,810,928	\$ 4,367,625
Encumbrances at June 30, 2019	-	(64,450)	-
Encumbrances at June 30, 2020	-	841,114	(841,114)
Payments made on-behalf of the Board by State of Maryland to the Maryland State Retirement System	(3,872,850)	(3,872,850)	-
<b>BUDGETARY BASIS</b>	<b>\$ 75,848,318</b>	<b>\$ 73,714,742</b>	<b>\$ 3,526,511</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 2019 valuation:

- Inflation assumption changed from 2.60% to 2.65% for general and from 3.10% to 3.15% for wage
- Salary increase assumption changed from 3.10% - 9.10% to 3.10% - 11.6%, including inflation
- Investment rate of return assumption changed from 7.45% to 7.40%

## 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	19 years for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary Increases	3.10% to 11.6% including wage inflation
Investment Rate of Return	7.40%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018.
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

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

#### Changes in Benefit Terms

There were no significant benefit changes during the year.

#### Changes in Assumptions

- Investment rate of return assumption changed from 3.62% to 3.13%
- Medical trend rate assumption changed from a rate of 5.90% decreasing to 3.80% to 4.70% decreasing to 4.00%

#### Method and Assumptions

Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	Market Value of Assets
Inflation	2.20%
Salary Increases	Varies based on years of service and age
Investment Rate of Return	3.13%
Medical Trend	Based on the Society of Actuaries Long Term Medical Trend Model, the 2019 rate is 4.70% decreasing gradually to the ultimate rate of 4.00% and is reached in 2075.
Mortality	RP-2019 Mortality Tables with generational mortality projections using scale MP-2019 as utilized by MSRPS

ADDITIONAL SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF DORCHESTER COUNTY

SCHOOL ACTIVITIES FUND OPERATIONS

Year Ended June 30, 2020

<u>School Name</u>	June 30, 2019 Fund <u>Balance</u>	<u>Year Ended June 30, 2020</u>		
		<u>Additions - Revenues</u>	<u>Deductions - Expenditures</u>	<u>Fund Balance</u>
Hurlock Elementary School	\$ 25,753	\$ 29,676	\$ 29,443	\$ 25,986
Maple Elementary School	4,234	19,199	19,551	3,882
Choptank Elementary School	21,915	15,640	13,948	23,607
Sandy Hill Elementary School	9,416	17,788	12,588	14,616
South Dorchester K-8 School	58,479	39,679	39,241	58,917
Vienna Elementary School	31,992	29,977	29,057	32,912
Warwick Elementary School	11,275	48,953	47,305	12,923
Maces Lane Middle School	15,451	30,991	29,453	16,989
North Dorchester Middle School	7,174	39,031	28,191	18,014
Cambridge South Dorchester High School	114,915	253,023	230,745	137,193
North Dorchester High School	2,817	215,934	154,163	64,588
School of Technology	66,954	148,562	140,979	74,537
Total	\$ 370,375	\$ 888,453	\$ 774,664	\$ 484,164

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, 2020

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
<b>OPERATING REVENUES</b>				
Sale of meals	\$ 172,433	\$ 172,433	\$ 76,426	\$ (96,007)
Federal assistance	2,691,701	2,691,701	2,619,937	(71,764)
State assistance	150,000	150,000	88,785	(61,215)
USDA donated commodities	210,000	210,000	220,813	10,813
<b>TOTAL REVENUES</b>	<b>3,224,134</b>	<b>3,224,134</b>	<b>3,005,961</b>	<b>(218,173)</b>
<b>OPERATING EXPENSES</b>				
Current:				
Food	1,184,500	1,184,500	997,949	186,551
Salaries and wages	1,037,650	1,037,650	1,149,112	(111,462)
Fixed charges	545,384	545,384	586,089	(40,705)
Contracted services	49,700	49,700	27,891	21,809
Supplies and materials	107,000	107,000	52,138	54,862
Other charges	16,500	16,500	2,521	13,979
Depreciation	-	-	3,120	(3,120)
USDA donated commodities	219,500	219,500	220,813	(1,313)
Capital outlay	68,900	68,900	40,160	28,740
<b>TOTAL EXPENSES</b>	<b>3,229,134</b>	<b>3,229,134</b>	<b>3,079,793</b>	<b>149,341</b>
<b>OPERATING LOSS</b>	<b>(5,000)</b>	<b>(5,000)</b>	<b>(73,832)</b>	<b>(68,832)</b>
<b>NON-OPERATING REVENUE</b>				
Other income	5,000	5,000	-	(5,000)
<b>Change in net position</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (73,832)</b>	<b>\$ (73,832)</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, 2020

	<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	\$ 781,753	\$ 781,753	\$ -	\$ -	\$ -	\$ -
Revenue:						
Food sales:						
A la carte	76,426	(2,167)	20,751	13,595	2,179	1,124
State revenue match	46,380	-	4,218	4,218	4,216	4,216
Summer school and migrant programs	46,695	46,695	-	-	-	-
Federal reimbursements	2,573,242	622,514	244,529	142,582	244,113	234,617
State reimbursements	42,149	-	3,781	31	2,141	6,133
USDA donated commodities	220,813	-	28,492	16,724	26,339	25,658
Other	256	-	32	-	-	32
Total revenue	<u>3,005,961</u>	<u>667,042</u>	<u>301,803</u>	<u>177,150</u>	<u>278,988</u>	<u>271,780</u>
Cost of food used:						
Beginning inventory	9,842	87	483	968	1,792	1,275
Purchased food	1,015,617	29,429	156,080	94,011	157,008	74,503
USDA donated commodities	220,813	-	28,492	16,724	26,339	25,658
Supplies	44,716	1,211	8,902	5,110	8,293	2,884
Salaries and wages	1,017,778	205,930	123,380	72,503	89,858	61,667
Food available for use	<u>2,308,766</u>	<u>236,657</u>	<u>317,337</u>	<u>189,316</u>	<u>283,290</u>	<u>165,987</u>
Less: Ending inventory	27,510	48	3,995	3,497	5,469	4,315
Total cost of food used	<u>2,281,256</u>	<u>236,609</u>	<u>313,342</u>	<u>185,819</u>	<u>277,821</u>	<u>161,672</u>
Net revenue (expense)	<u>724,705</u>	<u>430,433</u>	<u>(11,539)</u>	<u>(8,669)</u>	<u>1,167</u>	<u>110,108</u>
Expenses:						
Salaries and wages	131,334	131,334	-	-	-	-
Fixed charges	586,089	172,018	62,928	36,979	45,831	31,452
Contract services	27,891	-	5,412	1,822	4,262	2,795
Supplies/materials	7,422	-	691	998	526	494
Other charges	2,521	-	891	(235)	135	93
Depreciation	3,120	3,120	-	-	-	-
Equipment	40,160	38,464	-	1,022	102	-
Total expenditures	<u>798,537</u>	<u>344,936</u>	<u>69,922</u>	<u>40,586</u>	<u>50,856</u>	<u>34,834</u>
Change in net position	(73,832)	85,497	(81,461)	(49,255)	(49,689)	75,274
Transfers	-	(159,329)	81,461	49,255	49,689	(75,274)
Net position, end of year	<u>\$ 707,921</u>	<u>\$ 707,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



<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>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6,243	2,767	5,744	9,237	9,772	1,517	5,664
4,216	4,216	4,216	4,216	4,216	4,216	4,216
-	-	-	-	-	-	-
181,102	254,396	203,532	78,087	181,002	69,840	116,928
7,620	2,584	7,278	-	7,137	1,565	3,879
20,768	27,522	23,019	9,543	21,075	8,045	13,628
32	32	32	-	32	32	32
219,981	291,517	243,821	101,083	223,234	85,215	144,347
1,680	349	877	105	894	577	755
81,682	119,627	92,282	43,420	85,082	31,672	50,821
20,768	27,522	23,019	9,543	21,075	8,045	13,628
3,416	3,744	3,686	1,529	1,943	1,645	2,353
81,951	74,680	78,421	51,997	84,551	50,726	42,114
189,497	225,922	198,285	106,594	193,545	92,665	109,671
1,207	1,213	1,294	856	4,143	535	938
188,290	224,709	196,991	105,738	189,402	92,130	108,733
31,691	66,808	46,830	(4,655)	33,832	(6,915)	35,614
-	-	-	-	-	-	-
41,798	38,089	39,998	26,520	43,124	25,872	21,480
2,262	2,998	2,643	1,040	2,296	876	1,485
682	1,210	500	625	638	465	593
(169)	1,411	325	(50)	237	65	(182)
-	-	-	-	-	-	-
232	27	37	88	80	93	15
44,805	43,735	43,503	28,223	46,375	27,371	23,391
(13,114)	23,073	3,327	(32,878)	(12,543)	(34,286)	12,223
13,114	(23,073)	(3,327)	32,878	12,543	34,286	(12,223)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -