

BOARD OF EDUCATION OF GARRETT COUNTY

FINANCIAL REPORT

JUNE 30, 2016

BOARD OF EDUCATION OF GARRETT COUNTY

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INDEPENDENT AUDITORS' REPORT

Board of Education of Garrett County
Oakland, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Board of Education of Garrett County, a component unit of Garrett County, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the index to financial report.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Garrett County as of June 30, 2016, and the respective changes in financial position, and the respective budgetary comparison for the current expense fund and food service fund 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 and Schedule of Funding Progress - Other Postemployment Benefit Plan and Schedule of the Board's Proportionate Share of the Net Pension Liability-Maryland State Retirement and Pension System and Schedule of the Board's Contributions-Maryland State Retirement and Pension System listed in the index to the financial report 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's basic financial statements. The accompanying School Activities Fund Schedule of Revenues, Expenditures, and Balances by School is presented for purposes of additional analysis and is not a required part of the basic financial statements. The School Activities Fund Schedule of Revenues, Expenditures, and Balances by School 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.

Other Information (Continued)

In our opinion, the School Activities Fund Schedule of Revenues, Expenditures, and Balances by School 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 October 12, 2016 on our consideration of the Board of Education of Garrett County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of Garrett County's internal control over financial reporting and compliance.

THE RODRIGUES GROUP, P.C.

Oakland, Maryland
October 12, 2016

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

This section of the Board of Education of Garrett County School System's Financial Report represents our discussion and analysis of the School System's operations during the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements and notes to the basic financial statements which immediately follow this section to enhance the understanding of the School System's financial performance.

Government Accounting Standards require that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities.

The goal of the MD&A is for the School System's financial managers to present an objective and easily readable analysis of the Board's financial activities based on currently known facts.

Financial Highlights

- The Current Expense Fund unassigned fund balance as of June 30, 2016, was \$500,000. Through policy of the Board of Garrett County Commissioners, the Board of Education maintains an unassigned fund balance at the end of each year of \$500,000. In FY 2016, the Commissioners approved the use of excess current expense fund balance above \$500,000 for funding the subsequent year's budget.
- On a system-wide, basis the Board of Education of Garrett County closed the fiscal year ended June 30, 2016, with combined net position of \$36.6 million for a decrease of \$1.67 million in relation to the prior year net position.
- The unrestricted Current Expense Fund actual revenues of \$48,188,607 were within \$158,418 of the final budget or 0.3%.
- The unrestricted Current Expense Fund actual expenditures of \$48,190,167 were less than the final budget by \$1,269,179 or 2.6%.
- Major budget initiatives in fiscal year 2016 included:
 - Adoption of a new common core aligned math series that covers kindergarten through grade 12, with procurement of the middle and high school textbooks and materials.
 - Technology procurement continued with a planned retirement cycle and requirements to align with curriculum and testing.
 - Two Qualified Zone Academy Bond (QZAB) projects were completed during this fiscal year, Southern High School's HVAC project Phase 3 & 4 and Yough Glades Mechanical Automation project.
 - Began the renovation project at Dennett Road Educational Complex to meet the needs of Transportation, Facilities, Maintenance, and Operations.
 - Began the phased procurement and implementation of new enterprise resource planning software to replace the current outdated software.
 - The Board entered into a second performance contract with Johnson Controls in order to provide energy efficiency upgrades in our schools.
 - Education specification development costs and architectural design costs associated with Southern Middle School's Renovation were incurred this year.

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- Upon receiving federal grant funds, Food Service purchased several pieces of new kitchen equipment as well as a food trailer to increase scope of its summer feeding program.

Overview of the Financial Statements

The Financial Report is comprised of four parts: Management's Discussion and Analysis or MD&A (this section), the basic financial statements, required supplementary information and other supplementary information. The basic financial statements include two separate sets of statements that present different views of the School System:

- The two statements in the first set are the District-wide statements that provide both short and long-term information about the School System's overall financial condition.
- The other set of statements contain fund financial statements that focus on individual parts of the School System, reporting its operations in more detail than the District-wide statements.

District-wide Financial Statements

The District-wide Financial Statements report information about the School System as a whole using accounting methods similar to a private sector business. It is designed to provide readers with a complete financial view of the entity known as the Board of Education of Garrett County.

The *statement of net position*, page 14, includes all of the School System's assets and liabilities with the difference between the two reported as net position. The *statement of activities*, page 15, presents information showing how the District's net position changed during the most recent fiscal year.

In the District-wide financial statements, the system's activities are reported under the single category of governmental activities. All of the School System's basic services are included in governmental activities, such as regular and special education, transportation, and administration. County appropriations funded by property taxes and other fees, as well as state formula aid, finance most of these activities.

Although the School System charges premiums to employees to help defray the costs of the health and dental care benefits programs, the bulk of the cost of these programs is financed by appropriations in the unrestricted Current Expense Fund budget. All insurance costs along with social security, retirement, and worker's compensation are reported under fixed charges.

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

The School Activities Funds are fiduciary funds and as such are not included in the District-wide financial statements.

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Fund Financial Statements

The fund financial statements provide more detailed information about the Garrett County public schools' funds, focusing on its most significant or "major" funds - not the School System as a whole. A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The School System's funds are in two categories, governmental funds and fiduciary funds. The Board of Education of Garrett County does not operate any enterprise activities that are reported as proprietary funds.

Budgetary presentation of individual fund financial information utilizing the current financial resources measurement focus and the budgetary basis of accounting is presented as part of the fund financial statements on pages 20 through 22.

Governmental Funds

Most of the School System's basic services are included in the governmental funds, page 16 and 18, which generally focus on (1) how current financial resources and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School System's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information, page 17 and 19, explains the relationship (or differences) between them.

Fiduciary Funds – School Activity Funds

The Board is the trustee, or fiduciary, for its student activity funds. These funds are reported as a separate Agency Fund, page 23. These activities are excluded from the Board of Education of Garrett County's basic financial statements because the assets cannot be used to finance the Board's activities. We are responsible for ensuring that the assets reported in the School Activity Funds are used for their intended purpose.

Financial Analysis of the School System as a Whole

The School System's combined net position decreased in relation to FY 2015's restated results. The net position decreased by \$1.67 million, or 4.36%, from \$38,289,124 at the end of FY 2015 to \$36,616,967 at the end of FY 2016. The decrease in government-wide net position is mainly due to current year unfunded increases in compensated absences, the OPEB obligation and the pension liability.

The first chart on the next page provides a summarized comparison of Net Position between FY 2016 and FY 2015. The second chart shows program revenues and general revenues by major sources for FY 2016 and FY 2015 as well as program expenses by major function for both fiscal years. Percentage changes between the two years are shown as well.

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Condensed Statement of Net Position

	2016	2015	Percentage Change
Current and other assets	\$ 10,902,971	\$ 9,982,228	9.22%
Capital assets	48,349,377	47,345,931	2.12%
Total assets	<u>\$ 59,252,348</u>	<u>\$ 57,328,159</u>	3.36%
Deferred outflows of resources	\$ 792,430	\$ 336,344	116.31%
Total assets and deferred outflows	<u>\$ 60,044,778</u>	<u>\$ 57,694,503</u>	4.07%
Current and other liabilities	\$ 8,318,301	\$ 7,700,893	8.02%
Long-term liabilities	14,833,504	11,425,168	29.83%
Total liabilities	<u>\$ 23,151,802</u>	<u>\$ 19,126,061</u>	21.05%
Deferred inflows of resources	\$ 276,006	\$ 279,318	(1.19%)
Total liabilities and deferred outflows	<u>\$ 23,427,811</u>	<u>\$ 19,405,379</u>	20.73%
Net investment in capital assets	\$ 42,522,349	\$ 43,663,044	(2.61%)
Restricted	2,398,534	1,983,129	20.95%
Unrestricted	(8,303,916)	(7,357,049)	(12.87%)
Total net position	<u>\$ 36,616,967</u>	<u>\$ 38,289,124</u>	(4.37%)

Changes in Net Position from Operating Results

	2016	2015	Percentage Change
Program revenues:			
Charges for services	\$ 795,145	\$ 784,638	1.34%
Operating grants and contributions	9,437,203	9,628,239	(1.98%)
Capital grants and contributions	877,823	922,685	(4.86%)
General revenues:			
County government	26,639,951	26,724,279	(0.32%)
State (unrestricted)	19,635,478	19,857,582	(1.12%)
Federal	0	0	
Other	1,274,462	1,208,616	5.44%
Total Revenues	<u>\$ 58,660,062</u>	<u>\$ 59,126,039</u>	(0.79%)
Administration (central and school)	\$ 4,555,835	\$ 4,427,197	2.91%
Instruction			
(regular and special education)	27,635,841	28,276,059	(2.26%)
Student services and health	1,296,753	1,265,527	2.47%
Transportation	4,072,380	3,952,177	3.04%
Maintenance and operations	4,573,352	4,598,188	(0.54%)
Fixed charges	15,050,078	14,485,220	3.90%
Food services	2,777,989	2,700,642	2.86%
Other	369,991	358,888	3.09%
Total Expenses	<u>\$ 60,332,219</u>	<u>\$ 60,063,898</u>	0.45%
Change in Net Position	<u>\$ (1,672,157)</u>	<u>\$ (937,859)</u>	(78.30%)

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Revenues decreased by 0.79% or \$465,977. Overall revenue decreased this year primarily due to a 1.98% or \$191,036 decrease in operating grants and contributions as well as a 1.12% or \$222,104 decrease in state aid due to a combination of declining enrollment and increasing per capita wealth relative to the state average. Operating revenue from County government decreased slightly at 0.32% or \$84,328 from FY 2015.

Expenditures increased by 0.45% or \$268,321 over FY 2015. The increase in expenditures is due to an increased number of retirees covered by the Board's insurance driving fixed charges 3.9% or \$564,858 higher than FY 2015. Additionally, expenditures for transportation were 3.04% or \$120,203 higher than FY 2015 due to the radio and routing software projects. Food services expenditures also increased by 2.86% or \$77,347 due to increases in salary and food costs. Expenditures related to Instruction decreased 2.26% or \$640,218, this is due to the fact that in FY 2015, operating grants and contributions were higher for computer infrastructure as the system was building an inventory to achieve a 1:1 ratio of devices to students. The same level of expenditures was not necessary in FY 2016.

Results of operations for the School System as a whole are presented on page 15, the Statement of Activities. Approximately \$60.3 million in expenses are reported. The majority of revenue received by the Board of Education of Garrett County is from the County and the State of Maryland. The State uses multiple formulas to calculate the allocation of aid to Maryland public school systems. Grant revenues can be derived by formula or awarded on a competitive basis. Charges for services are principally meal revenue derived from food service operations.

The Food Service program is primarily self-funded by children's payments and federal and state food and nutrition subsidies; however, the Current Expense Fund pays the cost of employee health insurance and worker's compensation premiums for the Food Service program. For the year ended 2016, Food Services closed with a \$0 restricted fund balance. This represents a decrease of \$24,090 over what was reported for FY 2015. Food Services received transfers from the Current Expense Fund of \$248,003 to fund the cost of employee health insurance and worker's compensation premiums and \$95,795 to bring negative fund balance to \$0 at year-end.

The table on the next page presents the cost of the major school system functions: Administration (County & School Level), Instruction and Special Education, Student Personnel Services, Student Health Services, Student Transportation, Operation of Plant and Maintenance of Plant, Fixed Charges, Food Services and Others. The table also shows each function's net cost (total cost less fees generated by the functions and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on County and State taxpayers by each of these functions.

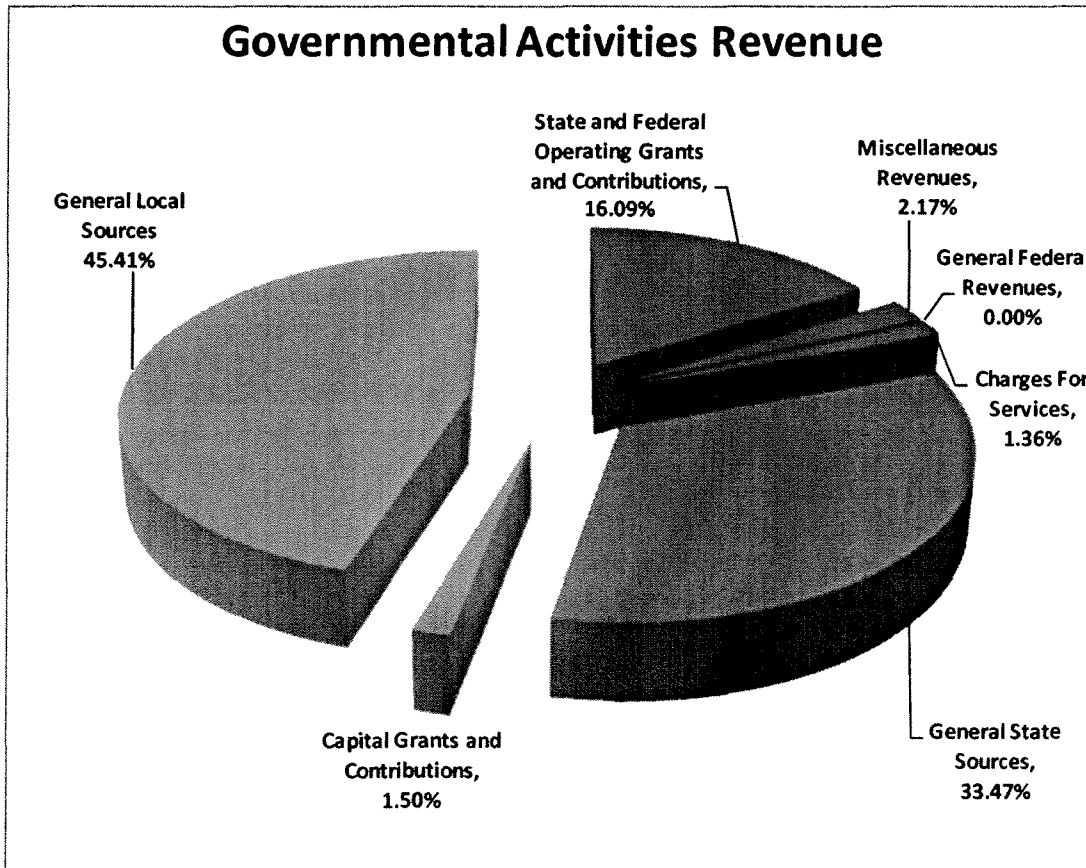
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	Total Cost of Services			Net Cost of Services		
	2016	2015	Percentage Change	2016	2015	Percentage Change
Administration (County & School Level)	\$ 4,555,835	\$ 4,427,197	2.91%	\$ 4,319,209	\$ 4,063,126	6.30%
Instruction and Special Education	27,635,841	28,276,059	(2.26%)	23,885,892	23,971,339	(0.36%)
Student Personnel Services	754,970	736,745	2.47%	754,970	736,745	2.47%
Student Health Services	541,783	528,782	2.46%	362,080	404,183	(10.42%)
Student Transportation	4,072,380	3,952,177	3.04%	1,087,721	1,070,512	(1.61%)
Operation of Plant and Maintenance of Plant	4,573,352	4,598,188	(0.54%)	4,371,702	4,386,427	(0.34%)
Fixed Charges	15,050,078	14,485,220	3.90%	14,072,466	13,565,448	3.74%
Food Services	2,777,989	2,700,642	2.86%	282,380	411,492	(31.38%)
All Others	369,991	358,888	3.09%	85,628	119,064	(28.08%)
Total	\$ 60,332,219	\$ 60,063,898	0.45%	\$ 49,222,048	\$ 48,728,336	1.01%

The cost of all governmental activities was \$60,332,219. Some of this cost was financed by users of the School System's programs through tuition and user fees of \$795,145. Operating and capital grants and contributions from the federal and state governments for certain programs were \$10.3 million. This left a net cost of services to be funded by general revenues of \$49,222,048, which was an increase of 1.01% or \$493,712 over FY 2015.

Most of the School System's total revenue of \$58,660,062 was provided through County and State of Maryland taxpayers. Below is a chart detailing the governmental sources of revenue.



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Financial Analysis of the School System's Funds

The School System's financial performance is reflected in its governmental funds. At the completion of the current year, the combined fund balances for all governmental funds totaled \$2,898,534, up \$415,405 from the FY 2015 ending balance of \$2,483,129.

The Current Expense Fund balance increased \$414,647 ending the year at \$2,745,444 up from \$2,328,797 at the end of FY 2015. Funds restricted for medical assistance ended the year at \$285,567, which was up \$181,917 over FY 2015 ending balance of \$103,650. Funds restricted for subsequent year's budget increased \$26,439, from \$1,045,703 in FY 2015 to \$1,072,142. There is \$500,000 restricted for capital expenditures for the completion of the Southern Middle School renovation as well as fund restrictions of \$151,444 relating to energy efficiency rebates that will be used to offset future capital lease payments for the energy efficiency capital projects completed in fiscal 2013. There is also \$236,291 restricted for final payment on construction of the new energy efficiency capital project. There is also \$500,000 unassigned carry-over balance in accordance with the policy of the Board of Garrett County Commissioners, which represents less than 1% of the Current Expense Fund budgeted expenditures. The Food Service Fund balance of \$153,090 consists entirely of nonspendable food inventory, which increased \$22,848 over the prior period.

Local appropriations and state and federal revenues account for about 97.6% of the total Unrestricted Current Expense Fund revenues. Both are stable and highly predictable.

General (Current Expense) Budgetary Highlights

The Unrestricted Current Expense Fund operates under a legally adopted annual budget. The budget is subdivided into State mandated categories of expenditures including Administration, Mid-level Administration, Instructional Salaries, Textbooks and Instructional Supplies, Other Instructional Costs, Special Education, Student Personnel Services, Student Health Services, Student Transportation, Operation of Plant, Maintenance of Plant, Fixed Charges, Food Services Capital Outlays, and Community Services. The legal level of budgetary control is at the category level. Unexpended and encumbered appropriations terminate at the end of the fiscal year.

The Unrestricted Current Expense Fund revenues were \$158,418 under budget and total expenditures were \$1,269,179 under budget for an excess of revenues over expenditures of \$1,110,761. The budgeted variance for revenue is attributed to state school construction projects that were not approved which also resulted in a corresponding variance under capital outlay expenditures. With respect to expenditures, the savings in instructional salaries is a result of not filling certain vacated positions during the course of the year. Textbooks variance is due to the new Math series not being purchased prior to year end for the elementary grade levels. The favorable variance in operation of plant is due to the lower than budgeted energy costs.

The overall variation between the original and final budget in the Unrestricted Current Expense Fund capital outlay is a result of funds carried over from the prior year being utilized for one time operational expenditures, including Music textbooks and instruments, technology infrastructure, transportation radios, completion of modular classrooms at Broad Ford Elementary School, renovation of Dennett Road Educational Complex for Transportation, Maintenance and Operations,

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as well as supplies and materials for CTE programs. These expenditures explain the increases in original to final budgets for Instructional Textbooks and Supplies, Instructional – Other, and Capital Outlay. Due to savings achieved through lower than budgeted fuel prices, budget funds were transferred to Fixed Charges to accommodate for higher than budgeted healthcare costs. In addition, budget funds were also transferred from Operations, through energy savings, to accommodate the increased administrative budgetary needs due to retirement and contractual obligations.

The Restricted Current Expense Fund variance between final budget and actual represents the remaining funds available to be spent from restricted grants all of which are budgeted upon award.

Capital and Debt Administration

By the end of FY 2016, the School System had over \$98.9 million invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. This amount represents a net increase of \$3.7 million. More detailed information about the school system's capital assets can be found in Note 4 to the financial statements.

The Capital Improvement Program included funding for school construction and renovation projects as follows:

	<u>Local Funding</u>	<u>State Funding</u>
Broad Ford Portable Classrooms	\$ 261,692	\$ 0
Southern High HVAC (QZAB)	\$ 0	\$ 166,025
Dennett Road Maintenance Renovations	\$ 210,983	\$ 0
Johnson Controls - Performance Contract	\$ 2,111,548	\$ 0
Southern Middle School Renovations	\$ 352,189	\$ 0
Tyler/Munis ERP Software Conversion	\$ 137,201	\$ 0
	<u>\$ 3,073,613</u>	<u>\$ 166,025</u>

Long-Term Debt and Other Long-Term Obligations

At year-end, the School System had \$15,288,181 in long-term obligations outstanding. \$1,106,090 or 7.23% of this represents obligations for accumulated unpaid leave for the System's staff, \$5,106,972 or 33.4% represents the School System's net other post-employment benefit (OPEB) obligation, the net pension liability of \$3,248,901 represents an additional 21.25% and the remainder represents the obligation relative to the energy performance contract capital leases of \$5,827,028 or 38.12%. As stated previously, the increase in capital lease payable over prior period financial statements is as a result of entering an additional performance energy construction contract during FY 2016.

Factors Impacting the School System

Two factors that may negatively impact future revenue are the county's wealth potential and predicted continued declining enrollments. The County's wealth potential impacts state-aid as state-aid is distributed in reverse order of each County's per pupil wealth ranking. As a county's wealth potential increases, state-aid for education decreases as the state perceives that the county has the ability to fill in funding gaps as a result of its wealth potential. The adequacy of the state

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funding formula is currently being evaluated by Augenblick, Palaich & Associates and the timeline for this evaluation points to completion in 2017. Any legislative impacts resulting from this study will likely not occur until after the legislature determines a course of action after the receipt of the final report.

Due to the state's funding formula, Garrett County's declining enrollment and increasing wealth within the county, has produced a continued reduction in state aid over the past several years. County government has not supplemented the budget of the Board of Education to the extent of the losses in state aid. In FY 2016, county funding was reduced from the prior year. According to Maryland Department of Planning projections, enrollment will continue to impact state-aid as enrollment declines in future years. Although improving, the State of Maryland is continuing to experience a significant spending gap. County government has experienced major reductions in revenue as a result. This situation may stress both the State and County's ability to support ongoing public service needs. During FY 2013 the General Assembly of Maryland passed legislation to pass a portion of the current state teachers' retirement obligation back to county government and ultimately local boards of education. This increasing obligation becomes part of county government's maintenance of effort calculation for FY 2017.

The Master Plan for Garrett County Public Schools, required by the Bridge to Excellence Act, provides a multi-year action plan to guide the school system in preparing students to reach high levels of academic achievement and to be contributing members of a democratic society. The plan directs the use of current and new state, federal, and local funds to eliminate achievement gaps among subgroups of students and to challenge each student to higher academic levels. The plan organizes and aligns research-based practices, instructional services, professional development, and resource distribution to guide the Garrett County Public Schools Budget that is now linked to Master Plan strategies.

In 2010, Maryland became one of 45 states that adopted rigorous, internationally benchmarked academic standards for English/Language Arts, Mathematics, Science, and Social Studies called the Common Core State Standards (CCSS). The CCSS is now known as the Maryland College and Career Readiness Standards (MDCCRS) and also includes Next Generation Science Standards (NGSS). New assessments aligning with these standards will be implemented in FY 2017. The high academic standards put forward by the MDCCRS require professional development, realignment of policies and procedures, procurement of textbooks and related instructional resources. As a result of the implementation of the MDCCRS, state mandated online testing efforts have made it necessary to increase internet connectivity and meet the 1:1 device to student ratio initiative. Procurement and maintenance of technology infrastructure will continue to have a budgetary impact.

Maryland Senate Bill 740 took effect in FY 2016, mandating that all high school juniors must be assessed to determine College and Career Readiness. Should those target standards not be met, all FY 2017 high school seniors must be provided transition course(s) and reassessed upon completion. It is yet to be determined the budgetary consequences of this legislation.

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In December 2015, the federal Every Student Succeeds Act (ESSA) was signed into law as a reauthorization of the Elementary and Secondary Education Act (ESEA). Through this legislation, emphasis is being placed on low achieving student subgroups through response to intervention (RTI) through intensive kindergarten through grade 12 strategies. Due to this legislation, additional resources are required including professional development and specialized services to meet the needs of the identified student populations. An extension of FY 2016 instructional strategies includes the addition of behavioral, social, and emotional strategies for the FY 2017 budget.

Employee Negotiated Agreements with three of the four collective bargaining units were reached through June 30, 2018, while the remaining unit agreed to a one year contract extension through June 30, 2016.

The Board's actuary has calculated an Other Post Employment (OPEB) annual required contribution cost of \$1,973,810 for the fiscal year ended June 30, 2016. The actual OPEB contribution amount for the year ended June 30, 2016 was \$1,435,116. This amount was entirely from pay-as-you-go premiums paid by the Board of Education for retirees and the subsidy paid for premiums by active employees. There was no funding from the Board of Garrett County Commissioners toward the OPEB obligation during FY 2016. There remains a Net OPEB obligation at end of year of \$5,106,972. Under GASB standards there is no requirement to fund this obligation; however, it does become a liability reported in the Board's financial statements against the Board's assets. The Board of Garrett County Commissioners has not budgeted any funds towards the OPEB obligation for the FY 2017 budget.

During FY 2015 the Board implemented the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*, which among other things required the Board to report their proportionate share of the Maryland State Retirement and Pension System's net pension liability. The Board's proportionate share of the Maryland State Retirement and Pension System's net pension liability, as calculated by the System's actuary, is \$3,248,091 as of June 30, 2016 and is reported as a liability on the Board's government-wide statement of net position.

The Board continues to be a member of a coalition between County government, Garrett College and the Board of Education to procure health insurance and wellness benefits for current and retired employees of these entities.

Contacting the School System's Financial Management

This financial report is designed to provide the citizens of Garrett County, taxpayers, parents and students, with a general overview of the Board of Education of Garrett County's finances and to demonstrate the School System's accountability for the resources it receives. If you have any questions about this report or need additional financial information, contact Alison Sweitzer, Director of Finance at the Board of Education of Garrett County, 40 South Second Street, Oakland, MD 21550.

BOARD OF EDUCATION OF GARRETT COUNTY

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 8,361,260
Accounts receivable	
County	44,005
State	486,790
Federal	1,138,806
Other	46,159
Inventory	153,090
Restricted cash	672,861
Non-depreciable capital assets	4,283,081
Depreciable capital assets, net of accumulated depreciation	<u>44,066,296</u>
Total Assets	<u>59,252,348</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>792,430</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>60,044,778</u></u>
LIABILITIES	
Accrued payroll and withholding	5,886,417
Accounts payable and accrued expenses	1,924,645
Unearned revenue	52,562
Long-term liabilities:	
Due within one year	454,677
Due in more than one year	<u>14,833,504</u>
Total Liabilities	<u>23,151,805</u>
DEFERRED INFLOWS OF RESOURCES	<u>276,006</u>
NET POSITION	
Net investment in capital assets	42,522,349
Restricted for medical assistance	285,567
Restricted for subsequent year's budget, capital and capital lease payments	1,959,877
Restricted for food service	153,090
Unrestricted	<u>(8,303,916)</u>
Total Net Position	<u>36,616,967</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 60,044,778</u></u>

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

BOARD OF EDUCATION OF GARRETT COUNTY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenues and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Governmental Activities</u>
Governmental activities:					
Administration	\$ 1,865,761	\$ -	\$ 160,500	\$ -	\$ (1,705,261)
Mid-level administration	2,690,074	-	76,126	-	(2,613,948)
Instruction - Salaries	18,830,087	7,864	1,501,442	-	(17,320,781)
- Textbooks and supplies	1,202,943	-	229,290	-	(973,653)
- Other	3,174,728	-	167,445	724,937	(2,282,346)
Special education	4,428,083	-	1,118,971	-	(3,309,112)
Student personnel services	754,970	-	-	-	(754,970)
Student health services	541,783	-	179,703	-	(362,080)
Student transportation	4,072,380	-	2,935,910	48,749	(1,087,721)
Operation of plant	3,552,951	18,966	182,684	-	(3,351,301)
Maintenance of plant	1,020,401	-	-	-	(1,020,401)
Fixed charges	15,050,078	-	977,612	-	(14,072,466)
Community services	255,920	16,678	267,685	-	28,443
Food services	2,777,989	751,637	1,639,835	104,137	(282,380)
Interest on capital lease obligation	114,071	-	-	-	(114,071)
Total governmental activities	<u>\$60,332,219</u>	<u>\$ 795,145</u>	<u>\$ 9,437,203</u>	<u>\$ 877,823</u>	<u>(49,222,048)</u>
General revenues:					
Local appropriations					26,639,951
State appropriations					19,635,478
Miscellaneous					1,276,525
Unrestricted investment earnings					11,215
Gain (loss) on sale of equipment or disposals					(13,278)
Total general revenues					<u>47,549,891</u>
Change in net position					(1,672,157)
Net Position - beginning of year					<u>38,289,124</u>
Net Position - end of year					<u>\$ 36,616,967</u>

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

BOARD OF EDUCATION OF GARRETT COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	<u>Current Expense Fund</u>	<u>Food Service Fund</u>	<u>School Construction Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 7,930,671	\$ 430,589	\$ -	\$ 8,361,260
Accounts receivable				
County	-	-	44,005	44,005
State	428,537	58,253	-	486,790
Federal	1,138,806	-	-	1,138,806
Other	38,895	7,264	-	46,159
Due from other funds	359,088	95,795	-	454,883
Inventory	-	153,090	-	153,090
Restricted cash	672,861	-	-	672,861
TOTAL ASSETS	<u>10,568,858</u>	<u>744,991</u>	<u>44,005</u>	<u>11,357,854</u>
LIABILITIES				
Accrued payroll and withholdings	5,677,156	209,261	-	5,886,417
Accounts payable and accrued expenses	1,881,979	5,574	37,092	1,924,645
Unearned revenue	27,671	24,891	-	52,562
Compensated absences payable	140,813	-	-	140,813
Due to other funds	95,795	352,175	6,913	454,883
Total Liabilities	<u>7,823,414</u>	<u>591,901</u>	<u>44,005</u>	<u>8,459,320</u>
FUND BALANCES				
Nonspendable - inventories	-	153,090	-	153,090
Restricted for medical assistance	285,567	-	-	285,567
Restricted for subsequent year's budget	1,072,142	-	-	1,072,142
Restricted for capital expenditures	500,000	-	-	500,000
Restricted for capital lease payments	151,444	-	-	151,444
Restricted for lease contract	236,291	-	-	236,291
Unassigned	500,000	-	-	500,000
Total Fund Balances	<u>2,745,444</u>	<u>153,090</u>	<u>-</u>	<u>2,898,534</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 10,568,858</u>	<u>\$ 744,991</u>	<u>\$ 44,005</u>	<u>\$ 11,357,854</u>

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

BOARD OF EDUCATION OF GARRETT COUNTY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION**

June 30, 2016

Total fund balances - Governmental funds \$ 2,898,534

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. The cost of these assets is \$98,939,438, net of accumulated depreciation of \$50,590,061. 48,349,377

Deferred outflows arising from changes in the net pension liability are not reported in the funds. Deferred outflows arising from contributions made since the measure date amount to \$316,062
Deferred outflows arising from changes in actuarial assumptions and investment activity amount to \$476,368. 792,430

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end include compensated absences payable (\$965,277), capital lease payable (\$5,827,028), net OPEB obligation (\$5,106,972) and net pension liability (\$3,248,091). (15,147,368)

Deferred inflows arising from changes in the net pension liability are not reported in the funds. Deferred inflows resulted from pension plan investment performance exceeding projections. (276,006)

Total net position - Governmental activities \$ 36,616,967

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

BOARD OF EDUCATION OF GARRETT COUNTY

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

	<u>Current Expense Fund</u>	<u>Food Services Fund</u>	<u>School Construction Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Intergovernmental revenues				
Local sources	\$ 26,788,751	\$ -	\$ 515,248	\$ 27,303,999
State sources	23,863,320	140,911	-	24,004,231
Federal sources	3,655,420	1,593,061	-	5,248,481
Earnings on investments	11,097	118	-	11,215
Charges for services	43,508	761,637	-	805,145
Miscellaneous revenues	1,292,732	8,294	-	1,301,026
Total Revenues	<u>55,654,828</u>	<u>2,504,021</u>	<u>515,248</u>	<u>58,674,097</u>
EXPENDITURES				
Administration	1,816,103	-	-	1,816,103
Mid-level administration	2,690,074	-	-	2,690,074
Instruction - Salaries	18,830,087	-	-	18,830,087
- Textbooks and supplies	1,202,943	-	-	1,202,943
- Other	717,242	-	-	717,242
Special education	4,427,589	-	-	4,427,589
Student personnel services	754,970	-	-	754,970
Student health services	541,783	-	-	541,783
Student transportation	4,070,764	-	-	4,070,764
Operation of plant	3,577,726	-	-	3,577,726
Maintenance of plant	1,034,664	-	-	1,034,664
Fixed charges	14,103,211	-	-	14,103,211
Food services	-	2,751,759	-	2,751,759
Community services	285,147	-	-	285,147
Capital outlay	2,872,150	97,302	515,248	3,484,700
Debt service	315,865	-	-	315,865
Total Expenditures	<u>57,240,318</u>	<u>2,849,061</u>	<u>515,248</u>	<u>60,604,627</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,585,490)	(345,040)	-	(1,930,530)
OTHER FINANCING SOURCES (USES)				
Capital lease	2,345,935	-	-	2,345,935
Operating transfers in	-	343,798	-	343,798
Operating transfers out	(343,798)	-	-	(343,798)
NET CHANGE IN FUND BALANCES	416,647	(1,242)	-	415,405
Fund Balances - beginning of year	<u>2,328,797</u>	<u>154,332</u>	<u>-</u>	<u>2,483,129</u>
FUND BALANCES - end of year	<u>\$ 2,745,444</u>	<u>\$ 153,090</u>	<u>\$ -</u>	<u>\$ 2,898,534</u>

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

BOARD OF EDUCATION OF GARRETT COUNTY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

Change in fund balances - Governmental funds	\$ 415,405
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$3,725,846 exceeded depreciation expense of \$2,739,540 in the current year.	986,306
Governmental funds report only the proceeds from the sale of capital assets. In the statement of activities the net book value is written-off against the proceeds, if any, when assets are disposed of or sold.	(14,035)
Governmental funds do not report donated assets, however, the fair market value of these assets are reported as a source of revenue in the statement of activities.	31,175
In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used.	(154,063)
Capital lease proceeds which provide current financial resources in the governmental funds are not reported as revenues in the statement of activities.	(2,345,935)
Repayment of capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	201,794
OPEB costs reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	(525,970)
Changes to the net pension liability and related deferred outflow and inflow accounts are not reported in the governmental funds, These changes impact pension expense in the statement of activities.	<u>(266,834)</u>
Change in net position - Governmental activities	<u>\$ (1,672,157)</u>

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

BOARD OF EDUCATION OF GARRETT COUNTY

**CURRENT EXPENSE FUND - UNRESTRICTED
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Intergovernmental revenues				
Local sources	\$ 26,590,600	\$ 26,788,900	\$ 26,788,751	\$ (149)
State sources	20,083,541	20,170,147	19,963,715	(206,432)
Federal sources	111,000	111,000	114,452	3,452
Earnings on investments	12,000	12,000	9,193	(2,807)
Charges for services	14,000	14,000	43,508	29,508
Miscellaneous revenues	1,024,000	1,250,978	1,268,988	18,010
	<u>47,835,141</u>	<u>48,347,025</u>	<u>48,188,607</u>	<u>(158,418)</u>
EXPENDITURES				
Administration	1,401,646	1,707,046	1,655,603	(51,443)
Mid-level administration	2,565,659	2,566,346	2,613,948	47,602
Instruction - Salaries	17,735,119	17,814,967	17,537,097	(277,870)
- Textbooks and supplies	897,622	1,272,717	973,653	(299,064)
- Other	473,845	623,844	549,797	(74,047)
Special education	3,490,830	3,448,186	3,423,226	(24,960)
Student personnel services	796,124	796,524	754,970	(41,554)
Student health services	437,270	463,670	429,389	(34,281)
Student transportation	4,167,117	4,116,967	4,070,764	(46,203)
Operation of plant	4,038,258	4,124,333	3,859,707	(264,626)
Maintenance of plant	992,867	997,667	1,034,664	36,997
Fixed charges	10,125,352	10,235,352	10,165,488	(69,864)
Food services	300,000	300,000	343,798	43,798
Community services	-	16,678	17,462	784
Capital outlay	452,050	975,050	760,602	(214,448)
	<u>47,873,759</u>	<u>49,459,347</u>	<u>48,190,168</u>	<u>(1,269,179)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(38,618)	(1,112,322)	(1,561)	<u>\$ 1,110,761</u>
Fund Balance - beginning of year	<u>-</u>	<u>1,112,322</u>	<u>2,225,147</u>	
FUND BALANCE - end of year	<u>\$ (38,618)</u>	<u>\$ -</u>	<u>\$ 2,223,586</u>	

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

BOARD OF EDUCATION OF GARRETT COUNTY

**CURRENT EXPENSE FUND - RESTRICTED
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL (BUDGETARY BASIS)
Year Ended June 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Intergovernmental revenues				
Federal sources	\$ 3,102,813	\$ 3,678,045	\$ 3,540,968	\$ (137,077)
State sources	860,110	967,318	939,494	(27,824)
Other sources	<u>18,000</u>	<u>24,157</u>	<u>23,744</u>	<u>(413)</u>
Total Revenues	<u>3,980,923</u>	<u>4,669,520</u>	<u>4,504,206</u>	<u>(165,314)</u>
EXPENDITURES				
Administration	141,437	156,420	160,500	4,080
Mid-level administration	52,730	72,836	76,126	3,290
Instruction - Salaries	1,281,677	1,470,433	1,292,990	(177,443)
- Textbooks and supplies	91,665	264,127	229,290	(34,837)
- Other	101,349	210,200	167,445	(42,755)
Special education	1,031,109	1,103,312	1,004,363	(98,949)
Student health services	110,524	110,524	112,394	1,870
Operation of plant	31,500	31,720	33,884	2,164
Fixed charges	935,856	991,777	977,612	(14,165)
Community services	203,076	255,403	267,685	12,282
Capital outlay	<u>-</u>	<u>2,768</u>	<u>-</u>	<u>(2,768)</u>
Total Expenditures	<u>3,980,923</u>	<u>4,669,520</u>	<u>4,322,289</u>	<u>(347,231)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	181,917	<u>\$ 181,917</u>
Fund Balance - beginning of year			<u>103,650</u>	
FUND BALANCE - end of year			<u>\$ 285,567</u>	

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

BOARD OF EDUCATION OF GARRETT COUNTY

FOOD SERVICE FUND

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)**

Year Ended June 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES			
Federal	\$ 1,302,803	\$ 1,440,832	\$ 138,029
State of Maryland	158,144	140,911	(17,233)
Meals and food served	779,888	761,637	(18,251)
Interest earned	150	118	(32)
Federal donation of food	100,000	152,229	52,229
Other revenues	13,000	8,294	(4,706)
	<u>2,353,985</u>	<u>2,504,021</u>	<u>150,036</u>
EXPENDITURES			
Salaries and wages	1,067,350	1,139,128	71,778
Contracted services	22,000	64,353	42,353
Supplies and materials	982,195	1,086,657	104,462
Other charges	611,305	461,621	(149,684)
Capital outlay	14,777	97,302	82,525
	<u>2,697,627</u>	<u>2,849,061</u>	<u>151,434</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(343,642)	(345,040)	(1,398)
OTHER FINANCING SOURCES			
Operating transfers in	343,642	343,798	156
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>(1,242)</u>	<u>\$ (1,242)</u>
Fund Balance - beginning of year		<u>154,332</u>	
FUND BALANCE - end of year		<u>\$ 153,090</u>	

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

BOARD OF EDUCATION OF GARRETT COUNTY

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	<u>School Activities Funds</u>
ASSETS	
Cash and cash equivalents	\$ 417,343
Investments - certificates of deposit	86,169
Inventory	<u>32,871</u>
TOTAL ASSETS	<u><u>536,383</u></u>
LIABILITIES	
School activity funds payable	<u>536,383</u>
TOTAL LIABILITIES	<u><u>\$ 536,383</u></u>

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

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The Board of Education of Garrett County (the Board) as currently constituted was established under Title 3, Subtitles 103 and 114, Education, of the Annotated Code of Maryland. The Board is a five-member elected body responsible for the operation of the Garrett County public school system.

The Board of Education of Garrett County is a component unit of Garrett County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. The financial statements of the Board are included in the financial statements of the County as required by generally accepted accounting principles.

The financial statements of the Board are prepared in conformity with U.S. generally accepted accounting principles (GAAP) applicable to governments.

B. Government-Wide and Fund Statements

The Government Accounting Standards Board (GASB) establishes reporting requirements and the reporting model for the annual financial reports of state and local governments. This model requires governments to report on the overall state of a government's financial health and not just individual funds. The reporting model was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. In addition, the model provides enhanced information regarding the costs of delivering specific services to citizens and includes:

Management's Discussion and Analysis – Government Accounting Standards require that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis many private sector entities provide in their annual reports.

District-Wide Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable), but also capital assets and long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Fiduciary funds are not included in government-wide financial statements.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Statements (continued)

District-Wide Financial Statements (continued) – The basic financial statements include both government-wide (based on the Board as a whole) and fund financial statements. The Board does not engage in business-type activities and, as such, issues single column government-wide financial statements. In the government-wide statement of net position, both the governmental activities' assets and liabilities (a) are presented on a consolidated basis and (b) are reflected, on a full accrual, economic resource basis, which incorporates non-current assets and receivables as well as long-term obligations.

Statement of Net Position – The statement of net position is designed to display the financial position of the Board of Education. The Board reports all capital assets in the government-wide statement of net position and reports depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net position of the Board is broken down into three categories – 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities – The government-wide statement of activities reports expenses and revenues in the format that focuses on the cost of each educational function. The expenses of individual functions are compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants). These directly matched revenues are called program revenues. This format enables the government-wide statement of activities to reflect both the gross and net cost per functional category (regular instruction, special education, student transportation, etc.) that are otherwise being supported by general government revenues.

Program revenues must be directly associated with a function and are restricted to meeting the operational or capital requirements of a particular function or activity. Multi-purpose grants and other items not properly included among program revenues are reported as general revenues. The operating grants include operating specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Direct expenses are considered those that are clearly identifiable with a specific function or segment. The Board does not allocate indirect expenses.

Fund Financial Statements – Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All of the Board's funds are reported as major funds. In the fund financial statements, financial transactions and accounts of the Board are organized on the basis of funds.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-Wide and Fund Statements (continued)

Fund Financial Statements (continued) - The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements, reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

Budgetary Comparison Schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. The Board and many other governments revise their original budgets over the course of the year for a variety of reasons. Under the current reporting model, governments provide budgetary comparison information including the government's original budget and the final budget compared to actual results. The Food Service Fund budget is presented in a single column format as no changes are made to original budget amounts once they are approved. These budgetary comparison schedules are presented as part of the basic financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Non-exchange transactions where the Board either gives or receives value without directly receiving or giving equal value in exchange include, for example, grants and contributions. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied.

It is the Board's policy to first use restricted-net position for expenses incurred for which both restricted-net position and unrestricted-net position are available unless a local match is required. Where a local match is required, the expense is allocated to restricted-net position and unrestricted-net position based on the required match percentages.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This focus is on the determination of, and changes in financial position. Generally, only current assets and current liabilities are included on the balance sheet. Revenues are recorded as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major revenue sources subject to the availability criterion are local, state, and federal revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, other post employment benefits and pensions are recorded only when the obligations are expected to be liquidated with expendable available resources.

The following types of transactions are reported as program revenues. Tuition paid directly by students and parents; and sales associated with the food service operations are identified as charges for services. State and federal support for each function is identified as operating grants and contributions. Grant-related revenue that is specifically restricted for use in a particular function to meet the operational and capital requirements of a particular program is separated in the statement of activities.

The Board reports the following governmental funds in the fund financial statements:

Current Expense Fund - The Current Expense Fund is the general operating fund of the Board and is used to account for the revenues and expenditures necessary for the day-to-day operation of the Board. This fund is used to account for all financial resources except those required to be accounted for in another fund. State and federal grant programs are included in the restricted portion of this fund.

Food Service Fund - The Food Service Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures related to food service operations.

School Construction Fund - The School Construction Fund is used to account for the financial resources to be used for the acquisition, construction or renovation of the Board's major capital facilities.

School Activities Fund - The School Activities Funds are agency funds used to account for assets held by the Board in a trustee capacity. These funds and gift cards inventory belong to student and faculty organizations within each school and are under the direct responsibility of each school's principal.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

As a general rule, the effect of interfund and internal activity has been eliminated from the government-wide financial statements including the statement of activities. Interfund balances are not included in the government-wide statement of net position. The Board distinguishes overhead costs, which are eliminated in the preparation of the statement of activities from interfund services provided and used between functions which are not eliminated in the statement of activities in the financial statement closing process. The Board does not allocate indirect expenses to functions in the fund financial statements.

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity

Cash and Cash Equivalents - For purposes of financial statement presentation, the Board considers all highly liquid investments (i.e. certificates of deposit and repurchase agreements) with a remaining maturity of three months or less when purchased to be cash equivalents.

Investments - Investments consist of certificates of deposit with a remaining maturity of more than three months when purchased. These investments are recorded at cost which approximates market value.

Receivables and Payables - All interfund receivables and payables are displayed in the fund statements as "due to/due from other funds". These amounts offset each other and are eliminated from the government-wide statement of net position, so as to not overstate the Board's assets and liabilities. All other receivables are reported at net realizable value.

Inventories - Inventory balances reflected in the financial statements include food stuffs located in each school. Inventory is recorded in the financial statements using the consumption method. Under this method, expenditures are recognized when inventory is used. Inventories are valued on a first-in, first-out cost basis. Unit cost values of donated food are determined from USDA price lists.

Restricted Assets - The government-wide and governmental funds financial statements include restricted cash of \$672,861 which represents the Current Expense Fund cash balance related to unspent proceeds from an equipment lease/purchase agreement between the Board and The Harbor Bank of Maryland.

Capital Assets - Capital assets, which include land and improvements, buildings and improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements	15
Equipment	5-12
Vehicles	8

Deferred Inflows/Outflows of Resources - In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board has three items that qualify for reporting in this category. At June 30, 2016 deferred outflows consist of retirement plan contributions paid in the current fiscal year subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Additionally, deferred outflows at June 30, 2016 consist of changes in actuarial assumptions and differences in the projected and actual investment earnings related to the determination of the net pension liability that are being amortized over periods ranging from five to six years.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) 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. At June 30, 2016 deferred inflows consist of differences between actual and expected experience and differences in the projected and actual investment earnings related to the determination of the net pension liability that are being amortized over periods ranging from five to six years.

Unearned Revenues - Unearned revenues represent amounts received from grantors in advance of incurrence of eligible expenditures for reimbursable-type grants at June 30, 2016.

Compensated Absences Payable - As of June 30, 2016, employees of the Board had accumulated approximately \$1,106,090 of vested annual leave and other compensatory leave benefits. These benefits include salaries and salary related payments. The current and long-term portions of this liability are presented in the government-wide financial statements and the current portion is presented in the fund financial statements at fiscal year-end.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity (continued)

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System - Employees Retirement and Pension System (ERPS) and additions to/deductions from ERPS's fiduciary net position have been determined on the same basis as they are reported by ERPS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Long-term Liabilities - In the government-wide financial statements a capital lease, the Board's net OPEB obligation and the Board's net pension liability are reported as long-term liabilities in the statement of net position.

School Construction Debt - The Board is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the county government. Accordingly, the Board does not record school construction debt service revenues, expenditures, or outstanding school construction debt in the accompanying financial statements.

Fund Equity - In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Board classifies governmental fund balances as follows:

Nonspendable Fund Balance – Amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted Fund Balance – Amounts constrained for a specific purpose by external parties, constitutional provision, or enabling legislation.

Committed Fund Balance – Amounts constrained for a specific purpose by the governing body using its highest level of decision making authority. These constraints can only be removed or changed by the same governing body using its decision making authority to reverse a decision. Actions to constrain resources occur prior to the end of the fiscal year, though the exact amount may be determined subsequently. The Board had no committed fund balance as of June 30, 2016.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity
(continued)

Assigned Fund Balance – Amounts intended to be used for a specific purpose. This intent is expressed by a governing body or another body such as a budget/finance committee or other approved individual designee of the governing body. Assigned fund balance includes residual amounts for all governmental funds except the general fund not otherwise classified as nonspendable, restricted, or committed. Amounts reported as assigned should not result in a deficit in unassigned fund balance. The Board had no assigned fund balance as of June 30, 2016.

Unassigned Fund Balance – Amounts available for any purpose that are not otherwise reported as nonspendable, restricted, committed, or assigned. The current expense fund is the only fund which would report a positive amount in the unassigned fund balance. For all other governmental funds, amounts expended in excess of available resources that are nonspendable, restricted, committed, or assigned are categorized as unassigned funds with negative balances.

The Board is the governing body with the highest level of decision-making authority relative to fund balances. The Board through formal resolution is the only body that can commit fund balance. The elected Board, through its fund balance policy, has delegated to the Superintendent or Assistant Superintendent and Director of Finance, the authority to assign fund balance. It is the Board's policy to first apply restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. In the event that expenditures are made from multiple unrestricted fund balance classifications, the order of fund spending shall be as follows: Committed, Assigned, and Unassigned. The portion of the Board's fund balance to be utilized for subsequent year's budget is prescribed by the Board of County Commissioners of Garrett County and as such is reflected as restricted.

E. Budgets and Budgetary Accounting

The Board prepares its budget for the unrestricted component of the Current Expense Fund and Food Service Fund on a basis consistent with generally accepted accounting principles applicable to governmental entities except for retirement payments made on the Board's behalf to the State Retirement and Pension System of Maryland by the State of Maryland.

The budgetary basis does not reflect revenues and expenditures for such contributions as required by generally accepted accounting principles. In addition, certain reclassifications are made to the actual column in the budget presentation to facilitate comparison for financial reporting purposes.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting (Continued)

The restricted component of the Current Expense Fund budget accounts for special federal and state grant programs. Expenditures incurred under these programs are limited to the amounts expended under the respective grants.

School Construction Fund activity is budgeted on the basis of total project costs as approved by the Board of Public Works and County appropriations specifically allocated for capital outlay. Annual budgetary comparisons to actual expenditures are not presented in the accompanying financial statements for the School Construction Fund.

The superintendent submits the Current Expense Fund and Food Service Fund proposed budgets to the Board of Education. Upon approval by the Board, the proposed budgets are submitted to the County Commissioners for approval. A copy of the budget as approved by the County Commissioners is submitted to the State Superintendent within 30 days after approval. All budget appropriations lapse at year end.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND CASH EQUIVALENTS

At June 30, 2016, cash and cash equivalents consisted of the following:

Cash and cash equivalents	\$ 8,361,090
Restricted cash	672,861
Petty cash	<u>170</u>
	<u>\$ 9,034,121</u>

At year end, the carrying amount of the Board's combined deposits was \$9,033,951 and the bank balance was \$9,910,683. Of the bank balance \$520,508 was insured by the Federal Deposit Insurance Corporation (FDIC), \$8,927,361 was collateralized by securities held by the Board's agent in the Board's name and \$462,814 was exposed to custodial credit risk as it was uninsured and collateralized with securities held by the Board's agent but not in the Board's name.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

Statutes require collateral to be pledged as security for deposits in excess of available depository insurance and the market value of such collateral shall be at least equal to the amount of money on deposit. The market value of collateral pledged as security for the Board's deposits at June 30, 2016 was \$9,429,589.

Statutes authorize the Board to invest unexpended or surplus monies in obligations of the U.S. Government, federal government agency obligations and repurchase agreements secured by direct government or agency obligations. The Board follows the County's investment policy with respect to the portion of unexpended or surplus funds that may be concentrated at any one time in a specific type of investment instrument. This policy limits investments in U.S. Treasury obligations, federal government agency obligations and repurchase agreements to 100, 50 and 70 percent of the Board's overall deposit and investment portfolio, respectively.

The Board follows the County's policy for managing its exposure to fair value losses arising from increasing interest rates. The County's investment policy requires that the majority of investments be short-term (having a term of less than one year). Investments in instruments having long-term maturities are limited to direct federal government obligations and to securities issued by U.S. Government agencies. Under the terms of the County's policy the maximum length of maturity for any long-term investment is two years.

Fiduciary net position at year-end consist of bank deposits held on behalf of school activity funds. All deposits held are fully insured or collateralized at June 30, 2016.

Fiduciary net position also consist of investments in certificates of deposits with maturity dates in excess of three months. All certificates of deposits are fully insured at June 30, 2016.

NOTE 3 - INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances at June 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Current Expense	Food Service	\$ 352,175
Food Service	Current Expense	95,795
Current Expense	School Construction	6,913
		<u>\$ 454,883</u>

This interfund balance results from the time lag between the dates that payments of expenses and cash collections by one fund on behalf of another are made.

Transfers between funds totaling \$343,798 consist of \$248,003 in benefit and other costs paid by the Current Expense Fund on behalf of the Food Service Fund and \$95,795 to bring negative fund balance to \$0 at year-end.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance June 30, 2015</u>	<u>Additions & Transfers</u>	<u>Dispositions & Transfers</u>	<u>Balance June 30, 2016</u>
Capital assets not being depreciated				
Land	\$ 840,172	\$ -	\$ -	\$ 840,172
Construction in progress	<u>1,444,468</u>	<u>3,258,235</u>	<u>(1,259,794)</u>	<u>3,442,909</u>
Total capital assets, not being depreciated	<u>2,284,640</u>	<u>3,258,235</u>	<u>(1,259,794)</u>	<u>4,283,081</u>
Capital assets being depreciated				
Buildings and improvements	89,032,134	99,429	1,259,794	90,391,357
Equipment	3,332,300	282,904	(35,376)	3,579,828
Vehicles	<u>568,719</u>	<u>116,453</u>	<u>-</u>	<u>685,172</u>
Total capital assets being depreciated	<u>92,933,153</u>	<u>498,786</u>	<u>1,224,418</u>	<u>94,656,357</u>
Less accumulated depreciation				
Buildings and improvements	45,148,934	2,452,587	-	47,601,521
Equipment	2,329,320	235,683	(21,341)	2,543,662
Vehicles	<u>393,608</u>	<u>51,270</u>	<u>-</u>	<u>444,878</u>
Total accumulated depreciation	<u>47,871,862</u>	<u>2,739,540</u>	<u>(21,341)</u>	<u>50,590,061</u>
Capital assets being depreciated - net	<u>45,061,291</u>	<u>(2,240,754)</u>	<u>1,245,759</u>	<u>44,066,296</u>
Capital assets, net	<u>\$ 47,345,931</u>	<u>\$ 1,017,481</u>	<u>\$ (14,035)</u>	<u>\$ 48,349,377</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense for the year ended June 30, 2016 was charged to governmental functions as follows:

Administration	\$ 79,529
Instruction	2,540,871
Special education	494
Student transportation	1,616
Operation of plant	40,750
Maintenance of plant	48,102
Food service	26,230
Community services	<u>1,948</u>
 Total depreciation expense - governmental activities	 <u>\$ 2,739,540</u>

The Board had the following active construction projects as of June 30, 2016:

	<u>Spent-To -Date</u>	<u>Remaining Commitment</u>
Northern Road & Parking Lot	\$ 29,992	\$ 1,355,415
Dennett Road Maintenance Renovation	210,983	77,147
Building Efficiency Renovation	2,111,548	275,393
Southern Middle Renovation	934,589	170,511
Software - Tyler/Munis Conversion	137,200	162,800
Southern High Lighting, Entry & Parking	<u>18,597</u>	<u>128,850</u>
 Total	 <u>\$ 3,442,909</u>	 <u>\$ 2,170,116</u>

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions for the fiscal year ended June 30, 2016:

	Balance		Principal	Balance	Due Within
	June 30, 2015	Additions	Repayments & Other Reductions	June 30, 2016	One Year
Compensated absences payable	\$ 915,210	\$ 217,851	\$ (26,971)	\$ 1,106,090	\$ 140,813
Capital leases	3,682,887	2,345,935	(201,794)	5,827,028	313,864
Net OPEB obligation	4,581,002	2,179,955	(1,653,985)	5,106,972	-
Net pension liability	<u>2,551,859</u>	<u>696,232</u>	<u>-</u>	<u>3,248,091</u>	<u>-</u>
 Total long-term liabilities	 <u>\$ 11,730,958</u>	 <u>\$ 5,439,973</u>	 <u>\$ (1,882,750)</u>	 <u>\$ 15,288,181</u>	 <u>\$ 454,677</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - VOLUNTARY RETIREMENT INCENTIVE PLAN

The Board offered a \$1,000 early retirement notification stipend to those employees who notified human resources, prior to January 30, 2016, of their intent to retire from the Maryland State Retirement and Pension System on or before August 1, 2016. Employees were required to meet the Retirement and Pension System's age and service requirements in order to be eligible for the stipend. Thirteen employees met the notification and qualification requirements and earned total stipends of \$13,000 for the year ended June 30, 2016.

NOTE 7 - CAPITAL LEASES

The Board has entered into equipment lease purchase agreements with the Bank of America and The Harbor Bank of Maryland to provide financing for the acquisition, construction and installation of energy efficiency improvements. These agreements qualify as capital leases for accounting purposes and therefore, have been recorded at the present value of the future minimum lease payments at the inception date. The construction costs paid from these capital leases totaled \$4,192,786 and \$2,111,548, respectively, and are reported as buildings and improvements and construction in progress in the accompanying government-wide financial statements. Amortization expense related to capital lease assets totaled \$300,033 for the year ended June 30, 2016 and was charged to the instruction function for government wide reporting purposes. Accumulated amortization of \$1,050,115 is reported as a component of accumulated depreciation on buildings and improvements as of June 30, 2016.

Biannual capital lease payments are due in January and July of each year under the lease agreement with Bank of America and include principal and interest at 3.14%. The final lease payment is due on January 19, 2027. Bank of America has a first priority security lien interest in the energy efficiency improvements acquired with the capital lease proceeds. Annual capital lease payments are due in February each year under the lease agreement with The Harbor Bank of Maryland and include principal and interest at 2.79%. The final lease payment is due on February 23, 2031.

The following are the future minimum lease payments under the capital leases, and represent the present value of the minimum lease payments at June 30, 2016:

<u>Fiscal years ending June 30,</u>	<u>Total</u>
2017	\$ 486,852
2018	486,605
2019	507,123
2020	549,928
2021	573,146
2022-2026	3,194,433
2027-2031	1,296,038
Total payments	7,094,125
Less interest	1,267,097
Capital lease obligation	<u>\$ 5,827,028</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

The Board provides postemployment benefits in the form of contributions toward the cost of health insurance for eligible employees. Eligible employees include any current and former employee who qualifies for retirement under the Maryland State Retirement and Pension System and also meets the eligibility requirements of the postemployment benefit program under which they retire.

The Board of Education of Garrett County participates with the Board of Garrett County Commissioners and Garrett College in the Garrett County Employees Health Care Plan, an agent multiple benefit plan which includes other postemployment benefits (OPEB). The participants in the Health Care Plan formed an OPEB Trust Fund to prefund future OPEB benefits. The financial statements of the OPEB Trust Fund are included in the financial report of the Board of County Commissioners of Garrett County, MD and can be obtained from the County administrator's office. The employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon the annual approval of the operating budget.

Details of the postemployment benefits are as follows:

Retirees must have a minimum of 10 years full-time equivalent service with The Board of Education of Garrett County, The Board of Garrett County Commissioners, Garrett College, or a combination thereof.

Retirees are given the option to maintain health insurance coverage after they retire and until they reach age 65. After age 65, they can elect to be covered under a supplemental coverage plan. Generally, retirees pay a percentage (from 0% to 60% depending upon years of service at retirement) of the COBRA equivalent cost of the pre-65 Maryland Point of Service individual plan benefit for themselves. After age 65, the Board pays the same percentage for the retirees' Medicare Supplemental Standard Program (including drugs). The following table outlines coverage percentages paid by the retiree and Board under the plan based on years of service at date of retirement:

	<u>Retiree %</u>	<u>Board %</u>
Less than 10 years	No coverage	No coverage
10 or less than 15 years	60%	40%
15 or less than 21 years	50%	50%
21 or less than 26 years	40%	60%
26 or less than 30 years	20%	80%
30 or more years	0%	100%

During the year ended June 30, 2016, there were 215 Board of Education retirees who met the eligibility requirements for participation in this program. The Board expended \$1,075,194 during the year ended June 30, 2016, to finance the benefits of this program on a pay-as-you-go basis. These costs are reported in Current Expense Fund fixed charges.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (Continued)

For employees retiring between July 1, 2003 and June 30, 2006, an insurance postemployment benefit existed that offered a fixed amount of dollars toward the cost of insurance for eligible retirees. Eligibility requirements included having at least 15 years of service with the Board of Education of Garrett County and being enrolled in the insurance program for at least one year prior to retirement. The maximum number of years of benefit under this plan is 10. Participants may continue under the Board's health insurance policy or purchase insurance from any other plan that the individual may select. Benefits under the program are financed on a pay-as-you-go basis and include annual credits toward the cost of retiree health insurance premiums paid as follows:

30 years or more of service	\$3,000
25 years but less than 30 years	2,500
20 years but less than 25 years	2,000
15 years but less than 20 years	1,500

The benefit is further limited to the retiree's actual cost of insurance premiums. During the year ended June 30, 2016 the Board expended \$2,833 under this program. This program was also financed on a pay-as-you-go basis. These costs are included in Current Expense Fund fixed charges. As of June 30, 2016 the coverage period has ended for all retirees covered under this plan and the plan is closed.

Annual OPEB Cost and Net OPEB Obligation

The Board's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year ended June 30, 2016, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation:

Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,973,810
Interest on Net OPEB Obligation	206,145
Adjustment to Annual Required Contribution	<u>(218,869)</u>
Annual OPEB Cost (Expense)	1,961,086
Contributions Made	<u>(1,435,116)</u>
Increase in Net OPEB Obligation	525,970
Net OPEB Obligation (Beginning of Year)	<u>4,581,002</u>
Net OPEB Obligation (End of Year)	<u><u>\$ 5,106,972</u></u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (Continued)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2016, 2015 and 2014 are as follows:

Fiscal Year Ended	Annual OPEB Cost	OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 1,961,086	73.2%	\$ 5,106,972
6/30/2015	1,876,079	69.7%	4,581,002
6/30/2014	1,915,201	64.4%	4,013,207

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the plan was 4% funded. The actuarial accrued liability for benefits was \$23,648,103, and the actuarial value of assets was \$1,018,310, resulting in an unfunded actuarial accrued liability (UAAL) of \$22,629,793. The covered payroll (annual payroll of active employees covered by the plan) was \$25,374,000, and the ratio of the UAAL to the covered payroll was 89%.

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

Actuarial Methods and Assumptions

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

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (Continued)

In the July 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 7% to 8% initially, reduced by decrements to an ultimate rate of 5%. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The UAAL is being amortized at a level percentage of payroll on an open basis over 30 years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2015
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percentage of projected payroll over a 30 year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	4.5 %
Discount Rate	4.5 %
Salary Scale	2.5 % per year under discount rate
Healthcare Cost Trend Rates	Pre-65 - 8 % initially, reduced by decrements to an ultimate rate of 5 % Post-65 - 7 % initially, reduced by decrements to an ultimate rate of 5 %
Retirement Age:	
Age 55+ & 10+ years of service	5 % probability of retirement 80 % probability of electing coverage
Age 55+ & 30+ years of service	100 % probability of retirement 80 % probability of electing coverage
Premium Equivalence	Based on current equivalent retiree rates for pre-65 coverage adjusted by 40% for the implicit subsidy. Post-65 rates are based on current cost of supplemental coverage
Cost Sharing	The plan's current service based cost sharing schedule was applied to both pre-65 and post-65 coverage. In addition, any costs in excess of \$5,183 per year for post-65 coverage were assumed to be paid by the retiree

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - OPERATING LEASES

The Board has entered into various non-cancellable operating leases primarily for instructional and operations equipment. Rent expense paid during the year ended June 30, 2016 was \$168,511.

Future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2016 are as follows:

2017	\$ 61,103
2018	30,851
2019	28,652
2020	28,651
2021	11,938
	<u>\$ 161,195</u>

NOTE 10 - STATE RETIREMENT PLANS

General Information about the Pension Plan

The Board of Education of Garrett County participates in the Maryland State Retirement and Pension System, a cost sharing multiple-employer public employee retirement system. Substantially all employees of the Board are eligible to participate in the System, which provides retirement, disability and death benefits in accordance with State statutes. The System is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland and managed by a board of trustees. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Teachers and Employees Retirement and Pension Systems. The annual report for the year ended June 30, 2015 (most recent available data) may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202 or by calling 1-800-492-5909.

For all individuals who are members of the pension systems of the State Retirement and Pension System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive years' AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals $1/55$ (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance.

A member of either the Teachers' or Employees' Retirement System may retire with reduced benefits after completing 25 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction for a Teachers' or Employees' Retirement System member is 30%.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members of the Teachers' or Employees' Pension System is 42%. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members of the Teachers' or Employees' Pension System is 30%.

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. A member covered under pension plan provisions who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member who is permanently and totally disabled as the result of an accident occurring in the line of duty receives $2/3$ (66.7%) of the member's AFC plus an annuity based on all member contributions and interest. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. For the Teachers' and Employees' Retirement Systems the method by which the annual COLA's are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984) enabling the member to receive either an unlimited COLA, a COLA limited to 5% or a two part combination COLA depending upon the COLA election made by the member.

However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011 the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

The State of Maryland, which is a non-employer contributor to the Teachers' Retirement System(TRS), makes non-employee contributions in amounts required by State statutes at a set cost-sharing amount through 2016. The Board pays all employer contributions for employees who participate in the Employees' Retirement System(ERS). Employees participating in the ERPS include employees classified as custodial and cafeteria personnel. Employer contribution rates for custodial and cafeteria personnel are established by annual actuarial valuations, subject to the approval of the systems' Board of Trustees in accordance with the Annotated Code of Maryland.

Employees covered under the TRS and the ERS are required by State statute to contribute 7.0% of earned compensation.

The State's contributions on behalf of the Board for the year ended June 30, 2016 were \$2,960,111 which were equal to the State's required contributions for that year. The Board's contributions for the year ended June 30, 2016 were \$1,239,262 and \$316,062 to the TRS and ERS, respectively, which were equal to the Board's required contributions for that year.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

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

Before discussion of the process used to calculate and allocate the net pension liability, it is important to understand Maryland's particular situation concerning the payment of employer pension costs for Maryland's teacher population under the 24 Boards of Education (BOE).

At the time that the GASB's pension changes were under consideration, an initiative for pension cost sharing was before the 2012 session of the General Assembly. This legislation, which became law, required each BOE to begin paying the "normal cost" for their teachers starting in FY 2013. It was structured as a four-year phase-in to the full normal cost with 50% paid in FY 2013 and full normal cost to be paid in FY 2017 and each year thereafter.

Because the State of Maryland pays the unfunded liability and the local BOEs pay the normal cost for the teachers' pension, the local Boards of Education are not required under GASB 68 to record their share of the unfunded pension liability for the TRS but instead, that liability is recorded by the State of Maryland. The portion of the net pension liability recorded by the State of Maryland related to the Board's teachers' pensions was \$41,722,945 as of June 30, 2016. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's portion of the net pension liability recorded by the State was calculated based on pension contributions made for Board teacher pensions relative to total contributions made by all participants to the Maryland State Retirement and Pension System for the year ended June 30, 2015, actuarially determined. At June 30, 2015, the Board's proportion was 0.20 percent.

Certain non-teacher Board personnel including custodial and cafeteria personnel participate in the ERS. The Board has responsibility for the funding of these employees contributions and therefore is required under GASB 68 to record their proportional share of the net pension liability of the Employees' Retirement and Pension System. The proportional share is based on the employer contributions for only those employees participating in the ERS and does not include contributions made for employees participating in the TRS.

At June 30, 2016, the Board reported a liability of \$3,248,091 for its proportionate share of the ERS net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the Board's contributions to the ERS relative to total contributions made by all participants to the Maryland State Retirement and Pension System for the year ended June 30, 2015, actuarially determined. At June 30, 2015, the Board's proportion was 0.016 percent.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

Pension expense for the ERS plan for the year ended June 30, 2016 was \$582,896.

At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 190,279	\$ -
Net difference between projected and actual earnings on pension plan investments	286,089	209,488
Difference between actual and expected experience	-	66,518
Board contributions to the Employees' Pension System subsequent to the measurement date	<u>316,062</u>	<u>-</u>
Total	<u>\$ 792,430</u>	<u>\$ 276,006</u>

\$316,062 reported as deferred outflows of resources related to pensions resulting from Board contributions to the ERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$	30,649
2018	\$	30,649
2019	\$	30,649
2020	\$	91,250
2021	\$	17,165

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following key actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Inflation	2.7% general, 3.2% wage
Salary increases	3.2% to 8.95%, including inflation
Discount rate	7.55%
Investment rate of return	7.55%
Mortality	RP-2014 Mortality Tables

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the System 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	35.00%	4.70%
Fixed Income	10.00%	2.00%
Credit Opportunity	10.00%	3.00%
Real Return	14.00%	2.80%
Absolute Return	10.00%	5.00%
Private Equity	10.00%	6.30%
Real Estate	10.00%	4.50%
Cash	1.00%	1.40%
Total	100.00%	

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

The discount rate used to measure the total pension liability was 7.55 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the State will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.55 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.55 percent) or 1-percentage-point higher (8.55 percent) than the current rate:

	1% Decrease 6.55%	Current Discount Rate 7.55%	1% Increase 8.55%
Board's proportionate share of the net pension liability	\$ 4,590,689	\$ 3,248,091	\$ 2,134,823

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

NOTE 11 - RISK MANAGEMENT

The Board of Education of Garrett County 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.

Effective July 1, 2009 the Garrett County Employees Health Care Plan became self-insured for hospitalization and medical benefits provided to its employees within specific limits. The Board of Education of Garrett County participates in the Plan with the Board of Garrett County Commissioners and Garrett College. The County's actuarial firm establishes premium rates for Plan participants based on claims history. The Board of Education of Garrett County submits its pro-rata portion of the actuarially prescribed premium to the Board of Garrett County Commissioners at the end of each pay period based on the number of employees covered and types of coverages in effect. Should actual claims exceed the projected claims used by the actuaries in establishing rates, the shortfall would be made up through future premium rate increases.

The Board carries commercial insurance for substantially all other risks of loss, including accident and workers' compensation. However, not all natural disasters are covered. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 12 - RELATED PARTIES

The Board of Education is closely related to Garrett County and the State of Maryland and is dependent on these two sources for the major portion of its current expense funding. The amounts received during the year are disclosed within the financial statements. In addition, the Board offices are located in building space appropriated to them by the County. The annual fair market value of the space occupied is \$148,800. The fair market value of the appropriated space is recorded in the accompanying government-wide and fund financial statements as both revenue and expenditure.

NOTE 13 - RECONCILIATION OF FINANCIAL REPORTING BASIS TO BUDGETARY BASIS

	<u>Current Expense Fund</u>	
	<u>Revenues</u>	<u>Expenditures</u>
Total per Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds (GAAP Basis)		
Unrestricted	\$ 51,150,622	\$ 52,918,029
Restricted	<u>4,504,206</u>	<u>4,322,289</u>
	55,654,828	57,240,318
On-behalf payments for employer contributions to the Teachers Retirement and Pension Systems by the State of Maryland	(2,960,111)	(2,960,111)
Interest income from lease escrow account and Johnson Controls, Inc. capital outlay funded by \$2,345,935 in capital lease proceeds received from The Harbor Bank of Maryland	(1,904)	(2,111,548)
Operating transfers reported as food service expenditures on budget basis but as other financing uses on GAAP basis		<u>343,798</u>
	<u>\$ 52,692,813</u>	<u>\$ 52,512,457</u>
Total per Current Expense Fund Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis)		
Unrestricted	\$ 48,188,607	\$ 48,190,168
Restricted	<u>4,504,206</u>	<u>4,322,289</u>
	<u>\$ 52,692,813</u>	<u>\$ 52,512,457</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Financial Assistance Program Compliance

The Board participates in numerous Federal and State grant/loan programs which are governed by various rules and regulations of the grantor agencies. 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 laws and regulations governing the grant/loan programs, refunds of any money received may be required or, the collectability of any related receivable at June 30, 2016 may be impaired. In the opinion of the Board, the amount, if any, of contingent liabilities relating to non-compliance with the laws and regulations governing the respective grant/loan programs is not material; consequently, no provision has been recorded in the accompanying financial statements for such contingencies.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF GARRETT COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFIT PLAN

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
July 1, 2015	\$1,018,310	\$ 23,648,103	\$ 22,629,793	4 %	\$ 25,374,000	89.18 %
July 1, 2014	\$ 994,799	\$ 23,055,394	\$ 22,060,595	4 %	\$ 25,374,000	86.94 %
July 1, 2013	\$ 869,647	\$ 19,324,808	\$ 18,455,161	5 %	\$ 25,443,000	72.54 %

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The above schedule is presented to provide a consistent basis for measuring the Plan's annual progress towards funding its actuarial accrued liability in accordance with the Plan's funding methods. The primary measure of funding progress are the Plan's funded ratios (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement in the Plan's abilities to pay all projected benefits as they come due. The Plan is fully funded if the funded ratio is greater than or equal to 100 percent.

The increase in the AAL between July 1, 2013 and July 1, 2014 was as a result of additional benefit accruals and the following changes in actuarial assumptions:

- Increase in the implicit subsidy on active premiums from 30% to 40%
- Increase in projected future claims based on increases in actual claims incurred
- Increase in medical rate trends from 5% to 7-8%

The Board's intent is to prefund any unfunded annual required contributions as determined under GASB 45 to the extent that the County's budget allows. The investment and discount rate assumptions have been modified in response to the County's current budget forecast which does not include funds available for this purpose into the foreseeable future.

BOARD OF EDUCATION OF GARRETT COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2015</u>
Board's proportionate share of the ERS net pension liability	0.016%	0.014%
Board's proportionate share of the ERS net pension liability	\$ 3,248,091	\$ 2,551,859
State's proportionate share of the TRS net pension liability	<u>41,722,945</u>	<u>32,876,591</u>
TOTAL	<u>\$ 44,971,036</u>	<u>\$ 35,428,450</u>
Board's covered employee payroll	\$ 28,126,622	\$ 28,356,891
Board's proportionate share of the net pension liability as a percentage of its covered payroll	11.55%	9.00%
Plan fiduciary net position as a percentage of the total pension liability	68.78%	71.87%

This schedule is presented to illustrate the requirement to show the information for 10 years. Information prior to June 30, 2015 is not available

**SCHEDULE OF BOARD'S CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2015</u>
Contractually required contributions - ERS	\$ 329,429	\$ 335,089
Contributions in relation to the contractually required contribution - Employee Retirement System	<u>(329,429)</u>	<u>(335,089)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$28,126,622	\$28,356,891
Contributions as a percentage of covered-employee payroll -Employee Retirement System	1.17%	1.18%

This schedule is presented to illustrate the requirement to show the information for 10 years. Information prior to June 30, 2015 is not available

BOARD OF EDUCATION OF GARRETT COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes in Benefit Terms - There were no benefit changes during the year.

Changes in Assumptions

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

- Investment return and discount rate assumptions changed from 7.65% to 7.55%
- Inflation assumption changed from 2.90% to 2.70%

OTHER SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF GARRETT COUNTY

**SCHOOL ACTIVITIES FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND BALANCES BY SCHOOL
Year Ended June 30, 2016**

	<u>Balances</u> <u>July 01, 2015</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balances</u> <u>June 30, 2016</u>
ELEMENTARY				
Accident	\$ 6,684	\$ 27,557	\$ 30,763	\$ 3,478
Broadford	36,549	81,629	83,301	34,877
Crellin	3,285	12,816	10,525	5,576
Friendsville	9,020	13,113	14,408	7,725
Grantsville	8,063	34,015	33,320	8,758
Hickory Environmental	6,349	26,820	21,868	11,301
Route 40	7,119	18,218	13,700	11,637
Swan Meadow	2,746	10,084	8,305	4,525
Yough Glades	19,519	21,627	17,737	23,409
	<u>99,334</u>	<u>245,879</u>	<u>233,927</u>	<u>111,286</u>
MIDDLE AND SENIOR HIGH				
Northern High	150,691	321,695	329,285	143,101
Northern Middle	84,057	58,933	59,403	83,587
Southern High	119,542	471,984	443,670	147,856
Southern Middle	50,172	81,707	81,325	50,554
	<u>404,462</u>	<u>934,318</u>	<u>913,683</u>	<u>425,097</u>
Total Middle and Senior High	<u>404,462</u>	<u>934,318</u>	<u>913,683</u>	<u>425,097</u>
TOTAL SCHOOLS	<u>\$ 503,796</u>	<u>\$ 1,180,197</u>	<u>\$ 1,147,610</u>	<u>\$ 536,383</u>