

BOARD OF EDUCATION OF GARRETT COUNTY
FINANCIAL REPORT
JUNE 30, 2017

THE RODEHEAVER GROUP P.C.
CERTIFIED PUBLIC ACCOUNTANTS



BOARD OF EDUCATION OF GARRETT COUNTY

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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, 2017, 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, 2017, and the respective changes in financial position, and the respective budgetary comparison for the current expense funds 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 September 26, 2017 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 Rodeheaver Group, P.C.

Oakland, Maryland
September 26, 2017

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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, 2017. 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, 2017, 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 2017, the Commissioners approved the use of excess current expense fund balance above \$500,000 for funding subsequent years' budgets.

On a system-wide basis, the Board of Education of Garrett County closed the fiscal year ended June 30, 2017, with combined net position of \$36.3 million down from \$36.6 million in FY 2016 for a decrease of \$0.3 million. The unrestricted Current Expense Fund actual revenues of \$49.2 million were up \$1 million over FY2016's \$48.2 million, primarily due to the capital outlay of the Southern Middle School systemic renovation. The actual revenues were within \$31,736 of the final budget or 0.06%. The unrestricted Current Expense Fund actual expenditures of \$47.4 million were down from FY2016, \$48.2 million, and less than the final budget by \$2.49 million or 5.2%. This variance is attributed to system-wide savings across all functions, with the exception of capital outlay.

Major budget initiatives in fiscal year 2017 included:

- Completion of the FY16 adoption of a new Common Core aligned math series that covers Kindergarten through grade 12, with procurement of the elementary textbooks and materials
- Technology procurement continued with a planned retirement cycle to build equity across the system and meet requirements of curriculum and testing
- Started the phased systemic renovation of Southern Middle School with the roofing, fire alarm, and sewage systems funded by state and local resources
- Leveraged state funds to complete five State Public School Construction Aging School Program projects, Northern High School Stadium Electrical Renovation, Southern High School Lighting, Entry & Parking upgrades, Yough Glades Hallway/Wall renovation, and install of air conditioning in computer labs at both Northern High and Southern High Schools and
- Continuing the phased purchase and implementation of new Enterprise Resource Planning (ERP) software to replace the current outdated software.

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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; (1) 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, (2) 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 School 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.

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.

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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) 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

The Board is the trustee, or fiduciary, for its student activity funds, health reimbursement arrangement (HRA) for post 65 retirees, and flexible spending arrangement (FSA) funds for current employees. On January 1, 2017, post 65 retirees covered under the Garrett County Employees Health Insurance Plan, shifted to an HRA model. Defined amounts, based upon age and years of service, are contributed on behalf of the retiree and may be used for purchase of supplemental medical, dental, vision insurance and other approved expenses. For fiscal year 2018, Garrett County Public School employees are eligible to participate in a flexible spending arrangement in which tax deferred payroll contributions are voluntarily deducted to be used to pay for certain out-of-pocket health care costs.

Student activity funds, HRA funds, and FSA funds are reported on the Statement of Fiduciary Net Position on 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 on that statement 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 2016's results by \$320,391 or 0.9%. Capital assets decreased \$1.74 million due to the loss on abandonment of the full renovation project for Southern Middle School of \$934,589 and depreciation expense exceeding capital outlays. In late fiscal 2016, the Garrett County Board of Commissioners notified the Board of Education that funding for the scope of a full renovation of Southern Middle School would not be possible. Additional decreases to the net position for the current year resulted from increases to long-term obligations, including an increase in OPEB Obligation of \$351,981, net pension liability of \$579,865, and compensated absences payable slightly at \$45,658. The increase in fund balance, \$1,780,058, and deferred outflows, \$261,826, offset all but \$0.3 million.

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The charts below summarize year over year comparison of Net Position and Changes in Net Position with revenues by major source and program expenses by major function.

Condensed Statement of Net Position

	2017	2016	Percentage Change
Current and other assets	\$ 12,523,756	\$ 10,902,971	14.87%
Capital assets	46,609,194	48,349,377	(3.60%)
Total assets	<u>\$ 59,132,950</u>	<u>\$ 59,252,348</u>	(0.20%)
Deferred outflows of resources	\$ 1,054,256	\$ 792,430	33.04%
Total assets and deferred outflows	<u>\$ 60,187,206</u>	<u>\$ 60,044,778</u>	0.24%
Current and other liabilities	\$ 8,166,668	\$ 8,318,301	(1.82%)
Long-term liabilities	15,489,504	14,833,504	4.42%
Total liabilities	<u>\$ 23,656,172</u>	<u>\$ 23,151,805</u>	2.18%
Deferred inflows of resources	\$ 234,458	\$ 276,006	(15.05%)
Total liabilities and deferred outflows	<u>\$ 23,890,630</u>	<u>\$ 23,427,811</u>	1.98%
Net investment in capital assets	\$ 41,096,030	\$ 42,522,349	(3.35%)
Restricted	4,178,592	2,398,534	74.21%
Unrestricted	(8,978,046)	(8,303,916)	(8.12%)
Total net position	<u>\$ 36,296,576</u>	<u>\$ 36,616,967</u>	(0.87%)

Changes in Net Position from Operating Results

	2017	2016	Percentage Change
<i>Program revenues:</i>			
Charges for services	\$ 766,700	\$ 795,145	(3.58%)
Operating grants and contributions	9,320,995	9,437,203	(1.23%)
Capital grants and contributions	1,148,643	877,823	30.85%
<i>General revenues:</i>			
County government	27,424,903	26,639,951	2.95%
State (unrestricted)	21,346,753	19,635,478	8.72%
Federal	0	0	
Other	242,397	1,274,462	(154.31%)
Special Item – Loss on Abandonment	(934,589)	0	
Total Revenues	<u>\$ 59,315,802</u>	<u>\$ 58,660,062</u>	1.12%
<i>Program Expenses:</i>			
Administration (central and school)	\$ 4,163,965	\$ 4,555,835	(8.60%)
Instruction			
(regular & special education)	27,500,249	27,635,841	(0.49%)
Student services and health	1,341,152	1,296,753	3.42%
Transportation	4,023,706	4,072,380	(1.20%)
Maintenance and operations	4,597,458	4,573,352	0.53%
Fixed charges	14,795,213	15,050,078	(1.69%)
Food services	2,671,283	2,777,989	(3.84%)
Other	543,167	369,991	46.81%
Total Expenses	<u>\$ 59,636,193</u>	<u>\$ 60,332,219</u>	(1.15%)
Change in Net Position	<u>\$ (320,391)</u>	<u>\$ (1,672,157)</u>	80.83%

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Results of operations for the School System as a whole are presented on page 15, the Statement of Activities. 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. The Food Service program is primarily self-funded by children's payments and federal and state food and nutrition subsidies.

Revenues increased by 1.12% and expenditures decreased by 1.15%. Operating revenue from County government increased 2.95% to \$27,424,903 when compared to FY 2016. The 30.85% increase in Capital grants and contributions is attributable to the renovation of three building systems at Southern Middle School. In FY 2016, the Garrett County Employees Health Care Plan Trust made a distribution to each of the three entities. The Board's portion was \$1 million. This same distribution did not occur in FY 2017, resulting in the large decrease in the Other revenue category.

Approximately \$59.6 million in expenses are reported with a decrease of 1.15% or \$696,026 over FY 2016. Program expenses for Administration were down year over year by 8.6% or \$391,870 due to transition in leadership, in turn leading to the decrease in Fixed Charges of 1.69% or \$245,865. There were several open positions at different times of the fiscal year. We worked diligently in FY 2017 to manage the Food Service program's expenditures more effectively. Food Services received transfers from the Current Expense Fund of \$227,089 to fund the cost of employee health insurance and worker's compensation premiums, down from \$248,003 in FY 2016 and \$21,190 to subsidize the operating deficit in the current year, down from \$95,795. The overall transfer from the Current Expense Fund was down \$95,519 from FY 2016.

The table below presents the total cost of the major school system functions. It details each function's net cost (total cost less fees generated by the functions and intergovernmental aid provided for specific programs).

	Total Cost of Services			Net Cost of Services		
	2017	2016	Percentage Change	2017	2016	Percentage Change
Administration (County & School Level)	\$ 4,163,965	\$ 4,555,835	(8.6%)	\$ 3,931,816	\$ 4,619,209	(8.97%)
Instruction and Special Education	27,500,249	27,635,841	(0.49%)	23,664,601	23,885,892	(0.93%)
Student Personnel Services	788,107	754,970	4.39%	778,107	754,970	3.06%
Student Health Services	553,045	541,783	2.08%	447,616	362,080	23.62%
Student Transportation	4,023,706	4,072,380	(1.2%)	1,052,499	1,087,721	(3.24%)
Operation of Plant and Maintenance of Plant	4,597,458	4,573,352	0.53%	4,278,342	4,371,702	(2.14%)
Fixed Charges	14,795,213	15,050,078	(1.69%)	13,797,782	14,072,466	(1.95%)
Food Services	2,671,283	2,777,989	(3.84%)	272,867	282,380	(3.37%)
All Others	543,167	369,991	46.81%	176,225	85,628	105.80%
Total	\$ 59,636,193	\$ 60,332,219	(1.15%)	\$ 48,399,855	\$ 49,222,048	(1.67%)

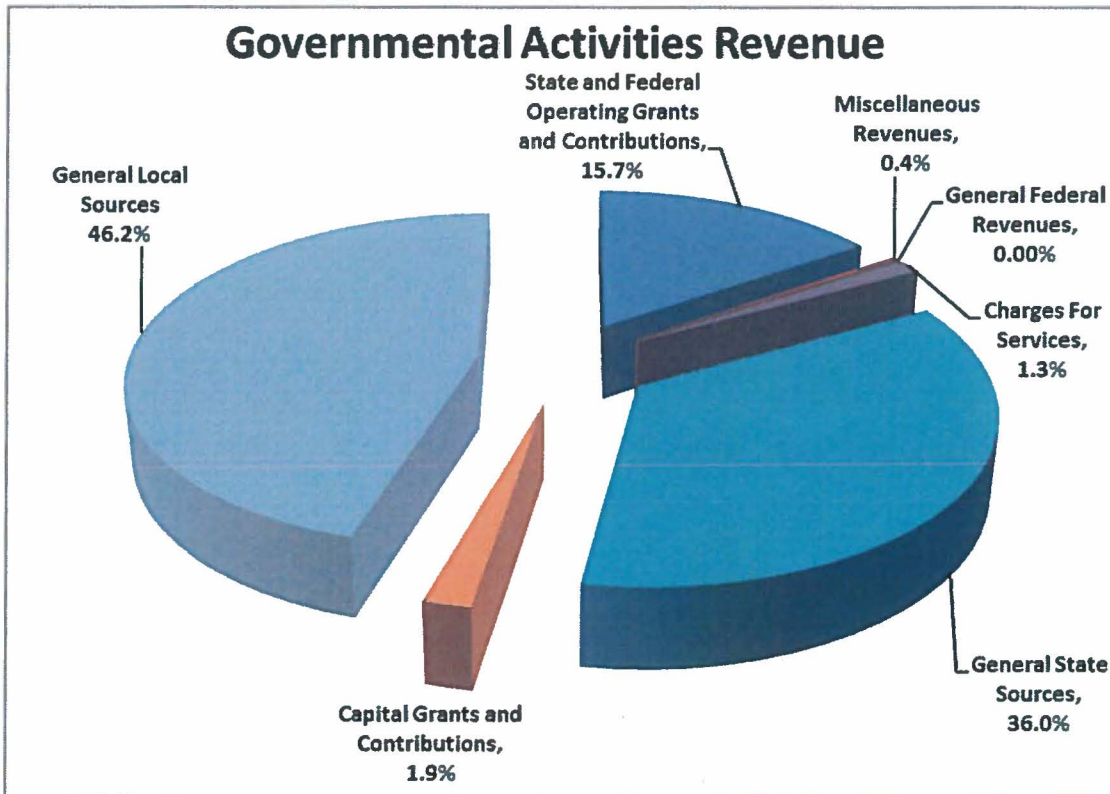
The cost of all governmental activities was \$59,636,193. Some of this cost was financed by users of the School System's programs through tuition and user fees of \$766,700. Operating and capital grants and contributions from the federal and state governments for certain programs

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were \$9,320,995. The net cost of services, \$48,399,855, is the financial burden placed on County and State taxpayers by each of these functions.

Most of the School System's total revenue of \$59,315,802 was provided through County and State of Maryland taxpayers. The chart below details the governmental sources of revenue.



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 \$4,678,592, up \$1,780,058 from the FY 2016 ending balance of \$2,898,534.

The Current Expense Fund balance increased \$1,798,043 ending the year at \$4,543,487, up from \$2,745,444 at the end of FY 2016. Funds restricted for Medical Assistance (MA) ended the year at \$296,935, which was up \$11,368 over FY2016 ending balance of \$285,567. Funds restricted for subsequent years' budgets increased to \$3,095,108 from \$1,072,142 in FY 2016. Year over year there was not a change in funds restricted for capital expenditures of \$500,000, restricted for capital lease payments of \$151,444, and \$500,000 unassigned carryover 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 \$135,105 consists entirely of nonspendable food inventory, which decreased \$17,985 from \$153,090 in FY 2016 to \$135,105 at June 30, 2017.

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Local appropriations and state and federal revenues account for about 98% 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 variance of actual to final budget for Unrestricted Current Expense fund is detailed in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Budgetary Basis) on page 20. The overall variation between the original unrestricted budget and final budget represents funds that were approved for carryover from the prior year. Actual revenues were slightly below final budget by 0.06% or \$31,736. Actual expenditures were \$2,486,347 or 4.98% below final budget.

Administration and Mid-Level Administration actual expenditures were below budget due to the yearlong transition of leadership. One mid-level administration position was vacant the entire fiscal year and others were filled for only portions of the year. This also leads to the budget variance for Fixed Charges. Furthermore, Fixed Charges expenditures were below final budget due to Maryland House Bill 1109 in which county boards of education were relieved of a portion of the contribution to the Teachers' Retirement and Pension System for FY 2017 as well as the shift to an HRA model of the over 65 retiree insurance benefit. The variance in instructional salaries includes savings from positions vacated during the course of the year that were filled with substitutes versus new hires. Savings in instructional textbook and supplies were achieved due to a lower than expected cost of the new math textbooks for elementary schools. The decrease in special education resulted from fewer non-public placements compared to the budget. The under budget variation in transportation is due to the fuel prices being under the budgeted rate throughout the fiscal year along with fewer field trips.

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 2017, the School System had over \$99.8 million invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. This amount represents a net decrease of \$3.9 million. Nearly \$1 million of the

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decrease is attributed to the loss on the abandonment of project design costs associated with a full renovation of Southern Middle School. The remainder is due to disposals and depreciation outpacing additions of new assets. 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 for the following projects completed in FY 2017:

	<u>Local Funding</u>	<u>State Funding</u>
• Dennett Road Support Service Remodel	\$ 236,145	\$ 0
• Johnson Controls Efficiency Renovations	\$ 2,386,941	\$ 0
• Northern High School		
- Air Conditioning of Labs	\$ 0	\$ 10,250
- Stadium Electrical Renovation	\$ 0	\$ 41,582
• Yough Glades Hallway Renovation	\$ 0	\$ 48,604
• Southern High School		
- Air Conditioning of Labs	\$ 0	\$ 10,250
- Lighting, Entrance and Parking	\$ 43,651	\$ 148,096
	<u>\$ 2,666,747</u>	<u>\$ 258,782</u>

Long-Term Debt and Other Long-Term Obligations

At year-end, the School System had \$15,811,008 in long-term obligations outstanding. \$1,010,935 or 6.4% of this represents obligations for accumulated unpaid leave for the System's staff, \$5,513,164 or 34.9% represents obligations for energy performance contracts, \$5,458,953 or 34.5% represents the School System's net other post-employment benefit (OPEB) obligation, and the remainder represents the net pension liability of \$3,827,956 or 24.2%. Details of changes in balances are illustrated in Note 5.

Factors Impacting the School System

Two factors that may negatively impact future revenue are the county's wealth potential and predicted continued declining enrollments. Garrett 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 Final Report of the Study of the Adequacy of Education Funding in Maryland produced by Augenblick, Palaich & Associates was published in December of 2016. As a result, the Maryland General Assembly passed Senate Bill 905 and House Bill 999 to create the Commission on Innovation and Excellence in Education. The Commission is on schedule to present its final recommendations in December 2017.

The School System's enrollment continues to decline. According to Maryland Department of Planning projections, enrollment will continue to impact state-aid as enrollment declines in future years. The General Assembly passed House Bill 684 which created a funding formula for declining enrollment and a supplemental prekindergarten grant. If trends continue, both pieces of funding should favorably impact the Board's revenues from the State. We continue to follow

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state legislation in the General Assembly particularly as it may affect Special Education, Pupil Services and Health Services.

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 initiatives that are now linked to Master Plan strategies.

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). As a result of this legislation, emphasis is being placed on low achieving student subgroups through multi-tiered intervention strategies, known as Response to Intervention (RTI). The RTI strategies consist of a more intensive approach, both academically and behaviorally, to expand educational opportunities and improve student outcomes from kindergarten through grade 12. Due to this legislation, additional resources for professional development and specialized services are required to meet the needs of the identified student populations. The Maryland State Board of Education approved the ESSA Consolidated State Plan in August 2017. It is yet to be determined what the budgetary consequences for the School System will be to comply with the plan.

Instruction continues to align to the Maryland College and Career Readiness Standards (MDCCRS) and Next Generation Science Standards. Expenditures for revised texts, technology resources, and professional development will continue to be required to effectively execute these standards. While English/Language Arts and Math are aligned by the Board, the state continues to transition curriculum in the areas of science and social studies, thereby causing further needs of resources.

Post-Employment Benefits

The Board's actuary has calculated an Other Post-Employment Benefits (OPEB) annual required contribution cost of \$1,852,349 for FY 2017. The actual OPEB contribution amount for the year ended June 30, 2017 was \$1,486,183. 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 2017. There remains a Net OPEB obligation at end of year of \$5,458,953. Under GASB Statement Number 45, 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 next year in their 2017-2018 operating budget.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

While the FY 2017 Financial Statements are presented in accordance with GASB Statement Number 45, effective for FY 2018 GASB Statement 75 becomes effective. This Statement replaces the requirements of Statement 45. The requirements of Statement 75 are intended to improve decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense.

During FY 2015 the Board implemented the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*, which among other things requires the Board to report their proportionate share of the Maryland State Retirement and Pension System's net pension liability. The Board's proportionate share of the Maryland State Retirement and Pension System's net pension liability, as calculated by the System's actuary, is \$3,827,956 as of June 30, 2017 and is reported as a liability on the Board's government-wide statement of net position. See Notes 10 and 14 for additional information concerning the impact of implementing GASB 68.

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.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF GARRETT COUNTY

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 9,263,750
Accounts receivable	
County	1,039,806
State	766,904
Federal	1,257,839
Other	60,352
Inventory	135,105
Non-depreciable capital assets	2,139,521
Depreciable capital assets, net of accumulated depreciation	<u>44,469,673</u>
Total Assets	<u>59,132,950</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,054,256</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>60,187,206</u></u>
LIABILITIES	
Accrued payroll and withholding	6,028,880
Accounts payable and accrued expenses	1,777,927
Unearned revenue	38,357
Long-term liabilities:	
Due within one year	321,504
Due in more than one year	<u>15,489,504</u>
Total Liabilities	<u>23,656,172</u>
DEFERRED INFLOWS OF RESOURCES	<u>234,458</u>
NET POSITION	
Net investment in capital assets	41,096,030
Restricted for medical assistance	296,935
Restricted for subsequent years' budgets, capital and capital lease payments	3,746,552
Restricted for food service	135,105
Unrestricted	<u>(8,978,046)</u>
Total Net Position	<u>36,296,576</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 60,187,206</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, 2017

	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
				Governmental Activities	
Governmental activities:					
Administration	\$ 1,642,105	\$ -	\$ 167,395	\$ -	\$ (1,474,710)
Mid-level administration	2,521,860	-	64,754	-	(2,457,106)
Instruction - Salaries	18,824,949	7,290	1,447,115	-	(17,370,544)
- Textbooks and supplies	1,155,536	-	88,804	-	(1,066,732)
- Other	3,365,345	-	213,646	1,103,693	(2,048,006)
Special education	4,154,419	-	975,100	-	(3,179,319)
Student personnel services	788,107	-	10,000	-	(778,107)
Student health services	553,045	-	105,429	-	(447,616)
Student transportation	4,023,706	-	2,971,207	-	(1,052,499)
Operation of plant	3,544,513	19,307	150,916	-	(3,374,290)
Maintenance of plant	1,052,945	-	148,893	-	(904,052)
Community services	370,179	11,063	355,879	-	(3,237)
Food services	2,671,283	729,040	1,624,426	44,950	(272,867)
Fixed charges	14,795,213	-	997,431	-	(13,797,782)
Interest on capital lease obligation	172,988	-	-	-	(172,988)
Total governmental activities	\$59,636,193	\$ 766,700	\$ 9,320,995	\$ 1,148,643	(48,399,855)
General revenues:					
Local appropriations					27,424,903
State appropriations					21,346,753
Miscellaneous					202,208
Unrestricted investment earnings					11,400
Gain (loss) on sale of equipment or disposals					28,789
<i>Special item - loss on abandonment of capital project design costs</i>					(934,589)
Total general revenues and special item					48,079,464
Change in net position					(320,391)
Net Position - beginning of year					36,616,967
Net Position - end of year					\$ 36,296,576

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

BOARD OF EDUCATION OF GARRETT COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	<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	\$ 8,630,643	\$ 633,107	\$ -	\$ 9,263,750
Accounts receivable				
County	-	-	1,039,806	1,039,806
State	665,735	101,169	-	766,904
Federal	1,257,839	-	-	1,257,839
Other	57,005	3,347	-	60,352
Due from other funds	612,899	21,190	-	634,089
Inventory	-	135,105	-	135,105
TOTAL ASSETS	<u>11,224,121</u>	<u>893,918</u>	<u>1,039,806</u>	<u>13,157,845</u>
LIABILITIES				
Accrued payroll and withholdings	5,839,493	189,387	-	6,028,880
Accounts payable and accrued expenses	809,490	2,735	965,702	1,777,927
Unearned revenue	10,461	27,896	-	38,357
Due to other funds	21,190	538,795	74,104	634,089
Total Liabilities	<u>6,680,634</u>	<u>758,813</u>	<u>1,039,806</u>	<u>8,479,253</u>
FUND BALANCES				
Nonspendable - inventories	-	135,105	-	135,105
Restricted for medical assistance	296,935	-	-	296,935
Restricted for subsequent years' budgets	3,095,108	-	-	3,095,108
Restricted for capital expenditures	500,000	-	-	500,000
Restricted for capital lease payments	151,444	-	-	151,444
Unassigned	500,000	-	-	500,000
Total Fund Balances	<u>4,543,487</u>	<u>135,105</u>	<u>-</u>	<u>4,678,592</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 11,224,121</u>	<u>\$ 893,918</u>	<u>\$ 1,039,806</u>	<u>\$ 13,157,845</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, 2017

Total fund balances - Governmental funds \$ 4,678,592

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 \$99,804,744, net of accumulated depreciation of \$53,195,550. 46,609,194

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 \$312,320
Deferred outflows arising from changes in actuarial assumptions and investment activity amount to \$741,936. 1,054,256

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 (\$1,010,935), capital lease payable (\$5,513,164), net OPEB obligation (\$5,458,953) and net pension liability (\$3,827,956). (15,811,008)

Deferred inflows arising from changes in the net pension liability are not reported in the funds. Deferred inflows resulted from changes in actuarial assumptions and investment activity. (234,458)

Total net position - Governmental activities \$ 36,296,576

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, 2017**

	<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	\$ 27,573,703	\$ -	\$ 1,103,693	\$ 28,677,396
State sources	25,331,910	139,059	-	25,470,969
Federal sources	3,498,024	1,529,317	-	5,027,341
Earnings on investments	11,283	117	-	11,400
Charges for services	37,660	730,040	-	767,700
Miscellaneous revenues	271,713	23,872	-	295,585
Total Revenues	<u>56,724,293</u>	<u>2,422,405</u>	<u>1,103,693</u>	<u>60,250,391</u>
EXPENDITURES				
Administration	1,562,883	-	-	1,562,883
Mid-level administration	2,521,860	-	-	2,521,860
Instruction - Salaries	18,824,949	-	-	18,824,949
- Textbooks and supplies	1,155,536	-	-	1,155,536
- Other	870,669	-	-	870,669
Special education	4,153,925	-	-	4,153,925
Student personnel services	788,107	-	-	788,107
Student health services	553,045	-	-	553,045
Student transportation	4,063,587	-	-	4,063,587
Operation of plant	3,525,557	-	-	3,525,557
Maintenance of plant	1,100,022	-	-	1,100,022
Community services	366,282	-	-	366,282
Food services	-	2,639,114	-	2,639,114
Fixed charges	14,121,083	-	-	14,121,083
Capital outlay	583,614	49,555	1,103,693	1,736,862
Debt service	486,852	-	-	486,852
Total Expenditures	<u>54,677,971</u>	<u>2,688,669</u>	<u>1,103,693</u>	<u>58,470,333</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,046,322	(266,264)	-	1,780,058
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	248,279	-	248,279
Operating transfers out	<u>(248,279)</u>	<u>-</u>	<u>-</u>	<u>(248,279)</u>
NET CHANGE IN FUND BALANCES	1,798,043	(17,985)	-	1,780,058
Fund Balances - beginning of year	<u>2,745,444</u>	<u>153,090</u>	<u>-</u>	<u>2,898,534</u>
FUND BALANCES - end of year	<u>\$ 4,543,487</u>	<u>\$ 135,105</u>	<u>\$ -</u>	<u>\$ 4,678,592</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, 2017

Change in fund balances - Governmental funds \$ 1,780,058

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 depreciation of \$2,812,473 exceeds capital outlay of \$2,006,879 in the current year. (805,594)

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. This loss on abandonment of capital project design costs is reported as a special item in the accompanying statement of activities. (934,589)

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. (45,658)

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. 313,864

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. (351,981)

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. (276,491)

Change in net position - Governmental activities \$ (320,391)

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, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Intergovernmental revenues				
Local sources	\$ 27,424,903	\$ 27,573,703	\$ 27,573,703	\$ -
State sources	21,468,679	21,348,808	21,245,842	(102,966)
Federal sources	120,000	120,000	118,139	(1,861)
Earnings on investments	16,000	16,000	11,283	(4,717)
Charges for services	38,000	38,000	37,660	(340)
Miscellaneous revenues	6,000	128,977	207,125	78,148
Total Revenues	<u>49,073,582</u>	<u>49,225,488</u>	<u>49,193,752</u>	<u>(31,736)</u>
EXPENDITURES				
Administration	1,447,165	1,572,433	1,395,488	(176,945)
Mid-level administration	2,618,624	2,630,406	2,457,106	(173,300)
Instruction - Salaries	17,936,659	17,956,553	17,499,973	(456,580)
- Textbooks and supplies	958,369	1,238,956	1,066,732	(172,224)
- Other	488,735	707,417	657,023	(50,394)
Special education	3,588,428	3,457,323	3,190,193	(267,130)
Student personnel services	805,988	804,323	778,107	(26,216)
Student health services	433,431	453,817	447,616	(6,201)
Student transportation	4,217,552	4,223,667	4,060,259	(163,408)
Operation of plant	4,185,274	4,348,848	4,010,293	(338,555)
Maintenance of plant	1,055,873	1,153,559	1,099,565	(53,994)
Fixed charges	10,587,484	10,499,117	9,902,426	(596,691)
Food services	300,000	300,000	248,279	(51,721)
Community services	-	12,005	10,403	(1,602)
Capital outlay	450,000	535,000	583,614	48,614
Total Expenditures	<u>49,073,582</u>	<u>49,893,424</u>	<u>47,407,077</u>	<u>(2,486,347)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(667,936)	1,786,675	<u>\$ 2,454,611</u>
Fund Balance - beginning of year	-	667,936	2,459,877	
FUND BALANCE - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,246,552</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, 2017**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Intergovernmental revenues				
Federal sources	\$ 3,217,825	\$ 3,725,150	\$ 3,379,885	\$ (345,265)
State sources	715,582	871,680	864,842	(6,838)
Other sources		55,792	64,588	8,796
	<u>3,933,407</u>	<u>4,652,622</u>	<u>4,309,315</u>	<u>(343,307)</u>
EXPENDITURES				
Administration	157,093	168,360	167,395	(965)
Mid-level administration	50,501	67,346	64,754	(2,592)
Instruction - Salaries	1,171,084	1,494,361	1,324,976	(169,385)
- Textbooks and supplies	51,569	102,404	88,804	(13,600)
- Other	77,708	244,213	213,646	(30,567)
Special education	1,025,999	1,092,467	963,732	(128,735)
Student personnel services	-	10,000	10,000	-
Student health services	109,239	109,239	105,429	(3,810)
Student transportation	-	6,165	3,328	(2,837)
Operation of plant	1,700	1,893	2,116	223
Maintenance of plant	-	-	457	457
Fixed charges	937,440	994,285	997,431	3,146
Community services	351,074	359,121	355,879	(3,242)
Capital outlay	-	2,768	-	(2,768)
	<u>3,933,407</u>	<u>4,652,622</u>	<u>4,297,947</u>	<u>(354,675)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	11,368	<u>\$ 11,368</u>
Fund Balance - beginning of year			<u>285,567</u>	
FUND BALANCE - end of year			<u>\$ 296,935</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, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES			
Federal	\$ 1,275,783	\$ 1,411,228	\$ 135,445
State of Maryland	159,037	139,059	(19,978)
Meals and food served	757,158	730,040	(27,118)
Interest earned	100	117	17
Federal donation of food	96,000	118,089	22,089
Other revenues	12,750	23,872	11,122
Total Revenues	<u>2,300,828</u>	<u>2,422,405</u>	<u>121,577</u>
EXPENDITURES			
Salaries and wages	1,067,350	1,114,745	47,395
Contracted services	36,750	49,189	12,439
Supplies and materials	939,592	1,049,752	110,160
Other charges	600,540	425,428	(175,112)
Capital outlay	-	49,555	49,555
Total Expenditures	<u>2,644,232</u>	<u>2,688,669</u>	<u>44,437</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(343,404)	(266,264)	77,140
OTHER FINANCING SOURCES			
Operating transfers in	<u>343,404</u>	<u>248,279</u>	<u>(95,125)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>(17,985)</u>	<u>\$ (17,985)</u>
Fund Balance - beginning of year		<u>153,090</u>	
FUND BALANCE - end of year		<u>\$ 135,105</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, 2017

	School Activities Funds	HRA and FSA Funds	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 469,952	\$ 54,062	\$ 524,014
Investments - certificates of deposit	86,376	-	86,376
Accounts receivable	-	3,103	3,103
TOTAL ASSETS	556,328	57,165	613,493
LIABILITIES			
Agency funds payable	556,328	57,165	613,493
TOTAL LIABILITIES	\$ 556,328	\$ 57,165	\$ 613,493

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 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)

HRA & FSA Fund - The HRA & FSA Funds are agency funds used to account for assets held by the Board in a trustee capacity. The Board contributes to the fund on behalf of retirees over the age of 65 based on age and years of service under a Health Reimbursement Arrangement (HRA), and collects through voluntary withholdings from current employees funds for a Flexible Spending Account (FSA). The money is then available to be used for purchase of medical insurance from HRA funds or can be drawn for approved medical expenses as they are incurred from FSA funds.

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.

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, 2017 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, 2018. Additionally, deferred outflows at June 30, 2017 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 three items that qualify for reporting in this category. At June 30, 2017 deferred inflows consist of changes in actuarial assumptions, 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, 2017.

Compensated Absences Payable - As of June 30, 2017, employees of the Board had accumulated approximately \$1,010,935 of vested annual leave and other compensatory leave benefits. These benefits include salaries and salary related payments. This liability is presented in the government-wide financial statements and there is no current portion 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 compensated absences, capital leases, 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, 2017.

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, 2017.

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 years' budgets 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, 2017, cash and cash equivalents consisted of the following:

Cash and cash equivalents	\$ 9,263,580
Petty cash	170
	<u>\$ 9,263,750</u>

At year end, the carrying amount of the Board's combined deposits was \$9,263,580 and the bank balance was \$10,063,885. Of the bank balance \$348,779 was insured by the Federal Deposit Insurance Corporation (FDIC), \$9,589,310 was collateralized by securities held by the Board's agent in the Board's name and \$125,796 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, 2017 was \$9,749,449.

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 fund assets at year-end consist of bank deposits held on behalf of school activity and HRA/FSA funds. All deposits held are fully insured or collateralized at June 30, 2017.

Fiduciary fund assets 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, 2017.

NOTE 3 - INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances at June 30, 2017 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Current Expense	Food Service	\$ 538,795
Food Service	Current Expense	21,190
Current Expense	School Construction	74,104
		<u>\$ 634,089</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 \$248,279 consist of \$227,089 in benefit and other costs paid by the Current Expense Fund on behalf of the Food Service Fund and \$21,190 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, 2017 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2016</u>	<u>Additions & Transfers</u>	<u>Dispositions & Transfers</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated				
Land	\$ 840,172	\$ -	\$ -	\$ 840,172
Construction in progress	3,442,909	1,605,862	(3,749,422)	1,299,349
Total capital assets, not being depreciated	<u>4,283,081</u>	<u>1,605,862</u>	<u>(3,749,422)</u>	<u>2,139,521</u>
Capital assets being depreciated				
Buildings and improvements	90,391,357	110,686	2,814,833	93,316,876
Equipment	3,579,828	196,772	(119,287)	3,657,313
Vehicles	685,172	93,559	(87,697)	691,034
Total capital assets being depreciated	<u>94,656,357</u>	<u>401,017</u>	<u>2,607,849</u>	<u>97,665,223</u>
Less accumulated depreciation				
Buildings and improvements	47,601,521	2,503,165	-	50,104,686
Equipment	2,543,662	255,280	(119,287)	2,679,655
Vehicles	444,878	54,028	(87,697)	411,209
Total accumulated depreciation	<u>50,590,061</u>	<u>2,812,473</u>	<u>(206,984)</u>	<u>53,195,550</u>
Capital assets being depreciated - net	<u>44,066,296</u>	<u>(2,411,456)</u>	<u>2,814,833</u>	<u>44,469,673</u>
Capital assets, net	<u>\$ 48,349,377</u>	<u>\$ (805,594)</u>	<u>\$ (934,589)</u>	<u>\$ 46,609,194</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense for the year ended June 30, 2017 was charged to governmental functions as follows:

Administration	\$ 79,222
Instruction	2,589,979
Special education	494
Student transportation	6,546
Operation of plant	45,311
Maintenance of plant	54,855
Food service	32,169
Community services	<u>3,897</u>
 Total depreciation expense - governmental activities	 <u>\$ 2,812,473</u>

The Board had the following active construction projects as of June 30, 2017:

	<u>Spent-To-Date</u>	<u>Remaining Commitment</u>
Northern Road & Parking Lot	\$ 29,991	\$ 1,355,415
Southern Middle School Renovation	1,013,375	2,088,125
Tyler/Munis ERP Software Conversion	227,519	72,481
Northern High Bleacher Renovation	2,545	103,618
Southern High Softball Field Project	25,919	3,500
	<u>\$ 1,299,349</u>	<u>\$ 3,623,139</u>

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions for the fiscal year ended June 30, 2017:

	<u>Balance June 30, 2016</u>	<u>Additions</u>	<u>Principal Repayments & Other Reductions</u>	<u>Balance June 30, 2017</u>	<u>Due Within One Year</u>
Compensated absences payable	\$ 1,106,090	\$ 27,900	\$ (123,055)	\$ 1,010,935	\$ -
Capital leases	5,827,028	-	(313,864)	5,513,164	321,504
Net OPEB obligation	5,106,972	1,838,164	(1,486,183)	5,458,953	-
Net pension liability	<u>3,248,091</u>	<u>579,865</u>	<u>-</u>	<u>3,827,956</u>	<u>-</u>
 Total long-term liabilities	 <u>\$ 15,288,181</u>	 <u>\$ 2,445,929</u>	 <u>\$ (1,923,102)</u>	 <u>\$ 15,811,008</u>	 <u>\$ 321,504</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, 2017, of their intent to retire from the Maryland State Retirement and Pension System on or before August 1, 2017. Employees were required to meet the Retirement and Pension System's age and service requirements in order to be eligible for the stipend. Sixteen employees met the notification and qualification requirements and earned total stipends of \$16,000 for the year ended June 30, 2017.

NOTE 7 - CAPITAL LEASES

The Board has entered into equipment lease purchase agreements with the Bank of America and Key Equipment Finance 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 \$6,807,404 and are reported as buildings and improvements in the accompanying government-wide financial statements. Amortization expense related to capital lease assets totaled \$394,776 for the year ended June 30, 2017 and was charged to the instruction function for government wide reporting purposes. Accumulated amortization of \$1,467,658 is reported as a component of accumulated depreciation on buildings and improvements as of June 30, 2017.

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 Key Equipment Finance 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, 2017:

<u>Fiscal years ending June 30,</u>	<u>Total</u>
2018	\$ 486,605
2019	507,123
2020	549,928
2021	573,146
2022	597,494
2023-2027	3,069,074
2028-2031	823,904
Total payments	6,607,274
Less interest	1,094,110
Capital lease obligation	<u>\$ 5,513,164</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. Generally, retirees pay a percentage (from 0% to 60% depending upon years of service at retirement) of the pre-65 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%

After age 65, the Board pays a monthly HRA amount based on the years of service and age.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

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

For employees hired on or after July 1, 2006, dependent insurance coverage may be purchased upon retirement at the retiree's own cost. The Post-65 HRA component was made effective on July 1, 2017. It was reflected in the July 1, 2016 values, because the plan changes were formally adopted and communicated to participants at the time of the valuation.

During the year ended June 30, 2017, there were 225 Board of Education retirees who met the eligibility requirements for participation in this program, of which 143 retirees receive the post-65 HRA benefit and 82 retirees receive the pre-65 Point of Service benefit. The Board expended \$1,062,990 during the year ended June 30, 2017, to finance the benefits of this program on a pay-as-you-go basis. These costs are reported in Current Expense Fund fixed charges.

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, 2017, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation:

Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,852,349
Interest on Net OPEB Obligation	229,814
Adjustment to Annual Required Contribution	<u>(243,999)</u>
Annual OPEB Cost (Expense)	1,838,164
Contributions Made	<u>(1,486,183)</u>
Increase in Net OPEB Obligation	351,981
Net OPEB Obligation (Beginning of Year)	<u>5,106,972</u>
Net OPEB Obligation (End of Year)	<u><u>\$ 5,458,953</u></u>

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, 2017, 2016 and 2015 are as follows:

Fiscal Year	OPEB Cost	Net OPEB
<u>Ended</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2017	\$ 1,838,164	\$ 5,458,953
6/30/2016	1,961,086	5,106,972
6/30/2015	1,876,079	4,581,002

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

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

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was 4% funded. The actuarial accrued liability for benefits was \$24,237,154, and the actuarial value of assets was \$1,049,177, resulting in an unfunded actuarial accrued liability (UAAL) of \$23,187,977. The covered payroll (annual payroll of active employees covered by the plan) was \$24,243,000, and the ratio of the UAAL to the covered payroll was 96%.

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.

In the July 1, 2016, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 6.0% investment rate of return (net of administrative expenses), which is a blended rate based on the current asset allocation. Also included is an annual healthcare cost trend rate for pre-65 of 7.5% initially, decreasing linearly to an ultimate rate of 5% and post-65 HRA amounts increasing with inflation of 2.0%. 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.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2016
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	6.0 %
Discount Rate	4.5 %
Salary Scale	2.0 % per year under discount rate
Healthcare Cost Trend Rates	Pre-65 – 7.5 % initially, reduced by decrements to an ultimate rate of 5 % Post 65 HRA amounts are assumed to increase with inflation of 2.0%
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. The Board funds the post-65 HRA amounts according to the table
Cost Sharing	The plan's current service based cost sharing schedule was applied to both pre-65 and post-65 coverage. Cost sharing percentages are based upon years of service at retirement according to the previous table.

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, 2017 was \$125,656.

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, 2017 are as follows:

2018	\$ 68,201
2019	62,501
2020	61,602
2021	46,217
2022	5,492
	<u>\$ 244,014</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, 2016 (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, 2017 were \$3,221,226 which were equal to the State's required contributions for that year. The Board's contributions for the year ended June 30, 2017 were \$1,177,020 and \$312,320 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 \$50,860,342 as of June 30, 2017. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2016, actuarially determined. At June 30, 2016, the Board's proportion was 0.22 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, 2017, the Board reported a liability of \$3,827,956 for its proportionate share of the ERS net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2016, actuarially determined. At June 30, 2016, 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, 2017 was \$588,811.

At June 30, 2017, 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	\$ 147,664	\$ 41,941
Net difference between projected and actual earnings on pension plan investments	594,273	139,658
Difference between actual and expected experience	-	52,859
Board contributions to the Employees' Pension System subsequent to the measurement date	<u>312,320</u>	<u>-</u>
Total	<u>\$ 1,054,257</u>	<u>\$ 234,458</u>

The \$312,320 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, 2018. 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:

2018	\$ 116,954
2019	\$ 116,954
2020	\$ 177,555
2021	\$ 103,471
2022	\$ (7,455)

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

The total pension liability in the June 30, 2017 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	3.3% to 9.2%, 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	37.00%	6.60%
Private Equity	10.00%	7.40%
Rate Sensitive	20.00%	1.30%
Credit Opportunity	9.00%	4.20%
Real Assets	15.00%	4.70%
Absolute Return	9.00%	3.70%
 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	\$ 5,258,043	\$ 3,827,956	\$ 2,637,927

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	\$ 52,414,978	\$ 50,380,024
Restricted	<u>4,309,315</u>	<u>4,297,947</u>
	56,724,293	54,677,971
 On-behalf payments for employer contributions to the Teachers Retirement and Pension Systems by the State of Maryland	 (3,221,226)	 (3,221,226)
 Operating transfers reported as food service expenditures on budget basis but as other financing uses on GAAP basis	 _____	 _____ 248,279
	<u>\$ 53,503,067</u>	<u>\$ 51,705,024</u>
 Total per Current Expense Fund Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis)		
Unrestricted	\$ 49,193,752	\$ 47,407,077
Restricted	<u>4,309,315</u>	<u>4,297,947</u>
	<u>\$ 53,503,067</u>	<u>\$ 51,705,024</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, 2017 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.

NOTE 15 – SPECIAL ITEM

During fiscal year 2017, the scope of the Southern Middle School renovation changed from a full renovation to renovating separate building systems. Due to this change in scope, \$934,589 of design costs that had previously been accounted for as construction in progress was impaired. In fiscal years 2014, 2015 and 2016, \$11,594, \$570,806, and \$352,189, respectively, of expenses for the planning, design and architecture phase of the full renovation project had been recorded as construction in progress. The Garrett County Board of Commissioners notified the Board of Education that a full renovation of Southern Middle School would not be funded at the local level. Consequently, the above referenced design costs related to the unfunded portion of the renovation project have been reported in the accompanying statement of activities as a special item.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF GARRETT COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

**SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFIT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2016	\$ 1,049,177	\$ 24,237,154	\$ 23,187,977	4%	\$ 25,234,000	91.89 %
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 %

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 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, 2017

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

	<u>Fiscal Year</u> <u>2017</u>	<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%	0.016%	0.014%
Board's proportionate share of the ERS net pension liability	\$ 3,827,956	\$ 3,248,091	\$ 2,551,859
State's proportionate share of the TRS net pension liability	<u>50,860,342</u>	<u>41,722,945</u>	<u>32,876,591</u>
TOTAL	<u>\$ 54,688,298</u>	<u>\$ 44,971,036</u>	<u>\$ 35,428,450</u>
Board's covered employee payroll	\$ 28,668,571	\$ 28,356,891	\$ 28,126,622
Board's proportionate share of the net pension liability as a percentage of its covered payroll.	13.35%	11.45%	9.07%
Plan fiduciary net position as a percentage of the total pension liability	65.79%	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>2017</u>	<u>Fiscal Year</u> <u>2016</u>	<u>Fiscal Year</u> <u>2015</u>
Contractually required contributions - ERS	\$ 316,062	\$ 329,429	\$ 335,089
Contributions in relation to the contractually required contribution - Employee Retirement System	<u>(316,062)</u>	<u>(329,429)</u>	<u>(335,089)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 28,668,571	\$ 28,356,891	\$ 28,126,622
Contributions as a percentage of covered-employee payroll -Employee Retirement System	1.10%	1.16%	1.19%

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, 2017

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 changes in assumptions in the 2016 valuation:

- Salary increase range assumptions changed from 3.2% - 8.95% to 3.3% - 9.2%

OTHER SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF GARRETT COUNTY

SCHOOL ACTIVITIES FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND BALANCES BY SCHOOL

Year Ended June 30, 2017

	<u>Balances</u> <u>July 01, 2016</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balances</u> <u>June 30, 2017</u>
ELEMENTARY				
Accident	\$ 3,478	\$ 58,616	\$ 34,107	\$ 27,987
Broadford	34,877	70,369	70,953	34,293
Crellin	5,576	4,785	8,755	1,606
Friendsville	7,725	15,905	15,407	8,223
Grantsville	8,758	36,023	36,885	7,896
Hickory Environmental	11,301	21,546	22,907	9,940
Route 40	11,637	18,248	23,924	5,961
Swan Meadow	4,525	12,594	10,744	6,375
Yough Glades	23,409	15,249	12,544	26,114
	<hr/>	<hr/>	<hr/>	<hr/>
Total Elementary	111,286	253,335	236,226	128,395
	<hr/>	<hr/>	<hr/>	<hr/>
MIDDLE AND SENIOR HIGH				
Northern High	143,101	394,603	400,701	137,003
Northern Middle	83,587	64,741	68,932	79,396
Southern High	147,856	477,954	469,611	156,199
Southern Middle	50,554	109,502	104,721	55,335
	<hr/>	<hr/>	<hr/>	<hr/>
Total Middle and Senior High	425,098	1,046,800	1,043,965	427,933
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL SCHOOLS	<u>\$ 536,384</u>	<u>\$ 1,300,135</u>	<u>\$ 1,280,191</u>	<u>\$ 556,328</u>