

BOARD OF EDUCATION OF GARRETT COUNTY

FINANCIAL REPORT

JUNE 30, 2020

BOARD OF EDUCATION OF GARRETT COUNTY

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INDEPENDENT AUDITORS' REPORT

Board of Education of Garrett County
Oakland, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Board of Education of Garrett County, a component unit of Garrett County, Maryland, as of and for the year ended June 30, 2020, 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, 2020, 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

Emphasis of Matter

As discussed in Note 15 to the financial statements, during the year ended June 30, 2020, the Board adopted new accounting guidance from Governmental Accounting Standards Board (GASB), Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Changes in the Board's Net OPEB Liability and Related Ratios, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020 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 29, 2020

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

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 (FY) ended June 30, 2020. 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, 2020, 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 FY2019, the Garrett County Commissioners agreed that the Board is entitled to maintain all of its carryover funds as undesignated/unreserved.

On a system-wide basis, the Board of Education of Garrett County closed the fiscal year ended June 30, 2020, with combined net position of \$8.18 million down from \$11.59 million in FY 2019 for a decrease of \$3.41 million in relation to the restated prior year net position. The unrestricted Current Expense Fund actual revenues of \$51.9 million were up \$2.1 million from the restated FY2019's \$49.8 million, due to incremental increases in both local and state funding. The actual revenues were within \$258,528 of the final budget or 1%. The unrestricted Current Expense Fund actual expenditures of \$52.96 million were up \$3.58 million from restated FY2019 of \$49.38 million. Actual expenditures were over the final budget by \$107,655 or 1%. This variance is attributed to solvency payments to Garrett County Employees Health Care Trust and subsidy required for the Food Service fund.

Major budget initiatives in FY2020 included:

- System-wide K-12 purchase and training of a new Next Generation Science Standard aligned textbook series.
- Resources devoted to addressing student behaviors.
- Attract and retain high quality professional in all facets of the school system.
- Invest in maintaining and improving capital infrastructure by utilizing state, local and board funds.

The board adopted a new accounting standard related to accounting for fiduciary activities. The effect of adopting the new standard has been accounted for as a change in accounting principle. The impact of this prior period adjustment is outlined in Note 15 of the financial statements.

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

Overview of the Financial Statements

The Financial Report is comprised of three parts: Management's Discussion and Analysis or MD&A (this section), the basic financial statements and required 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 OPEB Benefits Trust Fund is a fiduciary fund 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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Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

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

During FY2020, the board implemented the provisions of GASB 84, *Fiduciary Activities*. The requirements of Statement 84 are intended to enhance consistency and comparability for reported information in order to assess government accountability and stewardship. The statement establishes criteria for identifying fiduciary activities for all state and local governments. Under this new criteria it has been determined that student activity account funds, health reimbursement arrangement (HRA) funds for post 65 retirees and flexible spending arrangement (FSA) funds for active employees will be reported in the Unrestricted Current Expense Fund.

The Other Post-Employment Benefits Trust Fund is a fiduciary fund used to accumulate resources for retirement benefits payments to qualified former board employees. The OPEB Fund is reported in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position on pages 23 and 24, respectively.

The activities reported in the fiduciary funds 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. Management is responsible for ensuring that the assets reported in these funds are used for the intended purpose.

Financial Analysis of the School System as a Whole

The school system's combined net position decreased \$3.4 million or 29.4% in relation to the restated net position for June 30, 2019. The decrease in net position for the current year resulted from a combination of the use of fund balance and an increase in net OPEB liability.

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. FY2019 is restated.

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

<u>Changes In Condensed Statement of Net Position</u>			
	2020	2019	Percentage Change
Current and other assets	\$ 14,933,006	\$ 13,930,624	7.20%
Capital assets	44,433,921	44,442,399	(0.02%)
Total assets	<u>\$ 59,366,927</u>	<u>\$ 58,373,023</u>	1.70%
Deferred outflows of resources	\$ 9,978,489	\$ 2,394,594	316.71%
Total assets and deferred outflows	<u>\$ 69,345,416</u>	<u>\$ 60,767,617</u>	14.12%
Current and other liabilities	\$ 9,198,488	\$ 6,937,605	32.59%
Long-term liabilities	50,236,103	40,188,269	25.00%
Total liabilities	<u>\$ 59,434,591</u>	<u>\$ 47,125,874</u>	26.12%
Deferred inflows of resources	\$ 1,729,619	\$ 2,048,110	(15.55%)
Total liabilities and deferred outflows	<u>\$ 61,164,210</u>	<u>\$ 49,173,984</u>	24.38%
Net investment in capital assets	\$ 40,005,099	\$ 39,606,119	1.01%
Restricted	2,063,616	2,349,360	(12.16%)
Unrestricted	(33,887,509)	(30,361,846)	11.61%
Total net position	<u>\$ 8,181,206</u>	<u>\$ 11,593,633</u>	(25.29%)

<u>Changes in Net Position from Operating Results</u>			
	2020	2019	Percentage Change
<i>Program revenues:</i>			
Charges for services	\$ 1,422,280	\$ 2,047,293	(30.52%)
Operating grants and contributions	11,001,981	10,177,987	8.10%
Capital grants and contributions	2,107,610	265,133	694.93%
<i>General revenues:</i>			
County government	27,738,738	27,449,975	1.05%
State (unrestricted)	20,655,534	19,494,366	5.96%
Federal	0	0	
Other	214,746	262,764	(18.27%)
Total Revenues	<u>\$ 63,140,889</u>	<u>\$ 59,697,518</u>	5.77%
<i>Program Expenses:</i>			
Administration (central and school)	\$ 4,587,878	\$ 4,198,924	9.26%
Instruction			
(regular & special education)	29,311,040	28,898,073	1.43%
Student services and health	1,337,718	1,286,322	4.00%
Transportation	4,100,717	4,230,599	-3.07%
Maintenance and operations	5,232,218	4,594,332	13.88%
Fixed charges	18,644,407	15,230,097	22.42%
Food services	2,946,933	2,630,655	12.02%
Other	392,405	468,824	-16.30%
Total Expenses	<u>\$ 66,553,316</u>	<u>\$ 61,537,826</u>	8.15%
Change in Net Position	<u>\$ (3,412,427)</u>	<u>\$ (1,840,308)</u>	85.43%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Results of operations for the school system as a whole are presented on page 15, in 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 Services program is primarily self-funded by children's payments and federal and state food and nutrition subsidies.

Revenues increase \$3.44 million or 5.77%. The \$1.84 million increase in capital grants and contributions is attributable to the Capital Improvement Program projects. \$1.16 million increase in state general revenues were a combination of Blueprint for Maryland's Future funds and incremental increase due to slight enrollment and inflationary increases.

Approximately \$66.55 million in expenses are reported with an increase of 8.15% or \$5 million over FY2019. The coronavirus pandemic drove program expenses for Maintenance, up year over year by 13.88%, or \$0.6 million, and Food Services, 12.02% or \$0.3 million. Fixed Charges expenses increased 22.42% or \$3.4 million due to increase in medical insurance costs and required solvency payments to the Garrett County Employee Health Care Trust.

Food Services received transfers from the Current Expense Fund of \$687,076. \$324,996 funded the cost of employee health insurance and worker's compensation premiums while \$362,080 was required to subsidize the operating deficit in the current year, overall up \$416,526 from FY2019. There was a net increase in fund balance of \$21,800 or 14.8% increase.

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).

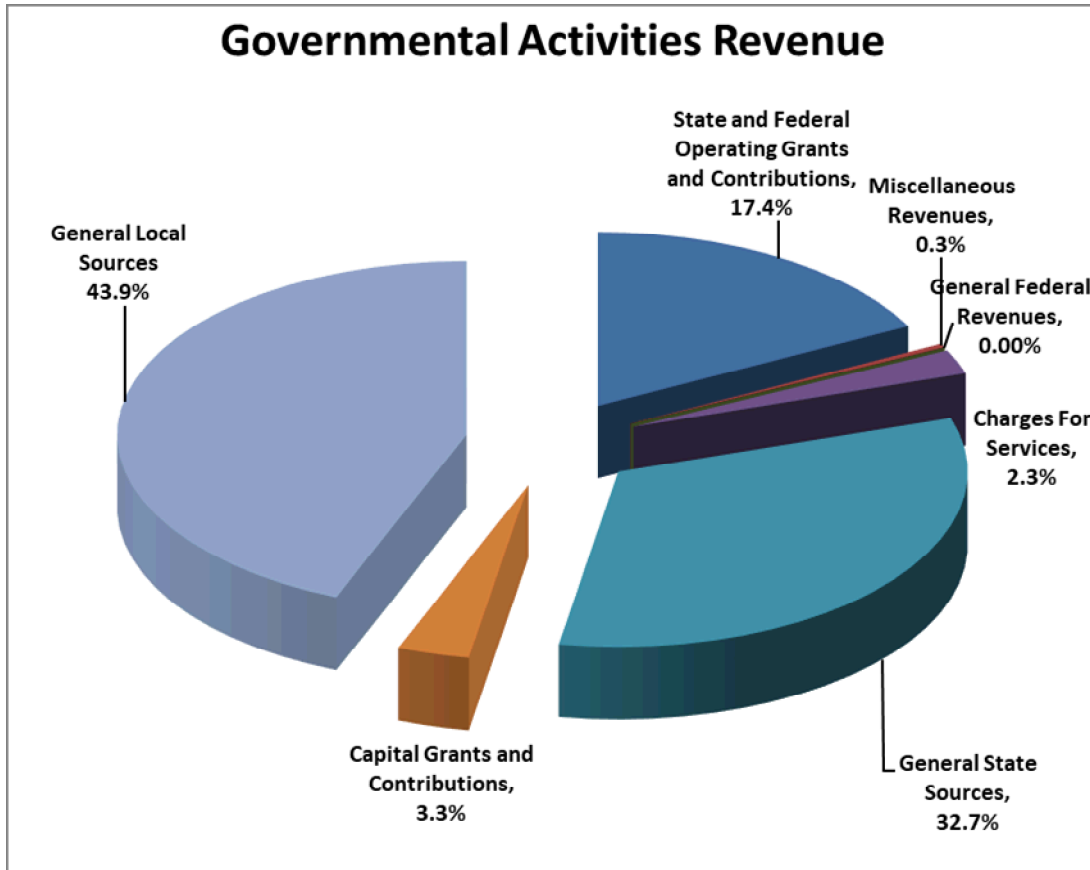
	Total Cost of Services			Net Cost of Services		
	2020	2019	Percentage Change	2020	2019	Percentage Change
Administration (County & School Level)	\$ 4,587,878	\$ 4,198,924	(9.26%)	\$ 4,376,939	\$ 3,922,581	11.58%
Instruction and Special Education	29,311,040	28,898,073	1.43%	22,243,841	23,485,217	(5.29%)
Student Personnel Services	672,526	650,890	3.32%	587,409	650,332	(9.68%)
Student Health Services	665,192	635,432	4.68%	547,595	543,167	0.82%
Student Transportation	4,100,717	4,230,599	(3.07%)	850,043	1,191,990	(28.69%)
Operation of Plant and Maintenance of Plant	5,232,218	4,594,332	13.88%	4,746,650	4,411,667	7.59%
Fixed Charges	18,644,407	15,230,097	22.42%	17,864,369	14,399,555	24.06%
Food Services	2,946,933	2,630,655	12.02%	661,132	289,746	128.18%
All Others	392,405	468,824	(16.30%)	143,467	153,158	(6.33%)
Total	\$ 66,553,316	\$ 61,537,826	8.15%	\$ 52,021,445	\$ 49,047,413	6.06%

The cost of all governmental activities was \$66,553,316. Some of this cost is financed by users of the school system's programs through tuition, user fees and student activities funds of \$1,422,280. Operating and capital grants and contributions from the federal and state governments for certain programs were \$11,001,981. The net cost of services, \$52,021,445, is the financial burden placed on county and state taxpayers by these functions.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

Most of the School System's total revenue of \$63,140,889 was provided through Garret 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 \$6,177,747, down 16.57% or \$1,222,729 from the FY 2019 restated ending balance of \$7,400,476.

The Current Expense Fund balance decreased \$1,244,529 ending the year at \$6,008,410, down from restated \$7,252,939 at the end of FY2019. Non-spendable prepaid insurance was fully expensed in FY2020. Funds assigned for subsequent years' budgets decreased to \$3,462,687 from \$4,399,672 in FY2019. Funds restricted for Medical Assistance (MA) ended the year at \$208,903, down \$185,680 from FY2019 ending balance of \$394,583. Newly listed in FY2020 are \$712,080 in balances restricted for school activities, up \$68,752 from \$643,328 in FY2019. Restricted for FY2021 operating budget is \$485,000. Restricted for FY2021 capital expenditures is \$488,296, down from \$500,000 in FY2019. Assigned for capital lease payments of \$151,444

BOARD OF EDUCATION OF GARRETT COUNTY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

and \$500,000 unassigned carryover balance remain the same. The Food Services fund balance of \$169,337 consists entirely of non-spendable food inventory.

Local appropriations, general state sources, and state and federal funding revenues account for about 97.6% of the total Unrestricted Current Expense Fund revenues. All 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 and original 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 several changes. There were funds approved for FY2019 carryover that were assigned to FY2020 planned expenditures. Due to timing of management's receipt of State revenue allocations and restrictions pertaining to Blueprint for Maryland's Future, there were funds assigned after the original budget was adopted. Budget transfers were made during the fiscal year to accommodate the Schools Systems' capital outlay needs and required solvency payment to the Garrett County Employees Health Care Trust.

When comparing final budget to actuals, actual revenues were slightly above final budget by 0.5% or \$258,528. Actual expenditures were \$107,655 or 0.2% over final budget. Actual Administration expenses were over budget due to a change in Indirect Cost Rate resulting in lower than expected transfers from restricted grants to offset Administration's business support expense. Actual Fixed Charges expenses were over budget due to required solvency payments to the Garrett County Employees Health Care Trust. Food Services actual expense was over the final budget due to coronavirus pandemic mandated closures resulting in a fund deficit. The favorable budget to actual variances for Transportation and Operation of Plant are a result of fuel and utility savings due to the coronavirus pandemic.

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.

The variances between final budget to actual for the Food Service Fund were driven by the mandated school closures effective from March 16, 2020 through the remainder of the 2019-

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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

2020 school year. There was no opportunity to collect student payments for meals and food served. Food services transitioned to a summer feeding model in which federal reimbursements were collected. The variance reported for salaries and wages were due to the additional costs incurred with operating the summer feeding model and increased healthcare expenses from the required solvency payment to the Garrett County Employees Health Care Trust.

Capital and Debt Administration

By the end of FY2020, the school system had \$105.5 million invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. This amount represents an increase of \$2.7 million or 2.5%, while depreciation was \$2.7 million, therefore in FY2020, investment in Capital Improvement Program (CIP) nearly kept pace with depreciation resulting in a net decrease of capital assets of \$8,478.

The CIP included funding for school construction and renovation for several projects placed into service in FY2020, including systemic renovation at Southern Middle School for roof, fire alarm, and sewer system; Tyler-Munis ERP Software Conversion; Southern High School security vestibule; Southern High School partial roof replacement; Northern High School Sewer Replacement, and Northern High School PA & Bell Replacement. As of June 30, 2020, nearly \$2 million was classified as construction in progress including athletic field renovation at both high schools, fire alarm, front façade, and partial HVAC replacements at Southern High School, and security vestibules at Accident Elementary and Yough Glades Elementary. More detailed information about the school system's capital assets can be found in Note 4 to the financial statements.

Long-Term Debt and Other Long-Term Obligations

At year-end, the school system had \$50,777,311 in long-term obligations outstanding. \$1,409,665 or 2.78% of this represents obligations for accumulated unpaid leave for the system's staff, \$4,428,822 or 8.72% represents obligations for energy performance contracts, \$41,452,035 or 81.63% represents the school system's net other post-employment benefit (OPEB) obligation, and the remainder represents the net pension liability of \$3,486,789 or 6.87%. Details of changes in balances are illustrated in Note 5.

Factors Impacting the School System

In response to the spread of the novel coronavirus, COVID19, the governor and state superintendent mandated a statewide closure of all public schools from March 16, 2020 through the end of the 2019-2020 school year. The local superintendent and her administrative team created and executed a Continuity of Learning Plan to address learning for the remainder of the school year and began developing the Recovery and Reopening Plan in late May for the 2020-2021 school year. The U.S. Department of Agriculture (USDA) announced flexibilities to ensure that students continued to receive meals during the closure, enabling Food Services to shift to its summer feeding model. Most elements of school operations have changed due the coronavirus pandemic.

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On March 27, 2020 the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law by President Donald Trump, providing funding and flexibilities for states to respond to the coronavirus pandemic in K-12 schools. At this time several pieces of CARES Act funding has been made available to the School System's with the purpose of aiding in covering expenses and needs as a direct result of this pandemic situation including but not limited to standing up a virtual learning platform, closing achievement gaps in students, and properly cleaning and sanitizing facilities. These funds are one-time allowable costs and will be spent in FY2021 and FY2022. The 2020-21 school year began in September in a full virtual model with selected populations of students attending on campus and additional students returning to campus layered by two-week periods.

Enrollment decline due to school choice is a concern for the Board. Enrollment has a direct and significant impact on both state and local formula aid. Maryland Department of Planning projections prepared prior to the coronavirus pandemic predicted enrollment to decline slightly and then level off in future years.

During the 2019 legislative session, Senate Bill 1030 The Blueprint for Maryland's Future (Blueprint) increased funding state-wide for education for the programmatic recommendations of the Kirwan Commission for FY2020 and FY2021. During the 2020 legislative session, the additional Kirwan Commission legislative package failed due to veto from the governor. This package was intended to continue the funding programs beyond the FY2021 timeframe. Management will continue to monitor legislative changes, however without successful 2021 Blueprint legislation, the funding made available from 2019 will be lost.

The Local Every Student Succeeds Act (ESSA) Consolidated Strategic Plan for Garrett County Public Schools, required by the Bridge to Excellence Act and Every Student Succeeds 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. This replaces the Master Plan. 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 Local ESSA Consolidated Strategic Plan strategies.

The Board received the Strategic Facilities Committee final report at its December 2019 meeting which was facilitated and prepared by Dr. David Lever, Educational Facilities Planning, LLC. The Board has reviewed the recommendations. Discussions have begun with local county government officials on next steps.

BOARD OF EDUCATION OF GARRETT COUNTY
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June 30, 2020

Post-Employment Benefits

Effective July 1, 2006, the Board of County Commissioners of Garrett County, the Board of Trustees of Garrett College, and the Board of Education entered into the Garrett County Employees Health Care Plan. Consequently, a Retiree Health Plan Trust Agreement was entered effective July 1, 2009. The County, College, and the Board of Education amended the Agreement effective June 30, 2018 to create three independent and separate Trust Agreements. Consequently, the Board of Education adopted its own Plan Provisions for Other Post-Employment Benefits and Trust independent and separate from the county and the college. 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.

The Board's actuary has calculated Total OPEB Liability at \$43,218,463 with a Plan Fiduciary Net Position of \$1,766,428, or 4.09%, leaving a Net OPEB Liability of \$41,452,035 at June 30, 2020. The actual OPEB contribution amount for the year ended June 30, 2020 was \$1,083,732, all of which was pay-as-you-go premiums paid by the board for retirees. There was no additional funding toward the OPEB obligation in FY2020. Under GASB Statement Number 75, there is no requirement to fund this obligation.

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 \$3,486,789 as of June 30, 2020 and is reported as a liability on the Board's government-wide statement of net position.

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
As of June 30, 2020**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 10,737,776
Accounts receivable	
County	743,552
State	1,316,049
Federal	695,637
Other	444,724
Inventory	169,337
Restricted cash	693,779
Restricted investments - certificates of deposit	132,152
Non-depreciable capital assets	3,237,925
Depreciable capital assets, net of accumulated depreciation	41,195,996
Total Assets	59,366,927
DEFERRED OUTFLOWS OF RESOURCES	9,978,489
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	69,345,416
LIABILITIES	
Accrued payroll and withholding	6,194,180
Accounts payable and accrued expenses	2,341,563
Unearned revenue	121,537
Long-term liabilities:	
Due within one year	541,208
Due in more than one year	50,236,103
Total Liabilities	59,434,591
DEFERRED INFLOWS OF RESOURCES	1,729,619
NET POSITION	
Net investment in capital assets	40,005,099
Restricted for food service	169,337
Restricted for medical assistance	208,903
Restricted for school activities	712,080
Restricted for subsequent years' budgets and capital	973,296
Unrestricted	(33,887,509)
Total Net Position	8,181,206
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 69,345,416

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

BOARD OF EDUCATION OF GARRETT COUNTY

**STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020**

		<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:					
Administration	\$ 1,825,747	\$ 2,763	\$ 55,279	\$ -	\$ (1,767,705)
Mid-level administration	2,762,131	-	152,897	-	(2,609,234)
Instruction - Salaries	19,693,658	-	1,804,704	-	(17,888,954)
- Textbooks and supplies	1,163,648	-	99,818	-	(1,063,830)
- Other	3,748,808	909,231	268,271	2,107,610	(463,696)
Special education	4,704,926	-	1,877,565	-	(2,827,361)
Student personnel services	672,526	-	85,117	-	(587,409)
Student health services	665,192	-	117,597	-	(547,595)
Student transportation	4,100,717	-	3,250,674	-	(850,043)
Operation of plant	4,274,895	12,792	472,776	-	(3,789,327)
Maintenance of plant	957,323	-	-	-	(957,323)
Community services	249,935	10,790	238,148	-	(997)
Food services	2,946,933	486,704	1,799,097	-	(661,132)
Fixed charges	18,644,407	-	780,038	-	(17,864,369)
Interest on capital lease obligation	142,470	-	-	-	(142,470)
Total governmental activities	<u>\$66,553,316</u>	<u>\$ 1,422,280</u>	<u>\$ 11,001,981</u>	<u>\$ 2,107,610</u>	<u>(52,021,445)</u>
General revenues:					
Local appropriations					27,738,738
State appropriations					20,655,534
Miscellaneous					136,731
Unrestricted investment earnings					95,885
Gain/(Loss) on sale of assets and disposals					<u>(17,870)</u>
Total general revenues					<u>48,609,018</u>
Change in net position					(3,412,427)
Net Position - beginning of year, as restated					<u>11,593,633</u>
Net Position - end of year					<u>\$ 8,181,206</u>

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

BOARD OF EDUCATION OF GARRETT COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

As of June 30, 2020

	<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	\$ 9,910,785	\$ 826,991	\$ -	\$ 10,737,776
Accounts receivable				
County	-	-	743,552	743,552
State	437,748	145,146	733,155	1,316,049
Federal	695,637	-	-	695,637
Other	419,421	25,303	-	444,724
Prepaid expenses	-	-	-	-
Due from other funds	1,647,293	-	-	1,647,293
Inventory	-	169,337	-	169,337
Restricted cash	693,779	-	-	693,779
Restricted investments - certificates of deposit	132,152	-	-	132,152
TOTAL ASSETS	<u>13,936,815</u>	<u>1,166,777</u>	<u>1,476,707</u>	<u>16,580,299</u>
LIABILITIES				
Accrued payroll and withholdings	5,937,474	256,706	-	6,194,180
Accounts payable and accrued expenses	1,824,551	40,752	476,260	2,341,563
Unearned revenue	68,401	53,136	-	121,537
Compensated absences payable	97,979	-	-	97,979
Due to other funds	-	646,846	1,000,447	1,647,293
Total Liabilities	<u>7,928,405</u>	<u>997,440</u>	<u>1,476,707</u>	<u>10,402,552</u>
FUND BALANCES				
Nonspendable - inventories	-	169,337	-	169,337
Assigned for capital lease payments	151,444	-	-	151,444
Assigned for subsequent years' budgets	3,462,687	-	-	3,462,687
Restricted for medical assistance	208,903	-	-	208,903
Restricted for school activities	712,080	-	-	712,080
Restricted for 2021 operating budget	485,000	-	-	485,000
Restricted for 2021 capital expenditures	488,296	-	-	488,296
Unassigned	500,000	-	-	500,000
Total Fund Balances	<u>6,008,410</u>	<u>169,337</u>	<u>-</u>	<u>6,177,747</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13,936,815</u>	<u>\$ 1,166,777</u>	<u>\$ 1,476,707</u>	<u>\$ 16,580,299</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
As of June 30, 2020**

Total fund balances - Governmental funds \$ 6,177,747

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 \$105,500,810, net of accumulated depreciation of \$61,066,889. 44,433,921

Deferred outflows arising from changes in the net OPEB liability are not reported in the funds. 9,404,298

Deferred outflows arising from changes in the net pension liability are not reported in the funds. 574,191

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 (\$1,311,686), capital leases payable (\$4,428,822), net OPEB liability (\$41,452,035) and net pension liability (\$3,486,789). (50,679,332)

Deferred inflows arising from changes in the net OPEB liability are not reported in the funds. (1,314,564)

Deferred inflows arising from changes in the net pension liability are not reported in the funds. (415,055)

Total net position - Governmental activities \$ 8,181,206

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
For the Year Ended June 30, 2020**

	<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	\$ 27,887,538	\$ -	\$ 821,175	\$ 28,708,713
State sources	26,566,912	132,896	733,155	27,432,963
Federal sources	3,216,754	1,664,673	-	4,881,427
Earnings on investments	95,540	345	-	95,885
Charges for services	935,576	486,704	-	1,422,280
Miscellaneous revenues	566,321	28,291	-	594,612
	<u>59,268,641</u>	<u>2,312,909</u>	<u>1,554,330</u>	<u>63,135,880</u>
EXPENDITURES				
Administration	1,776,657	-	-	1,776,657
Mid-level administration	2,762,131	-	-	2,762,131
Instruction - Salaries	19,693,658	-	-	19,693,658
- Textbooks and supplies	1,163,648	-	-	1,163,648
- Other	1,318,117	-	-	1,318,117
Special education	4,703,384	-	-	4,703,384
Student personnel services	672,526	-	-	672,526
Student health services	665,192	-	-	665,192
Student transportation	4,078,414	-	-	4,078,414
Operation of plant	4,355,058	-	-	4,355,058
Maintenance of plant	1,009,083	-	-	1,009,083
Community services	246,038	-	-	246,038
Food services	-	2,909,836	-	2,909,836
Fixed charges	16,055,729	-	-	16,055,729
Capital outlay	338,608	68,349	1,992,253	2,399,210
Debt service	549,928	-	-	549,928
	<u>59,388,171</u>	<u>2,978,185</u>	<u>1,992,253</u>	<u>64,358,609</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(119,530)	(665,276)	(437,923)	(1,222,729)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	687,076	437,923	1,124,999
Operating transfers out	(1,124,999)	-	-	(1,124,999)
NET CHANGE IN FUND BALANCES	(1,244,529)	21,800	-	(1,222,729)
Fund Balances - beginning of year, as restated	<u>7,252,939</u>	<u>147,537</u>	<u>-</u>	<u>7,400,476</u>
FUND BALANCES - end of year	<u>\$ 6,008,410</u>	<u>\$ 169,337</u>	<u>\$ -</u>	<u>\$ 6,177,747</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
For the Year Ended June 30, 2020**

Change in fund balances - Governmental funds	\$ (1,222,729)
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 \$2,746,619 exceeds capital outlay of \$2,733,132 in the current year.	(13,487)
Governmental funds do not report donated assets, however, the fair market value of these assets are reported as a source of revenue in the statement of activities.	35,000
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.	(29,991)
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.	(27,653)
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.	407,458
Changes to the net OPEB liability and related deferred outflow and inflow accounts are not reported in the governmental funds, These changes impact OPEB expense in the statement of activities.	(2,388,712)
Changes to the net pension liability and related deferred outflow and inflow accounts are not reported in the governmental funds, These changes impact pension expense in the statement of activities.	<u>(172,313)</u>
Change in net position - Governmental activities	<u><u>\$ (3,412,427)</u></u>

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

BOARD OF EDUCATION OF GARRETT COUNTY

**CURRENT EXPENSE FUND - UNRESTRICTED
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Intergovernmental revenues				
Local sources	\$ 27,734,931	\$ 27,887,538	\$ 27,887,538	\$ -
State sources	21,962,370	22,559,220	22,664,415	105,195
Federal sources	120,000	111,159	111,159	-
Earnings on investments	12,000	14,016	95,540	81,524
Charges for services	45,000	922,032	935,576	13,544
Miscellaneous revenues	15,000	146,335	204,600	58,265
	<u>49,889,301</u>	<u>51,640,300</u>	<u>51,898,828</u>	<u>258,528</u>
EXPENDITURES				
Administration	1,423,292	1,689,868	1,721,378	31,510
Mid-level administration	2,643,459	2,673,981	2,609,234	(64,747)
Instruction - Salaries	18,620,287	18,262,451	18,274,605	12,154
- Textbooks and supplies	605,663	1,078,043	1,063,830	(14,213)
- Other	627,196	1,115,554	1,049,846	(65,708)
Special education	3,575,373	3,477,480	3,433,419	(44,061)
Student personnel services	694,179	625,028	587,409	(37,619)
Student health services	542,730	583,778	547,595	(36,183)
Student transportation	4,257,209	4,153,872	4,076,449	(77,423)
Operation of plant	4,442,965	4,816,281	4,698,521	(117,760)
Maintenance of plant	1,129,404	1,045,632	1,009,083	(36,549)
Fixed charges	11,329,544	12,034,862	12,414,811	379,949
Food services	348,000	362,340	687,076	324,736
Community services	-	-	7,890	7,890
Capital outlay	740,000	1,146,162	776,531	(369,631)
	<u>50,979,301</u>	<u>53,065,332</u>	<u>52,957,677</u>	<u>(107,655)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(1,090,000)	(1,425,032)	(1,058,849)	<u>366,183</u>
Fund Balance - beginning of year, as restated	<u>1,090,000</u>	<u>1,425,032</u>	<u>6,858,356</u>	
FUND BALANCE - end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,799,507</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)
For the Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Intergovernmental revenues				
Federal sources	\$ 4,296,367	\$ 4,355,894	\$ 3,105,595	\$ (1,250,299)
State sources	1,357,196	1,357,196	1,041,617	(315,579)
Other sources	15,760	362,260	361,721	(539)
Total Revenues	<u>5,669,323</u>	<u>6,075,350</u>	<u>4,508,933</u>	<u>(1,566,417)</u>
EXPENDITURES				
Administration	188,070	169,217	55,279	(113,938)
Mid-level administration	177,573	177,573	152,897	(24,676)
Instruction - Salaries	1,725,642	1,826,738	1,419,053	(407,685)
- Textbooks and supplies	186,044	218,067	99,818	(118,249)
- Other	381,027	409,906	268,271	(141,635)
Special education	1,456,757	1,609,529	1,269,965	(339,564)
Student personnel services	85,308	83,888	85,117	1,229
Student health services	117,674	117,674	117,597	(77)
Student transportation	6,657	6,657	1,965	(4,692)
Operation of plant	180,205	180,205	206,465	26,260
Maintenance of plant	227,932	21,916	-	(21,916)
Fixed charges	1,128,101	1,040,445	780,038	(260,407)
Community services	310,393	311,131	238,148	(72,983)
Total Expenditures	<u>6,171,383</u>	<u>6,172,946</u>	<u>4,694,613</u>	<u>(1,478,333)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(502,060)	(97,596)	(185,680)	<u><u>\$ (88,084)</u></u>
Fund Balance - beginning of year	<u>502,060</u>	<u>97,596</u>	<u>394,583</u>	
FUND BALANCE - end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 208,903</u></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)
For the Year Ended June 30, 2020**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Federal	\$ 1,331,550	\$ 1,382,750	\$ 1,482,143	\$ 99,393
State of Maryland	148,810	148,810	132,896	(15,914)
Meals and food served	699,108	699,108	486,704	(212,404)
Interest earned	137	137	345	208
Federal donation of food	120,791	120,791	182,530	61,739
Other revenues	10,550	10,550	28,291	17,741
Total Revenues	<u>2,310,946</u>	<u>2,362,146</u>	<u>2,312,909</u>	<u>(49,237)</u>
EXPENDITURES				
Salaries and wages	1,521,686	1,521,686	1,787,471	265,785
Contracted services	22,656	22,656	45,672	23,016
Supplies and materials	1,073,246	1,073,246	1,052,301	(20,945)
Other charges	36,358	36,358	24,392	(11,966)
Capital outlay	5,000	70,540	68,349	(2,191)
Total Expenditures	<u>2,658,946</u>	<u>2,724,486</u>	<u>2,978,185</u>	<u>253,699</u>
EXCESS (DEFICIENCY) OF REVENUES REVENUES OVER EXPENDITURES	(348,000)	(362,340)	(665,276)	(302,936)
OTHER FINANCING SOURCES				
Operating transfers in	348,000	362,340	687,076	324,736
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	21,800	<u>\$ 21,800</u>
Fund Balance - beginning of year			<u>147,537</u>	
FUND BALANCE - end of year			<u>\$ 169,337</u>	

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

BOARD OF EDUCATION OF GARRETT COUNTY

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
OTHER POST EMPLOYMENT BENEFITS TRUST FUND**

As of June 30, 2020

	Other Post Employment Benefits Trust Fund
	<hr/>
ADDITIONS	
Contributions:	
Employer	\$ -
Plan Members	-
Total Contributions	<hr/> -
Investment Earnings:	
Realized Net Gains on Investments	8,329
Interest and Dividends	44,585
Net Increase in Fair Value of Investments	47,259
Less: Investment Manager/Advisor/Custody Fees	<hr/> (5,938)
Total Net Investment Earnings	<hr/> 94,235
Total Additions	<hr/> 94,235
DEDUCTIONS	
Benefits	-
Administrative	<hr/> 362
Total Deductions	<hr/> 362
Net Increase In Net Position	93,873
Net Position - Beginning of Year	<hr/> 1,672,555
Net Position - End of Year	<hr/> <hr/> \$ 1,766,428

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. 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 and fees 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 projects.

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.

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)

The Board reports the following fiduciary find in the accompanying financial statements:

Other Post Employment Benefits Trust Fund – The Other Post Employment Benefits Trust Fund is a fiduciary fund used to accumulate resources for retirement medical benefit payments to qualified former Board employees.

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. Cash belonging to student and faculty organizations and cash accumulated on behalf of employees and former employees under Heath Reimbursement Arrangements and Flexible Spending Accounts is reported as restricted cash for governmental fund and government-wide reporting purposes.

Investments – Certificates of deposit belonging to student and faculty organizations having maturities greater than three months are reported as restricted investments for governmental fund and government-wide reporting purposes. Fiduciary fund investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair 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.

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.

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)

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 four items that qualify for reporting in this category. At June 30, 2020 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, 2021. Additionally, deferred outflows at June 30, 2020 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 OPEB liability and the net pension liability that are being amortized over periods ranging from five to seven 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, 2020 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 OPEB liability and the net pension liability that are being amortized over periods ranging from five to seven years.

Unearned Revenues - Unearned revenues represent amounts received from grantors in advance of incurrence of eligible expenditures for reimbursable-type grants at June 30, 2020.

Compensated Absences Payable - As of June 30, 2020, employees of the Board had accumulated approximately \$1,409,665 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 the current portion is presented in the fund financial statements at fiscal year-end.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Post Employment Benefits - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Board's Other Post Employment Benefits Trust Fund and additions to and subtractions from net position have been determined on the same basis as they are reported on pages 23 and 24 of these financial statements. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 liability 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.

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)

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, 2020.

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.

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.

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 and appropriations specifically allocated for capital outlay as approved by the Board of Public Works and Board of County Commissioners. 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.

G. Net Position Flow Assumptions

Sometimes the Board will fund outlays for a particular purpose from both restricted (e.g., grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Board's policy to consider restricted net position to have been depleted before unrestricted – net position is applied.

H. Fund Balance Flow Assumptions

Sometimes the Board will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Board's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS

The following is a reconciliation of cash and cash equivalents and investments of the Board of Education and accompanying fiduciary funds at June 30, 2020:

	<u>Governmental Activities</u>	<u>Other Post Employment Benefits Trust Fund</u>
Cash and Cash Equivalents	\$ 10,737,776	\$ -
Restricted Cash	693,779	139,021
Restricted Investments	132,152	1,621,554
Total	<u>\$ 11,563,707</u>	<u>\$ 1,760,575</u>

Deposit and Investment Summary

	<u>Governmental Activities</u>	<u>Other Post Employment Benefits Trust Fund</u>
Deposits	\$ 11,431,437	\$ 139,021
Certificates of Deposit	132,152	38,524
U.S. Government Obligations		30,467
Fixed Income Securities	-	415,329
Mutual Funds	-	497,963
Equity Securities	-	639,271
Cash on Hand	118	-
Total	<u>\$ 11,563,707</u>	<u>\$ 1,760,575</u>

At year end, the carrying amount of the Board's combined deposits was \$11,563,589 and the bank balance was \$12,390,306. Of the bank balance \$989,705 was insured by the Federal Deposit Insurance Corporation (FDIC), \$11,399,370 was collateralized by securities held by the Board's agent in the Board's name, \$1,231 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.

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. In fiscal 2019, the Board approved an 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, repurchase agreements, collateralized certificates of deposits and money market mutual funds to 100, 100, 100, 100, and 10 percent of the Board's overall deposit and investment portfolio, respectively.

The Board'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.

Fiduciary fund assets at year-end consist of bank deposits held on behalf of the Other Post Employment Benefits Trust Fund. All deposits held are fully insured or collateralized at June 30, 2020.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS (Continued)

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, 2020.

The fiduciary fund has employed professional investment managers to manage fund assets and to follow the Board's investment policies which are designed to protect plan principal and to achieve a real rate of return over the long term. Fiduciary fund investments, having a market value of \$1,583,030 at June 30, 2020, were exposed to custodial credit risk as they were uninsured and held by the counterparty's trust department but not in the name of the Board.

The Fiduciary funds have investment policies specifying that investments in corporate bonds be primarily investment grade securities rated by Moody's or Standard and Poor's. The Fiduciary fund investment policies further limit credit risk by prescribing that the fixed income portfolio be well diversified with respect to type, industry and issuer. Fiduciary fund investment policies do not place limits on investment managers with respect to the duration of their investments.

The investments of the fiduciary funds include debt securities having the following rates, as of June 30, 2020:

Other Post Employment Benefits Trust Fund	
Security Ratings	6/30/20
A1	\$ 20,173
A2	66,912
A3	59,953
Aa1	16,568
Aa2	15,734
Aaa	41,225
Baa1	110,918
Baaa2	51,135
Not Rated	32,711
Total Market Value	<u>\$ 415,329</u>

Fiduciary fund investments include all fixed income securities with interest rates specifically identified as follows with respect to maturity dates:

Other Post Employment Benefits Trust Fund		
Maturity Date	Interest Rates	6/30/20
2021	4.40%	\$ 15,032
2022	3.0%-3.80%	36,742
2023	-	-
2024	3.50%	22,145
2025	3.50%-4.20%	38,508
2026-2030	3.0%-5.950%	236,138
2031-2035	3.10%-5.125%	97,231
Total Market Value		<u>\$ 445,796</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS (Continued)

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Fixed Income Securities are valued by the Board's pricing agent using either quotes from current buyers or by referencing similar transactions that occurred near the measurement date.

Other Post Employment Benefits Trust Fund

	June 30, 2020	Fair Value Measurement Using	
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Market Inputs (Level 2)
U.S. Government Obligations	\$ 30,467	\$ -	\$ 30,467
Fixed Income Securities	415,329	-	415,329
Mutual Funds	497,963	497,963	-
Equity Securities	639,271	639,271	-
Total	<u>\$ 1,583,030</u>	<u>\$ 1,137,234</u>	<u>\$ 445,796</u>

NOTE 3 - INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances at June 30, 2020 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Current Expense	Food Service	\$ 646,846
Current Expense	School Construction	1,000,447
		<u>\$ 1,647,293</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 \$1,124,999 consist of \$687,076 of benefit and other costs paid by the Current Expense Fund on behalf of the Food Service Fund and \$437,923 of construction and other capital outlay costs paid by the Current Expense Fund on behalf of the School Construction Fund.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

Governmental Activities	Balance June 30, 2019	Additions & Transfers	Dispositions & Transfers	Balance June 30, 2020
Capital assets not being depreciated				
Land and improvements	\$ 840,172	\$ 21,161	\$ 452,934	\$ 1,314,267
Construction in progress	3,739,191	2,164,951	(3,980,484)	1,923,658
Total capital assets, not being depreciated	<u>4,579,363</u>	<u>2,186,112</u>	<u>(3,527,550)</u>	<u>3,237,925</u>
Capital assets being depreciated				
Buildings and improvements	93,588,411	201,917	3,197,559	96,987,887
Equipment	3,925,639	264,151	163,925	4,353,715
Vehicles	850,195	115,952	(44,864)	921,283
Total capital assets being depreciated	<u>98,364,245</u>	<u>582,020</u>	<u>3,316,620</u>	<u>102,262,885</u>
Less accumulated depreciation				
Buildings and improvements	54,954,179	2,476,385	-	57,430,564
Equipment	3,023,794	198,376	(136,075)	3,086,095
Vehicles	523,236	71,858	(44,864)	550,230
Total accumulated depreciation	<u>58,501,209</u>	<u>2,746,619</u>	<u>(180,939)</u>	<u>61,066,889</u>
Capital assets being depreciated - net	<u>39,863,036</u>	<u>(2,164,599)</u>	<u>3,497,559</u>	<u>41,195,996</u>
Capital assets, net	<u>\$ 44,442,399</u>	<u>\$ 21,513</u>	<u>\$ (29,991)</u>	<u>\$ 44,433,921</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense for the year ended June 30, 2020 was charged to governmental functions as follows:

Administration	\$	49,090
Instruction		2,507,402
Special Education		1,542
Student Transportation		22,303
Operation of plant		58,428
Maintenance of plant		66,860
Food service		37,097
Community services		<u>3,897</u>
 Total depreciation expense - governmental activities	 \$	 <u><u>2,746,619</u></u>

The Board had the following active construction projects as of June 30, 2020:

	<u>Spent-To-Date</u>	<u>Remaining Commitment</u>
Accident Security Vestibule	\$ 58,658	\$ 186,195
Athletic Field Renovation - Northern & Southern High	89,069	2,415,931
Southern High Front Facade Renovation	789,549	1,272,547
Southern High Fire Alarm Replacement	564,584	115,708
Southern High Gym HVAC Replacement	326,215	15,579
Southern Middle Entrance (A & E Only)	38,488	28,512
Yough Glades Security Vestibule	57,095	125,613
	<u>\$ 1,923,658</u>	<u>\$ 4,160,085</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions by type for the fiscal year ended June 30, 2020:

	Balance June 30, 2019	Additions	Principal Repayments & Other Reductions	Balance June 30, 2020	Due Within One Year
Compensated absences payable	\$ 1,363,775	\$ 171,803	\$ (125,913)	\$ 1,409,665	\$ 97,979
Capital leases	4,836,280	-	(407,458)	4,428,822	443,229
Net OPEB liability	31,018,525	10,433,510	-	41,452,035	-
Net pension liability	3,456,888	524,438	(494,537)	3,486,789	-
Total long-term liabilities	\$ 40,675,468	\$ 11,129,751	\$ (1,027,908)	\$ 50,777,311	\$ 541,208

NOTE 6 - VOLUNTARY RETIREMENT INCENTIVE PLAN

The Board offered a \$1,000 early notification retirement stipend to those employees who notified human resources, prior to January 17, 2020, of their intent to retire from the Maryland State Retirement and Pension System on or before August 1, 2020. Employees were required to meet the Retirement and Pension System's age and service requirements in order to be eligible for the stipend. Seven employees met the notification and qualification requirements and earned total stipends of \$7,000 for the year ended June 30, 2020.

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 \$458,955 for the year ended June 30, 2020 and was charged to the instruction function for government wide reporting purposes. Accumulated amortization of \$2,844,523 is reported as a component of accumulated depreciation on buildings and improvements as of June 30, 2020.

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, 2020:

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - CAPITAL LEASES (Continued)

<u>Fiscal years ending June 30,</u>	<u>Total</u>
2021	\$ 573,146
2022	597,494
2023	607,738
2024	634,519
2025	662,609
2026-2030	1,861,539
2031	126,573
Total Payment	<u>5,063,618</u>
Less Interest	<u>634,796</u>
Capital lease obligation	<u>\$ 4,428,822</u>

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

The Board of Education's defined benefit other post-employment benefit plan (the Plan) provides healthcare benefits to eligible retirees. The Plan is a single-employer defined benefit OPEB plan. The Board formed and administers an OPEB Trust Fund to allow for prefunding of future OPEB benefits. The Board and Plan Trustee at their discretion may establish, alter, amend, modify or terminate their practice of providing healthcare benefits to retirees in accordance with the terms outlined in the OPEB Trust Agreement. They may also require retirees to make greater contributions toward the funding of their benefits. The Board of Education makes the annual determination as to the amount that will be contributed to the OPEB Trust Fund. The OPEB Trust Fund does not issue a stand-alone financial report and is included as a fiduciary fund in this financial report.

Details of the post-employment benefits under the Plan are as follows:

The Board provides post-employment health care benefits based on age and years of service to all permanent full-time employees of the Board. 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. After June 30, 2018, the County and College no longer offer retiree benefits to new hires. Therefore, new hires of the Board of Education after June 30, 2018 must serve all years solely to the Board for eligibility.

Retirees are given the option to maintain health insurance coverage after they retire and until they reach age 65. After age 65, the Board contributes a monthly amount to a Health Reimbursement Account (HRA) based on the retiree's age and years of service.

For the employees hired on or after July 1, 2006, dependent insurance coverage may be purchased upon retirement at the retiree's own cost. The component for retirees age 65 and over was made effective on January 1, 2017.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

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

As of the most recent valuation date the employees covered by the benefit terms were as follows:

Inactive employees or beneficiaries currently receiving benefit payme	263
Active employees	473
	736

The OPEB Trust Fund is used to account for prefunding contributions made by the Board on behalf of the plan participants. For the year ended June 30, 2020, the Board made \$0 in prefunding contributions to the OPEB Trust. Current OPEB premium payments made on behalf of retirees as well as the costs incurred to administer the OPEB plan are paid from the general operating funds of the Board.

The following table outlines coverage percentages paid by the retiree and Board under the plan based on years of service at date of retirement:

Years of Service	Retiree	
	Individual Percentage	Employer Percentage
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%

As of the most recent valuation date, 263 Board retirees participated in this program.

Net OPEB Liability

The Board's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the OPEB liability was determined by an actuarial valuation as of January 1, 2019.

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	1.0 percent
Salary increase	4.0 percent
Discount rate	2.21 percent
Investment rate of return	6.0 percent
Healthcare cost trend rates	7.0 percent for 2020, decreasing 0.5 percent per year to an ultimate rate of 4.5 percent

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

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

Mortality rates were based on the Pub-2010 Teachers Employees Headcount-weighted with fully generational scale MP-2019.

The actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2018 – December 31, 2018.

The current level of plan assets is sufficient to cover a partial year of benefit payments. As such, all future years of expected payments were discounted using the average yield on 20-year high-grade municipal bonds per paragraph 36 of GASB statement 75. As of June 30, 2020, the yield to maturity of 20-year high-grade bonds was 2.21% according to the Buyer Bond 20-Year GO Index. The discount rate at June 30, 2019 was 3.5%.

For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances as of July 1, 2019	\$32,691,080	\$ 1,672,555	\$31,018,525
Changes for the year:			
Service cost	882,210	-	882,210
Interest	1,125,386	-	1,125,386
Differences between expected and actual experience	-	-	-
Assumption and method changes	9,603,519	-	9,603,519
Contributions - employer	-	1,083,732	(1,083,732)
Net investment income	-	94,235	(94,235)
Benefit payments	(1,083,732)	(1,083,732)	-
Administrative expense and other changes	-	(362)	362
Net Changes	10,527,383	93,873	10,433,510
Balances as of June 30, 2020	<u>\$43,218,463</u>	<u>\$ 1,766,428</u>	<u>\$41,452,035</u>

The assumption change affecting the increase in the net OPEB liability was the change in the discount rate from 3.5% to 2.21%.

The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.21 percent) or 1-percentage point higher (3.21 percent) than the current discount rate:

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

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

	1% decrease (1.21%)	Current rate (2.21%)	1% increase (3.21%)
Net OPEB liability	<u>\$ 47,381,168</u>	<u>\$ 41,452,035</u>	<u>\$ 36,565,803</u>

The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6 percent decreasing to 3.5 percent) or 1-percentage-point higher (8 percent decreasing to 5.5 percent) than the current healthcare cost trend rates:

	1% decrease (6.0% decreasing to 3.5%)	Healthcare Cost Trend Rates (7% decreasing to 4.5%)	1% increase (8.0% decreasing to 5.5%)
Net OPEB liability	<u>\$ 35,466,321</u>	<u>\$ 41,452,035</u>	<u>\$ 48,912,911</u>

For the year ended June 30, 2020, the Board recognized OPEB expense of \$3,472,445. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 857,144	\$ -
Change of assumptions	8,546,649	1,309,017
Net difference between projected and actual investment earnings	505	5,547
	<u>\$9,404,298</u>	<u>\$1,314,564</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:	
2021	\$1,559,087
2022	1,559,088
2023	1,561,860
2024	1,561,791
2025	1,583,305
Thereafter	264,603

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, 2020 was \$90,948.

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, 2020 are as follows:

Fiscal years ending June 30,	
2021	\$ 48,779
2022	6,053
	<u>\$ 54,832</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, 2019 (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, by calling 1-800-492-5909, or visit sra.maryland.gov/annual-financials-reports.

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 has attained age and similar actuarial factors.

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.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

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. 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, 2020 were \$2,860,880 which were equal to the State's required contributions for that year. The Board's contributions for the year ended June 30, 2020 were \$1,083,257 and \$352,125 to the TRS and ERS, respectively, which were equal to the Board's required contributions for that year.

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.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

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 \$40,729,036 as of June 30, 2020. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2019, actuarially determined. At June 30, 2019, the Board's proportion was 0.20 percent.

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

At June 30, 2020, the Board reported a liability of \$3,486,789 for its proportionate share of the ERS net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2019, actuarially determined. At June 30, 2019, the Board's proportion was 0.017 percent.

Pension expense for the ERS plan for the year ended June 30, 2020 was \$524,438.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Changes of assumptions	\$ 127,140	\$ 233,404
Net difference between projected and actual earnings on pension plan investments	94,926	134,722
Difference between actual and expected experience	-	46,929
Board contributions to the Employees' Pension System subsequent to the measurement date	352,125	-
	<u> </u>	<u> </u>
Total	<u>\$ 574,191</u>	<u>\$ 415,055</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - STATE RETIREMENT PLANS (Continued)

The \$325,125 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, 2020. 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:	
2021	\$ 3,084
2022	(107,839)
2023	(63,391)
2024	(14,435)
2025	(10,408)

The total pension liability in the June 30, 2020 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	2.65% general, 3.15% wage
Salary increases	3.10% to 11.6%, including inflation
Discount rate	7.40%
Investment rate of return	7.40%
Mortality	Public Sector 2010 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 as of June 30, 2019, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37.00%	5.80%
Private Equity	13.00%	6.70%
Rate Sensitive	19.00%	1.10%
Credit Opportunity	9.00%	3.60%
Real Assets	14.00%	4.80%
Absolute Return	8.00%	3.20%
Total	<u>100.00%</u>	

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 7.4 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 7.4 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 (6.4 percent) or 1-percentage-point higher (8.4 percent) than the current rate:

	1% Decrease 6.40%	Current Discount Rate 7.4%	1% Increase 8.40%
Board's proportionate share of the net pension liability	\$ 5,046,765	\$ 3,486,789	\$ 2,187,509

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	\$ 54,759,708	\$ 54,693,558
Restricted	4,508,933	4,694,613
	<u>59,268,641</u>	<u>59,388,171</u>
On-behalf payments for employer contributions to the Teachers Retirement and Pension Systems by the State of Maryland	(2,860,880)	(2,860,880)
Operating transfers reported as capital outlay expenditures on budget basis but as other financing uses on GAAP basis		437,923
Operating transfers reported as food service expenditures on budget basis but as other financing uses on GAAP basis	-	687,076
	<u>\$ 56,407,761</u>	<u>\$ 57,652,290</u>
Total per Current Expense Fund Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis)		
Unrestricted	\$ 51,898,828	\$ 52,957,677
Restricted	4,508,933	4,694,613
	<u>\$ 56,407,761</u>	<u>\$ 57,652,290</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, 2020 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 – CHANGE IN ACCOUNTING PRINCIPLE

Current Expense fund balance and government-wide net position of the Board as of July 1, 2019 have been increased by \$643,328 due to the implementation of GASB Statement No. 84, *Fiduciary Activities*. Prior to the implementation of GASB 84 school activities related assets and liabilities were reported in separate fiduciary fund financial statements. Under the new standard the Board has determined that that school activity related assets, liabilities, revenues and expenditures are required to be reported in the Current Expense Fund due to the Board's administrative involvement with these activities. The impact on beginning fund balance and net position are as follows:

	<u>Current Expense Fund</u>	<u>Government-wide</u>
Fund Balance/Net Position		
- beginning of year - as previously reported	\$ 6,609,611	\$ 10,950,305
Increase in cash and investments	643,328	643,328
Fund Balance/Net Position		
- beginning of year - as restated	<u>\$ 7,252,939</u>	<u>\$ 11,593,633</u>