

BOARD OF EDUCATION OF
KENT COUNTY, MARYLAND

FINANCIAL REPORT

JUNE 30, 2020

CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	3 - 5
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	6 - 7
MANAGEMENT'S DISCUSSION AND ANALYSIS	9 - 16
FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position	18
Statement of Activities	19
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds	20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	22
Reconciliation of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	23
STATEMENT OF FIDUCIARY NET POSITION	24
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	25
NOTES TO FINANCIAL STATEMENTS	26 - 51
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Encumbrances Budget and Actual - General Fund	53
Schedule of Changes in the Board's Net OPEB Liability and Related Ratios	54
Schedule of Investment Returns	55
Schedule of the Board's Proportionate Share of the Net Pension Liability	56
Schedule of Board Contributions - Pension	57
Notes to Required Supplementary Information	58 - 60
ADDITIONAL SUPPLEMENTARY INFORMATION	
Schedule of Revenues - General Fund	62
Combining Balance Sheet - Nonmajor Governmental Funds	63
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	64
Schedule of Revenues and Expenditures - Food Service Fund	65
Schedule of Receipts and Disbursements - School Activities Agency Fund	66

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INDEPENDENT AUDITORS' REPORT

Board of Education of Kent County, Maryland
Rock Hall, 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 Kent County, Maryland (“the Board”), a component unit of Kent County, Maryland, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Board’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Kent County, Maryland as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of revenues, expenditures and encumbrances – budget and actual – General Fund, the schedule of changes in the board's net OPEB liability and related ratios, the schedule of investment returns, the schedule of the board's proportionate share of net pension liability, and the schedule of board contributions (pension plan), as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of Kent County, Maryland's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020 on our consideration of the Board of Education of Kent County, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board of Education of Kent County, Maryland's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of Kent County, Maryland's internal control over financial reporting and compliance.



Salisbury, Maryland
September 29, 2020

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

INDEPENDENT AUDITORS' REPORT

Board of Education of Kent County, Maryland
Rock Hall, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Kent 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 of Education of Kent County, Maryland's basic financial statements, and have issued our report thereon dated September 29, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board of Education of Kent County, Maryland's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board of Education of Kent County, Maryland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "JHM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
September 29, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF KENT COUNTY
Rock Hall, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2020

Our discussion and analysis of the Board of Education of Kent County's financial performance provides an overview of the Board's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the financial statements.

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

Financial Highlights

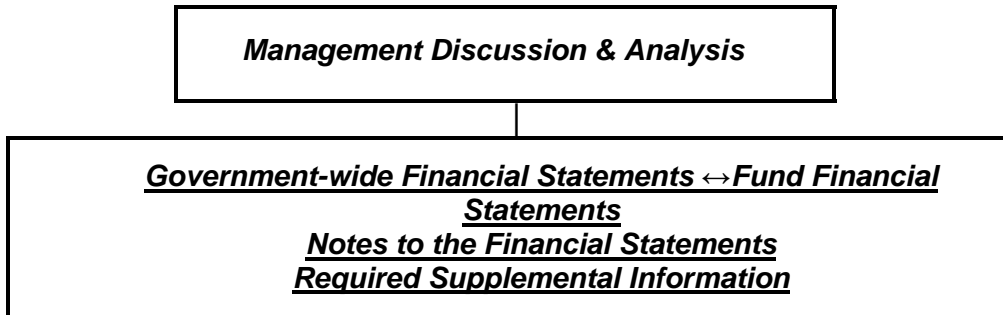
The General Fund budget was increased by \$766,643, or 3%, during the year from the originally adopted budget. Amounts budgeted for unrestricted expense decreased \$308,859 and amounts budgeted for restricted expense increased \$1,386,592.

The General Fund fund balance increased by \$858,262 on a budgetary basis.

Excluding revenues and expenditures related to restricted federal and state grants, the General Fund revenues exceeded the amended budget by \$391,354; expenditures and encumbrances were \$722,980, or approximately 2.60%, under the amended budget.

Details of the General Fund budget variances can be found on page 53 of the financial statements.

Basic Financial Statements



The illustration above represents the minimum requirements for the Board's external financial statements.

Government-wide Financial Statements

The government-wide perspective is designed to provide readers with a complete financial view of the entity known as The Board of Education of Kent County. The financial presentation of this perspective is similar to a private sector business.

The *statement of net position* presents information on all of the assets and liabilities of the Board with the difference between the two reported as *net position*. The *statement of activities* presents information showing how the Board's net position changed during the most recent fiscal year.

These statements measure the change in total economic resources during the period utilizing the accrual basis of accounting. This means any change in net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (like earned but unused employee leave), or for which cash has already been expended (depreciation of buildings and equipment already purchased).

The government-wide perspective is unrelated to budget and, accordingly, budget comparisons are not provided.

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Board of Education of Kent County uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The Board's funds are presented in two categories, governmental funds and fiduciary funds. The Board of Education of Kent County does not operate any enterprise activities that are reported as proprietary funds.

The measurement focus of these statements is current financial resources; therefore the emphasis is placed on the cash flows of the organization within the reporting period or in the near future. Accordingly, the modified accrual basis of accounting that measures these cash flows is used. In the case of The Board of Education of Kent County, open encumbrances are excluded from expenditures. Additionally, the State of Maryland's contribution to the teachers' retirement system are added to revenue and expenditures.

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 Required Supplementary Information. In this presentation, available cash flows of the Board itself are measured, as well as the commitment to acquire goods or services with that cash. Open encumbrances at year-end are included in the expenditures.

This is the legal basis upon which the budget is adopted, so budget comparisons are provided. Governmental Accounting Standards (GASB) requires that we present the original adopted budget as well as the final budget, and discuss the changes between them.

	Government-wide Statements	Fund Statements	Budgetary Fund Statements
Measurement Focus	Economic Resources	Current Financial Resources	Current Financial Resources
Basis of Accounting	Accrual	Modified Accrual	Cash and Commitments
Budget	No	No	Yes

The table above presents the differences in the presentation of the basic financial statements.

Fiduciary Responsibility – Trust and Agency Funds

School Activity Funds

The Board is the trustee, or fiduciary, for its student activity funds. These funds are reported as a separate Agency Fund. We exclude these activities from The Board of Education of Kent County's other financial statements because the assets cannot be used to finance the Board's activities. We are responsible for ensuring the assets reported in the School Activity Funds are used for their intended purpose. The funds utilize a web-based accounting program that includes online payment options for parents. These funds are regulated by Board Policy and Procedures and are reviewed throughout the year by the Finance office and recommendations are discussed with applicable personnel as a follow up to the reviews.

Retiree Health Plan Trust

The Board is the trustee, or fiduciary, for its retiree health plan trust. We exclude the activity from Kent County Public Schools' other financial statements because the assets cannot be used to finance the Board's activities. We are responsible for ensuring the assets reported in this fund are used for their intended purposes.

The Board of Education of Kent County as a Whole

Table 1

	June 30, 2020	June 30, 2019	\$ Change	% Change
Current and other assets	\$ 5,906,045	\$ 5,429,504	\$ 476,541	8.78%
Capital assets	19,517,064	17,627,210	1,889,854	10.72%
Total Assets	<u>25,423,109</u>	<u>23,056,714</u>	<u>2,366,395</u>	<u>10.26%</u>
Deferred outflows of resources	<u>4,412,166</u>	<u>617,274</u>	<u>3,794,892</u>	<u>614.78%</u>
Current and other liabilities	3,521,091	4,235,363	(714,272)	-16.86%
Long-term liabilities	28,941,814	23,484,781	5,457,033	23.24%
Total Liabilities	<u>32,462,905</u>	<u>27,720,144</u>	<u>4,742,761</u>	<u>17.11%</u>
Deferred inflows of resources	<u>1,949,168</u>	<u>2,350,602</u>	<u>(401,434)</u>	<u>-17.08%</u>
Net position:				
Invested in capital assets	18,673,754	16,664,709	2,009,045	12.06%
Restricted	15,860	130,406	(114,546)	-87.84%
Unrestricted	<u>(23,266,412)</u>	<u>(23,191,873)</u>	<u>(74,539)</u>	<u>0.32%</u>
Total Net Position	<u>\$ (4,576,798)</u>	<u>\$ (6,396,758)</u>	<u>\$ 1,819,960</u>	<u>-28.45%</u>

During the fiscal year ended June 30, 2020, the Board's net position increased by \$1,819,960. The increase is primarily attributable to capital grants in the government-wide statement of activities only.

Capital assets are insured with the Maryland Association of Boards of Education Group Insurance Pool. The capital assets are managed using Sungard Pentamation Fixed Asset software. Inventory is updated annually.

The unrestricted net deficit at June 30, 2020 is \$23,266,412. The Board has the cash flow available to meet all current obligations.

Table 2

	June 30, 2020	June 30, 2019	\$ Change	% Change
Revenues				
Program Revenues				
Charges for services	\$ 212,287	\$ 321,040	\$ (108,753)	-33.88%
Operating grants and contributions	6,507,878	5,317,996	1,189,882	22.37%
Capital grants and contributions	3,276,160	730,739	2,545,421	348.34%
General Revenues				
Kent County	18,044,079	17,228,878	815,201	4.73%
State of Maryland	9,537,527	9,065,775	471,752	5.20%
Federal sources	9,562	5,704	3,858	67.64%
Other	208,228	260,112	(51,884)	-19.95%
Total Revenues	37,795,721	32,930,244	4,865,477	14.78%
Expenses				
Instruction and special education	17,312,719	16,879,820	432,899	2.56%
Administration	1,184,787	1,341,961	(157,174)	-11.71%
Support services	15,969,858	14,588,251	1,381,607	9.47%
Depreciation - unallocated	1,508,397	1,455,613	52,784	3.63%
Total Expenses	35,975,761	34,265,645	1,710,116	4.99%
Change in Net Position	1,819,960	(1,335,401)	3,155,361	-236.29%
Net Position Beginning	(6,396,758)	(5,061,357)	(1,335,401)	26.38%
Net Position End of Year	\$ (4,576,798)	\$ (6,396,758)	\$ 1,819,960	-28.45%

Fund Performance

Funds are self-balancing sets of accounts used by the Board to control and manage money for particular purposes. As pointed out earlier, fund information is presented in two ways to satisfy two specific purposes.

General Fund

The following paragraph describes the additions made to the original budget, which were funded by a combination of supplemental appropriations from other sources and category transfers during the fiscal year.

The use of committed fund balance for facility repairs and textbooks was used. Additional funds were received for out-of-county and non-public reimbursement. Funds for restricted federal and state grants were increased.

The total unrestricted budget was expended at 97.39%. The variances in the end of year unexpended funds versus budgeted amounts are detailed by category on page 53 of the financial statements. Expenditure changes between major categories occurred to accommodate school system priorities during the fiscal year.

The Board and the County entered into a solar agreement which began in July 2012. The project is located on the school system's Worton campus and currently contains five properties. The waterfall consists of Worton Elementary School, Kent County Community Center, Kent County Parks & Recreation, Transmitter Building, and Kent County High School. The school system then entered into another solar arrangement with the Town of Rock Hall in January 2013. The Board of Education and Rock Hall Elementary School are both participants in this venture. The school system has recognized savings from this project.

A schedule of changes between the original and final budgets for the year ended June 30, 2020 is presented below. The primary changes relate to funding for restricted federal and state grants.

	Original Budget	Final Budget	Total Change
Revenues			
Local	\$ 18,044,079	\$ 18,044,079	\$ -
State of Maryland	9,416,115	9,285,099	131,016
Federal	71,000	71,000	-
Other sources	264,991	87,148	177,843
Restricted federal, state and other	2,008,688	3,395,280	(1,386,592)
Prior year's fund balance	255,672	255,672	-
	<u>30,060,545</u>	<u>31,138,278</u>	<u>(1,077,733)</u>
Total Revenues	\$ 30,060,545	\$ 31,138,278	\$ (1,077,733)
Expenditures and Encumbrances			
Administration	\$ 1,127,912	\$ 1,182,912	\$ (55,000)
Mid-level administration	1,864,490	1,844,490	20,000
Instructional salaries	9,544,994	9,380,994	164,000
Instructional texts and supplies	246,837	263,837	(17,000)
Instructional other costs	757,492	782,934	(25,442)
Special education	3,236,719	2,993,454	243,265
Student personnel services	449,998	515,748	(65,750)
Student health services	486,333	403,000	83,333
Student transportation	1,820,120	1,820,120	-
Operation of plant	1,732,794	1,691,794	41,000
Maintenance of plant	603,215	603,215	-
Fixed charges	6,120,962	6,147,962	(27,000)
Capital outlay	59,991	112,538	(52,547)
Restricted programs	2,008,688	3,395,280	(1,386,592)
	<u>30,060,545</u>	<u>31,138,278</u>	<u>(1,077,733)</u>
Total Expenditures and Encumbrances	\$ 30,060,545	\$ 31,138,278	\$ (1,077,733)

It is critical for the reader to understand that local and state revenues account for 99% of the total general fund revenue. Both are stable and highly predictable. Additional revenues are neither stable nor predictable, and usually are not budgeted in full in the original budget, but handled as adjustments during the year.

Food Service

The Board's food service program is a special revenue fund. Increased staff costs and related expenses, along with the need to replace kitchen equipment, are ongoing trends of concern. In fiscal year 2020, expenditures exceeded revenues by \$87,785, resulting in a decrease in the program's fund balance. Expenditures exceeded budgeted amounts due to additional food costs related to the COVID-19 pandemic.

The use of technology in inventory control and basic operations has resulted in tremendous improvements in managing the program. The school system uses a number of best practices in its food service operations and uses certain performance measures to monitor the efficiency of its operations. The system takes advantage of available USDA commodities and maximizes its participation in the National School Meal Program.

The school system has a secure web-based software program that gives parents the convenience to pay for school meals and other activities online by using MySchoolBucks. This software integrates and updates to our current Meal Tracker program eTriton. This allows parents to track their child's meal balance online. This program enabled the school system to collect online parent payments; improving collections and reducing loss of cash. Plans are ongoing to improve the service to parents and improve system efficiency.

Other

School districts in Maryland are in the uncommon position, as they are fully fiscally dependent on the state and county governments, of owning assets but not the debt associated with those facilities. Accordingly, the Board carries no bond rating and does not have a debt policy.

Capital Assets and Debt Administration

Capital assets – By the end of fiscal year 2020, the Board had invested \$61.0 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, and furniture and equipment. Total depreciation expense for the year was approximately \$1.6 million. More detailed information about capital assets can be found in Note 5 to the financial statements.

Long-term liabilities – At year end, the Board had \$28,941,814 in long term liabilities of which \$121,944 is due in the next fiscal year. This amount consists of the following:

- \$25,396,884 in net OPEB obligation
- \$2,701,620 in net pension liability
- \$843,310 in a capital lease on buses

Factors Bearing on the Board's Future

The most significant factors influencing the Board's future are declining student enrollment trends and its impact on future funding.

The use of fund balance, a one-time funding source, to balance the Board's operating budget creates a long-term sustainability concern. Continuing to use fund balance in this manner presents a future burden for the Board to generate a similar level of funding in subsequent years.

Additional factors that present challenges for the operating budget are that surrounding school systems consistently provide their employees with annual step increases in conjunction with a cost of living adjustment (COLA), underscoring the importance of boosting salaries to remain competitive. Other factors include increases in fixed costs, health care premiums, fuel and utilities that are beyond the Board's control.

The COVID-19 pandemic continues to create challenges in operations and how education is provided. The economic impact to funding authorities remains unknown but could have significant impacts on future revenues. Expenses are impacted both negatively and positively. The uncertainty will continue into FY2021.

Per the Maryland State Department of Education ("MSDE"), there will be budget cuts made in fiscal year 2021. With the anticipated budget cuts, Kent County Public Schools ("KCPS") will have to utilize our budget to strategically prepare for the future of the unknown. Depending on how much of a budget cut will occur will determine how KCPS will have to rearrange the budget to continue to meet the needs of our students and staff in the school system.

The Maryland Commission on Innovation and Excellence in Education, known as the Kirwan Commission, was tasked with updating the State's school financing formula. Based on Commission recommendations, Senate Bill 1030 established The Blueprint for Maryland's Future as current State education policy. Funding has been mandated for FY2020 and FY2021, however, due to the economic effects of COVID-19, funding in FY2022 is uncertain.

Funding other post-retirement benefits (OPEB) in accordance with GASB 75 remains a concern. GASB 75 is an accounting standard for all governmental agencies which addresses post-employment benefits, other than pensions, such as health care. Under GASB 75 the District must recognize the present cost and liability of future health care that has been earned by current and retired employees. There is no requirement to fund this obligation, however, it does become a liability against the Board's assets as reported in the Government-wide Statement of Net Position. Currently, health care expenses for retirees and active employees are expensed when paid. This practice is expected to continue especially with the economic conditions our funding entities face at this time. Whether or not this liability is funded in the future may affect our budget, and the bond rating of county and state governments.

During FY 2015 the Board implemented provisions of GASB 68, Accounting and Financial Reporting for Pensions. GASB 68 requires the Board to report their proportionate share of the Maryland State Retirement and Pension System's net pension liability. The Board's proportionate share is calculated by the System's actuary and is reported as a liability on the Board's Government-wide Statement of Net Position. Currently, pension costs for retirees and active employees are expensed when paid.

Contacting the Board of Education of Kent County's Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the Board's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact the Finance Office, (410) 778-7123, at The Board of Education of Kent County, Maryland.

FINANCIAL STATEMENTS

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

STATEMENT OF NET POSITION
June 30, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 3,696,623
Accounts receivable:	
Federal funds from State of Maryland	576,795
State of Maryland	276,420
Local	863,896
Other	363,347
Inventories, at cost	63,986
Prepaid expenses	64,978
Non depreciable capital assets	2,406,780
Depreciable capital assets, net	<u>17,110,284</u>
TOTAL ASSETS	<u>25,423,109</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions (see Note 7)	385,162
Other post-employment benefits (see Note 9)	<u>4,027,004</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>4,412,166</u>
LIABILITIES	
Accounts payable:	
Vendors	860,333
Accrued payroll	1,680,295
Accrued payroll deductions and withholdings	148,845
Other accrued expenses	196,997
Accrued leave	29,320
Unearned revenue	605,301
Long-term liabilities:	
Due within one year	121,944
Due in more than one year	<u>28,819,870</u>
TOTAL LIABILITIES	<u>32,462,905</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions (see Note 7)	249,295
Other post-employment benefits (see Note 9)	<u>1,699,873</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,949,168</u>
NET POSITION	
Net investment in capital assets	18,673,754
Restricted for:	
Smith Estate	3,153
Food service	12,707
Unrestricted	<u>(23,266,412)</u>
TOTAL NET POSITION	<u>\$ (4,576,798)</u>

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

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

		Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenues and changes in Net Position	
Governmental Activities						
Current:						
Administration	\$ 1,184,787	\$ -	\$ 43,320	\$ -	\$ (1,141,467)	
Mid-level administration	1,854,493	-	76,626	-	(1,777,867)	
Instructional salaries and wages	10,161,071	70,512	842,751	-	(9,247,808)	
Textbooks and instructional supplies	521,149	-	304,898	-	(216,251)	
Other instructional costs	942,882	-	374,090	-	(568,792)	
Special education	3,833,124	-	969,412	-	(2,863,712)	
Pupil personnel services	498,674	-	432	-	(498,242)	
Health services	489,081	-	69,681	-	(419,400)	
Pupil transportation	1,660,689	-	152,422	-	(1,508,267)	
Operation of plant	1,639,730	-	13,936	-	(1,625,794)	
Maintenance of plant	616,451	10,993	70,981	-	(534,477)	
Fixed charges	7,714,055	-	480,012	-	(7,234,043)	
Community services	89,328	-	89,328	-	-	
Capital outlay	71,118	-	50,000	3,276,160	3,255,042	
Food service	1,269,984	130,782	1,049,241	-	(89,961)	
Unallocated depreciation	1,508,397	-	-	-	(1,508,397)	
On-behalf Kent County contributions	215,998	-	215,998	-	-	
On-behalf State Retirement contributions	1,704,750	-	1,704,750	-	-	
Total Governmental Activities	\$ 35,975,761	\$ 212,287	\$ 6,507,878	\$ 3,276,160	(25,979,436)	
 General Revenues						
						18,044,079
Kent County Appropriations						9,537,527
State of Maryland - unrestricted						9,562
Federal sources - unrestricted						35,592
Investment earnings						172,636
Miscellaneous						27,799,396
Total General Revenues						27,799,396
 Change in Net Position						 1,819,960
 Net Position Beginning of Year						 (6,396,758)
 Net Position End of Year						 \$ (4,576,798)

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

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020

	MAJOR FUNDS			Total Governmental Funds
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
ASSETS				
Cash and investments	\$ 3,612,049	\$ -	\$ 84,574	\$ 3,696,623
Accounts receivable:				
Federal funds from State of Maryland	534,891	-	41,904	576,795
State of Maryland	65,806	210,017	597	276,420
Other Board of Education funds	534,099	-	25	534,124
Local	-	863,896	-	863,896
Other	363,347	-	-	363,347
Inventories, at cost	-	-	63,986	63,986
Prepaid expenses	64,978	-	-	64,978
TOTAL ASSETS	\$ 5,175,170	\$ 1,073,913	\$ 191,086	\$ 6,440,169
LIABILITIES AND FUND BALANCES				
Accounts payable:				
Vendors	\$ 214,443	\$ 641,168	\$ 4,722	\$ 860,333
Other Board of Education funds	-	432,745	101,379	534,124
Accrued payroll	1,675,205	-	5,090	1,680,295
Accrued payroll deductions and withholdings	148,845	-	-	148,845
Accrued leave	29,320	-	-	29,320
Other accrued expenses	196,997	-	-	196,997
Unearned revenue - Federal	583,141	-	-	583,141
Unearned revenue - State	15,687	-	-	15,687
Unearned revenue - USDA commodities	-	-	49	49
Unearned revenue - other	6,424	-	-	6,424
TOTAL LIABILITIES	2,870,062	1,073,913	111,240	4,055,215
COMMITMENTS AND CONTINGENCIES				
FUND BALANCES				
Nonspendable	64,978	-	63,986	128,964
Restricted	-	-	15,860	15,860
Committed	690,392	-	-	690,392
Assigned	500,382	-	-	500,382
Unassigned	1,049,356	-	-	1,049,356
TOTAL FUND BALANCES	2,305,108	-	79,846	2,384,954
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,175,170	\$ 1,073,913	\$ 191,086	\$ 6,440,169

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

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020

Total Governmental Funds Balances \$ 2,384,954

**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 19,517,064

Deferred outflows of resources not reported in
the fund financial statements

Pension (see Note 7)	385,162	
Other post-employment benefits (see Note 9)	<u>4,027,004</u>	4,412,166

Long-term liabilities are not due and payable
in the current period and therefore are not
reported in the funds

Capital leases	(843,310)	
Net pension liability	(2,701,620)	
Post-employment benefits	<u>(25,396,884)</u>	(28,941,814)

Deferred inflows of resources not reported in
the fund financial statements

Pension (see Note 7)	(249,295)	
Other post-employment benefits (see Note 9)	<u>(1,699,873)</u>	<u>(1,949,168)</u>

Net Position of Governmental Activities \$ (4,576,798)

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

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2020

	MAJOR FUNDS			Total Governmental Funds
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	
REVENUES				
County Appropriation	\$18,044,079	\$ 1,923,922	\$ -	\$ 19,968,001
State of Maryland	9,537,527	-	70,027	9,607,554
Federal sources	9,562	-	979,214	988,776
Restricted Federal revenues	2,552,170	-	-	2,552,170
Restricted State and other revenues	985,718	1,350,971	-	2,336,689
On-behalf Kent County contributions	215,998	-	-	215,998
On-behalf State Retirement contributions	1,704,750	-	-	1,704,750
Other sources:				
Sales of food	-	-	130,782	130,782
Other	287,512	1,267	2,222	291,001
TOTAL REVENUES	33,337,316	3,276,160	1,182,245	37,795,721
EXPENDITURES				
Current:				
Administration	1,184,787	-	-	1,184,787
Mid-level administration	1,854,493	-	-	1,854,493
Instructional salaries and wages	10,161,071	-	-	10,161,071
Instructional textbooks and supplies	521,149	-	-	521,149
Other instructional costs	949,602	-	-	949,602
Special education	3,833,124	-	-	3,833,124
Student personnel services	498,674	-	-	498,674
Student health services	489,081	-	-	489,081
Student transportation	1,750,272	-	-	1,750,272
Operation of plant	1,639,730	-	-	1,639,730
Maintenance of plant	649,515	-	-	649,515
Fixed charges	6,453,348	-	-	6,453,348
Community services	89,328	-	-	89,328
Capital outlay	183,033	3,276,160	-	3,459,193
Food services	-	-	1,269,984	1,269,984
On-behalf Kent County contributions	215,998	-	-	215,998
On-behalf State Retirement contributions	1,704,750	-	-	1,704,750
TOTAL EXPENDITURES	32,177,955	3,276,160	1,269,984	36,724,099
Net change in fund balances	1,159,361	-	(87,739)	1,071,622
Fund balances, beginning	1,145,747	-	167,585	1,313,332
Fund balances, ending	\$ 2,305,108	\$ -	\$ 79,846	\$ 2,384,954

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

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2020

Net change in fund balances-total Governmental Funds \$ 1,071,622

**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 their estimated useful lives as depreciation
expense.

Fixed asset additions	3,514,770	
Current year depreciation	<u>(1,624,916)</u>	
 Total		 1,889,854

Some expenses reported in the statement of activities do not
require the use of current financial resources and therefore
are not reported as expenditures in governmental funds.

Increase in pension expense due to deferred financing outflow	(88,267)	
Increase in pension expense due to net pension liability	(154,525)	
Increase in pension expense due to deferred financing inflows	(9,876)	
Decrease in post-employment benefits expense due to deferred financing outflow	3,954,877	
Increase in post-employment benefits expense due to net OPEB liability	(5,302,508)	
Decrease in post-employment benefits expense due to deferred financing inflow	339,592	

Repayment of capital lease obligations and long-term debt are
expenditures in the governmental funds, but the repayment
reduces long-term liabilities in the statement of net position.

<u>119,191</u>

Change in net position of Governmental Activities		<u><u>\$ 1,819,960</u></u>
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The Notes to Financial Statements are an integral part of this statement.

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2020

	Retiree Benefit <u>Trust Fund</u>	Agency <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 170,483
Investments	<u>1,177,825</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 1,177,825</u></u>	<u><u>\$ 170,483</u></u>
LIABILITIES		
Accounts payable:		
School activity funds payable	<u>\$ -</u>	<u>\$ 170,483</u>
TOTAL LIABILITIES	<u>-</u>	<u>170,483</u>
NET POSITION		
Held in trust for other post-employment benefits	<u><u>\$ 1,177,825</u></u>	<u><u>\$ -</u></u>

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

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
RETIREE BENEFIT TRUST FUND
Year Ended June 30, 2020

	<u>Retiree Benefit Trust Fund</u>
ADDITIONS	
Contributions:	
Investment income	\$ 33,624
TOTAL ADDITIONS	<u>33,624</u>
DEDUCTIONS	
Administrative expenses	<u>6,497</u>
TOTAL DEDUCTIONS	<u>6,497</u>
Change in net position	27,127
Net position held in trust for other post-employment benefits beginning of year	<u>1,150,698</u>
Net position held in trust for other post-employment benefits end of year	<u><u>\$ 1,177,825</u></u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of the Board of Education of Kent County, Maryland

The Board of Education of Kent County (the “Board”) is empowered by Title 13A of the Code of Maryland Regulations to fulfill the elementary and secondary educational needs of students in Kent County, Maryland (the “County”).

Financial Reporting Entity

The Board is the basic level of government which has financial accountability and control over all activities related to public school education in Kent County, Maryland. The Board receives funding from local, State and Federal government sources and must comply with the requirements of these funding source entities.

The Board is a component unit of Kent County, Maryland and is included in the County’s reporting entity. This conclusion has been reached based on the following criteria: 1) the County is responsible for approving the Board’s budget and establishing spending limitations and 2) the Board cannot issue bonded debt, but the County can and does issue bonds to finance school system operations. In addition, there are no component units which are included in the Board's reporting entity.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

The most significant of the Board’s accounting policies are described below.

A. Basis of Presentation

The Board’s basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Board as a whole. These statements include the financial activities of the Board. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities. The activities of the General Fund (Current Expense Fund), Special Revenue Fund (Food Service Fund), Capital Projects Fund (School Construction Fund), and permanent fund (Smith Estate Fund) have been presented as governmental activities in the government-wide financial statements. There were no business-type activities. Internal activity between funds is eliminated from the statements.

The statement of net position presents the financial condition of the governmental activities of the Board at year-end, excluding fiduciary funds. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Board’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Board.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (continued)

FUND FINANCIAL STATEMENTS

During the year, the Board segregates transactions related to certain Board functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Board at a more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column and non-major governmental funds are reported combined in a separate column in the fund financial statements.

B. Fund Accounting

The Board uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary (the Board has no proprietary funds).

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Board's major and non-major governmental funds:

Major funds:

General Fund (Current Expense Fund) - The General Fund is the general operating fund of the Board. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Capital Projects Fund (School Construction Fund) - School Construction Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Board administers the construction and repair of public schools and uses the School Construction Fund to record the revenues from the County and other governmental units and the expenditures in connection therewith.

Non-major funds:

Special Revenue Fund (Food Service Fund) - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Food Service Fund is used to account for and report all activities of the Board's nonprofit food service operation.

Smith Estate Fund - The Smith Estate fund is a permanent fund resulting from a bequest of funds that provides for payment of library expenses to the extent of investment income.

FIDUCIARY FUND TYPES

Agency Funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The School Activities Fund consists of transactions at the schools which are the direct responsibility of the principal of each of the respective schools.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (continued)

Retiree Benefit Trust Fund – This fund consists of contributions of the Board to establish a reserve to pay for health and welfare benefits of future retirees. Contributions to the trust qualify as contributions and are reported using the economic resource measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred. Fiduciary funds are not reported in the government-wide financial statements.

C. Measurement Focus

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Board are included on the statement of net position.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the Board receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: interest, tuition, grants, fees and rentals.

Unearned revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants received before the eligibility requirements are met are also recorded as unearned revenue.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting (continued)

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The fair value of donated commodities used during the year is reported as an expenditure with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The budget is prepared on the budgetary basis of accounting. The budget establishes a limit on the amounts that the Board may appropriate and sets annual limits as to the amount of expenditures at a level of control selected by the Board. The legal level of control has been established by the Board at the category level within each fund.

The budget may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original budget was adopted. The amounts reported in the final budgeted amounts reflect amendments approved by the County government during the year between categories and those approved by the Board within categories. Unexpended appropriations lapse at the end of each fiscal year.

The expenditures under state and federal restricted programs may exceed budgeted amounts. The grants included in this category are not part of budget categories subject to the spending limitations of the operating budget. Expenditures under these programs are limited to the amounts of the respective grants.

Annual budgetary comparisons to actual expenditures are not presented in the financial statements for the capital projects fund. School construction is budgeted on a project basis with funds primarily provided by Kent County and State of Maryland. State funds are approved by the State's interagency committee.

F. Inventory

On government-wide financial statements and the fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventory consists of expendable food and supplies held for consumption. Food received from the USDA is included at values stated by the USDA and is offset by a deferred credit until consumed.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (continued)

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of \$5,000. The Board does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Property, plant and equipment is depreciated using the straight-line method over estimated useful lives of 20 to 50 years for buildings and land improvements and 5-20 years for equipment.

Assets that have been acquired with funds received through federal grants must be used in accordance with the terms of the grant. Federal regulations require, in some cases, that the Board must reimburse the federal government for any assets which the Board retains for its own use after the termination of the grant unless otherwise provided by the grantor.

H. Compensated Absences

As of June 30, 2020, the value of accumulated unused sick leave has not been determined. It is not practical to estimate the portion of such values which will ultimately be paid because payment is contingent upon employees' future illnesses or retirement. The Board expects its commitment to provide sick leave to be met during the normal course of activities over the working lives of the present employees.

Any accumulated unused sick leave at retirement will ultimately be taken into consideration and paid through retirement benefits by the State of Maryland.

Twelve-month employees earn annual leave at varying rates dependent upon position and length of service. Annual leave generally must be taken by June 30 each year. For support staff, up to 15 days may be transferred to the next fiscal year. For administrative staff, up to three days may be transferred to the first week of July, and they can contribute 10 unused days to their 403(b) plans at the end of the fiscal year.

At June 30, 2020, a total of \$29,320 in unused annual leave is available, which has been recorded as accrued leave payable in the Statement of Net Position.

Expenditures in the Statement of Revenues and Expenditures for such items are the amounts accrued during the year that normally would be liquidated with expendable available financial resources. All accrued compensated absences are recorded in the government-wide financial statements.

I. Unearned Revenues

Unearned revenues consist of federal and state grants, USDA commodities and other refundable advances that have not been expended as of June 30, 2020 and consist of the following:

Restricted federal, state and other grant programs	\$	598,828
USDA commodities		49
Other unearned revenue		6,424
<u>Total</u>	<u>\$</u>	<u>605,301</u>

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

K. Net Position

In the government-wide financial statements, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

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

L. Deferred Outflows and Inflows of Resources

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

M. Fund Balance

Fund balances are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable (i.e. inventory or long term receivables), restricted (by external parties or legislation), committed (by resolution of the Board of Education), assigned (by management approval for specific purposes) and unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board. Assigned fund balances is a limitation imposed by a designee of the Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories.

N. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Cash and Cash Equivalents

The Board considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

P. Interfund Receivables and Payables and Transfers

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Transfers are fund balance amounts reserved and/or designated in the prior year that received County approval to be spent on capital projects.

Q. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are reported as assigned fund balance in the governmental fund financial statements. General fund unrestricted encumbrances outstanding at June 30, 2020 that were provided for in the current year's budget for the budgetary basis of accounting but will be accounted for under generally accepted accounting principles in the subsequent year totaled \$500,382.

R. On-behalf Payments

The Board recognizes as revenue and expenditures amounts expended on its behalf during the fiscal year for amounts paid by third parties. During fiscal year 2019, the Board recognized \$1,704,750 for amounts expended on its behalf by the State of Maryland for retirement contributions and \$215,998 for amounts expended on its behalf by Kent County for school resource officers, information technology services, and ground maintenance.

Note 3. Cash and Investments

At June 30, 2020, the reported amount of the Board's deposits was \$3,867,106 and the bank balance was \$4,264,350. As required by law, each depository is to pledge securities at least equal to the amount on deposit at all times in addition to insurance provided by the Federal Deposit Insurance Corporation (FDIC). These collateralization requirements are established to reduce custodial risk which is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As of June 30, 2020, the bank deposits were fully insured or collateralized.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

The Board's exposure to investment rate and credit risk is minimal as all investments are in cash and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by attempting to have all investments fully collateralized by securities.

The components of cash and investments on the government-wide statements are:

Carrying amount of deposits	\$	3,867,106
Less: Amounts in fiduciary funds		(170,483)
Total cash and investments per Statement of Net Position	\$	3,696,623

Investment in External Investment Pool

The Board has funds designated for Other Postemployment Benefits (OPEB) that are held by the Maryland Association of the Boards of Education (MABE) in the MABE Pooled OPEB Investment Trust (MABE Trust). The MABE Trust is administered by MABE, and is a wholly-owned instrumentality of its members. The ten members who are the sole contributors to the MABE Trust are the Allegany Fiduciary Fund and the boards of education of the following counties in Maryland: Allegany, Caroline, Cecil, Charles, Harford, Kent, Prince George's, St. Mary's and Washington.

The investments of the MABE Trust are stated at fair value and are deposited with Fidelity at June 30, 2020. Investments consist of money market funds, U.S. government and agency fixed income and asset backed securities, equity securities, mutual funds and exchange traded funds, and corporate bonds and corporate asset backed securities. The MABE Trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs. All investments of the MABE Trust are considered Level 1 or Level 2, the Board's membership investment in the MABE Trust are considered Level 2. For investments in mutual funds, there are no unfunded commitments and investments are able to be fully redeemed on a daily basis. At June 30, 2020, the pooled position of the MABE Trust was \$435,236,445 in total, of which the Board's allocated investment balance was \$1,177,825. The Board may terminate its membership interest in the MABE Trust and withdraw its allocated investment balance by providing written notice six months prior to the intended date of withdraw.

The MABE Trust is audited annually by an independent CPA firm and issues a publicly available audited report. The report may be obtained by sending a request to the Administrator of the MABE Pooled OPEB Investment Trust, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401-1112 or by calling (410) 841-5414.

Note 4. Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
General Fund	\$ 534,099	\$ -
School Construction Fund	-	432,745
Food Services Fund	-	101,379
Smith Estate	25	-
	\$ 534,124	\$ 534,124

Due to/from other funds represent advances of cash for operating needs.

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

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

	Balance June 30, 2019	Additions	Deductions	Transfers	Balance June 30, 2020
Governmental Activities					
Capital Assets, not being depreciated					
Construction in progress	\$ 661,172	\$ 2,242,038	\$ -	\$ (618,455)	\$ 2,284,755
Land	122,025	-	-	-	122,025
Total capital assets, not being depreciated	<u>783,197</u>	<u>2,242,038</u>	<u>-</u>	<u>(618,455)</u>	<u>2,406,780</u>
Capital assets, being depreciated					
Land improvements	726,079	-	-	-	726,079
Buildings, furniture, fixtures and equipment	54,374,538	1,205,547	-	618,455	56,198,540
Vehicles	1,634,284	67,185	(30,219)	-	1,671,250
Total capital assets, being depreciated	<u>56,734,901</u>	<u>1,272,732</u>	<u>(30,219)</u>	<u>618,455</u>	<u>58,595,869</u>
Less accumulated depreciation:					
Land improvements	(354,336)	(37,579)	-	-	(391,915)
Buildings, furniture, fixtures and equipment	(39,120,517)	(1,470,818)	-	-	(40,591,335)
Vehicles	(416,035)	(116,519)	30,219	-	(502,335)
Total accumulated depreciation	<u>(39,890,888)</u>	<u>(1,624,916)</u>	<u>30,219</u>	<u>-</u>	<u>(41,485,585)</u>
Total capital assets, being depreciated, net	<u>16,844,013</u>	<u>(352,184)</u>	<u>-</u>	<u>618,455</u>	<u>17,110,284</u>
Governmental activities capital assets, net	<u>\$ 17,627,210</u>	<u>\$ 1,889,854</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,517,064</u>

Depreciation expense was charged to governmental functions as follows:

Pupil transportation	\$ 116,519
Unallocated	<u>1,508,397</u>
Total depreciation expense	<u>\$ 1,624,916</u>

Note 6. Long-Term Liabilities

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

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Due within one year
Capital leases	\$ 962,501	\$ -	\$ 119,191	\$ 843,310	\$ 121,944
Net pension liability (Note 7)	2,547,095	154,525	-	2,701,620	-
Net OPEB liability (Note 9)	20,094,376	5,302,508	-	25,396,884	-
	<u>\$ 23,603,972</u>	<u>\$ 5,457,033</u>	<u>\$ 119,191</u>	<u>\$ 28,941,814</u>	<u>\$ 121,944</u>

Long-term liabilities are normally paid from the General Fund.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans

Plan Description

The State Retirement Agency is the administrator of the Maryland State Retirement and Pension System (the System). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits. The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System. Responsibility for the System's administration and operation is vested in a 15 member Board of Trustees. The State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1660, Baltimore, Maryland 21202-1600 or on-line at www.sra.maryland.gov.

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Generally, all regular employees of the Board participate in the Employees' Retirement and Pension Systems (Employee's Systems). Teachers employed by the Board generally participate in the Teachers' Retirement and Pensions Systems (Teachers' Systems). Both the Employees' Systems and the Teachers' Systems (collectively the Systems) are cost sharing multiple-employer defined benefit pension plans.

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

General Plan Policies

The Teachers' Retirement System of the State of Maryland was established on August 1, 1927 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland for the purpose of providing retirement allowances and other benefits to teachers in the State. In addition, on January 1, 1980, the Teachers' Pension System of the State of Maryland was established. In this regard, teachers hired on or after January 1, 1980 become members of the Teachers' Pension System, unless they elect to join an optional retirement program. Until December 31, 2004, existing members of the Teachers' Retirement System had the option of remaining in the Teachers' Retirement System or transferring to the Teachers' Pension System.

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension system was established. Until December 31, 2004, existing members of the Employees' Retirement System had the option of remaining in the Employees' Retirement System or transferring to the Employees' Pension System.

Significant Plan Benefits and Policies

The following is a general description of the significant plan benefits and related contribution requirements for the Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems:

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Teachers' and Employees' Retirement Systems

Retirement Benefits:

A member may retire with full benefits after attaining the age of 60, or after completing 30 years of creditable service regardless of age. The annual retirement allowance is equal to 1/55 of a member's average final compensation (i.e. average of the member's three highest years of annual earnable compensation) multiplied by the number of years and months of accumulated creditable service. A member may retire with reduced benefits after completing 25 years of creditable service regardless of age. Retirement allowances are adjusted each year based on the Consumer Price Index. Cost-of-living adjustments (COLAs) are applied to all allowances payable for the year, however, the method by which the COLA is computed depends upon elections made by members and is tied to member contributions.

Vested Allowance:

A member terminating employment before attaining retirement age but after completing 5 years of creditable service becomes eligible for a vested retirement allowance, provided the member lives to the age of 60 and does not withdraw his or her accumulated contributions. Members terminating employment before attaining retirement age and before completing 5 years of creditable service are refunded their accumulated contributions plus earned interest.

Employee Contributions:

Members of the Teachers' and Employees' Retirement System are required to contribute to the systems a fixed percentage of their regular salaries and wages (e.g. 7% or 5%, depending on the COLA option selected). The contributions are deducted from each member's salary and wage payment and are remitted to the systems on a regular, periodic basis.

Teachers' and Employees' Pension Systems

Pension Benefits:

A member may retire with full benefits after completing 30 years of eligibility service regardless of age, or at age 62 or older with specified years of eligibility service. On retirement from service, a member shall receive an annual service pension allowance. The annual pension allowance is equal to 1.2% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued prior to July 1, 1998 and 1.8% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued on or after July 1, 1998. Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Vested Allowance:

A member terminating employment before attaining retirement age, but after completing 5 years of eligibility service, becomes eligible for a vested pension allowance provided the member lives to age 62. Members terminating employment before attaining retirement age and before completing 5 years of eligibility service are refunded their accumulated contributions plus earned interest.

Employee Contributions:

Effective July 1, 2011, members of the Teachers' and Employees' Pension Systems are required to contribute to the systems 7% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2020. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

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

Teachers’ and Employees’ Retirement Systems and the Teachers’ and Employees’ Pension Systems

Employer Contributions:

For the year ended June 30, 2020 the Board’s total payroll for all employees was \$18,321,044. Total covered payroll was \$16,742,974. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers’ Systems or Employees’ Systems.

During fiscal year 2020, the State of Maryland contributed \$1,704,750 to the Systems on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense in the General Fund.

Teachers’ Retirement and Pension Systems:

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay the State 100% of the normal cost portion of the total pension cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee’s service. As contractually required, during fiscal year 2020, the Board contributed \$645,036 to the Teachers’ Retirement and Pension System.

Employees’ Retirement and Pension Systems:

During fiscal year 2020, the Board contributed \$285,986 to the Employees’ Retirement and Pension System.

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

Because the State of Maryland pays the unfunded liability for the Teachers’ Systems and the Board pays the normal cost for the Teachers’ Systems, the Board is not required to record its’ share of the unfunded pension liability for the Teachers’ Systems, the State of Maryland is required to record that liability. The Board is required to record a liability for the Employees’ Systems.

At June 30, 2020, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

	2020
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 2,701,620
State's proportionate share of the net pension liability (Teachers' Systems)	17,366,822
	17,366,822
Total	\$ <u>20,068,442</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

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 a projection of the Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. As of June 30, 2019 the Board's proportion of the net pension liability was .013%, which was substantially the same as its proportion measured as of June 30, 2018. Due to the proportion remaining substantially the same, the pension expense related to the change in proportion from June 30, 2018 to June 30, 2019 for the net pension liability, deferred financing outflows and deferred financing inflows is recognized as pension expense in the government-wide financial statements.

For the year ended June 30, 2020, the Board recognized pension expense of \$1,183,690 in the government-wide financial statements. \$931,022 was recognized in the fund financial statements. 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
Changes in assumptions	\$ 42,472	\$ 73,526
Net difference between projected and actual investment earnings on pension plan investments	56,704	-
Differences between expected and actual experience	-	175,769
Board contributions subsequent to measurement date	285,986	-
	\$ 385,162	\$ 249,295
Total	\$ 385,162	\$ 249,295

The \$285,986 of deferred outflows of resources resulting from the Board's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.68 to 5.87 years. The net difference in investment earnings are being amortized over a closed five year period. These amounts will be recognized in pension expense as follows as of June 30, 2020:

Year Ending June 30,	Amortization of Pension Expense
2021	\$ 4,539
2022	(80,849)
2023	(43,610)
2024	(15,534)
2025	(14,665)
	\$ (150,119)
	\$ (150,119)

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.65% general, 3.15% wage
Salary increases	3.10% to 11.60%, including inflation
Discount rate	7.40%
Investment rate of return	7.40%
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board of Trustees after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	6.30%
Private Equity	13%	7.50%
Rate Sensitive	19%	1.30%
Credit Opportunity	9%	3.90%
Real Assets	14%	4.50%
Absolute Return	8%	3.00%
Total	<u>100%</u>	

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Discount rate

A single discount rate of 7.40% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.40%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Boards Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.40%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>Discount Rate</u>	<u>Board's Net Pension Liability</u>
1% decrease	6.40%	\$ 3,910,324
Current discount rate	7.40%	\$ 2,701,620
1% increase	8.40%	\$ 1,694,921

Note 8. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the Maryland Association of Boards of Education Group Insurance Pool (the "Pool") was formed when several Maryland boards of education joined together to pool their casualty risks. Property insurance coverage was added in 1988 and workers compensation in fiscal year 2000. The Board pays an annual premium to the Pool each year which is calculated by an actuary. It is intended that the Pool be self-sustaining through member premiums. Reinsurance is carried through commercial companies for claims which exceed coverage limits as specified in the agreement. Should the Pool encounter deficits in its casualty and/or property funds, such deficits may be made up from assessments of the participating boards on a pro rata basis.

The Board continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. The Board purchases health insurance from a provider through a modified retrospective rating arrangement agreement. Settled claims have not exceeded insurance coverage for each of the past three fiscal years.

The Board is a member of the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self-sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 12% as a recommended conservative reserve. As of December 31, 2019, the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$830,634. All funds held by ESMEC are restricted to being used only for health care expenses.

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits

Plan Description

The Board of Education of Kent County, Maryland administers a single-employer defined benefit healthcare plan, The Kent County Public Schools Retiree Health Plan (“the Plan”), that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees, their spouses and other dependents. The Plan does not issue a publicly available report.

Plan Administration

A trust account was established and the Board became a member of the Maryland Association of Boards of Education Pooled OPEB Investment Trust (MABE Trust). It is a member owned trust that provides the Board and nine other members a structure to pool assets to reduce investment costs and share administrative expenses. The Board reserves the right to establish and amend the provisions of its relationship with the MABE Trust with respect to participants, and benefits provided thereunder, or its participation therein, in whole or in part at any time, by resolution of the governing body and upon advance notice to the Trustees of the MABE Trust.

The MABE Trust was established to pool assets of its members for investment purposes only. Each member of the MABE Trust is required to designate a member trustee. The member trustees of the MABE Trust shall ensure that the MABE Trust keep such records as are necessary in order to maintain a separation of the assets of the MABE Trust from the assets of trusts maintained by other government employers. Assets of the member trusts are reported in the respective financial statements using the economic resources measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, if available. The MABE Trust prohibits any part of the trust to be used for or diverted to purposes other than providing benefits to participants and beneficiaries under the Plan. The MABE Trust provides that in no event will the assets of the trust be transferred to an entity that is not a state, a political subdivision, or an entity the income of which is excluded from taxation under Section 115 of the IRS Code.

The MABE Trust issues a publicly available audited GAAP-basis report that includes the financial statements and required supplementary information for the MABE Trust. This report may be obtained by writing to the Trust Administrator, Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401 or by calling (410) 841-5414.

Plan Membership

At January 1, 2020 (valuation date), the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	160
Inactive plan members or beneficiaries entitled but not yet receiving benefits	-
Active plan members	250
	<u>410</u>

NOTES TO FINANCIAL STATEMENTS

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

Benefits Provided

The Plan provides medical, prescription drug, dental, and vision benefits to eligible retirees, their spouses and eligible dependents. Any employee who retires with an unreduced service retirement benefit from the Maryland Retirement System can purchase health insurance from the County. The Board provides a subsidy for employees with at least five years of service with Kent County Public Schools. The Plan provides for the payment of a portion or all of the health insurance premiums for eligible retired employees depending on their position with Kent County Public Schools and length of service. The Board of Education has the authority to establish and amend benefit provisions of the Plan. Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Kent County Public Schools Retiree Health Plan pays 45% of the individual premium for each insured retiree who was a teacher, 55% for administrative and support services employees with under 30 years of service, and 100% for administrative and support services employees with 30 or more years of service. Spouses and other dependents are eligible for coverage, but the employee is responsible for the entire cost of such coverage if they retired on or after January 1, 1998. If they retired prior to January 1, 1998 the Board pays 45% of the premiums.

Participants must meet the eligibility requirements of the Maryland State Teachers'/Employees' pension system (EPS). For members hired before July 1, 2011, the earliest retirement eligibility is age 55 with 15 years of service, age 62 with 5 years of service, age 63 with 4 years of service, age 64 with 3 years of service, age 65 with 2 years of service, or 30 years of service regardless of age. For members hired after July 1, 2011, the earliest eligibility is age 60 with 15 years of service, age 65 with 10 years of service, or age plus service is at least 90 (Rule of 90).

Contributions

The employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon annual approval of the operating budget.

Investment Policy

The MABE Trust's policy in regard to the allocation of invested assets is established and may be amended by the Trustees by a majority vote of its members. It is the policy of the Trust to pursue an investment strategy that emphasizes growth of principal while avoiding excess risk. Short-term volatility will be tolerated inasmuch as it is consistent with volatility of a comparable market index. The MABE Trust's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
Equity	67.10%
Fixed income	27.30%
Cash	5.60%
Total	<u>100.00%</u>

NOTES TO FINANCIAL STATEMENTS

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

Rate of Return

Best estimates of real rates of return for each major asset class included in the target asset allocations as of June 30, 2020, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	6.75%
Fixed income	2.85%
Cash	1.10%

For the year ended June 30, 2019, the total rate of return, net of investment expense, was 6.56%. The total rate of return represents a hypothetical return on capital balance invested in the Trust during the entire year. Actual return rates may vary due to the timing of capital contributions and redemptions.

Net OPEB Liability

The Board's net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2020. The methods, assumptions, and participant data used are detailed in the fiscal year 2020 valuation report dated July 1, 2020. The discount rate was 3.62% as of June 30, 2018 and 3.13% as of June 30, 2019.

NOTES TO FINANCIAL STATEMENTS

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

Actuarial Assumptions

Projections of benefits for financial reporting are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and Plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of significant valuation methods and assumptions are as follows:

Valuation date	January 1, 2020
Measurement date - GASB 75	June 30, 2019
Actuarial cost method - GASB 75	Entry age normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2018	3.62%
Discount rate - June 30, 2019	3.13%
Payroll growth	3.00%
Inflation rate	2.50%
Rate of growth in real income	1.50%
Medical trend	Based on Society of Actuaries Long-Run Medical Cost Trend Model baseline assumptions. The model was released in October 2010 and updated in September 2019. The 2020 rate is 4.70% decreasing gradually to 4.00% in 2075.
Mortality	The mortality rates were calculated using the Pub-2010 Teacher Employees, Teacher Retirees and Disabled Teacher Retirees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale.

Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is selected from a range of 20-Year Municipal Bond Indices and include the Bond Buyer 20-Bond GO Index, the S&P Municipal Bond 20-Year High Grade Rate Index and the Fidelity 20-Year GO Municipal Bond Index. The final equivalent single discount rate used for this year's valuation is 3.13% as of June 30, 2019. The rate has been adjusted from 3.62% as of June 30, 2018.

NOTES TO FINANCIAL STATEMENTS

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

Change in Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2018	\$ 21,174,266	\$ 1,079,890	\$ 20,094,376
Changes for the Year			
Service Cost	655,921	-	655,921
Interest	753,845	-	753,845
Changes of Benefit Terms	-	-	-
Experience Losses/Gains	3,983,544	-	3,983,544
Trust Contributions - Employer	-	568,072	(568,072)
Net Investment Income	-	76,954	(76,954)
Changes in Assumptions	548,092	-	548,092
Benefit Payments (net of retiree contributions)	(568,072)	(568,072)	-
Administrative Expense	-	(6,132)	6,132
Net Changes	5,373,330	70,822	5,302,508
Balance as of June 30, 2019	\$ 26,547,596	\$ 1,150,712	\$ 25,396,884

Plan fiduciary net position as a percentage of the total OPEB liability at June 30, 2019 is approximately 4.33%.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Board using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate	Net OPEB Liability
1% decrease	2.13%	\$ 30,249,964
Current discount rate	3.13%	\$ 25,396,884
1% increase	4.13%	\$ 21,547,199

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rates

The following presents the net OPEB liability of the Board, as well as what the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1% point lower or 1% point higher than the current rate:

	Healthcare Cost Trend Rate	Net OPEB Liability
1% decrease	3.00%	\$ 21,211,705
Current healthcare cost trend rate	4.00%	\$ 25,396,884
1% increase	5.00%	\$ 30,847,630

NOTES TO FINANCIAL STATEMENTS

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2020, the Board will recognize OPEB expense in the amount of \$1,576,111 on the government-wide statements. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 479,580	\$ 1,680,448
Net difference between projected and actual investment earnings	-	19,425
Differences between expected and actual experience	3,547,424	-
Board's contributions subsequent to measurement date	-	-
Total	\$ 4,027,004	\$ 1,699,873

Amounts reported as differences between projected and actual earnings on OPEB plan investments will be amortized and expensed over a closed five-year period. Amounts reported as differences between expected and actual experience will be amortized and expensed over a period equal to the average remaining service lives of all employees that are provided with other post-employment benefits through the plan. Amounts reported as changes in assumptions will be amortized and expensed over a period equal to the average remaining service lives of all employees that are provided with other post-employment benefits through the plan. Amortization expense related to net deferred inflows and outflows of resources over the next five years is expected to be as follows:

Year Ending June 30,	<u>Amortization</u>
2021	\$ 235,590
2022	235,590
2023	243,509
2024	244,282
2025	244,599
Thereafter	1,123,561
	\$ 2,327,131

NOTES TO FINANCIAL STATEMENTS

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

GASB 74 Information

Plan Membership

At January 1, 2020 (valuation date), the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	160
Inactive plan members or beneficiaries entitled but not yet receiving benefits	-
Active plan members	250
	410

Contributions

The employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon annual approval of the operating budget.

Rate of Return

For the year ended June 30, 2020, the total rate of return, net of investment expense, was 2.36%. The total rate of return represents a hypothetical return on capital balance invested in the Trust during the entire year. Actual return rates may vary due to the timing of capital contributions and redemptions.

Actuarial Assumptions

The total OPEB liability is based on January 1, 2020 valuation data rolled forward to June 30, 2020. The methods, assumptions and participant data used are detailed below:

Valuation date	January 1, 2020
Measurement date - GASB 74	June 30, 2020
Actuarial cost method - GASB 74	Entry age normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2019	3.13%
Discount rate - June 30, 2020	2.45%
Payroll growth	3.00%
Inflation rate	2.50%
Rate of growth in real income	1.50%
Medical trend	Based on Society of Actuaries Long-Run Medical Cost Trend Model baseline assumptions. The model was released in October 2010 and updated in September 2019. The 2020 rate is 4.70% decreasing gradually to 4.00% in 2075.
Mortality	The mortality rates were calculated using the Pub-2010 Teacher Employees, Teacher Retirees and Disabled Teacher Retirees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale.

NOTES TO FINANCIAL STATEMENTS

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

GASB 74 Information (Continued)

Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is selected from a range of 20-Year Municipal Bond Indices and include the Bond Buyer 20-Bond GO Index, the S&P Municipal Bond 20-Year High Grade Rate Index and the Fidelity 20-Year GO Municipal Bond Index. The final equivalent single discount rate used for this year's valuation is 2.45% as of June 30, 2020. The rate has been adjusted from 3.13% as of June 30, 2019.

Change in Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2019	\$ 26,547,596	\$ 1,150,712	\$ 25,396,884
Changes for the Year			
Service Cost	891,513	-	891,513
Interest	819,833	-	819,833
Changes of Benefit Terms	-	-	-
Experience Losses/Gains	183,953	-	183,953
Trust Contributions - Employer	-	893,676	(893,676)
Net Investment Income	-	33,610	(33,610)
Changes in Assumptions	3,270,908	-	3,270,908
Benefit Payments (net of retiree contributions)	(893,676)	(893,676)	-
Administrative Expense	-	(6,497)	6,497
Net Changes	4,272,531	27,113	4,245,418
Balance as of June 30, 2020	\$ 30,820,127	\$ 1,177,825	\$ 29,642,302

Plan fiduciary net position as a percentage of the total OPEB liability at June 30, 2020 is approximately 3.82%.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Board using the discount rate of 2.45%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate	Net OPEB Liability
1% decrease	1.45%	\$ 35,527,748
Current discount rate	2.45%	\$ 29,642,302
1% increase	3.45%	\$ 25,001,836

NOTES TO FINANCIAL STATEMENTS

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

GASB 74 Information (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Trend Rates

The following presents the net OPEB liability of the Board, as well as what the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1% point lower or 1% point higher than the current rate:

	Healthcare Cost Trend Rate	Net OPEB Liability
1% decrease	3.00%	\$ 24,328,340
Current healthcare cost trend rate	4.00%	\$ 29,642,302
1% increase	5.00%	\$ 36,665,934

Note 10. Leases

Operating leases:

The Board leases copy machines for the majority of the educational system and certain vehicles over five year terms.

Expenses under these leases totaled approximately \$121,800 for the year ended June 30, 2020. Approximate future minimum lease commitments are as follows:

2021	\$	121,800
2022		121,800
2023		32,234
2024		32,234

NOTES TO FINANCIAL STATEMENTS

Note 10. Leases (Continued)

Capital leases:

The Board has entered into a non-cancelable lease agreement that transfers ownership at the end of the lease, thus the Board has recorded lease obligations and the related assets in the appropriate funds.

Capital lease obligations at June 30, 2020 consist of the following:

Vehicles, bank, interest at 2.31%; payable in annual installments of approximately \$141,425, including interest through 2027	\$	843,310
		843,310
		843,310

Future minimum lease payments under the capital lease, which will be funded from the General Fund, are as follows:

2021	\$	141,425
2022		141,425
2023		141,425
2024		141,425
2025		141,425
2026-2027		211,063
		918,188
<u>Less amounts representing interest</u>		<u>74,878</u>
<u>Present value of net minimum lease payments</u>	<u>\$</u>	<u>843,310</u>

Interest expense on the above capital lease was approximately \$22,200 for the year ended June 30, 2020.

The cost of items acquired under the capital lease arrangement, as included in capital assets totaled \$1,220,028 and the related accumulated depreciation was \$223,671 at June 30, 2020.

NOTES TO FINANCIAL STATEMENTS

Note 11. Fund Balances

As of June 30, 2020, fund balances are composed of the following:

	Major Fund		Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Capital Projects Fund		
Nonspendable:				
Prepaid expenses	\$ 64,978	\$ -	\$ -	\$ 64,978
Inventories	-	-	63,986	63,986
	64,978	-	63,986	128,964
Restricted:				
By Federal law for nonprofit food service fund	-	-	12,707	12,707
By Smith Estate bequest for library expenses	-	-	3,153	3,153
	-	-	15,860	15,860
Committed:				
Budget reserve	190,392	-	-	190,392
Contingency	500,000	-	-	500,000
	690,392	-	-	690,392
Assigned:				
Encumbrances	500,382	-	-	500,382
	1,049,356	-	-	1,049,356
Unassigned	1,049,356	-	-	1,049,356
Total fund balance	\$ 2,305,108	\$ -	\$ 79,846	\$ 2,384,954

Note 12. Commitments and Contingencies

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years.

The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2020 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Board is a defendant in various lawsuits. After considering all relevant facts and the opinion of legal counsel, it is management's opinion that such litigation will not have a material adverse effect on the financial position of the Board.

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

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES				
Kent County	\$ 18,044,079	\$ 18,044,079	\$ 18,044,079	\$ -
State of Maryland	9,416,115	9,285,099	9,537,527	252,428
United States Government	71,000	71,000	9,562	(61,438)
Restricted federal, state and other	2,008,688	3,395,280	3,351,617	(43,663)
Other sources	264,991	87,148	287,512	200,364
TOTAL REVENUES	29,804,873	30,882,606	31,230,297	347,691
EXPENDITURES AND ENCUMBRANCES				
Administration	1,127,912	1,182,912	1,176,178	6,734
Mid-level administration	1,864,490	1,844,490	1,785,238	59,252
Instructional salaries	9,544,994	9,380,994	9,318,320	62,674
Instructional texts and supplies	246,837	216,154	216,044	110
Instructional other costs	757,492	830,617	829,713	904
Special education	3,236,719	2,993,454	2,882,419	111,035
Student personnel services	449,998	515,748	498,242	17,506
Student health services	486,333	403,000	393,804	9,196
Student transportation	1,820,120	1,820,120	1,641,602	178,518
Operation of plant	1,732,794	1,691,794	1,625,794	66,000
Maintenance of plant	603,215	603,215	567,006	36,209
Fixed charges	6,120,962	6,147,962	5,973,336	174,626
Capital outlay	59,991	112,538	112,322	216
Restricted programs	2,008,688	3,395,280	3,351,617	43,663
TOTAL EXPENDITURES AND ENCUMBRANCES	30,060,545	31,138,278	30,371,635	766,643
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	(255,672)	(255,672)	858,662	1,114,334
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	255,672	255,672	255,672	-
TOTAL OTHER FINANCING SOURCES (USES)	255,672	255,672	255,672	-
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ 1,114,334	\$ 1,114,334

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2020

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

As of June 30, Measurement date:	Fiscal Year									
	2011 6/30/2011	2012 6/30/2012	2013 6/30/2013	2014 6/30/2014	2015 6/30/2015	2016 6/30/2016	2017 6/30/2017	2018 6/30/2018	2019 6/30/2019	2020 6/30/2020
Total OPEB liability										
Service cost							\$ 753,715	\$ 638,329	\$ 655,921	\$ 891,513
Interest							629,260	727,068	753,845	819,833
Changes of benefit terms							-	-	-	-
Differences between expected and actual experience							-	82,431	3,983,544	183,953
Changes of assumptions							(2,500,064)	(157,212)	548,092	3,270,908
Benefit payments							(620,000)	(768,569)	(568,072)	(893,676)
Net change in OPEB liability							(1,737,089)	522,047	5,373,330	4,272,531
Total OPEB liability - beginning							22,389,308	20,652,219	21,174,266	26,547,596
Total OPEB liability - ending (a)							<u>\$ 20,652,219</u>	<u>\$ 21,174,266</u>	<u>\$ 26,547,596</u>	<u>\$ 30,820,127</u>
Plan fiduciary net position										
Contributions - employer							\$ 620,000	\$ 768,569	\$ 568,072	\$ 893,676
Net investment income							103,414	74,466	76,954	33,610
Benefit payments							(620,000)	(768,569)	(568,072)	(893,676)
Administrative expenses							(7,642)	(5,938)	(6,132)	(6,497)
Net change in plan fiduciary net position							95,772	68,528	70,822	27,113
Plan fiduciary net position - beginning							915,590	1,011,362	1,079,890	1,150,712
Plan fiduciary net position - ending (b)							<u>\$ 1,011,362</u>	<u>\$ 1,079,890</u>	<u>\$ 1,150,712</u>	<u>\$ 1,177,825</u>
Board's net OPEB liability - ending (a) - (b)							<u>\$ 19,640,857</u>	<u>\$ 20,094,376</u>	<u>\$ 25,396,884</u>	<u>\$ 29,642,302</u>
Plan fiduciary net position as a percentage of the total OPEB liability							4.90%	5.10%	4.33%	3.82%
Covered employee payroll							13,848,985	17,303,337	17,862,417	16,742,974
Board's net OPEB liability as a percentage of covered employee payroll							141.82%	116.13%	142.18%	177.04%
Expected Average Remaining Service Years of All Participants							8	8	8	8

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2020

SCHEDULE OF INVESTMENT RETURNS

	<u>Fiscal Year</u>									
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Annual money-weighted rate of return, net of investment							10.46%	6.77%	6.56%	2.36%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2020

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Board's Proportion of the NPL (Percentage) A	Board's Proportionate Share of the NPL B	State's Proportionate Share of the NPL C	Total (B+C)	Board's Covered Payroll D	Board's Proportionate Share as a Percentage of Covered Payroll (B / D)	Plan's Total Fiduciary Net Position E	Plan's Total Pension Liability F	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (E / F)
2011										
2012										
2013										
2014										
2015	June 30, 2014	0.0113256%	\$ 2,009,929	\$16,219,599	\$ 18,229,528	\$ 13,696,066	14.68%	\$45,339,988,000	\$63,086,719,000	71.87%
2016	June 30, 2015	0.0122061%	\$ 2,536,630	\$18,627,177	\$ 21,163,807	\$ 14,025,709	18.09%	\$45,789,840,000	\$66,571,552,000	68.78%
2017	June 30, 2016	0.0124563%	\$ 2,938,934	\$24,758,151	\$ 27,697,085	\$ 13,848,985	21.22%	\$45,365,927,000	\$68,959,954,000	65.79%
2018	June 30, 2017	0.0121455%	\$ 2,626,298	\$19,958,700	\$ 22,584,998	\$ 17,303,337	15.18%	\$48,987,184,000	\$70,610,885,000	69.38%
2019	June 30, 2018	0.0121397%	\$ 2,547,095	\$17,219,703	\$ 19,766,798	\$ 17,862,417	14.26%	\$51,827,233,000	\$72,808,833,000	71.18%
2020	June 30, 2019	0.0130984%	\$ 2,701,620	\$17,366,822	\$ 20,068,442	\$ 16,742,974	16.14%	\$53,943,420,000	\$74,569,030,000	72.34%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2020

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Measurement Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Board's Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
		A	B	(A - B)	C	(B / C)
2011						
2012						
2013						
2014						
2015	June 30, 2014	\$ 257,272	\$ 257,272	\$ -	\$ 13,696,066	1.88%
2016	June 30, 2015	\$ 242,658	\$ 242,658	\$ -	\$ 14,025,709	1.73%
2017	June 30, 2016	\$ 247,202	\$ 247,202	\$ -	\$ 13,848,985	1.78%
2018	June 30, 2017	\$ 242,074	\$ 242,074	\$ -	\$ 17,303,337	1.40%
2019	June 30, 2018	\$ 268,975	\$ 268,975	\$ -	\$ 17,862,417	1.51%
2020	June 30, 2019	\$ 285,986	\$ 285,986	\$ -	\$ 16,742,974	1.71%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Comparison Schedule

The Board of Education annually adopts a budget for the General Fund (Current Expense Fund). All appropriations are legally controlled at the categorical level for the General Fund.

The budget is integrated into the accounting system, and the budgetary data compares the expenditures with the amended budget. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Schedule of Revenues, Expenditures and Encumbrances – Budget and Actual for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Adjustments necessary to convert the results of operations and fund balances at the end of the year on the GAAP basis to the budgetary basis are as follows:

	June 30, 2020		
	Revenues and other financing sources	GENERAL FUND Expenditures and other financing uses	Fund Balance
GAAP BASIS	\$ 33,337,316	\$ 32,177,955	\$ 2,305,108
Encumbrances at June 30, 2019	(245,534)	(445,217)	-
Encumbrances at June 30, 2020	59,263	559,645	(500,382)
Payments made on-behalf of the Board by Kent County	(215,998)	(215,998)	-
Payments made on-behalf of the Board by the State of Maryland	(1,704,750)	(1,704,750)	-
BUDGETARY BASIS	\$ 31,230,297	\$ 30,371,635	\$ 1,804,726

Note 2. Pension Plans

Changes in Benefit Terms

There were no benefit changes during the year.

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2019 valuation:

- Inflation assumption changed from 2.60% to 2.65% for general and from 3.10% to 3.15% for wage
- Salary increase assumption changed from 3.10% - 9.10% to 3.10% - 11.60%, including inflation
- Investment rate of return assumption changed from 7.45% to 7.40%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 2. Pension Plans (Continued)

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	19 years for State system
Asset valuation method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary increases	3.10% to 11.60%, including inflation
Investment rate of return	7.40%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

Note 3. Post-Employment Health Care Benefits

Changes in Benefit Terms

There were no significant benefit changes during the year.

Changes in Assumptions

- The discount rate was changed from 3.62% at June 30, 2018 to 3.13% at June 30, 2019 to 2.45% at June 30, 2020.
- The mortality assumption was updated to the latest SOA public sector experience study rates.
- The medical trend was updated. The trend was developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions.
- Medicare claims and total costs are based on the fully insured rates for 2020.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 3. Post-Employment Health Care Benefits (Continued)

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Valuation date	January 1, 2020
Measurement date - GASB 75	June 30, 2019
Actuarial cost method - GASB 75	Entry age normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2018	3.62%
Discount rate - June 30, 2019	3.13%
Payroll growth	3.00%
Inflation rate	2.50%
Rate of growth in real income	1.50%
Medical trend	Based on Society of Actuaries Long-Run Medical Cost Trend Model baseline assumptions. The model was released in October 2010 and updated in September 2019. The 2020 rate is 4.70% decreasing gradually to 4.00% in 2075.
Mortality	The mortality rates were calculated using the Pub-2010 Teacher Employees, Teacher Retirees and Disabled Teacher Retirees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale.

ADDITIONAL SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

SCHEDULE OF REVENUES

GENERAL FUND
Year Ended June 30, 2020

KENT COUNTY FUNDS	
Annual appropriation	\$ 18,044,079
On-behalf payments	215,998
Total Kent County Funds	18,260,077
 STATE OF MARYLAND FUNDS	
Compensatory education	2,771,054
State share of basic current expenses	2,256,453
On-behalf payments	1,704,750
Student transportation	1,698,840
Supplemental grant	1,003,414
Handicapped children - formula	859,872
Declining enrollment	276,097
Geographic cost of ED IDX	129,957
ESL program	200,816
Supplemental Pre K	139,614
Net taxable adjustment	54,654
Aging schools	91,538
Maryland Blue Print	55,218
Total State of Maryland Funds	11,242,277
UNITED STATES GOVERNMENT	9,562
 OTHER SOURCES	
Miscellaneous	35,376
Out of county living	70,512
E-rate reimbursement	80,449
Interest income	35,546
MABE grant	19,726
Sports events	16,964
Extended day	10,000
WKHS	17,946
Lease of building space	993
Total Other Sources	287,512
TOTAL REVENUES	\$ 29,799,428

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2020

	<u>FOOD SERVICES</u>	<u>SMITH ESTATE</u>	Total Nonmajor Governmental <u>Funds</u>
ASSETS			
Cash and investments	\$ 81,446	\$ 3,128	\$ 84,574
Accounts receivable:			-
Federal funds from State of Maryland	41,904	-	41,904
Other receivables	597	-	597
Other Board of Education funds	-	25	25
Inventories, at cost	63,986	-	63,986
TOTAL ASSETS	\$ 187,933	\$ 3,153	\$ 191,086
LIABILITIES AND FUND BALANCES			
Accounts payable:			
Vendors	\$ 4,722	\$ -	\$ 4,722
Other Board of Education funds	101,379	-	101,379
Accrued payroll	5,090	-	5,090
Unearned revenue - USDA commodities	49	-	49
TOTAL LIABILITIES	111,240	-	111,240
COMMITMENTS AND CONTINGENCIES			
FUND BALANCES			
Nonspendable			
Inventory	63,986	-	63,986
Restricted			-
Fund purpose	12,707	3,153	15,860
TOTAL FUND BALANCES	76,693	3,153	79,846
TOTAL LIABILITIES AND FUND BALANCES	\$ 187,933	\$ 3,153	\$ 191,086

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2020

	<u>FOOD</u> <u>SERVICES</u>	<u>SMITH</u> <u>ESTATE</u>	Total Nonmajor Governmental <u>Funds</u>
REVENUES			
State of Maryland	\$ 70,027	\$ -	\$ 70,027
Federal sources	979,214	-	979,214
Other sources:			
Sales of food	130,782	-	130,782
Other	2,176	46	2,222
TOTAL REVENUES	1,182,199	46	1,182,245
EXPENDITURES			
Food services	1,269,984	-	1,269,984
TOTAL EXPENDITURES	1,269,984	-	1,269,984
Net change in fund balances	(87,785)	46	(87,739)
Fund balances, beginning	164,478	3,107	167,585
Fund balances, ending	\$ 76,693	\$ 3,153	\$ 79,846

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES

FOOD SERVICE FUND
Year Ended June 30, 2020

REVENUES

Cafeteria sales	\$ 130,782
Federal assistance	979,214
State assistance	70,027
Other	<u>2,176</u>
TOTAL REVENUES	<u>1,182,199</u>

EXPENDITURES

Salaries and wages	540,634
Contracted services	45,142
Supplies and materials	619,316
Other charges	39,979
Equipment	<u>24,913</u>
TOTAL EXPENDITURES	<u>1,269,984</u>

EXCESS OF EXPENDITURES OVER REVENUES \$ (87,785)

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
SCHOOL ACTIVITIES AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS
For the Year Ended June 30, 2020

	Balance July 1, 2019	Receipts	Disbursements	Balance June 30, 2020
Galena Elementary School	\$ 9,681	\$ 5,692	\$ 5,234	\$ 10,139
H.H. Garnett Elementary School	3,345	9,262	9,738	2,869
Rock Hall Elementary School	11,116	6,178	9,918	7,376
Kent County Middle School	25,265	20,069	21,261	24,073
Kent County High School	102,054	119,576	95,604	126,026
Total	\$ 151,461	\$ 160,777	\$ 141,755	\$ 170,483