

**BOARD OF EDUCATION OF  
KENT COUNTY, MARYLAND**

AUDIT COMMUNICATIONS

JUNE 30, 2022

# **BOARD OF EDUCATION OF KENT COUNTY, MARYLAND**

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## COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

September 30, 2022

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

We have audited 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 for the year ended June 30, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 4, 2022. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board of Education of Kent County, Maryland are described in Note 2 to the financial statements. Effective July 1, 2021, the Board adopted new accounting guidance from the Government Accounting Standard Board (GASB) Statement No. 87, *Leases*. Accordingly, as discussed in Note 14, the cumulative effect of the accounting change is reported as a restatement of beginning of the year net position. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Board's financial statements were:

Management's estimate of depreciation expense is based upon the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statement taken as a whole.

Management's estimate of the net OPEB (other postemployment benefits) liability and related deferred outflows of resources, deferred inflows of resources, and OPEB expense which is recorded on the government-wide statements is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the accrual/expense in determining that it is reasonable in relationship to the financial statements taken as a whole.

Management's estimate of the net pension liability and related deferred outflows of resources, deferred inflows of resources, and pension expense which is recorded on the government-wide statements is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the accrual, deferred outflows/inflows, and expense in determining that it is reasonable in relationship to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of pensions in Note 7 to the financial statements describes the Board's pension plans, pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources related to pensions as well as the significant assumptions used in the actuarial valuation.

The disclosure of other post-employment benefits ("OPEB") in Note 9 to the financial statements describes the Board's defined benefit healthcare plan, net OPEB liability, OPEB expense, deferred outflows or resources, and deferred inflows of resources related to other post-employment benefits as well as the significant assumptions used in the actuarial valuation.

The disclosure in Note 14 to the financial statements which discusses the implementation of GASB Statement No. 87, *Leases*.

The financial statement disclosures are neutral, consistent and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representation*

We have requested certain representations from management that are included in the management representation letter dated September 30, 2022.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Board's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Auditing Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to the management's discussion and analysis, schedule of revenues, expenditures and encumbrances budget and actual – general fund, schedule of revenues, expenditures and encumbrances budget and actual – restricted grants fund, schedule of changes in the Board's net OPEB liability and related ratios, schedule of investment returns, schedule of the Board's proportionate share of the net pension liability, and the schedule of contributions; which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the additional supplementary information, which accompanies the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board and management of the Board of Education of Kent County, Maryland and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "UHY LLP". The letters are stylized and cursive.

UHY LLP

## COMMENTS AND RECOMMENDATIONS



## **On the Horizon - Implementation of New Accounting Principles**

### **Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements**

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The requirements for this statement are effective for reporting periods beginning after June 15, 2022. As the use of cloud-based data management, storage and computing have grown, more organizations are using subscription-based and time-bound information technology contracts. These contracts have traits similar to traditional leases. The objective of GASB Statement No. 96 is to improve financial reporting for subscription-based information technology arrangements (SBITA) by requiring recognition of certain assets and liabilities for subscription-based information technology arrangements. It defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding liability, provides for capitalization criteria for related outlays other than subscription payments, and requires additional note disclosures thereby enhancing the relevancy and consistency of information about governmental entity subscription-based information technology arrangements.

A SBITA is defined as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets (the underlying information technology assets) for a period of time in an exchange or exchange-like transaction.

The related SBITA liability will be reduced as payments are made and the SBITA asset will be amortized over the subscription term. The notes to the financial statements will need to include among other things a description of the arrangements, the amount of the SBITA assets recognized, and a schedule of future payments.

At the beginning of the period of implementation, subscription-based information technology arrangements should be recognized and measured using the facts and circumstances that exist at that time. Short-term arrangements with contracts of 12 months or less, including options to extend, are excluded.