



Comprehensive Annual

FY 2018

Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Board of Education of Montgomery County
a component unit of Montgomery County, Maryland

ROCKVILLE, MARYLAND

Jack R. Smith, Ph.D.
Superintendent of Schools

Board of Education of Montgomery County

GUIDING TENETS

- VISION:** We inspire learning by providing the greatest public education to each and every student.
- MISSION:** Every student will have the academic, creative problem solving, and social emotional skills to be successful in college and career.
- CORE PURPOSE:** Prepare all students to thrive in their future.

CORE VALUES

LEARNING

WE BELIEVE that we must engage every student, every day; learning is achieved by cultivating curiosity and encouraging determination, focus, and hard work; and adult learning and engagement are key to student learning.

THEREFORE, we will encourage and support critical thinking, problem solving, active questioning, and risk taking to continuously improve; stimulate discovery by engaging students in relevant and rigorous academic, social, and emotional learning experiences; and challenge ourselves to analyze and reflect upon evidence to improve our practices.

RELATIONSHIPS

WE BELIEVE that meaningful collaboration is vital to our success; strong partnerships are built on trust and open and honest communication; and building relationships with our diverse community requires us to understand the perspectives and experiences of others.

THEREFORE, we will get to know student and staff members as individuals to better serve them; engage in interest-based decision making with our partners to achieve mutually agreed upon goals; and build strong relationships with students, family, staff, and community to support learning.

RESPECT

WE BELIEVE that each individual's contributions add value to our learning community; fair treatment, honesty, openness, and integrity are essential; and the diversity of our culture, interests, skills, and backgrounds is an asset that makes us stronger.

THEREFORE, we will model civility in all interactions and encourage candid conversations; deal fairly and honestly with each other; and listen to others' perspectives with openness and accept that there are various points of view.

EXCELLENCE

WE BELIEVE that raising the bar and setting high standards is necessary to ensure that all students graduate ready for college and career; we have to expect the best to get the best from everyone, every day; and creating intellectual excitement and supporting personal growth inspires us all toward excellence.

THEREFORE, we will push unceasingly for continuous improvement; hold our practice and our work to the highest possible standards; and nurture a culture of creativity and inquiry that supports innovation and progress.

EQUITY

WE BELIEVE that each and every student matters; outcomes should not be predictable by race, ethnicity, or socioeconomic status; equity demands the elimination of all gaps; and creating and maximizing future opportunities for students and staff is necessary.

THEREFORE, we will hold high expectations for all students and staff; distribute resources as necessary to provide extra supports and interventions so all students can achieve; identify and eliminate any institutional barriers to students' success; and ensure that equitable practices are used in all classrooms and workplaces.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
A Component Unit of Montgomery County, Maryland

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2018

Prepared by: Office of the Chief Financial Officer
Nicola Diamond, *Chief Financial Officer*
Robert Reilly, CPA, *Director*

Cover Photo: *Thomas Edison High School of Technology*

850 Hungerford Drive, Room 167
Rockville, Maryland 20850



Student: Yahara Lopez, 8th Grade
School: Gaithersburg Middle School
Art Teacher: Chris Cuff

BOARD OF EDUCATION OF MONTGOMERY COUNTY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

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Student: Jessica Whitney, 8th Grade
School: Hallie Wells Middle School
Art Teacher: Todd Sprites



INTRODUCTORY SECTION

Board of Education of Montgomery County
June 30, 2018



Student: Jordan Levin, 9th Grade
School: Longview School



September 28, 2018

Members of the Board of Education and Citizens of Montgomery County, Maryland:

Maryland State law requires that local education agencies publish at the close of each year a complete set of financial statements presented in conformity with generally accepted accounting principles (U.S. GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. In compliance with that requirement, we hereby submit the Comprehensive Annual Financial Report (CAFR) of the Board of Education of Montgomery County (the Board) for the fiscal year ended June 30, 2018.

This report has been prepared pursuant to Education Article Section 5-109 of the Annotated Code of Maryland. The report consists of management's representations concerning the finances of the Board. Management assumes full responsibility for the completeness and reliability of all the information presented in this report. Management has established a comprehensive internal control framework. Internal accounting controls are designed to provide reasonable assurance that assets are safeguarded and accounted for properly and to ensure the reliability of accounting information for preparing financial statements in conformity with U.S. GAAP. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Board financial statements have been audited by CliftonLarsonAllen LLP, an independent firm of licensed certified public accountants. The independent auditor's report is located at the front of the financial section of this report. Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

The Board also is required to undergo a federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. In addition to reporting on the fair presentation of the financial statements, the single audit places special emphasis on internal controls and legal requirements involved in the administration of federal awards. These reports are available in the Board's separately issued Single Audit Report.

Board Profile

The Montgomery County Board of Education is the elected body, corporate and politic, established under Maryland State law to provide public education in kindergarten through twelfth grade to

children residing within the borders of Montgomery County, Maryland. The Board is composed of five district members and two at-large members elected for a four-year term, and one student member elected for a one-year term. The Board determines educational policy and employs a superintendent of schools to administer the school system. Primary funding is provided by Montgomery County from its general revenues. Funds are also received from state and federal sources for general school aid and specific purpose grants.

The Board Operating Budget is approved by the Montgomery County Council. The Board has no power to levy and collect taxes or increase the budget. Because of the relationship with Montgomery County, the Board is considered a component unit of the County Government, as defined by U.S. GAAP for governmental entities.

The general purpose financial statements and supplementary data in this report include all funds administered by the Board in conjunction with its mission of providing elementary and secondary public education. The reporting entity also includes a component unit of the Board, the Montgomery County Public Schools Educational Foundation, Inc. (the Foundation). The Foundation is legally separate from the Board but included in the Board reporting entity because of the significance of its financial relationship with the Board, and because the Board is considered financially accountable for the Foundation.

Relevant Financial Policies

The school system financial policies, endorsed by the Board's policies and regulations, remain unchanged: organize and optimize resources for improved academic results; deliver high academic results at a low student cost; evaluate the use of resources for applicability to goals of the Board's strategic planning framework; provide financial accountability and transparency to the citizens of Montgomery County; obtain a fair share of state aid; and carefully manage indebtedness and debt service.

The Board uses zero-based budgeting as a tool to manage its exposure to rising costs and to assure spending is efficient. Innovative approaches to continuous improvement are employed to streamline processes, eliminate waste, and to measure process performance in meeting the goals of the Board's strategic planning framework.

Factors Affecting Financial Condition

Local economy—Montgomery County's economy experienced a mixed economic performance during the second quarter of Calendar Year (CY) 2018 according to Montgomery County's Office of Finance. The reasons for a mixed performance include an increase in resident employment, a slight increase in the unemployment rate, a decrease in existing home sales, and an increase in medium prices for an existing home in Montgomery County.

According to the Bureau of Labor Statistics, U.S. Department of Labor, as reported by the county's Office of Finance published in its Economic Indicators Report as of July 2018, Montgomery County's resident employment for the second quarter of CY 2018 increased by nearly 3,800 (+0.7 percent) from the second quarter of CY 2017. On a fiscal year basis, resident employment was slightly over

541,000 in Fiscal Year (FY) 2018 compared to 534,700 in FY 2017. This was an increase of 1.2 percent.

The Office of Finance's report also indicated that the county's average monthly unemployment rate during the second quarter of CY 2018 was 3.3 percent and slightly above the rate during the second quarter of CY 2017 when it was 3.2 percent. Throughout the year, the county's unemployment rate remained one of the lowest in the state of Maryland.

The county reports that after a weak performance in the second quarter of CY 2017, construction of residential housing units experienced a strong performance in the second quarter of CY 2018. Construction of single-family homes increased 12.4 percent and construction of multi-family units increased over 200 percent. Residential construction starts in the county added a total value of nearly \$359 million during the second quarter of CY 2018 (+145.3 percent) compared to the second quarter of CY 2017.

The number of non-residential project starts increased by 53 percent in the second quarter of CY 2018 compared to the second quarter of CY 2017. The total value of these projects was \$368.6 million (+110.1 percent).

During the second quarter of CY 2018, existing home sales decreased by a modest 0.5 percent compared to one year ago and this follows a 2.5 percent decrease in the second quarter of CY 2017 compared to the second quarter of CY 2016. However, median sales prices for existing homes increased by 5.8 percent during the second quarter of CY 2018. This follows a 3.9 percent increase during the second quarter of CY 2017 compared to the prior year.

Finally, using sales tax receipts as a measure of retail sales in the county, the Department of Finance reports that retail sales decreased by 1.6 percent in FY 2018. This is mostly attributed to the sale of non-durable goods (e.g., food, beverage, apparel, general merchandise, utilities and transportation). Sales of durable goods (e.g., furniture and appliances) decreased by 0.1 percent in FY 2018.

Long-term financial planning—Montgomery County's Department of Finance expects the county's payroll employment to grow at an average annual rate of 0.9 percent per year through CY 2024, an increase of 0.1 percent from its projection one year ago. This is slightly below the average annual growth rate of 1.1 percent between CY 2010 and CY 2017.

The Department assumes that resident employment will increase by an average annual rate of 0.7 percent from CY 2017 to CY 2024. This is below the average annual rate of 1.2 percent between CY 2010 and CY 2017.

Total personal income in Montgomery County is projected to grow at an average annual rate of 4.0 percent from CY 2017 through CY 2024. By CY 2024, personal income in the county is estimated to reach \$115.2 billion.

Finally, the Department of Finance assumes that the overall regional inflation index will increase from 1.25 percent in CY 2017 to 2.45 percent by CY 2024.

Negotiated agreements—The bargaining units for Montgomery County Public Schools (MCPS) are the Montgomery County Education Association (MCEA), representing certificated non-administrative employees; Service Employees International Union (SEIU) Local 500, representing supporting services employees; and the Montgomery County Association of Administrators and Principals/Montgomery County Business and Operations Administrators (MCAAP/MCBOA), representing certificated and non-certificated administrators and non-certificated supervisory employees in separate units. The two MCAAP units are covered in a single contract for both units. During FY 2017, the Board of Education reached agreement on comprehensive three-year agreements covering economic and non-economic terms with all three employee associations. All groups are covered under separate three-year agreements, effective July 1, 2017, through June 30, 2020.

Based on the three agreements, employees received a general wage increase of one percent effective July 1, 2017, which is reflected in the FY 2018 budget. The agreements ratified between April and June 2017 also provide annual step increases and longevity increases for FY 2018 based on eligibility criteria.

As part of the ratified agreements, the second and third years (FY 2019 and FY 2020) of the three-year union contracts are open for negotiations on wages. Negotiations with our three employee associations were completed and ratified, and the contracts approved by the Board of Education on April 24, 2018. The agreements addressed salary and wage increases for employees for fiscal years 2019 and 2020. The two-year agreement reflects the school system's commitment to ensuring MCPS can hire and retain a talented and highly qualified workforce. Key highlights of the two-year agreements are as follows:

Agreement between MCAAP/MCBOA and MCPS for the School Years 2018-2020:

Effective July 1, 2018

1. Salary scales will be increased by 2.0 percent.
2. All eligible employees will receive scheduled step increases.

Effective July 1, 2019

1. Salary scales will be increased by 1.0 percent.
2. All eligible employees will receive scheduled step increases.

Agreement between MCEA and MCPS for School Years 2018-2020:

Effective July 1, 2018

1. All eligible employees will receive scheduled step increases.
2. Substitute teacher pay scales will be increased by 1.0 percent.
3. Teachers paid on off-scale salary code 50 will be moved to step 25 on the salary schedule and teachers paid on off-scale code 60 will move to off-scale code 55.
4. Members of the bargaining unit who were members during FY 2011 and missed a scheduled step increase during FY 2012, and who continue to serve in a position comparable to the position held in FY 2012, will receive salary scale credit for the missed step, effective January 5, 2019.
5. A unit member whose annual salary rate does not increase over that unit member's FY 2018 annual salary rate as a result of any of the aforementioned agreements will receive

a one-time bonus payment of \$900, pro-rated by total full time equivalent (FTE)—paid in the October 26, 2018, paycheck.

Effective July 1, 2019

1. Salary scales will be increased by 1.0 percent.
2. All eligible employees will receive scheduled step increases.
3. It is recognized that approximately \$6.5 million in additional annualized costs will occur during FY 2020 as a result of the delayed implementation of the missed salary step makeup during FY 2019.

Agreement between SEIU Local 500 and MCPS for School Years 2018-2020:

Effective July 1, 2018

1. Members of the bargaining unit who were members during FY 2011 and missed a scheduled step increase during FY 2012 and whose primary position continues to be at the same grade as, or lower than, the position held in FY 2012 will receive salary scale credit for the missed year if the missed step impacted the current rate of pay.
2. All eligible employees will receive scheduled step increases.
3. Off-scale steps 50 and 60 will be added to the salary scales as regular steps 13 and 17. Unit members on step 10 on June 30, 2018, will be placed on steps 10 through 17 based on total time on step 10.
4. Unit members whose hourly pay rate does not increase over that unit member's FY 2018 hourly pay rate as a result of any of the aforementioned agreements will receive a one-time bonus payment of \$900, pro-rated by total FTE—paid in the October 26, 2018, paycheck.

Effective July 1, 2019

1. Salary scales will be increased by 1.0 percent.
2. All eligible employees will receive scheduled step increases.

Enrollment—Public school enrollment has increased by 36,511 students in the last 20 years. Enrollment increases during this period are a product of a strong regional economy and housing market. Annual increases in enrollment have averaged over 2,500 students per year in the past five years. The international economic decline observed in the late 2000s and early 2010s impacted MCPS enrollment trends. More students enrolled in public school from private schools, housing occupancy increased in some areas of the county, and migration out of the county decreased because economic conditions were more severe elsewhere. Since the 2007–2008 school year, enrollment has increased by 23,801 students. For the 2017–2018 school year, MCPS official enrollment totaled 161,546 students, an increase of 2,536 students from the prior year. Total school system enrollment is projected to increase by 7,466 students by the 2023–2024 school year.

School capacity continues to be an issue, as the Board continues to catch up with enrollment increases that have occurred in the past, while facing additional enrollment increases in the future. Additional space needs are the result of increases in county births and migration into the school system. For the 2017–2018 school year, 426 relocatable classrooms were in use to address overutilization at various schools throughout the system, with 346 located at elementary schools. To relieve overutilization of schools, the adopted Capital Improvements Program includes funding for the planning, design, and/or construction of 19 elementary school capacity projects, six middle

school capacity projects, and seven high school capacity projects, as well as funding for six revitalization/expansion projects. In the next six years, based on the adopted Capital Improvements Program, a total of 395 classrooms will be added through new schools, classroom additions, and expansion of schools undergoing revitalization. Even with all of these capital projects, the Board will continue to face space shortages in many of our schools.

Accomplishments and Awards

Graduation rates—The Board has one of the highest graduation rates among the nation’s largest school districts, according to an *Education Week* report. The Schott Foundation reports that the Board has the highest graduation rate in the nation for African American males among the nation’s largest districts.

Top high schools—Five high schools made the *U.S. News & World Report 2018* list of Best High Schools. The Board had the top three high schools in the state of Maryland.

Academic progress— Students at all levels are demonstrating improved academic achievement. The emphasis on rigorous course taking resulted in 36,463 Advanced Placement (AP) exams taken by the Board’s students in 2017. Students earned a college-ready score (3 or higher) on 73.4 percent of those exams. In 2017, the percentage of AP exams taken by the Board’s African American students (49.6 percent) that earned college-ready scores of 3 or higher is significantly higher than the percentages of 34.8 percent in Maryland and 28.4 percent in the nation. In 2017, the percentage of AP exams taken by Hispanic students that earned college-ready scores of 3 or higher (58.5 percent) was greater than the percentage of exams for Hispanic students in Maryland (54.4 percent) and the nation (40.9 percent).

Return on Investment—More than \$364 million in scholarships were awarded to students in the Class of 2018.

Financial reporting awards—The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Board for its CAFR for the fiscal year ended June 30, 2017, for the fourteenth consecutive year. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate. For 37 consecutive years, the Board has received the Association of School Business Officials (ASBO) Certificate of Excellence in Financial Reporting. This award, valid for one year, is granted only after an intensive review of the CAFR by an expert panel of certified public accountants and practicing school business officials. The Board plans to submit the 2018 CAFR to ASBO and believes the report continues to meet ASBO certificate program requirements.

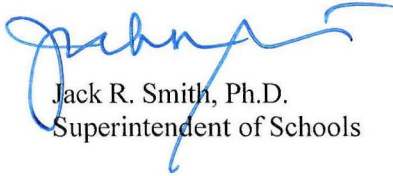
Members of the Board of Education and
Citizens of Montgomery County, Maryland

September 28, 2018


Acknowledgements

The preparation of this report on a timely basis could not have been accomplished without the efficient and dedicated services of the entire staff of the Office of the Chief Financial Officer. The high standard of conformity of this report reflects the professional competence of all individuals responsible for its preparation. We express our appreciation for a job well done.

Sincerely,



Jack R. Smith, Ph.D.
Superintendent of Schools



Nicola Diamond
Chief Financial Officer

JRS:ND:rgr



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Montgomery County Public Schools
Maryland**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

**The Certificate of Excellence in Financial Reporting
is presented to**

Board of Education of Montgomery County

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2017.**

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards.



A handwritten signature in black ink that reads "Charles E. Peterson, Jr." The signature is written in a cursive style.

Charles E. Peterson, Jr., SFO, RSBA, MBA
President

A handwritten signature in black ink that reads "John D. Musso". The signature is written in a cursive style.

John D. Musso, CAE
Executive Director

BOARD OF EDUCATION OF MONTGOMERY COUNTY LISTING OF OFFICIALS

MEMBERS OF THE BOARD OF EDUCATION

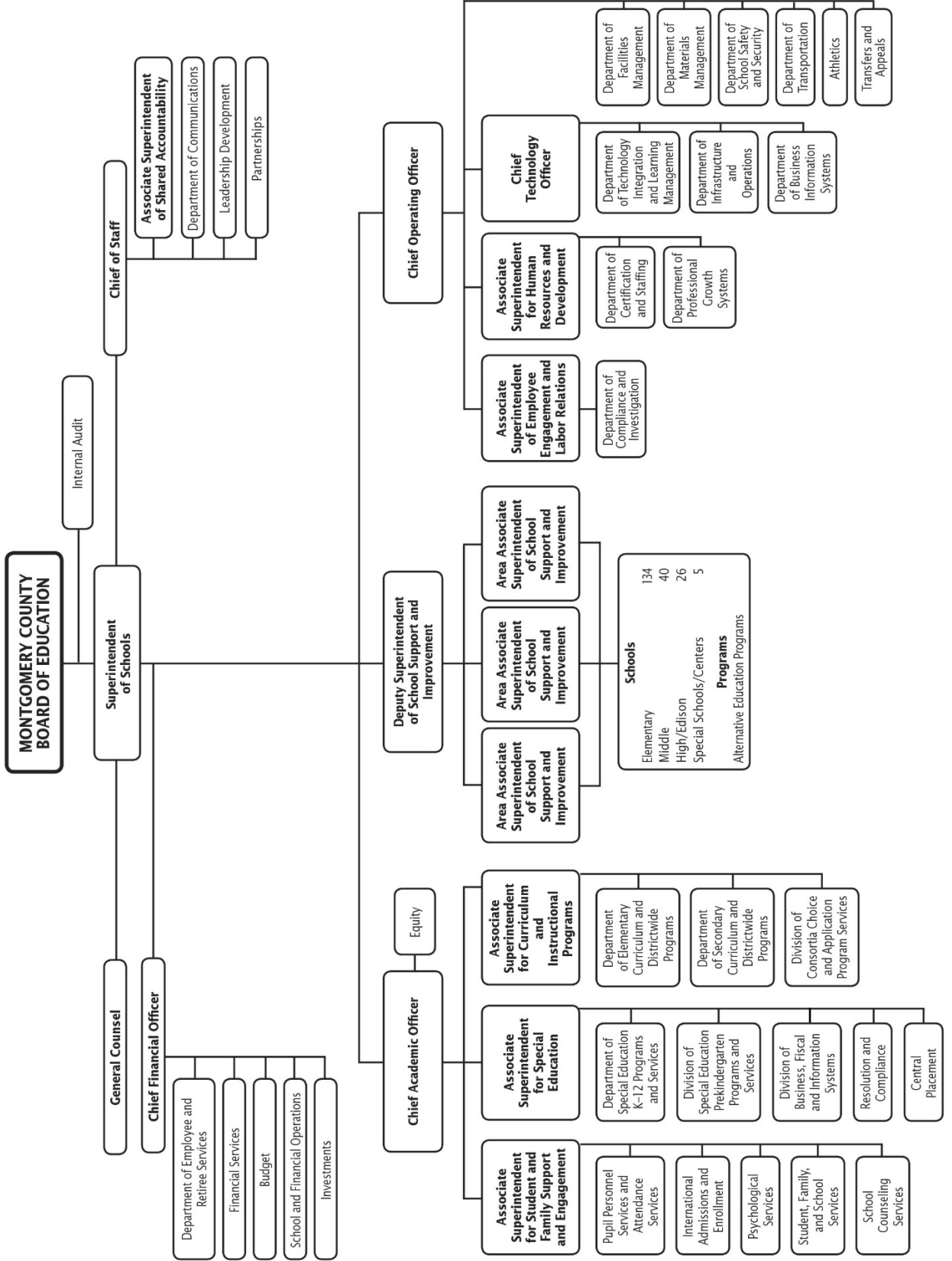
| Title | Name | Representation |
|----------------|---------------------|-----------------------|
| President | Michael A. Durso | District 5 |
| Vice President | Shebra L. Evans | District 4 |
| Other Members | Jeanette E. Dixon | Member-At-Large |
| | Dr. Judith R. Docca | District 1 |
| | Patricia O’Neill | District 3 |
| | Jill Ortman-Fouse | Member-At-Large |
| | Rebecca Smondrowski | District 2 |
| Student Member | Ananya Tadikonda | Student Member |

EXECUTIVE STAFF

Jack R. Smith, Ph.D.
Superintendent of Schools

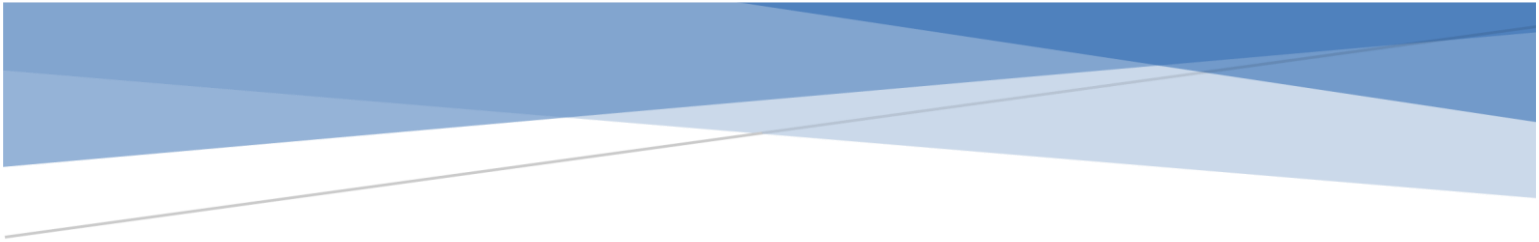
- Maria V. Navarro, Ed.D. Chief Academic Officer
- Kimberly A. Statham, Ph.D. Deputy Superintendent of School Support and Improvement
- Andrew M. Zuckerman, Ed.D. Chief Operating Officer
- Joshua I. Civin General Counsel
- Nicola Diamond Chief Financial Officer
- Henry R. Johnson, Jr., Ed.D. Chief of Staff
- Jonathan T. Brice, Ed.D. Associate Superintendent, Office of Student and Family Support and Engagement
- Peter Cevenini Chief Technology Officer
- Sherwin Collette Associate Superintendent, Office of Employee Engagement and Labor Relations
- Betty J. Collins, Ed.D. Acting Associate Superintendent, Office of Curriculum and Instructional Programs
- E. Lancellotti Dempsey Associate Superintendent, Office of Human Resources and Development
- Cheryl L. Dyson Area Associate Superintendent
- Donna S. Hollingshead, Ed.D. Associate Superintendent of School Administration
- Kevin E. Lowndes Associate Superintendent, Office of Special Education
- Diane D. Morris Area Associate Superintendent
- Darryl L. Williams, Ed.D. Area Associate Superintendent
- Janet S. Wilson, Ph.D. Associate Superintendent, Office of Shared Accountability

MONTGOMERY COUNTY PUBLIC SCHOOLS ORGANIZATION—FY 2019





Student: Nahomy Guzman Bonilla, 4th Grade
School: Whetstone Elementary School
Art Teacher: Carolyn Bauer



FINANCIAL SECTION

Board of Education of Montgomery County
June 30, 2018

INDEPENDENT AUDITORS' REPORT

Board of Education
of Montgomery County, Maryland
Rockville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of The Board of Education of Montgomery County, Maryland operating as Montgomery County Public Schools (the Board) a component unit of Montgomery County, Maryland, as of and for the year ended June 30, 2018, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Board'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 Board'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 component unit governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter- Change in Accounting Principle

As described in Note XVII to the financial statements, the Board adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Other Pension Employee Benefits – an amendment of GASB statement No. 45*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 17 through 31 and the required supplementary information on pages 87 through 97, 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's basic financial statements. The supplementary data as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary data, as listed in the table of contents, are 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 supplementary data is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Board'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's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, Maryland
September 26, 2018

Board of Education of Montgomery County Management's Discussion and Analysis

This section of the Board of Education of Montgomery County (the Board) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2018. Readers are encouraged to consider the information presented here in conjunction with additional information presented in the transmittal letter, which can be found on pages 1– 7 of this report.

Financial Highlights

- The assets and deferred outflows of the Board exceeded its liabilities and deferred inflows at June 30, 2018, by \$79.0 million, which represents its net position.
- The Board's net position decreased during the year by \$1,650.7 million. This was due to a restatement of net position by a negative \$1,837.8 million, slightly offset by a current year increase of \$187.1 million.
- 78 percent of capital asset additions were directed toward instructional facilities.
- The Board successfully generated \$28.2 million in Fiscal Year (FY) 2018 budgetary savings to be used to fund future operating budgets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board financial statements. The Board's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Board's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Board's assets, liabilities, and deferred inflows/outflows of resources, if applicable, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* presents information showing how the Board's net position changed during the most recent fiscal year. All changes in net position are 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 result only in cash flows in future fiscal periods (e.g., depreciation and earned but unused annual leave).

Both of the government-wide financial statements distinguish functions of the Board that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Board include most of the district's basic services, such as regular and special education, transportation, and administration. The business-type activities of the Board include food services, real estate management operations, field trip services, and entrepreneurial activities.

The government-wide financial statements include not only the Board itself (known as the *primary government*), but also the Montgomery County Public Schools (MCPS) Educational Foundation, Inc. for which the Board is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 33–35 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Board maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund—both of which are considered to be major funds—and the special revenue fund.

The Board adopts annual appropriated budgets for its governmental funds. Budgetary comparison statements have been provided for the governmental funds to demonstrate compliance with these budgets.

The basic governmental fund financial statements can be found on pages 36–40 of this report.

Proprietary funds. The Board maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Board uses enterprise funds to account for its food services, real estate management, field trip, and entrepreneurial activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Board's various functions. The Board uses an internal service fund to account for its active employees' health benefit plan costs. Because this plan predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities*.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the food services operation which is considered to be a major fund of the Board. Data for the other three proprietary funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for each of these nonmajor proprietary funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 41–43 of this report.

Fiduciary funds. The Board is the trustee, or fiduciary, for assets that belong to others, which includes the Montgomery County Public Schools Employee Retirement and Pension Plan, the Other Postemployment Benefits (OPEB) Plan Trust, and the student activities funds. The Board is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The Board excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The basic fiduciary fund financial statements can be found on pages 44–45 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 46–86 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor proprietary funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 98-110 of this report.

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|-------------------|-----------------------------|---------------|----------------|-------------------|
| | 2018 | 2017* | 2018 | 2017* | 2018 | 2017* |
| Current and other assets | \$ 260.2 | \$ 245.2 | \$ 19.7 | \$ 15.3 | \$ 279.9 | \$ 260.5 |
| Capital assets | 2,922.4 | 2,786.7 | 6.6 | 5.5 | 2,929.0 | 2,792.2 |
| Total assets | 3,182.6 | 3,031.9 | 26.3 | 20.8 | 3,208.9 | 3,052.7 |
| Deferred outflows of resources | 270.4 | 267.6 | | | 270.4 | 267.6 |
| Total assets and deferred outflows | 3,453.0 | 3,299.5 | 26.3 | 20.8 | 3,479.3 | 3,320.3 |
| Long-term liabilities outstanding | 2,860.3 | 1,236.1 | 2.8 | 11.6 | 2,863.1 | 1,247.7 |
| Other liabilities | 225.1 | 233.7 | 4.8 | 4.8 | 229.9 | 238.5 |
| Total liabilities | 3,085.4 | 1,469.8 | 7.6 | 16.4 | 3,093.0 | 1,486.2 |
| Deferred inflows of resources | 307.3 | 104.4 | | | 307.3 | 104.4 |
| Total liabilities and deferred inflows | 3,392.7 | 1,574.2 | 7.6 | 16.4 | 3,400.3 | 1,590.6 |
| Net Position: | | | | | | |
| Net investment in capital assets | 2,884.8 | 2,750.0 | 6.6 | 5.5 | 2,891.4 | 2,755.5 |
| Restricted for instructional programs | 0.3 | 0.3 | | | 0.3 | 0.3 |
| Unrestricted | (2,824.8) | (1,025.0) | 12.1 | (1.1) | (2,812.7) | (1,026.1) |
| Total net position | \$ 60.3 | \$ 1,725.3 | \$ 18.7 | \$ 4.4 | \$ 79.0 | \$ 1,729.7 |

*Amounts in this table have not been restated for the implementation of GASB 75.

Government-wide Financial Analysis

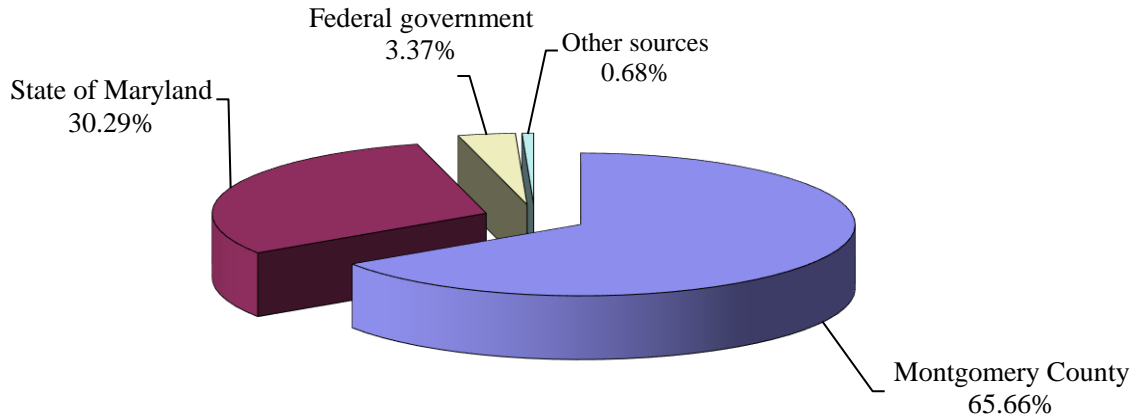
Net position may serve as a useful indicator of a government's financial position. The Board's net position, the amount by which assets and deferred outflows exceed liabilities and deferred inflows, decreased \$1,650.7 million to \$79.0 million. The decrease came from governmental activities, which decreased by \$1,665.0 million to \$60.3 million. The largest portion of net position reflects the Board's investment in capital assets (e.g., land, school buildings, buses, and equipment), less any related outstanding debt used by the Board to acquire those assets. Net investment in capital assets for governmental activities increased \$134.8 million to \$2,884.8 million. These assets are used by the Board in its instructional programs; consequently, these assets are not available for future spending.

Montgomery County and the State of Maryland fund the Board school construction projects through the issuance of general obligation bonds. These bonds are not reflected in the Board's investment in capital assets, as the resources needed to repay these bonds must be provided by Montgomery County and the State of Maryland.

The unrestricted net deficit increased \$1,786.6 million to a \$2,812.7 million deficit at June 30, 2018. The increase in unrestricted net deficit is wholly attributed to the effect of the implementation of GASB Statement 75. GASB 75 requires that organizations report the full amount of the net OPEB liability (NOL) on the face of the financial statements. The NOL is defined as the actuarially determined liability of employers to plan members for future benefits provided through a defined benefit OPEB plan. Prior to this implementation, an OPEB obligation was being reported, but that amount did not represent the full liability. As such, a restatement of net position was required on the financial statements. That restatement accounted for the entire decrease in this year's net position. Other long-term liabilities include compensated absences which increased \$2.77 million. The pension liability actually decreased by \$76.4 million due to updates in assumptions and an increase in investment.

The deficit in unrestricted net position arises from the district's funding policies for its noncurrent liabilities, especially for compensated absences and other postemployment benefits. The fiscal condition of the Board remains strong, as intergovernmental revenues continue to grow sufficiently to meet its fiscal obligations and to fund its current operations.

Revenues by Source - Governmental Activities



Governmental activities. Governmental activities unrestricted net deficit increased \$1.8 billion to a deficit of \$2.8 billion at June 30, 2018. The increase in unrestricted net deficit arose primarily from the \$1.8 billion restatement of net position required per GASB 75, as previously mentioned.

Total revenues for the Board's governmental activities increased \$85.5 million (3.0 percent). Intergovernmental revenues increased \$66.6 million (2.5 percent), and operating grants revenues increased \$7.7 million (10.1 percent). Intergovernmental revenues from Montgomery County increased \$44.1 million (2.4 percent). The increase is primarily due to an increase of \$39.9 million in general operating revenue and an increase of \$4.2 million in capital projects revenue in 2018. Intergovernmental revenue from the State of Maryland increased \$20.9 million (2.4 percent), related to an increase of \$11.5 million in unrestricted *Bridge to Excellence* formula-driven grants, and an increase of \$9.3 million in construction funds. Federal intergovernmental revenue increased \$1.6 million, 8.3 percent, largely due to increases in Medicare Part D subsidies.

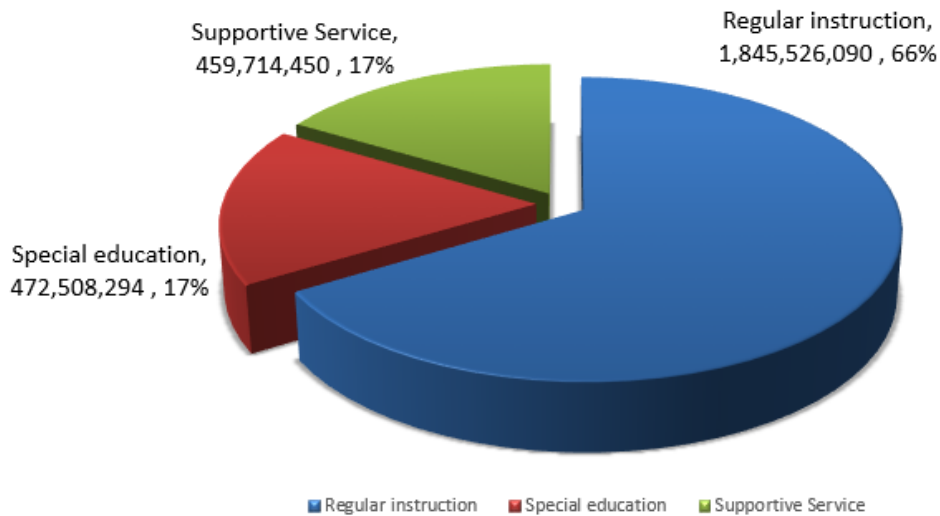
Board of Education of Montgomery County Changes in Net Position
(Amounts expressed in millions)

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------------|----------------------------|-------------------|-----------------------------|---------------|----------------|-------------------|
| | 2018 | 2017* | 2018 | 2017* | 2018 | 2017* |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 3.4 | \$ 4.2 | \$ 32.0 | \$ 26.5 | \$ 35.4 | \$ 30.7 |
| Operating grants and contributions | 84.1 | 76.4 | 44.1 | 44.1 | 128.2 | 120.5 |
| Capital grants and contributions | 70.2 | 72.6 | 1.5 | 1.9 | 71.7 | 74.5 |
| General revenues: | | | | | | |
| Intergovernmental | 2,786.9 | 2,720.3 | | | 2,786.9 | 2,720.3 |
| Other | 14.7 | 0.3 | | | 14.7 | 0.3 |
| Total revenues | <u>2,959.3</u> | <u>2,873.8</u> | <u>77.6</u> | <u>72.5</u> | <u>3,036.9</u> | <u>2,946.3</u> |
| Expenses: | | | | | | |
| Regular instruction | 1,616.0 | 1,633.0 | | | 1,616.0 | 1,633.0 |
| Special education | 472.5 | 468.5 | | | 472.5 | 468.5 |
| School administration | 212.5 | 217.9 | | | 212.5 | 217.9 |
| Student personnel services | 17.0 | 17.1 | | | 17.0 | 17.1 |
| Health services | | | | | | |
| Student transportation | 140.2 | 140.7 | | | 140.2 | 140.7 |
| Operation of plant | 172.4 | 170.8 | | | 172.4 | 170.8 |
| Maintenance of plant | 74.6 | 71.5 | | | 74.6 | 71.5 |
| Administration | 68.1 | 65.0 | | | 68.1 | 65.0 |
| Community services | 3.2 | 3.2 | | | 3.2 | 3.2 |
| Interest on capital leases | 1.2 | 1.0 | | | 1.2 | 1.0 |
| Food services | | | 57.7 | 58.1 | 57.7 | 58.1 |
| Real estate management | | | 3.3 | 3.2 | 3.3 | 3.2 |
| Field trips | | | 2.2 | 2.0 | 2.2 | 2.0 |
| Entrepreneurial activities | | | 8.8 | 3.9 | 8.8 | 3.9 |
| Total expenses | <u>2,777.7</u> | <u>2,788.7</u> | <u>72.0</u> | <u>67.2</u> | <u>2,849.7</u> | <u>2,855.9</u> |
| Increase (decrease) in net position | 181.6 | 85.1 | 5.6 | 5.3 | 187.2 | 90.4 |
| Net position - Beginning | <u>1,725.3</u> | <u>1,640.2</u> | <u>4.4</u> | <u>(0.9)</u> | <u>1,729.7</u> | <u>1,639.3</u> |
| Net position – Beginning, restated | <u>(121.3)</u> | <u>1,640.2</u> | <u>13.1</u> | <u>(0.9)</u> | <u>(108.2)</u> | <u>1,639.3</u> |
| Net position - Ending | <u>\$ 60.3</u> | <u>\$ 1,725.3</u> | <u>\$ 18.7</u> | <u>\$ 4.4</u> | <u>\$ 79.0</u> | <u>\$ 1,729.7</u> |

Total expenses for the Board governmental activities decreased \$11.0 million (0.4 percent) to \$2,777.7 million. In 2018, instructional programs expenses accounted for 83 percent, (84 percent in 2017), and support services accounted for 17 percent (16 percent in 2017) of total governmental activities expenses.

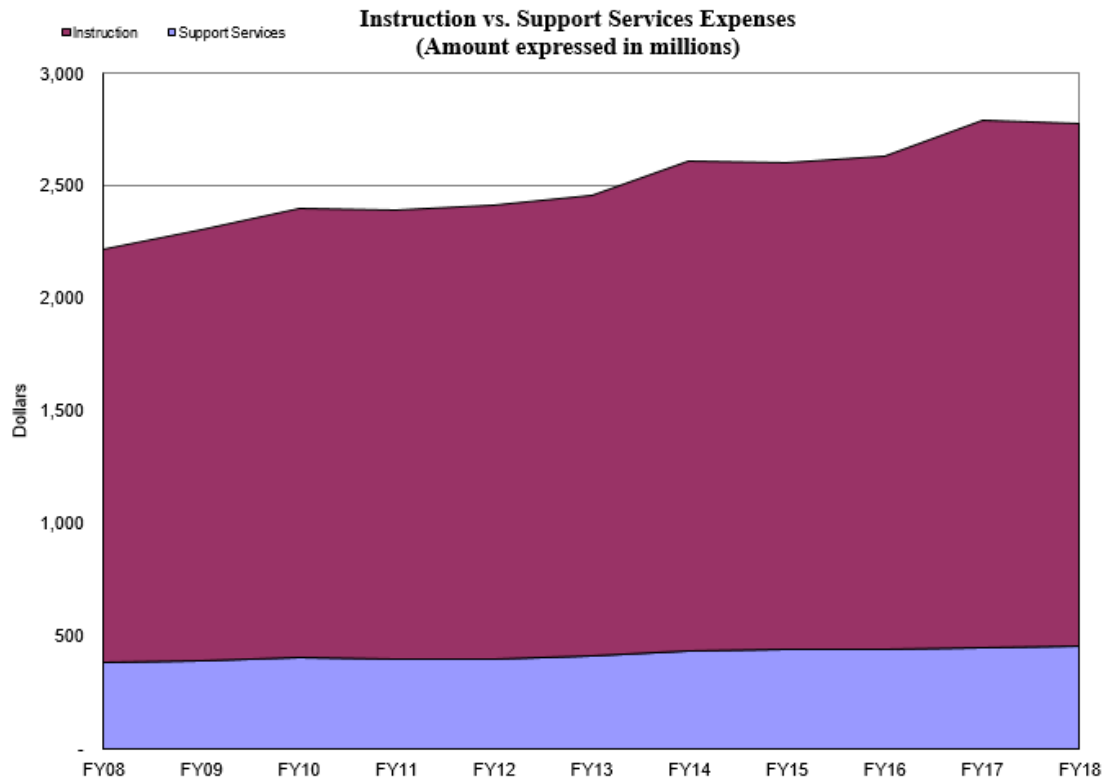
*Amounts in this table have not been restated for the implementation of GASB 75.

Expenses by Function - Governmental Activities



Special education service and instructional expenses decreased by 0.8 percent as the result of internal savings and cost reduction programs which are the primary source for funding instructional program initiatives. The combination of these two functions was 83 percent compared to the cost of supportive services which was 17 percent. Employee healthcare benefits contributions decreased \$11.2 million (3.7 percent) due to the fact that there were lower than anticipated expenses. Other postemployment healthcare benefits contribution decreased \$5.7 million due to the initiation of a mid-year savings plan by the County, which funds the OPEB Trust on behalf of the Board. The Council also agreed with the county executive to provide \$27.2 million from the county's Consolidated OPEB Trust Fund to cover current retiree health benefits expenditures in FY 2018.

General fund salaries increased \$37.7 million (2.4 percent) primarily due to steps and longevity increases in FY 2018. Based on agreements with the three bargaining units, employees received a general wage increase of one percent, effective July 1, 2017, which was reflected in the FY 2018 budget. In addition, part of the general fund salary increase was due to the addition of a net 105 positions in the approved FY 2018 budget to accommodate growth and strategic priorities.

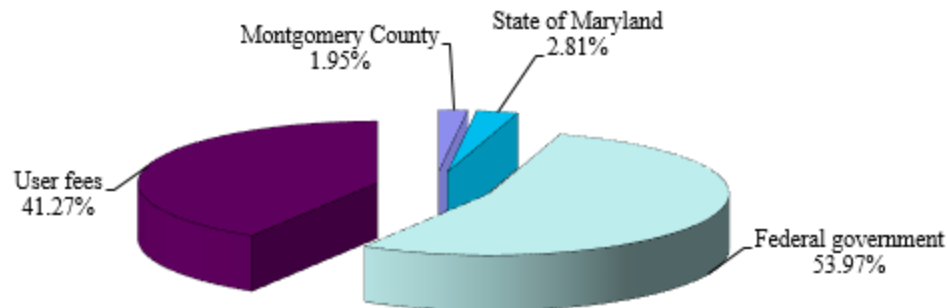


Business-type activities. Business-type activities increased the Board’s net position by \$5.6 million. Total revenues increased \$5.1 million (7.1 percent) to \$77.6 million. Charges for services increased \$5.5 million (20.8 percent) due to an increase of \$0.4 million on sale of food and \$4.1 million in the school bus safety program where the number of cameras and tickets more than doubled over the prior year. Nonoperating revenues in the Food Services fund experienced a small decrease due to decreased participation in the After School Snack program. Additionally, Maryland State Department of Education (MSDE) funded the Fresh Fruit and Vegetable program at a lower amount, thus decreasing participation, and a decrease in the Supper program combined to reduce federal funds by \$0.3 million.

Total expenses increased \$4.8 million (7.2 percent). Food services operating expenses decreased \$0.4 million (0.68 percent), entrepreneurial activities expenses increased \$4.9 million (126 percent), and Real Estate Management and Field Trips had a combined increase of 0.3 million. Food purchases showed a slight decrease in FY 2018 as compared with FY 2017. Salary costs increased \$0.9 million (4.1 percent) due to COLA and step increases. Other charges decreased \$1.4 million (10.4 percent) due to the decision to remove the previous net OPEB obligation and to start recording the net OPEB liability in the governmental fund.

Overall, with the changes noted above, the Food Services fund had a change in net position of \$5.3 million. In addition, the beginning net position of the fund increased by \$8.8 million due to the decision of recording the full net OPEB liability in the governmental funds. In total, the net position of the fund went from \$3.2 million on June 30, 2017 to \$17.3 million on June 30, 2018.

Revenues by Source - Business-type Activities



Financial Analysis of the Board's Funds

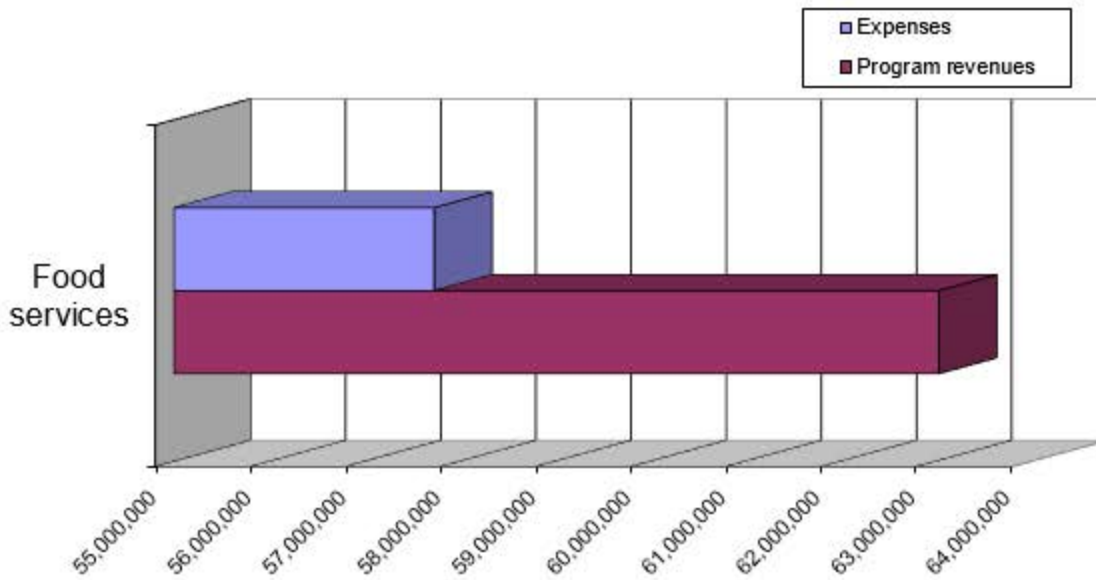
The Board uses fund accounting to ensure accountability and to demonstrate compliance with finance-related legal and contractual provisions.

Governmental funds. The focus of the Board's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Board's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

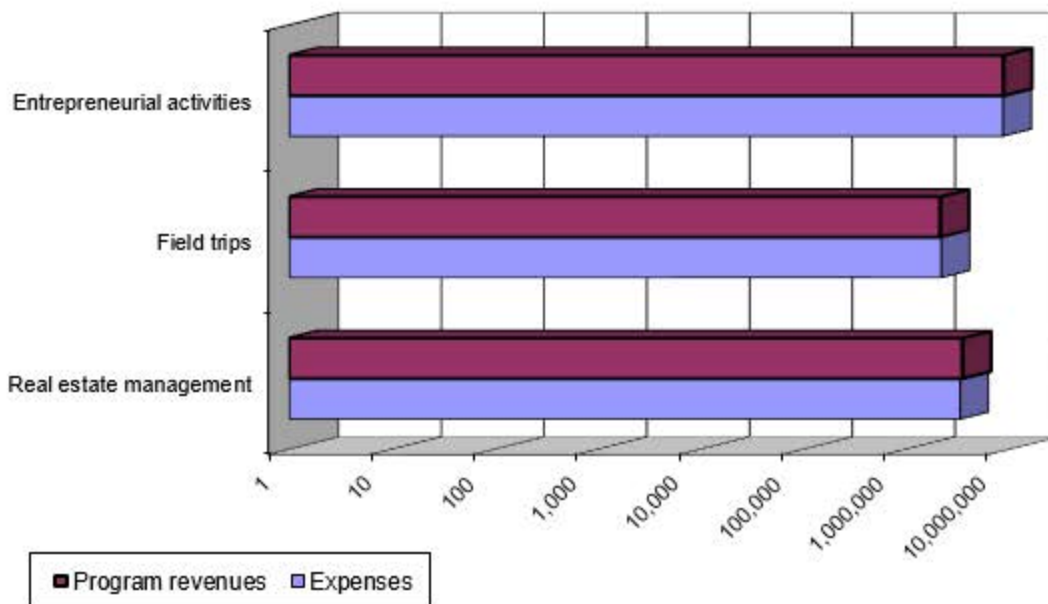
As of the end of the current fiscal year, the Board's governmental funds reported combined ending fund balance of \$40.4 million, an increase of \$11.8 million from the prior year. Fund balance restricted for the instructional TV program is \$0.3 million, the same as the prior year.

The general fund is the principal operating fund of the Board. At June 30, 2018, fund balance was \$40.1 million. Nonspendable fund balance was \$8.3 million. Nonspendable fund balance is classified as nonspendable as the resources, inventories and prepaids, are not expected to be converted to cash. Fund balance assigned for instructional programs increased by \$6.5 million to \$14.8 million. Unassigned fund balance increased by \$4.9 million to \$17.1 million at June 30, 2018. The capital projects' fund balance is zero. This is because project budgets are fixed depending upon capital project funding adopted by the county, state and federal governments. A more detailed discussion of capital projects spending found in the Capital Assets section of MD&A.

**Program Revenues and Expenses - Primary Activity
Business-type Activities**



**Program Revenues and Expenses - Other Activities
Business-type Activities**



Proprietary funds. The Board's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Factors concerning the finances of those funds have already been addressed within the discussion of business-type activities.

General Fund Budgetary Highlights

The final amended budget for FY 2018 was \$2,477.6 million. The increase of \$26.8 million from the original budget was a result of \$6.5 million in supplemental grant funding, \$12.0 million in unspent grant expenditures carried forward from FY 2017 and \$8.3 million in prior year encumbrances.

Actual budgetary fund balance increased by \$5.4 million to \$31.8 million. The increase in fund balance resulted primarily from monitoring discretionary expenses and higher than budgeted instructional salary lapse.

Actual revenues were \$18.3 million under budget for the year. This was the result of the \$18.3 million under budget on federal, Maryland and local grants. The restricted revenue shortfall was comprised of \$1.2 million estimated restricted grant activity that did not materialize, and \$17.1 million in unrealized revenue for grants that carried forward into FY 2019.

Actual expenditures were \$46.5 million under budget. Restricted expenditures were \$18.3 million less than the budget, consisted of \$17.1 million in unspent funds for grants that carry forward into FY 2019, and \$1.2 million in estimated restricted grant activity that did not materialize.

Unrestricted expenditures were \$28.2 million under budget. Most of the reduction resulted from a savings plan implemented, higher than budgeted instructional salaries lapse, and personnel turnover.

Capital Asset and Debt Administration

Capital Assets. Capital assets include land and site improvements, schools and administrative buildings, school buses, and other vehicles and equipment. At June 30, 2018, the Board's investment in capital assets for its governmental and business-type activities amounted to \$2,929.0 million, net of accumulated depreciation. This amount represented a net increase of \$136.8 million or 4.9 percent from last year. The net value of buildings, less accumulated depreciation, increased \$71.2 million and construction in progress increased \$0.9 million.

Board of Education of Montgomery County Capital Assets
(Net of depreciation)
(amounts expressed in millions)

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|-------------------------|------------|--------------------------|--------|------------|------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land | \$ 101.1 | \$ 87.7 | \$ - | \$ - | \$ 101.1 | \$ 87.7 |
| Buildings | 2,312.1 | 2,240.9 | | | 2,312.1 | 2,240.9 |
| Improvements other than buildings | 339.8 | 292.5 | | | 339.8 | 292.5 |
| Vehicles and equipment | 79.7 | 76.8 | 6.6 | 5.5 | 86.3 | 82.3 |
| Construction | 89.7 | 88.8 | | | 89.7 | 88.8 |
| Total | \$ 2,922.4 | \$ 2,786.7 | \$ 6.6 | \$ 5.5 | \$ 2,929.0 | \$ 2,792.2 |

To relieve overcrowding and reduce the number of relocatable classrooms in FY 2018, the Board added 28 classrooms, including 11 classrooms at Brown Station Elementary School, seven classrooms at Diamond Elementary School, and 17 classrooms at Wheaton Woods Elementary School. Furthermore, the Board

added 46 classrooms with the opening of Silver Creek Middle School. In FY 2019, the Board will add 75 classrooms associated with the construction of building addition projects at Bethesda-Chevy Chase High School (33), North Bethesda Middle School (17), Lucy V. Barnsley Elementary School (11), and Kensington-Parkwood Elementary School (14). The Board will add 31 classrooms with the opening of Bayard Rustin Elementary School.

Additional information about capital assets can be found in note VI to the financial statements.

Long-term debt. At June 30, 2018, the Board had \$59.7 million in capital leases outstanding. The Board acquires school buses, instructional computers and furniture, other vehicles, and heavy equipment through a master lease agreement with a financial institution. New capital leases for school buses, instructional computers, and other equipment amounted to \$31.2 million during FY 2018. Principal payments on existing capital leases were \$31.2 million during the current year.

Additional information on the Board's long-term debt can be found in notes VIII and IX to the financial statements.

Factors Bearing on the Board's Future

The transmittal letter presents certain information on the local economy and long-term financial planning, enrollment, and negotiated agreement issues affecting the Board. There are six additional initiatives that significantly impact the Board.

Postemployment Healthcare Benefits. The Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension* in June 2015. The Statement was effective in FY 2018 for the Board. The Statement requires governments to report a liability on the face of financial statements for the OPEB they provide. This Statement supersedes GASB 45, which only required governments to report a portion of the liability, and not on the face of the statements. Previously, the Board had created the OPEB Plan Trust to account for its OPEB activity. Additional information about the Board's OPEB funding can be found in note XIII to the financial statements.

The Board worked jointly with the county and other county agencies to develop a common approach for funding OPEB that would be acceptable to the Montgomery County Council (the funding authority for the Board). The Board initially agreed with the County Council to phase-in full funding of the annual OPEB cost over a five year period. The FY 2008 OPEB contribution was based on a five-year phase-in. Subsequently, the Board agreed with a County Council request to extend the phase-in period to eight years beginning with the FY 2009 contribution to the unfunded actuarial accrued liability (UAAL). The County Council elected to not fund either the FY 2010 or the FY 2011 UAAL contributions to the Board due to declining county tax revenues. Effective July 1, 2011, the County Council established the consolidated retiree health benefit trust (CRHBT) that expanded the County OPEB Plan to include funds for the benefit of the Board retirees. Beginning in FY 2012, and each year thereafter, the Board's annual UAAL contribution has been made by the County Council directly to the CRHBT rather than to the Board OPEB Plan Trust. The previous Board OPEB Plan Trust was drawn down through either the transfer of funds to the Board Retiree's Trust fund or the processing of claims and expense against this account as of July 1, 2015.

Montgomery County contributed \$63.1 million and \$55.2 million respectively, to the CRHBT in FY 2017 and FY 2018 on behalf of the Board. In FY 2018, the Board had \$55.8 million in total retiree pay-as-you-go funding, with \$28.6 million in tax supported funding, and \$27.2 million in assets from the county's Consolidated OPEB Trust. In FY 2019, the county budget authorized \$60.3 million in total MCPS retiree

pay-as-you-go funding through \$33.1 million in tax supported funding and \$27.2 million from the Board's portion of the CRHBT. The Board's OPEB pre-funding is appropriated directly to the CRHBT and is not part of the Board's budget request. Up until FY 2017, the County had been funding the Board's OPEB actuarially determined contribution. However, in FY 2018 the contribution was decreased due to a self-imposed savings plan.

Additional information about the Board's implementation of GASB 74 and 75 can be found in notes XIII and XIV to the financial statements.

No Child Left Behind Act of 2001 (NCLB). In 2002, the United States Congress approved the NCLB Act. This marked the most fundamental revision of federal education legislation since the adoption of the *Elementary and Secondary Education Act of 1965 (ESEA)*. The law calls for rigorous standards in all states and compulsory testing of students in Grades 3 through 8 and Grade 10. In 2012, the State of Maryland received a waiver of Adequate Yearly Progress (AYP) targets in return for significant commitments to school reform and academic improvements.

Every Student Succeeds Act of 2015 (ESSA). On December 10, 2015, the ESSA was signed by President Obama. This reauthorization of the ESEA, formerly known as No Child Left Behind, provides a long-term, stable federal policy that gives states additional flexibility and encourages states, local school systems, and schools to innovate while at the same time holding all accountable for results. Specifically, ESSA requires states to do the following:

- Establish State standards, set academic goals, and assess progress toward those goals for all students and schools;
- Measure and report performance of all students, schools, and local school systems;
- Identify and support schools in need of improvement;
- Support professional development and growth for educators;
- Support students to ensure a well-rounded education.

The Maryland State Department of Education is working with the ESSA Stakeholder Committee to participate in the review of the law and development of Maryland's ESSA Plan.

Bridge to Excellence in Public Schools Act of 2002 (BTE). The 2002 Maryland General Assembly adopted ground-breaking legislation to reform the system of educational funding in the state. The BTE Act (Senate Bill 856) provides additional statewide funding to assure the adequacy of educational resources while redirecting resources more equitably to meet the needs of students with disabilities, limited English proficient students, and students impacted by poverty. In FY 2018, the Montgomery County Board of Education received an increase of \$26.8 million in state aid compared to FY 2017. All BTE Act categories received increases. The Foundation Grant saw an increase of \$13.0 million while Limited English Proficiency saw an increase of \$8.8 million. Students with disabilities (formula) received an increase of \$1.5 million. The Geographic Cost of Education Index amount increased by \$857 thousand. Compensatory Education increased by \$1.6 million. Another state aid category for student transportation increased by \$1.2 million. Finally, the amount of state reimbursement for students with disabilities increased by \$972 thousand over FY 2017.

Comprehensive Master Plan. The BTE Act, in accordance with the Annotated Code of Maryland §5-401, requires Local Education Agencies (LEAs) to develop and submit an annual update to the comprehensive master plan to MSDE for review. The annual update includes reporting requirements in accordance with annotated Code of Maryland §7-203.3, and Chapter 702, Commission on Innovation and Excellence in Education. In alignment with the Annotated Code of Maryland § 5-401, Annotated Code of Maryland §7-203.3, Chapter 702, and the MSDE's vision to create a world class system to prepare all students for college

and career, the comprehensive Master Plan Annual Update should include goals, objectives, and strategies to promote academic excellence among all students.

Reported strategies are to address any disparities in achievement for students requiring special education services, as defined in §5-209 of the Education Article; students with limited English proficiency, as defined in §5-208 of the Education Article; and students failing to meet, or failing to make progress towards meeting State performance standards. In the absence of State performance standards, LEAs are required to report on any segment of the student population that is, on average, performing at a lower achievement level than the student population as a whole.

In 2016, the Maryland General Assembly passed House Bill (HB) 999, the Commission on Innovation and Excellence in Education, and HB 412, Assessment Administration and Provision of Information. Specifically, HB 999 outlined the reporting structure of the BTE Master Plan Annual Update for submission in both 2016 and 2017. HB 999 revised the requirements that need to be reported in the submission for these two particular years. Based on HB 999, the Master Plan Annual Update shall only include the goals, objectives, and strategies regarding the performance of three categories of students. These include: (1) students requiring special education, as defined in Section 5-209 of the Education Article; (2) students with limited English proficiency as defined in Section 5-208 of the Education Article; and (3) students failing to meet, or failing to make progress toward meeting state performance standards, including any segment of the student population that is, on average, performing at a lower achievement level than the student population as a whole.

The other bill, HB 412, outlined assessment reporting details specified in the new Education Article Section 7-203.3 for each assessment administered in the school district, and the information that shall be provided in the Master Plan Annual Update for each administered assessment. For each assessment, the Board and other LEAs are required to provide the following information: (1) the title of the assessment; (2) the purpose of the assessment; (3) whether the assessment is mandated by a local, state, or federal entity; (4) the grade level or subject area, as appropriate, to which the test is administered; (5) the testing window of the assessment; and (6) whether accommodations are available for students with special needs and what those accommodations are.

In addition to these changes in the Master Plan Annual Update, the structure of the Master Plan has been revised. Part II of previous Comprehensive Master Plan submissions reflected budget narrative and details of Federal grant-titled programs including Title I, Parts A and D; Title II; Title III, Part A; as well as the State Fine Arts Grant Program, and other reporting requirements. This budget section has been separated from the rest of the Master Plan Annual Update and will now be submitted separately as the Federal and State Grant Applications and other Reporting Requirements. This has its own submission schedule distinct from when the Master Plan Annual Update is due to MSDE.

Maintenance of Local Effort (MOE). In 2012, the Maryland General Assembly adopted Senate Bill (SB) 848 that clarified and strengthened requirements for counties to maintain the local financial commitment to public schools. SB 848 provides significant protection of local funding for public schools, especially during periods of economic challenges. The law requires all counties and the City of Baltimore to provide at least as much local tax revenue per student as the previous fiscal year. Instead of penalizing a school district with the loss of increased state aid, SB 848 provides for the diversion of sufficient local income tax collections to assure that a school district receives at least the required amount of local contribution. If a county cannot meet its commitment because of a severe financial downturn, the law provides broader criteria for a waiver application to the MSDE, but also limits the amount of the possible waiver. Montgomery County has met MOE requirements each year.

Following several years of being funded at the minimum level required by the MOE law, in FY 2017, the Board was funded at \$89,965,802 above MOE. This increased the cost per pupil from \$9,749 to \$10,637. Along with this increase, the County Council's appropriation provided \$37.9 million of accelerators that allows the Board to reduce class sizes in many classrooms across the district and accelerate efforts to close the achievement gap. In FY 2018, the County Council funded MCPS at \$21.2 million above MOE. This increased the cost per pupil to \$10,765. The funding supported \$11.0 million in strategic accelerators in support of the five strategic priorities including (1) improving teaching and learning; (2) focus on learning, accountability, and results; (3) focus on human capital; (4) focus on community partnerships and engagement; and (5) focus on operational excellence.

Requests for Information

This financial report is designed to provide a general overview of the Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Board of Education of Montgomery County, 850 Hungerford Drive, Room 167, Rockville, Maryland 20850.



BASIC FINANCIAL STATEMENTS

Board of Education of Montgomery County
June 30, 2018

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2018

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|----------------------|---------------------------|
| | Governmental Activities | Business-Type Activities | Total | Educational Foundation |
| Assets | | | | |
| Equity in pooled cash and investments | \$ 107,781,342 | \$ 1,082,029 | \$ 108,863,371 | \$ - |
| Cash and cash equivalents | | 11,817,449 | 11,817,449 | 244,752 |
| Investments - cash equivalents | 71,704,383 | | 71,704,383 | 5,890,414 |
| Accounts receivable: | | | | |
| Montgomery County | 21,061,299 | 4,902 | 21,066,201 | |
| State of Maryland | 13,267,539 | 263,791 | 13,531,330 | |
| Federal government | 7,360,655 | 2,110,526 | 9,471,181 | |
| Other | 31,112,425 | 1,261,267 | 32,373,692 | |
| Due from component unit | 57,476 | | 57,476 | |
| Internal balances | (568,122) | 568,122 | | |
| Inventories | 7,904,910 | 2,593,148 | 10,498,058 | |
| Prepays | 359,573 | | 359,573 | |
| Due from employees | 106,443 | | 106,443 | |
| Capital assets (not being depreciated): | | | | |
| Land | 101,077,760 | | 101,077,760 | |
| Construction in progress | 89,715,477 | | 89,715,477 | |
| Capital assets (net of accumulated depreciation): | | | | |
| Buildings and additions | 2,312,122,706 | | 2,312,122,706 | |
| Improvements other than buildings | 339,771,810 | | 339,771,810 | |
| Vehicles and equipment | 79,739,651 | 6,625,622 | 86,365,273 | |
| Total assets | 3,182,575,327 | 26,326,856 | 3,208,902,183 | 6,135,166 |
| Deferred Outflows Of Resources | | | | |
| Pension deferrals | 158,625,591 | | 158,625,591 | |
| OPEB deferrals | 111,778,110 | | 111,778,110 | |
| Total deferred outflows of resources | 270,403,701 | - | 270,403,701 | - |
| Liabilities | | | | |
| Accounts payable and other current liabilities | 156,819,479 | 1,355,226 | 158,174,705 | |
| Due to primary government | | | | 57,476 |
| Due to external parties | 30,730,116 | | 30,730,116 | |
| Unearned revenue | 5,257,920 | 3,128,695 | 8,386,615 | |
| Noncurrent liabilities: | | | | |
| Due within one year | 32,277,377 | 310,045 | 32,587,422 | |
| Due in more than one year | 2,860,332,686 | 2,854,682 | 2,863,187,368 | |
| Total liabilities | 3,085,417,578 | 7,648,648 | 3,093,066,226 | 57,476 |
| Deferred Inflows Of Resources | | | | |
| Pension deferrals | 58,301,970 | | 58,301,970 | |
| OPEB deferrals | 249,002,567 | | 249,002,567 | |
| Total deferred inflows of resources | 307,304,537 | - | 307,304,537 | - |
| Net Position | | | | |
| Net investment in capital assets | 2,884,728,055 | 6,625,622 | 2,891,353,677 | |
| Restricted for: | | | | |
| Instructional Programs, Expendable | 328,504 | | 328,504 | 938,621 |
| Scholarships, Non-Expendable | | | | 821,862 |
| Unrestricted | (2,824,799,646) | 12,052,586 | (2,812,747,060) | 4,317,207 |
| Total net position | \$ 60,256,913 | \$ 18,678,208 | \$ 78,935,121 | \$ 6,077,690 |

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

| Functions/Programs | Expenses | Program Revenues | | |
|---------------------------------------|-------------------------|----------------------|------------------------------------|----------------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 1,616,010,500 | \$ 3,093,640 | \$ 39,616,777 | \$ 47,441,143 |
| Special education | 472,508,294 | 264,592 | 37,415,296 | |
| School administration | 212,525,992 | | 2,095,822 | |
| Student personnel services | 16,988,187 | | 1,026,463 | |
| Health services | 1,411 | | | |
| Total instruction | <u>2,318,034,384</u> | <u>3,358,232</u> | <u>80,154,358</u> | <u>47,441,143</u> |
| Support services: | | | | |
| Student transportation | 140,237,799 | | 1,144,751 | - |
| Operation of plant | 172,434,134 | | - | - |
| Maintenance of plant | 74,579,051 | | - | 17,764,305 |
| Administration | 68,058,928 | | 277,847 | 5,035,752 |
| Community services | 3,220,575 | | 2,515,970 | |
| Interest on capital leases | 1,183,963 | | | |
| Total support services | <u>459,714,450</u> | <u>-</u> | <u>3,938,568</u> | <u>22,800,057</u> |
| Total governmental activities | <u>2,777,748,834</u> | <u>3,358,232</u> | <u>84,092,926</u> | <u>70,241,200</u> |
| Business-type activities: | | | | |
| Food services | 57,733,700 | 17,476,818 | 44,052,643 | 1,509,107 |
| Real estate management | 3,360,543 | 3,536,111 | | |
| Field trips | 2,196,677 | 2,148,783 | | |
| Entrepreneurial activities | 8,766,263 | 8,857,581 | | |
| Total business-type activities | <u>72,057,183</u> | <u>32,019,293</u> | <u>44,052,643</u> | <u>1,509,107</u> |
| Total primary government | <u>\$ 2,849,806,017</u> | <u>\$ 35,377,525</u> | <u>\$ 128,145,569</u> | <u>\$ 71,750,307</u> |
| Component Unit: | | | | |
| Educational Foundation | <u>\$ 1,329,535</u> | <u>\$ -</u> | <u>\$ 1,718,979</u> | <u>\$ -</u> |
| General revenues: | | | | |
| Unrestricted intergovernmental: | | | | |
| Montgomery County | | | | |
| State of Maryland | | | | |
| Federal government | | | | |
| Other income | | | | |
| Total general revenues and transfers | | | | |
| Change in net position | | | | |
| Net position - beginning | | | | |
| Restatement | | | | |
| Net position - beginning, as restated | | | | |
| Net position - ending | | | | |

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

| Net (Expense) Revenue and Changes in Net Position | | | |
|---|-----------------------------|------------------------|---------------------------|
| Primary Government | | | Component Unit |
| Governmental Activities | Business-Type Activities | Total | Educational Foundation |
| \$ (1,525,858,940) | \$ - | \$ (1,525,858,940) | \$ - |
| (434,828,406) | | (434,828,406) | |
| (210,430,170) | | (210,430,170) | |
| (15,961,724) | | (15,961,724) | |
| (1,411) | | (1,411) | |
| <u>(2,187,080,651)</u> | <u>-</u> | <u>(2,187,080,651)</u> | <u>-</u> |
| (139,093,048) | | (139,093,048) | |
| (172,434,134) | | (172,434,134) | |
| (56,814,746) | | (56,814,746) | |
| (62,745,329) | | (62,745,329) | |
| (704,605) | | (704,605) | |
| (1,183,963) | | (1,183,963) | |
| <u>(432,975,825)</u> | <u>-</u> | <u>(432,975,825)</u> | <u>-</u> |
| <u>(2,620,056,476)</u> | <u>-</u> | <u>(2,620,056,476)</u> | <u>-</u> |
| | 5,304,868 | 5,304,868 | |
| | 175,568 | 175,568 | |
| | (47,894) | (47,894) | |
| | 91,318 | 91,318 | |
| <u>-</u> | <u>5,523,860</u> | <u>5,523,860</u> | <u>-</u> |
| <u>(2,620,056,476)</u> | <u>5,523,860</u> | <u>(2,614,532,616)</u> | <u>-</u> |
| | | | <u>389,444</u> |
| 1,873,380,768 | | 1,873,380,768 | |
| 892,225,277 | | 892,225,277 | |
| 21,302,600 | | 21,302,600 | |
| 14,687,987 | 9,358 | 14,697,345 | |
| <u>2,801,596,632</u> | <u>9,358</u> | <u>2,801,605,990</u> | <u>-</u> |
| 181,540,156 | 5,533,218 | 187,073,374 | 389,444 |
| 1,725,264,644 | 4,375,260 | 1,729,639,904 | 5,688,246 |
| (1,846,547,887) | 8,769,730 | (1,837,778,157) | |
| <u>(121,283,243)</u> | <u>13,144,990</u> | <u>(108,138,253)</u> | <u>5,688,246</u> |
| <u>\$ 60,256,913</u> | <u>\$ 18,678,208</u> | <u>\$ 78,935,121</u> | <u>\$ 6,077,690</u> |

BOARD OF EDUCATION OF MONTGOMERY COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

| | General | Capital Projects | Nonmajor Governmental Fund - Special Revenue | Total Governmental Funds |
|--|-----------------------|----------------------|---|--------------------------------|
| Assets | | | | |
| Equity in pooled cash and investments | \$ 107,781,342 | \$ - | \$ - | \$ 107,781,342 |
| Accounts receivable: | | | | |
| Montgomery County | | 21,061,299 | | 21,061,299 |
| State of Maryland | 7,960,408 | 5,307,131 | | 13,267,539 |
| Federal government | 7,360,655 | | | 7,360,655 |
| Other | 26,547,938 | 1,366,343 | | 27,914,281 |
| Due from other funds | 134,791 | 4,983,336 | 360,888 | 5,479,015 |
| Due from component unit | 57,476 | | | 57,476 |
| Inventories | 7,904,910 | | | 7,904,910 |
| Prepays | 359,573 | | | 359,573 |
| Due from employees | 106,443 | | | 106,443 |
| Total assets | <u>\$ 158,213,536</u> | <u>\$ 32,718,109</u> | <u>\$ 360,888</u> | <u>\$ 191,292,533</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 36,086,916 | \$ 23,373,017 | \$ 24,718 | \$ 59,484,651 |
| Retainage payable | | 8,955,887 | | 8,955,887 |
| Accrued salaries and withholdings | 54,399,574 | | | 54,399,574 |
| Due to other funds | 10,812,481 | 389,205 | 7,666 | 11,209,352 |
| Due to fiduciary funds | 4,292,786 | | | 4,292,786 |
| Unearned revenue | 5,257,920 | | | 5,257,920 |
| Compensated absences | 7,265,275 | | | 7,265,275 |
| Total liabilities | <u>118,114,952</u> | <u>32,718,109</u> | <u>32,384</u> | <u>150,865,445</u> |
| Fund Balances: | | | | |
| Nonspendable: | | | | |
| Inventories | 7,904,910 | | | 7,904,910 |
| Prepays | 359,573 | | | 359,573 |
| Restricted for: | | | | |
| Instructional TV program | | | 328,504 | 328,504 |
| Assigned for: | | | | |
| Instructional programs | 14,765,257 | | | 14,765,257 |
| Unassigned | 17,068,844 | | | 17,068,844 |
| Total fund balances | <u>40,098,584</u> | <u>-</u> | <u>328,504</u> | <u>40,427,088</u> |
| Total liabilities and fund balances | <u>\$ 158,213,536</u> | <u>\$ 32,718,109</u> | <u>\$ 360,888</u> | <u>\$ 191,292,533</u> |

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET POSITION
JUNE 30, 2018

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

| | | | |
|--|------------------|----|------------------------|
| Total fund balances - governmental funds | | \$ | 40,427,088 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | | | |
| The cost of capital assets is | | | \$ 4,369,585,326 |
| Accumulated depreciation is | | | <u>(1,447,157,922)</u> |
| | | | 2,922,427,404 |
| Pension related deferred outflows of resources | | | 158,625,591 |
| OPEB related deferred outflows of resources | | | 111,778,110 |
| An internal service fund is used to account for the employee health benefit plan costs. The assets and liabilities of the internal service fund are included with governmental activities. | | | |
| | | | 19,648,046 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of: | | | |
| Capital leases payable | | | (59,294,633) |
| Compensated absences | \$ (143,577,745) | | |
| Compensated absences-Governmental Funds | <u>7,265,275</u> | | |
| | | | (136,312,470) |
| Net pension liability | | | (397,542,261) |
| Net OPEB liability | | | <u>(2,292,195,425)</u> |
| | | | (2,885,344,789) |
| Pension related deferred inflows of resources | | | (58,301,970) |
| OPEB related deferred inflows of resources | | | <u>(249,002,567)</u> |
| Total net position - governmental activities | | \$ | <u>60,256,913</u> |

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | General | Capital Projects | Nonmajor Governmental Fund - Special Revenue | Total Governmental Funds |
|--|----------------------|---------------------|---|--------------------------------|
| Revenues: | | | | |
| Montgomery County | \$ 1,720,715,773 | \$ 222,264,231 | \$ - | \$ 1,942,980,004 |
| State of Maryland | 835,548,788 | 60,691,473 | | 896,240,261 |
| Federal government | 98,100,600 | 1,705,821 | | 99,806,421 |
| Other sources | 4,060,614 | 1,119,485 | 1,697,504 | 6,877,603 |
| Total revenues | <u>2,658,425,775</u> | <u>285,781,010</u> | <u>1,697,504</u> | <u>2,945,904,289</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Administration | 46,373,276 | | | 46,373,276 |
| Mid-level administration | 146,059,390 | | | 146,059,390 |
| Instructional salaries and wages | 978,816,045 | | | 978,816,045 |
| Instructional textbooks and supplies | 23,469,595 | | | 23,469,595 |
| Other instructional costs | 13,457,116 | | | 13,457,116 |
| Special education | 333,569,547 | | | 333,569,547 |
| Student personnel services | 11,683,385 | | | 11,683,385 |
| Health services | 1,411 | | | 1,411 |
| Student transportation | 106,938,152 | | | 106,938,152 |
| Operation of plant | 135,115,367 | | | 135,115,367 |
| Maintenance of plant | 36,696,411 | | | 36,696,411 |
| Fixed charges | 813,415,347 | | | 813,415,347 |
| Community services | 828,571 | | 1,649,688 | 2,478,259 |
| Debt service: | | | | |
| Capital lease principal | 15,593,716 | 15,340,550 | | 30,934,266 |
| Capital lease interest | 817,083 | 366,880 | | 1,183,963 |
| Capital outlay | | 285,128,443 | | 285,128,443 |
| Total expenditures | <u>2,662,834,412</u> | <u>300,835,873</u> | <u>1,649,688</u> | <u>2,965,319,973</u> |
| Excess (deficiency) of revenues over expenditures | <u>(4,408,637)</u> | <u>(15,054,863)</u> | <u>47,816</u> | <u>(19,415,684)</u> |
| Other financing sources: | | | | |
| Capital lease financing | 16,176,061 | 15,054,863 | | 31,230,924 |
| Total other financing sources | <u>16,176,061</u> | <u>15,054,863</u> | <u>-</u> | <u>31,230,924</u> |
| Net change in fund balances | 11,767,424 | - | 47,816 | 11,815,240 |
| Fund balances - beginning | <u>28,331,160</u> | <u>-</u> | <u>280,688</u> | <u>28,611,848</u> |
| Fund balances - ending | <u>\$ 40,098,584</u> | <u>\$ -</u> | <u>\$ 328,504</u> | <u>\$ 40,427,088</u> |

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Total net change in fund balances - governmental funds \$ 11,815,240

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays for capital project assets (\$285,128,446 less non-capitalized items of \$70,241,200) plus capital outlays for general fund assets (\$16,365,693) exceed depreciation expense (\$107,040,593) in the current period. 124,212,346

The net effect of various miscellaneous transactions involving capital assets, such as the loss on disposal of capital assets and the donation of land from developers is to increase net position. 11,523,414

Contributions to the pension plan in the current fiscal year are not included on the statement of activities 80,513,860

Contributions to the OPEB plan in the current fiscal year are not included on the statement of activities 111,778,110

Some of the capital assets and assets below the capitalization threshold acquired this year were financed with capital leases. The amount financed by capital leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net position. Also, expenditures for principal repayment of capital leases are measured by the amount of financial resources used by governmental funds and have no effect on net position. This is the amount by which new capital leases (\$31,230,924) exceeded principal payments (\$30,934,268) (296,656)

In the statement of activities, certain operating expenses are measured by the amounts accrued during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources expended, as follows:

| | | |
|----------------------|---------------------|---------------|
| Compensated absences | \$ (2,580,190) | |
| Pension expense | (67,035,097) | |
| OPEB expense | <u>(98,610,882)</u> | (168,226,169) |

An internal service fund is used to charge the costs of the employee benefit plan to the individual funds. The net expense of the internal service fund is reported with governmental activities in the statement of activities. 10,220,011

Change in net position of governmental activities \$ 181,540,156

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | Budgeted Amounts | | Actual Amounts | | | Variance with Final Budget - Positive (Negative) |
|---|----------------------|----------------------|----------------------|-------------------|----------------------|---|
| | Original | Final | Actual | Encumbrances | Budgetary Basis | |
| Revenues: | | | | | | |
| Montgomery County | \$ 1,663,280,683 | \$ 1,663,280,683 | \$ 1,663,280,683 | \$ - | \$ 1,663,280,683 | \$ - |
| State of Maryland | 679,944,975 | 682,184,453 | 681,749,220 | | 681,749,220 | (435,233) |
| Federal government | 74,779,459 | 91,056,135 | 76,902,794 | | 76,902,794 | (14,153,341) |
| Other sources | 10,057,940 | 10,057,940 | 6,330,328 | | 6,330,328 | (3,727,617) |
| Total revenues | <u>2,428,063,057</u> | <u>2,446,579,211</u> | <u>2,428,263,020</u> | | <u>2,428,263,020</u> | <u>(18,316,191)</u> |
| Expenditures and encumbrances: | | | | | | |
| Current: | | | | | | |
| Administration | 51,464,697 | 53,027,728 | 46,926,211 | 5,905,236 | 52,831,447 | 196,281 |
| Mid-level administration | 148,597,024 | 148,674,947 | 146,059,390 | 807,868 | 146,867,258 | 1,807,689 |
| Instructional salaries and wages | 994,620,334 | 1,000,651,834 | 978,691,360 | | 978,691,360 | 21,960,474 |
| Instructional textbooks and supplies | 25,324,834 | 27,212,814 | 23,469,596 | 1,242,694 | 24,712,290 | 2,500,524 |
| Other instructional costs | 14,801,849 | 16,114,160 | 13,630,343 | 1,327,515 | 14,957,858 | 1,156,302 |
| Special education | 337,168,402 | 340,537,437 | 333,569,547 | 634,486 | 334,204,033 | 6,333,404 |
| Student personnel services | 12,079,984 | 12,439,325 | 11,683,385 | 1,088 | 11,684,473 | 754,852 |
| Health services | 3,630 | 3,630 | 1,411 | | 1,411 | 2,219 |
| Student transportation | 104,999,080 | 107,241,610 | 106,065,768 | 717,046 | 106,782,814 | 458,796 |
| Operation of plant | 135,547,970 | 138,582,403 | 135,136,722 | 2,658,716 | 137,795,438 | 786,965 |
| Maintenance of plant | 35,928,160 | 38,639,461 | 37,056,016 | 1,470,608 | 38,526,624 | 112,837 |
| Fixed charges | 589,372,307 | 593,493,327 | 583,252,592 | | 583,252,592 | 10,240,735 |
| Community services | 938,089 | 1,006,290 | 828,571 | | 828,571 | 177,719 |
| Total expenditures and encumbrances | <u>2,450,846,360</u> | <u>2,477,624,966</u> | <u>2,416,370,912</u> | <u>14,765,257</u> | <u>2,431,136,169</u> | <u>46,488,797</u> |
| Excess (deficiency) of revenues over expenditures and encumbrances | (22,783,303) | (31,045,755) | 11,892,108 | (14,765,257) | (2,873,149) | 28,172,606 |
| Other financing sources | | | | | | |
| Budgeted use of fund balance | 22,783,303 | 22,783,303 | | | | (22,783,303) |
| Prior-year encumbrances | | 8,262,452 | | | 8,262,452 | |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | | | 5,389,303 | 5,389,303 |
| Fund balance - beginning | | | | | 26,459,296 | 26,459,296 |
| Fund balance - ending | | | | | <u>\$ 31,848,599</u> | <u>\$ 31,848,599</u> |

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

| | Business-Type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Fund |
|--|---|---------------------------------|----------------------|--|
| | Food Services | Nonmajor Enterprise Funds | Total | |
| Assets | | | | |
| Current assets: | | | | |
| Equity in pooled cash and investments | \$ - | \$ 1,082,029 | \$ 1,082,029 | \$ - |
| Cash and cash equivalents | 11,817,449 | | 11,817,449 | |
| Investments - cash equivalents | | | | 71,704,383 |
| Accounts receivable: | | | | |
| Montgomery County | 4,902 | | 4,902 | |
| State of Maryland | 263,791 | | 263,791 | |
| Federal government | 2,110,526 | | 2,110,526 | |
| Other | 19,546 | 1,241,721 | 1,261,267 | 3,198,145 |
| Due from other funds | 1,164,530 | 643,159 | 1,807,689 | 5,162,215 |
| Inventories | 2,589,878 | 3,270 | 2,593,148 | |
| Total current assets | <u>17,970,622</u> | <u>2,970,179</u> | <u>20,940,801</u> | <u>80,064,743</u> |
| Noncurrent assets: | | | | |
| Capital assets, net of accumulated depreciation: | | | | |
| Machinery and equipment | 6,544,511 | 81,111 | 6,625,622 | |
| Total noncurrent assets | <u>6,544,511</u> | <u>81,111</u> | <u>6,625,622</u> | <u>-</u> |
| Total assets | <u>24,515,133</u> | <u>3,051,290</u> | <u>27,566,423</u> | <u>80,064,743</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 367,020 | 988,206 | 1,355,226 | 634,831 |
| Claims payable | | | | 23,776,210 |
| Due to employees, advance premium withholdings | | | | 9,568,326 |
| Due to other funds | 1,099,498 | 140,069 | 1,239,567 | |
| Due to external parties | | | | 26,437,330 |
| Unearned revenue | 2,936,445 | 192,250 | 3,128,695 | |
| Capital leases - current | 200,172 | 27,024 | 227,196 | |
| Compensated absences - current | 82,849 | | 82,849 | |
| Total current liabilities | <u>4,685,984</u> | <u>1,347,549</u> | <u>6,033,533</u> | <u>60,416,697</u> |
| Noncurrent liabilities: | | | | |
| Capital leases payable | 158,968 | | 158,968 | |
| Compensated absences | 2,346,117 | 349,597 | 2,695,714 | |
| Total noncurrent liabilities | <u>2,505,085</u> | <u>349,597</u> | <u>2,854,682</u> | <u>-</u> |
| Total liabilities | <u>7,191,069</u> | <u>1,697,146</u> | <u>8,888,215</u> | <u>60,416,697</u> |
| Net Position | | | | |
| Net investment in capital assets | 6,544,511 | 81,111 | 6,625,622 | |
| Unrestricted (deficit) | 10,779,553 | 1,273,033 | 12,052,586 | 19,648,046 |
| Total net position | <u>\$ 17,324,064</u> | <u>\$ 1,354,144</u> | <u>\$ 18,678,208</u> | <u>\$ 19,648,046</u> |

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | Business-Type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Fund |
|--|---|---------------------------------|----------------------|--|
| | Food Services | Nonmajor Enterprise Funds | Total | |
| Operating revenues: | | | | |
| Sale of food | \$ 17,476,818 | \$ - | \$ 17,476,818 | \$ - |
| Rent and fees | | 14,542,475 | 14,542,475 | |
| Employer's contributions | | | | 288,996,768 |
| Members' contributions | | | | 53,190,494 |
| Total operating revenues | <u>17,476,818</u> | <u>14,542,475</u> | <u>32,019,293</u> | <u>342,187,262</u> |
| Operating expenses: | | | | |
| Salaries and wages | 22,115,279 | 3,011,931 | 25,127,210 | |
| Contracted services | 1,100,875 | 7,105,103 | 8,205,978 | |
| Supplies and materials | 1,841,188 | 992,645 | 2,833,833 | |
| Food purchases | 16,365,626 | | 16,365,626 | |
| USDA commodities | 3,587,255 | | 3,587,255 | |
| Other charges | 11,690,532 | 3,176,130 | 14,866,662 | 1,698,768 |
| Depreciation | 1,032,945 | 37,674 | 1,070,619 | |
| Benefits paid to plan members | | | | 274,944,965 |
| Premiums paid to insurance companies | | | | 55,937,780 |
| Total operating expenses | <u>57,733,700</u> | <u>14,323,483</u> | <u>72,057,183</u> | <u>332,581,513</u> |
| Operating income (loss) | <u>(40,256,882)</u> | <u>218,992</u> | <u>(40,037,890)</u> | <u>9,605,749</u> |
| Nonoperating revenues: | | | | |
| National school lunch and other food programs: | | | | |
| Federal funds | 38,285,416 | | 38,285,416 | |
| State funds | 2,179,972 | | 2,179,972 | |
| USDA commodities | 3,587,255 | | 3,587,255 | |
| Investment income | 9,358 | | 9,358 | 614,262 |
| Total nonoperating revenues | <u>44,062,001</u> | <u>-</u> | <u>44,062,001</u> | <u>614,262</u> |
| Income (loss) before capital contributions and transfers | 3,805,119 | 218,992 | 4,024,111 | 10,220,011 |
| Capital contributions - equipment | <u>1,509,107</u> | | <u>1,509,107</u> | |
| Change in net position | <u>5,314,226</u> | <u>218,992</u> | <u>5,533,218</u> | <u>10,220,011</u> |
| Total net position - beginning | 3,240,108 | 1,135,152 | 4,375,260 | 9,428,035 |
| Restatement | 8,769,730 | | 8,769,730 | |
| Total net position - beginning, as restated | <u>12,009,838</u> | <u>1,135,152</u> | <u>13,144,990</u> | <u>9,428,035</u> |
| Total net position - ending | <u>\$ 17,324,064</u> | <u>\$ 1,354,144</u> | <u>\$ 18,678,208</u> | <u>\$ 19,648,046</u> |

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | Business-Type Activities - Enterprise Funds | | | Governmental Activities - Internal Service Fund |
|---|---|---------------------------------|------------------------|--|
| | Food Services | Nonmajor Enterprise Funds | Total | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers and users | \$ 16,226,036 | \$ 13,761,825 | \$ 29,987,861 | \$ 54,256,953 |
| Receipts from assessments made to other funds | | | | 281,888,923 |
| Payments to suppliers | (20,641,688) | (7,553,197) | (28,194,885) | (56,361,289) |
| Payments to employees | (24,117,130) | (3,221,617) | (27,338,747) | |
| Payments for insurance claims | | | | (275,884,453) |
| Payments for assessments made by other funds | (9,548,961) | (397,703) | (9,946,664) | |
| Payments for other operating expenses | (93,091) | (2,541,205) | (2,634,296) | (1,698,768) |
| Net cash used by operating activities | <u>(38,174,834)</u> | <u>48,103</u> | <u>(38,126,731)</u> | <u>2,201,366</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | | |
| Nonoperating grants received | 40,509,956 | | 40,509,956 | |
| Transfers (to) from other funds | | | | 4,626,718 |
| Net cash used by noncapital financing activities | <u>40,509,956</u> | <u>-</u> | <u>40,509,956</u> | <u>4,626,718</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Purchases of capital assets | (710,488) | | (710,488) | |
| Principal paid on capital leases | (238,624) | (26,539) | (265,163) | |
| Net cash used by capital and related financing activities | <u>(949,112)</u> | <u>(26,539)</u> | <u>(975,651)</u> | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Investment income | 9,358 | | 9,358 | 568,119 |
| Net cash provided by investing activities | <u>9,358</u> | <u>-</u> | <u>9,358</u> | <u>568,119</u> |
| Net increase (decrease) in cash and cash equivalents | 1,395,368 | 21,564 | 1,416,932 | 7,396,203 |
| Cash and cash equivalents - beginning | 10,422,081 | 1,060,465 | 11,482,546 | 64,308,180 |
| Cash and cash equivalents - ending | <u>\$ 11,817,449</u> | <u>\$ 1,082,029</u> | <u>\$ 12,899,478</u> | <u>\$ 71,704,383</u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Operating income (loss) | \$ (40,256,882) | \$ 218,992 | \$ (40,037,890) | \$ 9,605,749 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation | 1,032,945 | 37,674 | 1,070,619 | |
| USDA commodities used | 3,587,255 | | 3,587,255 | |
| Effects of changes in operating assets and liabilities: | | | | |
| Receivables | (1,184,076) | (550,916) | (1,734,992) | |
| Due from other funds | | | | (5,162,215) |
| Non USDA inventories | (135,737) | | (135,737) | |
| Net OPEB obligation restatement | 8,769,730 | | 8,769,730 | |
| Accounts payable | 52,503 | 426,777 | 479,280 | (423,509) |
| Claims payable | | | | (939,488) |
| Advance premium withholdings | | | | 1,066,459 |
| Due to other funds | (1,250,764) | 127,014 | (1,123,750) | (1,945,630) |
| Unearned revenue | (66,706) | (229,734) | (296,440) | |
| Net OPEB obligation | (8,769,730) | | (8,769,730) | |
| Compensated absences | 46,628 | 18,296 | 64,924 | |
| Net cash used by operating activities | <u>\$ (38,174,834)</u> | <u>\$ 48,103</u> | <u>\$ (38,126,731)</u> | <u>\$ 2,201,366</u> |
| Noncash investing, capital and financing activities: | | | | |
| Capital contributions of equipment | \$ 1,509,107 | \$ - | \$ 1,509,107 | \$ - |
| USDA commodities received | (3,587,255) | | (3,587,255) | |

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

| | Pension and Other Employee Benefits Trust Funds | Agency Funds - Schools' Independent Activity Funds |
|--|--|---|
| ASSETS | | |
| Cash | \$ - | \$ 15,755,912 |
| Investments: | | |
| Global equities | 967,306,424 | |
| Fixed income securities | 409,778,921 | |
| Real estate | 97,530,749 | |
| Alternative investments | 231,827,167 | |
| Short-term investments/CRHBT | 443,190,373 | |
| Total investments | 2,149,633,634 | - |
| Accounts receivable | 1,168,371 | 1,846,798 |
| Due from Internal Service Fund | 26,437,330 | |
| Due from General Fund | 4,292,786 | |
| Inventories | | 163,164 |
| Total assets | 2,181,532,121 | \$ 17,765,874 |
| LIABILITIES | | |
| Accounts payable | 388,298 | 1,594,706 |
| Claims payable | 6,322,107 | |
| Due to student groups | | 16,171,168 |
| Total liabilities | 6,710,405 | \$ 17,765,874 |
| NET POSITION | | |
| Restricted for pension and other postemployment benefits | \$ 2,174,821,716 | |

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

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | Pension and Other Employee Benefits Trust Funds |
|---|--|
| ADDITIONS | |
| Contributions: | |
| Employer | \$ 170,443,900 |
| Members | 64,199,224 |
| Federal government - Medicare Part D | 21,197,806 |
| Total contributions | 255,840,930 |
| Investment earnings: | |
| Net increase in fair value of investments | 117,868,298 |
| Interest and dividends | 44,461,491 |
| Total investment earnings | 162,329,789 |
| Less investment expense: | |
| Investment fees and other | (5,968,892) |
| Total investment expense | (5,968,892) |
| Net investment earnings | 156,360,897 |
| Total additions | 412,201,827 |
| DEDUCTIONS | |
| Benefits paid to plan members | 189,933,297 |
| Premiums paid to insurance companies | 17,841,256 |
| Administrative expenses | 1,416,277 |
| Total deductions | 209,190,830 |
| Change in net position | 203,010,997 |
| Net position - beginning | 1,971,810,719 |
| Net position - ending | \$ 2,174,821,716 |

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



NOTES TO THE FINANCIAL STATEMENTS

Board of Education of Montgomery County
June 30, 2018

BOARD OF EDUCATION OF MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

| | |
|-----------|--|
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BOARD OF EDUCATION OF MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board of Education of Montgomery County (the Board) have been prepared in conformity with accounting principles generally accepted in the United States (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 reporting principles. The more significant accounting policies of the Board are described below.

A. REPORTING ENTITY

The Board of Education of Montgomery County is the elected body, corporate and politic, established under Maryland law to provide public education in kindergarten through twelfth grade to children residing within the borders of Montgomery County, Maryland. The Board determines educational policy and employs a superintendent of schools to administer the public school system known as the Board of Education of Montgomery County. Primary funding is provided by Montgomery County from its general revenues. Funds are also received from state and federal sources for general school aid and specific purpose grants. The budget is approved by the Montgomery County Council. The Board has no power to levy and collect taxes or to increase the budget. Because of the relationship with Montgomery County, the Board is considered a component unit of the county government, as defined by GAAP for governmental entities.

The accompanying financial statements present the primary government, the Board, and its discretely presented component unit, the Montgomery County Public Schools Educational Foundation, Inc. (the Foundation). The Foundation is included in the reporting entity because of the financial benefits provided through it to the Board and because the Board is considered to be financially accountable. The Foundation is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Board. Due to the fact that the Foundation adheres to the reporting conventions of the Financial Accounting Standards Board (FASB) and the Board's Statements conform to GASB, adjustment were made for the timing of certain contributions and expenses.

The Foundation accepts grants and contributions from private organizations and individuals. All such funds received are used to enhance the Board educational programs and to provide student scholarships. Complete financial statements can be obtained from the Chief Financial Officer, Board of Education of Montgomery County, 850 Hungerford Drive, Room 167, Rockville, Maryland 20850.

B. BASIS OF PRESENTATION

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Board and its component unit except for fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements. An exception to this general rule is that interfund services provided or used between functions have not been eliminated in the statement of activities because to do so would distort the net cost data for functional activities reported in the total column of that statement. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely primarily on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers who purchase, use, or

BOARD OF EDUCATION OF MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

directly benefit from goods, services, or privileges provided by a given function or segment and, 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Intergovernmental revenue and other items not properly included among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor enterprise funds are aggregated and reported as nonmajor funds.

The Board reports the following major governmental funds:

- The general fund is the primary operating fund of the Board. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The capital projects fund accounts for financial resources to be used in the acquisition or construction of school sites and buildings and other major capital facilities.

The Board reports the following major proprietary fund:

- The food services fund accounts for the operations of 204 cafeterias and the central production facility, providing for the preparation and sale of meals to students, other agencies, and customers.

Additionally, the Board reports the following fund types:

- The special revenue fund accounts for the use of Cable TV franchise fees that are legally restricted to expenditure for specific purposes.
- The internal service fund accounts for the financing of active employee health benefits provided to other funds of the government on a cost reimbursement basis.
- The pension and other employee benefits trust funds account for the activities of the Employees' Retirement and Pension System that accumulates resources for pension benefit payments to qualified employees, and the Board's interest in the Consolidated Retiree Health Benefit Trust (CRHBT) that accumulates resources for other postemployment benefits (OPEB).
- The agency fund accounts for assets held by elementary and secondary schools for student groups. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Food Services enterprise fund, of the nonmajor enterprise funds, and of the internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and the internal service fund include cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING

The government-wide, proprietary, and certain fiduciary (pension and other employee benefit trust) fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon

BOARD OF EDUCATION OF MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

as all eligibility requirements imposed by the provider have been met. Revenue from U.S. Department of Agriculture (USDA) commodities is considered earned when the commodities are used. The value of unused USDA commodities is reported as unearned revenue. Employee, employer, and other contributing entities' contributions to the pension and other employee benefit trust funds are recognized as revenue in the period that the contributions are due. Pension and other postemployment benefits expenses and refunds are recognized when due and payable. Agency funds, which have no measurement focus, also use the accrual basis of accounting to recognize assets and liabilities.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. All governmental fund revenues are considered available if the revenues are collected within ninety days after year-end. The Board's primary sources of funding are intergovernmental revenues which are either unrestricted as to purpose of expenditure or are restricted to a specific purpose. Unrestricted funds are recorded as revenues at the time of receipt or earlier if they meet the availability criterion. Restricted funds are recognized as revenue when all eligibility requirements imposed by the provider have been met and the resources are available. Restricted funds received in excess of recorded expenditures are recorded as unearned revenue. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for principal and interest on capital leases, and expenditures related to compensated absences and claims and judgments, which are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from capital leases are reported as other financing sources.

All governmental and business-type activities of the Board follow Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The sources of authoritative GAAP are categorized first by officially established accounting principles under GASB Statements and then by GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants (AICPA) cleared by the GASB. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP, the Board then may consider nonauthoritative accounting literature from other sources. Sources of nonauthoritative accounting literature include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks, and articles.

When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

D. USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenditures during the reporting period. Actual results could differ from these estimates.

E. CASH AND INVESTMENTS

The Board maintains an active pooled cash and investment program which is managed in accordance with the Annotated Code of Maryland. Overnight investments in repurchase agreements and money market

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investments are stated at amortized cost. Investment income is allocated to the various funds based on their average equity in the pool. The assignment of allocated investment income to the general fund is reported as a transfer.

Pension Trust Fund investments consist of separate and comingled funds carried at fair value. Equity and bond securities are valued using the net asset value (NAV) per share (or its equivalent). The fair value of mortgages, real estate investments, private equity and hedge fund investments are also valued using the NAV, based on information provided by fund managers.

OPEB Plan Trust investments are now part of the CRHBT. In accordance with the trust agreement the Board is allocated a portion of the investment pool. The allocated portion is treated in the statements as short-term investments, measured at net asset value.

Internal Service Fund investments are stated at fair value. For purposes of the statement of cash flows, the Internal Service Fund and the Food Services Fund consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents, measured at net asset value.

The cash in the Agency Fund represents the independent activity fund cash balances in the separate bank accounts of individual schools and other groups. The bank accounts are maintained by each of the locations. The administrator at each location is required, under Board policy, to deposit any funds in excess of current needs with a federally or state insured financial institution or in the Board Centralized Investment Fund (CIF). All such funds earn market rate interest and are available to schools on a demand basis.

The Foundation invests in an external investment pool and equity and bond index funds. The Montgomery County Investment Pool invests funds for itself and participating agencies pursuant to the Annotated Code of Maryland, County Code and the County's short-term investment policy as approved by the County Council. The fair value of the Board's position in the aforementioned pools is the same as the value of pool shares. The Foundation investment in the Common Fund Institutional Multi-strategy Equity and Bond Fund is stated at fair value.

F. INVENTORIES AND PREPAID ITEMS

Depending on the character and composition of the inventory, the method of cost or market, whichever is lower, may be applied either directly to each item or to the total of the inventory. For supplies, instructional materials, and transportation parts, cost is determined by the lower of cost or market basis method; for transportation fuels, food and food related inventories, cost is determined by the first-in, first-out method. Commodities received from the USDA are stated at fair value. Unused USDA commodities in inventory at year-end are reported as deferred revenue as title does not pass to the Board until the commodities are used. The cost of all inventories is recorded as an expense/expenditure at the time the individual inventory items are consumed (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items (consumption method) in both government-wide and fund financial statements.

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G. CAPITAL ASSETS

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial individual cost of more than \$5,000 (\$1,000 for the Food Services Fund) for equipment and \$200,000 for buildings and structural additions, and an estimated useful life in excess of one year. Purchased or constructed capital assets are valued at cost where historic records exist and at estimated historic cost where no historic records exist. Donated capital assets are valued at acquisition value at the date of acquisition. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transactions at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date.

Outlays for capital assets and improvements are capitalized as projects are constructed. Outlays for normal maintenance and repairs that do not add to the value of an asset or materially extend asset lives are not capitalized. Capital outlays for technology modernization are capitalized to the extent individual costs exceed capitalization thresholds.

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--|--------------|
| Buildings | 40 |
| Land and building improvements | 20 |
| Portable classrooms | 15 |
| Furniture, heavy equipment and vehicles | 12 |
| Technology, light equipment and vehicles | 5 |

H. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the Statement of Net Position will report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. In addition to liabilities, the Statement of Net Position will report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Board has two items that meet the criterion described above. These are the deferrals of pension and OPEB expenses that result from the implementation of GASB Statements 68 and 75.

I. COMPENSATED ABSENCES

Board employees are permitted to accumulate earned but unused annual and sick leave benefits. It is Board policy to pay employees who separate from service the accumulated amount of earned but unused annual leave and, for employees of all unions with at least five years credited service, one quarter of earned, accumulated sick leave. The amount of accumulated annual leave that may be paid is limited by each of the union agreements. Employees with thirty or more years credited service receive 30% of earned, accumulated sick leave. Members of the Montgomery County Education Association (MCEA)

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receive 35% only if they submit retirement or termination notice by April 1, for an effective date of July 1. Otherwise, MCEA member will only receive 20% of their accumulated sick leave. All annual and sick leave is accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only at the time of employee resignations and retirements.

J. LONG-TERM OBLIGATIONS

All long-term obligations are reported as liabilities in the government-wide and some long-term obligations are reported as liabilities in the proprietary fund financial statements. Only the portion of long-term obligations expected to be paid from expendable available financial resources is reported as a liability in the governmental fund financial statements. The face amount of capital lease issuances is reported as other financing sources.

K. FUND BALANCES

Governmental funds, in the fund financial statements, report fund balances according to classifications that provide an understanding of the nature of resources available for specific purposes and the extent of constraints that determine how funds can be spent. Governmental fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact, such as a permanent fund. Not in spendable form includes items that are not expected to be converted to cash, such as inventories and prepaid items.

Restricted – Amounts for which constraints have been placed on the use of the resource either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Special Revenue Fund resources are restricted as to use to the Instructional TV program only. The restriction exists by law under a Cable Franchise Agreement established by Montgomery County Code, Chapter 8A, Cable Commission Law.

Committed – Amounts that can be used only for specific purposes determined by formal action of the Board (the highest level of decision-making authority). Formal action of the Board would be those actions which are voted on at public Board meetings that are in compliance with Maryland law. Similar action of the Board is required to modify or rescind such commitments. Capital Projects Fund resources may only be used for construction projects specifically approved by the Montgomery County Council capital improvements program. These amounts cannot be used for any other purpose unless approved by the Montgomery County Council.

Assigned – Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by (a) the governing body itself or (b) a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. This category includes resources the Board have expressly assigned to specific purposes. An assignment may be determined, and amended, by the superintendent of schools, or his designee.

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Unassigned – This classification is the residual amount of the general fund balance and represents all spendable amounts that have not been restricted, committed, or assigned to specific purposes. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for a specific purpose for which amounts had been restricted, committed, or assigned.

When an expenditure has been spent for which both restricted and unrestricted fund balance is available, the Board considers restricted amounts to have been spent before unrestricted amounts. Within unrestricted amounts, when committed, assigned, or unassigned fund balances exist, the Board considers committed amounts to be spent first, followed by assigned amounts, and then unassigned amounts, when expenditures are incurred for which amounts in any of those unrestricted fund balance classifications could be used. Net position of the Internal Service Fund represents equity reserved for future claim losses and benefits under the employee benefit plan.

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

L. GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) PRONOUNCEMENTS

The Board has adopted Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement requires governments to report a liability on the face of the financial statements for the OPEB they provide. The Statement also requires the presentation of more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percent higher and one percent lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

The Board has adopted Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires the recognition of assets, liabilities, and deferred inflows of resources at the inception of any irrevocable split-interest agreement that provides resources. The Statement had no impact on the financial statements.

The Board has adopted Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. Topics addressed include issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits.

The Board has adopted Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt and prepaid insurance on such debt. The pronouncement had no impact on the financial statements.

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The Board has adopted Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This Statement also reiterates that such interest costs should be recognized as an expenditure on a basis consistent with governmental fund accounting principles for financial statements prepared using the current financial resources measurement focus. This Statement had no impact on the financial statements.

M. PENDING PRONOUNCEMENTS

GASB routinely issues standards that will become effective in future years. The following is a list of standards that have been issued that the Board has determined may have an impact on future financial statements.

Statement No. 83, *Certain Asset Retirement Obligations*

This Statement addresses accounting and financial reporting for certain asset retirement obligations, legally enforceable liabilities associated with the retirement of tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Board is currently evaluating the effect of implementation of this Statement.

Statement No. 84, *Fiduciary Activities*

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Board is currently evaluating the effect of implementation of this Statement.

Statement No. 87, *Leases*

The objective of this Statement is to better meet the informational needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Board is currently evaluating the effect of implementation of this Statement.

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*

The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for periods beginning after June 15, 2018. The Board is currently evaluating the effect of implementation of this Statement.

Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*)

The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for periods beginning after December 15, 2018. The Board is currently evaluating the effect of implementation of this Statement.

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II. BUDGETARY INFORMATION

A. OVERVIEW

The majority of current funding for the Board is provided by Montgomery County, the State of Maryland, and the federal government. Under Maryland school statutes, the Board's annual Operating Budget incorporating general, special revenue and enterprise funds is presented to the Montgomery County Council no later than March 1 and is to be adopted by the Council by May 31. In general, the County is then responsible to fund the budget so adopted, to the extent that funds are not raised from other sources (state and federal governments, etc.). The Board has no power to levy taxes or to spend funds not appropriated by the Montgomery County Council.

Formal budgetary integration, including encumbrance accounting, is employed as a management control device during the year for the governmental and proprietary fund types. Management is authorized to transfer funds within major categories of expenditure (i.e., administration, instructional salaries, etc.) up to \$100,000. Transfers in excess of \$100,000 require the approval of the superintendent and the Board; transfers between major categories require the approval of the Montgomery County Council. By state law, major categories of expenditure may not exceed budgeted amounts for the year ending June 30.

The final budgeted amounts reflected in the accompanying financial statements recognize budget revisions made during the year, all of which were properly reported and/or approved, as applicable.

Encumbrances outstanding at year-end in the governmental funds are reported for budgetary purposes in accordance with GAAP in order to preserve that portion of the appropriation. In the governmental funds for GAAP purposes, outstanding encumbrances are reported as restricted, committed, or assigned category of fund balance because they do not constitute expenditures or liabilities. Encumbrances outstanding for the proprietary funds are eliminated for financial statement presentation. Annual appropriations that are not restricted, committed, or assigned at year-end lapse. Outstanding encumbrances at year-end are reappropriated in the subsequent year.

Capital projects are funded primarily by Montgomery County and by the State. Funds are budgeted in the Council approved Capital Budget and appropriated on a project basis and on an annual basis. Capital projects funds do not lapse at the end of each year, but may be expended until project completion.

B. BUDGETARY PRESENTATION

The general fund statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual has been prepared on the legally prescribed budgetary basis of accounting to demonstrate compliance with the legally adopted budget. Generally, the budgetary basis of accounting employs the modified accrual basis plus the effect of encumbrances. The basis used to prepare the legally adopted budget differs from GAAP as follows:

- Encumbrances outstanding are charged to budgetary appropriations in the current period.
- Expenditures for compensated absences are accounted for on a cash basis.
- State of Maryland retirement contributions made on behalf of the Board employees are a legal obligation of the State, and so are not included in the Board budget.

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- Montgomery County OPEB contributions made to the CRHBT on behalf of the Board employees and retirees, are not included in the Board budget.
- Federal government Medicare Part D payments made to the CRHBT on behalf of the Board retired employees for postemployment prescription benefits are not included in the Board budget.
- Capital lease financing is accounted for as other financing sources for GAAP purposes.

Adjustments to reconcile the budgetary statement to the GAAP fund statement are as follows:

| | <u>Revenues</u> | <u>Expenditures & Encumbrances</u> | <u>Other Financing Sources</u> | <u>Effect on Fund Balance</u> |
|--|-------------------------|--|--|-----------------------------------|
| As reported - budgetary basis | \$ 2,428,263,020 | \$ 2,431,136,169 | \$ - | \$ (2,873,149) |
| Reconciling items: | | | | |
| 2018 Encumbrances outstanding | | (14,765,257) | | 14,765,257 |
| Increase in compensated absences | | 124,684 | | (124,684) |
| State of Maryland retirement contributions | 153,799,568 | 153,799,568 | | |
| Montgomery County OPEB contributions | 55,165,381 | 55,165,381 | | |
| Federal Medicare Part D contributions | 21,197,806 | 21,197,806 | | |
| Capital lease financing | | 16,176,061 | 16,176,061 | |
| As reported – GAAP basis | <u>\$ 2,658,425,775</u> | <u>\$ 2,662,834,412</u> | <u>\$ 16,176,061</u> | <u>\$ 11,767,424</u> |

Governmental funds encumbrances outstanding at June 30, 2018 include \$14,765,257 for the General Fund and \$231,820,745 for the Capital Projects Fund. Encumbrances are considered expenses for budgetary purposes, however are not considered liabilities or expenditures for GAAP purposes.

Beginning June 15 of each fiscal year, the Board issues purchase orders and begins shipment of inventory to various schools for items such as instructional materials, textbooks, and construction contracts that will be charged to the budget of the next fiscal year. These obligations and warehouse shipments are not reflected in the accompanying financial statements. At June 30, 2018, \$3,373,449 of such purchase orders had been issued.

III. DEPOSITS AND INVESTMENTS

Cash and investments at June 30, 2018 are summarized as follows:

| | <u>Primary Government (including fiduciary)</u> | <u>Component Unit</u> |
|---------------------------------------|---|-----------------------|
| Equity in pooled cash and investments | \$ 108,863,371 | \$ - |
| Cash and cash equivalents | 11,817,449 | 244,752 |
| Cash-fiduciary funds | 15,755,912 | |
| Investments – cash equivalents | 71,704,383 | 5,890,414 |
| Investments-fiduciary funds | 2,149,633,634 | |
| Total | <u>\$ 2,357,774,749</u> | <u>\$ 6,135,166</u> |
| Deposits and Investments Summary: | | |
| Deposits | \$ 136,431,463 | 244,752 |
| Investments | 2,221,338,017 | 5,890,414 |
| Cash on hand | 5,269 | |
| Total | <u>\$ 2,357,774,749</u> | <u>\$ 6,135,166</u> |

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A. DEPOSITS

Custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the Board may not be able to recover all or portion of the deposit. The Annotated Code of Maryland requires that public funds on deposit with a financial institution be fully secured by deposit insurance, surety bonds, obligations of the United States or its agencies, obligations of the State of Maryland or any of its agencies, or obligations of a county, other governmental authority, or municipal corporation in the State of Maryland.

At June 30, 2018, the reported balance of the Board's deposits was \$136,431,463 and the bank balance was \$139,316,286. The bank balance was covered either by federal depository insurance or by collateral held by the Board's agent in the Board's name.

B. INVESTMENTS

Investments as of June 30, 2018 are as follows:

| <u>Investment Type</u> | <u>Fair Value</u> |
|------------------------------------|-------------------------|
| Pension Trust Investments: | |
| Global equities index funds | \$ 967,306,424 |
| Fixed income securities | 409,778,921 |
| Real estate | 97,530,749 |
| Alternative investments | 231,827,167 |
| Short-term investments | 12,393,629 |
| Subtotal Pension Trust Investments | <u>1,718,836,890</u> |
| OPEB Related Investments: | |
| Investment in CRHBT | 430,796,744 |
| Subtotal OPEB Related Investments | <u>\$ 430,796,744</u> |
| Other Investments: | |
| Cash equivalents | 71,704,383 |
| Total Investments | <u>\$ 2,221,338,017</u> |

Interest rate risk. The Board manages its exposure to fair value losses arising from increasing interest rates by limiting the duration of its fixed income investment portfolios. Internal pooled investments duration is limited to less than six months. The investment policy of the Centralized Investment Fund limits maturities to three years or less. The Pension Trust investment policy specifies that fixed income portfolio duration should track the Bloomberg Barclays Intermediate Aggregate Bond Index. During Fiscal Year (FY) 2018, the investment portfolios were managed within the duration guidelines specified in each of the respective investment policies.

Modified duration estimates the sensitivity of a bond's price to interest rate changes. The greater the duration of a bond, the greater its price volatility may be in response to changes in interest rates.

As of June 30, 2018, fixed income investments had the following sensitivity to interest rates:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Modified Duration in Years</u> |
|--------------------------------------|-----------------------|-----------------------------------|
| Pension Trust Investments: | | |
| Core fixed income | \$ 21,540,174 | 5.99 |
| US intermediate aggregate bond index | 306,809,382 | 4.54 |
| Other fixed income | 64,795,700 | N/A |
| Short-term in nature | 29,027,294 | N/A |
| Total | <u>\$ 422,172,550</u> | |

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Credit risk. The Annotated Code of Maryland authorizes the Board to invest in obligations for which the United States has pledged its faith and credit for the payment of principal and interest, in obligations issued by a federal agency in accordance with an act of Congress, in repurchase agreements collateralized at not less than 102% of the principal amount by obligations of the United States and its agencies, in money market mutual funds operated in accordance with SEC Rule 2A-7, or in any investment portfolio created under the Maryland Local Government Investment Pool.

The Pension Trust Fund is authorized to invest in a broad range of securities including domestic and foreign equities, obligations of the United States and its agencies, securities issued or guaranteed by a foreign government, corporate bonds, asset backed securities, private equity, money market funds, and pooled real estate investments.

Pension Trust fixed income investments at June 30, 2018, had the following credit risk characteristics:

| S&P/Moody's Quality Rating | Percent of Fixed-Income Investments | Fair Value |
|----------------------------|-------------------------------------|----------------|
| AAA | 5.2% | \$ 21,909,673 |
| AA | 60.5 | 256,054,936 |
| A | 4.7 | 19,766,768 |
| BBB | 6.1 | 25,590,498 |
| BB | 0.1 | 242,413 |
| Not rated | 23.4 | 98,608,262 |
| Total | 100% | \$ 422,172,550 |

Other Board fixed income investments are rated AAA by Standard and Poor's, except for certain portfolios and short-term investments.

During FY 2018, individual holdings in the investment portfolios did not exceed policy guidelines. About \$21.5 million of the fixed income portfolio cannot be readily redeemed.

Foreign currency risk. The Pension Trust's exposure to foreign currency risk is derived from its investments in vehicles that have positions in securities denominated in foreign currencies. The Board's direct foreign currency risk at June 30, 2018, is as follows:

| Currency | Fixed Income | Alternative Investments | Total Fair Value |
|------------------------|--------------|-------------------------|------------------|
| European Currency Unit | \$ 214,219 | \$ 9,937,273 | \$ 10,151,492 |
| Australian Dollar | 94 | | 94 |
| Japanese Yen | 480 | | 480 |
| Pound Sterling | 286 | | 286 |
| Swiss Franc | 1,312 | | 1,312 |
| Total | \$ 216,391 | \$ 9,937,273 | \$ 10,153,664 |

Commitments. At June 30, 2018, unfunded commitments were \$91,899,974 to private equity funds and private real estate funds.

Fair value measurement. The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, as follows:

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and

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- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The Board has the following recurring fair value measurements as of June 30, 2018:

| Investments by fair value level | <u>6/30/2018</u> |
|---|-------------------------|
| Investments measured at the net asset value (NAV) | |
| Global equities | |
| Commingled equity funds | \$ 967,306,424 |
| Fixed Income Securities | |
| Commingled Bond funds | 409,778,921 |
| Real Estate | |
| Private real estate funds | 97,530,749 |
| Alternative Investments | |
| Private Equity | 74,308,197 |
| Hedges Funds | 157,518,970 |
| Short Term Investments | |
| Investment in CRHBT | <u>430,796,744</u> |
| Total investments measured at the NAV | 2,137,240,005 |
| Cash & Cash Equivalents | |
| | <u>84,098,012</u> |
| Total Investments | <u>\$ 2,221,338,017</u> |

The cash or cash equivalents are invested in money market-type securities (U.S. Treasury Securities, Futures, cash, etc.) reported at cost plus accrued interest, which approximates market or fair value.

The valuation method for investments measured at the NAV per share (or its equivalent) is presented on the following table:

Investments Measured at the NAV

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Received Period |
|---------------------------------------|------------------------|----------------------|------------------------------|----------------------------------|
| Global Equities | | | | |
| Commingled global equity funds | \$ 967,306,424 | \$ - | Daily or bimonthly | T+2, T+3 settlement |
| Fixed Income Securities | | | | |
| Commingled bond funds | 409,778,921 | | Daily | T+2, T+3 settlement |
| Real Estate | | | | |
| Private real estate funds | 97,530,749 | 17,348,095 | Illiquid or Quarterly | 60 days for quarterly redemption |
| Alternative Investments | | | | |
| Private equity | 74,308,197 | 74,551,879 | Illiquid | |
| Hedge funds | 157,518,970 | | Monthly, quarterly or annual | 30-90 days |
| Short Term Investments | | | | |
| Investment in CRHBT | <u>430,796,744</u> | | Illiquid | |
| Total Investments Measured at the NAV | <u>\$2,137,240,005</u> | <u>\$ 91,899,974</u> | | |

Commingled equity funds and bonds funds – the fair values of investment in these types have been determined using the NAV per share of the investments.

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- The objective of the commingled global equity funds is to provide exposure to economic growth and capture the equity risk premium. The portfolio consists of global stocks and shall be invested primarily in passively managed investment strategies designed to track the return of the following indexes: S&P 500 Index, MSCI EAFE Index, Russell 2000 Index, MSCI EAFE Small Cap Index, MSCI Emerging Markets Equity Index. Characteristics of the portfolio include:
 - Higher Expected Returns - Over the long-term, investments in equities (stocks) have delivered returns superior to those generated by fixed income.
 - Dividends - Dividends paid by the companies in the portfolio generate an additional source of income.
 - Volatility - Over the long-term, equity returns exhibit a wider range of outcomes, both positive and negative.
 - Liquidity - As with the Investment Grade Fixed Income market, the size and activity of Global Equity markets allows the Pension Trust to raise cash with relative ease.

- The objective of the commingled bond funds is to track the return of primary benchmark with a low tracking error (the standard deviation of the difference between the returns of an investment portfolio and the underlying benchmark). It shall be invested primarily in passively managed investment strategies designed to track the return of the Bloomberg Barclays Intermediate Aggregate Bond Index. Characteristics of the portfolio include:
 - Principal Protection - The amount invested by the pension is typically at a lower degree of risk relative to amounts invested in other types of assets.
 - Income - Bonds typically pay interest which could provide cash income to the pension.
 - Lower Expected Returns - While bonds provide multiple benefits, the expected returns are generally not as high as those offered by other asset categories.
 - Liquidity - The market for investment grade bonds is generally large and active which allows the pension's investment managers to sell assets with relative ease if an unexpected need for cash arises.

Private real estate - the fair value of the investment in this type has been determined using the NAV per share of the investments. This type includes investment in limited partnerships. Private real estate is expected to provide the pension portfolio with a degree of inflation protection and to exhibit a low correlation to other investment strategies. Private real estate can also provide a steady source of income, which could provide cash to the pension. The investment return of this portfolio is expected to be somewhere between the returns of the Investment Grade Fixed Income and Global Equity portfolios. It is expected to meet or exceed the NCREIF Fund Index - ODCE (Open-End Diversified Core Equity). The rest of the portfolio consists of commingled funds with the quarterly redemption term and 60 days advance notice required.

Private Equity and Hedge funds — the fair value of the investment in this type has been determined using the NAV per share of the investments.

- Private equity fund managers invest money in companies whose shares are not publicly traded on a stock exchange, or in companies with publicly traded securities that the private equity firm intends to take private by acquiring all of the public securities. Private equity managers are active investors who

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typically play a significant role in the operations of their portfolio companies. Private equity funds are illiquid and long-term in nature, thus investors expect to receive a return greater than those available in the public equity market. Private equity investments may have a broader range of outcomes than public equities. The return on the total private equity allocation is expected to meet or exceed the Russell 3000 Index plus a 200 basis point premium net of fees with a one quarter lag.

- Hedge funds invest across multiple assets and markets taking long and short positions. A long position is one in which the investor benefits if the price of the asset increases. A short position is one in which the investor generates a return from asset price declines. A hedge fund can specialize in particular niches including different geographies, security types (debt, equity, currencies, and derivatives), market directions, and macroeconomic catalysts. Most hedge fund managers focus on performing comprehensive research to identify securities they believe are mispriced. As a whole, the objective of the Trust's hedge fund portfolio is to provide superior risk-adjusted returns. The return on the total hedge fund allocation is expected to meet or exceed the HFRI Fund of Funds Composite Index.

C. CASH ON HAND

At year-end, the primary government had \$5,269 on hand in petty cash accounts.

IV. INTERFUND RECEIVABLES AND PAYABLES

Interfund transactions are receivables reported as "Due From Other Funds" and the related payables reported as "Due To Other Funds" and represent amounts owed between the Board's governmental and proprietary funds within the Board reporting entity. An example of interfund transactions is when the Board's General Fund processes payments for other Board funds. The composition of interfund receivables and payables as of June 30, 2018, is as follows:

| Due to Fund | Due From Fund | | | | | | Total |
|---------------------|-------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| | General | Capital Projects | Food Services | Nonmajor Government | Nonmajor Enterprise | Internal Service | |
| General | \$ - | \$ 4,124,848 | \$ 1,164,530 | \$ 360,888 | \$ - | \$ 5,162,215 | \$ 10,812,481 |
| Capital Projects | | | | | 389,205 | | 389,205 |
| Food Services | | 850,852 | | | 248,646 | | 1,099,498 |
| Nonmajor Government | | 7,636 | | | 30 | | 7,666 |
| Nonmajor Enterprise | 134,791 | | | | 5,278 | | 140,069 |
| Total | \$ 134,791 | \$ 4,983,336 | \$ 1,164,530 | \$ 360,888 | \$ 643,159 | \$ 5,162,215 | \$ 12,448,919 |

V. DUE FROM EMPLOYEES

The \$106,443 reported as due from employees on the Governmental Funds Balance Sheet arose from past transition to a unified pay cycle calendar for twelve-month employees. Repayment is made from final paychecks when employees separate from active employment with the Board.

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VI. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|--------------------------|------------------|------------------|-----------------------|
| Governmental Activities: | | | | |
| Nondepreciable capital assets: | | | | |
| Land | \$ 87,693,060 | \$ 13,384,700 | \$ - | \$ 101,077,760 |
| Construction in progress | 88,847,692 | 199,368,715 | 198,500,930 | 89,715,477 |
| Total nondepreciable capital assets | 176,540,752 | 212,753,415 | 198,500,930 | 190,793,237 |
| Depreciable capital assets: | | | | |
| Buildings and improvements | 3,411,548,259 | 159,557,617 | 11,687,426 | 3,559,418,450 |
| Site improvements | 372,172,793 | 54,461,839 | | 426,634,632 |
| Vehicles and equipment | 191,119,778 | 16,365,696 | 14,746,467 | 192,739,007 |
| Total depreciable capital assets | 3,974,840,830 | 230,385,152 | 26,433,893 | 4,178,792,089 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,170,676,243 | 87,057,374 | 10,437,873 | 1,247,295,744 |
| Site improvements | 79,701,797 | 7,161,025 | | 86,862,822 |
| Vehicles and equipment | 114,311,896 | 12,822,194 | 14,134,734 | 112,999,356 |
| Total accumulated depreciation | 1,364,689,936 | 107,040,593 | 24,572,607 | 1,447,157,922 |
| Total depreciable capital assets, net | 2,610,150,894 | 123,344,559 | 1,861,286 | 2,731,634,167 |
| Government activities capital assets, net | \$ 2,786,691,646 | \$ 336,097,974 | \$ 200,362,216 | \$ 2,922,427,404 |
| | | | | |
| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
| Business-Type Activities: | | | | |
| Depreciable capital assets: | | | | |
| Vehicles and equipment | \$ 22,043,516 | \$ 2,229,732 | \$ 801,609 | \$ 23,471,639 |
| Total depreciable capital assets | 22,043,516 | 2,229,732 | 801,609 | 23,471,639 |
| Less accumulated depreciation for: | | | | |
| Vehicles and equipment | 16,566,869 | 1,070,619 | 791,471 | 16,846,017 |
| Total accumulated depreciation | 16,566,869 | 1,070,619 | 791,471 | 16,846,017 |
| Business-type activities capital assets, net | \$ 5,476,647 | \$ 1,159,113 | \$ 10,138 | \$ 6,625,622 |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|----------------|
| Governmental Activities: | |
| Regular instruction | \$ 85,577,964 |
| Special education | 147,085 |
| School administration | 15,043 |
| Student transportation | 10,876,861 |
| Operation of plant | 212,984 |
| Maintenance of plant | 9,837,758 |
| Administration | 372,898 |
| Total depreciation expense-governmental activities | \$ 107,040,593 |
| | |
| Business Type Activities: | |
| Food Services | 1,032,945 |
| Entrepreneurial | 37,674 |
| Total depreciation expense business type activities | \$ 1,070,619 |

Commitments for ongoing construction in progress at June 30, 2018 are \$231,820,745.

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VII. PAYABLES

Accounts payable and other current liabilities of the governmental and business-type activities at June 30, 2018 are as follows:

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|-----------------------|
| Accounts payable | \$ 60,119,482 | \$ 1,355,226 | \$ 61,474,708 |
| Retainage payable | 8,955,887 | | 8,955,887 |
| Accrued salaries and withholdings | 54,399,574 | | 54,399,574 |
| Claims payable | 23,776,210 | | 23,776,210 |
| Due to employees-advance premium withholding | 9,568,326 | | 9,568,326 |
| Total accounts payable and other current liabilities | <u>\$ 156,819,479</u> | <u>\$ 1,355,226</u> | <u>\$ 158,174,705</u> |

VIII. LEASES

A. OPERATING LEASES

Expenditures under lease agreements for office space and equipment were approximately \$7,927,809 in 2018. Commitments for fiscal year 2019 under lease agreements are approximately \$7,733,557. Lease agreements typically provide for automatic yearly termination on July 1 of any year in which funds to meet rental payments are not appropriated.

B. CAPITAL LEASES

Under a master lease arrangement, the Board acquires school buses, vehicles, technology and other equipment under noncancelable capital leases that expire at various times through fiscal year 2023. Lease payments, including interest, in fiscal year 2018 were \$16,410,799 for the General Fund, \$15,707,730 for the Capital Projects Fund and \$27,517 for the Enterprise Funds.

Assets acquired through capital leases are as follows:

| | Governmental Activities | Business-Type Activities |
|--------------------------------|-------------------------|--------------------------|
| Vehicles and equipment | \$ 73,427,180 | \$ - |
| Less: accumulated depreciation | (15,056,082) | |
| Total | <u>\$ 58,371,098</u> | <u>\$ -</u> |

Future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2018, were as follows:

| Fiscal year ending June 30 | Governmental Activities | Business-Type Activities |
|--|-------------------------|--------------------------|
| 2019 | \$ 23,039,717 | \$ 234,477 |
| 2020 | 18,860,000 | 108,621 |
| 2021 | 12,276,072 | 54,543 |
| 2022 | 5,620,872 | |
| 2023 | 2,809,622 | |
| Total minimum lease payments | <u>62,606,283</u> | <u>397,641</u> |
| Less: Amount representing interest | (3,311,650) | (11,477) |
| Present value of future minimum lease payments | <u>\$ 59,294,633</u> | <u>\$ 386,164</u> |

\$37,699,349 of outstanding capital lease obligations for governmental activities at June 30, 2018, was used to acquire capital assets.

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IX. LONG-TERM LIABILITIES

Long-term liability activities during fiscal year 2018 were as follows:

| | <u>Beginning Balance</u> | | <u>Additions</u> | | <u>Reductions</u> | | <u>Ending Balance</u> | | <u>Due Within One Year</u> |
|----------------------------------|--------------------------------|-----------|---------------------------|-----------|---------------------------|-----------|-----------------------------|-----------|--------------------------------|
| Governmental Activities: | | | | | | | | | |
| Capital leases | \$ 58,997,977 | \$ | 31,230,924 | \$ | 30,934,268 | \$ | 59,294,633 | \$ | 21,569,736 |
| Compensated absences | 140,872,869 | | 13,359,244 | | 10,654,369 | | 143,577,744 | | 10,707,641 |
| Net pension liability(*) | 473,927,311 | | | | 76,385,050 | | 397,542,261 | | |
| Net OPEB liability(*) | <u>2,442,587,110</u> | | <u>111,778,110</u> | | <u>262,169,795</u> | | <u>2,292,195,425</u> | | |
| Total | \$ <u>3,116,385,267</u> | \$ | <u>156,368,278</u> | \$ | <u>380,143,482</u> | \$ | <u>2,892,610,063</u> | \$ | <u>32,277,377</u> |
| | | | | | | | | | |
| | <u>Beginning Balance</u> | | <u>Increases</u> | | <u>Decreases</u> | | <u>Ending Balance</u> | | <u>Due Within One Year</u> |
| Business-Type Activities: | | | | | | | | | |
| Capital leases | \$ 651,328 | \$ | - | \$ | 265,164 | \$ | 386,164 | \$ | 227,196 |
| Compensated absences | <u>2,713,639</u> | | <u>160,152</u> | | <u>95,228</u> | | <u>2,778,563</u> | | <u>82,849</u> |
| Total | \$ <u>3,364,967</u> | \$ | <u>160,152</u> | \$ | <u>360,392</u> | \$ | <u>3,164,727</u> | \$ | <u>310,045</u> |

* Net Pension and OPEB liabilities are generally liquidated by the General Fund. Prior year net OPEB obligation has been restated, refer to note XVII.

X. 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 or students; natural disasters; and employee health benefits. The Board participates in the Montgomery County Liability and Property Coverage Self-Insurance Program. Under this program, the Board receives coverage for general liability, workers' compensation, public official liability, property, and motor vehicle risks, generally up to a maximum of \$400,000 per claim. The Board's premium payments to the fund are an actuarially determined reflection of the covered risks. The Board purchases commercial insurance for claims in excess of coverage by the self-insurance program and for other risks not covered by the program. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The active employees' health benefits plan is financed through an internal service fund, the Employee Benefit Plan Trust Fund. The postemployment health benefits plan is financed through a fiduciary fund, the OPEB Plan Trust. The funds provide plan coverage for active and retired employees under contracts with several insurance companies and health maintenance organizations (HMO's). The Board funds participate in the plans by making payments to the trust funds in amounts sufficient to cover normal plan costs, which are comprised of premiums paid to insured plans, and actuarial estimates of amounts needed to pay prior- and current-year claims and to establish a reserve for incurred but not reported claims (IBNR). An additional payment is made to the OPEB Plan Trust to cover amortization of the actuarial accrued liability (see note 13). Claims payable of \$23,776,210 and \$6,322,107 reported in the Internal Service Fund and the Fiduciary Funds, respectively at June 30, 2018, are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the

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financial statements and the amount of the loss can be reasonably estimated. Changes in claims payable for fiscal years 2018 and 2017 are reflected below.

| | Beginning Payable | Incurred Claims (Including IBNR) | Claim Payments | Ending Payable |
|-----------------------|----------------------|-------------------------------------|-------------------------|----------------------|
| 2018 | | | | |
| Internal Service Fund | \$ 23,438,955 | \$ 274,944,965 | \$ (274,607,710) | \$ 23,776,210 |
| Fiduciary Funds | 8,156,965 | 94,798,239 | (96,633,097) | 6,322,107 |
| Total | \$ 31,595,920 | \$ 369,743,204 | \$ (371,240,807) | \$ 30,098,317 |
| 2017 | | | | |
| Internal Service Fund | \$ 20,526,621 | \$ 269,600,070 | \$ (266,687,736) | \$ 23,438,955 |
| Fiduciary Funds | 6,947,450 | 91,117,460 | (89,907,945) | 8,156,965 |
| Total | \$ 27,474,071 | \$ 360,717,530 | \$ (356,595,681) | \$ 31,595,920 |

XI. DEFINED BENEFIT PENSION PLANS (GASB 68)

Substantially all of the Board’s employees working at least 4 hours a day in an approved job classification are covered under one of three mandatory defined benefit retirement plans. Two of these are cost-sharing multi-employer type plans administered by the Maryland State Retirement and Pension System (MSRPS); and one is a single-employer plan, the Board Employees’ Retirement and Pension System, administered by the Board.

A. STATE PLANS

GENERAL INFORMATION ABOUT THE PLAN

Plan Description. The eligible Board employees are covered by the Maryland State Retirement and Pension System (the System), which is a cost sharing employer public employee retirement system. While there are five retirement and pension systems under the System, the Board employees are a member of either the Teachers’ Retirement and Pension Systems or the Employees’ Retirement and Pension Systems. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. The Plans are administered by the State Retirement Agency. Responsibility for the System’s administration and operation is vested in a 15-member Board of Trustees. The System issues a publically available financial report that can be obtained at <http://www.sra.state.md.us>.

Benefit Provided. The System provides retirement allowances and other benefits to teachers and employees of participating governmental units, among others. For individuals who become members of the Teachers’ Retirement and Pension Systems and the Employees’ Retirement and Pension Systems on or before June 30, 2011, retirement/pension allowances are computed using both the highest three years’ Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For individuals who become members of the Teachers’ Pension System and Employees’ Pension System on or after July 1, 2011, pension allowances are computed using both the highest five years’ AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree’s benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree’s and/or designated beneficiary’s attained age and similar actuarial factors.

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

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

For most individuals who retired from either the Teachers' or Employees' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the members AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998, plus 1.4% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' or Employees' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998 plus 1.8% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. Beginning in July 1, 2011, any new member of the Teachers' or Employees' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' or Employees' Pension System.

Effective January 1, 1980, new teacher and administrative personnel became members of the Maryland State Teachers' Pension System. Members in the existing Maryland State Teachers' Retirement System had the option to transfer from the old to the new plan.

Contribution. The Board and covered members are required by State statute to contribute to the System. Members of the Teachers' Pension System are required to contribute 7% of salary annually. Members of the Teachers' Retirement System are required to contribute 5-7% of salary annually, depending on the retirement option selected. The contribution requirements of the System members, as well as the State and participating governmental employers are established and may be amended by the Board of Trustees for the System.

The State makes a substantial portion of the Board annual required contribution to the Teachers' Retirement and Pension Systems on behalf of the Board. The State's contributions on behalf of the Board for the year ended June 30, 2018 was \$153,799,568. The fiscal year 2018 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the General Fund in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances and also included as revenues and expenses in the Statement of Activities.

Beginning in FY 2013, the State of Maryland General Assembly passed a bill that required the Boards of Education in Maryland to begin paying the normal cost for their teachers into the Teachers' Retirement and Pension Systems. The legislation structured this as a four year phase in to the full normal cost so that 50% was paid in FY 2013. Full normal cost was paid in FY 2017 and each year thereafter. The Board

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required contribution to the Teachers' Retirement and Pension Systems for the year ended June 30, 2018 was \$58,560,510.

The Board contractually required contribution rate for the Employees' Retirement and Pension Systems for the year ended June 30, 2018, was 4.43% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Board made its share of the required contributions during the year ended June 30, 2018 of \$650,264.

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

EMPLOYEES' RETIREMENT AND PENSION SYSTEMS

At June 30, 2018, the Board reported a liability of \$6,579,513 for its proportionate share of the net pension liability of the System, decreased by \$563,910 from \$7,143,423 in FY 2017. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board proportion of the net pension liability was based on actual employer contributions billed to participating government units for the year ending June 30, 2017. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the State of Maryland. As of June 30, 2017, the Board's proportionate share was 0.0304273%, which is an increase of 0.0001509% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Board recognized pension expense of \$763,132. In addition, 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 | \$ 656,854 | \$ - |
| Net difference between projected and actual earnings on pension plan investments | 1,811,643 | |
| Difference between projected and actual experience | | 1,108,075 |
| Board contributions subsequent to the measurement date | 650,264 | |
| Total | <u>\$ 3,118,761</u> | <u>\$ 1,108,075</u> |

The \$650,264 reported as deferred outflows of resources related to pensions resulting from the Board contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|---------------------|---------------------|
| Year ended June 30: | |
| 2019 | \$ 636,540 |
| 2020 | 1,589,050 |
| 2021 | 517,714 |
| 2022 | (1,036,587) |
| 2023 | (346,295) |
| Total | <u>\$ 1,360,422</u> |

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TEACHERS' RETIREMENT AND PENSION SYSTEMS

At June 30, 2018, the Board did not report a liability related to the Teachers' Retirement and Pension Systems due to a special funding situation. The State of Maryland pays the unfunded liability for the Board, therefore, the Board is not required to record its share of the unfunded pension liability but instead, that liability is recorded by the State of Maryland. 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:

| | |
|--|-------------------------|
| State's proportionate share of the net pension liability associated with the Board | \$ 1,757,492,373 |
| The Board's proportionate share of the net pension liability | - |
| Total | \$ 1,757,492,373 |

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2018, the Board recognized pension expense of \$153,799,568 and revenue of \$153,799,568 for support provided by the State. Due to the special funding situation noted above related to the Teachers' Retirement and Pension Systems, the Board did not report deferred outflows of resources and deferred inflows of resources related to the Teachers' Retirement and Pension Systems.

Actuarial assumptions. The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Actuarial Cost Method | Entry Age Normal |
| Amortization method | Level Percentage of Payroll Closed |
| Inflation | 2.65% general, 3.15% wage |
| Salary increases | 3.15% to 9.15%, including inflation |
| Investment rate of return | 7.5% |
| Discount Rate | 7.5% |
| Mortality rates | RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience. |

The economic and demographic actuarial assumptions used in the June 30, 2017 valuation were adopted by the System's Board of Trustees based upon review of the System's experience study for the period 2010-2014, which was completed during FY 2014. Certain assumptions from the experience study including investment return, inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates and rates of salary increase were adopted by the Board for the first use in the actuarial valuation as of June 30, 2015.

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-range expected rate of return by weighing the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board 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:

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| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|--------------------|-------------------|--|
| Public Equity | 36% | 5.3% |
| Rate Sensitive | 21 | 1.2 |
| Credit Opportunity | 9 | 3.6 |
| Real Assets | 15 | 5.7 |
| Absolute Return | 8 | 3.1 |
| Private Equity | 11 | 7.0 |
| Total | <u>100%</u> | |

The above was the System’s Board of Trustees adopted asset allocation policy and best estimate of geometric real rates for each major asset class as of June 30, 2017.

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 10.02%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate. The single discount rate used to measure the total pension liability was 7.5%. This single discount rate was based on the expected rate of return on pension plan investments of 7.5%. 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 plans 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 Net Pension Liability. Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the Board’s net pension liability, calculated using a single discount rate of 7.5%, as well as what the Board’s net pension liability would be if it were calculated using a single discount rate that is one percent lower or one percent higher:

| | 1% Decrease (6.5%) | Current Discount Rate (7.5%) | 1% Increase (8.5%) |
|--|-----------------------|---------------------------------|-----------------------|
| Board’s proportionate share of the net pension liability | \$ 9,037,532 | \$ 6,579,513 | \$ 4,534,073 |

Due to the special funding situation noted above related to the Teachers’ Retirement and Pension Systems, the Board did not record a net pension liability related to the Teachers’ Retirement and Pension Systems.

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

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B. THE BOARD PLAN

GENERAL INFORMATION ABOUT THE PENSION PLAN

Plan Description. The Employees' Retirement and Pension System is funded and administered as a single plan with three separate benefit structures: the retirement system, the pension system, and the reformed pension system. The Retirement system covers employees hired prior to January 1, 1980. The retirement system provides retirement benefits, as well as death and disability benefits, to employees who are not members of the Maryland State Teachers' Retirement System and supplements the state benefits to members of the Maryland State Teachers' Retirement System. The Pension system covers employees hired after January 1, 1980. Members in the retirement system may elect to participate in the pension system, in which case their excess contributions are refunded. Effective July 1, 2011, the Board adopted plan amendments to the core Pension System that generally mirror State of Maryland plan changes. This is called the reformed pension plan.

Benefits provided. The system provides retirement benefits, as well as death and disability benefits, to employees who are not members of the Maryland State Teachers' Retirement System and supplements the state benefits to members of the Maryland State Teachers' Retirement System. Benefits at retirement are based on years of service and the average earned compensation of an eligible employee during any three years (highest three consecutive years for pension system or highest five consecutive years for employees hired after June 30, 2011) that provide the highest average earned compensation, and are adjusted for changes in the consumer price index after retirement. Benefits at early retirement are reduced by an early retirement factor. Benefits vest after five years (ten years for employees hired after June 30, 2011) of creditable service. For employees hired after June 30, 2011, plan benefit changes were made, as follows:

- The core benefit multiplier was reduced from 1.8% to 1.5%.
- Normal service retirement eligibility was changed to either the Rule of 90 or 65 years with ten years of service. Early retirement eligibility was changed to age 60 with fifteen years of service.

At July 1, 2016 the date of the latest actuarial report for employer reporting, the Board's plan membership consisted of:

| | |
|---|----------------------|
| Retirees and beneficiaries currently receiving benefits | 13,137 |
| Terminated plan members entitled to benefits but not yet receiving them | 4,998 |
| Active plan members | <u>21,524</u> |
| Total | <u><u>39,659</u></u> |

Contributions. Plan members are required by resolution to contribute to the plan. Effective July 1, 2011, plan members contribute for the supplemental benefit, and the combined core and supplemental benefit 0.5% and 7.5%, respectively, of their salary to the plan. The Board is required by resolution to contribute the remaining actuarially determined amounts necessary to finance the combined coverage of plan members. Benefits and contribution provisions are established and may be amended only by the Board. Administrative costs are financed through investment earnings. The Board's actuarially determined contribution rate as a percentage of covered payroll for FY 2018 was 4.68%.

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NET PENSION LIABILITY

The Board’s net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. It was as follows:

| | |
|-----------------------------|-----------------------|
| Total pension liability | \$ 1,977,417,960 |
| Plan fiduciary net position | (1,586,455,212) |
| Net pension liability | <u>\$ 390,962,748</u> |

Plan fiduciary net position as a percentage of the total pension liability: 80.23%

Method and assumptions used to determine Net Pension Liability were as follows:

| | |
|-----------------------------------|--|
| Valuation date | July 1, 2016 |
| Actuarial cost method | Entry Age Normal |
| Amortization method-Accounting | Plan changes are immediate, assets are over a 5 year closed period and liability changes are over the average working lifetime of all participants |
| Amortization method-Funding | Plan changes are on a 30 year closed amortization method and gain/losses, assumption and methods changes are on an open 15 year amortization |
| Asset valuation method-Accounting | Fair market value |
| Asset valuation method-Funding | 5 year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.5% |
| Projected salary increases | Service and age based split between teachers and staff |
| Cost-of-living adjustments | 1.95% - 3% |
| General inflation | 2.75% |
| Retirement | Experience-based table of rates that specific to the type of eligibility condition and years of services |
| Mortality rate | Healthy lives: RP-2014 white collar mortality table with scale MP-2014 projection scales. Disabled lives: 100% of published rate for RP-2000 disabled mortality table, projected to 2022 (sex distinct). |

The actuarial assumption used in the July 1, 2016 valuation was based on the results of prior actuarial experience study completed as of June 30, 2014. It was first applicable for funding and accounting numbers using the 2015 valuation date.

The long-term expected rate of return on pension plan investments was determined using a building–block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rate of return for each major asset class included in the pension plan’s target asset allocation of June 30, 2017 are as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of return</u> |
|--------------------|--------------------------|---|
| Fixed income | 25% | 3.1% |
| Global Equities | 50% | 7.0% |
| Alternatives | 25% | 6.9% |

Discount Rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flow to determine the discount rate assumed the contributions from plan members will be made at the current contribution rate and that contributions from the Board will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was

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projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

CHANGES IN THE NET PENSION LIABILITY

| | Total Pension Liability (a) | Increase (Decreases) Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
|--|--------------------------------|--|----------------------------------|
| Balances at 6/30/2016 | \$ 1,881,931,331 | \$ 1,415,147,443 | \$ 466,783,888 |
| Changes for the year | | | |
| Service cost | 44,436,725 | | 44,436,725 |
| Interest | 141,159,580 | | 141,159,580 |
| Contributions - employer | | 65,877,870 | (65,877,870) |
| Contributions - employee | | 23,749,197 | (23,749,197) |
| Net Investment Income | | 172,942,114 | (172,942,114) |
| Benefit payments, including refunds of employee contributions | (90,109,676) | (90,109,676) | |
| Administrative expense | | (1,151,736) | 1,151,736 |
| Net Changes | 95,486,629 | 171,307,769 | (75,821,140) |
| Balances as of 6/30/2017 | \$ 1,977,417,960 | \$ 1,586,455,212 | \$ 390,962,748 |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Board calculated using the discount rate of 7.5%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is one percent lower (6.5%) or one percent higher (8.5%) than the current rate:

| | 1% Decrease (6.50%) | Current Rate (7.50%) | 1% Increase (8.50%) |
|-----------------------|---------------------|----------------------|---------------------|
| Net Pension Liability | \$ 641,690,966 | \$ 390,962,748 | \$ 182,762,667 |

Rate of Return on Investments. The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, for FY 2017 was 11.9%. The money-weighted rate of return expresses investment performance, net of expense, adjusted for the changing amounts actually invested.

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the Statement of Fiduciary Net Position Fiduciary Funds.

PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended June 30, 2018, the Board recognized pension expense of \$66,271,962. At June 30, 2018, 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 |
|--|-----------------------------------|----------------------------------|
| Difference between actual and expected experience measurement date | \$ - | \$ 57,193,895 |
| Net difference between projected and actual earnings on pension plan investments measurement date | 24,332,754 | |
| Changes in assumptions | 51,310,480 | |
| Board contributions subsequent to the measurement date | 79,863,596 | |
| Total | \$ 155,506,830 | \$ 57,193,895 |

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Board contributions of \$79,863,596 reported as deferred outflows of resources subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| | |
|---------------------|----------------------|
| Year ended June 30: | |
| 2019 | \$ 9,348,997 |
| 2020 | 27,697,257 |
| 2021 | 12,426,099 |
| 2022 | (13,286,765) |
| 2023 | (5,397,216) |
| Thereafter | (12,339,033) |
| Total | <u>\$ 18,449,339</u> |

XII. DEFINED BENEFIT PENSION PLANS (GASB 67)

The below are additional disclosures presented according to the accounting standard GASB Statement No. 67 *Financial Reporting for Pension Plans*—an amendment of GASB Statement No. 25 for pension plan since the Board does not issue separate pension plan financial statements.

GENERAL INFORMATION ABOUT THE PENSION PLAN

Plan Description. For a description of the plan and the benefits provided, see Note XI, Section B.

At July 1, 2017, the date of the latest actuarial report, the Board’s plan membership consisted of:

| | |
|---|---------------|
| Retirees and beneficiaries currently receiving benefits | 13,460 |
| Terminated plan members entitled to benefits but not yet receiving them | 5,620 |
| Active plan members | <u>23,010</u> |
| Total | <u>42,090</u> |

Contributions. Plan members are required by resolution to contribute to the plan. Effective July 1, 2011, plan members contribute for the supplemental benefit, and the combined core and supplemental benefit 0.5% and 7.5%, respectively, of their salary to the plan. The Board is required by resolution to contribute the remaining actuarially determined amounts necessary to finance the combined coverage of plan members. Benefits and contribution provisions are established and may be amended only by the Board. Administrative costs are financed through investment earnings. The Board actuarially determined contribution rate as a percentage of covered payroll for FY 2018 was 4.11%.

NET PENSION LIABILITY

Beginning of year total pension liability is based on the Board’s actuarial valuation date of July 1, 2017, and a measurement date of June 30, 2017. The end of year total pension liability based on the Board’s actuarial valuation date of July 1, 2017, with the results rolled forward to a measurement date of June 30, 2018.

| | |
|-----------------------------|------------------------|
| Total pension liability | \$ 2,242,829,828 |
| Plan fiduciary net position | <u>(1,719,166,655)</u> |
| Net pension liability | <u>\$ 523,663,173</u> |

Plan fiduciary net position as a percentage of the total pension liability: 76.65%

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Method and assumptions used to determine Net Pension Liability were as follows:

| | |
|---------------------------|---|
| Valuation Date | July 1, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Asset Valuation Method | Fair Market Value |
| Inflation | 2.75% |
| Investment Rate of Return | 7.0%, net of investment expense, including inflation |
| Salary Increases | 1.95% to 9.4%, including inflation |
| General Inflation | 2.75% |
| Retirement Age | Experience-based table of rates |
| Mortality | Healthy lives: RP-2014 white collar mortality table, sex distinct, with generational mortality improvements using scale MP-2014 projection scales. The provision for future mortality improvement for healthy lives is based on the generational application of the MP-2014 improvement scales. Disabled lives: RP-2000 disabled mortality table, sex distinct, projections to 2022 using projection scale AA (static table) |
| Cost of Living Adjustment | 3.0% compound for Employees' Retirement System (ERS) retirees and 3.0% simple for original pension plan retirees. 2.75% compound for service before July 1, 2011 and 1.95% compound for service after July 1, 2011. |

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of July 1, 2017, then rolled forward to June 30, 2018 including any changes made to the roll forward. The actuarial assumption used in the June 30, 2018 valuation was based on the results of prior actuarial experience study completed as of June 30, 2014. It was first applicable for funding and accounting numbers using the 2015 valuation date.

The long-term expected rate of return on pension plan investments was determined using a building–block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rate of return for each major asset class included in the pension plan’s target asset allocation of June 30, 2018 are as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-------------------------|--------------------------|---|
| Fixed income | 23% | 4.49% |
| Global Equities | 50 | 7.94 |
| Alternatives | 25 | 7.69 |
| Cash & Cash Equivalents | 2 | 3.00 |
| Total | 100% | |

Discount Rate. The discount rate used to measure the total pension liability was 7.5%. The projection of cash flow to determine the discount rate assumed the contributions from plan members will be made at the current contribution rate and that contributions from the Board will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payment of current plan members. Therefore, the long-term expected rate of return on pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

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CHANGES IN THE NET PENSION LIABILITY

| | Total Pension Liability (a) | Increase (Decreases) Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
|---|--------------------------------|--|----------------------------------|
| Balances at 6/30/2017 | \$ 1,977,417,960 | \$ 1,586,455,212 | \$ 390,962,748 |
| Changes for the year | | | |
| Service cost | 50,395,825 | | 50,395,825 |
| Interest | 146,658,956 | | 146,658,956 |
| Differences between expected and actual experience | 31,406,064 | | 31,406,064 |
| Changes of assumptions | 132,086,081 | | 132,086,081 |
| Contributions – employer | | 79,863,596 | (79,863,596) |
| Contributions – employee | | 24,323,349 | (24,323,349) |
| Net Investment Income | | 124,868,624 | (124,868,624) |
| Benefit payments, including refunds of employee contributions | (95,135,058) | (95,135,058) | |
| Administrative expense | | (1,209,068) | 1,209,068 |
| Net Changes | 265,411,868 | 132,711,443 | 132,700,425 |
| Balances as of 6/30/2018 | \$ 2,242,829,828 | \$ 1,719,166,655 | \$ 523,663,173 |

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the net pension liability of the Board calculated using the discount rate of 7.0%, as well as what the Board’s net pension liability would be if it were calculated using a discount rate that is one percent lower (6.0%) or one percent higher (8.0%) than the current rate:

| | 1% Decrease (6.00%) | Current Rate (7.00%) | 1% Increase (8.00%) |
|-----------------------|------------------------|-------------------------|------------------------|
| Net Pension Liability | \$828,771,809 | \$523,663,173 | \$271,155,560 |

Rate of Return on Investments. The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, for FY 2018 was 7.8%. The money-weighted rate of return expresses investment performance, net of expense, adjusted for the changing amounts actually invested.

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the Statement of Fiduciary Net Position Fiduciary Funds.

XIII. POSTEMPLOYMENT HEALTHCARE BENEFITS (GASB 75)

In FY 2018 a new accounting standard for OPEB employers (GASB 75) required the new measurement of the OPEB liability as Net OPEB liability, which is total OPEB liability less the amount of the OPEB plan’s fiduciary net position.

GENERAL INFORMATION ABOUT THE OPEB PLAN

Plan Description. The OPEB Plan is a single-employer defined benefit healthcare plan funded and administered by the Board. Employees receiving a Board approved retirement are eligible, in accordance with bargaining agreements between the Board and employee associations, for continued healthcare coverage if they have been covered under the Board Employee Benefit Plan for at least five years, (ten years for employees hired after July 1, 2011). Terminated employees are not eligible to participate in the plan. The OPEB Plan provides medical, dental, vision, prescription drug, and life insurance benefits for retirees and their dependents. Authority to establish and amend benefit provisions resides with the Board. Separate financial statements for the OPEB Plan are not available.

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Benefit Provided. The Board offers single employer plans including CareFirst BlueChoice HMO/POS/PPO, Kaiser HMO, Caremark Prescription Drugs (Option A or B), Kaiser Prescription Drugs, CareFirst Dental, Aetna Dental DMO or PPO and Vision. The Board’s employees are eligible to continue group insurance coverage after retirement provided that retiring employees qualify for pension benefits under either the Employees’ Pension System (EPS) or Employees’ Retirement System (ERS). The surviving spouses and dependent children who are covered under any of the Board’s sponsored health plans (medical, vision, prescription or dental) have the right to continue coverage upon the death of the Board’s employee/retiree. Retirees/spouses who are eligible for Medicare Parts A & B must enroll for Medicare coverage in order to retain coverage under the Board’ plans. Group life insurance may be continued for retirees with 10 years of service prior to retirement. Eligible employees will have their life insurance coverage modified as follows: An employee’s life insurance coverage on the day before the employee’s retirement is equal to final pay. When an employee elects to continue the basic employee term life insurance coverage, the coverage amount reduces to 42.5% of the active employee basic term life insurance amount. For each of the next four years, on the anniversary of the retirement, the life insurance amount will reduce by 7.5% of the active life amount. On the fourth anniversary of the retirement, the life insurance amount becomes 12.5% of the active life amount and will remain at that level for the lifetime as long as the premiums are paid.

Plan membership consisted of the following at July 1, 2016, the date of the latest actuarial valuation for employer reporting:

| | |
|---|--------|
| Retirees and beneficiaries receiving benefits | 9,212 |
| Active plan members | 22,143 |
| Total | 31,355 |

Funding Policy. The Board has the authority to establish and amend contribution requirements of the plan members and the Board. Retired plan members and beneficiaries currently receiving benefits are required to contribute 36% and the Board contributes 64% toward the current cost of healthcare benefits. Effective for employees hired July 1, 2011 and for certain employees hired as of July 1, 2006, a tiered contribution structure is in effect, with the Board contribution levels of 40, 50, or 64% respectively based on years of service. During fiscal year 2017, plan members and beneficiaries receiving benefits contributed \$37,315,988 (approximately 24.5% of current contributions). The Board and other contributing entities’ contributed \$115,059,262 (approximately 75.5% of current contributions) for current premiums, claims and administrative expenses. Administrative costs are financed through investment earnings.

Effective July 1, 2011, the Montgomery County Council enacted legislation (Bill No. 17-11) to create a Consolidated Retiree Health Benefits Trust (CRHBT) that expanded the County OPEB Trust to include the Board employees. Beginning in fiscal year 2012, and for each fiscal year thereafter, the Board annual contribution toward funding amortization of the actuarial accrued liability (AAL) has been made by the Montgomery County Council directly to the CRHBT rather than to the Board’s OPEB Plan Trust. In FY 2017, the Montgomery County Council contributed \$63,055,000 and recorded as on behalf of the Board employees. In FY 2018 the Montgomery County Council contributed \$55,165,381 and recorded as on behalf of the Board employees.

The CRHBT is an agent multiple-employer defined benefit healthcare plan sponsored by the County. Other agencies and political subdivisions have the right to elect participation. The Board of Trustees has the exclusive authority to manage the assets of the CRHBT. The Board of Trustees consists of nineteen trustees and functions as part of the County. Separate financial statements are not issued for the CRHBT.

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Funded Status and Funding Progress. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the Board are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The *Schedule of Funding Progress* presented as supplementary information following the notes to the financial statements presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NET OPEB LIABILITY

The net OPEB liability is to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The net OPEB liability should be measured as of the OPEB plan's most recent fiscal year end. The components of the Plan's net OPEB liability as of June 30, 2017, were as follows:

| | | |
|-----------------------------|----|---------------|
| Total OPEB liability | \$ | 2,677,550,932 |
| Plan fiduciary net position | | (385,355,507) |
| Net OPEB liability | | 2,292,195,425 |

| | |
|--|--------|
| Plan fiduciary net position as a percentage of the total OPEB liability: | 14.39% |
|--|--------|

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, then rolled forward using the single discount rate (SDR) which is based on the assumed 7.50% long term rate of return for projected benefits paid before the crossover year and the municipal bond index rate for projected benefits paid after the crossover year with using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Actuarial assumptions used in the latest actuarial valuation were:

| | |
|------------------------------|---|
| Valuation date | July 1, 2016 |
| Measurement date | June 30, 2017 |
| Actuarial cost method | Entry Age Normal |
| Asset valuation method | Fair Market Value |
| Inflation rate | 3.0% |
| Salary increases | 1.95% to 9.40%, including inflation |
| Investment rate of return | 7.50%, net of OPEB plan investment expense, including inflation |
| Retirement age | Experience-based table of rates |
| Health care cost trend rates | Trend rates of 11.8% for Rx, 6.77% for pre-65 medical and 5.41% for 65+ medical, decreasing to an ultimate trend rate of 4.50% |
| Mortality | Healthy lives: RP-2014 White Collar mortality table, sex distinct, with generational morality improvements using scale MP-2014. The provision for future mortality improvement for healthy lives is based on the generational application of the MP-2014 improvement scales. Disabled lives: 100% of published rates for RP 2000 disabled mortality table, projected to 2022 using projections scale AA (sex distinct). |

The total OPEB liability shown is based on an actuarial valuation performed as of July 1, 2016, and a measurement date of June 30, 2017. Update procedures were used to roll forward the total OPEB liability to the OPEB plan's fiscal year end.

The assets of CRHBT are managed by the County. The following target allocation was adopted asset allocation policy as of June 30, 2017 by the CRHBT's Board. The long-term expected rate of return on CRHBT plan investments was determined by the County using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment

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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 for each major asset class included in the OPEB plan's target asset allocation as of June 30, 2017 (see the discussion of the OPEB plan's investment policy) are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------------|--------------------------|---|
| Domestic Equities | 19.00% | 4.75% |
| International Equities | 15.00 | 4.75 |
| Emerging Market Equities | 3.80 | 4.75 |
| Global Equities | 4.20 | 4.75 |
| Private Equity | 8.00 | 6.60 |
| Credit Opportunities | 2.00 | 5.05 |
| Long Duration Fixed Income | 13.50 | 2.05 |
| High Yield Bonds | 10.00 | 3.15 |
| Global ILS | 12.00 | 0.94 |
| Private Real Assets | 5.00 | 6.36 |
| Public Real Assets | 6.50 | 4.25 |
| Cash | 1.00 | -0.30 |
| Total | <u>100.00%</u> | |

Discount Rate: A Single Discount Rate of 5.87% was used to measure the total OPEB liability as of June 30, 2017. The Single Discount Rate was based on an expected rate of return on OPEB plan investments of 7.5% and a municipal bond rate of 3.56%. The projection of cash flows used to determine this Single Discount Rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the OPEB plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2061. As a result, the long-term plan investments was applied to projected benefit payments through the year 2061, and the municipal bond rate was applied to all benefit payments after that date.

By comparison, the Single Discount Rate as of June 30, 2016, was 5.27%, based on an expected rate of return on OPEB plan investments of 7.50% and a municipal bond rate of 2.85%.

All of the demographic assumptions and most of the economic assumptions used in the July 1, 2016 retirement system valuations performed by an actuarial firm.

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CHANGES IN THE NET OPEB LIABILITY

| | Increase (Decreases) | | |
|---|--------------------------|---------------------------------|----------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a)-(b) |
| Balances at 6/30/2016 | \$ 2,747,375,124 | \$ 304,788,014 | \$ 2,442,587,110 |
| Changes for the year | | | |
| Service cost | 125,216,637 | | 125,216,637 |
| Interest | 146,230,235 | | 146,230,235 |
| Differences between expected and actual experience | (270,838,727) | | (270,838,727) |
| Contributions - employer | | 96,333,627 | (96,333,627) |
| Medicare Part D subsidies | | 18,725,635 | (18,725,635) |
| Contributions - employee | | 37,315,988 | (37,315,988) |
| Net Investment Income | | 36,233,300 | (36,233,300) |
| Benefit payments, including refunds of employee contributions | (70,432,337) | (107,748,325) | 37,315,988 |
| Administrative expense | | (292,732) | 292,732 |
| Assumption changes | | | - |
| Net Changes | (69,824,192) | 80,567,493 | (150,391,685) |
| Balances as of 6/30/2017 | \$ 2,677,550,932 | \$ 385,355,507 | \$ 2,292,195,425 |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability calculated using the discount rate of 5.87%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percent lower (4.87%) or one percent higher (6.87%) than the current rate:

| | <u>1% Decrease (4.87%)</u> | <u>Discount Rate (5.87%)</u> | <u>1% Increase (6.87%)</u> |
|--------------------|----------------------------|------------------------------|----------------------------|
| Net OPEB liability | \$2,765,413,599 | \$2,292,195,425 | \$1,913,768,465 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate. The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or one percent higher than the current healthcare cost trend rates:

| | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|--------------------|--------------------|---------------------|--------------------|
| Net OPEB liability | \$1,852,999,552 | \$2,292,195,425 | \$2,864,651,076 |

Rate of Return on Investments. The annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expenses, for FY 2017 was 11.99%. The money-weighted rate of return expresses investment performance, net of expense, adjusted for the changing amounts actually invested.

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the Statement of Fiduciary Net Position Fiduciary Funds.

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OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended June 30, 2018, the Board recognized OPEB expense of \$180,665,367. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Changes in assumptions | \$ - | \$ 239,633,233 |
| Net difference between projected and actual earnings on OPEB plan investments at measurement date | | 9,369,334 |
| Board contributions subsequent to the measurement date | 111,778,110 | |
| Total | \$ 111,778,110 | \$ 249,002,567 |

Board contributions of \$111,778,110 reported as deferred outflows of resources subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in OPEB expense as follows:

| | |
|---------------------|------------------|
| Year ended June 30: | |
| 2019 | \$ (33,547,827) |
| 2020 | (33,547,827) |
| 2021 | (33,547,827) |
| 2022 | (33,547,829) |
| 2023 | (31,205,494) |
| Thereafter | (83,605,763) |
| Total | \$ (249,002,567) |

XIV. POSTEMPLOYMENT HEALTHCARE BENEFITS (GASB 74)

In FY 2017, a new accounting standard for OPEB plan (GASB 74) required the new measurement of the OPEB liability as Net OPEB liability, which is total OPEB liability less the amount of the OPEB plan’s fiduciary net position. Since the Board does not issue separate OPEB plan financial statements, the Board needs to disclose the required OPEB plan information, such as Net OPEB Liability, long-term expected rate of return on OPEB plan investments, and discount rate, etc.

GENERAL INFORMATION ABOUT THE OPEB PLAN

Plan Description. For a description of the plan and the benefits provided, see Note XIII.

Plan membership consisted of the following at July 1, 2017, the date of the latest actuarial valuation:

| | |
|---|--------|
| Inactive Plan Members with Medical Coverage | 9,493 |
| Active Plan Members | 23,010 |
| Total | 32,503 |

Contributions. The Board has the authority to establish and amend contribution requirements of the plan members and the Board. Retired plan members and beneficiaries currently receiving benefits are required to contribute 36% and the Board contributes 64% toward the current cost of healthcare benefits.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2018

Effective for employees hired July 1, 2011 and for certain employees hired as of July 1, 2006, a tiered contribution structure is in effect, with the Board contribution levels of 40, 50, or 64% respectively based on years of service. During fiscal year 2018, plan members and beneficiaries receiving benefits contributed \$39,875,875 (approximately 26.3% of current contributions). The Board and other contributing entities' contributed \$111,778,110 (approximately 73.7% of current contributions) for current premiums, claims and administrative expenses. Administrative costs are financed through investment earnings.

NET OPEB LIABILITY

The net OPEB liability is to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. The net OPEB liability should be measured as of the OPEB plan's most recent fiscal year end. The components of the Plan's net OPEB liability as of June 30, 2018, were as follows:

| | |
|--|------------------|
| Total OPEB liability | \$ 2,838,086,716 |
| Plan fiduciary net position | (455,655,062) |
| Net OPEB liability | \$2,382,431,654 |
| Plan fiduciary net position as a percentage of the total OPEB liability: | 16.06% |

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, then rolled forward using the single discount rate (SDR) which is based on the assumed 7.50% long term rate of return for projected benefits paid before the crossover year and the municipal bond index rate for projected benefits paid after the crossover year with using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial assumptions used in the latest actuarial valuation were:

| | |
|------------------------------|--|
| Valuation date | July 1, 2017 |
| Measurement date | June 30, 2018 |
| Actuarial cost method | Entry Age Normal |
| Asset valuation method | Fair Market Value |
| Inflation rate | 3.0% |
| Salary increases | 1.95% to 9.40%, including inflation |
| Investment rate of return | 7.50%, net of OPEB plan investment expense, including inflation |
| Retirement age | Experience-based table of rates |
| Health care cost trend rates | Trend rates of 11.8% for Rx, 6.77% for pre-65 medical and 5.41% for 65+ medical, decreasing to an ultimate trend rate of 4.50% |
| Mortality | Healthy lives: Healthy lives: RP-2014 White Collar mortality table, sex distinct, with generational morality improvements using scale MP-2014. The provision for future mortality improvement for healthy lives is based on the generational application of the MP-2014 improvement scales. Disabled lives: 100% of published rates for RP 2000 disabled mortality table, projected to 2022 using projections scale AA (sex distinct). |

The total OPEB liability shown is based on an actuarial valuation performed as of July 1, 2017, and a measurement date of June 30, 2018. Update procedures were used to roll forward the total OPEB liability to the OPEB plan's fiscal year end.

Discount Rate: A Single Discount Rate of 5.4% was used to measure the total OPEB liability as of June 30, 2018. The Single Discount Rate was based on an expected rate of return on OPEB plan investments of 7.5% and a municipal bond rate of 3.62%. The projection of cash flows used to determine this Single

BOARD OF EDUCATION OF MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Discount Rate assumes that for contributions until FY 2034, the County will contribute the amount of the net benefit payments plus 50% of the difference between the Annual Required Contribution calculation in the actuarial valuation and the projected net benefit payments. For contributions during FY 2034 and after, the County will contribute the Annual Required Contribution amount calculated in the actuarial valuation.

By comparison, the Single Discount Rate as of June 30, 2017, was 5.87%, based on an expected rate of return on OPEB plan investments of 7.50% and a municipal bond rate of 3.56%.

CHANGES IN THE NET OPEB LIABILITY

| | Increase (Decreases) | | |
|---|--------------------------|------------------------------------|-------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a)-(b) |
| Balances at 6/30/2017 | \$ 2,677,550,932 | \$ 385,355,507 | \$ 2,292,195,425 |
| Changes for the year | | | |
| Service cost | 88,364,530 | | 88,364,530 |
| Interest | 157,630,127 | | 157,630,127 |
| Differences between expected and actual experience | (216,455,378) | | (216,455,378) |
| Contributions - employer | | 90,580,304 | (90,580,304) |
| Medicare Part D subsidies | | 21,197,806 | (21,197,806) |
| Contributions - employee | | 39,875,875 | (39,875,875) |
| Net Investment Income | | 31,492,273 | (31,492,273) |
| Benefit payments, including refunds of employee contributions | (72,763,620) | (112,639,495) | 39,875,875 |
| Administrative expense | | (207,208) | 207,208 |
| Assumption changes | 203,760,125 | | 203,760,125 |
| Net Changes | 160,535,784 | 70,299,555 | 90,236,229 |
| Balance as of 6/30/2018 | \$ 2,838,086,716 | \$ 455,655,062 | \$ 2,382,431,654 |

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability calculated using the discount rate of 5.4%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percent lower (4.4%) or one-percent higher (6.4%) than the current rate:

| | <u>1% Decrease (4.4%)</u> | <u>Discount Rate (5.4%)</u> | <u>1% Increase (6.4%)</u> |
|--------------------|---------------------------|-----------------------------|---------------------------|
| Net OPEB liability | \$ 2,893,373,922 | \$ 2,382,431,654 | \$ 1,973,528,663 |

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rate. The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or one percent higher than the current healthcare cost trend rates:

| | <u>1% Decrease</u> | <u>Current Rate</u> | <u>1% Increase</u> |
|--------------------|--------------------|---------------------|--------------------|
| Net OPEB liability | \$1,920,910,641 | \$ 2,382,431,654 | \$ 2,984,780,022 |

Rate of Return on Investments. The annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expenses, for FY 2018 was 8.82%. The money-weighted rate of return expresses investment performance, net of expense, adjusted for the changing amounts actually invested.

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the Statement of Fiduciary Net Position Fiduciary Funds.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

XV. TRUST PLANS CONDENSED FINANCIAL STATEMENTS

Condensed financial statements for the Retirement and Pension System and the OPEB Plan Trust are as follows:

CONDENSED STATEMENT OF FIDUCIARY NET POSITION

| | Retirement and Pension System | OPEB Plan Trust | Total |
|--|----------------------------------|--------------------|----------------------|
| Assets: | | | |
| Current assets | \$ 1,719,166,654 | \$ 462,365,467 | \$ 2,181,532,121 |
| Total assets | <u>1,719,166,654</u> | <u>462,365,467</u> | <u>2,181,532,121</u> |
| Liabilities: | | | |
| Total liabilities | | <u>6,710,405</u> | <u>6,710,405</u> |
| Net Position: | | | |
| Restricted for pension and other postemployment benefits | \$ 1,719,166,654 | \$ 455,655,062 | \$ 2,174,821,716 |

CONDENSED STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

| | Retirement and Pension System | OPEB Plan Trust | Total |
|------------------------------|----------------------------------|------------------------------|--------------------------------|
| Additions: | | | |
| Contributions | \$ 104,186,945 | \$ 151,653,985 | \$ 255,840,930 |
| Net investment earnings | 124,868,624 | 31,492,273 | 156,360,897 |
| Total additions | <u>229,055,569</u> | <u>183,146,258</u> | <u>412,201,827</u> |
| Deductions: | | | |
| Benefit and premium payments | 95,135,058 | 112,639,495 | 207,774,553 |
| Administrative expenses | 1,209,069 | 207,208 | 1,416,277 |
| Total deductions | <u>96,344,127</u> | <u>112,846,703</u> | <u>209,190,830</u> |
| Change in net position | 132,711,442 | 70,299,555 | 203,010,997 |
| Net position – beginning | <u>1,586,455,212</u> | <u>385,355,507</u> | <u>1,971,810,719</u> |
| Net position – ending | \$ <u><u>1,719,166,654</u></u> | \$ <u><u>455,655,062</u></u> | \$ <u><u>2,174,821,716</u></u> |

XVI. CONTINGENCIES

Litigation. The Board, in the normal course of its operations, is subject to lawsuits and claims. While the outcome of these matters is uncertain, the Board believes that any losses not otherwise covered by insurance, which may ultimately be incurred as a result of lawsuits and claims, will not have a material adverse effect on the Board financial condition. Additionally, it is the opinion of counsel that under current law, the Board would have governmental immunity in non-contractual matters for any individual judgments in excess of \$100,000, increasing to \$400,000 effective October 1, 2016, except for civil rights cases.

Supported Projects. Certain programs, referred to as supported projects, serving specific needs and purposes of the school system and the welfare of the students, are funded by special federal and state grants and are included in the General Fund and the Enterprise Funds. Grant activities are subject to audit by the granting agencies.

Federal Financial Assistance. The Board receives financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned on compliance with terms and conditions of the grant agreements and applicable Federal regulations, including expenditures of resources for eligible

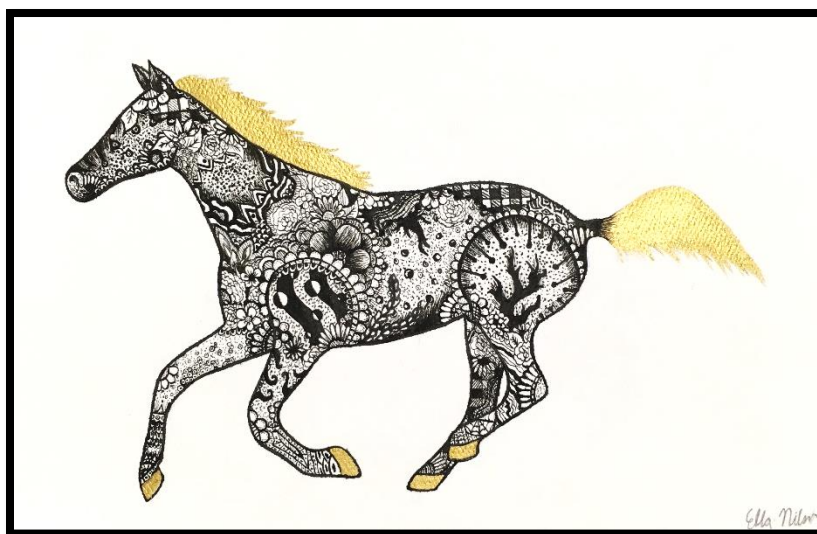
BOARD OF EDUCATION OF MONTGOMERY COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

purposes. All grants are subject to financial and compliance audits. Any disallowances as a result of these audits become a liability of the fund that received the grants.

In the opinion of management, the ultimate resolution of any of these matters or audits will not be material to the basic financial statements of the Board.

XVII. CHANGE IN ACCOUNTING PRINCIPLES/RESTATEMENT

The Board implemented Governmental Accounting Standard Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ending June 30, 2018. The implementation of the statement required the Board to record beginning net OPEB liability and effects on net position of contributions made by the Board during the measurement period (fiscal year ending June 30, 2017). Due to the determination that the business-type activity would not be subject to the net OPEB liability going forward, the governmental activities absorbed the entire net OPEB liability. As a result, a restatement on the FY 2018 Statement of Activities reflects an increase of \$8,769,730 for Business-Type Activities, and a decrease of net position for Governmental Activities of \$1,846,547,887.



Student: Ella Nilsen, 8th Grade
School: Tilden Middle School



REQUIRED SUPPLEMENTARY INFORMATION

Board of Education of Montgomery County
June 30, 2018

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
 YEAR ENDED JUNE 30, 2018

| Fiscal Year Ending | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Total pension Liability | | | | | |
| Service Cost | \$ 50,395,825 | \$ 44,436,725 | \$ 43,500,877 | \$ 53,269,208 | \$ 53,238,295 |
| Interest | 146,658,956 | 141,159,580 | 135,814,794 | 123,895,167 | 120,371,102 |
| Benefit Changes | | | | | |
| Difference between Actual & Expected, if any | 31,406,064 | | (22,132,062) | (18,234,988) | (47,593,419) |
| Assumption Changes | 132,086,081 | | | 93,368,251 | |
| Benefit Payments | (95,135,058) | (90,109,676) | (85,230,639) | (81,971,251) | (76,147,472) |
| Refund | | | | | |
| Net Change in Total Pension Liability | <u>265,411,868</u> | <u>95,486,629</u> | <u>71,952,970</u> | <u>170,326,387</u> | <u>49,868,506</u> |
| Total Pension Liability -Beginning | <u>1,977,417,960</u> | <u>1,881,931,331</u> | <u>1,809,978,361</u> | <u>1,639,651,974</u> | <u>1,589,783,468</u> |
| Total Pension Liability -Ending (a) | <u>\$ 2,242,829,828</u> | <u>\$ 1,977,417,960</u> | <u>\$ 1,881,931,331</u> | <u>\$ 1,809,978,361</u> | <u>\$ 1,639,651,974</u> |
| Plan Fiduciary Net Position | | | | | |
| Contribution -Employer | 79,863,596 | 65,877,870 | 74,861,086 | 83,498,517 | 80,544,815 |
| Contribution -Employee | 24,323,349 | 23,749,197 | 22,949,001 | 22,486,721 | 21,578,300 |
| Net Investment Income | 124,868,624 | 172,942,114 | (3,391,963) | 26,441,619 | 179,375,231 |
| Benefit Payments | (95,135,058) | (90,109,676) | (85,230,639) | (81,971,251) | (76,147,472) |
| Refund | | | | | |
| Admin Expense | (1,209,068) | (1,151,736) | (2,012,071) | (2,217,291) | (2,163,665) |
| Other | | | | | |
| Net change in Plan Fiduciary Net Position | <u>132,711,443</u> | <u>171,307,769</u> | <u>7,175,414</u> | <u>48,238,315</u> | <u>203,187,209</u> |
| Plan Fiduciary Net Position -beginning | <u>1,586,455,212</u> | <u>1,415,147,443</u> | <u>1,407,972,029</u> | <u>1,359,733,714</u> | <u>1,156,546,505</u> |
| Plan Fiduciary Net Position -Ending (b) | <u>\$ 1,719,166,655</u> | <u>\$ 1,586,455,212</u> | <u>\$ 1,415,147,443</u> | <u>\$ 1,407,972,029</u> | <u>\$ 1,359,733,714</u> |
| Net Pension Liability -Ending (a-b) | <u>523,663,173</u> | <u>390,962,748</u> | <u>466,783,888</u> | <u>402,006,332</u> | <u>279,918,260</u> |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 76.65% | 80.23% | 75.20% | 77.79% | 82.93% |
| Covered Employee Payroll | \$ 1,563,346,475 | \$ 1,468,494,379 | \$ 1,425,722,698 | \$ 1,429,764,138 | \$ 1,390,868,330 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 33.50% | 26.62% | 32.74% | 28.12% | 20.13% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF NET PENSION LIABILITY
 YEAR ENDED JUNE 30, 2018

| FY Ending 30-Jun | Total Pension Liability | Plan Net Position | Net Pension Liability | Plan Net Postion as a % of Total pension Liability | Covered Payroll | Net Pension Liability as a % of Covered Payroll |
|---------------------|----------------------------|----------------------|--------------------------|---|--------------------|---|
| 2014 | \$ 1,639,651,974 | \$ 1,359,733,714 | \$ 279,918,260 | 82.93% | \$ 1,390,868,330 | 20.13% |
| 2015 | 1,809,978,361 | 1,407,972,029 | 402,006,332 | 77.79% | 1,429,764,138 | 28.12% |
| 2016 | 1,881,931,331 | 1,415,147,443 | 466,783,888 | 75.20% | 1,425,722,698 | 32.74% |
| 2017 | 1,977,417,960 | 1,586,455,212 | 390,962,748 | 80.23% | 1,468,494,379 | 26.62% |
| 2018 | 2,242,829,828 | 1,719,166,655 | 523,663,173 | 76.65% | 1,563,346,475 | 33.50% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION CONTRIBUTIONS
 YEAR ENDED JUNE 30, 2018

| FY Ending 30-Jun | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---------------------|---|------------------------|--|------------------|---|
| 2014 | \$ 79,016,414 | \$ 80,544,815 | \$ (1,528,401) | \$ 1,390,868,330 | 5.79% |
| 2015 | 44,295,412 | 83,498,517 | (39,203,105) | 1,429,764,138 | 5.84% |
| 2016 | 58,384,555 | 74,861,086 | (16,476,531) | 1,425,722,698 | 5.25% |
| 2017 | 59,762,674 | 65,877,870 | (6,115,196) | 1,468,494,379 | 4.49% |
| 2018 | 58,627,379 | 79,863,596 | (21,236,217) | 1,563,346,475 | 5.11% |

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are calculated as of July 1, 1 year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|----------------------------|---|
| Measurement date | 30-Jun |
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Level percent of payroll open amortization method over 15 years with plan changes closed over 30 years |
| Asset valuation method | 5 year smoothing |
| Investment rate of return | 7.50% |
| Projected Salary increases | Service and age split between teachers and staff |
| Cost of living adjustments | 1.95% - 3% |
| Inflation | 2.75% |
| Retirement age | Experience-based table of rates that specific to the type of eligibility condition and years of services |
| Mortality rates | Healthy lives: RP-2014 white collar mortality table with scale MP-2014 projection scales Disabled lives: 100% of published rates for RP2000 disabled mortality table, sex distinct, projected to the year 2022 |

Note
 The Board contribution rate for fiscal year 2018 was based on updated results from the actuarial valuation as of July 1, 2016, and a contribution rate of 4.68% based on an investment return assumption of 7.25% (compared to a rate of 4.11% based on an investment return assumption of 7.5% in prior years).

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PENSION PLAN INVESTMENT RETURNS
 YEAR ENDED JUNE 30, 2018

| Fiscal year ending June 30 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Actual money weighted rate of return, net of investment expense | 7.8% | 11.9% | -0.02% | 2.20% | 15.75% | 12.95% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
SCHEDULE OF THE BOARD PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
YEAR ENDED JUNE 30, 2018

| <u>Employees' Retirement and Pension Systems</u> | Fiscal Year Ending | | | |
|---|--------------------|--------------|--------------|--------------|
| | 2018 | 2017 | 2016 | 2015 |
| Board's proportion of the net pension liability (asset) | 0.03042730% | 0.03027640% | 0.02665060% | 0.02295670% |
| Board's proportionate share of the net pension liability (asset) | \$ 6,579,513 | \$ 7,143,423 | \$ 5,538,451 | \$ 4,074,064 |
| Board's covered payroll | \$ - | \$ - | \$ - | \$ - |
| Board's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 0.00% | 0.00% | 0.00% | 0.00% |
| Plan fiduciary net position as of a percentage of the total pension liability | 66.71% | 62.97% | 66.26% | 69.53% |

| <u>Teachers' Retirement and Pension Systems</u> | | | | |
|---|------------------|------------------|------------------|------------------|
| Board's proportion of the net pension liability (asset) | 0.00000000% | 0.00000000% | 0.00000000% | 0.00000000% |
| State's proportionate share of the net pension liability (asset) associated with the Board | \$ 1,757,492,373 | \$ 1,871,367,674 | \$ 1,522,877,235 | \$ 1,115,879,101 |
| Board's covered payroll | \$ 1,468,494,379 | \$ 1,425,722,698 | \$ 1,429,764,138 | \$ 1,390,868,330 |
| Board's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 119.68% | 131.26% | 106.51% | 80.23% |
| Plan fiduciary net position as of a percentage of the total pension liability | 71.41% | 67.95% | 70.76% | 69.53% |

Methods and assumptions used to determine contribution rates:

| | |
|---------------------------|--|
| Valuation Date | 7/1/2017 |
| Measurement date | 30-Jun |
| Actuarial cost method | Entry Age Normal |
| Amortization method | Level percent of payroll, closed |
| Asset valuation method | 5 year smoothing |
| Investment rate of return | 7.50% |
| Discount rate | 7.50% |
| Salary increases | 3.15% to 9.15%, including wage inflation |
| Inflation | 2.65% general, 3.15% wage |
| Retirement age | Experience-based table of rates that specific to the type of eligibility condition and years of services |
| Mortality rates | RP-2014 mortality tables |

Note 1 - Changes in Benefit Terms - There were no benefit changes during the year

Note 2 - Changes in Assumptions - Adjustments to the roll-forward liabilities were made to reflect an inflation assumption change from 2.90% to 2.65%

Note 3 - Schedule is intended to show information for 10 years. Additional years will be displayed as they become available

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE BOARD CONTRIBUTIONS
 MARYLAND STATE RETIREMENT AND PENSION SYSTEM
 YEAR ENDED JUNE 30, 2018

| <u>Employees' Retirement and Pension Systems</u> | 2018 | 2017 | Fiscal Year Ending 2016 | 2015 | 2014 |
|--|------------------|------------------|----------------------------|------------------|------------------|
| Contractually required contribution | \$ 619,299 | \$ 589,809 | \$ 561,723 | \$ 534,974 | \$ 509,499 |
| Contributions in relation to the contractually required contribution | 619,299 | 589,809 | 561,723 | 534,974 | 509,499 |
| Contribution deficiency (excess) | - | - | - | - | - |
| <hr/> | | | | | |
| <u>Teachers' Retirement and Pension Systems</u> | | | | | |
| Contractually required contribution | \$ 168,182,560 | \$ 157,007,517 | \$ 156,997,295 | \$ 148,989,559 | \$ 131,705,430 |
| Contributions in relation to the contractually required contribution | 168,182,560 | 157,007,517 | 156,997,295 | 148,989,559 | 131,705,430 |
| Contribution deficiency (excess) | - | - | - | - | - |
| <hr/> | | | | | |
| Board's covered payroll | \$ 1,468,494,379 | \$ 1,425,722,698 | \$ 1,429,764,138 | \$ 1,390,868,330 | \$ 1,358,290,896 |
| Contributions as a percentage of covered payroll | 11.45% | 11.01% | 10.98% | 10.71% | 9.70% |

| <u>Employees' Retirement and Pension Systems</u> | 2013 | 2012 | 2011 | 2010 | 2009 |
|--|------------------|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 485,237 | \$ 462,130 | \$ 440,124 | \$ 419,166 | \$ 399,206 |
| Contributions in relation to the contractually required contribution | 485,237 | 462,130 | 440,124 | 419,166 | 399,206 |
| Contribution deficiency (excess) | - | - | - | - | - |
| <hr/> | | | | | |
| <u>Teachers' Retirement and Pension Systems</u> | | | | | |
| Contractually required contribution | \$ 173,954,985 | \$ 169,926,025 | \$ 149,981,157 | \$ 124,897,387 | \$ 115,507,019 |
| Contributions in relation to the contractually required contribution | 173,954,985 | 169,926,025 | 149,981,157 | 124,897,387 | 115,507,019 |
| Contribution deficiency (excess) | - | - | - | - | - |
| <hr/> | | | | | |
| Board's covered payroll | \$ 1,342,294,369 | \$ 1,306,604,776 | \$ 1,346,387,488 | \$ 1,352,101,092 | \$ 1,327,592,509 |
| Contributions as a percentage of covered payroll | 12.96% | 13.01% | 11.14% | 9.24% | 8.70% |

Schedule shows contribution information for 10 years.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB PLAN LIABILITY AND RELATED RATIOS
YEAR ENDED JUNE 30, 2018

| Fiscal Year Ending | 2018 | 2017 |
|---|-------------------------|-------------------------|
| Total OPEB Liability | | |
| Service Cost | \$ 88,364,530 | \$ 125,216,637 |
| Interest | 157,630,127 | 146,230,235 |
| Benefit Changes | | |
| Different between Actual & Expected if any | (216,455,378) | |
| Assumption Changes | 203,760,125 | (270,838,727) |
| Benefit Payments, including refunds of employee contributions | (72,763,620) | (70,432,337) |
| Net Change in Total OPEB Liability | <u>160,535,784</u> | <u>(69,824,192)</u> |
| Total OPEB Liability -Beginning | <u>2,677,550,932</u> | <u>2,747,375,124</u> |
| Total OPEB Liability -Ending (a) | <u>\$ 2,838,086,716</u> | <u>\$ 2,677,550,932</u> |
| Plan Fiduciary Net Position | | |
| Contribution -Employer | 90,580,304 | 96,333,627 |
| Contribution -Nonemployer entities | | |
| Medicare Part D subsidies | 21,197,806 | 18,725,635 |
| Contributions-member | 39,875,875 | 37,315,988 |
| Net Investment Income | 31,492,273 | 36,233,300 |
| Benefit Payments, including refunds of employee contributions | (112,639,495) | (107,748,325) |
| Admin Expense | (207,208) | (292,732) |
| Other | | |
| Net change in Plan Fiduciary Net Position | <u>70,299,555</u> | <u>80,567,493</u> |
| Plan Fiduciary Net Position -beginning | <u>385,355,507</u> | <u>304,788,014</u> |
| Plan Fiduciary Net Position -Ending (b) | <u>\$ 455,655,062</u> | <u>\$ 385,355,507</u> |
| Net OPEB Liability -Ending (a-b) | <u>\$ 2,382,431,654</u> | <u>\$ 2,292,195,425</u> |
| Plan Fiduciary Net Position as a Percentage of Total OPEB Liability | 16.06% | 14.39% |
| Covered Employee Payroll (c) | \$ 1,563,346,475 | \$ 1,546,150,104 |
| Net OPEB Liability as a Percentage of Covered Employee Payroll | 152.39% | 148.25% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF NET OPEB PLAN LIABILITY
 YEAR ENDED JUNE 30, 2018

| FY Ending 30-Jun | Total OPEB Liability | Plan Net Position | Net OPEB Liability | Plan Net Postion as a % of Total OPEB Liability | Covered Payroll | Net OPEB Liability as a % of Covered Payroll |
|---------------------|-------------------------|----------------------|-----------------------|--|--------------------|--|
| 2017 | \$ 2,677,550,932 | \$ 385,355,507 | \$ 2,292,195,425 | 14.39% | \$ 1,546,150,104 | 148.25% |
| 2018 | 2,838,086,716 | 455,655,062 | 2,382,431,654 | 16.06% | 1,563,346,475 | 152.39% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF OPEB PLAN CONTRIBUTIONS
 YEAR ENDED JUNE 30, 2018

| FY Ending 30-Jun | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as a % of Covered Payroll |
|---------------------|---|------------------------|--|------------------|--|
| 2017 | \$ 136,339,000 | \$ 115,059,262 | \$ 21,279,738 | \$ 1,546,150,104 | 7.44% |
| 2018 | 168,287,000 | 111,778,110 | 56,508,890 | 1,563,346,475 | 7.15% |

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates are calculated as of July 1, one year prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Valuation date | July 1, 2017 |
| Actuarial cost method | Projected Unit Credit |
| Amortization method | Level percentage of projected payroll. Increasing 3% per year. Open basis 30 |
| Remaining amortization period | years |
| Investment rate of return | 7.50%, net of OPEB plan investment expense, including inflation |
| Inflation | 3% |
| Salary increases | 1.95% to 9.40%, including inflation |
| Retirement ages | Experience-based table of rates. |
| Health care cost trend rates | (initial, ultimate) |
| Medical pre-65 | 6.77%, 4.5% |
| Medical post-65 | 5.41%, 4.5% |
| Prescription drugs | 11.8%, 4.5% |
| Dental | 4.50% |
| Vision | 3.50% |
| Mortality rates | Healthy lives: RP-2014 White Collar mortality table, sex distinct, with generational mortality improvements using scale MP-2014. The provision for future mortality improvement for healthy lives is based on the generational application of the MP-2014 improvement scales Disabled Lives: RP-2000 disabled mortality table, sex distinct, projected to 2022 using projection scale AA (static table) |
| Health Care Trend Rates | Trend rates of 11.8% for Rx, 6.77% for pre-65 medical and 5.41% for 65+ medical, decreasing to an ultimate trend rate of 4.50% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

There were no changes in benefit terms or assumptions

Actuarially determined contribution was calculated and provided in the actuarial valuation report from the prior actuary and is equal to normal cost plus 30-year open level-percentage-of-payroll amortization of the unfunded liability.

Actual contribution equals the sum of the employer contribution and the Medicare Part D subsidy from the federal government.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB PLAN INVESTMENT RETURNS
YEAR ENDED JUNE 30, 2018

| Fiscal year ending June 30 | 2018 | 2017 |
|---|-------------|-------------|
| Actual money weighted rate of return, net of investment expense | 8.82% | 11.99% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.
The information is provided by Montgomery County Employee Retirement Plans.



SUPPLEMENTARY DATA

Board of Education of Montgomery County
June 30, 2018

GOVERNMENTAL FUNDS

June 30, 2018

Capital Projects Fund — The Capital Projects Fund is used to account for financial resources used in the acquisition or construction of school sites and buildings and other major capital facilities.

Special Revenue Fund (nonmajor) — The Special Revenue Fund is used to account for the receipt and expenditure of Cable TV franchise fees that are restricted as to purpose and use.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|--------------------|--------------------|--------------------|---|
| | Original | Final | | |
| Revenues: | | | | |
| Montgomery County | \$ 671,388,107 | \$ 673,388,107 | \$ 222,264,231 | \$ (451,123,876) |
| State of Maryland | 74,105,784 | 75,313,247 | 60,691,473 | (14,621,774) |
| Federal | 85,457 | 1,791,278 | 1,705,821 | (85,457) |
| Other sources | <u>7,784,538</u> | <u>7,784,538</u> | <u>1,119,485</u> | <u>(6,665,053)</u> |
| Total revenues | 753,363,886 | 758,277,170 | 285,781,010 | (472,496,160) |
| Expenditures and encumbrances: | | | | |
| Capital outlay | <u>753,363,886</u> | <u>758,277,170</u> | <u>285,781,010</u> | <u>472,496,160</u> |
| Total expenditures and encumbrances | <u>753,363,886</u> | <u>758,277,170</u> | <u>285,781,010</u> | <u>472,496,160</u> |
| Excess of revenues over expenditures and encumbrances | - | - | - | - |
| Fund balance - beginning | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Fund balance - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Reconciliation to GAAP fund balance: | | | | |
| 2017 encumbrances outstanding | | | <u>-</u> | |
| Fund balance - GAAP basis | | | <u>\$ -</u> | |

BOARD OF EDUCATION OF MONTGOMERY COUNTY
SCHEDULE OF CONSTRUCTION IN PROGRESS
CAPITAL PROJECTS FUND
JUNE 30, 2018

| Award Number | Project Name | Project Authorization | Expended to Jun 30, 2018 | Committed | Available for Future Expenditure |
|--------------|---|-----------------------|-----------------------------|-----------------------|-------------------------------------|
| 000000 | Unliquidated Surplus for Local Funds | \$ 2,018,912 | \$ - | \$ - | \$ 2,018,912 |
| 006503 | Water and Indoor Air Quality Improvements | 688,102 | 72,000 | 520,615 | 95,487 |
| 016532 | Fire Safety Code Upgrades Local Funding | 6,306,460 | 1,632,438 | 138,826 | 4,535,196 |
| 036510 | Technology Modernization Local Funding | 10,218,849 | | 1,056,607 | 9,162,242 |
| 056501 | Restroom Renovations Local Funding | 1,814,562 | 1,317,524 | 39,137 | 457,901 |
| 076506 | Building Modifications and Program Improvements | 7,474,170 | 1,242,477 | 1,140,055 | 5,091,638 |
| 096501 | Fairland Elementary School Local Funding | 6,258,848 | 6,258,848 | | |
| 096505 | Montgomery Knolls Elementary School Local | 4,163,292 | 3,995,042 | 168,250 | |
| 106500 | County Water Quality Compliance | 3,100 | | | 3,100 |
| 116504 | Clarksburg Cluster ES (Clarksburg Village Site #1) | 17,832,570 | 17,832,570 | | |
| 116505 | Clarksburg High School Local Funding | 11,823,000 | 8,050,014 | 191,642 | 3,581,344 |
| 116506 | Clarksburg/Damascus Middle School (New) | 52,764,000 | 47,801,683 | 10,116 | 4,952,201 |
| 116510 | Viers Mill Elementary School Addition 2013 | 11,172,865 | 11,154,498 | | 18,367 |
| 116513 | Wyngate Elementary School Addition 2013 | 7,346,823 | 7,221,886 | 13,203 | 111,734 |
| 136500 | Arcola Elementary School Local Funding | 3,841,000 | 3,654,304 | | 186,696 |
| 136502 | Bethesda-Chevy Chase Middle School #2 2017 | 54,114,000 | 54,363,073 | (249,073) | |
| 136504 | North Chevy Chase Elementary School Local Funding | 4,776,000 | 4,725,238 | 34,057 | 16,705 |
| 136505 | Northwest Elementary School #8 (New) 2018 | 2,979,000 | | | 2,979,000 |
| 136507 | Julius West Middle School Addition 2016 | 15,303,000 | 15,255,998 | | 47,002 |
| 136508 | Wood Acres ES Addition - State Funding | 576,000 | 576,000 | | |
| 136510 | Alternative Schools Local | 204,398 | | | 204,398 |
| 546034 | Land Acquisition Local Funding | 1,341,303 | | | 1,341,303 |
| 651503 | North Bethesda MS Addition 2018 | 21,593,000 | 16,882,093 | 2,580,194 | 2,130,713 |
| 651504 | Lucy V Barnsley ES Addition 2018 | 13,224,000 | 10,995,910 | 1,752,366 | 475,724 |
| 651505 | Kensington-Parkwood ES Addition 2018 | 12,679,000 | 9,169,005 | 415,764 | 3,094,231 |
| 651510 | Diamond Elementary School Addition 2018 | 9,147,000 | 7,235,216 | 73,645 | 1,838,139 |
| 651513 | Bethesda-Chevy Chase HS Addition 2018 | 39,647,000 | 30,392,558 | 8,591,038 | 663,404 |
| 651515 | Blair Ewing Center Improvements 2018 | 1,512,000 | | | 1,512,000 |
| 746032 | Design and Construction Management | 1,747,686 | | 19,662 | 1,728,024 |
| 766995 | Roof Replacement | 28,095,575 | 11,344,168 | 6,596,523 | 10,154,884 |
| 796222 | Energy Conservation | 2,566,608 | 700,000 | 588,830 | 1,277,778 |
| 796235 | ADA Compliance Local Funding | 12,471,558 | 4,575,981 | 656,693 | 7,238,884 |
| 816633 | HVAC Replacement | 64,323,670 | 44,682,652 | 9,142,681 | 10,498,337 |
| 816695 | Asbestos Abatement Local Funding | 254,393 | | 22,378 | 232,015 |
| 846540 | Relocatable Classrooms Local Funding | 4,710,892 | | 2,412,339 | 2,298,553 |
| 876544 | Stadium Lighting | 350,872 | | | 350,872 |
| 896586 | Planned Life Cycle Asset Replacement | 8,650,957 | 5,013,815 | 2,036,188 | 1,600,954 |
| 916587 | Rehab/Renovation of Closed Schools | 62,348,122 | 57,400,782 | 4,360,257 | 587,083 |
| 926557 | School Security Systems | 150,453 | | | 150,453 |
| 926575 | Current Replacements/Modernizations | 615,689,365 | 328,596,717 | 149,955,806 | 137,136,842 |
| 956550 | Stormwater Management | 528,692 | 416,507 | | 112,185 |
| 966553 | Facility Planning Local Funding | 1,939,550 | | 138,223 | 1,801,327 |
| 975051 | Improved (Safe) Access to Schools | 6,294,779 | 3,889,454 | 1,412,806 | 992,519 |
| 651641 | Shady Grove Transportation Depot Replacement | 2,425,000 | | | 2,425,000 |
| 096503 | Harmony Hills Elementary School Local Funding | 5,448,741 | 5,307,314 | | 141,427 |
| 096506 | Rock View Elementary School Local Funding | 5,470,000 | 5,007,742 | 40,622 | 421,636 |
| 651502 | S. Christa McAuliffe ES Addition 2019 | 10,913,000 | 1,954,342 | 7,516,935 | 1,441,723 |
| 651507 | Judith Resnick ES Addition 2020 | 871,000 | | | 871,000 |
| 651511 | Burtonsville ES Addition 2020 | 1,172,000 | | | 1,172,000 |
| 651514 | Ashburton ES Addition 2019 | 10,511,000 | 2,407,735 | 5,281,147 | 2,822,118 |
| 651518 | Gaithersburg ES Additon 2020 | 3,900 | | 1,500 | 2,400 |
| 651705 | Thomas W. Pyle MS Addition 2020 | 1,426,000 | 874,305 | 444,690 | 107,005 |
| 651706 | Takoma Park MS Addition 2020 | 1,954,000 | 507,845 | 488,800 | 957,355 |
| 651708 | Pine Crest ES Addition 2020 | 703,000 | | 5,000 | 698,000 |
| 651709 | Montgomery Knolls ES Addition 2020 | 546,000 | 22,437 | 213,930 | 309,633 |
| 651713 | Clarksburg Cluster ES (Village Site #2) 2019 | 34,684,000 | 5,720,704 | 23,965,971 | 4,997,325 |
| 116503 | Bradley Hills ES Addition - State Funding | 4,305,000 | 4,305,000 | | |
| 116508 | Georgian Forest ES Addition - State Funding | 1,197,000 | 1,197,000 | | |
| 116509 | Somerset Elementary School Addition 2011 | 1,516,000 | 1,322,292 | 2,822 | 190,886 |
| 651704 | Walt Whitman High School Addition 2021 | 1,660,000 | 40,557 | | 1,619,443 |
| 651801 | Outdoor Play Maintenance 2018 | 597,468 | | 40,500 | 556,968 |
| | Total Open & Interim Projects | 1,216,348,535 | 745,115,724 | 231,820,745 | 239,412,066 |
| | Capitalized land, equipment, furniture, & items not capitalized | (19,616,065) | (19,616,065) | | |
| | Interim closing of open projects ** | (635,784,182) | (635,784,182) | | |
| | Total construction in progress | \$ 560,948,288 | \$ 89,715,477 | \$ 231,820,745 | \$ 239,412,066 |

* Appropriations for school modernizations are approved by the Montgomery County Council in the aggregate as one project, although the Board separately accounts for each modernization. The school modernization project, in the aggregate, does not exceed the legally appropriated project authorization at June 30, 2018.

** Represents expenditures for projects that are in use but not formally closed out.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2018

| | Budgeted Amounts | | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---|---|--------------|--------------|-------------------|---|
| | Prior Year Carryover Encumbrances | Original | Final | | |
| Revenues: | | | | | |
| Cable TV franchise fees | \$ - | \$ 1,697,504 | \$ 1,697,504 | \$ 1,697,504 | \$ - |
| Total revenues | - | 1,697,504 | 1,697,504 | 1,697,504 | - |
| Expenditures and encumbrances: | | | | | |
| Community services | 212 | 1,697,716 | \$ 1,697,716 | 1,680,588 | 17,128 |
| Total expenditures and encumbrances | 212 | 1,697,716 | 1,697,716 | 1,680,588 | 17,128 |
| Excess of expenditures and encumbrances over revenues | (212) | (212) | (212) | 16,916 | 17,128 |
| Fund balance - beginning | 212 | 212 | 212 | 280,688 | 280,476 |
| Fund balance - ending | \$ - | \$ - | \$ - | \$ 297,604 | \$ 297,604 |
| Reconciliation to GAAP fund balance: 2018 encumbrances outstanding | | | | 30,900 | |
| Fund balance - GAAP basis | | | | \$ 328,504 | |

NONMAJOR ENTERPRISE FUNDS

June 30, 2018

Real Estate Management – Accounts for the rental of surplus space in school buildings for complementary programs such as child care, and for the administration of potential future school sites.

Field Trip – Accounts for the operation of transportation services for student field trips and external organizations.

Entrepreneurial Activities – Provides supplemental funding for the instructional program through the sale of Board expertise, services and products.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 COMBINING STATEMENT OF NET POSITION
 NONMAJOR ENTERPRISE FUNDS
 JUNE 30, 2018

| | Real Estate Management | Field Trip | Entrepreneurial | Total Nonmajor Enterprise Funds |
|--|---------------------------|-------------------|-------------------|--|
| Assets | | | | |
| Current assets: | | | | |
| Equity in pooled cash and investments | \$ 742,817 | \$ 339,212 | \$ - | \$ 1,082,029 |
| Accounts receivable | 293,266 | 144,942 | 803,513 | 1,241,721 |
| Due from other funds | | 57,188 | 585,971 | 643,159 |
| Inventories | | | 3,270 | 3,270 |
| Total current assets | <u>1,036,083</u> | <u>541,342</u> | <u>1,392,754</u> | <u>2,970,179</u> |
| Noncurrent assets: | | | | |
| Capital assets, net of accumulated depreciation: | | | | |
| Machinery and equipment | | | 81,111 | 81,111 |
| Total noncurrent assets | <u>-</u> | <u>-</u> | <u>81,111</u> | <u>81,111</u> |
| Total assets | <u>1,036,083</u> | <u>541,342</u> | <u>1,473,865</u> | <u>3,051,290</u> |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 159,359 | | 828,847 | 988,206 |
| Due to other funds | 5,278 | | 134,791 | 140,069 |
| Unearned revenue | | | 192,250 | 192,250 |
| Capital leases - current | | | 27,024 | 27,024 |
| Total current liabilities | <u>164,637</u> | <u>-</u> | <u>1,182,912</u> | <u>1,347,549</u> |
| Noncurrent liabilities: | | | | |
| Compensated absences | 40,818 | 118,902 | 189,877 | 349,597 |
| Total noncurrent liabilities | <u>40,818</u> | <u>118,902</u> | <u>189,877</u> | <u>349,597</u> |
| Total liabilities | <u>205,455</u> | <u>118,902</u> | <u>1,372,789</u> | <u>1,697,146</u> |
| Net Position | | | | |
| Net investment in capital assets | | | 81,111 | 81,111 |
| Unrestricted | 830,628 | 422,440 | 19,965 | 1,273,033 |
| Total net position | <u>\$ 830,628</u> | <u>\$ 422,440</u> | <u>\$ 101,076</u> | <u>\$ 1,354,144</u> |

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

| | Real Estate Management | Field Trip | Entrepreneurial | Total Nonmajor Enterprise Funds |
|--------------------------------|---------------------------|-------------------|-------------------|--|
| Operating revenues: | | | | |
| Rent and fees | \$ 3,536,111 | \$ 2,148,783 | \$ 8,857,581 | \$ 14,542,475 |
| Total operating revenues | <u>3,536,111</u> | <u>2,148,783</u> | <u>8,857,581</u> | <u>14,542,475</u> |
| Operating expenses: | | | | |
| Salaries and wages | 507,124 | 1,374,595 | 1,130,212 | 3,011,931 |
| Contracted services | 106,727 | 55,322 | 6,943,054 | 7,105,103 |
| Supplies and materials | 43,081 | 587,293 | 362,271 | 992,645 |
| Other charges | 2,703,611 | 179,467 | 293,052 | 3,176,130 |
| Depreciation | | | 37,674 | 37,674 |
| Total operating expenses | <u>3,360,543</u> | <u>2,196,677</u> | <u>8,766,263</u> | <u>14,323,483</u> |
| Operating income (loss) | <u>175,568</u> | <u>(47,894)</u> | <u>91,318</u> | <u>218,992</u> |
| Change in net position | 175,568 | (47,894) | 91,318 | 218,992 |
| Total net position - beginning | 655,060 | 470,334 | 9,758 | 1,135,152 |
| Total net position - ending | <u>\$ 830,628</u> | <u>\$ 422,440</u> | <u>\$ 101,076</u> | <u>\$ 1,354,144</u> |

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

| | Real Estate Management | Field Trip | Entrepreneurial | Total Nonmajor Enterprise Funds |
|---|---------------------------|---------------------|------------------|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers and users | \$ 3,509,356 | \$ 2,046,932 | \$ 8,205,537 | \$ 13,761,825 |
| Payments to suppliers | (141,152) | (642,615) | (6,769,430) | (7,553,197) |
| Payments to employees | (540,753) | (1,466,990) | (1,213,874) | (3,221,617) |
| Payments for assessments made by other funds | (148,979) | (78,922) | (169,802) | (397,703) |
| Payments for other operating expenses | (2,515,313) | - | (25,892) | (2,541,205) |
| Net cash provided (used) by operating activities | <u>163,159</u> | <u>(141,595)</u> | <u>26,539</u> | <u>48,103</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Principal paid on capital leases | - | - | (26,539) | (26,539) |
| Net cash provided (used) by capital and related financing activities | <u>-</u> | <u>-</u> | <u>(26,539)</u> | <u>(26,539)</u> |
| Increase (Decrease) in cash and cash equivalents | 163,159 | (141,595) | - | 21,564 |
| Cash and cash equivalents - beginning | 579,658 | 480,807 | - | 1,060,465 |
| Cash and cash equivalents - ending | <u>\$ 742,817</u> | <u>\$ 339,212</u> | <u>\$ -</u> | <u>\$ 1,082,029</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | \$ 175,568 | \$ (47,894) | \$ 91,318 | \$ 218,992 |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | |
| Depreciation | | | 37,674 | 37,674 |
| Effects of changes in operating assets and liabilities: | | | | |
| Receivables | (26,755) | (101,851) | (422,310) | (550,916) |
| Accounts payable | 3,378 | | 423,399 | 426,777 |
| Due to other funds | 5,278 | | 121,736 | 127,014 |
| Unearned revenue | | | (229,734) | (229,734) |
| Compensated absences | 5,690 | 8,150 | 4,456 | 18,296 |
| Net cash provided (used) by operating activities | <u>\$ 163,159</u> | <u>\$ (141,595)</u> | <u>\$ 26,539</u> | <u>\$ 48,103</u> |

FIDUCIARY FUNDS

June 30, 2018

Pension and Other Employee Benefits Trust Funds:

- Retirement and Pension System – Accounts for the activities of the Retirement and Pension System, which accumulates resources for pension benefit payments to qualified Board employees.
- OPEB Plan Trust – Accounts for activities that accumulate resources for postemployment healthcare benefits for qualified Board retirees.

Agency Funds – Accounts for assets held by elementary and secondary schools for student groups. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 COMBINING STATEMENT OF FIDUCIARY NET POSITION
 PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUNDS
 JUNE 30, 2018

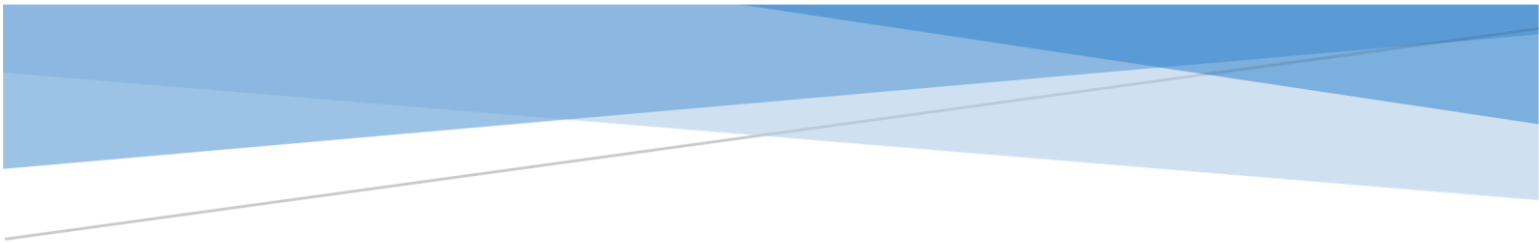
| | Retirement and Pension System | OPEB Plan Trust | Total Pension and Other Employee Benefits Trust Funds |
|--|-------------------------------------|-----------------------|--|
| ASSETS | | | |
| Investments: | | | |
| Global equities | \$ 967,306,424 | \$ - | \$ 967,306,424 |
| Fixed income securities | 409,778,921 | | 409,778,921 |
| Real estate | 97,530,749 | | 97,530,749 |
| Alternative investments | 231,827,167 | | 231,827,167 |
| Short-term investments/CRHBT | 12,393,629 | 430,796,744 | 443,190,373 |
| Total investments | <u>1,718,836,890</u> | <u>430,796,744</u> | <u>2,149,633,634</u> |
| Accounts receivable | | 1,168,371 | 1,168,371 |
| Due from Internal Service Fund | | 26,437,330 | 26,437,330 |
| Due from General Fund | 329,764 | 3,963,022 | 4,292,786 |
| Total assets | <u>1,719,166,654</u> | <u>462,365,467</u> | <u>2,181,532,121</u> |
| LIABILITIES | | | |
| Accounts payable | | 388,298 | 388,298 |
| Claims payable | | 6,322,107 | 6,322,107 |
| Total liabilities | <u>-</u> | <u>6,710,405</u> | <u>6,710,405</u> |
| NET POSITION | | | |
| Restricted for pension and other postemployment benefits | <u>\$ 1,719,166,654</u> | <u>\$ 455,655,062</u> | <u>\$ 2,174,821,716</u> |

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 PENSION AND OTHER EMPLOYEE BENEFITS TRUST FUNDS
 FOR THE YEAR ENDED JUNE 30, 2018

| | Retirement and Pension System | OPEB Plan Trust | Total Pension and Other Employee Benefit Trust Funds |
|---|-------------------------------------|-----------------------|---|
| ADDITIONS | | | |
| Contributions: | | | |
| Employer | \$ 79,863,596 | \$ 90,580,304 | \$ 170,443,900 |
| Members | 24,323,349 | 39,875,875 | 64,199,224 |
| Federal government - Medicare Part D | | 21,197,806 | 21,197,806 |
| Total contributions | <u>104,186,945</u> | <u>151,653,985</u> | <u>255,840,930</u> |
| Investment earnings: | | | |
| Net increase in fair value of investments | 117,868,298 | | 117,868,298 |
| Interest and dividends | 12,969,218 | 31,492,273 | 44,461,491 |
| Total investment income | <u>130,837,516</u> | <u>31,492,273</u> | <u>162,329,789</u> |
| Less investment expense: | | | |
| Investment fees and other | (5,968,892) | | (5,968,892) |
| Total investment expense | <u>(5,968,892)</u> | <u>-</u> | <u>(5,968,892)</u> |
| Net investment earnings | <u>124,868,624</u> | <u>31,492,273</u> | <u>156,360,897</u> |
| Total additions | <u>229,055,569</u> | <u>183,146,258</u> | <u>412,201,827</u> |
| DEDUCTIONS | | | |
| Benefits paid to plan members | 95,135,058 | 94,798,239 | 189,933,297 |
| Premiums paid to insurance companies | | 17,841,256 | 17,841,256 |
| Administrative expenses | 1,209,069 | 207,208 | 1,416,277 |
| Total deductions | <u>96,344,127</u> | <u>112,846,703</u> | <u>209,190,830</u> |
| Change in net position | 132,711,442 | 70,299,555 | 203,010,997 |
| Net position - beginning | <u>1,586,455,212</u> | <u>385,355,507</u> | <u>1,971,810,719</u> |
| Net position - ending | <u>\$ 1,719,166,654</u> | <u>\$ 455,655,062</u> | <u>\$ 2,174,821,716</u> |

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

| | Balance June 30, 2017 | Additions | Deductions | Balance June 30, 2018 |
|-----------------------|--------------------------|----------------------|----------------------|--------------------------|
| Assets | | | | |
| Cash and investments | \$ 15,855,589 | \$ 34,581,133 | \$ 34,680,810 | \$ 15,755,912 |
| Accounts receivable | 2,295,475 | 1,846,798 | 2,295,475 | 1,846,798 |
| Inventories | <u>151,382</u> | <u>163,164</u> | <u>151,382</u> | <u>163,164</u> |
| Total assets | <u>\$ 18,302,446</u> | <u>\$ 36,591,095</u> | <u>\$ 37,127,667</u> | <u>\$ 17,765,874</u> |
| Liabilities | | | | |
| Accounts payable | \$ 1,730,235 | \$ 1,594,706 | \$ 1,730,235 | \$ 1,594,706 |
| Due to student groups | <u>16,572,211</u> | <u>34,996,389</u> | <u>35,397,432</u> | <u>16,171,168</u> |
| Total liabilities | <u>\$ 18,302,446</u> | <u>\$ 36,591,095</u> | <u>\$ 37,127,667</u> | <u>\$ 17,765,874</u> |



STATISTICAL SECTION

Board of Education of Montgomery County
June 30, 2018

STATISTICAL SECTION

Table of Contents

This section of the Board's Comprehensive Annual Financial Report presents detailed information for understanding what the information in the financial statements, note disclosures, and required supplementary information says about Board's overall financial health.

| | Page |
|---|-------------|
| Financial Trends | 113-121 |
| These schedules provide trend information to help the reader understand how the Board's financial performance and well-being have changed over time. | |
| Revenue Capacity | 122-128 |
| Since Board revenues are primarily provided by Montgomery County, these schedules on the county's revenue sources are relevant to an understanding of Montgomery County's most significant local revenue source, the property tax. Montgomery County levies property taxes and the Board has no authority to collect taxes. | |
| Debt Capacity | 129-132 |
| Since Board construction funding is primarily provided by Montgomery County, these schedules of the county's debt capacity assist the reader in assessing the affordability of Montgomery County's current levels of outstanding debt and Montgomery County's ability to issue additional debt in the future. The Board has no authority to issue bonds. The debt is issued by the Montgomery County. | |
| Demographic and Economic Information | 133-134 |
| Details found in these schedules offer demographic and economic indicators to aid the reader in understanding the environment within which the Board's financial activities take place. | |
| Operating Information | 136-139 |
| These schedules contain select operating indicators to help the reader understand how the information in the Board's financial report relates to the services the Board provides and the activities it performs. | |

BOARD OF EDUCATION OF MONTGOMERY COUNTY
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

| | Fiscal Year | | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| Governmental Activities: | | | | | |
| Net Investment in capital assets | \$ 1,901,060,879 | \$ 1,972,419,863 | \$ 2,073,974,398 | \$ 2,234,805,426 | \$ 2,377,418,879 |
| Restricted for Instructional TV, Expendable | | | | | |
| Unrestricted | <u>(202,703,251)</u> | <u>(303,827,808)</u> | <u>(367,057,361)</u> | <u>(446,600,594)</u> | <u>(487,587,959)</u> |
| Total governmental activities net position | <u>\$ 1,698,357,628</u> | <u>\$ 1,668,592,055</u> | <u>\$ 1,706,917,037</u> | <u>\$ 1,788,204,832</u> | <u>\$ 1,889,830,920</u> |
| Business-type activities: | | | | | |
| Net Investment in capital assets | \$ 4,231,936 | \$ 3,951,552 | \$ 3,759,753 | \$ 3,570,524 | \$ 3,105,386 |
| Unrestricted | <u>(6,415,787)</u> | <u>(7,848,406)</u> | <u>(7,483,923)</u> | <u>(6,792,149)</u> | <u>(7,068,728)</u> |
| Total business-type activities net position | <u>\$ (2,183,851)</u> | <u>\$ (3,896,854)</u> | <u>\$ (3,724,170)</u> | <u>\$ (3,221,625)</u> | <u>\$ (3,963,342)</u> |
| Primary government: | | | | | |
| Net Investment in capital assets | \$ 1,905,292,815 | \$ 1,976,371,415 | \$ 2,077,734,151 | \$ 2,238,375,950 | \$ 2,380,524,265 |
| Restricted for Instructional TV, Expendable | | | | | |
| Unrestricted | <u>(209,119,038)</u> | <u>(311,676,214)</u> | <u>(374,541,284)</u> | <u>(453,392,743)</u> | <u>(494,656,687)</u> |
| Total primary government net position | <u>\$ 1,696,173,777</u> | <u>\$ 1,664,695,201</u> | <u>\$ 1,703,192,867</u> | <u>\$ 1,784,983,207</u> | <u>\$ 1,885,867,578</u> |
| <hr/> | | | | | |
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| Governmental Activities: | | | | | |
| Net Investment in capital assets | \$ 2,467,557,443 | \$ 2,545,451,592 | \$ 2,639,420,067 | \$ 2,749,974,181 | \$ 2,884,728,055 |
| Restricted for Instructional TV, Expendable | | | | 280,688 | 328,504 |
| Unrestricted | <u>(574,669,171)</u> | <u>(961,916,071)</u> | <u>(999,244,078)</u> | <u>(1,024,990,225)</u> | <u>(2,824,799,646)</u> |
| Total governmental activities net position | <u>\$ 1,892,888,272</u> | <u>\$ 1,583,535,521</u> | <u>\$ 1,640,175,989</u> | <u>\$ 1,725,264,644</u> | <u>\$ 60,256,913</u> |
| Business-type activities: | | | | | |
| Net Investment in capital assets | \$ 4,936,206 | \$ 5,195,791 | \$ 4,439,974 | \$ 5,476,647 | \$ 6,625,622 |
| Unrestricted | <u>(7,848,538)</u> | <u>(7,337,109)</u> | <u>(5,288,323)</u> | <u>(1,101,387)</u> | <u>12,052,586</u> |
| Total business-type activities net position | <u>\$ (2,912,332)</u> | <u>\$ (2,141,318)</u> | <u>\$ (848,349)</u> | <u>\$ 4,375,260</u> | <u>\$ 18,678,208</u> |
| Primary government: | | | | | |
| Net Investment in capital assets | \$ 2,472,493,649 | \$ 2,550,647,383 | \$ 2,643,860,041 | \$ 2,755,450,828 | \$ 2,891,353,677 |
| Restricted for Instructional TV, Expendable * | | | | 280,688 | 328,504 |
| Unrestricted | <u>(582,517,709)</u> | <u>(969,253,180)</u> | <u>(1,004,532,401)</u> | <u>(1,026,091,612)</u> | <u>(2,812,747,060)</u> |
| Total primary government net position | <u>\$ 1,889,975,940</u> | <u>\$ 1,581,394,203</u> | <u>\$ 1,639,327,640</u> | <u>\$ 1,729,639,904</u> | <u>\$ 78,935,121</u> |

In FY 2015, net position has been restated to conform with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.

In FY 2018, net position has been restated to conform with GASB Statement No. 75, *Accounting and Financial Reporting for OPEB*.

* Beginning in FY 2017, restricted for Instructional TV was reported under restricted net position.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
CHANGE IN NET POSITION
LAST TEN FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

| | Fiscal Year | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2009 | 2010 | 2011 | 2012 |
| Expenses | | | | |
| Governmental activities | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 1,344,807,372 | \$ 1,382,022,729 | \$ 1,395,636,699 | \$ 1,401,069,607 |
| Special education | 357,740,728 | 382,151,880 | 381,185,135 | 392,862,396 |
| School administration | 192,005,481 | 195,915,953 | 198,448,243 | 202,692,468 |
| Student personnel services | 16,709,007 | 16,590,455 | 15,726,065 | 16,251,838 |
| Health services | 31,477 | 40,091 | 17,919 | 17,911 |
| Total instruction | <u>1,911,294,065</u> | <u>1,976,721,108</u> | <u>1,991,014,061</u> | <u>2,012,894,220</u> |
| Support services: | | | | |
| Student transportation | 122,633,059 | 125,139,197 | 126,428,398 | 129,115,379 |
| Operation of plant | 145,189,882 | 153,349,143 | 149,740,270 | 147,289,980 |
| Maintenance of plant | 57,587,517 | 59,180,621 | 60,799,687 | 64,129,559 |
| Administration | 63,094,864 | 60,891,077 | 58,701,766 | 57,291,531 |
| Community services | 2,168,062 | 2,291,223 | 2,129,034 | 2,090,179 |
| Interest on capital leases | 2,040,350 | 1,750,321 | 1,197,169 | 897,345 |
| Total support services | <u>392,713,734</u> | <u>402,601,582</u> | <u>398,996,324</u> | <u>400,813,973</u> |
| Total government activities expenses | <u>2,304,007,799</u> | <u>2,379,322,690</u> | <u>2,390,010,385</u> | <u>2,413,708,193</u> |
| Business-type activities | | | | |
| Food services | 46,457,265 | 45,687,584 | 48,218,118 | 49,720,564 |
| Real estate management | 2,489,426 | 2,591,862 | 3,055,284 | 3,220,047 |
| Field trips | 1,772,511 | 1,697,423 | 1,751,109 | 1,770,547 |
| Entrepreneurial activities | 1,444,433 | 2,001,442 | 2,031,272 | 1,983,788 |
| Total business-type activities expenses | <u>52,163,635</u> | <u>51,978,311</u> | <u>55,055,783</u> | <u>56,694,946</u> |
| Total primary government expenses | <u>\$ 2,356,171,434</u> | <u>\$ 2,431,301,001</u> | <u>\$ 2,445,066,168</u> | <u>\$ 2,470,403,139</u> |
| Program Revenues | | | | |
| Governmental activities | | | | |
| Charges for services | \$ 5,033,518 | \$ 4,616,997 | \$ 4,111,198 | \$ 3,820,871 |
| Operating grants and contributions | 77,829,710 | 126,099,052 | 112,581,279 | 83,474,771 |
| Capital grants and contributions | 48,858,868 | 44,257,276 | 54,258,286 | 59,387,969 |
| Total governmental activities program revenues | <u>131,722,096</u> | <u>174,973,325</u> | <u>170,950,763</u> | <u>146,683,611</u> |
| Business-type activities | | | | |
| Charges for services: | | | | |
| Food services | 22,191,730 | 18,621,337 | 18,577,749 | 19,252,693 |
| Real estate management | 2,397,720 | 2,667,604 | 2,812,240 | 2,892,122 |
| Field trips | 1,578,741 | 1,543,871 | 1,671,121 | 1,778,378 |
| Entrepreneurial activities | 1,872,573 | 1,849,158 | 3,633,389 | 2,186,618 |
| Operating grants and contributions | 21,564,749 | 24,871,047 | 27,800,835 | 30,590,480 |
| Capital grants and contributions | 405,452 | 641,790 | 696,950 | 464,308 |
| Total business-type activities program revenues | <u>50,010,965</u> | <u>50,194,807</u> | <u>55,192,284</u> | <u>57,164,599</u> |
| Total primary government program revenues | <u>\$ 181,733,061</u> | <u>\$ 225,168,132</u> | <u>\$ 226,143,047</u> | <u>\$ 203,848,210</u> |
| Net (expense)/revenue | | | | |
| Governmental activities | (2,172,285,703) | (2,204,349,365) | (2,219,059,622) | (2,267,024,582) |
| Business-type activities | (2,152,670) | (1,783,504) | 136,501 | 469,653 |
| | <u>(2,174,438,373)</u> | <u>(2,206,132,869)</u> | <u>(2,218,923,121)</u> | <u>(2,266,554,929)</u> |
| General Revenues and Other Changes in Net Position | | | | |
| Governmental activities: | | | | |
| Intergovernmental: | | | | |
| Montgomery County | \$ 1,656,384,034 | \$ 1,550,665,251 | \$ 1,553,166,556 | \$ 1,581,675,500 |
| State of Maryland | 597,009,068 | 616,478,426 | 668,581,752 | 761,695,928 |
| Federal government | 2,728,591 | 6,454,228 | 35,268,390 | 4,414,871 |
| Other income | 684,245 | 985,888 | 367,906 | 526,078 |
| Transfers | 4,501 | - | - | - |
| Total government activities | <u>2,256,810,439</u> | <u>2,174,583,793</u> | <u>2,257,384,604</u> | <u>2,348,312,377</u> |
| Business-type activities | | | | |
| Other income | 161,500 | 70,501 | 36,183 | 32,892 |
| Transfers | (4,501) | - | - | - |
| Total business-type activities | <u>156,999</u> | <u>70,501</u> | <u>36,183</u> | <u>32,892</u> |
| Total primary government | <u>\$ 2,256,967,438</u> | <u>\$ 2,174,654,294</u> | <u>\$ 2,257,420,787</u> | <u>\$ 2,348,345,269</u> |
| Change in Net Position | | | | |
| Governmental activities | \$ 84,524,736 | \$ (29,765,572) | \$ 38,324,982 | \$ 81,287,795 |
| Business-type activities | (1,995,671) | (1,713,003) | 172,684 | 502,545 |
| Total primary government | <u>\$ 82,529,065</u> | <u>\$ (31,478,575)</u> | <u>\$ 38,497,666</u> | <u>\$ 81,790,340</u> |

In fiscal year 2015, net position has been restated to conform with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*.
In fiscal year 2018, net position has been restated to conform with GASB Statement No. 75, *Accounting and Financial Reporting for OPEB*.

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| \$ | 1,425,776,788 | \$ 1,510,082,837 | \$ 1,507,192,601 | \$ 1,509,093,578 | \$ 1,633,033,361 | \$ 1,616,010,500 |
| | 398,480,390 | 436,204,642 | 433,278,196 | 456,783,996 | 468,463,510 | 472,508,294 |
| | 204,795,867 | 210,172,216 | 203,472,513 | 207,845,076 | 217,940,076 | 212,525,992 |
| | 15,992,374 | 16,496,795 | 16,623,187 | 17,050,375 | 17,126,556 | 16,988,187 |
| | 20,074 | 17,336 | 1,594 | 836 | 1,577 | 1,411 |
| | <u>2,045,065,493</u> | <u>2,172,973,826</u> | <u>2,160,568,091</u> | <u>2,190,773,861</u> | <u>2,336,565,080</u> | <u>2,318,034,384</u> |
| | 129,890,569 | 136,415,463 | 134,999,834 | 138,795,597 | 140,687,102 | 140,237,799 |
| | 150,099,667 | 158,947,644 | 169,601,304 | 169,976,798 | 170,791,707 | 172,434,134 |
| | 69,624,065 | 76,505,617 | 69,525,061 | 69,797,436 | 71,483,269 | 74,579,051 |
| | 58,481,042 | 59,544,537 | 64,351,553 | 60,021,749 | 64,961,620 | 68,058,928 |
| | 2,548,923 | 3,103,601 | 3,168,196 | 3,095,853 | 3,200,420 | 3,220,575 |
| | 801,273 | 745,756 | 784,439 | 1,086,674 | 1,028,146 | 1,183,963 |
| | <u>411,445,539</u> | <u>435,262,618</u> | <u>442,430,387</u> | <u>442,774,107</u> | <u>452,152,264</u> | <u>459,714,450</u> |
| | <u>2,456,511,032</u> | <u>2,608,236,444</u> | <u>2,602,998,478</u> | <u>2,633,547,968</u> | <u>2,788,717,344</u> | <u>2,777,748,834</u> |
| | 51,249,507 | 52,926,067 | 54,353,613 | 56,469,606 | 58,125,752 | 57,733,700 |
| | 3,039,558 | 2,845,571 | 3,385,485 | 3,251,364 | 3,226,308 | 3,360,543 |
| | 1,664,949 | 1,803,944 | 1,895,960 | 1,991,456 | 2,006,344 | 2,196,677 |
| | 2,604,177 | 2,356,182 | 2,466,024 | 2,504,873 | 3,875,067 | 8,766,263 |
| | <u>58,558,191</u> | <u>59,931,764</u> | <u>62,101,082</u> | <u>64,217,299</u> | <u>67,233,471</u> | <u>72,057,183</u> |
| \$ | <u>2,515,069,223</u> | <u>2,668,168,208</u> | <u>2,665,099,560</u> | <u>2,697,765,267</u> | <u>2,855,950,815</u> | <u>2,849,806,017</u> |
| \$ | 3,871,684 | \$ 3,848,232 | \$ 3,804,324 | \$ 4,001,803 | \$ 4,146,827 | \$ 3,358,232 |
| | 77,994,243 | 79,196,930 | 80,147,449 | 78,289,593 | 76,400,678 | 84,092,926 |
| | 67,644,476 | 59,687,504 | 78,396,597 | 54,561,101 | 72,592,518 | 70,241,200 |
| | <u>149,510,403</u> | <u>142,732,666</u> | <u>162,348,370</u> | <u>136,852,497</u> | <u>153,140,023</u> | <u>157,692,358</u> |
| | 17,907,925 | 16,631,652 | 16,303,287 | 16,119,711 | 17,148,111 | 17,476,818 |
| | 3,026,997 | 2,744,862 | 3,277,410 | 3,536,447 | 3,194,139 | 3,536,111 |
| | 1,735,962 | 1,786,478 | 2,003,127 | 2,184,988 | 2,053,978 | 2,148,783 |
| | 2,235,250 | 1,974,638 | 2,205,227 | 2,226,617 | 4,040,576 | 8,857,581 |
| | 32,844,833 | 35,934,919 | 38,684,559 | 41,326,131 | 44,102,198 | 44,052,643 |
| | 30,898 | 1,877,408 | 381,764 | 104,574 | 1,909,310 | 1,509,107 |
| | <u>57,781,865</u> | <u>60,949,957</u> | <u>62,855,374</u> | <u>65,498,468</u> | <u>72,448,312</u> | <u>77,581,043</u> |
| \$ | <u>207,292,268</u> | <u>203,682,623</u> | <u>225,203,744</u> | <u>202,350,965</u> | <u>225,588,335</u> | <u>235,273,401</u> |
| | (2,307,000,629) | (2,465,503,778) | (2,440,650,108) | (2,496,695,471) | (2,635,577,321) | (2,620,056,476) |
| | (776,326) | 1,018,193 | 754,292 | 1,281,169 | 5,214,841 | 5,523,860 |
| | <u>(2,307,776,955)</u> | <u>(2,464,485,585)</u> | <u>(2,439,895,816)</u> | <u>(2,495,414,302)</u> | <u>(2,630,362,480)</u> | <u>(2,614,532,616)</u> |
| \$ | 1,633,828,866 | \$ 1,672,780,820 | \$ 1,672,029,373 | \$ 1,699,998,943 | \$ 1,829,282,694 | \$ 1,873,380,768 |
| | 771,174,249 | 792,450,552 | 810,716,731 | 829,182,141 | 871,366,816 | 892,225,277 |
| | 2,758,250 | 1,930,243 | 7,387,393 | 15,914,171 | 19,672,201 | 21,302,600 |
| | 865,352 | 1,399,515 | 460,704 | 8,240,684 | 344,265 | 14,687,987 |
| | <u>2,408,626,717</u> | <u>2,468,561,130</u> | <u>2,490,594,201</u> | <u>2,553,335,939</u> | <u>2,720,665,976</u> | <u>2,801,596,632</u> |
| | 34,609 | 32,817 | 16,722 | 11,800 | 8,768 | 9,358 |
| | <u>34,609</u> | <u>32,817</u> | <u>16,722</u> | <u>11,800</u> | <u>8,768</u> | <u>9,358</u> |
| \$ | <u>2,408,661,326</u> | <u>2,468,593,947</u> | <u>2,490,610,923</u> | <u>2,553,347,739</u> | <u>2,720,674,744</u> | <u>2,801,605,990</u> |
| \$ | 101,626,088 | \$ 3,057,352 | \$ 49,944,093 | \$ 56,640,468 | \$ 85,088,655 | \$ 181,540,156 |
| | (741,717) | 1,051,010 | 771,014 | 1,292,969 | 5,223,609 | 5,533,218 |
| \$ | <u>100,884,371</u> | <u>4,108,362</u> | <u>50,715,107</u> | <u>57,933,437</u> | <u>90,312,264</u> | <u>187,073,374</u> |



Student: Martina Montero Alonso, 5th Grade
School: Bradley Hills Elementary School

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (MODIFIED ACCRUAL BASIS OF ACCOUNTING)

| | Fiscal Year | | | | |
|--------------------------------------|------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2009 | 2010 | 2011 | 2012 | 2013 |
| General Fund: | | | | | |
| Nonspendable | \$ 6,289,918 | \$ 7,221,461 | \$ 6,567,714 | \$ 7,310,053 | \$ 7,745,654 |
| Assigned | 6,183,758 | 6,104,012 | 6,370,994 | 7,069,165 | 5,478,166 |
| Unassigned | 44,346,530 | 206,026 | 16,999,947 | 28,660,135 | 36,068,895 |
| Total general fund | <u>\$ 56,820,206</u> | <u>\$ 13,531,499</u> | <u>\$ 29,938,655</u> | <u>\$ 43,039,353</u> | <u>\$ 49,292,715</u> |
| All other governmental funds: | | | | | |
| Restricted - Special revenue fund | \$ 245,077 | \$ 265,873 | \$ 279,707 | \$ 287,268 | \$ 365,128 |
| Committed - Capital projects fund | (13,858,371) | - | - | - | - |
| Total all other governmental funds | <u>\$ (13,613,294)</u> | <u>\$ 265,873</u> | <u>\$ 279,707</u> | <u>\$ 287,268</u> | <u>\$ 365,128</u> |
| <hr/> | | | | | |
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| General Fund: | | | | | |
| Nonspendable | \$ 7,952,232 | \$ 7,456,908 | \$ 7,781,042 | \$ 7,850,918 | \$ 8,264,483 |
| Assigned | 2,510,534 | 2,758,823 | 3,615,674 | 8,262,452 | 14,765,257 |
| Unassigned | 25,709,467 | 24,048,758 | 21,926,344 | 12,217,790 | 17,068,844 |
| Total general fund | <u>\$ 36,172,233</u> | <u>\$ 34,264,489</u> | <u>\$ 33,323,060</u> | <u>\$ 28,331,160</u> | <u>\$ 40,098,584</u> |
| All other governmental funds: | | | | | |
| Restricted - Special revenue fund | \$ 304,595 | \$ 265,417 | \$ 265,286 | \$ 280,688 | \$ 328,504 |
| Committed - Capital projects fund | - | - | - | - | - |
| Total all other governmental funds | <u>\$ 304,595</u> | <u>\$ 265,417</u> | <u>\$ 265,286</u> | <u>\$ 280,688</u> | <u>\$ 328,504</u> |

Information for fiscal years 2009 to 2010 have been restated to conform to the new fund balance classifications established by GASB Statement No. 54 *Fund Balance Reporting and Government type Definitions*.

BOARD OF EDUCATION OF MONTGOMERY COUNTY
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)

| | 2009 | 2010 | 2011 | 2012 |
|---|----------------------|------------------------|----------------------|----------------------|
| Revenues | | | | |
| Intergovernmental: | | | | |
| Montgomery County | \$ 1,704,483,481 | \$ 1,593,469,961 | \$ 1,598,298,058 | \$ 1,634,325,263 |
| State of Maryland | 602,257,843 | 619,385,100 | 672,165,098 | 765,912,232 |
| Federal Government | 73,709,427 | 127,230,073 | 146,479,166 | 88,309,979 |
| Other | 8,081,214 | 8,107,202 | 6,936,945 | 6,448,515 |
| Total Revenue | <u>2,388,531,965</u> | <u>2,348,192,336</u> | <u>2,423,879,267</u> | <u>2,494,995,989</u> |
| Expenditures | | | | |
| Current: | | | | |
| Administration | \$ 41,116,832 | \$ 39,543,392 | \$ 36,954,635 | \$ 35,931,627 |
| Mid-level administration | 133,558,653 | 133,865,561 | 135,139,216 | 132,955,672 |
| Instructional salaries and wages | 835,121,087 | 851,338,027 | 824,315,364 | 806,181,103 |
| Instructional textbooks and supplies | 27,836,308 | 26,674,306 | 21,939,573 | 24,407,914 |
| Other instructional costs | 13,416,424 | 11,456,405 | 11,571,972 | 13,588,680 |
| Special education | 259,846,857 | 273,368,914 | 271,395,047 | 270,775,788 |
| Student personnel services | 11,544,552 | 11,289,494 | 10,680,737 | 10,649,399 |
| Health services | 31,125 | 38,695 | 16,267 | 16,908 |
| Student transportation | 87,139,938 | 87,252,913 | 94,135,828 | 95,559,434 |
| Operation of plant | 113,847,318 | 115,639,206 | 113,952,839 | 111,067,453 |
| Maintenance of plant | 34,797,983 | 34,612,073 | 33,013,662 | 31,575,617 |
| Fixed charges | 557,052,644 | 596,364,990 | 636,600,510 | 666,817,831 |
| Community services | 1,662,113 | 1,756,954 | 1,608,047 | 1,519,629 |
| Debt service: | | | | |
| Capital lease principal | 24,465,455 | 20,178,442 | 19,024,733 | 18,844,888 |
| Capital lease interest | 2,040,350 | 1,750,321 | 1,197,169 | 897,345 |
| Capital outlay | 239,036,321 | 178,597,204 | 213,558,453 | 286,212,343 |
| Total expenditures | <u>2,382,513,960</u> | <u>2,383,726,897</u> | <u>2,425,104,052</u> | <u>2,507,001,631</u> |
| Excess (deficiency) of Revenues over expenditures | 6,018,005 | (35,534,561) | (1,224,785) | (12,005,642) |
| Other financing sources | | | | |
| Capital lease financing | \$ 21,883,195 | \$ 6,125,021 | \$ 17,645,775 | \$ 25,113,901 |
| Technology loans from Montgomery County | | | | |
| Transfers in | 4,501 | 0 | | |
| Transfers out | | | | |
| Total other financing sources | <u>21,887,696</u> | <u>6,125,021</u> | <u>17,645,775</u> | <u>25,113,901</u> |
| Net change in fund balances | <u>\$ 27,905,701</u> | <u>\$ (29,409,540)</u> | <u>\$ 16,420,990</u> | <u>\$ 13,108,259</u> |
| Debt service as a percentage of noncapital expenditures | 1.3% | 1.0% | 0.9% | 0.9% |

| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| \$ 1,697,311,813 | \$ 1,722,421,710 | \$ 1,746,734,700 | \$ 1,751,827,765 | \$ 1,899,983,488 | \$ 1,942,980,004 |
| 776,187,259 | 802,146,773 | 818,487,290 | 832,480,205 | 873,853,069 | 896,240,261 |
| 77,668,057 | 79,111,667 | 81,162,630 | 91,387,696 | 93,191,282 | 99,806,421 |
| 6,501,793 | 7,613,644 | 6,557,953 | 7,979,169 | 6,778,158 | 6,877,603 |
| <u>2,557,668,922</u> | <u>2,611,293,794</u> | <u>2,652,942,573</u> | <u>2,683,674,835</u> | <u>2,873,805,997</u> | <u>2,945,904,289</u> |
| | | | | | |
| \$ 38,361,432 | \$ 37,180,315 | \$ 43,121,059 | \$ 38,137,108 | \$ 43,005,135 | \$ 46,373,276 |
| 135,537,267 | 136,161,260 | 136,742,143 | 138,754,954 | 145,298,770 | 146,059,390 |
| 831,267,986 | 862,096,690 | 887,923,350 | 903,658,977 | 957,765,591 | 978,816,045 |
| 24,850,483 | 23,239,502 | 23,110,188 | 20,622,147 | 26,389,897 | 23,469,595 |
| 13,409,988 | 13,676,632 | 10,131,255 | 9,246,817 | 11,324,064 | 13,457,116 |
| 275,623,730 | 291,929,538 | 298,528,876 | 313,795,044 | 321,502,025 | 333,569,547 |
| 10,572,269 | 10,682,855 | 11,185,874 | 11,392,324 | 11,396,245 | 11,683,385 |
| 18,994 | 16,388 | 1,594 | 836 | 1,577 | 1,411 |
| 95,911,020 | 101,036,031 | 102,233,482 | 103,885,365 | 105,176,130 | 106,938,152 |
| 112,560,889 | 118,604,859 | 127,576,145 | 126,557,151 | 130,631,994 | 135,115,367 |
| 33,286,341 | 33,947,985 | 31,557,851 | 35,772,435 | 34,661,021 | 36,696,411 |
| 705,727,831 | 758,138,841 | 759,060,741 | 750,150,331 | 819,971,483 | 813,415,347 |
| 1,888,449 | 2,281,607 | 2,436,418 | 2,291,995 | 2,358,835 | 2,478,259 |
| | | | | | |
| 19,394,211 | 21,691,477 | 28,238,622 | 28,223,640 | 30,098,676 | 30,934,266 |
| 801,273 | 745,756 | 784,439 | 1,086,674 | 1,028,145 | 1,183,963 |
| 280,935,624 | 237,654,916 | 234,711,185 | 223,192,574 | 269,116,996 | 285,128,443 |
| <u>2,580,147,787</u> | <u>2,649,084,652</u> | <u>2,697,343,222</u> | <u>2,706,768,372</u> | <u>2,909,726,584</u> | <u>2,965,319,973</u> |
| | | | | | |
| (22,478,865) | (37,790,858) | (44,400,649) | (23,093,537) | (35,920,587) | (19,415,684) |
| | | | | | |
| \$ 28,810,087 | \$ 24,609,843 | \$ 42,453,727 | \$ 22,151,977 | \$ 30,944,089 | \$ 31,230,924 |
| | | | | | |
| <u>28,810,087</u> | <u>24,609,843</u> | <u>42,453,727</u> | <u>22,151,977</u> | <u>30,944,089</u> | <u>31,230,924</u> |
| | | | | | |
| \$ 6,331,222 | \$ (13,181,015) | \$ (1,946,922) | \$ (941,560) | \$ (4,976,498) | \$ 11,815,240 |
| | | | | | |
| 0.9% | 0.9% | 1.2% | 1.2% | 1.2% | 1.2% |

BOARD OF EDUCATION OF MONTGOMERY COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN POSITION
MONTGOMERY COUNTY AND BOARD OF EDUCATION SELF-INSURANCE FUND
YEAR ENDED JUNE 30, 2017*

| | |
|---|---------------------|
| Operating Revenues: | |
| Contributions by other agencies | \$ 44,750,707 |
| Contributions by the Board of Education | <u>17,265,233</u> |
| Total operating revenue | <u>62,015,940</u> |
| Operating Expenses: | |
| Self-insurance losses, net of recoveries | 54,748,312 |
| Other costs at risk | 6,415,829 |
| Commercial insurance | 4,587,703 |
| Other operating expenses | <u>4,497,637</u> |
| Total operating expenses | <u>70,249,481</u> |
| Operating Gain (Loss) | <u>(8,233,541)</u> |
| Nonoperating Revenues: | |
| Interest on investments | 1,023,332 |
| Other revenue | <u>574,405</u> |
| Total nonoperating revenues | <u>1,597,737</u> |
| Transfers In/Out: | |
| Transfers In/Out | <u>(4,312)</u> |
| Total transfers In/Out | <u>(4,312)</u> |
| Change in net position | <u>(6,640,116)</u> |
| Total net position - beginning of year, as restated | <u>12,672,017</u> |
| Total net position (deficit) - end of year | <u>\$ 6,031,901</u> |

* Date of the most current available information.

Source: Montgomery County FY 2017 CAFR

BOARD OF EDUCATION OF MONTGOMERY COUNTY
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

| Fiscal Year | Governmental Activities Capital Leases | Business-Type Activities Capital Leases | Total Primary Government | Percentage of Personal Income (1) | Per Capita (1) |
|----------------|--|---|--------------------------------|---|-------------------|
| 2009 | 46,838,246 | 151,621 | 46,989,867 | 0.07% | 49 |
| 2010 | 32,784,825 | 287,343 | 33,072,168 | 0.05% | 34 |
| 2011 | 31,405,867 | 504,223 | 31,910,090 | 0.04% | 32 |
| 2012 | 37,674,880 | 596,314 | 38,271,194 | 0.05% | 38 |
| 2013 | 47,090,756 | 713,086 | 47,803,842 | 0.06% | 47 |
| 2014 | 50,009,122 | 792,703 | 50,801,825 | 0.06% | 49 |
| 2015 | 64,224,227 | 973,638 | 65,197,865 | 0.08% | 63 |
| 2016 | 58,152,564 | 655,347 | 58,807,911 | 0.07% | 56 |
| 2017 | 58,997,977 | 651,328 | 59,649,305 | 0.07% | 57 |
| 2018 | 59,294,633 | 386,164 | 59,680,797 | 0.07% | 56 |

Notes:

Details regarding the Board's outstanding debt can be found in notes VIII and IX to the financial statements.

(1) Personal income and population used in calculations are found in the Montgomery County FY 2018 CAFR Demographic Statistics - Last Ten Fiscal Years (Table 23).

MONTGOMERY COUNTY, MARYLAND
REVENUE CAPACITY
PROPERTY TAX LEVIES AND COLLECTIONS *
LAST TEN FISCAL YEARS

| Fiscal Year | Tax Levy | | | Collected within the Fiscal Year of the Levy | | Collections in Subsequent Years (1) | Total Collections to Date | |
|-------------|-------------------------------------|---------------------------------|---------------------|--|-----------------------------|-------------------------------------|---------------------------|-----------------------------|
| | Total Original Levy for Fiscal Year | Adjustments in Subsequent Years | Total Adjusted Levy | Amount (1) | Percentage of Original Levy | | Amount | Percentage of Adjusted Levy |
| 2009 | \$ 1,282,437,423 | \$ 1,261,219 | \$ 1,283,698,642 | \$ 1,278,337,019 | 99.68 % | \$ 679,247 | \$ 1,279,016,266 | 99.64 % |
| 2010 | 1,344,626,102 | (5,599,313) | \$ 1,339,026,789 | 1,343,140,289 | 99.89 | (17,225,928) | 1,325,914,361 | 99.02 |
| 2011 | 1,350,416,973 | (2,565,756) | \$ 1,347,851,217 | 1,349,698,631 | 99.95 | (4,130,169) | 1,345,568,462 | 99.83 |
| 2012 | 1,365,605,932 | (241,681) | \$ 1,365,364,251 | 1,363,217,734 | 99.83 | 752,806 | 1,363,970,540 | 99.90 |
| 2013 | 1,390,542,228 | (1,449,573) | \$ 1,389,092,655 | 1,384,563,178 | 99.57 | 769,815 | 1,385,332,993 | 99.73 |
| 2014 | 1,437,898,506 | (864,437) | \$ 1,437,034,069 | 1,434,787,650 | 99.78 | (1,786,985) | 1,433,000,665 | 99.72 |
| 2015 | 1,447,816,313 | 1,534,855 | \$ 1,449,351,168 | 1,442,602,468 | 99.64 | 2,337,816 | 1,444,940,284 | 99.70 |
| 2016 | 1,521,343,303 | (3,758,344) | \$ 1,517,584,959 | 1,518,519,304 | 99.81 | (8,136,221) | 1,510,383,083 | 99.53 |
| 2017 | 1,663,208,936 | (966,214) | \$ 1,662,242,722 | 1,661,121,521 | 99.87 | (1,273,461) | 1,659,848,060 | 99.86 |
| 2018 | 1,679,004,512 | - | \$ 1,679,004,512 | 1,678,245,742 | 99.95 | - | 1,678,245,742 | 99.95 |

NOTES:

* This table includes data for all property taxes billed applicable to all funds for Montgomery County, Maryland to include General, Special Revenue, Debt Service, and Enterprise Funds. Property taxes billed for the State of Maryland, various municipalities and development districts, the Washington Suburban Sanitary Commission, and the Maryland-National Capital Park and Planning Commission, are excluded.

(1) Amounts represent collections received, including overpayments, net of refunds. Penalties and interest are excluded. See Montgomery County FY 2018 Table 12, Note (2) for treatment of such overpayments.

Table Reference Source: Montgomery County FY 2018 Table 11

MONTGOMERY COUNTY, MARYLAND
REVENUE CAPACITY
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

| Fiscal Year | Real Property | | | | | | Total Direct Tax Rate (3) |
|-------------|-----------------|------------------------|------------------|------------------------|-----------------|------------------------|---------------------------|
| | Residential (1) | | Commercial/Other | | Total | | |
| | Assessed Value | Estimated Market Value | Assessed Value | Estimated Market Value | Assessed Value | Estimated Market Value | |
| 2009 | 123,318,552,451 | 127,923,809,596 | 34,814,939,022 | 36,115,081,973 | 158,133,491,473 | 164,038,891,569 | 0.902 |
| 2010 | 131,149,193,561 | 137,472,949,225 | 35,947,649,976 | 37,680,974,818 | 167,096,843,537 | 175,153,924,043 | 0.904 |
| 2011 | 131,778,908,275 | 149,071,163,208 | 36,011,884,254 | 40,737,425,626 | 167,790,792,529 | 189,808,588,834 | 0.904 |
| 2012 | 129,513,818,139 | 139,412,075,499 | 32,683,331,619 | 35,181,196,575 | 162,197,149,758 | 174,593,272,074 | 0.947 |
| 2013 | 124,783,384,563 | 134,320,112,554 | 33,489,446,285 | 36,048,919,575 | 158,272,830,848 | 170,369,032,129 | 0.990 |
| 2014 | 125,035,897,087 | 135,320,234,942 | 34,855,968,247 | 37,722,909,358 | 159,891,865,334 | 173,043,144,300 | 1.008 |
| 2015 | 127,929,975,330 | 132,432,686,677 | 35,726,782,876 | 36,984,247,284 | 163,656,758,206 | 169,416,933,961 | 0.995 |
| 2016 | 130,228,674,548 | 139,133,199,303 | 39,947,771,504 | 42,679,243,060 | 170,176,446,052 | 181,812,442,363 | 0.986 |
| 2017 | 136,227,683,441 | 146,324,042,364 | 41,267,669,577 | 44,326,175,700 | 177,495,353,018 | 190,650,218,064 | 1.025 |
| 2018 | 141,123,298,797 | 149,442,250,755 | 42,870,571,864 | 45,397,711,116 | 183,993,870,661 | 194,839,961,871 | 0.999 |

| Fiscal Year | Personal Property (2) | | | | | Real and Personal Property Total | | Ratio of Total Assessed to Total Estimated Actual Value | |
|-------------|-----------------------|---------------|--------------------|-----------------|---------------|----------------------------------|------------------------|---|---------------------|
| | Business | | Public Utility | | Total | Assessed Value | Estimated Actual Value | | |
| | Individuals | Corporations | Operating Property | Domestic Shares | | | | | Direct Tax Rate (3) |
| 2009 | 31,767,940 | 2,328,560,300 | 1,077,766,490 | 482,076,290 | 3,920,171,020 | 2.241 | 162,053,662,493 | 167,959,062,589 | 96.48 |
| 2010 | 30,405,750 | 2,494,866,410 | 1,099,074,782 | 499,649,670 | 4,123,996,612 | 2.247 | 171,220,840,149 | 179,277,920,655 | 95.51 |
| 2011 | 44,693,880 | 2,295,053,040 | 1,075,595,252 | 440,849,780 | 3,856,191,952 | 2.247 | 171,646,984,481 | 193,664,780,786 | 88.63 |
| 2012 | 44,967,690 | 2,206,151,910 | 1,063,567,900 | 404,258,210 | 3,718,945,710 | 2.357 | 165,916,095,468 | 178,312,217,784 | 93.05 |
| 2013 | 46,638,380 | 2,092,070,220 | 1,081,466,940 | 384,303,210 | 3,604,478,750 | 2.463 | 161,877,309,598 | 173,973,510,879 | 93.05 |
| 2014 | 42,416,630 | 2,172,248,760 | 1,120,973,968 | 373,688,150 | 3,709,327,508 | 2.509 | 163,601,192,842 | 176,752,471,808 | 92.56 |
| 2015 | 42,008,150 | 2,075,584,320 | 1,181,901,740 | 355,639,000 | 3,655,133,210 | 2.473 | 167,311,891,416 | 173,072,067,171 | 96.67 |
| 2016 | 47,898,060 | 2,234,518,270 | 1,258,731,007 | 343,201,680 | 3,884,349,017 | 2.450 | 174,060,795,069 | 185,696,791,380 | 93.73 |
| 2017 | 58,246,910 | 2,294,129,160 | 1,353,826,658 | 345,169,740 | 4,051,372,468 | 2.547 | 181,546,725,486 | 194,701,590,532 | 93.24 |
| 2018 | 59,939,710 | 2,365,219,600 | 1,415,902,926 | 347,503,030 | 4,188,565,266 | 2.487 | 188,182,435,927 | 199,028,527,137 | 94.55 |

NOTES:

- * Exempt and nontaxable property are not included in this table.
 - * The following classes of property are not taxed: 1) personal property not used in a trade, business, or profession, and 2) business inventories.
 - * Intangible personal property is exempt from taxation except in two instances: shares of stock in certain domestic utilities and oil pipeline corporations (shown above), and intangible personal property of corporations under a contract with the State, granted charter exemptions from property taxation.
 - * Property owned by the Federal government, the State, or a subdivision or agency of either, is exempt. Also exempt are real and personal property used for religious, educational, or charitable purposes. Specific exemptions involve historical property, societies and museums, conservation property, cemeteries, certain fraternal and service organizations, continuing care facilities for the aged, nonprofit housing property, and dwelling houses of disabled veterans and blind persons.
 - * Ratio for real property in FY 2014, FY 2015, FY 2016, and FY 2017 updated by the State Department of Assessments and Taxation
 - * Ratio for real property for FY 2018 not available used average of ratios FY 2015-FY 2017.
 - (1) Residential real property includes single-family homes, townhouses, and condominiums but excludes apartment dwellings which are included under the Commercial/Other category.
 - (2) For personal property, the assessed value and estimated actual value are the same.
 - (3) See Table 9-a for real and personal property direct tax rates.
- Source: State of Maryland, Department of Assessments and Taxation.

Table Reference Source: Montgomery County FY 2018 Table 8

MONTGOMERY COUNTY, MARYLAND
REVENUE CAPACITY
REAL AND PERSONAL PROPERTY TAX RATES - COUNTY DIRECT RATE
LAST TEN FISCAL YEARS

| | County-wide | | | | | Substantially County-wide (1) | | | | Prorata Tax Rate | Total County Direct Rate (3) |
|---------------------------|-------------|----------|-------------|---------------------|--------------------------------|-------------------------------|------------|-------------------|----------------------|------------------------|---------------------------------------|
| | County | | M-NCPPC (2) | | | County | | M-NCPPC (2) | | | |
| | County | District | Fire Tax | Transit District | Advance Land Acquisition | Subtotal | Recreation | Storm Drainage | Regional District | | |
| Real Property: | | | | | | | | | | | |
| 2009 | \$.6610 | \$.1160 | \$.0400 | \$.0010 | \$.8180 | \$.0220 | \$.0030 | \$.0190 | \$.0530 | \$.0840 | \$.9020 |
| 2010 | .6830 | .1050 | .0370 | .0010 | .8260 | .0190 | .0030 | .0180 | .0500 | .0780 | .9040 |
| 2011 | .6990 | .0970 | .0370 | .0010 | .8340 | .0180 | .0030 | .0150 | .0450 | .0700 | .9040 |
| 2012 | .7130 | .1210 | .0380 | .0010 | .8730 | .0180 | .0030 | .0170 | .0480 | .0740 | .9470 |
| 2013 | .7240 | .1340 | .0480 | .0010 | .9070 | .0210 | .0030 | .0180 | .0540 | .0830 | .9900 |
| 2014 | .7590 | .1250 | .0420 | .0010 | .9270 | .0200 | .0030 | .0180 | .0530 | .0810 | 1.0080 |
| 2015 | .7320 | .1360 | .0400 | .0010 | .9090 | .0230 | .0030 | .0170 | .0560 | .0857 | .9947 |
| 2016 | .7230 | .1160 | .0600 | .0010 | .9000 | .0230 | .0030 | .0180 | .0552 | .0858 | .9858 |
| 2017 | .7734 | .1140 | .0520 | .0010 | .9404 | .0230 | .0030 | .0170 | .0548 | .0845 | 1.0249 |
| 2018 | .7484 | .1089 | .0580 | .0010 | .9163 | .0240 | .0000 | .0172 | .0554 | .0833 | .9996 |
| Personal Property: | | | | | | | | | | | |
| 2009 | \$ 1.6520 | \$.2900 | \$.1000 | \$.0030 | \$ 2.0450 | \$.0550 | \$.0070 | \$.0470 | \$.1320 | \$.1960 | \$ 2.2410 |
| 2010 | 1.7070 | .2620 | .0920 | .0030 | 2.0640 | .0470 | .0070 | .0450 | .1250 | .1830 | 2.2470 |
| 2011 | 1.7470 | .2420 | .0920 | .0030 | 2.0840 | .0450 | .0070 | .0380 | .1120 | .1630 | 2.2470 |
| 2012 | 1.7830 | .3030 | .0950 | .0030 | 2.1840 | .0450 | .0080 | .0430 | .1200 | .1730 | 2.3570 |
| 2013 | 1.8100 | .3350 | .1200 | .0030 | 2.2680 | .0530 | .0080 | .0450 | .1350 | .1950 | 2.4630 |
| 2014 | 1.8980 | .3130 | .1050 | .0030 | 2.3190 | .0500 | .0080 | .0450 | .1330 | .1900 | 2.5090 |
| 2015 | 1.8300 | .3400 | .1000 | .0030 | 2.2730 | .0580 | .0080 | .0430 | .1400 | .2003 | 2.4733 |
| 2016 | 1.8075 | .2900 | .1500 | .0025 | 2.2500 | .0575 | .0075 | .0450 | .1380 | .1998 | 2.4498 |
| 2017 | 1.9335 | .2850 | .1300 | .0025 | 2.3510 | .0575 | .0075 | .0425 | .1370 | .1959 | 2.5469 |
| 2018 | 1.8710 | .2723 | .1450 | .0025 | 2.2908 | .0600 | .0000 | .0430 | .1385 | .1963 | 2.4871 |

NOTES:

- * The tax rates are per \$100 of assessed value.
- * The charter requires that revenues from real property taxes cannot exceed last year's revenues adjusted by the rate of inflation excluding revenues from new construction. The Council can adopt tax rates that exceed this limit by a supermajority of seven out of nine councilmembers.
- * No discounts are allowed.
- * Taxes are levied as of July 1, are due by September 30, and become delinquent the following October 1 for non-owner occupied property.
- * Unless homeowners elect to pay their real property taxes annually, taxes are paid on a semi-annual basis with payment due by September 30 and December 31 for owner occupied property.
- * Interest and penalty at 20 percent are assessed on delinquent tax bills.
- * Revised tax bills based upon certifications from the State received after September 1 may be paid within thirty days without interest.
- * Delinquent taxes on real property are collected by sale. Taxes on personal property are enforced by legal action. Corporations may lose charter for failure to pay taxes.
- * Costs of tax sale, which vary, are added to tax bills. The last sale cost \$50 per parcel.
- * Tax sale date: second Monday in June.
- * Personal property tax rates are applied to 100 percent of the property assessment.

- (1) Rates classified as substantially county-wide represent those tax rates that are levied against all of the County's assessable base, except those incorporated cities and municipalities that provide their own such service.
- (2) M-NCPPC County property tax rates are included in the County's direct rate since the County Council has the power to set, modify, or approve these tax rates for this joint venture organization.
- (3) County direct rate includes: County tax rates that are levied County-wide, and County tax rates levied by M-NCPPC. For County special taxing district tax rates that are levied substantially County-wide, the direct rate includes a prorata portion of the tax rate that corresponds to the portion of the County's assessable base against which the rate is levied. Therefore, the total County direct rate presented above is not a mathematical sum of all the individual rates presented.

Table Reference Source: Montgomery County FY 2018 Table 9-a

MONTGOMERY COUNTY, MARYLAND
REVENUE CAPACITY
REAL AND PERSONAL PROPERTY TAX RATES - COUNTY SPECIAL TAXING DISTRICTS
LAST TEN FISCAL YEARS

| Fiscal Year | Parking Lot Districts (1) | | | | Urban Districts | | | Noise Abatement Districts | | Development Districts | | |
|---------------------------|---------------------------|----------|---------|------------------|-----------------|----------|---------|---------------------------|------------|-----------------------|-----------------|-----------------|
| | Silver Spring | Bethesda | Wheaton | Montgomery Hills | Silver Spring | Bethesda | Wheaton | Bradley | Cabin John | Kingsview Village | West Germantown | White Flint (2) |
| Real Property: | | | | | | | | | | | | |
| 2009 | \$.2800 | \$.2800 | \$.2400 | \$.2400 | \$.0240 | \$.0120 | \$.0300 | \$.0800 | \$.0800 | \$.0630 | \$.1440 | \$.0000 |
| 2010 | .2800 | .1800 | .2400 | .2400 | .0240 | .0120 | .0300 | .0800 | .0800 | .0860 | .1370 | .0000 |
| 2011 | .3170 | .1040 | .2400 | .2400 | .0240 | .0120 | .0300 | .0800 | .0800 | .0790 | .1630 | .0000 |
| 2012 | .3170 | .1040 | .2400 | .2400 | .0240 | .0120 | .0300 | .0770 | .0800 | .0990 | .1650 | .1070 |
| 2013 | .3170 | .1240 | .2400 | .2400 | .0240 | .0120 | .0300 | .0000 | .0100 | .0990 | .1730 | .1120 |
| 2014 | .3170 | .1240 | .2400 | .2400 | .0240 | .0120 | .0300 | .0000 | .0000 | .1050 | .1830 | .1130 |
| 2015 | .3170 | .1240 | .2400 | .2400 | .0240 | .0120 | .0300 | .0000 | .0000 | .0810 | .1820 | .1120 |
| 2016 | .0000 | .0000 | .0000 | .0000 | .0240 | .0120 | .0300 | .0000 | .0000 | .0660 | .1510 | .1111 |
| 2017 | .0000 | .0000 | .0000 | .0000 | .0240 | .0120 | .0300 | .0000 | .0000 | .0410 | .1530 | .1150 |
| 2018 | .0000 | .0000 | .0000 | .0000 | .0240 | .0120 | .0300 | .0000 | .0000 | .0740 | .1610 | .1125 |
| Personal Property: | | | | | | | | | | | | |
| 2009 | \$.7000 | \$.7000 | \$.6000 | \$.6000 | \$.0600 | \$.0300 | \$.0750 | \$.2000 | \$.2000 | \$.0000 | \$.0000 | \$.0000 |
| 2010 | .7000 | .4500 | .6000 | .6000 | .0600 | .0300 | .0750 | .2000 | .2000 | .0000 | .0000 | .0000 |
| 2011 | .7920 | .2600 | .6000 | .6000 | .0600 | .0300 | .0750 | .2000 | .2000 | .0000 | .0000 | .0000 |
| 2012 | .7930 | .2600 | .6000 | .6000 | .0600 | .0300 | .0750 | .1930 | .2000 | .0000 | .0000 | .0000 |
| 2013 | .7930 | .3100 | .6000 | .6000 | .0600 | .0300 | .0750 | .0000 | .0250 | .0000 | .0000 | .0000 |
| 2014 | .7930 | .3100 | .6000 | .6000 | .0600 | .0300 | .0750 | .0000 | .0000 | .0000 | .0000 | .0000 |
| 2015 | .7930 | .3100 | .6000 | .6000 | .0600 | .0300 | .0750 | .0000 | .0000 | .0000 | .0000 | .0000 |
| 2016 | .0000 | .0000 | .0000 | .0000 | .0600 | .0300 | .0750 | .0000 | .0000 | .0000 | .0000 | .0000 |
| 2017 | .0000 | .0000 | .0000 | .0000 | .0600 | .0300 | .0750 | .0000 | .0000 | .0000 | .0000 | .0000 |
| 2018 | .0000 | .0000 | .0000 | .0000 | .0600 | .0300 | .0750 | .0000 | .0000 | .0000 | .0000 | .0000 |

NOTES:

- * Tax rates are per \$100 of assessed value.
- * Personal property tax rates are applied to 100 percent of the property assessment.
- * The County special taxing district rates above represent taxes that are levied against mutually exclusive specific geographic portions of the County's assessable base. Such rates are not included in the County direct rate on Table 9-a, as they are not reflective of what all County taxpayers would pay.

- (1) Parking Lot Districts also carry a tax rate of one-half the amount shown which applies to property zoned commercial but not used as such.
- (2) White Flint Special Taxing District was established in November 2010 and levy year 2011, (FY 2012), was the first year that the property tax on commercial properties went into effect.

Table Reference Source: Montgomery County FY 2018 Table 9-b

MONTGOMERY COUNTY, MARYLAND
 REVENUE CAPACITY
 REAL AND PERSONAL PROPERTY TAX RATES - OVERLAPPING GOVERNMENTS - CITIES AND TOWNS
 LAST TEN FISCAL YEARS

| Fiscal Year | Cities | | | Towns | | | | |
|---------------------------|--------------|-----------|-------------|-------------|-------------|-------------|--------------|-----------|
| | Gaithersburg | Rockville | Takoma Park | Barnesville | Brookeville | Chevy Chase | Garrett Park | Glen Echo |
| Real Property: | | | | | | | | |
| 2009 | \$.2120 | \$.2920 | \$.6050 | \$.0540 | \$.1500 | \$.0210 | \$.1900 | \$.1300 |
| 2010 | .2120 | .2920 | .5800 | .0490 | .1500 | .0100 | .1920 | .1300 |
| 2011 | .2620 | .2920 | .5800 | .0514 | .1500 | .0100 | .1920 | .1300 |
| 2012 | .2620 | .2920 | .5800 | .0514 | .1500 | .0105 | .2100 | .1300 |
| 2013 | .2620 | .2920 | .5800 | .0514 | .1500 | .0104 | .2100 | .1340 |
| 2014 | .2620 | .2920 | .5700 | .0514 | .1500 | .0000 | .2100 | .1400 |
| 2015 | .2620 | .2920 | .5700 | .0514 | .1500 | .0000 | .2100 | .1400 |
| 2016 | .2620 | .2920 | .5850 | .0514 | .2000 | .0000 | .2100 | .1400 |
| 2017 | .2620 | .2920 | .5675 | .0514 | .2000 | .0100 | .2100 | .1400 |
| 2018 | .2620 | .2920 | .5348 | .0514 | .1500 | .0100 | .2100 | .1400 |
| Personal Property: | | | | | | | | |
| 2009 | \$.5300 | \$.8050 | \$1.5130 | \$.2000 | \$.4500 | \$.1000 | \$1.0000 | \$.8000 |
| 2010 | .5300 | .8050 | 1.4500 | .2000 | .4500 | .1000 | 1.0000 | .8000 |
| 2011 | .5300 | .8050 | 1.4500 | .2000 | .4500 | .1000 | 1.0000 | .8000 |
| 2012 | .5300 | .8050 | 1.4500 | .2000 | .4500 | .1000 | 1.0000 | .8000 |
| 2013 | .5300 | .8050 | 1.5500 | .2000 | .4500 | .1000 | 1.0000 | .8000 |
| 2014 | .5300 | .8050 | 1.5500 | .2000 | .4500 | .0000 | 1.0000 | .8000 |
| 2015 | .5300 | .8050 | 1.5500 | .2000 | .4500 | .0000 | 1.0000 | .8000 |
| 2016 | .5300 | .8050 | 1.5500 | .2000 | .4500 | .0000 | 1.0000 | .8000 |
| 2017 | .5300 | .8050 | 1.5500 | .2000 | .4500 | .0000 | 1.0000 | .8000 |
| 2018 | .5300 | .8050 | 1.5500 | .2000 | .4500 | .0000 | 1.0000 | .8000 |

| Fiscal Year | Towns | | | | |
|---------------------------|------------|--------------|-------------|----------|------------------|
| | Kensington | Laytonsville | Poolesville | Somerset | Washington Grove |
| Real Property: | | | | | |
| 2009 | \$.1300 | \$.1200 | \$.1600 | \$.0400 | \$.1810 |
| 2010 | .1220 | .1100 | .1500 | .0400 | .1810 |
| 2011 | .1360 | .1000 | .1594 | .0800 | .2210 |
| 2012 | .1360 | .1100 | .1594 | .0800 | .2210 |
| 2013 | .1360 | .1100 | .1590 | .0800 | .3170 |
| 2014 | .1360 | .1000 | .1672 | .0800 | .3000 |
| 2015 | .1360 | .0900 | .1672 | .0800 | .3000 |
| 2016 | .1360 | .0900 | .1700 | .0800 | .2860 |
| 2017 | .1360 | .0900 | .1756 | .1000 | .2700 |
| 2018 | .1360 | .0900 | .1756 | .1000 | .2550 |
| Personal Property: | | | | | |
| 2009 | \$.5000 | \$.3300 | \$.6000 | \$1.0000 | \$.6000 |
| 2010 | .5000 | .3100 | .6000 | 1.0000 | .6000 |
| 2011 | .5500 | .3000 | .6000 | 1.0000 | .6000 |
| 2012 | .5500 | .3000 | .6000 | 1.0000 | .6000 |
| 2013 | .5500 | .3000 | .6000 | 1.0000 | .6000 |
| 2014 | .5700 | .3000 | .6000 | 1.0000 | .7000 |
| 2015 | .6200 | .3000 | .6000 | 1.0000 | .7000 |
| 2016 | .6500 | .3000 | .6000 | 1.0000 | .7000 |
| 2017 | .7000 | .3000 | .6000 | 1.0000 | .7000 |
| 2018 | .7000 | .3000 | .6000 | 1.0000 | .7000 |

NOTES:

* Tax rates are per \$100 of assessed value.

* Personal property tax rates are applied to 100 percent of the property assessment.

* Taxes collected by the County for other fiscal units, including overlapping governments, are remitted based on actual collections.

Table Reference Source: Montgomery County FY2018 Table 9-c

MONTGOMERY COUNTY, MARYLAND
REVENUE CAPACITY
REAL AND PERSONAL PROPERTY TAX RATES - OVERLAPPING GOVERNMENTS - VILLAGES
LAST TEN FISCAL YEARS

| Fiscal Year | Villages | | | | | | | | | |
|---------------------------|--------------|-----------------------|-----------------------|------------------|---------------------|----------|--------------------|-----------------------------------|-------------------|----------|
| | Battery Park | Chevy Chase Section 3 | Chevy Chase Section 5 | Chevy Chase View | Chevy Chase Village | Drummond | Friendship Heights | Martin's Additions to Chevy Chase | North Chevy Chase | Oakmont |
| Real Property: | | | | | | | | | | |
| 2009 | \$.0500 | \$.0200 | \$.0000 | \$.0220 | \$.1030 | \$.0480 | \$.0400 | \$.0080 | \$.0520 | \$.0400 |
| 2010 | .0500 | .0200 | .0000 | .0220 | .0960 | .0480 | .0400 | .0080 | .0520 | .0400 |
| 2011 | .0500 | .0200 | .0000 | .0220 | .0900 | .0480 | .0400 | .0400 | .0520 | .0400 |
| 2012 | .0500 | .0200 | .0000 | .0220 | .1010 | .0480 | .0400 | .0460 | .0520 | .0400 |
| 2013 | .0500 | .0200 | .0000 | .0220 | .1010 | .0480 | .0400 | .0470 | .0520 | .0400 |
| 2014 | .0500 | .0200 | .0000 | .0220 | .1000 | .0480 | .0400 | .0470 | .0520 | .0400 |
| 2015 | .0500 | .0200 | .0000 | .0220 | .0850 | .0480 | .0400 | .0472 | .0520 | .0400 |
| 2016 | .0500 | .0200 | .0000 | .0220 | .0828 | .0480 | .0400 | .0472 | .0520 | .0400 |
| 2017 | .0400 | .0200 | .0000 | .0220 | .0807 | .0480 | .0400 | .0472 | .0520 | .0400 |
| 2018 | .0400 | .0200 | .0000 | .0200 | .0819 | .0480 | .0400 | .0472 | .0450 | .0400 |
| Personal Property: | | | | | | | | | | |
| 2009 | \$.1250 | \$.0500 | \$.0000 | \$.0000 | \$.6600 | \$.1200 | \$.0400 | \$.5000 | \$.1300 | \$.1000 |
| 2010 | .1250 | .0500 | .0000 | .0000 | .6600 | .1200 | .0400 | .5000 | .1300 | .1000 |
| 2011 | .1250 | .0500 | .0000 | .0000 | .6600 | .1200 | .0400 | .5000 | .1300 | .1000 |
| 2012 | .1250 | .0500 | .0000 | .0000 | .6600 | .1200 | .0400 | .5000 | .1300 | .1000 |
| 2013 | .1250 | .0500 | .0000 | .0000 | .6600 | .1200 | .0400 | .5000 | .1300 | .1000 |
| 2014 | .1250 | .0500 | .0000 | .0000 | .6600 | .1200 | .0400 | .5000 | .1300 | .1000 |
| 2015 | .1250 | .0500 | .0000 | .0000 | .6600 | .1200 | .0400 | .5000 | .1300 | .1000 |
| 2016 | .1250 | .0500 | .0000 | .0000 | .6600 | .1200 | .0400 | .5000 | .1300 | .1000 |
| 2017 | .1000 | .0500 | .0000 | .0000 | .6600 | .1200 | .0400 | .5000 | .1300 | .1000 |
| 2018 | .1000 | .0500 | .0000 | .0000 | .6600 | .1200 | .0400 | .5000 | .1300 | .1000 |

NOTES:

- * Tax rates are per \$100 of assessed value.
- * Personal property tax rates are applied to 100 percent of the property assessment.
- * Taxes collected by the County for other fiscal units, including overlapping governments, are remitted based on actual collections.

Table Reference Source: Montgomery County FY 2018 Table 9-d

MONTGOMERY COUNTY, MARYLAND
TEN HIGHEST COMMERCIAL PROPERTY TAXPAYERS
CURRENT FISCAL YEAR AND NINE YEARS AGO

| For the Fiscal Year Ended June 30, 2018 | | | | |
|--|---------------------------|-------------------------|--------------------------|---|
| | Assessable Base | | | Ratio: |
| | Total | Real Property | Personal Property | Taxpayer Base to Total Assessable Base |
| Potomac Electric Power Co. | \$ 954,650,036 | \$ 30,503,636 | \$ 924,146,400 | 0.51 % |
| JBG Smith | 660,400,167 | 660,400,167 | - | 0.35 |
| Federal Realty Investments Trust | 610,256,503 | 606,230,033 | 4,026,470 | 0.32 |
| Verizon Inc. | 457,599,237 | 35,426,967 | 422,172,270 | 0.24 |
| Montgomery Mall LLC | 412,404,677 | 410,286,167 | 2,118,510 | 0.22 |
| Wash Metro Area Transit Auth | 398,157,300 | 398,157,300 | - | 0.21 |
| Fishers Lane LLC | 372,966,070 | 372,932,700 | 33,370 | 0.20 |
| Street Retail Inc. | 347,576,968 | 347,576,968 | - | 0.18 |
| Chevy Chase Land Co | 321,457,439 | 320,758,899 | 698,540 | 0.17 |
| Wheaton Plaza Reg Shopping Center | 321,116,206 | 320,055,166 | 1,061,040 | 0.17 |
| Total | \$ 4,856,584,603 | \$ 3,502,328,003 | \$ 1,354,256,600 | 2.57 % |
| Total Assessable Base | \$ 188,182,435,927 | | | 100.00 % |

| For the Fiscal Year Ended June 30, 2009 | | | | |
|--|---------------------------|-------------------------|--------------------------|---|
| | Assessable Base | | | Ratio: |
| | Total | Real Property | Personal Property | Taxpayer Base to Total Assessable Base |
| Potomac Electric Power Co. | \$ 690,226,160 | \$ 7,717,700 | \$ 682,508,460 | 0.43 % |
| Verizon - Maryland | 680,681,930 | 33,066,700 | 647,615,230 | 0.42 |
| Montgomery Mall LLC | 396,142,869 | 395,637,599 | 505,270 | 0.24 |
| Washington Gas Light Co. | 230,268,250 | - | 230,268,250 | 0.14 |
| 7501 Wisconsin Avenue LLC | 226,841,666 | 226,841,666 | - | 0.14 |
| Camalier, Anne D et al, Trustee | 220,531,312 | 220,531,312 | - | 0.14 |
| Federal Realty Investment Trust | 213,390,806 | 211,854,546 | 1,536,260 | 0.13 |
| Democracy Associates | 207,114,900 | 207,114,900 | - | 0.13 |
| Chevy Chase Land Co | 201,846,132 | 201,846,132 | - | 0.12 |
| Wheaton Plaza Regional Shopping Center | 188,065,412 | 187,096,732 | 968,680 | 0.12 |
| Total | \$ 3,255,109,437 | \$ 1,691,707,287 | \$ 1,563,402,150 | 2.01 % |
| Total Assessable Base | \$ 162,053,662,492 | | | 100.00 % |

Table Reference Source: Montgomery County FY 2018 Table 10

MONTGOMERY COUNTY, MARYLAND
DEBT CAPACITY
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

| Fiscal Year | General Bonded Debt Outstanding (1) | | | | Total | Percentage of Estimated Actual Taxable Value of Property (2) | Per Capita (3) |
|-------------|-------------------------------------|----------------------------------|----------------------------------|------------------|--------|--|----------------|
| | General Obligation Bonds | Variable Rate Demand Obligations | Taxable BABs General Obligations | | | | |
| 2009 | \$ 1,496,561,371 | \$ 100,000,000 | \$ - | \$ 1,596,561,371 | 0.95 % | \$ 1,665 | |
| 2010 | 1,437,839,285 | 100,000,000 | 232,000,000 | 1,769,839,285 | 0.99 | 1,813 | |
| 2011 | 1,517,280,000 | 100,000,000 | 338,320,000 | 1,955,600,000 | 1.01 | 1,969 | |
| 2012 | 1,658,970,000 | 100,000,000 | 338,320,000 | 2,097,290,000 | 1.18 | 2,084 | |
| 2013 | 1,930,155,391 | 100,000,000 | 339,827,520 | 2,369,982,911 | 1.36 | 2,325 | |
| 2014 | 2,085,028,317 | 100,000,000 | 339,671,879 | 2,524,700,196 | 1.42 | 2,450 | |
| 2015 | 2,465,315,677 | 100,000,000 | 339,516,238 | 2,904,831,915 | 1.61 | 2,793 | |
| 2016 | 2,582,259,186 | 100,000,000 | 323,901,913 | 3,006,161,099 | 1.67 | 2,870 | |
| 2017 | 2,722,235,195 | 90,000,000 | 308,297,064 | 3,120,532,259 | 1.61 | 2,958 | |
| 2018 | 2,947,055,677 | 170,000,000 | 292,692,211 | 3,409,747,888 | 1.71 | 3,226 | |

NOTES:

- (1) General Bonded Debt includes all general obligation debt, variable rate demand obligation, regardless of purpose or repayment source, and other bonded debt financed with general government resources. Governmental lease revenue bonds and business-type revenue bonds are excluded because they are repayable from specific resources other than general governmental resources. Other debt is excluded because it is not in the form of bonds.
- (2) See Montgomery County FY 2018 table 8 for estimated actual value of taxable property data.
- (3) See Montgomery County FY 2018 table 23 for population data used in calculating the Per Capita.

Table Reference Source: Montgomery County FY 2018 (Table 18).

MONTGOMERY COUNTY, MARYLAND
DEBT CAPACITY
COMPUTATION OF LEGAL DEBT MARGIN
LAST TEN FISCAL YEARS

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---------------------------|---------------------------|-------------------------|-------------------------|-------------------------|
| Assessed Value | | | | | |
| Real property (1,3) | \$ 158,133,491,473 | \$ 167,096,843,537 | \$ 167,790,792,529 | \$ 162,197,149,758 | \$ 158,272,830,848 |
| Personal property (2) | 3,920,171,020 | 4,123,996,612 | 3,856,191,952 | 3,718,945,710 | 3,604,478,750 |
| Total Assessed Value | <u>\$ 162,053,662,493</u> | <u>\$ 171,220,840,149</u> | <u>171,646,984,481</u> | <u>165,916,095,468</u> | <u>161,877,309,598</u> |
| Legal Debt Margin | | | | | |
| Debt Limit - Percentage of Assessable Base: | | | | | |
| For real property at 6% | \$ 9,488,009,488 | \$ 10,025,810,612 | \$ 10,067,447,552 | \$ 9,731,828,985 | \$ 9,496,369,851 |
| For personal property at 15% | 588,025,653 | 618,599,492 | 578,428,793 | 557,841,857 | 540,671,813 |
| Legal Limitation for the Borrowing of Funds and the Issuance of Bonds | <u>10,076,035,141</u> | <u>10,644,410,104</u> | <u>10,645,876,345</u> | <u>10,289,670,842</u> | <u>10,037,041,664</u> |
| Debt Applicable to Limit: | | | | | |
| General obligation bonds | 1,496,561,371 | 1,437,839,285 | 1,517,280,000 | 1,658,970,000 | 1,930,155,391 |
| Variable Rate Demand Obligation | 100,000,000 | 100,000,000 | 100,000,000 | 100,000,000 | 100,000,000 |
| Taxable BABs General Obligation | | 232,000,000 | 338,320,000 | 338,320,000 | 339,827,520 |
| Bond anticipation notes | 300,000,000 | 425,000,000 | 500,000,000 | 500,000,000 | 500,000,000 |
| Total Debt Applicable to Limit | <u>1,896,561,371</u> | <u>2,194,839,285</u> | <u>2,455,600,000</u> | <u>2,597,290,000</u> | <u>2,869,982,911</u> |
| Legal Debt Margin | <u>\$ 8,179,473,770</u> | <u>\$ 8,449,570,819</u> | <u>\$ 8,190,276,345</u> | <u>\$ 7,692,380,842</u> | <u>\$ 7,167,058,753</u> |
| Legal Debt Margin as a Percentage of Debt Limit | 81% | 79% | 77% | 75% | 71% |

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Assessed Value | | | | | |
| Real property (1,3) | \$ 159,891,865,334 | \$ 163,656,758,206 | \$ 170,176,446,052 | \$ 177,495,353,018 | \$ 183,993,870,661 |
| Personal property (2) | 3,709,327,508 | 3,655,133,210 | 3,884,349,017 | 4,051,372,468 | 4,188,565,266 |
| Total Assessed Value | <u>\$ 163,601,192,842</u> | <u>\$ 167,311,891,416</u> | <u>\$ 174,060,795,069</u> | <u>\$ 181,546,725,486</u> | <u>\$ 188,182,435,927</u> |
| Legal Debt Margin | | | | | |
| Debt Limit - Percentage of Assessable Base: | | | | | |
| For real property at 6% | \$ 9,593,511,920 | \$ 9,819,405,492 | \$ 10,210,586,763 | \$ 10,649,721,181 | \$ 11,039,632,240 |
| For personal property at 15% | 556,399,126 | 548,269,982 | 582,652,353 | 607,705,870 | 628,284,790 |
| Legal Limitation for the Borrowing of Funds and the Issuance of Bonds | <u>10,149,911,046</u> | <u>10,367,675,474</u> | <u>10,793,239,116</u> | <u>11,257,427,051</u> | <u>11,667,917,030</u> |
| Debt Applicable to Limit: | | | | | |
| General obligation bonds | 2,085,028,317 | 2,465,315,677 | 2,582,259,186 | 2,722,471,690 | 2,947,055,677 |
| Variable Rate Demand Obligation | 100,000,000 | 100,000,000 | 100,000,000 | 90,000,000 | 170,000,000 |
| Taxable BABs General Obligation | 339,671,879 | 339,516,238 | 323,901,913 | 308,297,064 | 292,692,211 |
| Bond anticipation notes | 500,000,000 | 500,000,000 | 500,000,000 | 500,000,000 | 500,000,000 |
| Long-term notes payable | - | - | - | - | - |
| Total Debt Applicable to Limit | <u>3,024,700,196</u> | <u>3,404,831,915</u> | <u>3,506,161,099</u> | <u>3,620,768,754</u> | <u>3,909,747,888</u> |
| Legal Debt Margin | <u>\$ 7,125,210,850</u> | <u>\$ 6,962,843,559</u> | <u>\$ 7,287,078,017</u> | <u>\$ 7,636,658,297</u> | <u>\$ 7,758,169,142</u> |
| Legal Debt Margin as a Percentage of Debt Limit | 70% | 67% | 68% | 68% | 66% |

NOTES:

- (1) See (1) on Montgomery County FY 2018 CAFR Table 8.
- (2) See (2) on Montgomery County FY 2018 CAFR Table 8.
- (3) As a Charter County, the legal debt limit is provided by Article 25A, Section 5(P(i)), of the Annotated Code of Maryland. The legal debt margin is a total of 6 percent of the assessable base (presented at 100 percent) of real property of the County and 15 percent of the County's assessable base of personal property and operating real property.

Table Reference Source: Montgomery County FY 2018 Table 20

MONTGOMERY COUNTY, MARYLAND
DEBT CAPACITY
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT (1)
AS OF JUNE 30, 2018

| Governmental Unit | Debt Outstanding | Estimated Percentage Applicable | Estimated Share of Overlapping Debt |
|--|---------------------|---------------------------------------|--|
| Overlapping Debt: | | | |
| Towns, Cities, and Villages: (2, 3) | | | |
| Garrett Park - bonds | \$ 222,200 | 100.00 % | \$ 222,200 |
| Poolesville - bonds | 2,423,479 | 100.00 | 2,423,479 |
| Rockville: | | | |
| Bonds | 32,376,755 | 100.00 | 32,376,755 |
| Certificates or notes | 52,000 | 100.00 | 52,000 |
| Somerset - bonds | 1,240,000 | 100.00 | 1,240,000 |
| Takoma Park: | | | |
| Bonds | 10,239,000 | 100.00 | 10,239,000 |
| Certificates or notes | 150,000 | 100.00 | 150,000 |
| Component Units (2): | | | |
| MCPS - capital leases | 59,680,797 | 100.00 | 59,680,797 |
| MCC - capital leases | 85,388,516 | 100.00 | 85,388,516 |
| Joint Venture - M-NCPPC (4): | | | |
| Park acquisition and development bonds | 136,625,000 | 36.92 | 50,445,000 |
| Advance land acquisition bonds | 885,000 | 100.00 | 885,000 |
| Development Districts (2): | | | |
| Kingsview Village Center - bonds | 728,233 | 100.00 | 728,233 |
| West Germantown - bonds | 10,020,000 | 100.00 | <u>10,020,000</u> |
| Total Overlapping Debt | | | 253,850,980 |
| Montgomery County direct debt (5) | | | <u>4,284,990,518</u> |
| Total Direct and Overlapping Debt | | | <u>\$ 4,538,841,498</u> |

NOTES:

- (1) Direct debt relating to the governmental activities of the County includes general obligation bonds, variable rate demand obligations, bond anticipation notes, notes payable, lease revenue bonds, and capital leases. Overlapping debt is the debt of other governmental entities in the County that is payable in whole or in part by taxpayers of the County. It includes general obligation bonds, revenue bonds, mortgages payable, notes payable, commercial paper, bond anticipation notes, certificates of participation, capital leases, and bank loans.
- (2) Entities are wholly within Montgomery County.
- (3) Unaudited information provided by entities.
- (4) Overlapping debt percentage is based on the debt relating to the County.
- (5) Source: total of governmental activities debt on Montgomery County Table 17.
- (6) The Board has no authority to issue bonds

Table Reference Source: Montgomery County FY 2018 Table 19

MONTGOMERY COUNTY, MARYLAND
STATEMENT OF LONG-TERM INDEBTEDNESS (PUBLIC SCHOOLS)
YEAR ENDED JUNE 30, 2018*

| Description of Bonds and Purpose of Issue | Interest Rate | Date of | | Amount of General Tax Bonds | |
|--|---------------|------------|----------|-----------------------------|---------------------------|
| | | Bond Issue | Maturity | Issued | Outstanding June 30, 2018 |
| General bonded indebtedness: | | | | | |
| Consolidated Public Improvement Refunding | 5.00 | 6/1/2005 | 2011-21 | \$ 62,464,240 | \$ - |
| Consolidated Public Improvement | Variable | 6/7/2006 | 2017-26 | 64,000,000 | - |
| Consolidated Public Improvement | 5.00 | 5/1/2007 | 2008-27 | 149,600,000 | - |
| Consolidated Public Improvement-General Obligation Bonds | 3.00 - 5.00 | 3/15/2008 | 2009-29 | 127,000,000 | 5,410,200 |
| Consolidated Public Improvement-General Obligation Refunding Bonds | 2.00 - 5.00 | 11/3/2009 | 2011-20 | 78,095,307 | 28,659,008 |
| Consolidated Public Improvement-General Obligation Bonds BAB's | 3.75 - 5.50 | 11/3/2009 | 2015-29 | 130,000,000 | 104,002,800 |
| Consolidated Public Improvement-General Obligation Bonds | 2.00 - 5.00 | 7/26/2010 | 2011-22 | 80,500,000 | 20,125,002 |
| Consolidated Public Improvement-General Obligation Bonds BAB's | 4.75 - 5.40 | 7/26/2010 | 2023-30 | 18,600,000 | 18,600,000 |
| Consolidated Public Improvement-General Obligation Bonds | 2.00 - 5.00 | 8/11/2011 | 2012-31 | 118,500,000 | 11,850,000 |
| Consolidated Public Improvement-General Obligation Refunding Bonds | 2.00 - 5.00 | 8/11/2011 | 2012-22 | 106,469,440 | 60,141,760 |
| Consolidated Public Improvement-General Obligation Bonds | 2.50 - 5.00 | 10/24/2012 | 2013-32 | 150,000,000 | 60,000,000 |
| Consolidated Public Improvement-General Obligation Bonds | 3.00 - 5.00 | 11/26/2013 | 2014-34 | 83,300,000 | 58,310,000 |
| Consolidated Public Improvement-General Obligation Refunding Bonds | 5.00 | 11/26/2013 | 2023-24 | 8,794,995 | 8,794,995 |
| Consolidated Public Improvement-General Obligation Bonds | 4.00 - 5.00 | 11/19/2014 | 2015-35 | 200,575,000 | 150,431,250 |
| Consolidated Public Improvement-General Obligation Refunding Bonds | 5.00 | 11/19/2014 | 2016-28 | 146,015,100 | 132,589,100 |
| Consolidated Public Improvement-General Obligation Refunding Bonds | 5.00 | 3/26/2015 | 2018-21 | 30,371,880 | 30,371,880 |
| Consolidated Public Improvement-General Obligation Bonds | 3.00 - 5.00 | 11/18/2015 | 2016-35 | 95,789,000 | 86,210,100 |
| Consolidated Public Improvement-General Obligation Bonds | 3.00 - 5.00 | 12/13/2016 | 2017-36 | 95,092,945 | 90,338,298 |
| General Obligation Bonds Series A | 5.00 | 11/15/2017 | 2018-27 | 49,938,000 | 49,938,000 |
| General Obligation Refunding Bonds Series B | 5.00 | 11/15/2017 | 2018-26 | 50,092,800 | 44,569,600 |
| General Obligation Refunding Bonds Series C | 3.00 - 5.00 | 11/15/2017 | 2019-31 | 123,978,200 | 123,978,200 |
| General Obligation Refunding Bonds Series D** | 3.00 - 4.00 | 11/15/2017 | 2020-29 | 80,593,702 | 80,593,702 |
| Consolidated Public Improvement Series E | Variable | 12/19/2017 | 2028-37 | 49,938,000 | 49,938,000 |
| Total | | | | \$ <u>2,099,708,609</u> | \$ <u>1,214,851,895</u> |

Notes:

* These general obligation bonds issued for public purposes are liabilities of, and the debt service is paid by Montgomery County

** Refunding Bonds 2017 Series D interest is paid by refunding proceeds with escrow agent. No cash outflow from the County.

Source: Montgomery County, Maryland Debt Service Program, Direct Debt, Issues Through June 30, 2018

MONTGOMERY COUNTY, MARYLAND
DEMOGRAPHIC STATISTICS
LAST TEN YEARS

| Calendar Year | Population (1) | Personal Income (\$ thousands) (2) | Per Capita Income (3) | Civilian Labor Force (4) | Resident Employment (5) | Unemployment Rate (6) | Average Registered Number of Pupils as of September (7) |
|---------------|----------------|------------------------------------|-----------------------|--------------------------|-------------------------|-----------------------|---|
| 2009 | 959,013 | \$ 66,147,761 | \$ 68,975 | 522,421 | 494,565 | 5.3 % | 137,763 |
| 2010 | 976,321 | 69,149,438 | 70,827 | 532,549 | 502,710 | 5.6 | 140,500 |
| 2011 | 992,928 | 73,818,085 | 74,344 | 536,832 | 508,549 | 5.3 | 143,309 |
| 2012 | 1,006,218 | 76,994,315 | 76,519 | 540,427 | 512,438 | 5.2 | 146,497 |
| 2013 | 1,017,759 | 74,017,970 | 72,626 | 543,124 | 516,264 | 4.9 | 149,018 |
| 2014 | 1,027,780 | 75,745,140 | 73,698 | 545,005 | 521,063 | 4.4 | 151,289 |
| 2015 | 1,036,233 | 80,786,226 | 77,961 | 549,111 | 527,763 | 3.9 | 153,852 |
| 2016 | 1,043,863 | 84,518,332 | 80,967 | 548,401 | 529,491 | 3.4 | 159,242 |
| 2017 | 1,050,370 | 87,230,000 | 83,047 | 557,412 | 539,132 | 3.3 | 161,909 |
| 2018 | 1,056,920 | 90,840,000 | 85,948 | 562,343 | 542,965 | 3.4 | 161,936 |

NOTES:

- (1) Source: Data for 2009-2016 is from the Bureau of Economic Analysis (BEA), U.S. Department of Commerce. Data for 2017 and 2018 are estimated by the Montgomery County Department of Finance from Round 9.0 Cooperative Estimates and pertain to population in households. Data for 2009-2016 was published by BEA.
- (2) Source: Bureau of Economic Analysis (BEA), U.S. Department of Commerce. Personal income includes money income from wages and salaries; transfer payments such as social security and public assistance; income from rent, interest and dividends. Data for 2009-2016 was published by BEA. Data for 2017 through 2018 are estimates derived by the Montgomery County Department of Finance.
- (3) Per capita income is derived by dividing personal income by population.
- (4) Source: Bureau of Labor Statistics (BLS), U.S. Department of Labor. Civilian labor force data include all persons in the civilian noninstitutional population classified as either employed or unemployed and counted by place of residence and are published by BLS for 2009 - 2017. Data for 2018 is estimated by Montgomery County Department of Finance based on the percent change from the average of the first six months of CY 2017 to the average of the first six months of CY 2018.
- (5) Source: Bureau of Labor Statistics (BLS), U.S. Department of Labor. Resident employment includes all persons who during the survey week (a) did any work as paid employees, worked in their own business or profession or on their own farm, or worked 15 hours or more as unpaid workers in an enterprise operated by a member of their family, or (b) were not working but who had jobs from which they were temporarily absent because of vacation, illness, bad weather etc. Each employed person is counted only once, even if he or she holds more than one job and is counted by place of residence and not by place of employment. Data for 2009-2017 was published by BLS. Data for 2018 is estimated by Montgomery County Department of Finance based on the percent change from the average of the first six months of CY 2017 to the first six months of CY 2018.
- (6) The unemployment rates for 2009 through 2017 were published by the Bureau of Labor Statistics (BLS), U.S. Department of Labor. Unemployment rate for 2018 is estimated by Montgomery County Department of Finance based on the estimate of the civilian labor force and the estimate of resident employment.
- (7) Source: County Executive Recommended FY 2019 Operating Budget, Office of Management and Budget, Montgomery County. Since the school year begins in September, data is represented as enrollment as of September of the calendar year.

Table Reference Source: Montgomery County FY 2018 Table 23

MONTGOMERY COUNTY, MARYLAND
 DEMOGRAPHIC STATISTICS
 PRINCIPAL EMPLOYERS
 CURRENT FISCAL YEAR AND NINE YEARS AGO

| Employer | Fiscal Year 2018 | | | Fiscal Year 2009 | | |
|--|------------------|-----------------|--|------------------|-----------------|--|
| | Rank | Employees(1) | Percentage of Total County Employment(2,3) | Rank | Employees(1) | Percentage of Total County Employment(2) |
| U.S. Department of Health and Human Services | 1 | >30,000 | 6.12 % | 1 | >30,000 | 6.27 % |
| Montgomery County Public Schools | 2 | 20,000 - 25,000 | 4.59 | 2 | 20,000 - 25,000 | 4.70 |
| Montgomery County Government | 3 | 10,000 - 15,000 | 2.55 | 5 | 5,000 - 10,000 | 1.57 |
| U.S. Department of Commerce | 4 | 5,000 - 10,000 | 1.53 | 4 | 5,000 - 10,000 | 1.57 |
| U.S. Department of Defense | 5 | 2,500 - 5,000 | 0.76 | 3 | 10,000 - 15,000 | 2.61 |
| Holy Cross Hospital of Silver Spring | 6 | 2,500 - 5,000 | 0.76 | 10 | 2,500 - 5,000 | 0.78 |
| Adventist Healthcare | 7 | 2,500 - 5,000 | 0.76 | 7 | 5,000 - 10,000 | 1.57 |
| Government Employees Insurance Co. | 8 | 2,500 - 5,000 | 0.76 | | * | - |
| Marriott International Admin Srvs, Inc. | 9 | 2,500 - 5,000 | 0.76 | 8 | 2,500 - 5,000 | 0.78 |
| U.S. Nuclear Regulatory Commission | 10 | 1,500 - 2,500 | 0.41 | | * | - |
| Lockheed Martin Corporation | * | * | - | 6 | 5,000 - 10,000 | 1.57 |
| Giant Food Corporation | * | * | - | 9 | 2,500 - 5,000 | 0.78 |
| Total | | | <u>19.00 %</u> | | | <u>22.20 %</u> |

NOTES:

* Employer is not one of the ten largest employers during the year noted.

Source: Department of Labor, Licensing and Regulation

Analysis and Information-Major Employer List- 4th quarter CY 2017 and CY 2009

(1) Information such as the actual number of employees is not available for disclosure.

(2) Percentages are based on the midpoint of the employment range and average total Montgomery County employment of FY 2018 according to Bureau of Labor Statistics, U.S. Department of Labor. Employee counts for federal and military facilities exclude contractors the extent possible.

(3) Total average payroll employment in FY 2018 was 490,389 and in FY 2009 was 478,400.

Table Reference Source: Montgomery County FY 2018 Table 22



Student: Aseya Ali, 1st Grade
School: Montgomery Knolls Elementary School

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 OPERATING INDICATORS BY FUNCTION
 LAST TEN FISCAL YEARS

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------------|--------------|--------------|--------------|--------------|
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Total enrollment ⁽¹⁾ | 139,276 | 141,777 | 144,064 | 146,497 | 148,779 |
| Regular students ⁽¹⁾ | 130,371 | 140,065 | 142,342 | 144,571 | 146,930 |
| ESOL students ⁽²⁾ | 16,685 | 17,664 | 17,900 | 18,650 | 19,200 |
| Special education classroom students ⁽²⁾ | 8,534 | 9,107 | 9,067 | 9,533 | 11,614 |
| Cost per pupil (accrual basis) ⁽⁵⁾ | \$ 16,543 | \$ 16,782 | \$ 16,590 | \$ 16,476 | \$ 16,511 |
| Number of teaching stations ⁽³⁾ | 7,660 | 7,085 | 7,101 | 7,492 | 7,313 |
| Average teacher salary (6) | \$ 75,517 | \$ 76,499 | \$ 73,638 | \$ 72,356 | \$ 75,463 |
| Student/Teacher ratio - Regular Instruction ⁽⁴⁾ | 14:1 | 13.5:1 | 14:1 | 14:1 | 14:1 |
| Average SAT score ^{(1) *} | 1,615 | 1,653 | 1,637 | 1,651 | 1,648 |
| Seniors taking SAT ⁽¹⁾ | 78 % | 71 % | 71 % | 71 % | 69 % |
| Average ACT score | | 23 | 23 | 23 | 23 |
| Seniors taking ACT | | 29.5 % | 29.3 % | 30 % | 29.3 % |
| Building capacity used ^{(3) #} | 99.5 % | 98.3 % | 99.5 % | 99.5 % | 102 % |
| Support services: | | | | | |
| Student transportation: | | | | | |
| Number of buses ⁽¹⁾ | 1,271 | 1,270 | 1,268 | 1,264 | 1,264 |
| Students transported ⁽¹⁾ | 96,700 | 97,100 | 98,535 | 100,158 | 99,300 |
| Operation of plant: | | | | | |
| School buildings ⁽¹⁾ | 199 | 200 | 200 | 200 | 202 |
| Square footage ⁽³⁾ | 21.1 million | 21.4 million | 23.5 million | 24.2 million | 24.6 million |
| Number of rooms ⁽³⁾ | 7,458 | 7,652 | 7,737 | 7,898 | 7,950 |
| Maintenance of plant: | | | | | |
| Work orders completed | 59,393 | 60,322 | 64,754 | 61,529 | 60,305 |
| Average building age (years) ^{(3) +} | 22 | 23 | 23 | 22 | 22 |
| Administration: | | | | | |
| Payments issued | 65,060 | 66,412 | 64,504 | 65,035 | 64,880 |
| Purchased orders issued | 58,858 | 49,870 | 59,866 | 33,436 | 33,663 |
| Business-Type Activities: | | | | | |
| Food Service: | | | | | |
| Meals served | 13.1 million | 12.9 million | 13.7 million | 14.6 million | 14.6 million |
| Free & Reduced meals | 7.5 million | 8.1 million | 8.9 million | 9.6 million | 9.9 million |
| Real Estate Management: | | | | | |
| Square footage under lease | 168,949 | 162,389 | 167,416 | 169,432 | 169,768 |
| Average annual rental months | 11 | 11.1 | 11.42 | 11.31 | 11.28 |
| Field Trip: | | | | | |
| Number of trips run | 9,277 | 9,800 | 10,913 | 11,632 | 11,490 |
| Trip miles | 366,796 | 385,878 | 427,679 | 440,462 | 433,456 |
| Entrepreneurial activities: | | | | | |
| Science kits sold | 7,975 | 4,806 | 5,676 | 4,748 | 3,546 |

Notes:

NA - Data not readily available.

* SAT score is the average score for the previous year's graduating class.

Beginning with the Class of 2006, the SAT changed from a two-part exam totalling 1,600 to a three-part exam totalling 2,400.

Beginning with the Class of 2017, the SAT changed back to a two-part exam totalling 1,600 rather than a three-part exam totalling 2,400.

ACT is reported as a Mean Composite Score & tracking was added in 2010; students can take both the ACT and the SAT.

Capacity calculation for elementary schools changed from 254 students/classroom to 23, beginning with 2005.

+ Average age of school buildings from time of opening to last renovation/modernization.

Sources for 2018:

(1) The Superintendent's FY 2019 Operating Budget Summary

Total schools are 205 with breakdown: 133 elementary schools; 40 middle schools (includes the opening of Silver Creek MS); 25 high schools; 1 Career & Technology HS (Edison).

5 Special Education Centers (Stephen Knolls, Longview, RICA, Rock Terrace and Carl Sandburg);

1 Alternative Education Center (Blair Ewing Center)

(2) 2017-2018 Schools at a Glance

(3) FY 2019 Educational Facilities Master Plan and the FY 2017-2022 Capital Improvements Program

(4) Various Board departments where not otherwise noted

(5) Total governmental-activities expense from the Statement of Activities divided by total enrollment

(6) FY 2018 Fact Sheet prepared by Employee and Retiree Service Center

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|----|--------------|--------------|--------------|--------------|--------------|
| | 151,289 | 153,852 | 156,447 | 159,010 | 161,470 |
| | 149,390 | 152,092 | 154,288 | 157,047 | 159,447 |
| | 22,088 | 23,386 | 26,127 | 25,867 | 26,597 |
| | 16,339 | 16,462 | 17,053 | 17,861 | 18,084 |
| \$ | 17,240.09 | \$ 16,919 | \$ 16,833 | \$ 17,538 | 17,203 |
| | 7,584 | 7,595 | 8,307 | 8,307 | 7,987 |
| \$ | 75,452 | \$ 76,029 | \$ 75,717 | \$ 79,604 | 82,809 |
| | 14:1 | 14:1 | 14:1 | 14:1 | 14:1 |
| | 1,650 | 1,629 | 1,631 | 1,126 * | 1,167 |
| | 69 % | 68 % | 65 % | 62 % | 66 |
| | 24 | 24 | 25 | 25 | 25 |
| | 29.6 % | 34 % | 35.6 % | 39.6 % | 34.4 |
| | 99 % | 101 % | 101 % | 101 % | 101 |
| | 1,270 | 1,273 | 1,287 | 1,290 | 1,323 |
| | 101,949 | 101,949 | 104,000 | 101,225 | 102,067 |
| | 202 | 203 | 204 | 204 | 205 |
| | 24.9 million | 24.9 million | 23.9 million | 23.7 million | 24.3 million |
| | 8,157 | 8,169 | 8,184 | 8,320 | 8,540 |
| | 59,862 | 63,980 | 67,083 | 67,740 | 69,918 |
| | 23 | 22 | 24 | 25 | 25 |
| | 64,506 | 61,911 | 57,476 | 56,441 | 54,787 |
| | 48,375 | 37,763 | 37,929 | 36,153 | 34,543 |
| | 15.1 million | 17.2 million | 17.6 million | 17.7 million | 17.4 million |
| | 10.3 million | 11.9 million | 12 million | 11.7 million | 11.3 million |
| | 185375 | 179686 | 207177 | 173797 | 192500 |
| | 11.06 | 11.7 | 11.1 | 11.6 | 11.6 |
| | 11,509 | 11,187 | 12,264 | 13,266 | 13,295 |
| | 421,296 | 436,954 | 478,034 | 503,020 | 522,322 |
| | 1,854 | 2,293 | 3,570 | 2,334 | 2,056 |

BOARD OF EDUCATION OF MONTGOMERY COUNTY
 EMPLOYEES BY FUNCTION
 LAST TEN FISCAL YEARS

| | Fiscal Year | | | |
|----------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2009 | 2010 | 2011 | 2012 |
| Governmental Activities: | | | | |
| Instruction | | | | |
| Regular instruction: | | | | |
| Teachers | 9,589 | 9,690 | 9,453 | 9,467 |
| Other staff | 1,371 | 1,374 | 1,351 | 1,208 |
| Total Regular instruction | <u>10,960</u> | <u>11,064</u> | <u>10,804</u> | <u>10,675</u> |
| Special education: | | | | |
| Teachers | 2,047 | 2,094 | 2,117 | 2,114 |
| Other staff | 1,424 | 1,514 | 1,545 | 1,547 |
| Total Special education | <u>3,471</u> | <u>3,608</u> | <u>3,662</u> | <u>3,661</u> |
| School administration | 1,677 | 1,662 | 1,683 | 1,669 |
| Student personnel services | 118 | 111 | 110 | 109 |
| Total Instruction | <u>16,226</u> | <u>16,445</u> | <u>16,259</u> | <u>16,114</u> |
| Support services: | | | | |
| Student transportation | 1,745 | 1,742 | 1,742 | 1,733 |
| Operation of plant | 1,403 | 1,398 | 1,407 | 1,430 |
| Maintenance of plant | 396 | 389 | 380 | 380 |
| Administration | 369 | 358 | 339 | 327 |
| Total Support services | <u>3,913</u> | <u>3,887</u> | <u>3,868</u> | <u>3,870</u> |
| Special Revenue: | | | | |
| Instructional TV | 14 | 14 | 14 | 13 |
| Business-Type Activities: | | | | |
| Food Service | 605 | 584 | 584 | 584 |
| Adult Education | | | | |
| Real Estate Management | 7 | 7 | 7 | 7 |
| Field Trips | 4 | 5 | 5 | 5 |
| Entrepreneurial activities | 8 | 10 | 9 | 9 |
| Position Grand total | <u><u>20,777</u></u> | <u><u>20,952</u></u> | <u><u>20,746</u></u> | <u><u>20,602</u></u> |

Source:
 The Superintendent's FY 2019 Operating Budget

| Fiscal Year | | | | | |
|---------------|---------------|---------------|---------------|---------------|---------------|
| 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| 9,617 | 9,887 | 10,119 | 10,029 | 10,572 | 10,611 |
| 1,211 | 1,205 | 1,085 | 1,022 | 1,141 | 1,056 |
| <u>10,828</u> | <u>11,092</u> | <u>11,204</u> | <u>11,051</u> | <u>11,713</u> | <u>11,667</u> |
| 2,141 | 2,201 | 2,241 | 2,272 | 2,299 | 2,355 |
| 1,556 | 1,591 | 1,626 | 1,659 | 1,682 | 1,699 |
| <u>3,697</u> | <u>3,792</u> | <u>3,867</u> | <u>3,931</u> | <u>3,981</u> | <u>4,054</u> |
| 1,673 | 1,675 | 1,678 | 1,655 | 1,678 | 1,689 |
| 107 | 108 | 112 | 112 | 112 | 118 |
| <u>16,305</u> | <u>16,667</u> | <u>16,861</u> | <u>16,749</u> | <u>17,484</u> | <u>17,528</u> |
| 1,733 | 1,733 | 1,733 | 1,721 | 1,741 | 1,737 |
| 1,431 | 1,442 | 1,594 | 1,594 | 1,592 | 1,617 |
| 380 | 375 | 351 | 356 | 354 | 369 |
| 328 | 333 | 347 | 341 | 336 | 366 |
| <u>3,872</u> | <u>3,883</u> | <u>4,025</u> | <u>4,012</u> | <u>4,023</u> | <u>4,089</u> |
| 13 | 13 | 14 | 14 | 14 | 14 |
| 583 | 583 | 585 | 585 | 588 | 588 |
| 7 | 7 | 7 | 9 | 12 | 12 |
| 5 | 5 | 5 | 5 | 5 | 5 |
| 13 | 13 | 13 | 14 | 12 | 12 |
| <u>20,798</u> | <u>21,171</u> | <u>21,510</u> | <u>21,388</u> | <u>22,138</u> | <u>22,248</u> |



Student: Albert Solis, 4th Grade
School: Brookhaven Elementary School
Art Teacher: Mrs. Wilburn



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