

**BOARD OF EDUCATION
QUEEN ANNE'S COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
AND OTHER SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2016

C O N T E N T S

	<u>PAGE</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1
<u>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</u>	4
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	6
<u>BASIC FINANCIAL STATEMENTS</u>	
GOVERNMENT – WIDE FINANCIAL STATEMENTS:	
Statement of Net Position	14
Statement of Activities	15
FUND FINANCIAL STATEMENTS:	
Balance Sheet – Governmental Funds	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	19
Statement of Fiduciary Net Position – Agency Funds	20
NOTES TO FINANCIAL STATEMENTS	21
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
SCHEDULE OF FUNDING PROGRESS – OPEB	47
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES – BUDGET AND ACTUAL – GENERAL FUND	48
SCHEDULE OF BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	49
SCHEDULE OF BOARD CONTRIBUTIONS	50
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	51
<u>OTHER SUPPLEMENTARY INFORMATION</u>	
SCHOOL CONSTRUCTION EXPENDITURES	52
FOOD SERVICE FUND OPERATIONS	53
SCHOOL ACTIVITIES FUND ACCOUNTS	54



INDEPENDENT AUDITORS' REPORT

Board Members

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Queen Anne's County, Maryland (the Board), a component unit of Queen Anne's County, Maryland, as of and for the year ended June 30, 2016, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Queen Anne's County, Maryland, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, budgetary comparison information for the General Fund, Schedule of Funding Progress - Other Postemployment Benefits Plan, Schedule of Board's Proportionate Share of Net Pension Liability, Schedule of Board's Contributions, and Notes to Required Supplementary Information*, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The accompanying schedules of school construction expenditures, food service fund operations, and school activities fund accounts, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules of school construction expenditures, food service fund operations, and school activities fund operations are the responsibility of management and were derived from and relate 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 accompanying schedules of school construction expenditures, food service fund operations, and school activities fund accounts are fairly stated in all material respects in relation to the basic financial statements as a whole.

Board Members

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2016 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.



Easton, Maryland
September 29, 2016



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board Members

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Queen Anne's County, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated September 29, 2016.

Internal Control Over Financial Reporting

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

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

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

Compliance and Other Matters

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

Purpose of this Report

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



Easton, Maryland
September 29, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2016

Our discussion and analysis of the Board of Education of Queen Anne's County financial performance provides an overview of the Board's financial activities for the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Board's financial statements, which immediately follow this section.

The goal of Management's Discussion and Analysis (MD&A) is for the School District's financial managers to present an objective and easily readable analysis of the district's financial activities based on currently known facts, decisions, or conditions.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2016 include the following:

- The unrestricted General Fund actual revenues were \$141,077 or sixteen one-hundredths of one percent (0.16%) under the approved budget. While revenues from interest and out of county tuition payments are contributing factors for this negative variance, revenues from rent of facilities and participation in the retiree drug subsidy program produced positive variances. The reduced number of students in non-public placements resulted in a negative variance in state revenue for that program.
- Actual expenditures in the unrestricted General Fund were \$1,098,595 or 1.27% under the approved budget. This positive variance was due in part to attrition of staff both at the central office and the schools, a reduction in the number and cost of non-public placements, and a reduction in fuel costs for both transportation and maintenance vehicles.
- The restricted General Fund actual revenues and expenditures were under the approved budget by \$721,349. Several factors attributed to this variance. Grants such as Title I Approaching Target and Special Ed's Passthrough Discretionary were not awarded to QACPS in FY2016. Grants such as 21st Century and Title IIA had less carryover than anticipated and budgeted. Also, Grants such as Special Ed Local Priority Flexibility, Title I, Title I Migrant, STEM and IDEA Passthrough have funds allocated for activities planned for July and August. And finally, the State STEM grant was reduced significantly from what was budgeted.
- The Board's capital assets before depreciation increased approximately \$3.5M during the fiscal year. This increase is attributable to the continued renovation of Stevensville Middle School, the purchase of school buses, and the ongoing upgrade of our technology and security infrastructure.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

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

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS – continued

Government-wide Financial Statements – continued

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

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

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

Fund Financial Statements

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

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

Fund financial statements are also unrelated to the budget and, accordingly, budget comparisons are not provided in the presentation.

Budgetary Financial Statements

Budgetary presentation of individual fund financial information utilizing the current financial resources measurement focus and the budgetary basis of accounting is presented as part of the Required Supplementary Information. In the budgetary presentation, available cash flows of the Board itself are measured as well as the commitment to acquire goods or services with that cash. Encumbrances open at year-end are included in the expenditures in the budgetary presentation.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS – continued

Budgetary Financial Statements – continued

Since this is the legal basis upon which the budget is adopted, budget comparisons are provided in this presentation. GASB Statement No. 34 requires that we present the original adopted budget as well as the final budget and discuss the changes between them.

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

	<u>District-wide Statements</u>	<u>Fund Statements</u>	<u>Budgetary Fund Statements</u>
Measurement Focus	Economic resources	Current financial resources	Current financial resources
Basis of Accounting	Accrual	Modified accrual	Cash and commitments
Budget	No	No	Yes

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

	<u>June 30,</u>		<u>Change</u>	
	<u>2016</u>	<u>2015</u>	<u>\$</u>	<u>%</u>
ASSETS				
Current and other assets	\$ 16,559,592	\$ 15,875,712	\$ 683,880	4.31
Capital assets	170,886,452	172,315,709	(1,429,257)	(0.83)
TOTAL ASSETS	187,446,044	188,191,421	(745,377)	(0.40)
DEFERRED OUTFLOWS OF RESOURCES				
State pension plan	1,091,215	512,789	578,426	100.00
LIABILITIES				
Current and other liabilities	12,597,822	12,594,051	3,771	0.03
Long-term liabilities	54,678,458	47,845,293	6,833,165	14.28
TOTAL LIABILITIES	67,276,280	60,439,344	6,836,936	11.31
DEFERRED INFLOWS OF RESOURCES				
State pension plan	386,144	390,704	(4,560)	100.00
NET POSITION				
Net investment in capital assets	168,123,706	169,230,662	(1,106,956)	(0.65)
Restricted assets	563,503	430,460	133,043	30.91
Unrestricted	(47,812,374)	(41,786,960)	(6,025,414)	14.42
TOTAL NET POSITION	\$ 120,874,835	\$ 127,874,162	\$ (6,999,327)	(5.47)

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE – continued

Net position represents the difference between assets and liabilities. The unrestricted deficit at June 30, 2016 is the result of recording the Board's unfunded other post-employment benefit obligation. Note 6 of the financial statements provides more detail regarding the Board's OPEB plan.

Changes in Net Position

The Board's government-wide changes in net assets for the years ended June 30, 2016 and 2015 are summarized below.

	<u>June 30,</u>		<u>Change</u>	
	<u>2016</u>	<u>2015</u>	<u>\$</u>	<u>%</u>
REVENUES				
Program revenues				
Charges for services	\$ 1,409,452	\$ 1,407,148	\$ 2,304	0.16
Federal, state and local grants	12,290,146	13,006,856	(716,710)	(5.51)
General revenue				
County appropriation	52,850,293	51,228,247	1,622,046	3.17
State of Maryland	33,351,998	32,964,343	387,655	1.18
Capital contributions	6,353,230	19,149,263	(12,796,033)	(66.82)
Other	180,513	203,841	(23,328)	(11.44)
TOTAL REVENUES	<u>106,435,632</u>	<u>117,959,698</u>	<u>(11,524,066)</u>	<u>(9.77)</u>
EXPENSES				
Instructional services and special education				
	50,261,628	49,313,803	947,825	1.92
Restricted programs	5,660,697	6,362,932	(702,235)	(11.04)
Administration	1,809,789	1,813,268	(3,479)	(0.19)
Operation & maintenance of plant	7,697,297	7,637,861	59,436	0.78
Other support services	12,449,409	10,983,950	1,465,459	13.34
Fixed charges	31,077,765	29,615,093	1,462,672	4.94
Depreciation - unallocated	4,478,374	4,396,348	82,026	1.87
TOTAL EXPENSES	<u>113,434,959</u>	<u>110,123,255</u>	<u>3,311,704</u>	<u>3.01</u>
CHANGE IN NET POSITION	<u>\$ (6,999,327)</u>	<u>\$ 7,836,443</u>	<u>\$ (14,835,770)</u>	<u>(189.32)</u>

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

ANALYSIS OF BUDGET AND ACTUAL COMPARISONS – continued

General Fund – Unrestricted and Restricted – continued

	Original Budget	Final Budget	Additions	Reductions	Net Change
REVENUES					
Local	\$ 52,850,293	\$ 52,850,293	\$ -	\$ -	\$ -
State	32,979,818	32,979,818	-	-	-
Restricted, federal, state and other	6,382,046	6,382,046	-	-	-
Other sources	474,000	474,000	-	-	-
TOTAL REVENUES	<u>\$ 92,686,157</u>	<u>\$ 92,686,157</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
EXPENDITURES AND ENCUMBRANCES					
Administration	\$ 1,746,889	\$ 1,776,889	\$ 30,000	\$ -	\$ 30,000
Mid-level administration	5,029,982	5,029,982	-	-	-
Instructional costs	37,211,018	37,211,018	-	-	-
Special education	8,226,442	8,226,442	-	-	-
Student personnel services	436,499	436,499	-	-	-
Health services	717,802	717,802	-	-	-
Transportation	6,309,391	6,309,391	-	-	-
Operation of plant	6,161,226	6,161,226	-	-	-
Maintenance of plant	1,694,258	1,694,258	-	-	-
Fixed charges	18,770,604	18,770,604	-	-	-
Restricted programs	6,382,046	6,382,046	-	-	-
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>\$ 92,686,157</u>	<u>\$ 92,716,157</u>	<u>\$ 30,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>

Please note that local and state revenues account for over 93% of the total General Fund revenues and over 99% of the unrestricted General Fund revenues.

Other revenues are budgeted very conservatively due to the unpredictable nature of the receipts. These receipts include, but are not limited to, facilities rental, bus rental, interest income, retiree prescription drug subsidy program, and tuition payments received. Tuition can be collected from other county boards of education under the informal kinship care arrangements and out of county living arrangements. For the kinship care arrangements, criteria established by the state legislature must be met in order for counties to be eligible to bill for these students. Since the inception of this program, only a few counties have met this criterion. Queen Anne's County did not qualify again in the current fiscal year. Because the determination is made on an annual basis, we do not budget this revenue.

This positive variance was due in part to attrition of staff both at the central office and the schools, a reduction in the number and cost of non-public placements, and a reduction in fuel costs for both transportation and maintenance vehicles.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Board had approximately \$235 million invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles and other equipment. Capital assets increased by over \$3.4 million from the same time last year, excluding the effect of depreciation, as shown in the table below. This increase is attributable to the renovation of Stevensville Middle School, the purchase of school buses, and the ongoing upgrade of technology and the security infrastructure.

	June 30,		Change
	2016	2015	
Construction in progress	\$ 23,652,415	\$ 20,720,345	\$ 2,932,070
School properties	195,926,990	195,999,227	(72,237)
Furniture, fixtures and equipment	15,275,820	14,695,699	580,121
TOTAL CAPITAL ASSETS	\$ 234,855,225	\$ 231,415,271	\$ 3,439,954

The Board has no long-term debt related to the construction of school properties. To the extent that such debt is required to make local capital contributions, it is issued by, and reported on the books of, Queen Anne's County Government.

Long-term Liabilities

The Board has \$53,971,254 due or payable after one year. The amount consists of the following:

- \$628,568 of accrued compensated absences
- \$2,428,900 capital lease obligations
- \$46,364,269 OPEB benefit obligation
- \$2,649 in retirement incentives
- \$4,546,868 of the Board's proportionate share of the state's net pension liability

FACTORS IMPACTING THE SCHOOL SYSTEM

Effective with fiscal year 2015, the Board was required to implement the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. As a result of this pronouncement, the Board must report its allocated share of the net pension liability, deferred financing inflows and outflows, and net pension expense from the Employees' Retirement and Pension System of the Maryland State Retirement and Pension System. The impact of this reporting requirement is discussed in note 5.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FACTORS IMPACTING THE SCHOOL SYSTEM – continued

Beginning with fiscal year 2009, the system was required to adhere to the standard issued by the Government Accounting Standards Board (GASB) for reporting other postemployment benefits (OPEB) known as GASB 45. GASB 45 stipulates standards for the measurement, recognition, and display of OPEB expenses and related liabilities and assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. GASB 45 requires the measurement and disclosure of actuarial accrued liabilities and funding status. Under GASB 45, the Board is not only reporting OPEB expense, but the associated accrued financial obligations. Funding of the obligation is optional. The Board is also required to disclose the funding status of the benefits as of the most recent valuation and to present as Required Supplementary Information (RSI) multi-year trend information about funding progress.

During a special session of the Maryland General Assembly – Teacher Pension Cost, it was determined the State and Local school boards will share the cost of teacher retirement by phasing in a requirement for school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85%, and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016, and the additional maintenance of effort payments required by each county in the same period. The additional required allocation from the county for fiscal year 2016 was determined to be \$1,763,314. However, the additional cost to the Board was \$2,061,093.

**CONTACTING THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY FINANCIAL
MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the Board's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Robin H. Landgraf, Chief Financial Officer, (410) 758-2403 at the Board of Education of Queen Anne's County, 202 Chesterfield Avenue, Centreville, Maryland 21617.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF NET POSITION

June 30, 2016

	<u>Governmental Activities</u>
ASSETS	
Cash and equivalents	\$ 12,238,600
Certificates of deposit	317,000
Due from other units of government	3,670,550
Accounts receivable	280,977
Inventory, at cost	38,979
Prepaid expenses	13,486
Capital assets:	
Land and construction in progress, at cost	30,015,455
Other depreciable capital assets, at cost, less accumulated depreciation	<u>140,870,997</u>
TOTAL ASSETS	<u>187,446,044</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - state pension plan	<u>1,091,215</u>
 LIABILITIES	
Accounts payable	2,549,543
Employee salary deferrals	8,121,516
Employee and other withholdings	889,190
Unearned revenues	816,906
Due to other units of government	93,722
Due to agency fund	126,945
Noncurrent liabilities:	
Due within one year	707,204
Due in more than one year	<u>53,971,254</u>
TOTAL LIABILITIES	<u>67,276,280</u>
 DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - state pension plan investment activity	<u>386,144</u>
 NET POSITION	
Net investment in capital assets, net of related debt	168,123,706
Restricted for:	
Food service	33,372
Capital projects	530,131
Unrestricted deficit	<u>(47,812,374)</u>
TOTAL NET POSITION	<u>\$ 120,874,835</u>

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Position
		Charges For Services	Operating Grants and Contributions	
GOVERNMENTAL ACTIVITIES				
Administration	\$ 1,809,789	\$ -	\$ -	\$ (1,809,789)
Instructional services	42,272,357	21,945	-	(42,250,412)
Special education	7,989,271	-	2,092,442	(5,896,829)
Student personnel services	434,937	-	-	(434,937)
Health services	716,887	-	-	(716,887)
Student transportation	6,186,615	-	3,211,902	(2,974,713)
Operation of plant	5,973,832	-	-	(5,973,832)
Maintenance of plant	1,723,465	254,448	-	(1,469,017)
Fixed charges	31,077,765	-	-	(31,077,765)
Capital outlay	2,590,929	-	-	(2,590,929)
Food services	2,520,041	1,133,059	1,325,105	(61,877)
Federal, state and other restricted programs	5,660,697	-	5,660,697	-
Unallocated depreciation and loss on disposal of fixed assets	4,478,374	-	-	(4,478,374)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 113,434,959	\$ 1,409,452	\$ 12,290,146	\$ (99,735,361)
General Revenues				
				52,850,293
Local appropriations				33,351,998
State aid - unrestricted				6,353,230
Capital outlay/construction funding				157,571
Miscellaneous				22,942
Unrestricted investment earnings				<u>92,736,034</u>
TOTAL GENERAL REVENUES				
				CHANGE IN NET POSITION
				(6,999,327)
				NET POSITION AT JULY 1, 2015
				<u>127,874,162</u>
				NET POSITION AT JUNE 30, 2016
				<u><u>\$ 120,874,835</u></u>

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2016

	<u>MAJOR FUNDS</u>		<u>NONMAJOR FUND</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Food Services</u>	
ASSETS				
Cash and equivalents	\$ 11,301,326	\$ 587,735	\$ 349,539	\$ 12,238,600
Certificates of deposit	317,000	-	-	317,000
Accounts receivable:				
Federal funds from state	1,813,786	-	66,821	1,880,607
State of Maryland	353,545	50,712	4,428	408,685
Other governmental funds	156,009	-	44,890	200,899
Queen Anne's County	-	1,381,258	-	1,381,258
Other	280,977	-	-	280,977
Inventory, at cost	38,979	-	-	38,979
Prepaid expense	13,486	-	-	13,486
TOTAL ASSETS	<u>\$ 14,275,108</u>	<u>\$ 2,019,705</u>	<u>\$ 465,678</u>	<u>\$ 16,760,491</u>
LIABILITIES				
Accounts payable:				
Vendors	\$ 823,876	\$ 1,333,565	\$ 392,102	\$ 2,549,543
Other governmental funds	44,890	156,009	-	200,899
Agency funds	126,945	-	-	126,945
Other units of government	93,722	-	-	93,722
Employee salary deferrals	8,121,516	-	-	8,121,516
Employee and other withholdings	889,190	-	-	889,190
Accrued compensated absences	370,230	-	-	370,230
Unearned revenues	776,702	-	40,204	816,906
TOTAL LIABILITIES	<u>11,247,071</u>	<u>1,489,574</u>	<u>432,306</u>	<u>13,168,951</u>
FUND BALANCES				
Nonspendable	52,465	-	-	52,465
Spendable				
Restricted	-	530,131	33,372	563,503
Assigned	1,794,639	-	-	1,794,639
Unassigned	1,180,933	-	-	1,180,933
TOTAL FUND BALANCES	<u>3,028,037</u>	<u>530,131</u>	<u>33,372</u>	<u>3,591,540</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 14,275,108</u>	<u>\$ 2,019,705</u>	<u>\$ 465,678</u>	<u>\$ 16,760,491</u>

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2016

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$	3,591,540
--	----	-----------

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:

Cost of assets		234,855,225
Less accumulated depreciation		(63,968,773)

Deferred financing outflow for change in assumptions in net pension liability		1,091,215
---	--	-----------

Deferred financing inflows for investment activity in net pension liability		(386,144)
---	--	-----------

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

Compensated absences		(628,568)
Retirement incentives		(5,777)
Capital leases		(2,762,746)
OPEB obligation		(46,364,269)
Net pension liability		<u>(4,546,868)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	<u>120,874,835</u>
--	----	--------------------

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2016

	<u>MAJOR FUNDS</u>		<u>NONMAJOR FUND</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Food Services</u>	
REVENUES				
County funds	\$ 52,850,293	\$ 6,163,346	\$ -	\$ 59,013,639
State of Maryland funds	32,857,203	137,321	54,658	33,049,182
Restricted federal, state and other	5,660,697	-	-	5,660,697
Federal sources	-	-	1,270,447	1,270,447
Other sources	455,538	53,326	605	509,469
State of Maryland on-behalf pension payments	5,799,139	-	-	5,799,139
Charges for food services	-	-	1,133,059	1,133,059
TOTAL REVENUES	<u>97,622,870</u>	<u>6,353,993</u>	<u>2,458,769</u>	<u>106,435,632</u>
EXPENDITURES				
Administration	1,756,697	-	-	1,756,697
Mid-level administration	4,866,439	-	-	4,866,439
Instructional salaries & wages	35,535,679	-	-	35,535,679
Instructional textbooks & supplies	959,458	-	-	959,458
Other instructional costs	505,712	-	-	505,712
Special education	7,989,271	-	-	7,989,271
Student personnel services	434,937	-	-	434,937
Health services	716,887	-	-	716,887
Student transportation	6,023,405	-	-	6,023,405
Operation of plant	6,094,347	-	-	6,094,347
Maintenance of plant	1,690,991	-	-	1,690,991
Fixed charges	18,731,325	-	-	18,731,325
Food service	-	-	2,431,858	2,431,858
Restricted federal, state and other	5,660,697	-	-	5,660,697
Capital outlay	-	6,583,861	-	6,583,861
State of Maryland on-behalf pension payments	5,799,139	-	-	5,799,139
TOTAL EXPENDITURES	<u>96,764,984</u>	<u>6,583,861</u>	<u>2,431,858</u>	<u>105,780,703</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)				
	857,886	(229,868)	26,911	654,929
OTHER FINANCING SOURCES (USES)				
Transfer in (out)	(336,000)	336,000	-	-
NET CHANGE IN FUND BALANCES	521,886	106,132	26,911	654,929
FUND BALANCES, BEGINNING OF YEAR				
	2,506,151	423,999	6,461	2,936,611
TOTAL FUND BALANCES	<u>\$ 3,028,037</u>	<u>\$ 530,131</u>	<u>\$ 33,372</u>	<u>\$ 3,591,540</u>

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION

June 30, 2016

	AGENCY FUNDS		Total
	Regional Education Funds	School Activities Fund	
ASSETS			
Cash	\$ -	\$ 540,364	\$ 540,364
Due from general fund	126,945	-	126,945
TOTAL ASSETS	\$ 126,945	\$ 540,364	\$ 667,309
LIABILITIES			
Accounts payable	\$ 14,568	\$ -	\$ 14,568
Funds held for school activities	-	540,364	540,364
Unearned revenue	112,377	-	112,377
TOTAL LIABILITIES	\$ 126,945	\$ 540,364	\$ 667,309

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

The Board of Education of Queen Anne's County (the Board) is a component unit of Queen Anne's County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. Accordingly, the financial statements of the Board are included in the financial statements of Queen Anne's County.

The accounting policies of the Board of Education of Queen Anne's County conform to generally accepted accounting principles (GAAP) for governmental units. The following is a summary of the significant policies employed by the Board:

Government-wide and fund financial statements – The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the Board as a whole. For the most part, the effect of interfund activity has been removed from these statements. The exceptions to this general rule are immaterial charges between the Board's food service and general funds for catering of special functions provided by the Board's food service management company. The activities of the General Fund (Current Expense Fund), Special Revenue Fund (Food Service Fund) and Capital Projects Fund (School Construction Fund) have been presented as governmental activities in the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department, and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational requirements of a particular program. Local appropriations, state and federal aid, and other items that are not classified as program revenues are presented as general revenues of the Board.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The individual major governmental funds and the non-major governmental fund are reported in separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Local appropriations and state and federal aid are recognized as revenues in the year for which they were approved by the provider. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to certain compensated absences and termination benefits are recognized when the obligations are expected to be liquidated with expendable available resources.

Local appropriations and state and federal aid associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria have been met. Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus. Agency funds do, however, use the accrual basis of accounting.

The Board reports the following funds in the fund financial statements:

Governmental funds

Major funds

General Fund (Current Expense Fund) – The general fund is the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. Special state and federal programs are included in the restricted portion of the fund.

Capital Projects Fund (Construction Fund) – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Non-Major Fund

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Fiduciary funds

Agency Funds – Agency funds represent assets held by the Board on behalf of others. The Regional Education Funds are educational programs for which the Board acts as the processing agent for invoices. The School Activities Fund consists of transactions at the schools for student insurance, pictures, athletics, clubs, other student activities, and principals' miscellaneous expenses.

The accounting policies of the Board of Education of Queen Anne's County conform to accounting principles generally accepted in the United States of America. Accordingly, the Board applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins.

Cash and Cash Equivalents – The Board considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Capital assets – Capital assets, which include property, plant and equipment, are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$1,000. Capital assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated using the straight-line method over estimated useful lives of 50 years for buildings, 20 years for land improvements, and 5-20 years for equipment, computers, and vehicles.

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Budgets and budgetary accounting – The Board follows these procedures in establishing the budgetary data reflected in the financial statements:

Operating Budget (General Fund) - The Board of Education of Queen Anne's County, Maryland operated within the following budget requirements for local educational agencies as specified by state law.

1. The Board of Education must submit an annual school budget in writing to the County Commissioners each year.
2. The County Commissioners must approve the budget ordinance by June 30 of each year.
3. The budget is prepared and approved by major categories as specified in the state law.
4. The Board of Education may transfer funds within the major categories without recourse to the County Commissioners, and a report of the transfer shall be submitted to the County Commissioners. Transfers between major categories can only be made with the approval of the County Commissioners. No action within 30 days after receipt of the written request constitutes an approval.
5. Unexpended appropriations of current expense funds lapse at the end of each fiscal year.

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

Capital Budget – School Construction Fund (Capital Projects Fund) – Annual budgetary comparisons to actual expenditures are not presented in the financial statements for the capital projects fund. School construction is budgeted on a project basis with funds primarily provided by Queen Anne's County and State of Maryland. State funds are approved by the State's interagency committee.

Budgetary compliance is measured using the budgetary basis of accounting, the purpose of which is to demonstrate compliance with legal requirements of Queen Anne's County, the State of Maryland, and special federal and state programs.

The budgetary basis differs from GAAP and the fund financial statements in that encumbrances, which represent commitments to purchase goods and services, are treated as expenditures of the current period rather than as reservations of the fund balance. The statement of revenues, expenditures and encumbrances – budget and actual – general fund and restricted grants is presented using the budgetary basis of accounting.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Encumbrances – Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general fund, special revenue fund, and capital projects fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Use of restricted funds – 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.

Bank deposits – The Board is authorized to invest in certificates of deposit and federal securities (i.e., U.S. Treasury and federal agency securities) as specified in Section 6-222 of the Maryland State Finance and Procurement Article.

Article 95, Section 22 of the Annotated Code of Maryland requires that deposits with financial institutions by local boards of education be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution. In addition, this section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code (i.e., direct obligations of the United States, or its agencies and/or obligations of states, counties, or municipalities).

Due to/from other funds – All transactions between funds represented by *“due to/from other board of education funds”* are caused by cash from one fund paying for expenditures or expenses of another. The Board did not incur transactions between funds that would represent lending/borrowing arrangements outstanding at the end of the fiscal year.

Interfund transfers – Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. Upon approval of the County Commissioners, the Board transferred \$336,000 of excess fund balance out of the general fund into the capital projects fund during fiscal year 2016.

Inventories and donated commodities – Food commodities donated by federal agencies are valued at market value and included in revenues and expenditures when received. Unused quantities on hand at year-end are not significant. The inventories of the current expense fund are valued at cost, primarily on the first-in, first-out method, and consist of paper products and various janitorial supplies.

Accrued compensated absences – The Board accrues a liability for compensated absences (vacation pay) employees have earned but have not yet been paid. The Board adopted the practice of paying for any unused vacation time, up to the maximum amounts employees can carry over from one year to the next, upon the termination of employment. The full amount of this obligation has been provided for in the accompanying Statement of Net Position.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Retirement and Pension System (SRPS) and additions to/deductions from SRPS's fiduciary net position have been determined on the same basis as they are reported by SRPS. 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.

Deferred outflows of resources – A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

Deferred inflows of resources – A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that future time.

Net position – Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted when there are external restrictions imposed by grantors, or laws or regulations of other governments.

Fund balances – As of June 30, 2016, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board of Education members. The Board of Education is the highest level of decision-making authority for the entity. Commitments may be established, modified, or rescinded only through formal actions approved by the Board members.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. These amounts are designated by management.

Unassigned – all other spendable amounts.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

When an expenditure is incurred for which both restricted and unrestricted fund balance is available, the Board considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Board considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

On-behalf payments – The Board recognizes as revenue and expenditures amounts expended on its behalf during the fiscal year for amounts paid by third parties.

Use of estimates – 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements – GASB has issued Statement No. 75, entitled *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and Statement No. 82, entitled *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, which are effective for financial statements for periods beginning after June 15, 2017 and July 1, 2016, respectively. These statements may have a material effect on the Board's financial statements once implemented. The Board is analyzing the impact of these pronouncements on the Board's financial statements.

(2) Deposits

At June 30, 2016, the Board had deposits of approximately \$13.4 million with local banks. Of the total deposits, approximately \$12.9 million not covered by FDIC was collateralized by securities held by the pledging financial institution's trust department or agent, but not in the Board's name. The value of the pledged securities exceeded the amount of deposits in excess of coverage by the FDIC. Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, the Board would not be able to recover collateral securities that are in the possession of the financial institution or Federal Reserve.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(2) Deposits – continued

The Board's deposits include certificates of deposit. These deposits are not cash equivalents as defined by generally accepted accounting principles.

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

Cash in bank	\$	12,777,352
Certificates of deposit		317,000
Cash on hand		<u>1,612</u>
 Total cash and cash equivalents		 13,095,964
 Less:		
Temporary investments		317,000
School activities agency fund		<u>540,364</u>
 TOTAL CASH AND CASH EQUIVALENTS (GOVERNMENT WIDE)		 <u>\$ 12,238,600</u>

(3) Interfund receivable – payables

Outstanding balances resulting from transactions between funds as of June 30, 2016 consist of the following:

	<u>Due from</u> <u>Other Funds</u>	<u>Due to</u> <u>Other Funds</u>
General fund	\$ 156,009	\$ 171,835
Capital projects fund	-	156,009
Food service fund	44,890	-
Trust and Agency	<u>126,945</u>	<u>-</u>
 TOTAL	 <u>\$ 327,844</u>	 <u>\$ 327,844</u>

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(4) Capital assets

Capital asset balances and activity for the year ended June 30, 2016 were as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance</u> <u>June 30, 2016</u>
CAPITAL ASSETS NOT BEING DEPRECIATED				
Cost				
Land	\$ 6,363,040	\$ -	\$ -	\$ 6,363,040
Construction in progress	20,720,345	2,932,070	-	23,652,415
TOTAL COST OF CAPITAL ASSETS NOT BEING DEPRECIATED	<u>27,083,385</u>	<u>2,932,070</u>	<u>-</u>	<u>30,015,455</u>
CAPITAL ASSETS BEING DEPRECIATED				
Cost				
Land improvements	5,368,196	5,395	(3,900)	5,369,691
Buildings	184,267,991	-	(73,732)	184,194,259
Furniture, fixtures and equipment	14,695,699	853,681	(273,560)	15,275,820
TOTAL COST OF CAPITAL ASSETS BEING DEPRECIATED	<u>204,331,886</u>	<u>859,076</u>	<u>(351,192)</u>	<u>204,839,770</u>
Accumulated depreciation				
Land improvements	3,979,941	176,227	(3,900)	4,152,268
Buildings	47,976,534	3,767,939	(42,391)	51,702,082
Furniture, fixtures and equipment	7,143,087	1,200,421	(229,085)	8,114,423
Total accumulated depreciation	<u>59,099,562</u>	<u>5,144,587</u>	<u>(275,376)</u>	<u>63,968,773</u>
NET CAPITAL ASSETS BEING DEPRECIATED	<u>145,232,324</u>	<u>(4,285,511)</u>	<u>(75,816)</u>	<u>140,870,997</u>
NET GOVERNMENTAL ACTIVITIES CAPITAL ASSETS	<u>\$ 172,315,709</u>	<u>\$ (1,353,441)</u>	<u>\$ (75,816)</u>	<u>\$ 170,886,452</u>

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(4) Capital assets – continued

Depreciation expense for the year ended June 30, 2016 was charged to governmental functions as follows:

SUPPORT SERVICES	
Administration	\$ 53,092
Instructional services	329,254
Student transportation	163,210
Maintenance of plant	32,474
Food services	88,183
Unallocated	4,478,374
TOTAL	\$ 5,144,587

At June 30, 2016, the Board was contractually obligated under various construction related contracts totaling \$22,804,306, of which \$20,127,648 had been incurred. These projects are financed primarily by capital grants from Queen Anne's County and the State of Maryland. Contracts are not entered into with contractors until such funding is obtained.

(5) Pension plan

Plan description – The Board contributes to the State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. The report may be downloaded by visiting <http://www.sra.maryland.gov/Agency/Downloads/CAFR/>.

The Teachers' Retirement System (TRS) was established on August 1, 1927, to provide retirement allowances and other benefits to teachers in the State. Effective January 1, 1980, the TRS was closed to new members and the Teachers' Pension System (TPS) was established. As a result, teachers hired after December 31, 1979, became members of the TPS as a condition of employment. On or after January 1, 2005, an individual who is a member of the TRS may not transfer membership to the TPS.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(5) Pension plan – continued

On October 1, 1941, the Employees' Retirement System (ERS) was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the ERS was essentially closed to new members and the Employees' Pension System (EPS) was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the EPS as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the ERS. On or after January 1, 2005, an individual who is a member of the ERS may not transfer membership to the EPS.

All individuals who are members of the TPS on or before June 30, 2011, participate in the Alternate Contributory Pension Selection (ACPS) except for the few members who transferred from the TRS after April 1, 1998 or former vested members who terminated employment prior to July 1, 1998. All individuals who enroll in the Teachers' Pension System on or after July 1, 2011, participate in the Reformed Contributory Pension Benefit (RCPB).

The Employees' Pension System (EPS) consists of four parts. The Non-Contributory Pension System (NCPS) was established on January 1, 1980 and consists only of those participating employers that did not elect membership in the Employees' Contributory Pension System (ECPS) or the Alternate Contributory Pension Selection (ACPS). The Employees' Contributory Pension System (ECPS) was established as of July 1, 1998 and consists of those participating employers that elected participation in the ECPS effective July 1, 1998 through July 1, 2005 and did not elect membership in the ACPS as of July 1, 2006. Employees who transferred from the ERS to the EPS after April 1, 1998 were not eligible for the benefits of the ECPS. The Alternate Contributory Pension Selection (ACPS) was established as of July 1, 2006 and consists of all eligible State employees and those participating employers that elected participation in the ACPS effective July 1, 2006. Employees who transferred from the ERS to the EPS after April 1, 1998 were not eligible for the benefits of the ACPS. The Reformed Contributory Pension Benefit (RCPB) was established as of July 1, 2011 and consists of all State employees and employees of participating governmental units enrolling in the EPS on or after July 1, 2011. It does not apply to employees of participating governmental units participating in the NCPS or ECPS who enroll in the Employees' Pension System on or after July 1, 2011.

Benefits provided – SRPS provides retirement, disability, and death benefits as well as annual cost-of-living adjustments to plan members and beneficiaries.

Teachers' and Employees' Retirement Systems

A member is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. Retirement allowances are computed using both the highest three years' average final compensation (AFC) and the actual number of years of accumulated creditable service.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(5) Pension plan – continued

A member may retire with reduced benefits after completing 25 years of eligibility service prior to attaining age 60. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction is 30%. The maximum reduction for a member who elected Selection C (details provided in Contributions section below) is 30% on the first part and 42% on the second part of the benefit calculation.

Any individual who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. A member who terminates employment prior to attaining retirement age and before vesting receives a refund of all member contributions and interest.

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. Members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they became totally and permanently disabled. Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, plus 66.7% of AFC. Allowances may not exceed the members' AFC.

To be eligible for death benefits, members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty. The benefit provided upon death for members equals the members' annual earnable compensation at the time of death plus accumulated contributions. There is a special death benefit paid to the surviving spouse, dependent children, or dependent parents of employees killed in the line of duty equal to 66.7% of the deceased member's average final compensation.

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. For the Teachers' and Employees' Retirement Systems the method by which the annual COLA's are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984) enabling the member to receive either an unlimited COLA, a COLA limited to 5%, or a two part combination COLA depending upon the COLA election made by the member.

Teachers' and Employees' Pension Systems

An individual who is a member 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 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.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(5) Pension plan – continued

An individual who is a member on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members is 42%. An individual who becomes a member on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members is 30%.

For all individuals who are members on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. For any individual who becomes a member on or after July 1, 2011, pension allowances are computed using both the highest five consecutive years' AFC and the actual number of years of accumulated creditable service.

Any individual who is a member on or before June 30, 2011, and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins on or after July 1, 2011, and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

A member who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 66.7% of the member's AFC plus an annuity based on all member contributions and interest.

To be eligible for death benefits, members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest. There is a special death benefit paid to the surviving spouse, dependent children, or dependent parents of employees killed in the line of duty equal to 66.7% of the deceased member's average final compensation.

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. With certain exceptions, effective July 1, 1998, the adjustment is capped at a maximum 3% compounded and is applied to all benefits which have been in payment for one year.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(5) Pension plan – continued

However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

Contributions – During a special session of the Maryland General Assembly – Teacher Pension Cost – it was determined that the State and local school boards will share the cost of teacher retirement by phasing in a requirement for school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85% and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016 and the additional maintenance of effort payments required by each county in the same period.

The Board is required to contribute at an actuarially determined rate. The current rate is 15.71% of annual covered payroll for teachers and 16.38% for classified employees. An additional 5.0% on all retirement system member payroll is required. There are surcharges ranging from 1.11% to 2.42%. The contribution requirements of plan members and the Board are established and may be amended by the SRPS Board of Trustees. The Board's contributions were \$424,398 for the year ended June 30, 2016. Additionally, the State contributed \$5,799,139 on the Board's behalf for fiscal year 2016. For the year ended June 30, 2015, the Board's total payroll for all employees was \$57,583,209. The total covered payroll was \$54,372,599. Covered payroll refers to all compensation paid by the Board to active employees covered under the SRPS.

Teachers' and Employees' Retirement Systems

Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% or 5% of earnable compensation depending upon the retirement option selected.

Members who elected in 1984 to receive unlimited future cost-of-living adjustments (COLA) contribute 7% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 7% or 2% more than the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection A (Unlimited COLA).

Members who elected in 1984 to receive limited future COLA's contribute 5% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 5% or the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection B (Limited COLA).

All other members contribute in accordance with the provisions of the Teachers' Pension System or Employees' Pension System. This option is referred to as Selection C (Combination Formula), which provides a two-part benefit calculation upon retirement.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(5) Pension plan – continued

Members who are in Selection A, B, or C will remain in these until their retirement. As of January 1, 2005, they were no longer permitted to change selections.

Teachers' and Employees' Pension Systems

Beginning July 1, 2011, the member contribution rate was increased for members of the Teachers' Pension System from 5% to 7%.

For the Employee's Pension System, NCPS members are required to contribute 5% of earnable compensation in excess of the social security wage base, ECPS members are required to contribute 2% of earnable compensation, and ACPS and RCPB members are required to contribute 7% of earnable compensation.

Pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources – At June 30, 2016, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

Board's proportionate share of the net pension liability	\$ 4,546,868
State's proportionate share of the net pension liability associated with the Board	<u>61,362,581</u>
Total	<u>\$ 65,909,449</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the actual employer contributions billed to the Board for the year ending June 30, 2015 compared to the total billings to all participating government units. That percentage was then multiplied by the total net pension liability for the SRPS to calculate the liability related to the Board. At June 30, 2015 the Board's portion was .0218792%.

For the year ended June 30, 2016, the Board recognized pension expense of \$818,792. At June 30, 2016, 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	\$ 266,333	\$ -
Net difference between projected and actual investment earnings	400,484	-
Net difference between projected and actual earnings on pension plan investments	-	293,028
Difference between actual and expected experience	-	93,116
Board contributions subsequent to the measurement date	<u>424,398</u>	<u>-</u>
Total	<u>\$ 1,091,215</u>	<u>\$ 386,144</u>

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(5) Pension plan – continued

The \$424,398 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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:		
2017	\$	42,971
2018		42,971
2019		42,970
2020		127,738
2021		24,023

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.70% general, 3.20% wage
Salary increases	3.2% to 8.95% including inflation
Investment rate of return	7.55%

Mortality rates were based on the RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period 2010 to 2014.

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(5) Pension plan – continued

For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	1%	0.00%
Total	<u>100%</u>	

Discount rate – A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate – The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.55%) or 1% higher (8.55%) than the current rate.

	Discount rate	District's proportionate share of the net pension liability
1% decrease	6.55%	\$6,426,301
Current discount rate	7.55%	\$4,546,868
1% increase	8.55%	\$2,988,444

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(5) Pension plan – continued

Plan Fiduciary Net Position – Detailed information about the Schedule of Employer Allocations and the Schedule of Pension Amounts by employer is located at <http://www.sra.maryland.gov/Employers/>.

(6) Postemployment benefits other than pension benefits

It is the Board's policy to contribute a portion of the cost of including its retired teachers and administrators in its group major medical insurance program. The Board's contribution can be applied to the coverage of the retiree, spouse, and dependents, but it is limited to the amounts below and it ceases upon the death of the retiree.

Teachers are required to provide at least ten years of service to the Board before becoming eligible for retiree healthcare benefits. Once ten years of service is reached, the Board covers 36 percent of the cost of the individual's EPO health plan. The percentage subsidized by the Board increases 3.6 percent per year for every year of service in excess of ten. At 25 years of service, the maximum subsidy of 90 percent is reached.

The plan for administrators is similar to that for teachers, with the following exceptions. Administrators are required to provide at least five years of service to the Board before becoming eligible for retiree healthcare benefits. Once five years of service is reached, the Board covers 35 percent of the cost of the individual's EPO health plan. The percentage subsidized by the Board increases 5.5 percent per year for every year of service in excess of five. At 15 years of service, the maximum subsidy of 90 percent is reached.

In addition, the Board is contractually obligated to pay the full cost of medical insurance for certain retired directors, superintendents, and their spouses.

The Board recognizes the cost of its contribution in the year it is made in the governmental funds. The total cost of the plan to the Board for the year ended June 30, 2016 was approximately \$1.8 million for 315 retired employees.

The Board also pays the cost of providing term life insurance for its retirees in varying amounts depending upon length of service and date of retirement. The cost of this program in fiscal 2016 was approximately \$30,000.

In addition to the contributions financed on a pay-as-you-go basis, the Board contributed \$500,000 toward the net OPEB obligation during fiscal year 2009. The additional funds are held in the Other Post-Employment Benefit Trust (the "Trust"), an irrevocable trust established with Queen Anne's County Government, Kent County Government, and the Queen Anne's County Library, to fund all or a portion of the benefits provided under the plan. The Trustees of the Trust are charged with management of all co-mingled funds in the Trust. None of the aforementioned entities are required to make any contribution to the Trust, but may contribute any amounts so appropriated. The Board contributed no additional funds to the Trust during fiscal year 2016. The Trust publishes its own annual report based on a fiscal year end of June 30.

-Continued-

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Postemployment benefits other than pension benefits – continued

Annual OPEB cost and net OPEB obligation – The Board's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASBS No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation:

Annual required contribution	\$ 8,430,000
Interest on OPEB obligation	1,562,000
Amortization of net OPEB obligation	<u>(1,960,000)</u>
Annual OPEB cost (expense)	8,032,000
Benefits paid	<u>(1,753,599)</u>
Increase in net OPEB obligation	6,278,401
Net OPEB obligation - beginning of year	<u>40,085,868</u>
 Net OPEB obligation - end of year	 <u><u>\$ 46,364,269</u></u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the preceding two years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/16	\$ 8,032,000	21.8%	\$ 46,364,269
6/30/15	\$ 7,590,000	21.1%	\$ 40,085,868
6/30/14	\$ 8,570,000	17.4%	\$ 34,096,789

Funded status and funding progress – As of the most recent actuarial valuation date, the plan was 0.6% funded. The actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) was \$87,978,000. The covered payroll (annual payroll of active employees covered by the plan) was \$30,426,251, and the ratio of the UAAL to the covered payroll was 289 percent.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Postemployment benefits other than pension benefits – continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016 actuarial valuation, the projected unit credit cost method, with linear pro-ration to assumed benefit commencement was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, a projected salary increase of 3 percent per year, and an annual health care cost trend rate of 8 percent initially, reduced by decrements to an ultimate rate of 3.7 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2016 was 24 years.

(7) Risk management

General insurance – The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board is a member of the Maryland Association of Boards of Education Group Liability Insurance Pool and the Workmen's Compensation Self Insurance Fund (MABE).

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Risk management – continued

These pools are self-insurance funds for the various member Maryland Boards of Education. The pools were organized for the purpose of minimizing the cost of insurance and related administrative expenses. Coverage is provided up to specified limits and the Board pays an annual premium for the coverage provided by those pools. In addition to general liability insurance, the Group Liability Insurance Pool also provides coverage for property liability and automobile liability. Coverage above these limits is provided by third party insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

As of June 30, 2016, MABE had total fund equity of approximately \$22 million. It is believed that there are no outstanding claims in excess of the equity.

MABE publishes its own audited financial report based on a June 30 year-end. This report may be obtained from the Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 301, Annapolis, Maryland 21401.

Health insurance – Effective with the 1996 fiscal year, the Board joined together with the Eastern Shore of Maryland Boards of Education to form the Eastern Shore of Maryland Education Consortium Health Insurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for health insurance coverage. Currently, only six counties are participating in the alliance for their health insurance coverage. CareFirst BlueCross/BlueShield of Maryland administers the program.

The agreement for formation of the alliance provides that the pool will be self-sustaining through member premiums. In addition to the annual premiums, the pooling agreement provides for additional assessments, if needed. For fiscal year 2016, no additional assessments were required.

(8) Unearned revenues

Unearned revenues consist of federal and state grants and other refundable advances that have not been expended by June 30, 2016 and consist of the following:

Restricted federal, Maryland and other grant programs	\$ 769,976
Advanced meal payments	40,204
Other sources	<u>6,726</u>
TOTAL	<u><u>\$ 816,906</u></u>

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(9) Long-term liabilities

The following is a summary of the long-term liabilities transactions and balances for the year ended June 30, 2016:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 1,095,985	\$ -	\$ 97,187	\$ 998,798	\$ 370,230
Retirement incentives	8,905	-	3,128	5,777	3,128
Capital leases	3,085,047	-	322,301	2,762,746	333,846
OPEB benefit obligation	40,085,868	8,032,000	1,753,599	46,364,269	-
Net pension liability	3,569,488	977,380	-	4,546,868	-
TOTAL	\$ 47,845,293	\$ 9,009,380	\$ 2,176,215	\$ 54,678,458	\$ 707,204

During fiscal year 2016, long-term liabilities reductions attributable to the governmental activities were liquidated by the general fund.

Interest expense of approximately \$74,423 has been included in the direct expenses of individual functions on the government-wide statement of activities.

(10) Leases

Operating leases – At June 30, 2016, the Board was obligated under various operating leases for photocopying, maintenance, and other equipment for which future lease payments aggregated \$1,185,246. Total rent expense under these leases for fiscal 2016 was \$393,065. Future lease payments are as follows:

<u>Year ended June 30,</u>	<u>Amount</u>
2017	\$ 386,010
2018	376,763
2019	369,477
2020	35,943
2021	17,053
TOTAL LEASE COMMITMENTS	\$ 1,185,246

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(10) Leases – continued

Capital leases – At June 30, 2016, the Board has entered into various lease agreements as lessee to finance performance contracting equipment that will expire in January 2029. The assets acquired and capitalized as fixed assets under capital leases are as follows:

	Governmental Activities
Equipment at cost	\$ 3,246,662
Less accumulated depreciation	(736,037)
 TOTAL	 \$ 2,510,625

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2016, were as follows:

Year ended June 30,	Amount
2017	\$ 402,341
2018	408,128
2019	210,664
2020	223,001
2021	229,691
2022-2026	1,256,043
2027-2029	477,816
Total minimum lease payments	3,207,684
Less amount representing interest	(444,938)
 PRESENT VALUE OF MINIMUM LEASE PAYMENTS	 \$ 2,762,746

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(11) Fund balances

As of June 30, 2016, fund balances are composed of the following:

	<u>MAJOR FUNDS</u>		<u>NONMAJOR FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
	<u>GENERAL FUND</u>	<u>CAPITAL PROJECTS</u>	<u>FOOD SERVICES</u>	
Nonspendable:				
Inventories	\$ 38,979	\$ -	\$ -	\$ 38,979
Deferred expenditures	13,486	-	-	13,486
	<u>52,465</u>	<u>-</u>	<u>-</u>	<u>52,465</u>
Restricted:				
By County Commissioners for capital projects	-	530,131	-	530,131
By Federal law to nonprofit food service fund	-	-	33,372	33,372
	<u>-</u>	<u>530,131</u>	<u>33,372</u>	<u>563,503</u>
Assigned:				
Future insurance costs	797,367	-	-	797,367
Long-term accrued annual leave	628,568	-	-	628,568
Retirement incentives	5,777	-	-	5,777
Encumbrances	362,927	-	-	362,927
	<u>1,794,639</u>	<u>-</u>	<u>-</u>	<u>1,794,639</u>
Unassigned				
Prior years	126,224	-	-	126,224
Current	1,054,709	-	-	1,054,709
	<u>1,180,933</u>	<u>-</u>	<u>-</u>	<u>1,180,933</u>
 Total fund balances	 <u>\$ 3,028,037</u>	 <u>\$ 530,131</u>	 <u>\$ 33,372</u>	 <u>\$ 3,591,540</u>

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(12) Termination benefits

The Board established a temporary retirement incentive program, offered December 1, 2010 until June 10, 2011, for the purpose of encouraging eligible employees considering a retirement decision to accelerate their retirement plans. Eligible employees included those age 55 with 15 years of service or age 62 and older. Forty employees elected to voluntarily retire from Board employment no later than July 1, 2011. Additionally, two employees elected to voluntarily retire from Board employment no later than January 1, 2012. As material inducement, the Board agreed to an incentive payout equal to 10% of scheduled fiscal year 2012 salary. The employees were able to select from four different payout options as follows:

Option 1 – payout of the incentive in one lump sum as of the first pay date in July 2011.

Option 2 – payout of the incentive in four equal installments over the four pay dates occurring in July and August 2011.

Option 3 – total incentive applied to the retirees' health insurance premiums until completely utilized.

Option 4 – any specified combination of the above three options.

These amounts are in addition to any accrued sick leave otherwise payable upon retirement.

At June 30, 2016, the liability in the government-wide financial statements was \$5,777, which represents actual future payments to be made. In the governmental fund financial statements, liability and expense are not recognized until employees actually terminate employment; therefore, an expenditure of \$3,128 was recognized in the statement of revenues, expenditures and changes in fund balances – governmental funds for fiscal year 2016 for this program. The Board has assigned fund balance of \$5,777 in the general fund to cover the future payments.

(13) Budget reconciliation

The accompanying Schedule of Revenues, Expenditures and Encumbrances – Budget and Actual has been prepared on a legally prescribed budgetary basis of accounting, which differs from generally accepted accounting principles (GAAP). The purpose of the budgetary basis of accounting is to demonstrate compliance with the legal requirements of Queen Anne's County and the State of Maryland.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(13) Budget reconciliation – continued

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

	GENERAL FUND		
	Total Revenues	Total Expenditures	Fund Balance
Modified accrual basis	\$ 97,622,870	\$ 96,764,984	\$ 3,028,037
Encumbrances, June 30, 2015	-	(432,559)	-
Encumbrances, June 30, 2016	-	362,927	(362,927)
Less state on-behalf payments	(5,799,139)	(5,799,139)	-
BUDGETARY BASIS	\$ 91,823,731	\$ 90,896,213	\$ 2,665,110

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
SCHEDULE OF FUNDING PROGRESS – OPEB

Year Ended June 30, 2016

Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
7/1/2015	\$ 545,000	\$ 88,523,000	\$ 87,978,000	0.62%	\$ 30,426,251	289%
7/1/2014	\$ 524,000	\$ 83,226,000	\$ 82,702,000	0.63%	\$ 34,622,026	239%
7/1/2013	\$ 504,292	\$ 93,096,000	\$ 92,591,708	0.54%	\$ 33,683,018	275%

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES –
BUDGET AND ACTUAL – GENERAL FUND

Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES				
County funds	\$ 52,850,293	\$ 52,850,293	\$ 52,850,293	\$ -
State of Maryland funds	32,979,818	32,979,818	32,857,203	(122,615)
Restricted federal, state and other	6,382,046	6,382,046	5,660,697	(721,349)
Other	474,000	474,000	455,538	(18,462)
TOTAL REVENUES	92,686,157	92,686,157	91,823,731	(862,426)
EXPENDITURES AND ENCUMBRANCES				
Administration	1,746,889	1,776,889	1,775,060	1,829
Mid-level administration	5,029,982	5,029,982	4,862,871	167,111
Other instructional costs	37,211,018	37,211,018	37,012,369	198,649
Special education	8,226,442	8,226,442	7,860,149	366,293
Student personnel services	436,499	436,499	431,504	4,995
Student health services	717,802	717,802	717,217	585
Student transportation	6,309,391	6,309,391	6,042,479	266,912
Operation of plant	6,161,226	6,161,226	6,123,626	37,600
Maintenance of plant	1,694,258	1,694,258	1,678,916	15,342
Fixed charges	18,770,604	18,770,604	18,731,325	39,279
Restricted programs	6,382,046	6,382,046	5,660,697	721,349
TOTAL EXPENDITURES AND ENCUMBRANCES	92,686,157	92,716,157	90,896,213	1,819,944
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES BEFORE OTHER FINANCING SOURCES	-	(30,000)	927,518	957,518
OTHER FINANCING SOURCES				
Prior year's fund balance	-	30,000	-	(30,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND ENCUMBRANCES	\$ -	\$ -	\$ 927,518	\$ 927,518

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
Employees' Pension Plan

	2016
Board's proportion of the net pension liability	0.0218792%
Board's proportionate share of the net pension liability	\$ 4,546,868
State's proportionate share of the net pension liability associated with the Board	61,362,581
Total	\$ 65,909,449
Board's covered employee payroll	\$ 54,372,599
Board's proportionate share of the net pension liability as a percentage of its covered employee payroll	0.083624253
Plan fiduciary net position as a percentage of the total pension liability	68.78%

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
SCHEDULE OF BOARD CONTRIBUTIONS
Employees' Pension Plan

	2016
Contractually required contributions	\$ 424,398
Contributions in relation to the contractually required contribution	(424,398)
Contributions deficiency (excess)	\$ -
Board's covered employee payroll	\$ 54,372,599
Contributions as a percentage of covered employee payroll	0.780537%

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes of assumptions – Amounts reported in 2016 reflect an adjustment of the investment return assumption being changed from 7.65% to 7.55%. The inflation assumption changed from 2.90% to 2.70% as well.

OTHER SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
SCHOOL CONSTRUCTION EXPENDITURES

Year Ended June 30, 2016

Aging Schools program	\$ 83,442
Comprehensive building assessment	136,859
Kennard Elementary School - roof	6,800
Queen Anne's County High School - sound	36,633
Relocatable classrooms	88,981
School bus	206,852
Stevensville Middle School - renovation	2,932,070
Sudlersville Elementary School - PA system	55,075
Sudlersville Middle School - renovation	24,014
Technology	1,519,126
Tennis courts	104,750
Textbooks	1,126,074
Various equipment purchases	<u>263,185</u>
 TOTAL SCHOOL CONSTRUCTION EXPENDITURES	 <u>\$ 6,583,861</u>

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
FOOD SERVICE FUND OPERATIONS

Year Ended June 30, 2016

REVENUES

Federal through state funds	\$ 1,107,636
USDA donated commodities	162,811
State of Maryland funds	54,658
Other sources - principally sale of meals	<u>1,133,664</u>
TOTAL REVENUES	<u>2,458,769</u>

EXPENDITURES

Salaries and wages	26,531
Contracted services	2,184,086
Equipment	23,670
Other charges	14,179
Supplies - principally USDA donated commodities	<u>183,392</u>
TOTAL EXPENDITURES	<u>2,431,858</u>

EXCESS OF EXPENDITURES OVER REVENUES	<u><u>\$ 26,911</u></u>
--------------------------------------	-------------------------

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
SCHOOL ACTIVITIES FUND ACCOUNTS

Year Ended June 30, 2016

	BALANCE			BALANCE
	JULY 1, 2015	RECEIPTS	EXPENDITURES	JUNE 30, 2016
ELEMENTARY				
Bayside	\$ 7,419	\$ 41,210	\$ 40,562	\$ 8,067
Centreville	14,138	40,300	48,888	5,550
Church Hill	6,033	22,566	19,085	9,514
Grasonville	5,566	55,131	53,318	7,379
Kennard	3,698	76,395	77,310	2,783
Kent Island	7,058	43,612	44,327	6,343
Matapeake	29,520	57,496	65,452	21,564
Sudlersville	4,753	30,027	28,675	6,105
TOTAL ELEMENTARY	78,185	366,737	377,617	67,305
MIDDLE				
Centreville	16,800	108,396	100,196	25,000
Matapeake	17,106	107,391	111,668	12,829
Stevensville	22,816	126,496	133,327	15,985
Sudlersville	12,624	64,129	60,611	16,142
TOTAL MIDDLE	69,346	406,412	405,802	69,956
HIGH				
Queen Anne's County	139,039	293,993	299,235	133,797
Kent Island	259,578	458,072	448,344	269,306
TOTAL HIGH	398,617	752,065	747,579	403,103
TOTAL	\$ 546,148	\$ 1,525,214	\$ 1,530,998	\$ 540,364