

**THE BOARD OF EDUCATION OF
SOMERSET COUNTY**

FINANCIAL REPORT

JUNE 30, 2017

CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT	3 - 4
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	5 - 6
MANAGEMENT'S DISCUSSION AND ANALYSIS	7 - 18
FINANCIAL STATEMENTS	19
Statement of Net Position	20
Statement of Activities	21
Balance Sheet - Governmental Funds	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	23
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	24
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	25
Statement of Net Position - Proprietary Funds	26
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	27
Statement of Cash Flows - Proprietary Funds	28
Statement of Fiduciary Net Position - Fiduciary Funds	29
NOTES TO FINANCIAL STATEMENTS	30 - 46
REQUIRED SUPPLEMENTARY INFORMATION	47
Schedule of Revenues and Expenditures - Budget and Actual - General Fund	48
Schedule of the Proportionate Share of the Net Position Liability	49
Schedule of Board Contributions - Pension Plans	50
Schedule of Funding Progress and Employer Contributions - OPEB	51
Notes to Statement of Revenue and Expenditures - Budget and Actual	52
ADDITIONAL SUPPLEMENTARY INFORMATION	53
Schedule of Appropriations and Expenditures - General Fund - Budgetary Basis	54 - 55
Schedule of Revenues, Expenditures and Changes in Fund Net Position - Proprietary Funds-Budgetary Basis	56
Combining Schedule of Additions, Deductions and Changes in Due To School Activities Funds - School Activities Funds	57
Notes to Additional Supplementary Information	58

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INDEPENDENT AUDITOR'S REPORT

The Board of Education of Somerset County
Westover, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Somerset County, a component unit of Somerset County, Maryland, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Somerset County as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows 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, schedule of funding progress by valuation date and schedule of employer contributions, schedule of the proportionate share of the net pension liability, and the schedule of contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2017 on our consideration of The Board of Education of Somerset County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Board of Education of Somerset County's internal control over financial reporting and compliance.



Salisbury, Maryland
September 27, 2017

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

The Board of Education of Somerset County
Westover, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Somerset County, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise The Board of Education of Somerset County's basic financial statements and have issued our report thereon dated September 27, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Board of Education of Somerset County'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 of Education of Somerset County's internal control. Accordingly, we do not express an opinion on the effectiveness of The Board of Education of Somerset County'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Board of Education of Somerset County'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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Salisbury, Maryland
September 27, 2017

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

This section of the Board of Education of Somerset County's annual financial report presents our discussion and analysis of the Board's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the Board's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year (FY) ended June 30, 2017 include the following:

- Net position for the Governmental Activities totaled \$44,757,041 an increase of \$498,238 or - 1.13% from the prior year.
- General Fund assigned fund balance equals \$289,068, an increase of \$22,636 from the prior year.
- Unassigned General Fund balance equals \$270,442, a decrease of \$18,626 from the prior year.
- The Food Service fund had a profit of \$204,384. Excluding depreciation, the fund showed a profit of \$236,311.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Board:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the Board's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Board, reporting the Board's operations in *more detail* than the government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short- and long-term* financial information about the activities the Board operates like *businesses*.
- *Fiduciary funds* statements provide information about the financial relationships in which the Board acts solely as a *trustee* or *agent* for the benefit of others to whom the resources belong.

Government-Wide Statements

The government-wide statements report information about the Board as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the Board's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

The two government-wide statements report the Board's net position and how they have changed. Net position, which is the difference between the Board's assets and liabilities, is one way to measure the Board's financial health or *position*.

- Over time, increases or decreases in the Board's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Board, additional non-financial factors such as changes in the condition of school buildings and other facilities must be considered.

In the government-wide financial statement the Board's activities are shown in two categories:

- *Governmental activities* – Most of the Board's basic services are included here, such as regular and special education, transportation, administration, school administration and other student services. Local county and state aid finance most of these activities.
- *Business-Type activities* – The Board's food service operation is included here. The Board operates cafeterias at the schools where breakfast and lunch are served.

Fund Financial Statements

The fund financial statements provide more detailed information about the Board's *funds* – focusing on its most significant or “major” funds – not the Board as a whole. Funds are accounting devices the Board uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (e.g. federal and state grants).

The Board has three kinds of funds:

- *Governmental funds* – Most of the Board's basic services are included in governmental funds, which generally focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statements which explain the relationship (or differences) between them.
- *Proprietary funds* – The Food Service operation is the only fund accounted for as proprietary funds. Proprietary funds are reported in the same way as the government-wide statements.

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

- *Fiduciary funds* – The Board is the trustee, or agent, for assets that belong to others. The Student Activities Fund is accounted for as a fiduciary fund. The Board is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the government-wide financial statements because the Board cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

Net Position

The Board's *combined* net position was \$45,002,948 on June 30, 2017. This was an increase of \$702,622 from the prior year.

CHANGES IN NET POSITION

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>BUSINESS-TYPE ACTIVITIES</u>		<u>TOTAL</u>	<u>TOTAL</u>
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
Current and other assets	\$ 5,055,480	\$ 4,234,743	\$ 123,892	\$ (102,088)	\$ 5,179,372	\$ 4,132,655
Capital assets	<u>52,316,318</u>	<u>51,120,493</u>	<u>162,283</u>	<u>169,945</u>	<u>52,478,601</u>	<u>51,290,438</u>
Total assets	<u>57,371,798</u>	<u>55,355,236</u>	<u>286,175</u>	<u>67,857</u>	<u>57,657,973</u>	<u>55,423,093</u>
Current liabilities	3,683,923	3,038,823	35,146	22,558	3,719,069	3,061,381
Long-term liabilities	<u>8,930,834</u>	<u>8,057,610</u>	<u>5,122</u>	<u>3,776</u>	<u>8,935,956</u>	<u>8,061,386</u>
Total liabilities	<u>12,614,757</u>	<u>11,096,433</u>	<u>40,268</u>	<u>26,334</u>	<u>12,655,025</u>	<u>11,122,767</u>
Investment in capital assets, net of related debt	52,316,318	51,120,493	162,283	169,945	52,478,601	51,290,438
Restricted						
Unrestricted	<u>(7,559,277)</u>	<u>(6,861,690)</u>	<u>83,624</u>	<u>(128,422)</u>	<u>(7,475,653)</u>	<u>(6,990,112)</u>
Total net position	<u>\$ 44,757,041</u>	<u>\$ 44,258,803</u>	<u>\$ 245,907</u>	<u>\$ 41,523</u>	<u>\$ 45,002,948</u>	<u>\$ 44,300,326</u>

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE (Continued)

Changes in Net Position

The Board's total revenues were \$51,262,656 for the year ended June 30, 2017. (See Table 2) The State and County general appropriations accounted for approximately 74% of total revenue for the year. Another 6% came from Capital Contributions from both the State and County. The remaining funds (20%) came from program revenues and investment earnings. The total cost of all programs and services was \$50,560,034. Revenues surpassed expenses, increasing net position \$702,622 from last year.

Table 2

THE BOARD OF EDUCATION OF SOMERSET COUNTY
STATEMENT OF ACTIVITIES
June 30, 2017

	REVENUES					
	Governmental Activities		Business- Type Activities		Total	
	FY 2017	FY 2016	FY 2017	FY 2016	FY 2017	FY 2016
Program revenues						
Charges for services	\$	\$	\$	\$	\$	\$
Federal and state grants	7,689,320	7,522,289	110,926	88,024	110,926	88,024
Capital contributions	3,085,794	2,097,845	2,030,508	1,954,021	9,719,828	9,476,310
General revenues						
County appropriation	9,603,976	9,395,088			9,603,976	9,395,088
State formula aid	28,512,905	27,868,582			28,512,905	27,868,582
Other	228,929	189,388	298	126	229,227	189,514
Total revenue	49,120,924	47,073,192	2,141,732	2,042,171	51,262,656	49,115,363
	EXPENSES					
Instruction and special education	26,230,982	26,614,017			26,230,982	26,614,017
Administration	1,643,969	1,664,057			1,643,969	1,664,057
Support services	1,505,693	1,400,540	1,937,348	1,988,837	3,443,041	3,389,377
Fixed Charges	9,699,922	9,832,894			9,699,922	9,832,894
Building Operations and Maintenance	3,551,069	3,445,905			3,551,069	3,445,905
Transportation	2,925,317	2,948,211			2,925,317	2,948,211
Other	3,065,734	2,741,371			3,065,734	2,741,371
Total expenses	48,622,686	48,646,995	1,937,348	1,988,837	50,560,034	50,635,832
Increase (decrease) in net position	\$ 498,238	\$ (1,573,803)	\$ 204,384	\$ 53,334	\$ 702,622	\$ (1,520,469)

Business-Type Activities

Revenues of the Board's only business-type activity, the food service operation, increased \$99,561 to \$2,141,732 and expenses decreased \$51,489. (Refer to Table 2).

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS

The financial performance of the Board as a whole is reflected in its governmental funds as well. As the Board completed the year, its governmental funds reported a *combined* fund balance of \$911,485, an increase of \$138,317 from last year's ending fund balance.

GENERAL FUND

The General Fund includes the primary operations of the Board in providing educational services to students from pre-kindergarten through grade 12, including pupil transportation activities and maintenance and operations of all school facilities. See Table 3 for a summary of General Fund revenues and expenditures.

The excess of revenues over expenses was \$138,317 for the year ended June 30, 2017 compared to an excess of expenses over revenues of \$720,886 for FY 2016. The major changes in both revenues and expenditures results from the following:

1. State of Maryland revenues increased by \$664,323. Compensatory Education revenue increased by \$573,085.
2. Somerset County revenues increased by \$208,888. This was due to increased enrollment as well as an increase in the Local Education Effort as required by the State. The Local Education Effort adjustment was the result of an increase in local wealth per pupil.
3. Instructional Salaries increased by \$539,928. This increase was due to several new teachers and support staff being hired to reduce class size and to increase student achievement. The increase also reflects a 1% COLA and Mid-Year Step for all staff.
4. Instructional Textbooks and Supplies expenditures decreased by \$302,956. The FY16 expenditures included a new reading curriculum purchased for grades K-5.
5. Special Education decreased by \$300,612. The High Roads education contract was not renewed for FY17. The program is now being staffed by Somerset County Board of Education employees. This was done in order to reduce costs and to have greater control of the program.
6. Fixed Charges has steadily increased due to rising health care costs, retirement payouts and claims.

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

Table 3

GENERAL FUND REVENUES				
	FY 2017	FY 2016	Increase (Decrease)	% of Incr. (Decr.)
REVENUES				
Somerset County Appropriations	\$ 9,603,976	\$ 9,395,088	\$ 208,888	2.2%
State of Maryland	28,512,905	27,868,582	644,323	2.3%
State share of retirement and pension contribution	2,722,323	2,530,203	192,120	7.6%
Other	228,929	189,388	39,541	20.9%
Total Revenues	41,068,133	39,983,261	1,084,872	2.7%
GENERAL FUND EXPENDITURES				
EXPENDITURES				
Administration	1,567,087	1,584,268	(17,181)	-1.1%
Mid-level Administration	3,774,864	3,880,102	(105,238)	-2.7%
Instructional salaries	13,595,343	13,055,415	539,928	4.1%
Textbooks & instructional supplies	514,913	817,869	(302,956)	-37.0%
Other instruction costs	164,055	200,264	(36,209)	-18.1%
Special Education	3,481,066	3,781,678	(300,612)	-7.9%
Student personnel services	647,757	741,484	(93,727)	-12.6%
Health services	408,043	385,555	22,488	5.8%
Transportation of pupils	2,876,791	2,871,502	5,289	0.2%
Operation of plant	2,437,101	2,396,764	40,337	1.7%
Maintenance of plant	848,188	818,761	29,427	3.6%
Fixed charges	7,881,354	7,559,334	322,020	4.3%
Capital outlay	10,931	80,948	(70,017)	-86.5%
State share of retirement and pension contribution	2,722,323	2,530,203	192,120	7.6%
Total expenditures	40,929,816	40,704,147	225,669	0.6%
Excess/(Deficiency) of revenues over expenditures	\$ 138,317	\$ (720,886)	\$ 859,203	-119.2%

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

RESTRICTED GRANT FUNDS

These funds are used to account for grants from Federal, State and Local sources. Grants provide a major source of revenue for specific educational programs not funded by the General Fund. Programs include initiatives for Special Education students, programs for adults to earn a GED or another alternative method to obtain a high school diploma for students from families who are socially and economically depressed. Table 4 below reflects an overall decrease of \$22,564 in grant funds from the prior year. Grant funding will vary as most are subject to availability and qualifications as well as a selection and approval process.

Table 4

RESTRICTED GRANT REVENUE

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Increase (Decrease)</u>	<u>% Incr. (Decr.)</u>
REVENUES				
Federal through State	\$ 4,403,540	\$ 4,369,752	33,788	0.77%
State of Maryland	565,982	622,334	(56,352)	-9.05%
	<u> </u>	<u> </u>	<u> </u>	
Total Revenues	<u>\$ 4,969,522</u>	<u>\$ 4,992,086</u>	<u>(22,564)</u>	-0.45%

CAPITAL PROJECTS FUND

The Board has no legal authority to borrow funds. During FY 2017, the Board received County funding of \$3,035,153 and State funding of \$50,641, which is recorded on these financial statements. The County funds were used for the Crisfield High School Athletic Fields improvements, the Washington High School Athletic Fields Improvements, and the JM Tawes Technology & Career Center Educational Specifications and site investigations. Also included were the design fees and HVAC equipment purchases for the Crisfield Academy & High School/ Head Start project.

The State funding includes a reimbursement for an Aging Schools project at Princess Anne Elementary School which involved replacement of the gymnasium floor and the front doors.

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

FIDUCIARY FUNDS

The following funds are accounted for as Fiduciary Funds:

- (1) Agency Funds – During FY 2017 the Board's nine (9) schools collected revenues and incurred expenditures for various student activities (See Table 5). The Board contracts with an independent Certified Public Accountant to perform an audit of these agency funds on an annual basis. Please refer to the separately issued audited financial statements for the School Activities Fund and schedule for specific details.

Table 5

SCHOOL ACTIVITIES FUNDS				
	<u>FY 2017</u>	<u>FY 2016</u>	<u>Increase (Decrease)</u>	<u>% Incr. (Decr.)</u>
Additions	\$ 661,714	\$ 607,090	\$ 54,624	9.00%
Deductions	(700,338)	(600,201)	(100,137)	16.68%
Beginning balance due to school activities funds	<u>288,199</u>	<u>281,310</u>	<u>6,889</u>	2.45%
Ending Balance due to School Activities Fund	<u>\$ 249,575</u>	<u>\$ 288,199</u>	<u>\$ (38,624)</u>	-13.40%

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Board revised the annual operating and capital budgets. These budget amendments, which received both Board and County Commissioner approval for all categorical changes were made to avoid budget overruns. During the year the following amendments were approved to the budget:

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

GENERAL FUND BUDGETARY HIGHLIGHTS, continued

	Original Approved FY 2017 Budget	Category Increases	Category Transfers	Final Amended FY 2017 Budget
REVENUES				
Somerset County	\$ 9,754,044	\$ -	\$ -	\$ 9,754,044
State of Maryland	28,496,948	-	-	28,496,948
Other	83,088	-	-	83,088
Prior Year's Fund Balance	266,432	-	-	266,432
Total Revenues	<u>38,600,512</u>	<u>-</u>	<u>-</u>	<u>38,600,512</u>
EXPENDITURES				
Administration	1,467,937	103,664	-	1,571,601
Mid-level Administration	3,465,890	322,109	-	3,787,999
Instructional Salaries and Wages	13,682,128	-	(39,285)	13,642,843
Instructional Textbooks and Supplies	569,006	5,000	-	574,006
Other Instructional Costs	188,965	-	(16,000)	172,965
Student Personnel Services	617,357	46,767	-	664,124
Health Services	353,354	57,185	-	410,539
Fixed Charges	8,755,298	-	(782,000)	7,973,298
Student Transportation	2,858,839	85,399	-	2,944,238
Operation of Plant	2,494,406	-	(39,471)	2,454,935
Maintenance of Plant	772,792	125,240	-	898,032
Special Education	3,364,540	131,392	-	3,495,932
Capital Outlay	10,000	-	-	10,000
Total Expenditures	<u>\$ 38,600,512</u>	<u>\$ 876,756</u>	<u>\$ (876,756)</u>	<u>\$ 38,600,512</u>

After these revisions, the actual General Fund and Capital expenditures matched the budget. Actual expenditures and encumbrances were under budget by \$258,712. Actual revenues exceeded expenditures by \$4,010. The Board utilized the FY 2015 fund balance designated for FY 2017 (excess of revenues over expenditures) in the amount of \$266,432. This leaves an unreserved, undesignated fund balance of \$270,442 to be carried forward to FY 2019. The excess fund balance from FY 2017 is primarily attributed to over budgeting for Instructional Salaries, Textbooks and Supplies, and Fixed Charges.

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the Board has invested \$52,478,601 in a broad range of capital assets, including land, school buildings, athletic facilities, furniture and equipment. (More detailed information about capital assets can be found in subsequent note to the financial statements.) Total depreciation expense for the year was \$1,913,016 in governmental and business-type activities.

Construction – Next Five Years

Periodically, the Board of Education prepares and submits to the State InterAgency Committee for School Construction and the local county government a 5-year capital improvement program. As a part of the ongoing improvement of our facilities several capital projects will be initiated or continued in the 2017-2018 school year.

In September of 2017, the new Head Start Early Childhood Center will open in Crisfield High School. In October 2017, ground breaking will occur for the new JM Tawes Technology Center with an estimated completion date of September 2019. In FY18, the bleachers at Washington High School and Crisfield High School will be renovated using QZAB funding and Aging Schools funding, respectively.

Over the next five years, these projects are under consideration: renovations and additions to Princess Anne Elementary School, and minor additions to the Somerset Intermediate School.

Long-Term Liabilities

- At year-end, the Board had \$8,905,834 in amounts due or payable after one year. This amount consists of accrued compensated absences (\$721,419) which is an obligation resulting from accrued annual leave which is due and payable to employees upon retirement. Also included in this amount is the Other Post Employment Benefit (OPEB) liability (\$6,150,822) for future health insurance costs for retirees in compliance with GASB 45 and an amount for the net pension liability required under GASB 68 (\$2,033,593).

FACTORS BEARING ON THE BOARD'S FUTURE

The Government Accounting Standard Board (GASB) issued GASB 45, Accounting for Post- Employment Benefits. This standard required major changes to governmental accounting and financial statements. It required governments to change from a pay as you go system to full accrual accounting for post-employment medical, dental and life insurance. Compliance with this standard began in FY 2009. Under the new rules, governments will be required to recognize the expense of post- employment benefits earned that will be paid after the employee's retirement, as well as the related liability of amounts not funded. Considering the limited funding available, the Board has opted to not fund any potential liability, instead focusing its funds on instruction. Management plans a continued cooperative effort between the Board and the County Government to fund these benefits in the future. This is particularly critical when considering the economic hardships faced by governments during the current downturn.

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
WESTOVER, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2017

FACTORS BEARING ON THE BOARD'S FUTURE, continued

Effective for fiscal years beginning after June 15, 2017, GASB 75 replaces the requirements of GASB 45 and will require the Board to report a liability on the Statement of Net Position similar the requirements of GASB 68 for Pensions. A much large OPEB liability is expected to be reported for the year ending June 30, 2018.

In FY 2013, The State of Maryland mandated that the local school systems be responsible for paying a portion of the cost of teacher's retirement. The cost was phased in over a four year period. For the year ended June 30, 2017 , this cost was \$925,708. Retirement costs for education continue to escalate at the State level primarily due to the salary increases realized during the implementation of the *Bridge to Excellence (Thornton) Funding*.

The Food Service Fund has continued being profitable in FY 2017. In FY 2015 Somerset County Public Schools began participating in the State of Maryland's Community Eligibility Provision (CEP) to provide students at all schools in the district with free breakfast and lunch. The school district qualified for this program based on the high percentage of directly certified students already receiving Free and Reduced meals. Claim reimbursements submitted to the State for meals served will be approximately 92% at the free rate and 8% at the paid rate. Advantages of participating in the program include providing free breakfast and lunch to all students, improving nutrition to students at risk, reduction of paperwork at the school district level, simplification of meal counting and claims, and increases in meal participation. Since beginning participation in the CEP program in FY15, we have served 2,119,514 breakfasts and lunches.

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office, Somerset County Board of Education, 7982-A Tawes Campus Drive, Westover, Maryland 21871.

AUDITED FINANCIAL STATEMENTS

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,811,706	\$ 493,566	\$ 2,305,272
Due from other governmental agencies	2,183,320	91,089	2,274,409
Inventory	-	24,140	24,140
Prepaid expenses	3,824	-	3,824
Internal balances	484,903	(484,903)	-
Land	493,252	-	493,252
Construction in progress	3,516,489	-	3,516,489
Depreciable assets, net of accumulated depreciation	48,306,577	162,283	48,468,860
TOTAL ASSETS	56,800,071	286,175	57,086,246
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (see Note 8)	571,727	-	571,727
LIABILITIES			
Accounts payable:			
Vendors	1,518,692	34,855	1,553,547
Payroll deductions and withholdings	1,605,101	291	1,605,392
Due to other governments	10,943	-	10,943
Accrued salaries	146,112	-	146,112
Unearned revenue	291,420	-	291,420
Long-term liabilities:			
Due within one year	25,000	-	25,000
Due in more than one year	8,905,834	5,122	8,910,956
TOTAL LIABILITIES	12,503,102	40,268	12,543,370
DEFERRED INFLOWS OF RESOURCES			
Pensions (see Note 8)	111,655	-	111,655
NET POSITION			
Net investment in capital assets	52,316,318	162,283	52,478,601
Unrestricted	(7,559,277)	83,624	(7,475,653)
TOTAL NET POSITION	\$ 44,757,041	\$ 245,907	\$ 45,002,948

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Current:				
Administration	\$ 1,643,969	\$ -	\$ 35,974	\$ -
Mid-level administration	3,863,749	-	107,149	-
Instructional services	18,170,038	-	2,387,709	-
Special education	4,197,195	-	716,129	-
Student personnel services	1,086,340	-	438,583	-
Health services	419,353	-	11,310	-
Student transportation	2,926,415	-	112,324	-
Operation of plant and equipment	2,721,715	-	304	-
Maintenance of plant	828,256	-	-	-
Fixed charges	9,699,922	-	982,664	-
Community services	174,851	-	174,851	-
Capital outlay	168,560	-	-	3,085,794
State of Maryland share of retirement and pension contribution	2,722,323	-	2,722,323	-
Total Governmental Activities	48,622,686	-	7,689,320	3,085,794
Business-Type Activities				
Food services	1,937,348	110,926	2,030,508	-
Totals	\$ 50,560,034	\$ 110,926	\$ 9,719,828	\$ 3,085,794

General Revenues

State Of Maryland
Somerset County appropriation
Other revenue
Reimbursements and other income

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

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

Net (Expenses) Revenue
and changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,607,995)	\$ -	\$ (1,607,995)
(3,756,600)	-	(3,756,600)
(15,782,329)	-	(15,782,329)
(3,481,066)	-	(3,481,066)
(647,757)	-	(647,757)
(408,043)	-	(408,043)
(2,814,091)	-	(2,814,091)
(2,721,411)	-	(2,721,411)
(828,256)	-	(828,256)
(8,717,258)	-	(8,717,258)
-	-	-
2,917,234	-	2,917,234
-	-	-
<u>(37,847,572)</u>	<u>-</u>	<u>(37,847,572)</u>
-	204,086	204,086
<u>(37,847,572)</u>	<u>204,086</u>	<u>(37,643,486)</u>
28,512,905	-	28,512,905
9,603,976	-	9,603,976
31,003	-	31,003
197,926	298	198,224
<u>38,345,810</u>	<u>298</u>	<u>38,346,108</u>
498,238	204,384	702,622
<u>44,258,803</u>	<u>41,523</u>	<u>44,300,326</u>
<u>\$ 44,757,041</u>	<u>\$ 245,907</u>	<u>\$ 45,002,948</u>

THE BOARD OF EDUCATION OF SOMERSET COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General	Restricted Grants	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,811,706	\$ -	\$ -	\$ 1,811,706
Due from other governmental agencies	171,136	791,059	1,221,125	2,183,320
Due from other funds	1,141,620	-	-	1,141,620
Prepaid expenses	3,824	-	-	3,824
TOTAL ASSETS	\$ 3,128,286	\$ 791,059	\$ 1,221,125	\$ 5,140,470
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable:				
Vendors	\$ 459,691	\$ 51,148	\$ 1,007,853	\$ 1,518,692
Payroll deductions and withholdings	1,605,101	-	-	1,605,101
Due to other funds	-	450,703	206,014	656,717
Due to other government	10,943	-	-	10,943
Accrued salaries and payroll taxes	113,554	32,558	-	146,112
Unearned revenue	27,512	256,650	7,258	291,420
TOTAL LIABILITIES	2,216,801	791,059	1,221,125	4,228,985
FUND BALANCES				
Assigned to:				
Subsequent year expenditures	289,068	-	-	289,068
Other purposes (encumbrances)	351,975	-	-	351,975
Unassigned	270,442	-	-	270,442
TOTAL FUND BALANCES	911,485	-	-	911,485
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,128,286	\$ 791,059	\$ 1,221,125	\$ 5,140,470

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION

June 30, 2017

Total fund balances, governmental funds \$ 911,485

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not financial resources and are
therefore not reported in the fund financial statements, but are reported in the
governmental activities of the Statement of Net Position. 52,316,318

Deferred outflow of resources - pensions (see Note 8) 571,727

Some liabilities are not due and payable in the current period and therefore are
not reported in the fund financial statements, but are reported in the governmental
activities of the Statement of Net Position. Those liabilities consist of:

Accrued compensated absences	(746,419)	
Net pension liability	(2,033,593)	
Post-employment benefits	<u>(6,150,822)</u>	
		(8,930,834)

Deferred inflow of resources - pensions (see Note 8) (111,655)

Total

Net position of governmental activities in the Statement of Net Position \$ 44,757,041

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	General	Restricted Grants	Capital Projects	Total Governmental Funds
REVENUES				
Somerset County	\$ 9,603,976	\$ -	\$ 3,035,153	\$ 12,639,129
Federal government	-	4,403,540	-	4,403,540
State Of Maryland	28,512,905	565,982	50,641	29,129,528
State Of Maryland on-behalf payments	2,722,323	-	-	2,722,323
Reimbursements and other income	197,926	-	-	197,926
ROTC reimbursements	31,003	-	-	31,003
TOTAL REVENUES	41,068,133	4,969,522	3,085,794	49,123,449
EXPENDITURES				
Administration	1,567,087	35,974	-	1,603,061
Mid-level administration	3,774,864	107,149	-	3,882,013
Instructional salaries and wages	13,595,343	1,857,971	-	15,453,314
Textbooks and instructional supplies	514,913	248,185	-	763,098
Other instructional costs	164,055	281,553	-	445,608
Student personnel services	647,757	438,583	-	1,086,340
Health services	408,043	11,310	-	419,353
Student transportation	2,876,791	112,324	-	2,989,115
Operation of plant and equipment	2,437,101	304	-	2,437,405
Maintenance of plant	848,188	-	-	848,188
Special education	3,481,066	716,129	-	4,197,195
Fringe benefits on-behalf payments	2,722,323	-	-	2,722,323
Fixed charges	7,881,354	982,664	-	8,864,018
Food services	-	2,525	-	2,525
Community services	-	174,851	-	174,851
Capital outlay	10,931	-	3,085,794	3,096,725
TOTAL EXPENDITURES	40,929,816	4,969,522	3,085,794	48,985,132
EXCESS OF REVENUES OVER EXPENDITURES	138,317	-	-	138,317
NET CHANGE IN FUND BALANCES	138,317	-	-	138,317
Fund balances, beginning	773,168	-	-	773,168
Fund balances, ending	\$ 911,485	\$ -	\$ -	\$ 911,485

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Net change in fund balances, governmental funds \$ 138,317

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital outlay	3,076,914	
Depreciation expense	<u>(1,881,089)</u>	
Excess of capital outlay over depreciation expense		1,195,825

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in OPEB liability	(660,175)	
Increase in pension expense	(111,488)	
Increase in accrued compensated absences	<u>(64,241)</u>	
Total		<u>(835,904)</u>

Change in net position of governmental activities \$ 498,238

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF FUND NET POSITION
 PROPRIETARY FUNDS

June 30, 2017

	<u>Enterprise Fund Food Services</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 493,566
Due from other governments	91,089
Inventory of food, at cost	<u>24,140</u>
Total current assets	<u>608,795</u>
Noncurrent assets:	
Equipment	1,343,001
Less: accumulated depreciation	<u>(1,180,718)</u>
Total noncurrent assets	<u>162,283</u>
TOTAL ASSETS	<u>771,078</u>
LIABILITIES	
Current liabilities:	
Accounts payable	34,855
Due to general fund	484,903
Accrued payroll	<u>291</u>
Total current liabilities	520,049
Long-term liabilities:	
Accrued compensated absences	<u>5,122</u>
TOTAL LIABILITIES	<u>525,171</u>
NET POSITION	
Invested in capital assets	162,283
Unrestricted	<u>83,624</u>
TOTAL NET POSITION	<u>\$ 245,907</u>

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2017

	Enterprise Fund Food Services
OPERATING REVENUES	
Food Service Sales	\$ 110,926
OPERATING EXPENSES	
Operation Of Plant	3,188
Fixed Charges	200,385
Salaries And Wages	594,795
Contracted Services	11,726
Food and Food Related Supplies	1,090,718
Other Charges	4,609
Depreciation	31,927
TOTAL OPERATING EXPENSES	1,937,348
OPERATING LOSS	(1,826,422)
NONOPERATING REVENUES	
Interest Income	298
State Of Maryland:	
Reimbursement Of Food Costs	41,091
Federal Through State:	
Reimbursement Of Food Costs	1,861,301
Donation Of Food Commodities	128,116
Total Federal Through State	1,989,417
TOTAL NONOPERATING REVENUES	2,030,806
Change in net position	204,384
Net position beginning of year	41,523
Net position end of year	\$ 245,907

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 Year Ended June 30, 2017

	<u>Enterprise Fund Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from user charges	\$ 110,582
Cash payments to employees for services and fringe benefits	(793,850)
Cash payments to suppliers for goods and services	(952,174)
Cash payments for other operating expenses	(19,523)
Net cash used for operating activities	<u>(1,654,965)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Non-operating grants received	1,909,509
Payments to other funds (net of repayments)	(182,976)
Net cash provided by noncapital financing activities	<u>1,726,533</u>
CASH FLOWS FROM CAPITAL AND INVESTING ACTIVITIES	
Purchases of equipment	(24,265)
Interest on investments	298
Net cash used by investing activities	<u>(23,967)</u>
Net change in cash and cash equivalents	47,601
Cash and equivalents, beginning of year	<u>445,965</u>
Cash and equivalents, end of year	<u>\$ 493,566</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	\$ (1,826,422)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	31,927
Donated commodities used	128,116
Changes in operating assets and liabilities:	
Inventory of food, at cost	(2,520)
Unearned revenue	(344)
Accounts payable and accrued liabilities	14,278
Net cash used for operating activities	<u>\$ (1,654,965)</u>
NONCASH ACTIVITIES	
During the year the board received food commodities from the U.S. Department of Agriculture	<u>\$ 128,116</u>

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2017

	<u>Agency Funds</u>
	<u>School Activities Funds</u>
ASSETS	
Cash	\$ 226,033
Certificates of deposit	23,861
Accounts receivable	611
	<hr/>
TOTAL ASSETS	<u>\$ 250,505</u>
LIABILITIES	
Accounts payable	\$ 930
Due to school activity funds	249,575
	<hr/>
TOTAL LIABILITES	<u>\$ 250,505</u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Education of Somerset County is a component unit of Somerset County, Maryland. These separate financial statements are also included within the basic financial statements of Somerset County.

The Board is the basic level of government which has financial accountability and control over all activities related to public school education in Somerset County, Maryland. The Board of Education receives substantial appropriations from and is subject to the indirect control of Somerset County, although the Board has its own separate governing board.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses are of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to recipients who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Grants and other revenues not properly included among program revenues are reported as general revenues.

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Board reports the following major governmental funds:

General Fund

All financial resources appropriated for current operating expenditures, exclusive of certain restricted funds, are accounted for in the General Fund.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies - continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation – continued

Restricted Funds

These funds are used to account for revenue sources that are legally restricted to expenditure for a specific purpose, such as federal, state and local grants.

Capital Projects Fund

This fund accounts for financial resources that are restricted to construction of new buildings, additions and alterations and acquisitions of equipment. Revenue is recognized from other governmental entities.

The Board reports the following major proprietary fund:

Food Service Fund

This fund accounts for the activity of the Board's Food Service operation which operates cafeterias in the Board's schools.

The Board also reports the following fiduciary fund:

Agency Fund

School Activities Funds are administered by the individual schools in a fiduciary capacity.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivery goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board are charges for lunch, breakfast and catered meals. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary Data

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

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies - continued

E. Inventories

Inventories of the Food Service Fund are stated at cost, determined on a FIFO basis. Food received from the USDA is included at values stated by the USDA but is offset by a deferred credit until consumed.

Inventories of material and supplies are charged to expenditures when consumed, rather than when purchased or donated.

F. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>ASSETS</u>	<u>YEARS</u>
Land improvements	20
Buildings and improvements	7 - 50
Equipment	5 - 15
Vehicles	8

G. Accrued Compensated Absences

The Board of Education accrues a liability for certain compensated absences (primarily vacation pay) that employees have earned but have not yet been paid. Expenditures in the statement of revenues and expenditures for such items are the amounts paid during the year with expendable available financial resources. All accrued compensated absences are recorded in the government-wide financial statements.

H. Unearned Revenue

Unearned revenue consists of federal and state grants and other revenues that have not been expended by the end of the fiscal year.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies - continued

I. Accrued Liabilities and Long-Term Obligations - continued

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

J. Cash and Cash Equivalents

For purposes of the statement of cash flows for the proprietary fund, the Board considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

K. Net Position

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

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

L. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that period. The Board has one item that qualifies for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension obligation (Note 8) for changes in assumptions and contributions subsequent to the measurement date. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one item that qualifies for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension obligation (Note 8) for the net difference between projected and actual investment earnings on pension plan investments. This item is deferred and recognized as an inflow from resources in the period that the amounts become available.

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies - continued

M. Fund Balance

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

N. Encumbrance Accounting

In the fund financial statements, reservations for fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Assigned for encumbrances represents encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the Board but not completed as of the close of the fiscal year. Encumbrances outstanding at June 30, 2017 totaled \$351,975.

O. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2. Cash, Cash Equivalents and Investments

A. Deposits and Investments

The Board is authorized to invest monies for which it has custody or control. The types of investments are in accordance with Section 6-222 of the Maryland State Finance and Procurement Article.

B. Custodial Risk

The Annotated Code of Maryland (Article 95, Section 22) requires that deposits with financial institutions by local boards of education be collateralized. Collateral for repurchase agreements must be at least 102% of market value of principal and accrued interest. The Board's collateral is held by a custodian in accordance with Section 6-209(c) of the State Finance and Procurement Article of the Annotated Code of Maryland and acceptable collateral is as specified under Section 6-202 of the same document.

These collateralization requirements are established to reduce custodial risk which is the risk that in the event of a bank failure, the Board's deposits may not be returned to it.

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash, Cash Equivalents and Investments - continued

B. Custodial Risk - continued

At June 30, 2017, the Board's funds were invested as follows:

	Governmental Activities	Business-Type Activities
Demand deposits	\$ 1,763,915	\$ 493,566
Savings deposits	47,791	-
TOTAL	\$ 1,811,706	\$ 493,566
CARRYING VALUE	\$ 1,811,706	\$ 493,566

The bank balances were exposed to custodial credit risk as follows:

	Governmental Activities	Business-Type Activities
Insured	\$ 250,000	\$ -
Uninsured and collateral held by pledging Bank's trust department in the Board's name	1,849,941	493,566
TOTAL	\$ 2,099,941	\$ 493,566

C. Credit Risk

The Board's exposure to investment rate and credit risk is minimal, as all investments are in cash and are thus precluded from having to sell or liquidate below original cost.

Note 3. Accounts Receivable

As of June 30, 2017, the Board also has amounts due from governmental agencies of \$2,183,320 and \$91,089 for governmental and business-type activities, respectively. These receivables are due primarily from the Maryland State Department of Education, from Somerset County and from nonprofit agencies located on the Eastern Shore.

NOTES TO FINANCIAL STATEMENTS

Note 4. Interfund Receivables - Payables

At June 30, 2017, the interfund account balances, prior to eliminations on the statement of net position - government-wide financial statements, are as follows:

	Due From Other Funds	Due To Other Funds
GOVERNMENTAL ACTIVITIES		
General fund		
Due from food services fund	\$ 484,903	\$ -
Due from restricted funds	450,703	-
Due to capital projects fund	206,014	-
Restricted grants		
Due to general fund	-	450,703
Capital projects		
Due from general fund	-	206,014
BUSINESS-TYPE ACTIVITIES		
Enterprise fund - food service		
Due to general fund	-	484,903
<hr/>		
TOTAL ALL FUNDS	\$ 1,141,620	\$1,141,620

Note 5. Changes in Long-Term Liability Activity

Long-term liability activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
GOVERNMENTAL ACTIVITIES					
Other Post Employment Benefits	\$ 5,490,647	\$ 660,175	\$ -	\$ 6,150,822	\$ -
Net pension liability	1,757,925	275,668	-	2,033,593	-
Accrued Compensated					
Absences	682,178	116,315	52,074	\$ 746,419	25,000
Total	\$ 7,930,750	\$ 1,052,158	\$ 52,074	\$ 8,930,834	\$ 25,000
BUSINESS-TYPE ACTIVITIES					
Accrued Compensated					
Absences	\$ 3,776	\$ 1,346	\$ -	\$ 5,122	\$ -

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 493,252	\$ -	\$ -	\$ 493,252
Construction in progress	734,284	2,900,696	(118,491)	3,516,489
Total capital assets not being depreciated	1,227,536	2,900,696	(118,491)	4,009,741
Capital assets being depreciated:				
Buildings	72,558,991	43,182	18,491	72,620,664
Land improvements	3,295,046	-	100,000	3,395,046
Furniture, fixtures and equipment	1,838,212	70,336	-	1,908,548
Vehicles	248,644	62,700	-	311,344
Total capital assets being depreciated	77,940,893	176,218	118,491	78,235,602
Less accumulated depreciation:				
Buildings	(23,559,101)	(1,745,423)	-	(25,304,524)
Land improvements	(2,854,899)	(46,511)	-	(2,901,410)
Furniture, fixtures and equipment	(1,571,869)	(57,684)	-	(1,629,553)
Vehicles	(62,067)	(31,471)	-	(93,538)
Total accumulated depreciation	(28,047,936)	(1,881,089)	-	(29,929,025)
Total capital assets being depreciated, net of accumulated depreciation	49,892,957	(1,704,871)	118,491	48,306,577
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	\$ 51,120,493	\$ 1,195,825	\$ -	\$ 52,316,318
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated:				
Equipment	\$ 1,318,736	\$ 24,265	\$ -	\$ 1,343,001
Less accumulated depreciation:				
Equipment	(1,148,791)	(31,927)	-	(1,180,718)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	\$ 169,945	\$ (7,662)	\$ -	\$ 162,283

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets - continued

*Depreciation for governmental activities is allocated as follows:

Administration	\$ 56,621
Operation of plant	301,350
Instruction	1,523,118
	<hr/>
TOTAL	\$ 1,881,089

Note 7. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board is a member of the Maryland Association of Board's of Education Group Insurance Pool ("the Pool"), a public entity risk pool currently operating as a common risk management and insurance program for fourteen of the twenty-four Boards of Education. The Pool was formed in 1986 when several boards of education through Maryland joined together to pool their casualty risks. Property insurance coverage was added in 1988 and workers compensation in 2000.

The Board pays an annual premium to the Pool for its property and casualty insurance coverage. It is intended for the Pool to be self-sustaining through member premiums. Reinsurance is carried through commercial companies for claims which exceed coverage limits as specified in the agreement.

Should the Pool encounter a deficit in its casualty and/or property funds, the deficit may be made up from additional assessments of Boards' participating in the deficit pool year in an amount equal to the ratio of the Board's annual premium to the total annual premium contributed by all Boards in the year in which the deficit occurred.

The Board continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Other than the legal settlement discussed in prior audits, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

In 2004, the Board joined the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 16% as a recommended conservative reserve. As of December 31, 2016 the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$857,661. All funds held by ESMEC are restricted to being used only for health care expenses.

Note 8. Pension Plans

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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans - continued

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

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

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

General Plan Policies

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

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

Significant Plan Benefits and Policies

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

Teachers' and Employees' Retirement Systems

Retirement Benefits:

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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans - continued

Teachers' and Employees' Retirement Systems - continued

Vested Allowance:

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

Employee and Employer Contributions:

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

Teachers' and Employees' Pension System

Pension Benefits:

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

Vested Allowance:

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

Employee and Employer Contributions:

Effective July 1, 2011, members of the Teachers' and Employees' Pension Systems are required to contribute to the systems 7% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2015. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

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

For the year ended June 30, 2017 the Board's total payroll for all employees was \$27,598,290. Total covered payroll was \$25,112,246. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans - continued

Teachers' and Employees' Pension System - continued

Employee and Employer Contributions:

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay the State 100% of the normal cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. As contractually required, during fiscal year 2017, the Board contributed \$925,708 to the Teachers' Retirement and Pension System. In addition, the State of Maryland contributed \$2,722,323 on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense.

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

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

At June 30, 2017, 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:

	2017
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 2,033,593
State's proportionate share of the net pension liability (Teachers' Systems)	30,644,320
	30,644,320
Total	\$ 32,677,913
	32,677,913

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Boards proportion of the net pension liability was calculated as follows by the System(s):

1. Net pension liability for the entire System was calculated. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland and one for primary government employees.
2. Determined the total contributions to the System by the State and by the primary governments, inclusive of any underfunding of contributions.
3. Based on the number of participants at each Board of Education, calculate the difference between what each Board would have contributed if they funded at the rate of all other participating governments and what the Board actually contributed. The difference between what the Board contributed and what they would have contributed if they funded at the rate of the other participating governments, is then added to the total contribution to the System, to calculate the System's adjusted contribution.
4. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each primary government contribution. At June 30, 2016, the Board's proportion was approximately .0086191%.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans - continued

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

For the year ended June 30, 2017, the Board recognized pension expense for the employees system of \$279,222 in the government wide financial statements and \$167,734 in the fund financial statements. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Year End June 30,	2016 Balance Amortization		2015 Balance Amortization		2014 Balance Amortization		
	Deferred Outflows	Deferred Inflows	Deferred Outflows		Deferred Inflows	Deferred Outflows	Deferred Inflows
	Net Difference in Investment Earnings	Actual and Expected Experience	Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings
2018	\$ 40,344	\$ (4,456)	\$ 30,967	\$ 17,600	\$ (7,200)	\$ 4,003	\$ (30,286)
2019	40,344	(4,456)	30,968	17,600	(7,200)	4,003	(30,286)
2020	40,344	(4,456)	30,968	17,599	(7,201)	-	-
2021	40,344	(4,456)	30,968	17,599	(7,201)	-	-
2022	40,344	(4,456)	-	-	-	-	-
Total	\$ 201,718	\$ (22,281)	\$ 123,871	\$ 70,398	\$ (28,802)	\$ 8,006	\$ (60,572)

In addition, there is \$167,734 of deferred outflows of resources resulting from the Board's contributions to the Employees' Systems subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. The deferred outflows and the inflows related to non-investment activity are being amortized over the remaining service life of 5.8647, 5.87 and 5 years for the years ended June 30, 2016, 2015, and 2014, respectively. The net difference in investment earnings for 2016, 2015 and 2014 are being amortized over a closed five year period.

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:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.70% general, 3.20% wage
Salary increases	3.30% to 9.20%, including wage inflation
Discount rate	7.55%
Investment rate of return	7.55%
Mortality	RP-2014 Mortality tables

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans - continued

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

Investments

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37%	6.6%
Private Equity	10%	7.4%
Rate Sensitive	20%	1.3%
Credit Opportunity	9%	4.2%
Real Assets	15%	4.7%
Absolute Return	9%	3.7%
Total	100%	

Discount rate

A single discount rate of 7.55% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.55%. 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 Boards Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate	Board's Net Pension Liability
1% decrease	6.55%	\$ 2,793,316
Current discount rate	7.55%	\$ 2,033,593
1% increase	8.55%	\$ 1,401,389

NOTES TO FINANCIAL STATEMENTS

Note 9. Budget Calendar

The following calendar reflects the anticipated general sequence of events for the preparation and adoption of the operating budget of The Board of Education of Somerset County:

Approximate Date	Procedures Performed
November	Budget packets are sent to A&S staff. Parent, community and staff input is received.
December	Public input session (BOE meeting) School and central office budget conferences begin.
January	School and central office budget conferences continue. Superintendent presents proposed budget to BOE. BOE conducts open budget work sessions.
February	BOE conducts open budget work sessions. BOE adopts budget.
March	Budget submitted to County Commissioners. Non-recurring cost deadline

Note 10. Post-Employment Health Care Benefits

Plan Description

The Board of Education of Somerset County administers a single-employer defined benefit healthcare plan ("the Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through the Board's group health insurance plan, which covers both active and retired members. Benefit provisions are based on contractual agreements with employee groups. Employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teachers' pension system, which are 15 years of service up to age 55 or 10 years of service at age 60. As of July 1, 2016, the date of the last actuarial valuation, approximately 238 retirees were receiving benefits, and an estimated 447 active employees are potentially eligible to receive future benefits.

Funding Policy

The Board pays retiree healthcare premiums up to the greater of \$300 per month. For fiscal year 2017, the Board contributed \$733,834 to the plan for approximately 238 eligible retirees.

Annual OPEB Cost and Net OPEB Obligation

The Board's annual other post-employment 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 GASB Statement 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 30 years. The Board pays post retirement benefits (normal cost) from the General Fund.

NOTES TO FINANCIAL STATEMENTS

Note 10. Post-Employment Health Care Benefits - continued

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	\$ 1,341,544
Interest on net OPEB obligation	329,439
Adjustment to annual required contribution	(276,974)
Annual OPEB cost (expense)	1,394,009
Contributions made	(733,834)
Net OPEB obligation	660,175
Net OPEB obligation at beginning of year	5,490,647
Net OPEB obligation at end of year	\$ 6,150,822

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 1,394,009	52.64%	\$ 6,150,822
6/30/2016	\$ 1,700,562	46.23%	\$ 5,490,647
6/30/2015	\$ 1,618,549	50.15%	\$ 4,576,297
6/30/2014	\$ 1,326,783	51.44%	\$ 3,769,460
6/30/2013	\$ 1,326,783	49.19%	\$ 3,125,231

Funding Status and Funding Progress

As of July 1, 2016 the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$16,694,388, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$21,242,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 79 percent.

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.

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.

NOTES TO FINANCIAL STATEMENTS

Note 10. Post-Employment Health Care Benefits - continued

Funding Status and Funding Progress - continued

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 6.0 percent investment rate of return (net of administrative expenses) based on the Board's own investments; an annual healthcare cost trend rate of 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent by 2022. The UAAL is being amortized on a level of percentage of payroll basis over a 30 year period. The remaining amortization period at July 1, 2016 was 23 years.

Note 11. Commitments and Contingencies

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. The Board receives a substantial amount of its support from Federal, State, and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds, of any money received may be required and the collectability of any related receivable at June 30, 2017 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

REQUIRED SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF SOMERSET COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

Year Ended June 30, 2017

	Budget		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Somerset County	\$ 9,754,044	\$ 9,754,044	\$ 9,603,976	\$ (150,068)
State Of Maryland:				
Current expense	13,252,600	13,252,600	13,252,600	-
Special education	1,648,915	1,648,915	1,648,915	-
Transportation	1,869,459	1,869,459	1,869,459	-
Transportation - boat	35,000	35,000	35,000	-
Nonpublic placement	-	-	14,957	14,957
Compensatory education	9,452,560	9,452,560	9,452,560	-
Limited english proficiency	569,280	569,280	569,280	-
Other state revenues	383,368	383,368	384,368	1,000
Guaranteed tax base	1,285,766	1,285,766	1,285,766	-
Total State Of Maryland	28,496,948	28,496,948	28,512,905	15,957
Reimbursements and other income	50,000	50,000	197,926	147,926
ROTC reimbursement	33,088	33,088	31,003	(2,085)
TOTAL REVENUES	38,334,080	38,334,080	38,345,810	11,730
EXPENDITURES				
Administration	1,467,937	1,571,601	1,570,604	997
Mid-level administration	3,465,890	3,787,999	3,783,262	4,737
Instructional salaries and wages	13,682,128	13,642,843	13,595,343	47,500
Textbooks and instructional supplies	569,006	574,006	507,162	66,844
Other instructional costs	188,965	172,965	172,126	839
Student personnel services	617,357	664,124	647,757	16,367
Health services	353,354	410,539	408,043	2,496
Student transportation	2,858,839	2,944,238	2,939,491	4,747
Operation of plant and equipment	2,494,406	2,454,935	2,454,463	472
Maintenance of plant	772,792	898,032	894,930	3,102
Special education	3,364,540	3,495,932	3,481,096	14,836
Fixed charges	8,755,298	7,973,298	7,881,354	91,944
Capital outlay	10,000	10,000	6,169	3,831
TOTAL EXPENDITURES	38,600,512	38,600,512	38,341,800	258,712
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(266,432)	(266,432)	4,010	270,442
OTHER FINANCING SOURCES				
Designated from June 30, 2016 for June 30, 2017 Expenditures	266,432	266,432	266,432	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	\$ -	\$ -	\$ 270,442	\$ 270,442

THE BOARD OF EDUCATION OF SOMERSET COUNTY
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Board's Proportion of the NPL		Board's Proportionate Share of the NPL		Board's Covered Employee Payroll D	Proportionate Share as a Percentage of Covered Payroll (B / D)	Plan's Total Fiduciary Net Position E	Plan's Total Pension Liability F	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (E / F)
		(Percentage) NPL A	Share of the NPL B	Share of the NPL C	Total (B+C)					
2015	June 30, 2014	0.0062365%	\$ 1,106,790	\$ 19,938,634	\$ 21,045,424	\$ 23,159,421	4.78%	\$45,339,988	\$63,086,719	71.87%
2016	June 30, 2015	0.0084590%	\$ 1,757,925	\$ 25,096,984	\$ 26,854,909	\$ 24,019,259	7.32%	\$45,789,840	\$66,571,552	68.78%
2017	June 30, 2016	0.0086191%	\$ 2,033,593	\$ 30,644,320	\$ 32,677,913	\$ 25,112,246	8.10%	\$45,365,927	\$68,959,954	65.79%

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2017

SCHEDULE OF BOARD CONTRIBUTIONS - PENSION PLANS

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Employee Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
2015	June 30, 2014	\$924,085	\$924,085	\$0	23,159,421	3.99%
2016	June 30, 2015	\$1,073,414	\$1,073,414	\$0	24,019,259	4.47%
2017	June 30, 2016	\$1,093,442	\$1,093,442	\$0	25,112,246	4.35%

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

**THE BOARD OF EDUCATION OF SOMERSET COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll	UAAL as a Percentage of Covered Payroll (b-a)/c
June 30, 2011	\$ -	\$ 14,626,357	\$ 14,626,357	0.00%	\$ 19,896,000	73.51%
June 30, 2013	\$ -	\$ 16,871,130	\$ 16,871,130	0.00%	\$ 19,689,000	85.69%
June 30, 2015	\$ -	\$ 19,634,899	\$ 19,634,899	0.00%	\$ 23,159,421	84.78%
June 30, 2016	\$ -	\$ 20,595,199	\$ 20,595,199	0.00%	\$ 24,019,259	85.74%
June 30, 2017	\$ -	\$ 16,694,385	\$ 16,694,385	0.00%	\$ 25,112,246	66.48%

Year Ended June 30	Annual Required Contributions	Percentage Contributed	Net OPEB Obligation
2011	\$ 1,370,523	46.77%	\$ 1,866,779
2012	1,370,523	57.37%	2,451,055
2013	1,326,783	49.19%	3,125,231
2014	1,326,783	51.44%	3,769,460
2015	1,618,549	50.15%	4,576,297
2016	1,700,562	46.23%	5,490,647
2017	1,394,009	52.64%	6,150,822

NOTES TO STATEMENT OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL

Note 1. Budget

The original budget, subsequent supplements and major transfers are approved by the Somerset County Council. Appropriations are for one year and lapse at year end.

A legally adopted budget is prepared for the General Fund only. Amendments to the budget can be made with approval from Somerset County and the Board for intercategory transfers, and by approval of the Board for intracategory transfers. By law, actual expenditures for each category may not materially exceed budgeted expenditures. The budgeted amounts presented on page 48 include all budget revisions.

	Revenues General June 30, 2017	Expenditures General June 30, 2017	Fund Balances General June 30, 2017
GAAP basis	\$ 41,068,133	\$ 40,929,816	\$ 911,485
On-behalf payments	(2,722,323)	(2,722,323)	-
June 30, 2017 fund balance designated for June 30, 2018 expenditures	-	-	(289,068)
Expenditures of amounts encumbered during year ended June 30, 2016	-	(217,668)	-
Amounts encumbered and reserved (GAAP) at June 30, 2017 but recognized as expenditures for budgetary purposes	-	351,975	(351,975)
Budgetary basis	<u>\$ 38,345,810</u>	<u>\$ 38,341,800</u>	<u>\$ 270,442</u>

ADDITIONAL SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF SOMERSET COUNTY
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
GENERAL FUND - BUDGETARY BASIS
Year Ended June 30, 2017

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
ADMINISTRATION				
Salaries and wages	\$ 1,122,227	\$ 1,225,891	\$ 1,229,528	\$ (3,637)
Contracted services	173,760	173,760	168,521	5,239
Materials and supplies	84,660	93,460	86,333	7,127
Other charges	87,290	77,490	86,287	(8,797)
Capital outlay	-	1,000	(65)	1,065
TOTAL ADMINISTRATION	1,467,937	1,571,601	1,570,604	997
MID-LEVEL ADMINISTRATION				
Salaries and wages	2,989,990	3,308,099	3,260,670	47,429
Contracted services	-	121,900	89,331	32,569
Materials and supplies	40,500	40,500	55,155	(14,655)
Other charges	157,400	39,500	35,256	4,244
Capital outlay	278,000	278,000	342,850	(64,850)
TOTAL MID-LEVEL ADMINISTRATION	3,465,890	3,787,999	3,783,262	4,737
INSTRUCTIONAL SALARIES				
Salaries and wages	13,682,128	13,642,843	13,592,395	50,448
Other charges	-	-	2,948	(2,948)
TOTAL INSTRUCTIONAL SALARIES	13,682,128	13,642,843	13,595,343	47,500
INSTRUCTIONAL TEXTBOOKS AND SUPPLIES				
	569,006	574,006	507,162	66,844
OTHER INSTRUCTIONAL COSTS				
Salaries and wages	-	-	160	(160)
Contracted services	63,500	53,780	54,235	(455)
Other charges	99,065	98,785	96,382	2,403
Capital outlay	26,400	20,400	21,349	(949)
TOTAL OTHER INSTRUCTIONAL COSTS	188,965	172,965	172,126	839
STUDENT PERSONNEL SERVICES				
Salaries and wages	603,857	648,624	630,774	17,850
Contracted services	8,000	10,000	11,370	(1,370)
Materials and supplies	250	750	794	(44)
Other charges	5,250	4,750	4,819	(69)
TOTAL STUDENT PERSONNEL SERVICES	617,357	664,124	647,757	16,367
HEALTH SERVICES				
Salaries and wages	344,804	399,989	399,894	95
Contracted services	-	500	655	(155)
Materials and supplies	4,750	4,750	4,496	254
Other charges	500	2,000	2,037	(37)
Capital outlay	3,300	3,300	961	2,339
TOTAL HEALTH SERVICES	353,354	410,539	408,043	2,496
FIXED CHARGES				
Insurance And Employee Benefits	8,755,298	7,973,298	7,881,354	91,944

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF APPROPRIATIONS AND EXPENDITURES (CONTINUED)

GENERAL FUND - BUDGETARY BASIS

Year Ended June 30, 2017

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
STUDENT TRANSPORTATION				
Salaries and wages	\$ 194,139	\$ 182,538	\$ 209,477	\$ (26,939)
Contracted services	2,476,000	2,499,000	2,468,994	30,006
Materials and supplies	5,200	5,200	6,110	(910)
Other charges	182,500	188,500	185,935	2,565
Capital outlay	1,000	69,000	68,975	25
TOTAL STUDENT TRANSPORTATION	2,858,839	2,944,238	2,939,491	4,747
OPERATION OF PLANT				
Salaries and wages	1,035,286	1,053,815	1,095,742	(41,927)
Contracted services	221,500	220,000	237,712	(17,712)
Materials and supplies	102,000	103,500	115,580	(12,080)
Other charges	1,132,500	1,062,500	987,002	75,498
Capital outlay	3,120	15,120	18,427	(3,307)
TOTAL OPERATION OF PLANT	2,494,406	2,454,935	2,454,463	472
MAINTENANCE OF PLANT				
Salaries and wages	364,192	371,432	337,385	34,047
Contracted services	299,000	349,000	334,456	14,544
Materials and supplies	98,800	134,500	171,794	(37,294)
Other charges	7,800	7,100	3,894	3,206
Capital outlay	3,000	36,000	47,401	(11,401)
TOTAL MAINTENANCE OF PLANT	772,792	898,032	894,930	3,102
SPECIAL EDUCATION				
Salaries and wages	3,021,582	3,067,974	3,073,878	(5,904)
Contracted services	217,750	302,750	314,097	(11,347)
Materials and supplies	35,208	35,208	26,261	8,947
Other charges	20,000	90,000	66,463	23,537
Capital outlay	-	-	397	(397)
Outgoing transfers	70,000	-	-	-
TOTAL SPECIAL EDUCATION	3,364,540	3,495,932	3,481,096	14,836
TOTAL CAPITAL OUTLAY	10,000	10,000	6,169	3,831
TOTAL UNRESTRICTED APPROPRIATIONS AND EXPENDITURES	\$ 38,600,512	\$ 38,600,512	\$ 38,341,800	\$ 258,712

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS-BUDGETARY BASIS

Year Ended June 30, 2017

	<u>Enterprise Fund Food Services</u>
OPERATING REVENUES	
Food service sales	\$ 110,926
OPERATING EXPENSES	
Operation of plant	3,188
Fixed charges	200,385
Salaries and wages	594,795
Contracted services	11,726
Food and food related supplies	1,090,758
Other charges	3,263
Capital outlay	24,225
TOTAL OPERATING EXPENSES	<u>1,928,340</u>
OPERATING LOSS	<u>(1,817,414)</u>
NONOPERATING REVENUES	
Interest income	298
State Of Maryland:	
Reimbursement of food costs	41,091
Federal through state:	
Reimbursement of food costs	1,861,301
Donation of food commodities	128,116
Total federal through state	<u>1,989,417</u>
TOTAL NONOPERATING REVENUES	<u>2,030,806</u>
CHANGE IN NET POSITION	<u>\$ 213,392</u>

THE BOARD OF EDUCATION OF SOMERSET COUNTY
SCHOOL ACTIVITIES FUNDS

COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS
AND CHANGES IN DUE TO SCHOOL ACTIVITIES FUNDS
Year Ended June 30, 2017

	Due to School Activities Funds				Due to School
	Balance June 30, 2016	Additions	Deductions	Transfers	Activities Funds Balance June 30, 2017
ELEMENTARY SCHOOLS					
Deal Island (Pre-K To 5th Grades)	\$ 4,370	\$ 13,527	\$ 14,003	\$ -	\$ 3,894
Woodson (Pre-K To 5th Grades)	18,787	82,068	86,902	-	13,953
Princess Anne (Pre-K To 5th Grades)	13,528	22,184	27,129	-	8,583
Greenwood (Pre-K To 5th Grades)	15,233	80,173	89,967	-	5,439
TOTAL ELEMENTARY SCHOOLS	51,918	197,952	218,001	-	31,869
INTERMEDIATE SCHOOLS - 6TH TO 7TH GRADES					
Somerset 6/7 Intermediate	12,609	72,308	67,572	-	17,345
HIGH SCHOOLS - 8TH TO 12 GRADES					
Crisfield	48,851	175,144	179,155	-	44,840
Washington	93,108	159,010	172,805	-	79,313
TOTAL HIGH SCHOOLS	141,959	334,154	351,960	-	124,153
SPECIALIZED SCHOOLS					
Ewell Elementary Middle School (Pre-K To 7th grade)	5,161	3,368	6,281	-	2,248
J. Millard Tawes Technology And Career Center	76,552	53,932	56,524	-	73,960
TOTAL SPECIALIZED SCHOOLS	81,713	57,300	62,805	-	76,208
TOTAL SCHOOL ACTIVITY	\$ 288,199	\$ 661,714	\$ 700,338	\$ -	\$ 249,575

NOTES TO ADDITIONAL SUPPLEMENTARY INFORMATION

Note 1. Budget

A budget is adopted for the Food Service Fund for internal purposes only.

	Revenues	Expenditures	Fund Balances
	Proprietary	Proprietary	Proprietary
	June 30, 2017	June 30, 2017	June 30, 2017
GAAP basis	\$ 2,141,732	\$ 1,937,348	\$ 245,907
Depreciation	-	(31,927)	-
Capitalized costs	-	24,265	-
Effect of accrued compensated absences and other	-	(1,346)	5,122
Amounts reserved (GAAP) at June 30, 2017	-	-	(162,283)
Budgetary basis	<u>\$ 2,141,732</u>	<u>\$ 1,928,340</u>	<u>\$ 88,746</u>