

**THE BOARD OF EDUCATION OF  
SOMERSET COUNTY**

**FINANCIAL REPORT**

**JUNE 30, 2019**

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Herbert J. Geary III  
Corey N. Duncan  
Roy J. Geiser  
Chris A. Hall  
Ronald W. Hickman  
Craig A. Walter  
Mark A. Welsh



## 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, 2019, 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, 2019, 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 - pension plan, and the schedule of net OPEB liability 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, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board of Education of Somerset County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Board of Education of Somerset County's internal control over financial reporting and compliance.



Salisbury, Maryland  
September 27, 2019

Herbert J. Geary III  
Corey N. Duncan  
Roy J. Geiser  
Chris A. Hall  
Ronald W. Hickman  
Craig A. Walter  
Mark A. Welsh



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, 2019, 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, 2019.

### **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. 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 "YHM Group LLC". The letters are cursive and somewhat stylized, with the "Y" and "H" being particularly prominent.

Salisbury, Maryland  
September 27, 2019

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2019**

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, 2019. 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, 2019 include the following:

- Net position for the Governmental Activities totaled \$61,800,730, an increase of \$21,089,911 or - 51.8% from the prior year.
- General Fund assigned fund balance(subsequent year expenditures) equals \$243,735, a decrease of \$26,707 from the prior year.
- Unassigned General Fund balance equals \$148,672, a decrease of \$95,063 from the prior year.
- The Food Service fund had a loss of \$10,273. Excluding depreciation, the fund showed a profit of \$11,316.

**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, 2019**

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, 2019**

- *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 \$62,170,007 on June 30, 2019. This was an increase of \$21,079,638 from the prior year.

STATEMENT OF NET POSITION

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	TOTAL
	FY2019	FY 2018	FY2019	FY 2018	FY2019	FY 2018
Current and other assets	\$ 3,519,247	\$ 3,103,030	\$ 222,477	\$ 228,524	\$ 3,741,724	\$ 3,331,554
Capital assets	83,783,679	61,477,808	182,211	187,474	83,965,890	61,665,282
Total assets	<u>87,302,926</u>	<u>64,580,838</u>	<u>404,688</u>	<u>415,998</u>	<u>87,707,614</u>	<u>64,996,836</u>
Deferred outflows	<u>1,246,352</u>	<u>523,450</u>	<u>-</u>	<u>-</u>	<u>1,246,352</u>	<u>523,450</u>
Current and liabilities	2,929,496	2,449,328	32,104	30,522	2,961,600	2,479,850
Long-term liabilities	23,591,503	21,716,886	3,307	5,926	23,594,810	21,722,812
Total liabilities	<u>26,520,999</u>	<u>24,166,214</u>	<u>35,411</u>	<u>36,448</u>	<u>26,556,410</u>	<u>24,202,662</u>
Deferred inflows	<u>227,549</u>	<u>227,255</u>	<u>-</u>	<u>-</u>	<u>227,549</u>	<u>227,255</u>
Investment in capital assets, net of related debt	83,783,679	61,477,808	182,211	187,474	83,965,890	61,665,282
Restricted						
Unrestricted	(21,982,949)	(20,766,989)	187,066	192,076	(21,795,883)	(20,574,913)
Total net position	<u>\$ 61,800,730</u>	<u>\$ 40,710,819</u>	<u>\$ 369,277</u>	<u>\$ 379,550</u>	<u>\$ 62,170,007</u>	<u>\$ 41,090,369</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2019**

**FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE** (Continued)

Changes in Net Position

The Board's total revenues were \$77,166,509 for the year ended June 30, 2019. (See Table 2) The State and County general appropriations accounted for approximately 53.6% of total revenue for the year. Another 31.3% came from Capital Contributions from both the State and County. The remaining funds (15.1%) came from program revenues and investment earnings. The total cost of all programs and services was \$56,086,871. Revenues surpassed expenses, increasing net position \$21,079,638 from last year.

Table 2

THE BOARD OF EDUCATION OF SOMERSET COUNTY  
STATEMENT OF ACTIVITIES  
June 30, 2019

REVENUES						
	Governmental Activities		Business- Type Activities		Total	Total
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
Program revenues						
Charges for services	\$ -	\$ -	\$ 90,726	\$ 113,682	\$ 90,726	\$ 113,682
Federal and state grants	9,332,867	7,718,320	1,891,832	2,014,419	11,224,699	9,732,739
Capital contributions	24,146,493	11,187,840	15,700	52,200	24,162,193	11,240,040
General revenues						
County appropriation	9,881,620	9,741,620	-	-	9,881,620	9,741,620
State formula aid	31,501,191	31,228,505	-	-	31,501,191	31,228,505
Other	300,043	252,367	6,037	2,115	306,080	254,482
Transfers	-	-	-	-	-	-
<b>Total revenue</b>	<b>75,162,214</b>	<b>60,128,652</b>	<b>2,004,295</b>	<b>2,182,416</b>	<b>77,166,509</b>	<b>62,311,068</b>
EXPENSES						
Instruction and special education	29,390,142	28,048,344	-	-	29,390,142	28,048,344
Administration	1,675,108	1,711,857	-	-	1,675,108	1,711,857
Support services	1,614,120	1,791,859	2,014,568	2,048,773	3,628,688	3,840,632
Fixed Charges	11,569,273	10,202,051	-	-	11,569,273	10,202,051
Building Operations and Maintenance	3,963,529	3,981,216	-	-	3,963,529	3,981,216
Transportation	3,114,058	3,136,751	-	-	3,114,058	3,136,751
Other	2,746,073	2,611,100	-	-	2,746,073	2,611,100
<b>Total expenses</b>	<b>54,072,303</b>	<b>51,483,178</b>	<b>2,014,568</b>	<b>2,048,773</b>	<b>56,086,871</b>	<b>53,531,951</b>
<b>Increase (decrease) in net position **</b>	<b>\$ 21,089,911</b>	<b>\$ 8,645,474</b>	<b>\$ (10,273)</b>	<b>\$ 133,643</b>	<b>\$ 21,079,638</b>	<b>\$ 8,779,117</b>

\*\* excludes transfers from other funds

Business-Type Activities

Revenues of the Board's only business-type activity, the food service operation, decreased \$178,121 to \$2,004,295 and expenses decreased \$34,205. (Refer to Table 2).

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2019**

**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 \$614,751, a decrease of \$63,951 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 expenses over revenues was \$63,951 for the year ended June 30, 2019 compared to an excess of expenses over revenues of \$232,783 for FY 2018. The major changes in both revenues and expenditures results from the following:

1. Somerset County Appropriations increased by \$140,000. The County appropriated Non-Recurring funds to purchase security cameras and to add secure vestibules to the Woodson and Greenwood Elementary Schools.
2. State of Maryland revenues increased by \$272,686. This is a result of an increase in the formula grant due to an increase in student enrollment for the FY19 school year.
3. Other Revenues increased by \$120,072. ESMEC reserves were used to fund our Health Insurance Opt Out bonus for both employees and retirees for FY 2019.
4. Special Education costs increased by \$216,624. Several Special Education teacher and assistant positions were added in FY19. Additional consultant costs were incurred as the need for speech, occupational, and physical therapy increased.
5. Fixed Charges increased in FY19 for several reasons. Health insurance costs for retirees and active employees increased by \$326,000 in FY19. Workers comp and social security costs increased as a result of higher salaries.
6. Capital Outlay costs increased this year due to the construction of the secure vestibules at Greenwood and Woodson Elementary Schools.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2019**

Table 3

GENERAL FUND REVENUES				
	FY 2019	FY 2018	Increase (Decrease)	% of Incr. (Decr.)
<b>REVENUES</b>				
Somerset County Appropriations	\$ 9,881,620	\$ 9,741,620	\$ 140,000	1.4%
State of Maryland	31,501,191	31,228,505	272,686	0.9%
State share of retirement and pension contribution	2,650,264	2,574,186	76,078	3.0%
Other	300,043	179,971	120,072	66.7%
<b>Total Revenues</b>	<b>44,333,118</b>	<b>43,724,282</b>	<b>608,836</b>	<b>1.4%</b>
<b>GENERAL FUND EXPENDITURES</b>				
<b>EXPENDITURES</b>				
Administration	1,580,226	1,575,759	4,467	0.3%
Mid-level Administration	4,029,700	4,019,511	10,189	0.3%
Instructional salaries	14,238,376	14,321,320	(82,944)	-0.6%
Textbooks & instructional supplies	717,121	719,099	(1,978)	-0.3%
Other instruction costs	223,617	239,479	(15,862)	-6.6%
Special Education	3,979,125	3,762,501	216,624	5.8%
Student personnel services	756,602	731,207	25,395	3.5%
Health services	480,420	451,791	28,629	6.3%
Transportation of pupils	3,012,273	3,043,296	(31,023)	-1.0%
Operation of plant	2,655,640	2,622,029	33,611	1.3%
Maintenance of plant	960,853	1,029,712	(68,859)	-6.7%
Fixed charges	9,014,929	8,834,703	180,226	2.0%
Capital outlay	97,923	32,472	65,451	201.6%
State share of retirement and pension contribution	2,650,264	2,574,186	76,078	3.0%
<b>Total expenditures</b>	<b>44,397,069</b>	<b>43,957,065</b>	<b>440,004</b>	<b>1.0%</b>
Excess/(Deficiency) of revenues over expenditures	\$ (63,951)	\$ (232,783)	\$ 168,832	-72.5%

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2019**

**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 increase of \$1,463,046 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 2019</u>	<u>FY 2018</u>	<u>Increase (Decrease)</u>	<u>% Incr. (Decr.)</u>
<b>REVENUES</b>				
Federal through State	\$ 5,926,443	\$ 4,559,839	1,366,604	29.97%
State of Maryland	756,160	587,322	168,838	28.75%
Reimbursements and Other Income	<u>0</u>	<u>72,396</u>	<u>(72,396)</u>	100.00%
 Total Revenues	 <u>\$ 6,682,603</u>	 <u>\$ 5,219,557</u>	 <u>1,463,046</u>	 28.03%

**CAPITAL PROJECTS FUND**

The Board has no legal authority to borrow funds. During FY 2019, the Board received County funding of \$706,733 and State funding of \$23,439,760, which is recorded on these financial statements. The County funds were used for the design and construction of the new Somerset County Technical High School project.

The State funding includes a reimbursement for HVAC improvements at Crisfield High School from Aging Schools. State funding was also received for the construction of the new Somerset County Technical High School. The new school opened for staff and students in September 2019.

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

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2019**

**FIDUCIARY FUNDS**

The following funds are accounted for as Fiduciary Funds:

- (1) Agency Funds – During FY 2019 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 2019</u>	<u>FY 2018</u>	<u>Increase (Decrease)</u>	<u>% Incr. (Decr.)</u>
Additions	\$ 640,370	\$ 690,624	\$ (50,254)	-7.28%
Deductions	(634,536)	(660,843)	26,307	-3.98%
Beginning balance due to school activities funds	<u>279,356</u>	<u>249,575</u>	<u>29,781</u>	11.93%
Ending Balance due to School Activities Fund	<u>\$ 285,190</u>	<u>\$ 279,356</u>	<u>\$ 5,834</u>	2.09%

**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, 2019**

**GENERAL FUND BUDGETARY HIGHLIGHTS, continued**

	Original Approved FY 2019 Budget	Category Increases	Category Transfers	Final Amended FY 2019 Budget
<b>REVENUES</b>				
Somerset County	\$ 9,881,620	\$ -	\$ -	\$ 9,881,620
State of Maryland	31,496,125	-	-	31,496,125
Other	322,500	-	-	322,500
Prior Year's Fund Balance	270,442	-	-	270,442
Total Revenues	<u>41,970,687</u>	<u>-</u>	<u>-</u>	<u>41,970,687</u>
 <b>EXPENDITURES</b>				
Administration	1,525,788	59,000	-	1,584,788
Mid-level Administration	4,023,918	130,000	-	4,153,918
Instructional Salaries and Wages	14,288,776	50,000	(97,000)	14,241,776
Instructional Textbooks and Supplies	827,411	-	(75,000)	752,411
Other Instructional Costs	250,765	-	(5,000)	245,765
Student Personnel Services	750,884	20,000	-	770,884
Health Services	445,293	43,000	-	488,293
Fixed Charges	9,199,500	-	(154,000)	9,045,500
Student Transportation	2,948,612	65,000	-	3,013,612
Operation of Plant	2,741,557	40,000	(126,000)	2,655,557
Maintenance of Plant	922,020	-	(25,000)	897,020
Special Education	3,941,163	40,000	-	3,981,163
Capital Outlay	105,000	35,000	-	140,000
Total Expenditures	<u>\$ 41,970,687</u>	<u>\$ 482,000</u>	<u>\$ (482,000)</u>	<u>\$ 41,970,687</u>

After these revisions, the actual General Fund and Capital expenditures matched the budget. Actual expenditures and encumbrances were under budget by \$166,063. Actual expenditures exceeded revenues by \$121,770. The Board utilized the FY 2017 fund balance designated for FY 2019 (excess of revenues over expenditures) in the amount of \$270,442. This leaves an unreserved, undesignated fund balance of \$148,672 to be carried forward to FY 2021. The excess fund balance from FY 2019 is primarily attributed to over budgeting for Textbooks and Instructional Costs.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2019**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets

At June 30, 2019, the Board has invested \$119,180,678 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 \$2,056,313 in governmental and business-type activities.

Construction – Next Five Years

Annually, 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 2019-2020 school year.

In November of 2017, ground breaking for the new Somerset County Technical High School (formerly the J.M. Tawes Technology & Career Center) took place. Less than 2 years later, construction for this project was completed in September 2019. In FY19, secure vestibules were installed at Greenwood Elementary and Woodson Elementary. Over the summer of 2019, the Board of Education building was renovated to include space for the Alternative Learning Center as well as many new security features. In addition to these projects, several other security improvements including new surveillance camera and communication systems are ongoing with the support of the Safe to Learn Act funding at several Somerset County Schools.

Over the next five years, these projects are under consideration: roof replacement at Crisfield High School, replacement of the Ewell School, replacement of or renovations to the Princess Anne Elementary School and minor additions to the Somerset Intermediate School.

Long-Term Liabilities

- At year-end, the Board had \$23,591,503 in amounts due or payable after one year. This amount consists of accrued compensated absences (\$752,050) 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 (\$20,698,239) for future health insurance costs for retirees in compliance with GASB 75 and an amount for the net pension liability required under GASB 68 (\$2,141,214).

**FACTORS BEARING ON THE BOARD'S FUTURE**

The Board provides post-employment health insurance benefits to their retirees. During fiscal year 2018, the Board implemented *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which resulted in a restatement of the net OPEB liability for the period June 30, 2017 of \$12,691,695. Implementation of GASB Statement No. 75 resulted in a Net OPEB liability on our district-wide financial statements of \$20,698,239 as of June 30, 2019. The Board currently funds retiree healthcare premiums as described in Note 10 on a pay- as-you -go basis only. Considering the limited funding available, the Board has opted to not fund any potential liability,

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2019**

**FACTORS BEARING ON THE BOARD'S FUTURE, continued**

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.

In FY 2019 the State contributed \$2,650,264 for teacher retirement which is disclosed as an on behalf payment on the Board's financial statements. The State of Maryland previously funded most of the employee share of retirement costs for employees enrolled in the Teachers Retirement and Pension Systems. 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 had a slight loss in FY 2019. 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. 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 3,512,833 breakfasts and lunches.

The Blueprint for Maryland's Future law was passed by the 2019 Maryland General Assembly. The law was based on policy recommendations outlined in the Interim Report of the Maryland Commission on Innovation and Excellence in Education (the Kirwan Commission). The purpose of the Commission was to review and ultimately, to revise, the current education funding formula for Maryland's school systems. The passage of the Blueprint for Maryland's future was an initial step towards fulfilling the recommendations made by the Commission. As part of this new formula, Somerset County Public Schools will receive additional funding in FY20 to increase our starting teacher's salaries, to hire a district Mental Health Coordinator, to implement a Community School model at four of our schools with the highest poverty rates, and to implement supplemental literacy and math instruction at two of our schools with the greatest need. At this time, the Commission continues to work on finalizing policy recommendations as well as costing out the formula changes. The Commission's goal is that all new policy recommendations and formula changes will be implemented over the next 10 years.

**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, 2019

	Governmental Activities	Business- Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,371,918	\$ 785,215	\$ 2,157,133
Due from other governmental agencies	1,458,198	106,308	1,564,506
Inventory	-	20,085	20,085
Internal balances	689,131	(689,131)	-
Land	493,252	-	493,252
Construction in progress	33,598,984	-	33,598,984
Depreciable assets, net of accumulated depreciation	49,691,443	182,211	49,873,654
<b>TOTAL ASSETS</b>	<b>87,302,926</b>	<b>404,688</b>	<b>87,707,614</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions (see Note 8)	471,995	-	471,995
Other post-employment benefits (see Note 10)	774,357	-	774,357
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>1,246,352</b>	<b>-</b>	<b>1,246,352</b>
<b>LIABILITIES</b>			
Accounts payable:			
Vendors	354,798	29,222	384,020
Payroll deductions and withholdings	1,676,076	2,882	1,678,958
Due to other governments	10,943	-	10,943
Accrued salaries	300,198	-	300,198
Unearned revenue	562,481	-	562,481
Long-term liabilities:			
Due within one year	25,000	-	25,000
Due in more than one year	23,591,503	3,307	23,594,810
<b>TOTAL LIABILITIES</b>	<b>26,520,999</b>	<b>35,411</b>	<b>26,556,410</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions (see Note 8)	227,549	-	227,549
<b>NET POSITION</b>			
Net investment in capital assets	83,783,679	182,211	83,965,890
Unrestricted	(21,982,949)	187,066	(21,795,883)
<b>TOTAL NET POSITION</b>	<b>\$ 61,800,730</b>	<b>\$ 369,277</b>	<b>\$ 62,170,007</b>

*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, 2019

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Governmental Activities</b>			
Current:			
Administration	\$ 1,675,108	\$ -	\$ 33,637
Mid-level administration	4,118,854	-	281,142
Instructional services	20,208,494	-	3,381,864
Special education	5,062,794	-	1,083,669
Student personnel services	1,124,957	-	368,355
Health services	489,163	-	8,743
Student transportation	3,114,058	-	101,785
Operation of plant and equipment	3,002,676	-	21,073
Maintenance of plant	960,853	-	-
Fixed charges	11,569,273	-	1,402,335
Capital outlay	95,809	-	-
State of Maryland share of retirement and pension contribution	2,650,264	-	2,650,264
<b>Total Governmental Activities</b>	<b>54,072,303</b>	<b>-</b>	<b>9,332,867</b>
<b>Business-Type Activities</b>			
Food services	2,014,568	90,726	1,891,832
<b>Totals</b>	<b>\$ 56,086,871</b>	<b>\$ 90,726</b>	<b>\$ 11,224,699</b>

**General Revenues**

State Of Maryland  
Somerset County appropriation  
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

Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
\$ -	\$ (1,641,471)	\$ -	\$ (1,641,471)
-	(3,837,712)	-	(3,837,712)
-	(16,826,630)	-	(16,826,630)
-	(3,979,125)	-	(3,979,125)
-	(756,602)	-	(756,602)
-	(480,420)	-	(480,420)
-	(3,012,273)	-	(3,012,273)
-	(2,981,603)	-	(2,981,603)
-	(960,853)	-	(960,853)
-	(10,166,938)	-	(10,166,938)
24,146,493	24,050,684	-	24,050,684
-	-	-	-
24,146,493	(20,592,943)	-	(20,592,943)
15,700	-	(16,310)	(16,310)
<u>\$ 24,162,193</u>	<u>(20,592,943)</u>	<u>(16,310)</u>	<u>(20,609,253)</u>
	31,501,191	-	31,501,191
	9,881,620	-	9,881,620
	300,043	6,037	306,080
	41,682,854	6,037	41,688,891
	21,089,911	(10,273)	21,079,638
	40,710,819	379,550	41,090,369
	<u>\$ 61,800,730</u>	<u>\$ 369,277</u>	<u>\$ 62,170,007</u>

THE BOARD OF EDUCATION OF SOMERSET COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019

	General	Restricted Grants	Capital Projects	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,371,918	\$ -	\$ -	\$ 1,371,918
Due from other governmental agencies	199,198	1,052,040	206,960	1,458,198
Due from other funds	1,245,330	-	-	1,245,330
<b>TOTAL ASSETS</b>	<b>\$ 2,816,446</b>	<b>\$ 1,052,040</b>	<b>\$ 206,960</b>	<b>\$ 4,075,446</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable:				
Vendors	\$ 269,290	\$ 68,613	\$ 16,895	\$ 354,798
Payroll deductions and withholdings	1,676,076	-	-	1,676,076
Due to other funds	-	376,385	179,814	556,199
Due to other government	10,943	-	-	10,943
Accrued salaries and payroll taxes	217,498	82,700	-	300,198
Unearned revenue	27,888	524,342	10,251	562,481
<b>TOTAL LIABILITIES</b>	<b>2,201,695</b>	<b>1,052,040</b>	<b>206,960</b>	<b>3,460,695</b>
<b>FUND BALANCES</b>				
Assigned to:				
Subsequent year expenditures	243,735	-	-	243,735
Other purposes (encumbrances)	222,344	-	-	222,344
Unassigned	148,672	-	-	148,672
<b>TOTAL FUND BALANCES</b>	<b>614,751</b>	<b>-</b>	<b>-</b>	<b>614,751</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,816,446</b>	<b>\$ 1,052,040</b>	<b>\$ 206,960</b>	<b>\$ 4,075,446</b>

*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, 2019

Total fund balances, governmental funds \$ 614,751

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. 83,783,679

Deferred outflow of resources

Pensions (see Note 8)	471,995	
Other post-employment benefits (see Note 10)	774,357	
		1,246,352

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	(777,050)	
Net pension liability	(2,141,214)	
Post-employment benefits	(20,698,239)	
		(23,616,503)

Deferred inflow of resources - pensions (see Note 8) (227,549)

Net position of governmental activities in the Statement of Net Position \$ 61,800,730

*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, 2019

	General	Restricted Grants	Capital Projects	Total Governmental Funds
<b>REVENUES</b>				
Somerset County	\$ 9,881,620	\$ -	\$ 706,733	\$ 10,588,353
Federal government	-	5,926,443	-	5,926,443
State Of Maryland	31,501,191	756,160	203,056	32,460,407
State Of Maryland on-behalf payments	2,650,264	-	23,236,704	25,886,968
Reimbursements and other income	300,043	-	-	300,043
<b>TOTAL REVENUES</b>	<b>44,333,118</b>	<b>6,682,603</b>	<b>24,146,493</b>	<b>75,162,214</b>
<b>EXPENDITURES</b>				
Administration	1,580,226	33,637	-	1,613,863
Mid-level administration	4,029,700	281,142	-	4,310,842
Instructional salaries and wages	14,238,376	2,360,726	-	16,599,102
Textbooks and instructional supplies	717,121	505,216	-	1,222,337
Other instructional costs	223,617	515,922	-	739,539
Student personnel services	756,602	368,355	-	1,124,957
Health services	480,420	8,743	-	489,163
Student transportation	3,012,273	101,785	-	3,114,058
Operation of plant and equipment	2,655,640	21,073	-	2,676,713
Maintenance of plant	960,853	-	-	960,853
Special education	3,979,125	1,083,669	-	5,062,794
Fringe benefits on-behalf payments	2,650,264	-	-	2,650,264
Fixed charges	9,014,929	1,402,335	-	10,417,264
Capital outlay	97,923	-	24,146,493	24,244,416
<b>TOTAL EXPENDITURES</b>	<b>44,397,069</b>	<b>6,682,603</b>	<b>24,146,493</b>	<b>75,226,165</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(63,951)</b>	<b>-</b>	<b>-</b>	<b>(63,951)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(63,951)</b>	<b>-</b>	<b>-</b>	<b>(63,951)</b>
Fund balances, beginning	678,702	-	-	678,702
Fund balances, ending	\$ 614,751	\$ -	\$ -	\$ 614,751

*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, 2019

Net change in fund balances, governmental funds \$ (63,951)

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(net of disposals of \$23,089)	24,340,595	
Depreciation expense	<u>(2,034,724)</u>	
Excess of capital outlay over depreciation expense		22,305,871

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	(669,900)	
Increase in pension expense	(410,932)	
Increase in accrued compensated absences	<u>(71,177)</u>	
Total		<u>(1,152,009)</u>

Change in net position of governmental activities \$ 21,089,911

*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, 2019

	<u>Enterprise Fund Food Services</u>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 785,215
Due from other governments	106,308
Inventory of food, at cost	<u>20,085</u>
Total current assets	<u>911,608</u>
Noncurrent assets:	
Equipment	1,416,167
Less: accumulated depreciation	<u>(1,233,956)</u>
Total noncurrent assets	<u>182,211</u>
<b>TOTAL ASSETS</b>	<u><u>1,093,819</u></u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	29,222
Due to general fund	689,131
Accrued payroll	<u>2,882</u>
Total current liabilities	721,235
Long-term liabilities:	
Accrued compensated absences	<u>3,307</u>
<b>TOTAL LIABILITIES</b>	<u><u>724,542</u></u>
<b>NET POSITION</b>	
Invested in capital assets	182,211
Unrestricted	<u>187,066</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 369,277</u></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, 2019

	Enterprise Fund Food Services
OPERATING REVENUES	
Food Service Sales	\$ 90,726
OPERATING EXPENSES	
Operation Of Plant	3,740
Fixed Charges	210,897
Salaries And Wages	644,342
Contracted Services	7,215
Food and Food Related Supplies	1,123,461
Other Charges	3,324
Depreciation	21,589
TOTAL OPERATING EXPENSES	2,014,568
OPERATING LOSS	(1,923,842)
NONOPERATING REVENUES	
Interest Income	6,037
State Of Maryland:	
Reimbursement Of Food Costs	49,713
Federal Through State:	
Reimbursement Of Food Costs	1,778,375
Donation Of Food Commodities	63,744
Total Federal Through State	1,842,119
TOTAL NONOPERATING REVENUES	1,897,869
CAPITAL CONTRIBUTION - equipment	15,700
Change in net position	(10,273)
Net position beginning of year	379,550
Net position end of year	\$ 369,277

*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, 2019

	<u>Enterprise Fund</u> <u>Food Services</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from user charges	\$ 90,726
Cash payments to employees for services and fringe benefits	(855,393)
Cash payments to suppliers for goods and services	(1,057,139)
Cash payments for other operating expenses	(14,279)
Net cash used for operating activities	<u>(1,836,085)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Non-operating grants received	1,843,099
Payments to other funds (net of repayments)	(171,219)
Net cash provided by noncapital financing activities	<u>1,671,880</u>
<b>CASH FLOWS FROM CAPITAL AND INVESTING ACTIVITIES</b>	
Purchases of equipment	(626)
Interest on investments	6,037
Net cash used by investing activities	<u>5,411</u>
Net change in cash and cash equivalents	(158,794)
Cash and equivalents, beginning of year	<u>944,009</u>
Cash and equivalents, end of year	<u>\$ 785,215</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Operating loss	\$ (1,923,842)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	21,589
Donated commodities used	63,744
Changes in operating assets and liabilities:	
Inventory of food, at cost	3,461
Accounts payable and accrued liabilities	(1,037)
Net cash used for operating activities	<u>\$ (1,836,085)</u>
<b>NONCASH ACTIVITIES</b>	
During the year the board received food commodities from the U.S. Department of Agriculture	\$ 63,744
Capital contributions of equipment	15,700

*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, 2019

	Agency Funds
	<u>School Activities Funds</u>
ASSETS	
Cash	\$ 255,952
Certificates of deposit	23,959
Accounts receivable	<u>5,279</u>
TOTAL ASSETS	<u>\$ 285,190</u>
LIABILITIES	
Due to school activity funds	<u>\$ 285,190</u>
TOTAL LIABILITES	<u>\$ 285,190</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 two items that qualify for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension obligation (Note 8) and OPEB liability (Note 10) 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 two items that qualify for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension obligation (Note 8) and OPEB liability (Note 10) 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, 2019 totaled \$222,344.

#### 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, 2019, the Board's funds were invested as follows:

	Governmental Activities	Business-Type Activities
Demand deposits	\$ 1,242,898	\$ 785,215
Savings deposits	129,020	-
<b>TOTAL</b>	<b>\$ 1,371,918</b>	<b>\$ 785,215</b>
<b>CARRYING VALUE</b>	<b>\$ 1,371,918</b>	<b>\$ 785,215</b>

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	1,618,189	785,215
<b>TOTAL</b>	<b>\$ 1,868,189</b>	<b>\$ 785,215</b>

#### 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. Due from Governmental Agencies

As of June 30, 2019, the Board also has amounts due from governmental agencies of \$1,458,198 and \$106,308 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, 2019, 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
<b>GOVERNMENTAL ACTIVITIES</b>		
General fund		
Due from food services fund	\$ 689,131	\$ -
Due from restricted funds	376,385	-
Due to capital projects fund	179,814	-
Restricted grants		
Due to general fund	-	376,385
Capital projects		
Due from general fund	-	179,814
<b>BUSINESS-TYPE ACTIVITIES</b>		
Enterprise fund - food service		
Due to general fund	-	689,131
<b>TOTAL ALL FUNDS</b>	<b>\$ 1,245,330</b>	<b>\$ 1,245,330</b>

**Note 5. Changes in Long-Term Liability Activity**

Long-term liability activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
<b>GOVERNMENTAL ACTIVITIES</b>					
Net OPEB liability	\$ 19,253,982	\$ 1,444,257	\$ -	\$ 20,698,239	\$ -
Net pension liability	1,782,031	359,183	-	2,141,214	-
Accrued Compensated					
Absences	705,873	136,834	65,657	777,050	25,000
Total	\$ 21,741,886	\$ 1,940,274	\$ 65,657	\$ 23,616,503	\$ 25,000
<b>BUSINESS-TYPE ACTIVITIES</b>					
Accrued Compensated					
Absences	\$ 5,926	\$ 3,307	\$ 5,926	\$ 3,307	\$ -

Payments for compensated absences, net pension liability, and other post-employment benefits have typically been liquidated in the General Fund in the prior years.

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>GOVERNMENTAL ACTIVITIES</b>				
Capital assets not being depreciated:				
Land	\$ 493,252	\$ -	\$ -	\$ 493,252
Construction in progress	10,045,095	23,553,889	-	33,598,984
Total capital assets not being depreciated	10,538,347	23,553,889	-	34,092,236
Capital assets being depreciated:				
Buildings	77,225,599	203,056	-	77,428,655
Land improvements	3,444,579	153,303	(2,500)	3,595,382
Furniture, fixtures and equipment	1,928,408	427,657	-	2,356,065
Vehicles	311,344	25,779	(44,950)	292,173
Total capital assets being depreciated	82,909,930	809,795	(47,450)	83,672,275
Less accumulated depreciation:				
Buildings	(27,211,201)	(1,907,308)	-	(29,118,509)
Land improvements	(2,944,005)	(50,135)	1,563	(2,992,577)
Furniture, fixtures and equipment	(1,680,586)	(45,245)	-	(1,725,831)
Vehicles	(134,677)	(32,036)	22,798	(143,915)
Total accumulated depreciation	(31,970,469)	(2,034,724)	24,361	(33,980,832)
Total capital assets being depreciated, net of accumulated depreciation	50,939,461	(1,224,929)	(23,089)	49,691,443
<b>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>				
	<b>\$ 61,477,808</b>	<b>\$ 22,328,960</b>	<b>\$ (23,089)</b>	<b>\$ 83,783,679</b>
<b>BUSINESS-TYPE ACTIVITIES</b>				
Capital assets being depreciated:				
Equipment	\$ 1,399,841	\$ 16,326	\$ -	\$ 1,416,167
Less accumulated depreciation:				
Equipment	(1,212,367)	(21,589)	-	(1,233,956)
<b>BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>				
	<b>\$ 187,474</b>	<b>\$ (5,263)</b>	<b>\$ -</b>	<b>\$ 182,211</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Capital Assets - continued

\*Depreciation for governmental activities is allocated as follows:

Administration	\$ 61,245
Operation of plant	325,963
Instruction	<u>1,647,516</u>
TOTAL	<u>\$ 2,034,724</u>

### 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 12% as a recommended conservative reserve. As of January 9, 2019 the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$1,062,396. 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](http://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 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 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, 2019. 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%.

## NOTES TO FINANCIAL STATEMENTS

### Note 8. Pension Plans - continued

#### Teachers' and Employees' Pension System - continued

#### **Teacher's and Employees' Retirement Systems and Teachers' and Employees' Pension Systems**

##### Employer Contributions:

For the year ended June 30, 2019 the Board's total payroll for all employees was \$30,053,614. Total covered payroll was \$27,501,384. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay 100% of the normal cost portion of the total pension cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. The related payment for fiscal year ending 2019 was \$1,020,976. In addition, the State of Maryland contributed \$2,650,264 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, 2019, the Board reported a liability for its proportionate share of the net pension liability. 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:

	<b>2019</b>
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 2,141,214
Board's proportionate share of the net pension liability (Teachers' Systems)	<u>27,085,498</u>
Total	<u><u>\$ 29,226,712</u></u>

At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 55,210	\$ -
Net difference between projected and actual investment earnings on pension plan investments	182,967	-
Changes in proportion and differences between Board contributions and proportionate share of contributions	-	(227,549)
Board contributions subsequent to measurement date	<u>233,819</u>	-
Total	<u>\$ 471,996</u>	<u>\$ (227,549)</u>

## 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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was 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, 2018, the Board's proportion was approximately .00102052%.

For the year ended June 30, 2019, the Board recognized pension expense for the employees system of \$644,751 in the government wide financial statements and \$233,818 in the fund financial statements. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Year End June 30,	Deferred Outflows		Deferred Inflows	
	Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Net Difference in Investment Earnings
2020	\$ 71,312	\$ 22,207	\$ (41,696)	\$ (23,195)
2021	71,312	22,207	(41,696)	(23,195)
2022	40,344	4,608	(34,495)	(23,196)
2023	-	4,199	(26,039)	(5,395)
2024	-	1,989	(8,641)	-
Total	\$ 182,967	\$ 55,210	\$ (152,568)	\$ (74,981)

In addition, there is \$233,818 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, 2020. The deferred outflows and the inflows related to non-investment activity are being amortized over the remaining service life ranging from 5.72 to 5.87 years. The net difference in investment earnings are being amortized over a closed five-year period.

## 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

##### *Actuarial Assumptions*

The total pension liability in the June 30, 2018 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	2.60% general, 3.10% wage
Salary increases	3.10% to 9.10%, including wage inflation
Discount rate	7.45%
Investment rate of return	7.45%
Mortality	RP-2014 mortality tables

##### *Investments*

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	5.8%
Private Equity	13%	6.7%
Rate Sensitive	19%	1.1%
Credit Opportunity	9%	3.6%
Real Assets	14%	4.8%
Absolute Return	<u>8%</u>	3.2%
Total	<u>100%</u>	

##### *Discount rate*

A single discount rate of 7.45% 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 7.45%. 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.

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**

*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 7.45%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>Discount Rate</u>	<u>Board's Net Pension Liability</u>
1% decrease	6.45%	\$ 3,084,083
Current discount rate	7.45%	\$ 2,141,214
1% increase	8.45%	\$ 1,358,701

**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.

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Other Post-Employment Benefits

#### Plan Description and Benefits Provided

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, 2017, the date of the last actuarial valuation, approximately 225 retirees were receiving benefits, and an estimated 444 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 2019, the Board contributed \$767,522 to the plan for approximately 225 eligible retirees.

#### Total OPEB Liability

The annual OPEB expense under GASB Statement No. 75 is equal to the change in the unfunded actuarial accrued liability from the prior year’s measurement date to the current year measurement date, with some of the liability changes being deferred to future years. Changes in the actuarial accrued liability due to experience gains or losses or changes in assumptions are recognized over the expected future working lifetime of all plan participants, including retirees.

The Board’s total OPEB liability of \$20,698,239 was measured as of June 30, 2019, and was determined by an actuarial valuation date of July 1, 2017.

The Board’s total OPEB liability is an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The following table shows the components of the Board’s total OPEB liability, fiduciary net position, and the resulting total OPEB liability as of June 30, 2019:

	Increase (Decrease)		
Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)	
Balance at 7/1/18	\$ 19,253,982	\$ -	\$ 19,253,982
Changes for the year:			
Service cost	580,267	-	580,267
Interest cost	730,419	-	730,419
Differences between expected and actual experience	-	-	-
Changes of assumptions and other inputs	901,093	-	901,093
Contributions - employer		767,522	(767,522)
Net investment income	-	-	-
Benefit payments	(767,522)	(767,522)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	1,444,257	-	1,444,257
Balances at 6/30/2019	\$ 20,698,239	\$ -	\$ 20,698,239

## NOTES TO FINANCIAL STATEMENTS

### Note 10. Other Post-Employment Benefits – continued

#### Funding Status and Funding Progress

As of July 1, 2017 the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$20,698,239, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$27,501,384, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 75.26 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. 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 total OPEB liability, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the total OPEB liability is increasing or decreasing over time relative to the total OPEB liability for benefits.

#### Actuarial Assumptions and Discount Rate

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

Measurement date:	June 30, 2019
Actuarial valuation date:	July 1, 2017
Actuarial cost method:	Entry Age Normal
Discount Rate:	The discount rate used to measure the total OPEB liability is 3.50%. As the plan is unfunded, the plan's projected benefits are discounted back using rates equivalent to Aa 20-year municipal bonds. The GO Bond Buyer Index was used to approximate those yields as of June 30, 2018. Prior valuations used 3.87%.
Mortality:	RP-2014 Total Dataset Headcount-weighted Table with scale MP-2018. The prior valuation used improvement scale MP-2017. The RP 2014 base table is used pending analysis of the recently issued Pub-10 tables.
Turnover:	T7 Standard Scale Based on the actuary's professional judgement.
Salary scale:	3.00% The assumption reflects management expectation of future salary increases.

NOTES TO FINANCIAL STATEMENTS

**Note 10. Other Post-Employment Benefits – continued**

**Sensitivity of the Total OPEB Liability**

The following table presents the Board’s total and total OPEB liability using the discount rate of 3.50%, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate	Board's Total OPEB Liability
1% decrease	2.50%	\$ 23,670,012
Current discount Rate	3.50%	\$ 20,698,239
1% increase	4.50%	\$ 18,290,799

The following table presents the Board’s total and total OPEB liability using the health care trend rate of 8%, decreasing to 5%, as well as what the total OPEB liability would be if it were calculated using a trend rate that is 1% point lower or 1% point higher than the current rate:

	Health Care Cost Trend Rate	Board's Total OPEB Liability
1% decrease	7% to 4%	\$ 18,084,339
Current discount Rate	8% to 5%	\$ 20,698,239
1% increase	9% to 6%	\$ 24,010,456

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

For the year ended June 30, 2019, the Board will recognize OPEB expense in the amount of \$669,900 on the government-wide statements. At June 30, 2019, the Board reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	774,357	-
Net difference between projected and actual earnings on OPEB plan investments	-	-
Total	\$ 774,357	\$ -

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Outflows	Inflows
2020	\$ 126,736	\$ -
2021	126,736	-
2022	126,736	-
2023	126,736	-
2024	126,736	-
Thereafter	140,677	-
	\$ 774,357	\$ -



## NOTES TO FINANCIAL STATEMENTS

### **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 has entered into a contract for the preconstruction and construction of Somerset County Technical High School in the amount of \$42,781,000. The State Capital Improvement Program will fund \$35,381,000 and Somerset County Commissioners will contribute \$7,400,000. At June 30, 2019, \$31,112,000 had been expended by the State and \$2,763,000 by the County on the preconstruction and construction of Somerset County Technical High School related to this contract.

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, 2019 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

THE BOARD OF EDUCATION OF SOMERSET COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL  
GENERAL FUND

Year Ended June 30, 2019

	Budget		Actual	Variance With
	Original	Final		Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
Somerset County	\$ 9,881,620	\$ 9,881,620	\$ 9,881,620	\$ -
State Of Maryland:				
Current expense	13,604,993	13,604,993	13,604,993	-
Special education	1,717,528	1,717,528	1,717,528	-
Transportation	1,938,529	1,938,529	1,938,529	-
Transportation - boat	35,000	35,000	35,000	-
Nonpublic placement	10,000	10,000	11,066	1,066
Compensatory education	10,116,699	10,116,699	10,116,699	-
Limited english proficiency	666,353	666,353	666,353	-
Targeted Aid	790,724	790,724	790,724	-
Other state revenues	905,106	905,106	909,106	4,000
Guaranteed tax base	1,711,193	1,711,193	1,711,193	-
Total State Of Maryland	31,496,125	31,496,125	31,501,191	5,066
Reimbursements and other income	322,500	322,500	300,043	(22,457)
<b>TOTAL REVENUES</b>	<b>41,700,245</b>	<b>41,700,245</b>	<b>41,682,854</b>	<b>(17,391)</b>
<b>EXPENDITURES</b>				
Administration	1,525,788	1,584,788	1,580,226	4,562
Mid-level administration	4,023,918	4,153,918	4,146,382	7,536
Instructional salaries and wages	14,288,776	14,241,776	14,238,376	3,400
Textbooks and instructional supplies	827,411	752,411	713,386	39,025
Other instructional costs	250,765	245,765	213,606	32,159
Student personnel services	750,884	770,884	756,602	14,282
Health services	445,293	488,293	480,420	7,873
Student transportation	2,948,612	3,013,612	3,012,273	1,339
Operation of plant and equipment	2,741,557	2,655,557	2,642,983	12,574
Maintenance of plant	922,020	897,020	890,684	6,336
Special education	3,941,163	3,981,163	3,979,125	2,038
Fixed charges	9,199,500	9,045,500	9,014,929	30,571
Capital outlay	105,000	140,000	135,632	4,368
<b>TOTAL EXPENDITURES</b>	<b>41,970,687</b>	<b>41,970,687</b>	<b>41,804,624</b>	<b>166,063</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(270,442)</b>	<b>(270,442)</b>	<b>(121,770)</b>	<b>148,672</b>
<b>OTHER FINANCING SOURCES</b>				
Designated from June 30, 2018 for June 30, 2019 Expenditures	270,442	270,442	270,442	-
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 148,672</b>	<b>\$ 148,672</b>

THE BOARD OF EDUCATION OF SOMERSET COUNTY

REQUIRED SUPPLEMENTARY INFORMATION  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**(AS OF MEASUREMENT DATE)**

June 30, 2019

Measurement Date	Board's Proportion of the NPL (Percentage) A	Board's Proportionate Share of the NPL B	Board's Share of State's Proportionate Share of the NPL C	Total (B+C)	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)
June 30, 2014	0.0062365%	\$ 1,106,790	\$ 19,938,634	\$ 21,045,424	\$ 21,896,044	5.05%	\$45,339,988,000	\$63,086,719,000	71.87%
June 30, 2015	0.0084590%	\$ 1,757,925	\$ 25,096,984	\$ 26,854,909	\$ 23,159,421	7.59%	\$45,789,840,000	\$66,571,552,000	68.78%
June 30, 2016	0.0086191%	\$ 2,033,593	\$ 30,644,320	\$ 32,677,913	\$ 24,019,259	8.47%	\$45,365,927,000	\$68,959,954,000	65.79%
June 30, 2017	0.0082411%	\$ 1,782,031	\$ 28,922,278	\$ 30,704,309	\$ 25,112,246	7.10%	\$48,987,184,000	\$70,610,885,000	69.38%
June 30, 2018	0.0102052%	\$ 2,141,214	\$ 27,085,498	\$ 29,226,712	\$ 26,646,713	8.04%	\$51,827,233,000	\$72,808,833,000	71.18%

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 BOARD CONTRIBUTIONS - PENSION PLANS**

**(AS OF FISCAL YEAR)**

June 30, 2019

Fiscal Year	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
2015	\$924,085	\$924,085	\$0	\$23,159,421	3.99%
2016	\$1,073,414	\$1,073,414	\$0	\$24,019,259	4.47%
2017	\$1,093,442	\$1,093,442	\$0	\$25,112,246	4.35%
2018	\$1,191,144	\$1,191,144	\$0	\$26,646,713	4.47%
2019	\$1,254,795	\$1,254,795	\$0	\$27,501,384	4.56%

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 CHANGES IN THE BOARD'S OPEB  
 LIABILITY AND RELATED RATIOS**

	<u>2018</u>	<u>2019</u>
Total OPEB liability		
Service cost	\$ 552,635	\$ 580,267
Interest cost	712,837	730,419
Differences between expected and actual experience	-	-
Changes of assumptions and other inputs	-	901,093
Benefit payments	(854,007)	(767,522)
Other changes	-	-
Net change in total OPEB liability	<u>\$ 411,465</u>	<u>\$ 1,444,257</u>
Total OPEB liability, beginning of year, as restated	<u>18,842,517</u>	<u>19,253,982</u>
Total OPEB liability, end of year (a)	<u><u>\$ 19,253,982</u></u>	<u><u>\$ 20,698,239</u></u>
	Covered employee payroll	\$ 26,646,713
	Total OPEB liability as of % of payroll	\$ 27,501,384
		72.26%
		75.26%

*Schedule is intended to provide 10-year trend information. Additional years will be displayed as available.*

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### 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 50 include all budget revisions.

	Revenues	Expenditures	Fund Balances
	General	General	General
	June 30, 2019	June 30, 2019	June 30, 2019
GAAP basis	\$ 44,333,118	\$ 44,397,069	\$ 614,751
On-behalf payments	(2,650,264)	(2,650,264)	-
June 30, 2019 fund balance designated for June 30, 2020 expenditures	-	-	(243,735)
Expenditures of amounts encumbered during year ended June 30, 2018	-	(164,525)	-
Amounts encumbered and reserved (GAAP) at June 30, 2019 but recognized as expenditures for budgetary purposes	-	222,344	(222,344)
Budgetary basis	\$ 41,682,854	\$ 41,804,624	\$ 148,672

### Note 2. Pension Plans

#### Changes in Benefit Terms

There were no benefit changes during the year.

#### Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption change in the 2018 valuation:

- Inflation assumption changed from 2.65% to 2.60% for general and from 3.15% to 3.10% for wage
- Salary increase assumption changed from 3.15% - 9.15% to 3.10% - 9.10%, including inflation
- Investment rate of return assumption changed from 7.50% to 7.45%

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### Note 2. Pension Plans - continued

#### Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years for the State Systems, 23 years for LEOPS Muni, and 30 years for CORS Muni. For ECS Numi: 100 years phasing down to 20 years over 6 years, 100 years remaining.
Asset valuation method	Five-year smoothed market; 20% collar
Inflation	In the 2018 actuarial valuation, 2.60% general, 3.10% wage. In the 2017 actuarial valuation, 2.65% general; 3.15% wage.
Salary increases	In the 2018 actuarial valuation, 3.10% to 9.10% including inflation. In the 2017 actuarial valuation, 3.15% to 9.15% including inflation.
Investment rate of return	In the 2018 actuarial valuation, 7.45%. In the 2017 actuarial valuation, 7.50%.
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP-2014 mortality tables calibrated to MSRPS experience with generational mortality projections using MP-2014 (2-dimensional) mortality improvement scale.

### Note 3. Post-Employment Health Care Benefits

#### Changes in Benefit Terms

For retirees and their spouses, a defined contribution stipend of up to \$300 per month will be provided by the Board of Education. As of 7/1/2018, the retirees may only use this stipend to help purchase coverage through the Board of Education's Medicare Supplemental Plan. If the retiree decides to opt out and find insurance elsewhere, the Board will provide a stipend of \$1,500 annually towards the cost of insurance. This stipend was up to \$250 per month and retirees were allowed to choose an insurance provider.

Also, spouses of employees that retire after 7/1/2018 will not be covered under the plan. The spouse must find coverage elsewhere. Spouses of employees that retired prior to 7/1/2018 are grandfathered into the plan.

#### Changes in Assumptions

The discount rate was changed from 3.87% at June 30, 2018 to 3.5% at June 30, 2019.



## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### Note 3. Post-Employment Health Care Benefits - continued

#### Method and Assumptions used in Calculations of Actuarially Determined Contributions

Measurement date:	June 30, 2019						
Actuarial valuation date:	July 1, 2017						
Actuarial cost method:	Entry Age Normal						
Discount Rate:	The discount rate used to measure the total OPEB liability is 3.50%. As the plan is unfunded, the plan's projected benefits are discounted back using rates equivalent to Aa 20-year municipal bonds. The GO Bond Buyer Index was used to approximate those yields as of June 30, 2019. Prior valuation used 3.87%.						
Mortality:	RP-2014 Total Dataset Headcount-weighted Table with scale MP-2018. The prior valuation used improvement scale MP-2017. The RP 2014 base table is used pending analysis of the recently issued Pub-10 tables.						
Turnover:	T7 Standard Scale Based on the actuary's professional judgement.						
Salary scale:	3.00% The assumption reflects management expectation of future salary increases.						
Retirement age:	Retirement rates are set based on the professional judgment of the actuary according to the following table:						
	<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;">Probability of Retirement</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">Age 60-64 &amp; 10+ years of service</td> <td style="text-align: center;">20%</td> </tr> <tr> <td style="text-align: left;">Age 65</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table>	Probability of Retirement		Age 60-64 & 10+ years of service	20%	Age 65	100%
Probability of Retirement							
Age 60-64 & 10+ years of service	20%						
Age 65	100%						
Utilization:	75%						
Valuation of assets:	N/A						
Per Capita Claims:	Claims were developed by adjusting the underlying medical premiums for the ages of retirees compared to the underlying active populations. The adjustment was done using the morbidity adjustments in Chart 5 from the 2013 Society of Actuaries Study "Health Care Costs from Birth to Death". The retiree pre-65 premium was \$6,161 annually and \$3,600 post-65.						
Trend:	Medical costs were assumed to increase by 8.0% for FY2019 decreasing linearly by 0.5% to an ultimate trend rate of 5.0%. The annual stipend amount is assumed to increase at a rate of 2.0% per year.						
Marriage Assumption:	25% married with husbands assumed to be 3 years older than wives. For current retirees actual spousal information and coverage was used.						

**ADDITIONAL SUPPLEMENTARY INFORMATION**

THE BOARD OF EDUCATION OF SOMERSET COUNTY  
STATEMENT OF APPROPRIATIONS AND EXPENDITURES  
GENERAL FUND - BUDGETARY BASIS  
Year Ended June 30, 2019

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>ADMINISTRATION</b>				
Salaries and wages	\$ 1,177,688	\$ 1,179,688	\$ 1,216,112	\$ (36,424)
Contracted services	171,900	202,100	198,806	3,294
Materials and supplies	73,650	99,950	69,826	30,124
Other charges	102,550	102,050	94,903	7,147
Capital outlay	-	1,000	579	421
<b>TOTAL ADMINISTRATION</b>	<b>1,525,788</b>	<b>1,584,788</b>	<b>1,580,226</b>	<b>4,562</b>
<b>MID-LEVEL ADMINISTRATION</b>				
Salaries and wages	3,484,218	3,534,218	3,503,207	31,011
Contracted services	-	96,000	92,206	3,794
Materials and supplies	50,000	50,000	44,889	5,111
Other charges	147,500	51,500	41,562	9,938
Capital outlay	342,200	422,200	464,518	(42,318)
<b>TOTAL MID-LEVEL ADMINISTRATION</b>	<b>4,023,918</b>	<b>4,153,918</b>	<b>4,146,382</b>	<b>7,536</b>
<b>INSTRUCTIONAL SALARIES</b>				
Salaries and wages	14,288,776	14,241,776	14,237,691	4,085
Other charges	-	-	685	(685)
<b>TOTAL INSTRUCTIONAL SALARIES</b>	<b>14,288,776</b>	<b>14,241,776</b>	<b>14,238,376</b>	<b>3,400</b>
<b>INSTRUCTIONAL TEXTBOOKS AND SUPPLIES</b>				
	827,411	752,411	713,386	39,025
<b>OTHER INSTRUCTIONAL COSTS</b>				
Salaries and wages	-	-	90	(90)
Contracted services	33,500	105,365	50,659	54,706
Other charges	177,265	128,400	147,123	(18,723)
Capital outlay	40,000	12,000	15,734	(3,734)
<b>TOTAL OTHER INSTRUCTIONAL COSTS</b>	<b>250,765</b>	<b>245,765</b>	<b>213,606</b>	<b>32,159</b>
<b>STUDENT PERSONNEL SERVICES</b>				
Salaries and wages	727,884	747,884	732,500	15,384
Contracted services	9,000	9,000	9,000	-
Materials and supplies	5,000	5,000	1,955	3,045
Other charges	9,000	9,000	13,147	(4,147)
<b>TOTAL STUDENT PERSONNEL SERVICES</b>	<b>750,884</b>	<b>770,884</b>	<b>756,602</b>	<b>14,282</b>
<b>HEALTH SERVICES</b>				
Salaries and wages	429,793	472,793	465,360	7,433
Contracted services	-	3,000	2,379	621
Materials and supplies	5,500	5,500	5,549	(49)
Other charges	5,000	2,000	2,122	(122)
Capital outlay	5,000	5,000	5,010	(10)
<b>TOTAL HEALTH SERVICES</b>	<b>445,293</b>	<b>488,293</b>	<b>480,420</b>	<b>7,873</b>
<b>FIXED CHARGES</b>				
Insurance And Employee Benefits	9,199,500	9,045,500	9,014,929	30,571

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF APPROPRIATIONS AND EXPENDITURES (CONTINUED)

GENERAL FUND - BUDGETARY BASIS

Year Ended June 30, 2019

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>STUDENT TRANSPORTATION</b>				
Salaries and wages	\$ 138,229	\$ 138,229	\$ 144,446	\$ (6,217)
Contracted services	2,574,200	2,636,700	2,590,903	45,797
Materials and supplies	24,640	27,140	30,177	(3,037)
Other charges	201,543	201,543	201,504	39
Capital outlay	10,000	10,000	45,243	(35,243)
<b>TOTAL STUDENT TRANSPORTATION</b>	<b>2,948,612</b>	<b>3,013,612</b>	<b>3,012,273</b>	<b>1,339</b>
<b>OPERATION OF PLANT</b>				
Salaries and wages	1,169,222	1,169,222	1,169,830	(608)
Contracted services	312,500	311,000	321,308	(10,308)
Materials and supplies	102,000	143,500	134,558	8,942
Other charges	1,132,835	1,015,835	1,002,937	12,898
Capital outlay	25,000	16,000	14,350	1,650
<b>TOTAL OPERATION OF PLANT</b>	<b>2,741,557</b>	<b>2,655,557</b>	<b>2,642,983</b>	<b>12,574</b>
<b>MAINTENANCE OF PLANT</b>				
Salaries and wages	371,320	371,320	374,119	(2,799)
Contracted services	420,600	397,600	397,421	179
Materials and supplies	122,300	121,000	116,613	4,387
Other charges	7,800	7,100	2,456	4,644
Capital outlay	-	-	75	(75)
<b>TOTAL MAINTENANCE OF PLANT</b>	<b>922,020</b>	<b>897,020</b>	<b>890,684</b>	<b>6,336</b>
<b>SPECIAL EDUCATION</b>				
Salaries and wages	3,549,713	3,549,713	3,561,090	(11,377)
Contracted services	238,550	278,550	289,985	(11,435)
Materials and supplies	24,400	24,400	18,780	5,620
Other charges	21,500	116,500	97,270	19,230
Capital outlay	12,000	12,000	12,000	-
Outgoing transfers	95,000	-	-	-
<b>TOTAL SPECIAL EDUCATION</b>	<b>3,941,163</b>	<b>3,981,163</b>	<b>3,979,125</b>	<b>2,038</b>
<b>TOTAL CAPITAL OUTLAY</b>	<b>105,000</b>	<b>140,000</b>	<b>135,632</b>	<b>4,368</b>
<b>TOTAL UNRESTRICTED APPROPRIATIONS AND EXPENDITURES</b>	<b>\$ 41,970,687</b>	<b>\$ 41,970,687</b>	<b>\$ 41,804,624</b>	<b>\$ 166,063</b>

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, 2019

	<u>Enterprise Fund Food Services</u>
OPERATING REVENUES	
Food service sales	\$ <u>90,726</u>
OPERATING EXPENSES	
Operation of plant	3,740
Fixed charges	210,897
Salaries and wages	644,342
Contracted services	7,215
Food and food related supplies	1,087,177
Other charges	3,324
Capital outlay	<u>36,910</u>
TOTAL OPERATING EXPENSES	<u>1,993,605</u>
OPERATING LOSS	<u>(1,902,879)</u>
NONOPERATING REVENUES	
Interest income	<u>6,037</u>
State Of Maryland:	
Reimbursement of food costs	<u>49,713</u>
Federal through state:	
Reimbursement of food costs	1,778,375
Donation of food commodities	<u>63,744</u>
Total federal through state	<u>1,842,119</u>
TOTAL NONOPERATING REVENUES	<u>1,897,869</u>
CHANGE IN NET POSITION	<u>\$ (5,010)</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, 2019

	Due to School Activities Funds				Due to School Activities Funds
	Balance June 30, 2018	Additions	Deductions	Transfers	Balance June 30, 2019
<b>ELEMENTARY SCHOOLS</b>					
Deal Island (Pre-K To 5th Grades)	\$ 4,789	\$ 16,809	\$ 14,700	\$ -	\$ 6,898
Woodson (Pre-K To 5th Grades)	14,376	105,573	103,575	-	16,374
Princess Anne (Pre-K To 5th Grades)	7,745	36,353	33,769	-	10,329
Greenwood (Pre-K To 5th Grades)	9,448	67,603	68,101	-	8,950
<b>TOTAL ELEMENTARY SCHOOLS</b>	<b>36,358</b>	<b>226,338</b>	<b>220,145</b>	<b>-</b>	<b>42,551</b>
<b>INTERMEDIATE SCHOOLS - 6TH TO 7TH GRADES</b>					
Somerset 6/7 Intermediate	21,869	41,231	47,298	-	15,802
<b>HIGH SCHOOLS - 8TH TO 12 GRADES</b>					
Crisfield	51,818	151,739	146,067	-	57,490
Washington	85,516	150,416	152,998	-	82,934
<b>TOTAL HIGH SCHOOLS</b>	<b>137,334</b>	<b>302,155</b>	<b>299,065</b>	<b>-</b>	<b>140,424</b>
<b>SPECIALIZED SCHOOLS</b>					
Ewell Elementary Middle School (Pre-K To 7th grade)	1,682	2,918	2,269	-	2,331
J. Millard Tawes Technology And Career Center	82,113	67,728	65,759	-	84,082
<b>TOTAL SPECIALIZED SCHOOLS</b>	<b>83,795</b>	<b>70,646</b>	<b>68,028</b>	<b>-</b>	<b>86,413</b>
<b>TOTAL SCHOOL ACTIVITY</b>	<b>\$ 279,356</b>	<b>\$ 640,370</b>	<b>\$ 634,536</b>	<b>\$ -</b>	<b>\$ 285,190</b>

NOTES TO ADDITIONAL SUPPLEMENTARY INFORMATION

**Note 1. Budget**

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

	Revenues	Expenditures	Fund
	Proprietary	Proprietary	Proprietary
	June 30, 2019	June 30, 2019	June 30, 2019
GAAP basis	\$ 1,988,595	\$ 2,014,568	\$ 369,277
Depreciation	-	(21,589)	-
Capitalized costs	-	626	-
Effect of accrued compensated absences and other	-	-	3,307
Amounts reserved (GAAP) at June 30, 2019	-	-	(182,211)
Budgetary basis	\$ 1,988,595	\$ 1,993,605	\$ 190,373