

**THE BOARD OF EDUCATION OF
SOMERSET COUNTY**

FINANCIAL REPORT

JUNE 30, 2020

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INDEPENDENT AUDITOR'S REPORT

The Board of Education of Somerset County
Westover, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Somerset County, a component unit of Somerset County, Maryland, as of and for the year ended June 30, 2020, 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, 2020, 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, schedule of revenues and expenditures – budget and actual – general fund, schedule of the proportionate share of the net pension liability, schedule of board contributions – pension plans, schedule of changes in the board's net OPEB liability and related ratios, and notes to retired supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board 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 29, 2020 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 29, 2020

Herbert J. Geary III
Corey N. Duncan
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Education of Somerset County
Westover, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Somerset County, as of and for the year ended June 30, 2020, 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 29, 2020.

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) as a basis for designing 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 financial statements. 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.

Salisbury, Maryland
September 29, 2020

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2020

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, 2020. 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, 2020 include the following:

- Net position for the Governmental Activities totaled \$60,347,124, a decrease of \$1,453,606 or - 2.35% from the prior year.
- General Fund assigned fund balance (subsequent year expenditures) equals \$148,672, a decrease of \$95,063 from the prior year.
- Unassigned General Fund balance equals \$428,000, an increase of \$279,328 from the prior year.
- The Food Service fund had a loss of \$240,380. Excluding depreciation, the fund showed a loss of \$194,647.

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, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 on page 24 which explains 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, 2020

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

- *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 \$60,476,021 on June 30, 2020. This was a decrease of \$1,693,986 from the prior year.

STATEMENT OF NET POSITION

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	TOTAL
	FY2020	FY 2019	FY2020	FY 2019	FY2020	FY 2019
Current and other assets	\$ 4,643,098	\$ 3,519,247	\$ 36,031	\$ 222,477	\$ 4,679,129	\$ 3,741,724
Capital assets	88,535,587	83,783,679	136,478	182,211	88,672,065	83,965,890
Total assets	<u>93,178,685</u>	<u>87,302,926</u>	<u>172,509</u>	<u>404,688</u>	<u>93,351,194</u>	<u>87,707,614</u>
Deferred outflows	<u>9,341,036</u>	<u>1,246,352</u>	<u>-</u>	<u>-</u>	<u>9,341,036</u>	<u>1,246,352</u>
Current and liabilities	3,594,298	2,929,496	39,250	32,104	3,633,548	2,961,600
Long-term liabilities	37,606,134	23,591,503	4,362	3,307	37,610,496	23,594,810
Total liabilities	<u>41,200,432</u>	<u>26,520,999</u>	<u>43,612</u>	<u>35,411</u>	<u>41,244,044</u>	<u>26,556,410</u>
Deferred inflows	<u>972,165</u>	<u>227,549</u>	<u>-</u>	<u>-</u>	<u>972,165</u>	<u>227,549</u>
Investment in capital assets, net of related debt	88,535,587	83,783,679	136,478	182,211	88,672,065	83,965,890
Unrestricted	<u>(28,188,463)</u>	<u>(21,982,949)</u>	<u>(7,581)</u>	<u>187,066</u>	<u>(28,196,044)</u>	<u>(21,795,883)</u>
Total net position	<u>\$ 60,347,124</u>	<u>\$ 61,800,730</u>	<u>\$ 128,897</u>	<u>\$ 369,277</u>	<u>\$ 60,476,021</u>	<u>\$ 62,170,007</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE (Continued)

Changes in Net Position

The Board's total revenues were \$64,239,676 for the year ended June 30, 2020. (See Table 2) The State and County general appropriations accounted for approximately 67.1% of total revenue for the year. Another 12.7% came from Capital Contributions from both the State and County. The remaining funds (20.2%) came from program revenues and investment earnings. The total cost of all programs and services was \$65,933,662. Expenses surpassed revenues, decreasing net position \$1,693,986 from last year.

Table 2

THE BOARD OF EDUCATION OF SOMERSET COUNTY
STATEMENT OF ACTIVITIES
June 30, 2020

	REVENUES					
	Governmental Activities		Business- Type Activities		Total	Total
	FY 2020	FY 2019	FY 2020	FY 2019	FY 2020	FY 2019
Program revenues						
Charges for services	\$ -	\$ -	\$ 63,353	\$ 90,726	\$ 63,353	\$ 90,726
Federal and state grants	10,893,076	9,332,867	1,772,135	1,891,832	12,665,211	11,224,699
Capital contributions	8,174,814	24,146,493	-	15,700	8,174,814	24,162,193
General revenues						
County appropriation	10,088,825	9,881,620	-	-	10,088,825	9,881,620
State formula aid	33,017,297	31,501,191	-	-	33,017,297	31,501,191
Other	227,197	300,043	2,979	6,037	230,176	306,080
Transfers	-	-	-	-	-	-
Total revenue	62,401,209	75,162,214	1,838,467	2,004,295	64,239,676	77,166,509
	EXPENSES					
Instruction and special education	31,355,830	29,390,142	-	-	31,355,830	29,390,142
Administration	1,675,418	1,675,108	-	-	1,675,418	1,675,108
Support services	1,784,910	1,614,120	2,078,847	2,014,568	3,863,757	3,628,688
Fixed Charges	17,783,843	11,569,273	-	-	17,783,843	11,569,273
Building Operations and Maintenance	4,240,366	3,963,529	-	-	4,240,366	3,963,529
Transportation	2,858,415	3,114,058	-	-	2,858,415	3,114,058
Other	4,156,033	2,746,073	-	-	4,156,033	2,746,073
Total expenses	63,854,815	54,072,303	2,078,847	2,014,568	65,933,662	56,086,871
Increase (decrease) in net position **	\$ (1,453,606)	\$ 21,089,911	\$ (240,380)	\$ (10,273)	\$ (1,693,986)	\$ 21,079,638

Business-Type Activities

Revenues of the Board's only business-type activity, the food service operation, decreased \$165,828 to \$1,838,467 and expenses increased \$64,279. (Refer to Table 2).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2020

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 \$1,073,800, an increase of \$459,049 from last year's ending fund balance.

GENERAL FUND

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

The excess of revenues over expenditures was \$459,049 for the year ended June 30, 2020 compared to an excess of expenditures over revenues of \$63,951 for FY 2019. The major changes in both revenues and expenditures results from the following:

1. State of Maryland revenues increased by \$1,516,106. This is a result of an increase in the formula grant as well as several new grants as part of the Blueprint for Maryland's Future funds.
2. Other Revenues decreased by \$72,846. FY19 included \$130,500 of ESMEC Reserves to fund our health insurance opt out bonus. We did not use any ESMEC reserves in FY20.
3. Instructional Salaries increased by \$627,145. This increase included a 1.75% COLA and a step increase. Teachers also received an additional 1% COLA and stipend amount as the result of the Teacher's Salary Incentive Grant as a part of the Blueprint for Maryland's Future funding.
4. Textbook and Instructional Supplies increased by \$129,417. These increases are due to an increase in Textbook costs, additional Aleks licenses for Algebra and Geometry and new Social Studies textbooks for the 6th and 8th grades.
5. Other Instructional Costs were down by \$58,644, or 26.2%. Several expenses in this category decreased as a result the March 13th closure due to the COVID-19 pandemic. Athletic official costs were down due to the cancelling of the spring sport season. Home/hospital staff travel costs were down due to the closure as well.
6. Transportation costs decreased by \$254,522. As a result of our routing software and Zonar systems, routes were made more efficient which resulted in some reduction in costs. The greatest savings came as a result of the COVID-19 shut down. Bus contractor's pay was reduced for fuel costs for the months of April, May and June because bus routes were no longer being run.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS (Continued)

7. Fixed Charges increased in FY20 by \$398,464 for several reasons. Health insurance costs for retirees and active employees increased in FY20. Workers comp and social security costs increased as a result of higher salaries. More employees took advantage of our health insurance opt-out bonus and we also offered a one-time 10% retirement incentive bonus to employees.
8. Capital Outlay costs increased this year due to the construction of the secure vestibules at Woodson Elementary School and the renovations to the Alternative Learning Center.

Table 3

GENERAL FUND REVENUES				
	FY 2020	FY 2019	Increase (Decrease)	% of Incr. (Decr.)
REVENUES				
Somerset County Appropriations	\$ 10,088,825	\$ 9,881,620	\$ 207,205	2.1%
State of Maryland	33,017,297	31,501,191	1,516,106	4.8%
State share of retirement and pension contribution	2,837,971	2,650,264	187,707	7.1%
Other	227,197	300,043	(72,846)	-24.3%
Total Revenues	46,171,290	44,333,118	1,838,172	4.1%
GENERAL FUND EXPENDITURES				
EXPENDITURES				
Administration	1,577,390	1,580,226	(2,836)	-0.2%
Mid-level Administration	4,020,674	4,029,700	(9,026)	-0.2%
Instructional salaries	14,865,521	14,238,376	627,145	4.4%
Textbooks & instructional supplies	846,538	717,121	129,417	18.0%
Other instruction costs	164,973	223,617	(58,644)	-26.2%
Special Education	4,035,254	3,979,125	56,129	1.4%
Student personnel services	773,078	756,602	16,476	2.2%
Health services	482,878	480,420	2,458	0.5%
Transportation of pupils	2,757,751	3,012,273	(254,522)	-8.4%
Operation of plant	2,816,980	2,655,640	161,340	6.1%
Maintenance of plant	952,630	960,853	(8,223)	-0.9%
Fixed charges	9,413,393	9,014,929	398,464	4.4%
Capital outlay	167,210	97,923	69,287	70.8%
State share of retirement and pension contribution	2,837,971	2,650,264	187,707	7.1%
Total expenditures	45,712,241	44,397,069	1,315,172	3.0%
Excess/(Deficiency) of revenues over expenditures	\$ 459,049	\$ (63,951)	\$ 523,000	

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE BOARD’S FUNDS (Continued)

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 \$1,372,502 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 2020</u>	<u>FY 2019</u>	<u>Increase (Decrease)</u>	<u>% Incr. (Decr.)</u>
REVENUES				
Federal through State	\$ 4,937,908	\$ 5,926,443	(988,535)	-16.68%
State of Maryland	3,034,978	756,160	2,278,818	301.37%
Reimbursements and Other Income	<u>82,219</u>	<u>-</u>	<u>82,219</u>	100.00%
Total Revenues	<u>\$ 8,055,105</u>	<u>\$ 6,682,603</u>	<u>1,372,502</u>	20.54%

CAPITAL PROJECTS FUND

The Board has no legal authority to borrow funds. During FY 2020, the Board received County funding of \$3,670,527 and State funding of \$4,504,287, 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.

In addition, security improvements including new surveillance camera systems at Somerset Intermediate and Crisfield High School were completed with the support of the Aging Schools funding. Renovations at our Alternative Learning Center were made with Safe to Learn Act funds.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2020

FINANCIAL ANALYSIS OF THE BOARD’S FUNDS (Continued)

FIDUCIARY FUNDS

The following funds are accounted for as Fiduciary Funds:

- (1) Agency Funds – During FY 2020 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				
	FY 2020	FY 2019	Increase (Decrease)	% Incr. (Decr.)
Additions	\$ 455,829	\$ 640,370	\$ (184,541)	-28.82%
Deductions	(402,535)	(634,536)	232,001	-36.56%
Beginning balance due to school activities funds	285,190	279,356	5,834	2.09%
Ending Balance due to School Activities Fund	\$ 338,484	\$ 285,190	\$ 53,294	18.69%

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, 2020

GENERAL FUND BUDGETARY HIGHLIGHTS (Continued)

	<u>Original Approved FY 2020 Budget</u>	<u>Category Increases</u>	<u>Category Transfers</u>	<u>Final Amended FY 2020 Budget</u>
REVENUES				
Somerset County	\$ 10,088,825	\$ -	\$ -	\$ 10,088,825
State of Maryland	32,988,939	-	-	32,988,939
Other	160,000	-	-	160,000
Prior Year's Fund Balance	243,735	-	-	243,735
Total Revenues	<u>43,481,499</u>	<u>-</u>	<u>-</u>	<u>43,481,499</u>
EXPENDITURES				
Administration	1,537,481	48,500		1,585,981
Mid-level Administration	3,835,355	113,000		3,948,355
Instructional Salaries and Wages	14,998,294			14,998,294
Instructional Textbooks and Supplies	933,384			933,384
Other Instructional Costs	255,256			255,256
Student Personnel Services	768,928	21,000		789,928
Health Services	444,541	42,000		486,541
Fixed Charges	9,923,347		(292,500)	9,630,847
Student Transportation	2,982,530		(70,000)	2,912,530
Operation of Plant	2,759,507	60,000		2,819,507
Maintenance of Plant	985,545			985,545
Special Education	3,974,561	70,000		4,044,561
Capital Outlay	82,770	8,000		90,770
Total Expenditures	<u>\$ 43,481,499</u>	<u>\$ 362,500</u>	<u>\$ (362,500)</u>	<u>\$ 43,481,499</u>

After these revisions, the actual General Fund and Capital expenditures matched the budget. Actual expenditures and encumbrances were under budget by \$805,245. Actual revenues exceeded expenditures by \$900,800. The Board utilized the FY 2018 fund balance designated for FY 2020 (excess of revenues over expenditures) in the amount of \$243,735. This leaves an unreserved, undesignated fund balance of \$428,000 to be carried forward to FY 2022. The excess fund balance from FY 2020 is primarily attributed excess funds in the Student Transportation, Instructional Salaries, and Instructional Textbook and Supplies categories. The excess funds are directly attributable to the State-wide shutdown of schools on March 13, 2020 due to the COVID-19 pandemic.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2020

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the Board has invested \$126,849,002 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 \$2,962,149 in governmental and business-type activities.

Construction – Next Five Years

Annually, the Board of Education prepares and submits to the State Interagency Commission on School Construction (IAC) and the local county government a 5-year capital improvement plan (CIP). As a part of the ongoing improvement of our facilities one major capital project will be initiated in the 2020-2021 school year. A total roof replacement at Crisfield Academy and High School will be completed as a part of the FY21 CIP, funded entirely by the IAC program.

In FY20, new phone and intercom systems were installed in Princess Anne Elementary, Greenwood Elementary and Crisfield High School. In addition to these projects, several other security improvements including new surveillance camera systems at Somerset intermediate and Crisfield High School were completed with the support of the Safe to Learn Act and Aging Schools funding. Construction for the new Somerset County Technical High School (formerly the J.M. Tawes Technology & Career Center) was completed in September 2019. The final phase of locally-funded equipment procurement for this project will be completed by January 2021. Also in FY21, the stage partition at Deal Island Elementary School will be replaced utilizing Aging Schools Program funds.

Over the next five years, the following projects are under consideration: replacement of doors and windows at Greenwood Elementary 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 \$37,606,134 in amounts due or payable after one year. This amount consists of accrued compensated absences (\$1,001,071) 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 (\$34,256,549) for future health insurance costs for retirees in compliance with GASB 75 and an amount for the net pension liability required under GASB 68 (\$2,348,514).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2020

FACTORS BEARING ON THE BOARD'S FUTURE

The Board provides post-employment health insurance benefits to their retirees. Implementation of GASB Statement No. 75 resulted in a Net OPEB liability on our district-wide financial statements of \$34,256,549 as of June 30, 2020. The Board currently funds retiree healthcare premiums as described in Note 10 on a pay- as-you -go basis only. The large increase in the amount of the liability at June 30, 2020 is due to changes in SCPS' employment contract language. Prior to FY20, contract language stated that SCPS's cost share amount was limited to \$300/month for each retiree. In FY19, our retiree's insurance plan was switched to Laborfirst. Moving to Laborfirst's Medicare Supplemental plan enabled SCPS and its retirees to lower their current out of pocket costs. In FY20, contract language was changed to state that SCPS' cost share amount is equal to 50% of the monthly premium cost for each retiree. As the actuarial cost of the plan increases over time, SCPS' costs will increase instead of being limited to a specific dollar amount. Considering the limited funding available, the Board has opted to not fund any potential liability, instead focusing its funds on instruction. Management plans a continued cooperative effort between the Board and the County Government to fund these benefits in the future. This is particularly critical when considering the economic hardships faced by governments during the current downturn.

In FY 2020 the State contributed \$2,837,971 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 \$240,380 loss in FY 2020. On March 13, 2020, schools across the State were shut down by Governor Hogan for a two week period in response to the COVID-19 pandemic. On May 6, 2020, Governor Hogan announced that schools would remain closed for the rest of the academic year. This closure has had a devastating effect on district FNS programs in the state of Maryland as well as throughout the United States. Every FNS program has experienced a reduction in sales revenue and USDA meal reimbursements as the number of meals served was cut dramatically. The USDA issued several waivers that allowed SCPS to operate under the Summer Food Service Program. This changed required meal patterns and the way that meals can be served. SCPS is proud to say that we prepared and delivered 107,793 meals from the shut down on March 13th through June 30th. As the FY21 school year begins virtually, the FNS department is continuing to prepare meals for pickup and delivery.

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 received 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. In FY20, the General Assembly passed the Blueprint for Maryland's Future Act. Governor Hogan subsequently vetoed the bill in May 2020. As a result some of the initial funding received may be

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2020

FACTORS BEARING ON THE BOARD'S FUTURE (Continued)

in jeopardy for FY22 unless the Governor's veto is overridden during the 2021 General Assembly. The COVID-19 pandemic has dramatically affected the State's revenue projections. Therefore, even if the veto is overridden by the legislature, it is predicted that the timeline for the implementation of Maryland's Blueprint may be extended.

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, 2020

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,967,968	\$ 105,147	\$ 2,073,115
Due from other governmental agencies	2,475,621	101,289	2,576,910
Inventory	-	29,104	29,104
Internal balances	199,509	(199,509)	-
Land	493,252	-	493,252
Construction in progress	17,500	-	17,500
Depreciable assets, net of accumulated depreciation	88,024,835	136,478	88,161,313
TOTAL ASSETS	93,178,685	172,509	93,351,194
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (see Note 8)	397,790	-	397,790
Other post-employment benefits (see Note 10)	8,943,246	-	8,943,246
TOTAL DEFERRED OUTFLOWS OF RESOURCES	9,341,036	-	9,341,036
LIABILITIES			
Accounts payable:			
Vendors	782,587	31,818	814,405
Payroll deductions and withholdings	1,860,456	7,432	1,867,888
Due to other governments	10,943	-	10,943
Accrued salaries	293,937	-	293,937
Unearned revenue	621,375	-	621,375
Long-term liabilities:			
Due within one year	25,000	-	25,000
Due in more than one year	37,606,134	4,362	37,610,496
TOTAL LIABILITIES	41,200,432	43,612	41,244,044
DEFERRED INFLOWS OF RESOURCES			
Pensions (see Note 8)	198,393	-	198,393
Other post-employment benefits (see Note 10)	773,772	-	773,772
TOTAL DEFERRED INFLOWS OF RESOURCES	972,165	-	972,165
NET POSITION			
Net investment in capital assets	88,535,587	136,478	88,672,065
Unrestricted	(28,188,463)	(7,581)	(28,196,044)
TOTAL NET POSITION	\$ 60,347,124	\$ 128,897	\$ 60,476,021

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, 2020

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Current:			
Administration	\$ 1,675,418	\$ -	\$ 10,244
Mid-level administration	4,316,939	-	296,265
Instructional services	21,885,294	-	3,646,840
Special education	5,153,597	-	1,118,343
Student personnel services	1,240,007	-	466,929
Health services	544,903	-	62,025
Student transportation	2,858,415	-	100,664
Operation of plant and equipment	3,287,736	-	3,546
Maintenance of plant	952,630	-	-
Fixed charges	17,783,843	-	1,705,887
Community services	228,848	-	228,848
Capital outlay	1,089,214	-	415,514
State of Maryland share of retirement and pension contribution	2,837,971	-	2,837,971
Total Governmental Activities	63,854,815	-	10,893,076
Business-Type Activities			
Food services	2,078,847	63,353	1,772,135
Totals	\$ 65,933,662	\$ 63,353	\$ 12,665,211

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
\$ -	\$ (1,665,174)	\$ -	\$ (1,665,174)
-	(4,020,674)	-	(4,020,674)
-	(18,238,454)	-	(18,238,454)
-	(4,035,254)	-	(4,035,254)
-	(773,078)	-	(773,078)
-	(482,878)	-	(482,878)
-	(2,757,751)	-	(2,757,751)
-	(3,284,190)	-	(3,284,190)
-	(952,630)	-	(952,630)
-	(16,077,956)	-	(16,077,956)
-	-	-	-
8,174,814	7,501,114	-	7,501,114
-	-	-	-
8,174,814	(44,786,925)	-	(44,786,925)
-	-	(243,359)	(243,359)
<u>\$ 8,174,814</u>	(44,786,925)	(243,359)	(45,030,284)
	33,017,297	-	33,017,297
	10,088,825	-	10,088,825
	227,197	2,979	230,176
	43,333,319	2,979	43,336,298
	(1,453,606)	(240,380)	(1,693,986)
	61,800,730	369,277	62,170,007
<u>\$ 60,347,124</u>	<u>\$ 128,897</u>	<u>\$ 60,476,021</u>	

THE BOARD OF EDUCATION OF SOMERSET COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2020

	General	Restricted Grants	Capital Projects	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,967,968	\$ -	\$ -	\$ 1,967,968
Due from other governmental agencies	498,228	1,173,144	804,249	2,475,621
Due from other funds	1,039,976	-	-	1,039,976
TOTAL ASSETS	\$ 3,506,172	\$ 1,173,144	\$ 804,249	\$ 5,483,565
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable:				
Vendors	\$ 273,786	\$ 37,700	\$ 471,101	\$ 782,587
Payroll deductions and withholdings	1,860,456	-	-	1,860,456
Due to other funds	-	546,548	293,919	840,467
Due to other government	10,943	-	-	10,943
Accrued salaries and payroll taxes	267,044	26,893	-	293,937
Unearned revenue	20,143	562,003	39,229	621,375
TOTAL LIABILITIES	2,432,372	1,173,144	804,249	4,409,765
FUND BALANCES				
Assigned to:				
Subsequent year expenditures	148,672	-	-	148,672
Other purposes (encumbrances)	24,328	-	-	24,328
Assigned for program expenses	72,800	-	-	72,800
Assigned for future expenditures	400,000	-	-	400,000
Unassigned	428,000	-	-	428,000
TOTAL FUND BALANCES	1,073,800	-	-	1,073,800
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,506,172	\$ 1,173,144	\$ 804,249	\$ 5,483,565

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, 2020

Total fund balances, governmental funds \$ 1,073,800

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. 88,535,587

Deferred outflow of resources		
Pensions (see Note 8)	397,790	
Other post-employment benefits (see Note 10)	8,943,246	
		9,341,036

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	(1,026,071)	
Net pension liability	(2,348,514)	
Post-employment benefits	(34,256,549)	
		(37,631,134)

Deferred inflow of resources		
Pensions (see Note 8)	(198,393)	
Other post-employment benefits (see Note 10)	(773,772)	
		(972,165)

Net position of governmental activities in the Statement of Net Position \$ 60,347,124

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, 2020

	General	Restricted Grants	Capital Projects	Total Governmental Funds
REVENUES				
Somerset County	\$ 10,088,825	\$ -	\$ 3,670,527	\$ 13,759,352
Federal government	-	4,937,908	-	4,937,908
State Of Maryland	33,017,297	3,034,978	235,432	36,287,707
State Of Maryland on-behalf payments	2,837,971	-	4,268,855	7,106,826
Reimbursements and other income	227,197	82,219	-	309,416
TOTAL REVENUES	46,171,290	8,055,105	8,174,814	62,401,209
EXPENDITURES				
Administration	1,577,390	10,244	-	1,587,634
Mid-level administration	4,020,674	296,265	-	4,316,939
Instructional salaries and wages	14,865,521	2,620,454	-	17,485,975
Textbooks and instructional supplies	846,538	308,073	-	1,154,611
Other instructional costs	164,973	718,313	-	883,286
Student personnel services	773,078	466,929	-	1,240,007
Health services	482,878	62,025	-	544,903
Student transportation	2,757,751	100,664	-	2,858,415
Operation of plant and equipment	2,816,980	3,546	-	2,820,526
Maintenance of plant	952,630	-	-	952,630
Special education	4,035,254	1,118,343	-	5,153,597
Fringe benefits on-behalf payments	2,837,971	-	-	2,837,971
Fixed charges	9,413,393	1,705,887	-	11,119,280
Community services	-	228,848	-	228,848
Capital outlay	167,210	415,514	8,174,814	8,757,538
TOTAL EXPENDITURES	45,712,241	8,055,105	8,174,814	61,942,160
EXCESS OF REVENUES OVER EXPENDITURES	459,049	-	-	459,049
Fund balances, beginning	614,751	-	-	614,751
Fund balances, ending	\$ 1,073,800	\$ -	\$ -	\$ 1,073,800

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, 2020

Net change in fund balances, governmental funds \$ 459,049

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	7,668,324	
Depreciation expense	<u>(2,916,416)</u>	
Excess of capital outlay over depreciation expense		4,751,908

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 pension expense due to deferred financing outflow	(22,419)	
Increase in pension expense due to net pension liability	(207,300)	
Increase in pension expense due to deferred financing inflows	(22,630)	
Decrease in post-employment benefits expense due to deferred financing outflow	8,168,889	
Increase in post-employment benefits expense due to net OPEB liability	(13,558,310)	
Increase in post-employment benefits expense due to deferred financing inflow	(773,772)	
Increase in accrued compensated absences	<u>(249,021)</u>	
Total		<u>(6,664,563)</u>

Change in net position of governmental activities \$ (1,453,606)

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, 2020

	<u>Enterprise Fund Food Services</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 105,147
Due from other governments	101,289
Inventory of food, at cost	<u>29,104</u>
Total current assets	<u>235,540</u>
Noncurrent assets:	
Equipment	1,416,167
Less: accumulated depreciation	<u>(1,279,689)</u>
Total noncurrent assets	<u>136,478</u>
TOTAL ASSETS	<u><u>372,018</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	31,818
Due to general fund	199,509
Accrued payroll	<u>7,432</u>
Total current liabilities	238,759
Long-term liabilities:	
Accrued compensated absences	<u>4,362</u>
TOTAL LIABILITIES	<u><u>243,121</u></u>
NET POSITION	
Invested in capital assets	136,478
Unrestricted	<u>(7,581)</u>
TOTAL NET POSITION	<u><u>\$ 128,897</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, 2020

	Enterprise Fund Food Services
OPERATING REVENUES	
Food Service Sales	<u>\$ 63,353</u>
OPERATING EXPENSES	
Operation Of Plant	3,734
Fixed Charges	242,340
Salaries And Wages	719,739
Contracted Services	6,379
Food and Food Related Supplies	1,059,783
Other Charges	1,139
Depreciation	<u>45,733</u>
TOTAL OPERATING EXPENSES	<u>2,078,847</u>
OPERATING LOSS	<u>(2,015,494)</u>
NONOPERATING REVENUES	
Interest Income	<u>2,979</u>
State Of Maryland:	
Reimbursement Of Food Costs	<u>54,812</u>
Federal Through State:	
Reimbursement Of Food Costs	1,596,215
Donation Of Food Commodities	<u>121,108</u>
Total Federal Through State	<u>1,717,323</u>
TOTAL NONOPERATING REVENUES	<u>1,775,114</u>
Change in net position	(240,380)
Net position beginning of year	<u>369,277</u>
Net position end of year	<u><u>\$ 128,897</u></u>

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, 2020

	Enterprise Fund Food Services
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from user charges	\$ 63,353
Cash payments to employees for services and fringe benefits	(956,474)
Cash payments to suppliers for goods and services	(945,098)
Cash payments for other operating expenses	(11,252)
Net cash used for operating activities	<u>(1,849,471)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Non-operating grants received	1,656,046
Payments to other funds (net of repayments)	(489,622)
Net cash provided by noncapital financing activities	<u>1,166,424</u>
CASH FLOWS FROM CAPITAL AND INVESTING ACTIVITIES	
Interest on investments	2,979
Net cash provided by investing activities	<u>2,979</u>
Net change in cash and cash equivalents	(680,068)
Cash and equivalents, beginning of year	<u>785,215</u>
Cash and equivalents, end of year	<u>\$ 105,147</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	\$ (2,015,494)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	45,733
Donated commodities used	121,108
Changes in operating assets and liabilities:	
Inventory of food, at cost	(9,019)
Accounts payable and accrued liabilities	8,201
Net cash used for operating activities	<u>\$ (1,849,471)</u>
NONCASH ACTIVITIES	
During the year the board received food commodities from the U.S. Department of Agriculture	\$ 121,108

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, 2020

	Agency Funds
	<u>School Activities Funds</u>
ASSETS	
Cash	\$ 304,682
Certificates of deposit	24,405
Accounts receivable	<u>12,477</u>
TOTAL ASSETS	<u>\$ 341,564</u>
LIABILITIES	
Accounts payable	\$ 3,080
Due to school activity funds	<u>338,484</u>
TOTAL LIABILITES	<u>\$ 341,564</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, 2020 totaled \$24,328.

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, 2020, the Board's funds were invested as follows:

	Governmental Activities	Business-Type Activities
Demand deposits	\$ 1,935,802	\$ 105,147
Savings deposits	32,166	-
	\$ 1,967,968	\$ 105,147
TOTAL	\$ 1,967,968	\$ 105,147
CARRYING VALUE	\$ 1,967,968	\$ 105,147

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	2,171,824	105,147
TOTAL	\$ 2,421,824	\$ 105,147

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, 2020, the Board also has amounts due from governmental agencies of \$2,475,621 and \$101,289 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, 2020, the interfund account balances, prior to eliminations on the statement of net position - government-wide financial statements, are as follows:

	Due From Other Funds	Due To Other Funds
GOVERNMENTAL ACTIVITIES		
General fund		
Due from food services fund	\$ 199,509	\$ -
Due from restricted funds	546,548	-
Due to capital projects fund	293,919	-
Restricted grants		
Due to general fund	-	546,548
Capital projects		
Due from general fund	-	293,919
BUSINESS-TYPE ACTIVITIES		
Enterprise fund - food service		
Due to general fund	-	199,509
TOTAL ALL FUNDS	\$ 1,039,976	\$ 1,039,976

Note 5. Changes in Long-Term Liability Activity

Long-term liability activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
GOVERNMENTAL ACTIVITIES					
Net OPEB liability	\$ 20,698,239	\$ 13,558,310	\$ -	\$ 34,256,549	\$ -
Net pension liability	2,141,214	207,300	-	2,348,514	-
Accrued Compensated					
Absences	777,050	364,372	115,351	1,026,071	25,000
Total	\$ 23,616,503	\$ 14,129,982	\$ 115,351	\$ 37,631,134	\$ 25,000
BUSINESS-TYPE ACTIVITIES					
Accrued Compensated					
Absences	\$ 3,307	\$ 1,055	\$ -	\$ 4,362	\$ -

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, 2020 was as follows:

	Beginning Balance	Increases	Transfers/ Decreases	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 493,252	\$ -	\$ -	\$ 493,252
Construction in progress	33,598,984	17,500	(33,598,984)	17,500
Total capital assets not being depreciated	34,092,236	17,500	(33,598,984)	510,752
Capital assets being depreciated:				
Buildings	77,428,655	6,661,036	33,598,984	117,688,675
Land improvements	3,595,382	18,195	-	3,613,577
Furniture, fixtures and equipment	2,356,065	971,593	-	3,327,658
Vehicles	292,173	-	-	292,173
Total capital assets being depreciated	83,672,275	7,650,824	33,598,984	124,922,083
Less accumulated depreciation:				
Buildings	(29,118,509)	(2,674,486)	-	(31,792,995)
Land improvements	(2,992,577)	(51,045)	-	(3,043,622)
Furniture, fixtures and equipment	(1,725,831)	(159,124)	-	(1,884,955)
Vehicles	(143,915)	(31,761)	-	(175,676)
Total accumulated depreciation	(33,980,832)	(2,916,416)	-	(36,897,248)
Total capital assets being depreciated, net of accumulated depreciation	49,691,443	4,734,408	33,598,984	88,024,835
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	\$ 83,783,679	\$ 4,751,908	\$ -	\$ 88,535,587
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated:				
Equipment	\$ 1,416,167	\$ -	\$ -	\$ 1,416,167
Less accumulated depreciation:				
Equipment	(1,233,956)	(45,733)	-	(1,279,689)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	\$ 182,211	\$ (45,733)	\$ -	\$ 136,478

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets - continued

*Depreciation for governmental activities is allocated as follows:

Administration	\$ 87,784
Operation of plant	467,210
Instruction	<u>2,361,422</u>
TOTAL	<u>\$ 2,916,416</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 December 13, 2019 the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$755,185. All funds held by ESMEC are restricted to being used only for health care expenses.

Note 8. Pension Plans

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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans - continued

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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, 2020. 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, 2020 the Board's total payroll for all employees was \$31,975,508. Total covered payroll was \$29,411,104. 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 2020 was \$1,072,925. In addition, the State of Maryland contributed \$2,837,971 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, 2020, 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:

	2020
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 2,348,514
Board's proportionate share of the net pension liability (Teachers' Systems)	<u>26,619,595</u>
Total	<u>\$ 28,968,109</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, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental units, actuarially determined. As of June 30, 2019 the Board's proportion of the net pension liability was .011%, which was substantially the same as its proportion measured as of June 30, 2018. Due to the proportion remaining substantially the same, the pension expense related to the change in proportion from June 30, 2018 to June 30, 2019 for the net pension liability, deferred financing outflows and deferred financing inflows is recognized as pension expense in the government-wide financial statements.

For the year ended June 30, 2020, the Board recognized pension expense for the employees system of \$508,985 in the government-wide financial statements and \$256,636 in the fund financial statements. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 33,003	\$ (63,916)
Net difference between projected and actual investment earnings on pension plan investments	108,153	-
Differences between expected and actual experience	-	(134,476)
Board contributions subsequent to measurement date	256,636	-
 Total	 \$ 397,792	 \$ (198,392)

The \$256,636 of deferred outflows of resources resulting from the Board's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. The deferred outflows and inflows related to non-investment activity are being amortized over the remaining service life ranging from 5.68 to 5.87 years. The net difference in investment earnings are being amortized over a closed five-year period. These amounts will be recognized in pension expense as follows as of June 30, 2020:

Year Ending June 30,	Deferred Outflows (Inflows)
2021	\$ 22,006
2022	(19,361)
2023	(33,857)
2024	(13,275)
2025	(12,749)
 Total	 \$ (57,236)

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, 2019 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 8.35%, including wage inflation
Discount rate	7.40%
Investment rate of return	7.40%
Mortality	Fully generational - Pub-2010/MP2018

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%	6.3%
Private Equity	13%	7.5%
Rate Sensitive	19%	1.3%
Credit Opportunity	9%	3.9%
Real Assets	14%	4.5%
Absolute Return	<u>8%</u>	3.0%
Total	<u><u>100%</u></u>	

Discount rate

A single discount rate of 7.40% 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 7.40%. 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 7.40%, 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	6.40%	\$ 3,399,240
Current discount rate	7.40%	\$ 2,348,514
1% increase	8.40%	\$ 1,473,393

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 June 30, 2020, the date of the last actuarial valuation, approximately 235 retirees were receiving benefits, and an estimated 412 active employees are potentially eligible to receive future benefits.

Funding Policy

The Board will pay for 50% of the individual premium for the life of the retiree. Eligible dependents may be covered with the retiree paying 100% of the premium. 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. 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. For fiscal year 2020, the Board contributed \$648,821 to the plan for approximately 235 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 \$34,256,549 was measured as of June 30, 2020, and was determined by an actuarial valuation date of June 30, 2020.

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, 2020:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at 7/1/19	\$ 20,698,239	\$ -	\$ 20,698,239
Changes for the year:			
Service cost	627,943	-	627,943
Interest cost	713,182	-	713,182
Differences between expected and actual experience	(893,923)	-	-
Assumption changes	9,583,766	-	9,583,766
Contributions - employer		648,821	(648,821)
Net investment income	-	-	-
Benefit payments	(648,821)	(648,821)	-
Administrative expense	-	-	-
Plan changes	4,176,163	-	4,176,163
Net changes	13,558,310	-	13,558,310
Balances at 6/30/2020	\$ 34,256,549	\$ -	\$ 34,256,549

NOTES TO FINANCIAL STATEMENTS

Note 10. Other Post-Employment Benefits – continued

Funding Status and Funding Progress

As of June 30, 2020 the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$34,256,549, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$22,715,700, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 150.81 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, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial valuation date:	June 30, 2020
Actuarial cost method:	Entry Age Normal
Discount Rate:	The discount rate used to measure the total OPEB liability is 2.21%. 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, 2020.
Mortality:	Pub-2010 Teacher Employee Headcount-weighted with fully generational scale MP-2019. The table is based on the most recent mortality study for governmental employees completed by the Society of Actuaries.
Turnover:	T7 Standard Table 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 2.21%, 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	OPEB Liability
1% decrease	1.21%	\$ 42,165,276
Current discount Rate	2.21%	\$ 34,256,549
1% increase	3.21%	\$ 28,243,845

The following table presents the Board's total and total OPEB liability using the health care trend rate of 7%, decreasing to 4.5%, 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:

	Cost Trend Rate	OPEB Liability
1% decrease	6% to 3.5%	\$ 27,731,704
Current discount Rate	7% to 4.5%	\$ 34,256,549
1% increase	8% to 5.5%	\$ 43,139,035

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

For the year ended June 30, 2020, the Board will recognize OPEB expense in the amount of \$6,812,014 on the government-wide statements. At June 30, 2020, 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	\$ -	\$ (773,772)
Changes of assumptions	8,943,246	-
Total	\$ 8,943,246	\$ (773,772)

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)
2021	\$ 1,294,726
2022	1,294,726
2023	1,294,726
2024	1,294,726
2025	1,294,726
Thereafter	1,695,844
	\$ 8,169,474

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 Crisfield High School roof replacement in the amount of \$2,695,000.

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, 2020 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.

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic and resulting global disruptions have had significant impacts on the traditional education model of Boards of Education across the Country. In addition, there has been significant economic uncertainty and volatility in financial markets. The impact on future funding and on defined benefit plan (pensions and other post-employment benefit) actuarial assumptions used to estimate the net pension and other post-employment liabilities of the Board are not reasonably estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF SOMERSET COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

Year Ended June 30, 2020

	Budget		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Somerset County	\$ 10,088,825	\$ 10,088,825	\$ 10,088,825	\$ -
State Of Maryland:				
Current expense	14,050,383	14,050,383	14,050,383	-
Special education	1,882,567	1,882,567	1,882,567	-
Transportation	2,073,963	2,073,963	2,073,963	-
Transportation - boat	35,000	35,000	35,000	-
Nonpublic placement	20,000	20,000	6,357	(13,643)
Compensatory education	10,461,486	10,461,486	10,461,486	-
Limited english proficiency	637,162	637,162	637,162	-
Targeted Aid	1,026,064	1,026,064	1,026,064	-
Other state revenues	836,265	836,265	1,218,553	382,288
Guaranteed tax base	1,625,762	1,625,762	1,625,762	-
Total State Of Maryland	32,648,652	32,648,652	33,017,297	368,645
Reimbursements and other income	500,287	500,287	227,197	(273,090)
TOTAL REVENUES	43,237,764	43,237,764	43,333,319	95,555
EXPENDITURES				
Administration	1,537,481	1,585,981	1,577,390	8,591
Mid-level administration	3,835,355	3,948,355	3,904,630	43,725
Instructional salaries and wages	14,998,294	14,998,294	14,865,521	132,773
Textbooks and instructional supplies	933,384	933,384	853,133	80,251
Other instructional costs	255,256	255,256	164,973	90,283
Student personnel services	768,928	789,928	773,078	16,850
Health services	444,541	486,541	484,000	2,541
Student transportation	2,982,530	2,912,530	2,757,751	154,779
Operation of plant and equipment	2,759,507	2,819,507	2,819,337	170
Maintenance of plant	985,545	985,545	937,286	48,259
Special education	3,974,561	4,044,561	4,035,254	9,307
Fixed charges	9,923,347	9,630,847	9,413,393	217,454
Capital outlay	82,770	90,770	90,508	262
TOTAL EXPENDITURES	43,481,499	43,481,499	42,676,254	805,245
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(243,735)	(243,735)	657,065	900,800
OTHER FINANCING SOURCES				
Designated from June 30, 2019 for June 30, 2020 Expenditures	243,735	243,735	243,735	-
Assigned for specific programs	-	-	(72,800)	(72,800)
Assigned for future Expenditures	-	-	(400,000)	(400,000)
TOTAL OTHER FINANCING SOURCES	243,735	243,735	(229,065)	(472,800)
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	\$ -	\$ -	\$ 428,000	\$ 428,000

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, 2020

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%
June 30, 2019	0.0113864%	\$ 2,348,514	\$ 26,619,595	\$ 28,968,109	\$27,501,384	8.54%	\$53,943,420,000	\$74,569,030,000	72.34%

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, 2020

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%
2020	\$1,329,561	\$1,329,561	\$0	\$29,411,104	4.52%

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**

	2018	2019	2020
Total OPEB liability			
Service cost	\$ 552,635	\$ 580,267	\$ 627,943
Interest cost	712,837	730,419	713,182
Differences between expected and actual experience	-	-	(893,923)
Assumption changes	-	901,093	9,583,766
Benefit payments	(854,007)	(767,522)	(648,821)
Other changes	-	-	4,176,163
Net change in total OPEB liability	<u>\$ 411,465</u>	<u>\$ 1,444,257</u>	<u>\$ 13,558,310</u>
Total OPEB liability, beginning of year,	<u>18,842,517</u>	<u>19,253,982</u>	<u>20,698,239</u>
Total OPEB liability, end of year (a)	<u><u>\$ 19,253,982</u></u>	<u><u>\$ 20,698,239</u></u>	<u><u>\$ 34,256,549</u></u>
Covered employee payroll	\$ 22,620,341	\$ 22,620,341	\$ 22,715,700
Total OPEB liability as of % of payroll	85.12%	91.50%	150.81%

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	Assigned/Unassigned Fund Balances
	General	General	General
	June 30, 2020	June 30, 2020	June 30, 2020
GAAP basis	\$ 46,171,290	\$ 45,712,241	\$ 1,073,800
On-behalf payments	(2,837,971)	(2,837,971)	-
June 30, 2020 fund balance assigned for June 30, 2021 expenditures	-	-	(621,472)
Expenditures of amounts encumbered during year ended June 30, 2019	-	(222,344)	-
Amounts encumbered and reserved (GAAP) at June 30, 2020 but recognized as expenditures for budgetary purposes	-	24,328	(24,328)
Budgetary basis	\$ 43,333,319	\$ 42,676,254	\$ 428,000

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 2.60% to 2.65% for general and from 3.15% to 3.10% for wage
- Salary increase assumption changed from 3.10% - 9.10% to 3.10% - 11.6%, including inflation
- Investment rate of return assumption changed from 7.45% to 7.40%

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	19 years for the State Systems,
Asset valuation method	Five-year smoothed market; 20% collar
Inflation	In the 2019 actuarial valuation, 2.65% general, 3.15% wage. In the 2018 actuarial valuation, 2.60% general; 3.10% wage.
Salary increases	In the 2019 actuarial valuation, 3.10% to 11.6% including inflation. In the 2018 actuarial valuation, 3.10% to 9.10% including inflation.
Investment rate of return	In the 2019 actuarial valuation, 7.40%. In the 2018 actuarial valuation, 7.45%.
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale

Note 3. Post-Employment Health Care Benefits

Changes in Benefit Terms

The Board will pay for 50% of the individual premium for the life of the retiree. Eligible dependents may be covered with the retiree paying 100% of the premium. 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. 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

1. The discount rate was changed from 3.50% at June 30, 2019 to 2.21% at June 30, 2020.
2. Mortality tables changed from RP-2014 Total Dataset Headcount-weighted table with scale MP-2018 to Pub-2010 Teachers Headcount-weighted with fully generational scale MP-2019.
3. Trend rate changed from decreasing linearly by 0.5% to ultimate trend rate of 5.0% to decreasing linearly by 0.25% to ultimate trend rate of 4.5%.

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, 2020

Actuarial valuation date: June 30, 2020

Actuarial cost method: Entry Age Normal

Discount Rate: The discount rate used to measure the total OPEB liability is 2.21%. 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, 2020.

Mortality: Pub-2010 Teacher Employee Headcount-weighted with fully generational scale MP-2019. The table is based on the most recent mortality study for governmental employees completed by the Society of Actuaries.

Turnover: T7 Standard Table 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:

	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 \$6,670 annually and \$4,950 post-65.

Trend: Medical costs were assumed to increase by 7.0% for FY2020 decreasing linearly by 0.25% to an ultimate trend rate of 4.5%.

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, 2020

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
ADMINISTRATION				
Salaries and wages	\$ 1,148,431	\$ 1,196,931	\$ 1,198,820	\$ (1,889)
Contracted services	185,000	185,500	173,828	11,672
Materials and supplies	90,000	105,900	104,701	1,199
Other charges	113,450	96,050	100,041	(3,991)
Capital outlay	600	1,600	-	1,600
TOTAL ADMINISTRATION	1,537,481	1,585,981	1,577,390	8,591
MID-LEVEL ADMINISTRATION				
Salaries and wages	3,467,310	3,560,310	3,565,354	(5,044)
Contracted services	-	82,600	86,978	(4,378)
Materials and supplies	45,500	45,500	47,324	(1,824)
Other charges	152,100	69,500	33,188	36,312
Capital outlay	170,445	190,445	171,786	18,659
TOTAL MID-LEVEL ADMINISTRATION	3,835,355	3,948,355	3,904,630	43,725
INSTRUCTIONAL SALARIES				
Salaries and wages	14,998,294	14,998,294	14,871,395	126,899
Contracted services	-	-	(7,245)	7,245
Other charges	-	-	1,371	(1,371)
TOTAL INSTRUCTIONAL SALARIES	14,998,294	14,998,294	14,865,521	132,773
INSTRUCTIONAL TEXTBOOKS AND SUPPLIES				
	933,384	933,384	853,133	80,251
OTHER INSTRUCTIONAL COSTS				
Salaries and wages	-	-	85	(85)
Contracted services	33,500	89,316	38,910	50,406
Other charges	167,756	153,940	124,313	29,627
Capital outlay	54,000	12,000	1,665	10,335
TOTAL OTHER INSTRUCTIONAL COSTS	255,256	255,256	164,973	90,283
STUDENT PERSONNEL SERVICES				
Salaries and wages	745,425	766,425	750,978	15,447
Contracted services	9,000	9,000	11,485	(2,485)
Materials and supplies	6,078	6,078	3,454	2,624
Other charges	8,425	8,425	7,161	1,264
TOTAL STUDENT PERSONNEL SERVICES	768,928	789,928	773,078	16,850
HEALTH SERVICES				
Salaries and wages	428,791	470,791	472,340	(1,549)
Contracted services	-	2,500	507	1,993
Materials and supplies	6,000	6,000	5,571	429
Other charges	4,500	2,000	1,133	867
Capital outlay	5,250	5,250	4,449	801
TOTAL HEALTH SERVICES	444,541	486,541	484,000	2,541
FIXED CHARGES				
Insurance And Employee Benefits	9,923,347	9,630,847	9,413,393	217,454
TOTAL FIXED CHARGES	9,923,347	9,630,847	9,413,393	217,454

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF APPROPRIATIONS AND EXPENDITURES (CONTINUED)

GENERAL FUND - BUDGETARY BASIS

Year Ended June 30, 2020

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
STUDENT TRANSPORTATION				
Salaries and wages	\$ 141,748	\$ 141,748	\$ 145,985	\$ (4,237)
Contracted services	2,597,850	2,524,850	2,354,469	170,381
Materials and supplies	25,300	28,300	26,823	1,477
Other charges	207,632	207,632	207,860	(228)
Capital outlay	10,000	10,000	22,614	(12,614)
TOTAL STUDENT TRANSPORTATION	2,982,530	2,912,530	2,757,751	154,779
OPERATION OF PLANT				
Salaries and wages	1,210,948	1,210,948	1,252,742	(41,794)
Contracted services	314,500	343,000	378,574	(35,574)
Materials and supplies	102,000	133,500	125,394	8,106
Other charges	1,109,359	1,109,359	1,042,796	66,563
Capital outlay	22,700	22,700	19,831	2,869
TOTAL OPERATION OF PLANT	2,759,507	2,819,507	2,819,337	170
MAINTENANCE OF PLANT				
Salaries and wages	401,695	401,695	408,012	(6,317)
Contracted services	453,100	438,100	383,343	54,757
Materials and supplies	127,050	142,750	143,804	(1,054)
Other charges	3,700	3,000	2,127	873
TOTAL MAINTENANCE OF PLANT	985,545	985,545	937,286	48,259
SPECIAL EDUCATION				
Salaries and wages	3,567,651	3,567,651	3,744,991	(177,340)
Contracted services	250,100	320,100	181,885	138,215
Materials and supplies	29,290	29,290	16,926	12,364
Other charges	29,500	124,500	90,048	34,452
Capital outlay	3,020	3,020	1,404	1,616
Outgoing transfers	95,000	-	-	-
TOTAL SPECIAL EDUCATION	3,974,561	4,044,561	4,035,254	9,307
TOTAL CAPITAL OUTLAY	82,770	90,770	90,508	262
TOTAL UNRESTRICTED APPROPRIATIONS AND EXPENDITURES	\$ 43,481,499	\$ 43,481,499	\$ 42,676,254	\$ 805,245

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, 2020

	Enterprise Fund Food Services
OPERATING REVENUES	
Food service sales	\$ 63,353
OPERATING EXPENSES	
Operation of plant	3,734
Fixed charges	242,340
Salaries and wages	719,739
Contracted services	6,379
Food and food related supplies	1,027,433
Other charges	1,139
Capital outlay	32,350
TOTAL OPERATING EXPENSES	<u>2,033,114</u>
OPERATING LOSS	<u>(1,969,761)</u>
NONOPERATING REVENUES	
Interest income	<u>2,979</u>
State Of Maryland:	
Reimbursement of food costs	<u>54,812</u>
Federal through state:	
Reimbursement of food costs	1,596,215
Donation of food commodities	121,108
Total federal through state	<u>1,717,323</u>
TOTAL NONOPERATING REVENUES	<u>1,775,114</u>
CHANGE IN NET POSITION	<u>\$ (194,647)</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, 2020

	Due to School Activities Funds				Due to School Activities Funds
	Balance June 30, 2019	Additions	Deductions	Transfers	Balance June 30, 2020
ELEMENTARY SCHOOLS					
Deal Island (Pre-K To 5th Grades)	\$ 6,898	\$ 10,725	\$ 8,286	\$ -	\$ 9,337
Woodson (Pre-K To 5th Grades)	16,374	51,244	51,568	-	16,050
Princess Anne (Pre-K To 5th Grades)	10,329	14,289	14,367	-	10,251
Greenwood (Pre-K To 5th Grades)	8,950	46,166	43,647	-	11,469
TOTAL ELEMENTARY SCHOOLS	42,551	122,424	117,868	-	47,107
INTERMEDIATE SCHOOLS - 6TH TO 7TH GRADES					
Somerset 6/7 Intermediate	15,802	37,020	36,653	-	16,169
HIGH SCHOOLS - 8TH TO 12 GRADES					
Crisfield	57,490	126,862	84,479	-	99,873
Washington	82,934	87,947	94,217	-	76,664
TOTAL HIGH SCHOOLS	140,424	214,809	178,696	-	176,537
SPECIALIZED SCHOOLS					
Ewell Elementary Middle School (Pre-K To 7th grade)	2,331	2,423	1,809	-	2,945
Somerset County Technical High School	84,082	79,153	67,509	-	95,726
TOTAL SPECIALIZED SCHOOLS	86,413	81,576	69,318	-	98,671
TOTAL SCHOOL ACTIVITY	\$ 285,190	\$ 455,829	\$ 402,535	\$ -	\$ 338,484

NOTES TO ADDITIONAL SUPPLEMENTARY INFORMATION

Note 1. Budget

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

	Revenues	Expenditures	Fund Balances
	Proprietary	Proprietary	Proprietary
	June 30, 2020	June 30, 2020	June 30, 2020
GAAP basis	\$ 1,838,467	\$ 2,078,847	\$ 128,897
Depreciation	-	(45,733)	-
Capitalized costs	-	-	-
Effect of accrued compensated absences and other	-	-	4,362
Amounts reserved (GAAP) at June 30, 2019	-	-	(136,478)
Budgetary basis	\$ 1,838,467	\$ 2,033,114	\$ (3,219)