

**THE BOARD OF EDUCATION OF
SOMERSET COUNTY**

FINANCIAL REPORT

JUNE 30, 2021

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Herbert J. Geary III
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Mark A. Welsh



INDEPENDENT AUDITOR'S REPORT

The Board of Education of Somerset County
Westover, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of The Board of Education of Somerset County, a component unit of Somerset County, Maryland, as of and for the year ended June 30, 2021, 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 and each major fund of The Board of Education of Somerset County as of June 30, 2021, 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.

Emphasis of Matter

As discussed in Note 12 to the financial statements, The Board of Education of Somerset County adopted GASB Statement No. 84, Fiduciary Activities, on July 1, 2020. Our opinion is not modified with respect to that matter.

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 required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board 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 30, 2021 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 30, 2021

Herbert J. Geary III
Roy J. Geiser
Chris A. Hall
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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 and each major fund of The Board of Education of Somerset County, as of and for the year ended June 30, 2021, 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 30, 2021.

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 "JHM Group LLC". The letters are cursive and somewhat stylized.

Salisbury, Maryland
September 30, 2021

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2021

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, 2021. 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, 2021 include the following:

- Net position for the Governmental Activities totaled \$73,856,623, an increase of \$13,171,015 or - 21.7% from the prior year.
- General Fund assigned fund balance (subsequent year expenditures) equals \$828,000, an increase of \$679,328 from the prior year.
- Unassigned General Fund balance equals \$1,059,425, an increase of \$631,425 from the prior year.
- The Food Service fund had a profit of \$195,279. Excluding depreciation, the fund showed a profit of \$228,683.

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*.

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, 2021

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. School activity funds are now included here with the adoption of GASB 84.
- *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 two 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 23 which explains the relationship (or differences) between them. In FY2021, the Board implemented the provisions of GASB 84, Fiduciary Activities. School Activity Funds that were formerly reported separately as a Fiduciary Fund are now reported as a governmental fund.
- *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, 2021

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

Net Position

The Board's *combined* net position was \$74,180,799 on June 30, 2021. This was an increase of \$13,704,778 from the prior year.

STATEMENT OF NET POSITION

	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	TOTAL
	FY2021	FY 2020(1)	FY2021	FY 2020(1)	FY2021	FY 2020(1)
Current and other assets	\$ 7,099,067	\$ 4,981,582	\$ 252,810	\$ 36,031	\$ 7,351,877	\$ 5,017,613
Capital assets	89,256,255	88,535,587	155,088	136,478	89,411,343	88,672,065
Total assets	96,355,322	93,517,169	407,898	172,509	96,763,220	93,689,678
Deferred outflows	8,110,334	9,341,036	-	-	8,110,334	9,341,036
Current and liabilities	3,690,352	3,594,298	79,294	39,250	3,769,646	3,633,548
Long-term liabilities	25,679,585	37,606,134	4,428	4,362	25,684,013	37,610,496
Total liabilities	29,369,937	41,200,432	83,722	43,612	29,453,659	41,244,044
Deferred inflows	1,239,096	972,165	-	-	1,239,096	972,165
Investment in capital assets, net of related debt	89,256,255	88,535,587	155,088	136,478	89,411,343	88,672,065
Unrestricted	(15,399,632)	(27,849,979)	169,088	(7,581)	(15,230,544)	(27,857,560)
Total net position	\$ 73,856,623	\$ 60,685,608	\$ 324,176	\$ 128,897	\$ 74,180,799	\$ 60,814,505

(1) Net Position restated for change in reporting of school activity funds

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2021

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE (Continued)

Changes in Net Position

The Board's total revenues were \$64,436,902 for the year ended June 30, 2021. (See Table 2) The State and County general appropriations accounted for approximately 68.1% of total revenue for the year. Another 5.8% came from Capital Contributions from both the State and County. The remaining funds (26.1%) came from program revenues and investment earnings. The total cost of all programs and services was \$51,070,608. Revenues surpassed expenses, increasing net position \$13,366,294 from last year.

A significant amount of this increase is related to the decrease in the OPEB liability(see page 18 for more details).

	REVENUES					
	Governmental Activities		Business- Type Activities		Total	Total
	FY 2021	FY 2020	FY 2021	FY 2020	FY 2021	FY 2020
Program revenues						
Charges for services	\$ 195,778	\$ -	\$ -	\$ 63,353	\$ 195,778	\$ 63,353
Federal and state grants	14,792,331	10,893,076	970,817	1,772,135	15,763,148	12,665,211
Capital contributions	3,697,500	8,174,814	25,000	-	3,722,500	8,174,814
General revenues						
County appropriation	10,189,253	10,088,825	-	-	10,189,253	10,088,825
State formula aid	33,713,758	33,017,297	-	-	33,713,758	33,017,297
Other	194,504	227,197	81	2,979	194,585	230,176
Transfers	-	-	657,880	-	657,880	-
Total revenue	<u>62,783,124</u>	<u>62,401,209</u>	<u>1,653,778</u>	<u>1,838,467</u>	<u>64,436,902</u>	<u>64,239,676</u>
	EXPENSES					
Instruction and special education	33,202,309	31,355,830	-	-	33,202,309	31,355,830
Administration	1,690,051	1,675,418	-	-	1,690,051	1,675,418
Support services	1,862,972	1,784,910	1,458,499	2,078,847	3,321,471	3,863,757
Fixed Charges	1,355,635	17,783,843	-	-	1,355,635	17,783,843
Building Operations and Maintenance	4,397,092	4,240,366	-	-	4,397,092	4,240,366
Transportation	3,077,038	2,858,415	-	-	3,077,038	2,858,415
Other	4,027,012	4,156,033	-	-	4,027,012	4,156,033
Total expenses	<u>49,612,109</u>	<u>63,854,815</u>	<u>1,458,499</u>	<u>2,078,847</u>	<u>51,070,608</u>	<u>65,933,662</u>
Increase (decrease) in net position **	<u>\$ 13,171,015</u>	<u>\$ (1,453,606)</u>	<u>\$ 195,279</u>	<u>\$ (240,380)</u>	<u>\$ 13,366,294</u>	<u>\$ (1,693,986)</u>

** excludes transfers from other funds

Business-Type Activities

Revenues of the Board's only business-type activity, the food service operation, decreased \$184,689 to \$1,653,778 and expenses decreased by \$620,348. (Refer to Table 2).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2021

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 \$3,113,972, an increase of \$2,040,172 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 \$2,040,172 for the year ended June 30, 2021 compared to an excess of revenues over expenditures of \$459,049 for FY 2020. The major changes in both revenues and expenditures results from the following:

1. State of Maryland revenues increased by \$696,461. This is a result of an increase in the formula grant as well as an increase in the Declining Enrollment grant of \$167,722 and the NTI grant of \$158,393.
2. Other Revenues decreased by \$32,693. FY20 included \$20,647 in escheat funds from the Estate of Peggy Merritt. FY20 also included a reimbursement from the MABE Pool grant of \$17,350.
3. Instructional Salaries decreased by \$806,765. This reduction is the direct result of the Covid 19 pandemic. Due to the uncertainty as to whether the learning would continue virtually or in-person, several open positions were not filled. Also, due to the partial closures during the year, substitute costs were much lower than in past years. Extra duty pay (i.e.coach pay) was also lower due to the shortened sports seasons as a result of the pandemic.
4. Other Instructional Costs were down by \$51,950 or 31.5%. Several expenses in this category decreased as a result of the continuation of virtual learning during part of FY21. Athletic official costs were down due to the shortening of the various sports seasons.
5. Special Education costs were down by \$234,268. Several positions were unable to be filled in FY21. We were unable to fill vacant speech therapist positions and had to contract with an outside agency to provide those services to our students.
6. Transportation costs increased by \$102,590. Our School Bus Driver Trainer position became a full time position in FY21. Also, bus contractor costs increased due to the increased number of bus runs each day that allowed us to maintain the appropriate social distance between students on their rides to and from school.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2021

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS (Continued)

7. Fixed Charges increased in FY21 by \$301,360 for several reasons. Health insurance costs for retirees and active employees increased in FY21. 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 again offered a 10% retirement incentive bonus to employees.

Table 3

GENERAL FUND REVENUES				
	FY 2021	FY 2020	Increase (Decrease)	% of Incr. (Decr.)
REVENUES				
Somerset County Appropriations	\$ 10,189,253	\$ 10,088,825	\$ 100,428	1.0%
State of Maryland	33,713,758	33,017,297	696,461	2.1%
State share of retirement and pension contribution	2,769,536	2,837,971	(68,435)	-2.4%
Other	194,504	227,197	(32,693)	-14.4%
Total Revenues	46,867,051	46,171,290	695,761	1.5%
GENERAL FUND EXPENDITURES				
EXPENDITURES				
Administration	1,548,097	1,577,390	(29,293)	-1.9%
Mid-level Administration	3,887,036	4,020,674	(133,638)	-3.3%
Instructional salaries	14,058,756	14,865,521	(806,765)	-5.4%
Textbooks & instructional supplies	916,619	846,538	70,081	8.3%
Other instruction costs	113,023	164,973	(51,950)	-31.5%
Special Education	3,800,986	4,035,254	(234,268)	-5.8%
Student personnel services	795,435	773,078	22,357	2.9%
Health services	477,461	482,878	(5,417)	-1.1%
Transportation of pupils	2,860,341	2,757,751	102,590	3.7%
Operation of plant	2,893,244	2,816,980	76,264	2.7%
Maintenance of plant	991,592	952,630	38,962	4.1%
Fixed charges	9,714,753	9,413,393	301,360	3.2%
Capital outlay	0	167,210	(167,210)	-100.0%
State share of retirement and pension contribution	2,769,536	2,837,971	(68,435)	-2.4%
Total expenditures	44,826,879	45,712,241	(885,362)	-1.9%
Excess/(Deficiency) of revenues over expenditures	\$ 2,040,172	\$ 459,049	\$ 1,581,123	

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2021

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 \$4,625,570 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.

Due to the ongoing Covid 19 pandemic, Congress authorized three relief packages to aid states and municipalities as they recover from the devastating financial impact that Covid 19 has had on the United States. Local Educational Agencies were allocated a portion of these funds to assist in the education of students during the pandemic and to address learning losses that occurred due to the pandemic. These funds can also be used to upgrade or repair ventilation systems, offset losses in FNS programs and to offset other costs that can be attributed to mitigating the spread of Covid 19. SCPS’ allocations are as follows: ESSER I- \$1,347,240, ESSER II- \$6,009,403, and ESSER III - \$13,496,264. These funds are available for use through September 30, 2024. In FY21, SCPS spent \$1,024,299 in ESSER I funds and \$1,092,859 in ESSER II funds.

Table 4

RESTRICTED GRANT REVENUE

	<u>FY 2021</u>	<u>FY 2020</u>	<u>Increase (Decrease)</u>	<u>% Incr. (Decr.)</u>
REVENUES				
Federal through State	\$ 9,342,089	\$ 4,937,908	4,404,181	89.19%
State of Maryland	3,338,586	3,034,978	303,608	10.00%
Reimbursements and Other Income	<u>0</u>	<u>82,219</u>	<u>(82,219)</u>	-100.00%
Total Revenues	<u>\$ 12,680,675</u>	<u>\$ 8,055,105</u>	<u>4,625,570</u>	57.42%

CAPITAL PROJECTS FUND

The Board has no legal authority to borrow funds. During FY 2021, the Board received County funding of \$979,739 and State funding of \$2,717,761, which is recorded on these financial statements. The County funds were used for the completion of the new Somerset County Technical High School project. State funds were used to complete a roof replacement project at Crisfield High School.

In addition, state Aging Schools funds were used to replace the stage curtain at Deal Island Elementary School and to replace a walk-in cooler at Crisfield High School.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2021

SCHOOL ACTIVITY FUNDS

The following funds are now accounted for as Governmental funds as a result of the implementation of GASB 84.

During FY 2021 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 activity funds on an annual basis. Please refer to the separately issued audited financial statements for the School Activities Fund and schedule for specific details. Revenues and expenditures from school activities decreased dramatically due to Covid 19 pandemic.

Table 5

SCHOOL ACTIVITIES FUNDS				
	<u>FY 2021</u>	<u>FY 2020</u>	<u>Increase (Decrease)</u>	<u>% Incr. (Decr.)</u>
Additions	\$ 195,778	\$ 455,829	\$ (260,051)	-57.05%
Deductions	(214,519)	(402,535)	188,016	-46.71%
Beginning balance due to school activities funds	<u>338,484</u>	<u>285,190</u>	<u>53,294</u>	18.69%
Ending Balance due to School Activities Fund	<u>\$ 319,743</u>	<u>\$ 338,484</u>	<u>\$ (18,741)</u>	-5.54%

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, 2021

GENERAL FUND BUDGETARY HIGHLIGHTS, continued

	Original Approved FY 2021 Budget	Category Increases	Category Transfers	Final Amended FY 2021 Budget
REVENUES				
Somerset County	\$ 10,189,253	\$ -	\$ -	\$ 10,189,253
State of Maryland	33,339,951	-	-	33,339,951
Other	500,287	-	-	500,287
Prior Year's Fund Balance	148,672	-	-	148,672
Total Revenues	<u>44,178,163</u>	<u>-</u>	<u>-</u>	<u>44,178,163</u>
EXPENDITURES				
Administration	1,619,683	-	-	1,619,683
Mid-level Administration	3,908,120	765,000	-	4,673,120
Instructional Salaries and Wages	15,091,086	-	(790,000)	14,301,086
Instructional Textbooks and Supplies	826,001	100,000	-	926,001
Other Instructional Costs	277,472	-	-	277,472
Student Personnel Services	779,288	60,000	-	839,288
Health Services	474,909	16,000	-	490,909
Fixed Charges	10,196,952	-	(301,000)	9,895,952
Student Transportation	2,985,896	-	-	2,985,896
Operation of Plant	2,892,772	-	-	2,892,772
Maintenance of Plant	1,056,415	20,000	-	1,076,415
Special Education	4,069,569	10,000	-	4,079,569
Capital Outlay	-	120,000	-	120,000
Total Expenditures	<u>\$ 44,178,163</u>	<u>\$ 1,091,000</u>	<u>\$ (1,091,000)</u>	<u>\$ 44,178,163</u>

After these revisions, the actual General Fund and Capital expenditures matched the budget. Actual expenditures and encumbrances were under budget by \$1,041,401. Actual revenues exceeded expenditures by \$1,059,425. The Board utilized the FY 2019 fund balance designated for FY 2021 (excess of revenues over expenditures) in the amount of \$148,672. This leaves an unreserved, undesignated fund balance of \$1,059,425 to be carried forward to FY 2023. The excess fund balance from FY 2021 is primarily attributed excess funds in the Student Transportation, Instructional Salaries, Special Education and Instructional Textbook and Supplies categories. The excess funds are directly attributable to the ongoing Covid 19 pandemic.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2021

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2021, the Board has invested \$130,638,234 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 \$3,049,954 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 2021-2022 school year. A building envelope project will be completed at Greenwood Elementary School. All doors and windows will be replaced to improve the efficiency of the HVAC system. This project will be completed as part of the FY22 CIP, funded entirely by the IAC program.

In addition ESSER II and ESSER III funds will be used to complete several other projects. All windows will be repaired at Somerset Intermediate School and the HVAC system at Crisfield High school will be replaced.

Over the next five years, the following projects are under consideration: 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 \$25,704,585 in amounts due or payable after one year. This amount consists of accrued compensated absences (\$1,058,191) 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 (\$21,916,102) for future health insurance costs for retirees in compliance with GASB 75 and an amount for the net pension liability required under GASB 68 (\$2,705,292).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2021

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 \$21,916,102 as of June 30, 2021. The Board currently funds retiree healthcare premiums as described in Note 10 on a pay- as-you -go basis only. The large decrease in the amount of the liability at June 30, 2021 is due to changes in SCPS' employment contract language. 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 was equal to 50% of the monthly premium cost for each retiree. As the actuarial cost of the plan increased over time, SCPS' costs would have increased instead of being limited to a specific dollar amount. In FY21, the contract language was changed to re-establish a \$3,600 cap per year for each retiree. The change in language served to lower the amount of the Board's future liability. 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 2021 the State contributed \$2,769,536 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 \$194,279 profit in FY 2021. On March 13, 2020, schools across the State were shut down by Governor Hogan for what was to be a two week period in response to the COVID 19 pandemic. Ultimately, this resulted in a closure for the rest of the FY20 school year. This closure 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. In FY21, SCPS was able to re-open at various times for in-person learning. As we reopened our doors, around half of our students chose to return for in-person learning while the remainder chose to remain at home for virtual learning. This contributed to a reduction in total of meals served for the year, which in turn, created a large deficit in the FNS fund. One of the allowable uses of ESSER funds is to help offset losses incurred in FNS programs during the Covid 19 pandemic. SCPS chose to utilize some of these funds (\$657,880) to offset the losses in our FNS program. The amount of funds used was determined by prorating salaries and fringe benefits based on the percentage of students that were learning virtually at home versus the total number of students enrolled for FY21.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2021

FACTORS BEARING ON THE BOARD'S FUTURE (Continued)

received additional funding in FY21 to increase our starting teacher's salaries, to hire a district Mental Health Coordinator, to implement a Community School model at five 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. In 2021, the General Assembly voted to override Governor Hogan's veto. Due to the delay of the passage of the Blueprint the timeline of its implementation has been extended. Some of its provisions will be enacted in FY22 utilizing some of the State's American Rescue Plan funding.

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, 2021

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 2,159,126	\$ 995,760	\$ 3,154,886
Due from other governmental agencies	4,038,908	132,812	4,171,720
Inventory	-	25,271	25,271
Internal balances	901,033	(901,033)	-
Land	493,252	-	493,252
Construction in progress	15,027	-	15,027
Depreciable assets, net of accumulated depreciation	88,747,976	155,088	88,903,064
TOTAL ASSETS	96,355,322	407,898	96,763,220
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (see Note 8)	581,965	-	581,965
Other post-employment benefits (see Note 10)	7,528,369	-	7,528,369
TOTAL DEFERRED OUTFLOWS OF RESOURCES	8,110,334	-	8,110,334
LIABILITIES			
Accounts payable:			
Vendors	596,631	65,528	662,159
Payroll deductions and withholdings	1,751,156	13,766	1,764,922
Due to other governments	10,943	-	10,943
Accrued salaries	728,045	-	728,045
Unearned revenue	578,577	-	578,577
Long-term liabilities:			
Due within one year	25,000	-	25,000
Due in more than one year	25,679,585	4,428	25,684,013
TOTAL LIABILITIES	29,369,937	83,722	29,453,659
DEFERRED INFLOWS OF RESOURCES			
Pensions (see Note 8)	142,374	-	142,374
Other post-employment benefits (see Note 10)	1,096,722	-	1,096,722
TOTAL DEFERRED INFLOWS OF RESOURCES	1,239,096	-	1,239,096
NET POSITION			
Net investment in capital assets	89,256,255	155,088	89,411,343
Unrestricted	(15,399,632)	169,088	(15,230,544)
TOTAL NET POSITION	\$ 73,856,623	\$ 324,176	\$ 74,180,799

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, 2021

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Current:			
Administration	\$ 1,690,051	\$ -	\$ 51,156
Mid-level administration	4,096,061	-	209,025
Instructional services	23,940,943	-	6,410,044
Special education	5,165,305	-	1,364,319
Student personnel services	1,320,400	-	524,965
Health services	542,572	-	65,111
Student transportation	3,077,038	-	216,697
Operation of plant and equipment	3,464,099	-	87,604
Maintenance of plant	932,993	-	-
Fixed charges	1,355,635	-	2,069,798
Community services	544,615	-	544,615
Food service	479,461	-	479,461
School activities	214,519	195,778	-
Capital outlay	18,881	-	-
State of Maryland share of retirement and pension contribution	2,769,536	-	2,769,536
Total Governmental Activities	49,612,109	195,778	14,792,331
Business-Type Activities			
Food services	1,458,499	-	970,817
Totals	\$ 51,070,608	\$ 195,778	\$ 15,763,148

General Revenues

State of Maryland
Somerset County appropriation
Other financing sources
Reimbursements and other income

Total General Revenues

Change in Net Position

Net Position Beginning of Year, as restated

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
\$ -	\$ (1,638,895)	\$ -	\$ (1,638,895)
-	(3,887,036)	-	(3,887,036)
-	(17,530,899)	-	(17,530,899)
-	(3,800,986)	-	(3,800,986)
-	(795,435)	-	(795,435)
-	(477,461)	-	(477,461)
-	(2,860,341)	-	(2,860,341)
-	(3,376,495)	-	(3,376,495)
-	(932,993)	-	(932,993)
-	714,163	-	714,163
-	-	-	-
-	-	-	-
-	(18,741)	-	(18,741)
3,697,500	3,678,619	-	3,678,619
-	-	-	-
3,697,500	(30,926,500)	-	(30,926,500)
25,000	-	(462,682)	(462,682)
<u>\$ 3,722,500</u>	<u>(30,926,500)</u>	<u>(462,682)</u>	<u>(31,389,182)</u>
	33,713,758	-	33,713,758
	10,189,253	-	10,189,253
	-	657,880	657,880
	194,504	81	194,585
	<u>44,097,515</u>	<u>657,961</u>	<u>44,755,476</u>
	13,171,015	195,279	13,366,294
	<u>60,685,608</u>	<u>128,897</u>	<u>60,814,505</u>
	<u>\$ 73,856,623</u>	<u>\$ 324,176</u>	<u>\$ 74,180,799</u>

THE BOARD OF EDUCATION OF SOMERSET COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2021

	General	Restricted Grants	Capital Projects	School Activities	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,855,799	\$ -	\$ -	\$ 303,327	\$ 2,159,126
Due from governmental and other agencies	990,232	3,031,993	-	16,683	4,038,908
Due from other funds	2,718,726	-	14,412	-	2,733,138
TOTAL ASSETS	\$ 5,564,757	\$ 3,031,993	\$ 14,412	\$ 320,010	\$ 8,931,172
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable:					
Vendors	\$ 294,271	\$ 301,778	\$ 315	\$ 267	\$ 596,631
Payroll deductions and withholdings	1,751,156	-	-	-	1,751,156
Due to other funds	14,412	1,817,693	-	-	1,832,105
Due to other government	10,943	-	-	-	10,943
Accrued salaries and payroll taxes	352,414	375,631	-	-	728,045
Unearned revenue	27,589	536,891	14,097	-	578,577
TOTAL LIABILITIES	2,450,785	3,031,993	14,412	267	5,497,457
FUND BALANCES					
Assigned to:					
School activities	-	-	-	319,743	319,743
Subsequent year expenditures	828,000	-	-	-	828,000
Other purposes (encumbrances)	1,103,747	-	-	-	1,103,747
Assigned for other programs	50,000	-	-	-	50,000
Assigned for program expenses	72,800	-	-	-	72,800
Unassigned	1,059,425	-	-	-	1,059,425
TOTAL FUND BALANCES	3,113,972	-	-	319,743	3,433,715
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,564,757	\$ 3,031,993	\$ 14,412	\$ 320,010	\$ 8,931,172

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, 2021

Total fund balances, governmental funds	\$ 3,433,715
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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.	89,256,255
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Deferred outflow of resources		
Pensions (see Note 8)	581,965	
Other post-employment benefits (see Note 10)	<u>7,528,369</u>	
		8,110,334

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	(1,083,191)	
Net pension liability	(2,705,292)	
Post-employment benefits	<u>(21,916,102)</u>	
		(25,704,585)

Deferred inflow of resources		
Pensions (see Note 8)	(142,374)	
Other post-employment benefits (see Note 10)	<u>(1,096,722)</u>	
		<u>(1,239,096)</u>

Net position of governmental activities in the Statement of Net Position	<u>\$ 73,856,623</u>
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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, 2021

	General	Restricted Grants	Capital Projects	School Activities	Total Governmental Funds
REVENUES					
Somerset County	\$ 10,189,253	\$ -	\$ 979,739	\$ -	\$ 11,168,992
Federal government	-	9,342,089	-	-	9,342,089
State Of Maryland	33,713,758	3,338,586	29,054	-	37,081,398
State Of Maryland on-behalf payments	2,769,536	-	2,688,707	-	5,458,243
Reimbursements and other income	194,504	-	-	-	194,504
School activity revenues	-	-	-	195,778	195,778
TOTAL REVENUES	46,867,051	12,680,675	3,697,500	195,778	63,441,004
EXPENDITURES					
Current:					
Administration	1,548,097	51,156	-	-	1,599,253
Mid-level administration	3,887,036	209,025	-	-	4,096,061
Instructional salaries and wages	14,058,756	2,868,570	-	-	16,927,326
Textbooks and instructional supplies	916,619	3,281,409	-	-	4,198,028
Other instructional costs	113,023	260,065	-	-	373,088
Student personnel services	795,435	524,965	-	-	1,320,400
Health services	477,461	65,111	-	-	542,572
Student transportation	2,860,341	216,697	-	-	3,077,038
Operation of plant and equipment	2,893,244	87,604	-	-	2,980,848
Maintenance of plant	991,592	-	-	-	991,592
Special education	3,800,986	1,364,319	-	-	5,165,305
Fringe benefits on-behalf payments	2,769,536	-	-	-	2,769,536
Fixed charges	9,714,753	2,069,798	-	-	11,784,551
Community services	-	544,615	-	-	544,615
Food service	-	479,461	-	-	479,461
School activity expenditures	-	-	-	214,519	214,519
Capital outlay	-	-	3,697,500	-	3,697,500
TOTAL EXPENDITURES	44,826,879	12,022,795	3,697,500	214,519	60,761,693
EXCESS OF REVENUES OVER EXPENDITURES	2,040,172	657,880	-	(18,741)	2,679,311
OTHER FINANCING SOURCES					
Transfer to proprietary fund	-	(657,880)	-	-	(657,880)
TOTAL OTHER FINANCING SOURCES	-	(657,880)	-	-	(657,880)
Net change in fund balance	2,040,172	-	-	(18,741)	2,021,431
Fund balances, beginning, as restated	1,073,800	-	-	338,484	1,412,284
Fund balances, ending	\$ 3,113,972	\$ -	\$ -	\$ 319,743	\$ 3,433,715

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, 2021

Net change in fund balances, governmental funds \$ 2,021,431

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

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

Capital outlay	3,737,218	
Depreciation expense	<u>(3,016,550)</u>	
Excess of capital outlay over depreciation expense		720,668

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:

Decrease in pension expense due to deferred financing outflow	184,175	
Increase in pension expense due to net pension liability	(356,778)	
Decrease in pension expense due to deferred financing inflows	56,019	
Increase in post-employment benefits expense due to deferred financing outflow	(1,414,877)	
Decrease in post-employment benefits expense due to net OPEB liability	12,340,447	
Increase in post-employment benefits expense due to deferred financing inflow	(322,950)	
Increase in accrued compensated absences	<u>(57,120)</u>	
Total		<u>10,428,916</u>

Change in net position of governmental activities \$ 13,171,015

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, 2021

	<u>Enterprise Fund Food Services</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 995,760
Due from other governments	132,812
Inventory of food, at cost	<u>25,271</u>
Total current assets	<u>1,153,843</u>
Noncurrent assets:	
Equipment	1,468,181
Less: accumulated depreciation	<u>(1,313,093)</u>
Total noncurrent assets	<u>155,088</u>
TOTAL ASSETS	<u>1,308,931</u>
LIABILITIES	
Current liabilities:	
Accounts payable	65,528
Due to general fund	901,033
Accrued payroll	<u>13,766</u>
Total current liabilities	980,327
Long-term liabilities:	
Accrued compensated absences	<u>4,428</u>
TOTAL LIABILITIES	<u>984,755</u>
NET POSITION	
Invested in capital assets	155,088
Unrestricted	<u>169,088</u>
TOTAL NET POSITION	<u><u>\$ 324,176</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, 2021

	Enterprise Fund Food Services
OPERATING REVENUES	
Food Service Sales	\$ -
OPERATING EXPENSES	
Operation Of Plant	3,878
Fixed Charges	264,229
Salaries And Wages	670,009
Contracted Services	5,529
Food and Food Related Supplies	476,302
Other Charges	5,148
Depreciation	33,404
TOTAL OPERATING EXPENSES	1,458,499
OPERATING LOSS	(1,458,499)
NONOPERATING REVENUES	
Interest Income	81
State Of Maryland:	
Reimbursement Of Food Costs	50,728
Federal Through State:	
Reimbursement Of Food Costs	871,327
Donation Of Food Commodities	48,762
Total Federal Through State	920,089
TOTAL NONOPERATING REVENUES	970,898
CAPITAL CONTRIBUTION - equipment	25,000
Change in net position before other financing sources	(462,601)
OTHER FINANCING SOURCES	
Transfer from restricted funds	657,880
Change in net position	195,279
Net position beginning of year	128,897
Net position end of year	\$ 324,176

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, 2021

	Enterprise Fund Food Services
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from user charges	\$ -
Cash payments to employees for services and fringe benefits	(927,838)
Cash payments to suppliers for goods and services	(389,997)
Cash payments for other operating expenses	(14,555)
Net cash used for operating activities	(1,332,390)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Non-operating grants received	1,548,412
Proceeds from other funds (net of repayments)	701,524
Net cash provided by noncapital financing activities	2,249,936
 CASH FLOWS FROM CAPITAL AND INVESTING ACTIVITIES	
Purchases of equipment	(27,014)
Interest on investments	81
Net cash provided by investing activities	(26,933)
Net change in cash and cash equivalents	890,613
Cash and equivalents, beginning of year	105,147
Cash and equivalents, end of year	\$ 995,760
 RECONCILIATION OF OPERATING LOSS TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating loss	\$ (1,458,499)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	33,404
Donated commodities used	48,762
Changes in operating assets and liabilities:	
Inventory of food, at cost	3,833
Accounts payable and accrued liabilities	40,110
Net cash used for operating activities	\$ (1,332,390)
 NONCASH ACTIVITIES	
During the year the board received food commodities from the U.S. Department of Agriculture	\$ 48,762
Capital contributions of equipment	25,000

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 and proprietary funds, 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. 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.

School Activities Fund

The School Activities Fund is used to account for revenues and expenditures at the schools for, among other things, student pictures, athletics, clubs and other student activities and principals' miscellaneous expenditures.

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.

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 school activity 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, 2021 totaled \$1,103,747.

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, 2021, the Board's funds were invested as follows:

	Governmental Activities	Business-Type Activities
Demand deposits	\$ 1,823,624	\$ 995,760
Savings deposits	32,175	-
TOTAL	\$ 1,855,799	\$ 995,760
CARRYING VALUE	\$ 2,159,126	\$ 995,760

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	2,787,950	995,760
TOTAL	\$ 3,037,950	\$ 995,760

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, 2021, the Board also has amounts due from governmental agencies of \$4,038,908 and \$132,812 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, 2021, 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	\$ 901,033	\$ -
Due from restricted funds	1,817,693	-
Due to capital projects fund		14,412
Restricted grants		
Due to general fund	-	1,817,693
Capital projects		
Due from general fund	14,412	
BUSINESS-TYPE ACTIVITIES		
Enterprise fund - food service		
Due to general fund	-	901,033
TOTAL ALL FUNDS	\$ 2,733,138	\$ 2,733,138

Note 5. Changes in Long-Term Liability Activity

Long-term liability activity for the year ended June 30, 2021 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due in One Year
GOVERNMENTAL ACTIVITIES					
Net OPEB liability	\$ 34,256,549	\$ -	\$ 12,340,447	\$ 21,916,102	\$ -
Net pension liability	2,348,514	356,778	-	2,705,292	-
Accrued Compensated					
Absences	1,026,071	214,772	157,652	1,083,191	25,000
Total	\$ 37,631,134	\$ 571,550	\$ 12,498,099	\$ 25,704,585	\$ 25,000
BUSINESS-TYPE ACTIVITIES					
Accrued Compensated					
Absences	\$ 4,362	\$ 66	\$ -	\$ 4,428	\$ -

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, 2021 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	17,500	15,027	(17,500)	15,027
Total capital assets not being depreciated	510,752	15,027	(17,500)	508,279
Capital assets being depreciated:				
Buildings	117,688,675	3,526,199	-	121,214,874
Land improvements	3,613,577	-	-	3,613,577
Furniture, fixtures and equipment	3,327,658	137,593	17,500	3,482,751
Vehicles	292,173	58,399	-	350,572
Total capital assets being depreciated	124,922,083	3,722,191	17,500	128,661,774
Less accumulated depreciation:				
Buildings	(31,792,995)	(2,764,839)	-	(34,557,834)
Land improvements	(3,043,622)	(51,045)	-	(3,094,667)
Furniture, fixtures and equipment	(1,884,955)	(161,977)	-	(2,046,932)
Vehicles	(175,676)	(38,689)	-	(214,365)
Total accumulated depreciation	(36,897,248)	(3,016,550)	-	(39,913,798)
Total capital assets being depreciated, net of accumulated depreciation	88,024,835	705,641	17,500	88,747,976
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	\$ 88,535,587	\$ 720,668	\$ -	\$ 89,256,255
BUSINESS-TYPE ACTIVITIES				
Capital assets being depreciated:				
Equipment	\$ 1,416,167	\$ 52,014	\$ -	\$ 1,468,181
Less accumulated depreciation:				
Equipment	(1,279,689)	(33,404)	-	(1,313,093)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION				
	\$ 136,478	\$ 18,610	\$ -	\$ 155,088

NOTES TO FINANCIAL STATEMENTS

Note 6. Capital Assets - continued

*Depreciation for governmental activities is allocated as follows:

Administration	\$ 90,798
Operation of plant	483,251
Instruction	<u>2,442,501</u>
TOTAL	<u>\$ 3,016,550</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 21, 2020, the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$1,036,505. 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, 2021. 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, 2021 the Board's total payroll for all employees was \$31,592,834. Total covered payroll was \$28,816,529. 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 2021 was \$1,090,484. In addition, the State of Maryland contributed \$2,769,536 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, 2021, 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:

	2021
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 2,705,292
Board's proportionate share of the net pension liability (Teachers' Systems)	<u>29,916,101</u>
Total	<u><u>\$ 32,621,393</u></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, 2020, 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, 2020 the Board's proportion of the net pension liability was .011%, which was substantially the same as its proportion measured as of June 30, 2019. Due to the proportion remaining substantially the same, the pension expense related to the change in proportion from June 30, 2019 to June 30, 2020 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, 2021, the Board recognized pension expense for the employees system of \$440,550 in the government-wide financial statements and \$323,966 in the fund financial statements. At June 30, 2021, 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	\$ 10,796	\$ (50,265)
Net difference between projected and actual investment earnings on pension plan investments	247,203	-
Differences between expected and actual experience	-	(92,109)
Board contributions subsequent to measurement date	323,966	-
Total	<u>\$ 581,965</u>	<u>\$ (142,374)</u>

The \$323,966 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, 2022. The deferred outflows and inflows related to non-investment activity are being amortized over the remaining service life ranging from 5.50 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, 2021:

Year Ending June 30,	Deferred Outflows (Inflows)
2022	\$ 29,479
2023	14,983
2024	35,565
2025	36,091
2026	(490)
Total	<u>\$ 115,628</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

Actuarial Assumptions

The total pension liability in the June 30, 2020 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 11.60%, including wage inflation
Discount rate	7.40%
Investment rate of return	7.40%
Mortality	Fully generational - PB-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%	5.2%
Private Equity	13%	6.5%
Rate Sensitive	19%	-0.3%
Credit Opportunity	9%	2.8%
Real Assets	14%	4.3%
Absolute Return	<u>8%</u>	1.8%
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%	\$ 3,851,422
Current discount rate	7.40%	\$ 2,705,292
1% increase	8.40%	\$ 1,750,674

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% not to exceed \$300 per month 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 2021, the Board contributed \$504,746 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 \$21,916,102 was measured as of June 30, 2021, 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, 2021:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at 7/1/20	\$ 34,256,549	\$ -	\$ 34,256,549
Changes for the year:			
Service cost	1,964,988	-	1,964,988
Interest cost	751,523	-	751,523
Differences between expected and actual experience	-	-	-
Assumption changes	(511,905)	-	(511,905)
Contributions - employer		504,746	(504,746)
Net investment income	-	-	-
Benefit payments	(504,746)	(504,746)	-
Administrative expense	-	-	-
Plan changes	(14,040,307)	-	(14,040,307)
Net changes	(12,340,447)	-	(12,340,447)
Balances at 6/30/2021	\$ 21,916,102	\$ -	\$ 21,916,102

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 \$21,916,102, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$24,451,244, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 89.63 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, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement date:	June 30, 2021
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 2.16%. 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, 2021.
Mortality:	Pub-2010 Teacher Employee Headcount-weighted with fully generational scale MP-2020. 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 2.16%, 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	1.16%	\$ 25,423,391
Current discount Rate	2.16%	\$ 21,916,102
1% increase	3.16%	\$ 19,089,091

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%	\$ 21,037,462
Current discount Rate	7% to 4.5%	\$ 21,916,102
1% increase	8% to 5.5%	\$ 23,003,578

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

For the year ended June 30, 2021, the Board will recognize OPEB expense in the amount of (\$10,602,620) on the government-wide statements. At June 30, 2021, 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	\$ -	\$ (653,621)
Changes of assumptions	7,528,369	(443,101)
Total	\$ 7,528,369	\$ (1,096,722)

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)
2022	\$ 1,225,922
2023	1,225,922
2024	1,225,922
2025	1,225,922
2026	1,113,127
Thereafter	414,832
	\$ 6,431,647

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 to replace all doors and windows at Greenwood Elementary School in the amount of \$764,474.

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, 2021 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.

Note 12. GASB Statement No. 84 Fiduciary Activities Implementation

During the year ended June 30, 2021, the Board adopted new accounting guidance by implementing the provisions of GASB Statement No. 84, Fiduciary Activities, which establishes criteria for identifying and reporting fiduciary activities. The implementation of this statement has resulted in changing the presentation of the financial statements by removing the School Activity Funds from being reported as an Agency fund to now being reported as a major governmental fund. Beginning net position and fund balance have been restated to reflect this change.

	Governmental Activities
Net position, as previously reported at July 1, 2020	60,347,124
Restatement	338,484
Net position, as restated, at July 1, 2020	60,685,608

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

Fund Balance as previously reported at July 1, 2020	\$1,073,800
Restatement for school activities fund	338,484
Fund Balance as restated as July 1, 2020	\$1,412,284

REQUIRED SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF SOMERSET COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND

Year Ended June 30, 2021

	Budget		Actual	Variance With
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES				
Somerset County	\$ 10,189,253	\$ 10,189,253	\$ 10,189,253	\$ -
State Of Maryland:				
Current expense	14,030,869	14,030,869	14,030,869	-
Special education	1,931,848	1,931,848	1,931,848	-
Transportation	2,094,853	2,094,853	2,094,853	-
Transportation - boat	35,000	35,000	35,000	-
Nonpublic placement	20,000	20,000	53,539	33,539
Compensatory education	10,531,788	10,531,788	10,531,788	-
Limited english proficiency	667,086	667,086	667,086	-
Targeted Aid	1,123,515	1,123,515	1,123,515	-
Other state revenues	1,502,687	1,502,687	1,502,668	(19)
Guaranteed tax base	1,742,592	1,742,592	1,742,592	-
Total State Of Maryland	33,680,238	33,680,238	33,713,758	33,520
Reimbursements and other income	160,000	160,000	144,504	(15,496)
TOTAL REVENUES	44,029,491	44,029,491	44,047,515	18,024
EXPENDITURES				
Administration	1,619,683	1,619,683	1,548,097	71,586
Mid-level administration	3,908,120	4,673,120	4,670,951	2,169
Instructional salaries and wages	15,091,086	14,301,086	14,058,756	242,330
Textbooks and instructional supplies	826,001	926,001	924,911	1,090
Other instructional costs	277,472	277,472	232,104	45,368
Student personnel services	779,288	839,288	795,435	43,853
Health services	474,909	490,909	476,339	14,570
Student transportation	2,985,896	2,985,896	2,860,341	125,555
Operation of plant and equipment	2,892,772	2,892,772	2,892,220	552
Maintenance of plant	1,056,415	1,076,415	1,069,194	7,221
Special education	4,069,569	4,079,569	3,800,986	278,583
Fixed charges	10,196,952	9,895,952	9,714,753	181,199
Capital outlay	-	120,000	92,675	27,325
TOTAL EXPENDITURES	44,178,163	44,178,163	43,136,762	1,041,401
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(148,672)	(148,672)	910,753	1,059,425
OTHER FINANCING SOURCES				
Designated from June 30, 2020 for June 30, 2021 Expenditures	148,672	148,672	148,672	-
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES	\$ -	\$ -	\$ 1,059,425	\$ 1,059,425

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, 2021

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	1.1386400%	\$ 2,348,514	\$ 26,619,595	\$ 28,968,109	\$27,501,384	8.54%	\$53,943,420,000	\$74,569,030,000	72.34%
June 30, 2020	0.0119696%	\$ 2,705,292	\$ 29,916,101	\$ 32,621,393	\$29,411,104	9.20%	\$54,586,037,000	\$77,187,397,000	70.72%

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, 2021

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%
2021	\$1,414,450	\$1,414,450	\$0	\$28,816,529	4.91%

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

THE BOARD OF EDUCATION OF SOMERSET COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
**SCHEDULE OF CHANGES IN THE BOARD'S OPEB
 LIABILITY AND RELATED RATIOS**

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Total OPEB liability				
Service cost	\$ 552,635	\$ 580,267	\$ 627,943	\$ 1,964,988
Interest cost	712,837	730,419	713,182	751,523
Differences between expected and actual experience	-	-	(893,923)	-
Assumption changes	-	901,093	9,583,766	(511,905)
Benefit payments	(854,007)	(767,522)	(648,821)	(504,746)
Other changes	-	-	4,176,163	(14,040,307)
Net change in total OPEB liability	\$ 411,465	\$ 1,444,257	\$ 13,558,310	\$ (12,340,447)
Total OPEB liability, beginning of year,	<u>18,842,517</u>	<u>19,253,982</u>	<u>20,698,239</u>	<u>34,256,549</u>
Total OPEB liability, end of year (a)	<u>\$ 19,253,982</u>	<u>\$ 20,698,239</u>	<u>\$ 34,256,549</u>	<u>\$ 21,916,102</u>
Covered employee payroll	\$ 22,620,341	\$ 22,620,341	\$ 22,715,700	\$ 24,451,244
Total OPEB liability as of % of payroll	85.12%	91.50%	150.81%	89.63%

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 49 include all budget revisions.

	Revenues	Expenditures	Assigned/Unassigned Fund Balances
	General	General	General
	June 30, 2021	June 30, 2021	June 30, 2021
GAAP basis	\$ 46,867,051	\$ 44,826,879	\$ 3,113,972
On-behalf payments	(2,769,536)	(2,769,536)	-
June 30, 2021 fund balance assigned for June 30, 2022 expenditures	(50,000)	-	(900,800)
Expenditures of amounts encumbered during year ended June 30, 2020	-	(24,328)	-
Amounts encumbered and assigned (GAAP) at June 30, 2021 but recognized as expenditures for budgetary purposes	-	1,103,747	(1,103,747)
Budgetary basis	\$ 44,047,515	\$ 43,136,762	\$ 1,109,425

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 2020 valuation:

- Inflation assumption changed from 2.65% to 2.60% for general and from 3.15% to 3.10% for wage
- Salary increases assumption remained the same at 3.10% - 11.60%
- Investment rate of return assumption remained the same at 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	18 years for the State Systems,
Asset valuation method	Five-year smoothed market; 20% collar
Inflation	In the 2020 actuarial valuation, 2.60% general, 3.10% wage. In the 2019 actuarial valuation, 2.65% general, 3.15% wage.
Salary increases	In the 2020 actuarial valuation, 3.10% to 11.60%. In the 2019 actuarial valuation, 3.10% to 11.60%.
Investment rate of return	In the 2020 actuarial valuation, 7.40%. In the 2019 actuarial valuation, 7.40%.
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 July 1, 2014 to July 30, 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 pays 50% not to exceed \$300 per month 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 2.21% at June 30, 2020 to 2.16% at June 30, 2021.
2. Mortality tables changed from RP-2014 Total Dataset Headcount-weighted table with scale MP-2019 to Pub-2010 Teachers Headcount-weighted with fully generational scale MP-2020.
3. The Board contribution for retiree premium is capped at \$3,600 per year. The prior valuation assumed 50% of premium.

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, 2021						
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 2.16%. 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, 2021.						
Mortality:	Pub-2010 Teacher Employee Headcount-weighted with fully generational scale MP-2020. 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:						
	<table border="1"> <thead> <tr> <th></th> <th>Probability of Retirement</th> </tr> </thead> <tbody> <tr> <td>Age 60-64 & 10+ years of service</td> <td>20%</td> </tr> <tr> <td>Age 65</td> <td>100%</td> </tr> </tbody> </table>		Probability of Retirement	Age 60-64 & 10+ years of service	20%	Age 65	100%
	Probability of Retirement						
Age 60-64 & 10+ years of service	20%						
Age 65	100%						
Utilization:	75%						
Valuation of assets:	N/A						
Per Capita Claims:	Claims were developed by adjusting the underlying medical premiums for the ages of retirees compared to the underlying active populations. The adjustment was done using the morbidity adjustments in Chart 5 from the 2013 Society of Actuaries Study "Health Care Costs from Birth to Death". The retiree pre-65 premium was \$6,670 annually and \$4,950 post-65.						
Trend:	Medical costs were assumed to increase by 6.5% for FY2022 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, 2021

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
ADMINISTRATION				
Salaries and wages	\$ 1,219,433	\$ 1,219,433	\$ 1,174,659	\$ 44,774
Contracted services	177,000	177,500	185,461	(7,961)
Materials and supplies	101,050	121,350	112,346	9,004
Other charges	122,200	100,400	75,631	24,769
Capital outlay	-	1,000	-	1,000
TOTAL ADMINISTRATION	1,619,683	1,619,683	1,548,097	71,586
MID-LEVEL ADMINISTRATION				
Salaries and wages	3,613,108	3,628,108	3,588,895	39,213
Contracted services	-	112,012	160,440	(48,428)
Materials and supplies	45,500	45,500	40,684	4,816
Other charges	183,012	71,000	21,873	49,127
Capital outlay	66,500	816,500	859,059	(42,559)
TOTAL MID-LEVEL ADMINISTRATION	3,908,120	4,673,120	4,670,951	2,169
INSTRUCTIONAL SALARIES				
Salaries and wages	15,091,086	14,301,086	14,058,456	242,630
Contracted services	-	-	-	-
Other charges	-	-	300	(300)
TOTAL INSTRUCTIONAL SALARIES	15,091,086	14,301,086	14,058,756	242,330
INSTRUCTIONAL TEXTBOOKS AND SUPPLIES				
	826,001	926,001	924,911	1,090
OTHER INSTRUCTIONAL COSTS				
Salaries and wages	-	-	-	-
Contracted services	33,500	89,532	18,377	71,155
Other charges	186,972	175,940	81,030	94,910
Capital outlay	57,000	12,000	132,697	(120,697)
TOTAL OTHER INSTRUCTIONAL COSTS	277,472	277,472	232,104	45,368
STUDENT PERSONNEL SERVICES				
Salaries and wages	751,010	811,010	779,734	31,276
Contracted services	12,000	12,000	3,525	8,475
Materials and supplies	6,078	6,078	5,066	1,012
Other charges	10,200	10,200	7,110	3,090
TOTAL STUDENT PERSONNEL SERVICES	779,288	839,288	795,435	43,853
HEALTH SERVICES				
Salaries and wages	462,409	478,409	470,494	7,915
Contracted services	-	2,500	-	2,500
Materials and supplies	6,000	6,000	3,554	2,446
Other charges	4,500	2,000	255	1,745
Capital outlay	2,000	2,000	2,036	(36)
TOTAL HEALTH SERVICES	474,909	490,909	476,339	14,570
FIXED CHARGES				
Insurance And Employee Benefits	10,196,952	9,895,952	9,714,753	181,199
TOTAL FIXED CHARGES	10,196,952	9,895,952	9,714,753	181,199

THE BOARD OF EDUCATION OF SOMERSET COUNTY

STATEMENT OF APPROPRIATIONS AND EXPENDITURES (CONTINUED)

GENERAL FUND - BUDGETARY BASIS

Year Ended June 30, 2021

	Budget		Actual	Variance
	Original	Final		Favorable (Unfavorable)
STUDENT TRANSPORTATION				
Salaries and wages	\$ 161,296	\$ 161,296	\$ 169,448	\$ (8,152)
Contracted services	2,566,250	2,563,250	2,435,150	128,100
Materials and supplies	25,800	28,800	25,574	3,226
Other charges	212,550	212,550	205,710	6,840
Capital outlay	20,000	20,000	24,459	(4,459)
TOTAL STUDENT TRANSPORTATION	2,985,896	2,985,896	2,860,341	125,555
OPERATION OF PLANT				
Salaries and wages	1,319,172	1,319,172	1,340,151	(20,979)
Contracted services	317,500	316,000	316,071	(71)
Materials and supplies	122,000	123,500	146,781	(23,281)
Other charges	1,111,400	1,111,400	1,067,188	44,212
Capital outlay	22,700	22,700	22,029	671
TOTAL OPERATION OF PLANT	2,892,772	2,892,772	2,892,220	552
MAINTENANCE OF PLANT				
Salaries and wages	407,815	407,815	384,959	22,856
Contracted services	477,500	457,500	444,124	13,376
Materials and supplies	117,750	158,450	178,855	(20,405)
Other charges	3,350	2,650	2,657	(7)
Capital outlay	50,000	50,000	58,599	(8,599)
TOTAL MAINTENANCE OF PLANT	1,056,415	1,076,415	1,069,194	7,221
SPECIAL EDUCATION				
Salaries and wages	3,617,654	3,627,654	3,309,684	317,970
Contracted services	217,445	217,445	301,106	(83,661)
Materials and supplies	57,359	57,359	31,111	26,248
Other charges	34,740	164,740	159,085	5,655
Capital outlay	12,371	12,371	-	12,371
Outgoing transfers	130,000	-	-	-
TOTAL SPECIAL EDUCATION	4,069,569	4,079,569	3,800,986	278,583
TOTAL CAPITAL OUTLAY	-	120,000	92,675	27,325
TOTAL UNRESTRICTED APPROPRIATIONS AND EXPENDITURES	\$ 44,178,163	\$ 44,178,163	\$ 43,136,762	\$ 1,041,401

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, 2021

	Enterprise Fund Food Services
OPERATING REVENUES	
Food service sales	\$ <u>-</u>
OPERATING EXPENSES	
Operation of plant	3,878
Fixed charges	264,229
Salaries and wages	670,009
Contracted services	5,529
Food and food related supplies	503,316
Other charges	5,148
Capital outlay	<u>0</u>
TOTAL OPERATING EXPENSES	<u>1,452,109</u>
OPERATING LOSS	<u>(1,452,109)</u>
NONOPERATING REVENUES	
Interest income	<u>81</u>
State Of Maryland:	
Reimbursement of food costs	<u>50,728</u>
Federal through state:	
Reimbursement of food costs	871,327
Donation of food commodities	<u>48,762</u>
Total federal through state	<u>920,089</u>
TOTAL NONOPERATING REVENUES	<u>970,898</u>
OTHER FINANCING SOURCES	
Transfer from restricted funds	657,880
CHANGE IN NET POSITION	<u>\$ 176,669</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, 2021

	Due to School Activities Funds				Due to School
	Balance June 30, 2020	Additions	Deductions	Transfers	Activities Funds Balance June 30, 2021
ELEMENTARY SCHOOLS					
Deal Island (Pre-K To 5th Grades)	\$ 9,337	\$ 833	\$ 1,529	\$ -	\$ 8,641
Woodson (Pre-K To 5th Grades)	16,050	30,385	32,555	-	13,880
Princess Anne (Pre-K To 5th Grades)	10,251	396	4,509	-	6,138
Greenwood (Pre-K To 5th Grades)	11,469	18,915	18,034	-	12,350
TOTAL ELEMENTARY SCHOOLS	47,107	50,529	56,627	-	41,009
INTERMEDIATE SCHOOLS - 6TH TO 7TH GRADES					
Somerset 6/7 Intermediate	16,169	3,440	7,534	-	12,075
HIGH SCHOOLS - 8TH TO 12 GRADES					
Crisfield	99,873	56,814	80,663	-	76,024
Washington	76,664	40,451	33,254	-	83,861
TOTAL HIGH SCHOOLS	176,537	97,265	113,917	-	159,885
SPECIALIZED SCHOOLS					
Ewell Elementary Middle School (Pre-K To 7th grade)	2,945	-	854	-	2,091
Somerset County Technical High School	95,726	44,544	35,587	-	104,683
TOTAL SPECIALIZED SCHOOLS	98,671	44,544	36,441	-	106,774
TOTAL SCHOOL ACTIVITY	\$ 338,484	\$ 195,778	\$ 214,519	\$ -	\$ 319,743

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, 2021	June 30, 2021	June 30, 2021
GAAP basis	\$ 970,898	\$ 1,458,499	\$ 324,176
Depreciation	-	(33,404)	-
Capitalized costs (net of capital equipment contributed)	-	27,014	-
Effect of accrued compensated absences and other	-	-	4,428
Amounts reserved (GAAP) at June 30, 2021	-	-	(155,088)
Budgetary basis	\$ 970,898	\$ 1,452,109	\$ 173,516