

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
OTHER SUPPLEMENTARY INFORMATION
Year Ended June 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland (the Board), a component unit of Talbot County, Maryland, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the foregoing 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements for the year ended June 30, 2015 reflect the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and GASB No. 68, *Accounting and Financial Reporting for Pensions* as described further in notes 1 and 12 to the financial statements. These statements required a prior period adjustment in the Statement of Activities for net pension liability as of June 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis, budgetary comparison information, the schedule of funding progress for other post-employment benefits, the schedule of the Board's proportionate share of the net pension liability, schedule of Board contributions, and notes to required supplementary information* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Talbot County Board of Education's basic financial statements. The combining nonmajor fund financial statements, schedule of general fund revenues, and schedule of school activities cash receipts and cash disbursements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

The combining nonmajor fund financial statements, schedule of general fund revenues and schedule of school activities cash receipts and cash disbursements, are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, schedule of general fund revenues, and the schedule of school activities cash receipts and cash disbursements are 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 28, 2015 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.


Easton, Maryland
September 28, 2015



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

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated September 28, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph 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.

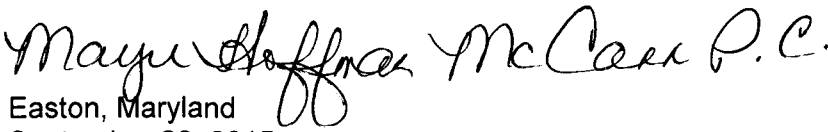
BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Compliance and Other Matters

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

Purpose of this Report

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


Easton, Maryland
September 28, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

This section of the Board of Education of Talbot County's annual financial report presents management's discussion and analysis of the Board's financial performance during the fiscal year that ended on June 30, 2015. 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, 2015 include the following:

- Net position totals \$29,592,600, a decrease of \$6,347,479, or 17.7% from the prior year.
- General Fund unassigned fund balance was \$269,731, after an assignment for encumbrances of \$680,920. The total fund balance was \$998,212, an increase of \$40,977 from the prior year.

Overview of the financial statements

The financial section of the annual report consists of four parts – independent auditor's reports, required supplementary information, which includes management's discussion and analysis (this section), the basic financial statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the Board:

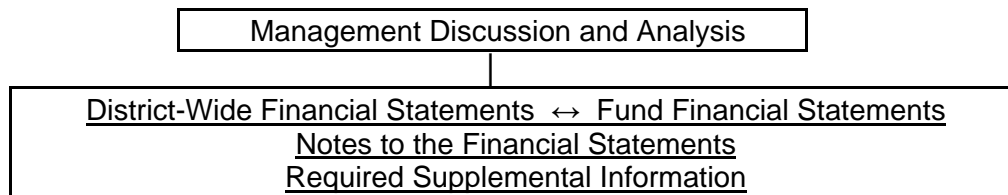
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the Board's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Board, reporting the Board's operations in *more detail* than the district-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.
- *Fiduciary funds statements* provide information about the financial relationships in which the Board acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure 1 shows how the various parts of this annual report are arranged and relate to one another. Figure 2 summarizes the major features of the Board's financial statements, including the portion of the Board's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure 1 – Organization of TCBOE Annual Financial Report



The illustration above represents the minimum requirements for the basic financial statements.

Figure 2 – Major Features of District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the Board that are not proprietary or fiduciary, such as general and special education, general and building maintenance, food service, and capital projects	Instances in which the Board administers resources on behalf of someone else, such as the Special Education Consortium and Student Activities Fund
Required financial statements	<ul style="list-style-type: none"> Statement of net position Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenue, expenditures and changes in fund balances 	<ul style="list-style-type: none"> Statement of fiduciary net position Statement of changes in fiduciary net position (excluding agency funds)
Accounting basis and measurement focus	Full accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

District-wide financial statements

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

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

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.

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 you also need to consider additional non-financial factors such as changes in the condition of school buildings and other facilities.

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

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 district-wide statements, we provide additional information reconciling governmental funds statements with the district-wide statements.
 - *Fiduciary funds* – The Board is the trustee, or agent, for assets that belong to others, such as the Mid-Shore Special Education Consortium. The Student Activities Fund is also accounted for as a fiduciary fund. The Board is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the Board cannot use these assets to finance its operations.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

Financial analysis of the board as a whole

Net position – The Board's net position was \$29,592,600 on June 30, 2015. This was a decrease of \$6,347,479 from the prior year. (See Table 1).

Table 1

	GOVERNMENTAL ACTIVITIES	
	2015	2014
<u>ASSETS</u>		
Current and other assets	\$ 6,538,863	\$ 6,514,670
Capital assets	<u>59,690,235</u>	<u>62,019,761</u>
TOTAL ASSETS	<u>66,229,098</u>	<u>68,534,431</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred financing outflow	<u>570,179</u>	<u>522,366</u>
<u>LIABILITIES</u>		
Current liabilities	5,104,676	5,613,407
Long-term liabilities	<u>31,666,578</u>	<u>27,503,311</u>
TOTAL LIABILITIES	<u>36,771,254</u>	<u>33,116,718</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred financing inflow	<u>435,423</u>	<u>-</u>
<u>NET POSITION</u>		
Net investment in capital assets	58,990,589	61,339,483
Restricted	235,612	177,559
Unrestricted	<u>(29,633,601)</u>	<u>(25,576,963)</u>
TOTAL NET POSITION	<u>\$ 29,592,600</u>	<u>\$ 35,940,079</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

Financial analysis of the board as a whole – continued

Changes in net position – The Board's total revenues were \$61,614,637 for the year ended June 30, 2015. (See Table 2). The county appropriation and state aid accounted for approximately 72.2% of total revenue for the year. Another 27.8% came from program revenues, and the remainder from investment earnings and other sources. The total cost of all programs and services was \$67,962,116. The Board's expenses are predominantly related to providing direct educational services to students (56%). The purely administrative activities of the Board accounted for 1.5% of total expenses. Total expenses surpassed revenues, decreasing net position \$6,347,479 from last year. The 2014 Governmental Activities revenue and expense does not reflect the net impact of the pension expense, which was implemented by GASB 68 in fiscal year 2015. The pension expense included in the fiscal year 2015 was \$(20,159). See Note 7 for additional information.

Table 2

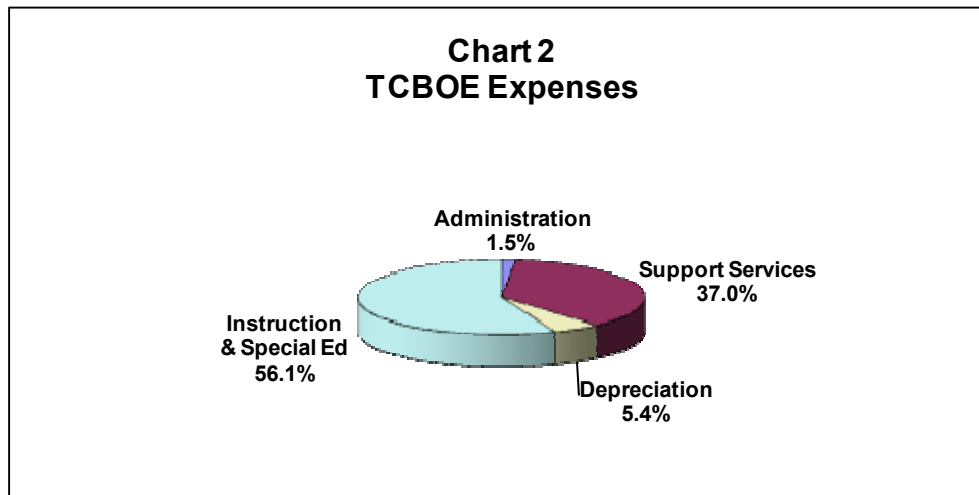
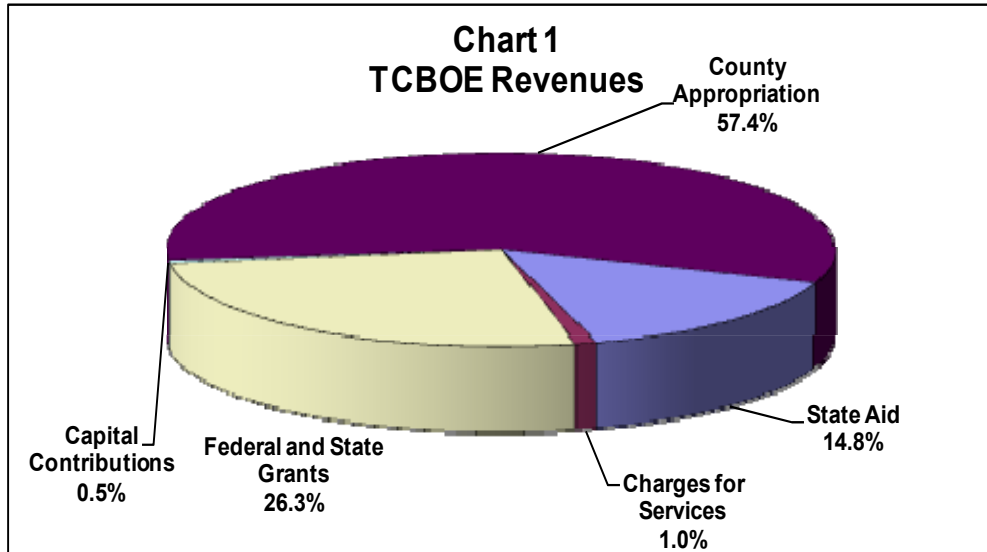
	2015	% OF	2014	% OF
	GOVERNMENTAL	TOTAL	GOVERNMENTAL	TOTAL
	ACTIVITIES		ACTIVITIES	TOTAL
<u>REVENUES</u>				
<i>Program Revenues:</i>				
Charges for services	\$ 616,826	1.0	\$ 639,519	1.1
Federal, state and local grants	16,203,052	26.3	15,608,131	25.7
<i>General Revenues:</i>				
County appropriation	35,338,852	57.4	35,169,861	58.0
State of Maryland	9,134,176	14.8	8,765,418	14.4
Restricted for capital projects	292,478	0.5	453,097	0.7
Other	<u>29,253</u>	<u>-</u>	<u>32,835</u>	<u>0.1</u>
TOTAL REVENUE	<u>61,614,637</u>	<u>100.0</u>	<u>60,668,861</u>	<u>100.0</u>
<u>EXPENSES</u>				
Instruction and special education	38,134,623	56.1	37,417,657	56.0
Administration	1,009,853	1.5	1,133,203	1.7
Support services	25,168,454	37.0	24,566,958	36.7
Depreciation	<u>3,649,186</u>	<u>5.4</u>	<u>3,753,863</u>	<u>5.6</u>
TOTAL EXPENSES	<u>67,962,116</u>	<u>100.0</u>	<u>66,871,681</u>	<u>100.0</u>
EXCESS OF EXPENSES OVER REVENUES	(6,347,479)		(6,202,820)	
Transfer of Unreserved Fund Balance to County	<u>-</u>		<u>(54,862)</u>	
DECREASE IN NET POSITION	<u>\$ (6,347,479)</u>		<u>\$ (6,257,682)</u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

Financial analysis of the board as a whole – continued

Governmental activities – The decrease in net position for governmental activities was \$6,347,479 in 2015.



THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

Financial analysis of the Board's funds

The financial performance of the Board as a whole is reflected in its governmental funds. As the Board completed the year, its governmental funds reported a *combined* fund balance of \$1,233,824, an increase of \$99,030 from last year's ending fund balance.

Revenues for the Board's governmental funds were \$61,614,625, an increase of \$838,282 from fiscal year 2014. Total expenditures were \$61,515,595 for the year, an increase of \$1,031,570 from the prior year.

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.

Restricted Grants – 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 and students from families who are socially and economically deprived. Table 4 reflects the increases (decreases) in grant funds by source over the prior year.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

Table 3

	<u>GENERAL FUND</u>			
	FISCAL YEAR 2015	FISCAL YEAR 2014	INCREASE (DECREASE)	PERCENT INCREASE (DECREASE)
<u>REVENUES</u>				
Talbot County appropriations	\$ 38,710,052	\$ 38,534,293	\$ 175,759	0.5
Talbot County - school nurses	639,000	488,546	150,454	30.8
State of Maryland	12,192,244	11,721,425	470,819	4.0
State of Maryland share of retirement and pension contributions	3,541,347	3,350,924	190,423	5.7
Other	<u>62,537</u>	<u>48,576</u>	<u>13,961</u>	28.7
TOTAL REVENUES	<u>55,145,180</u>	<u>54,143,764</u>	<u>1,001,416</u>	1.8
<u>EXPENDITURES</u>				
Administration	983,992	1,042,770	(58,778)	(5.6)
Mid-level administration	3,668,026	3,677,034	(9,008)	(0.2)
Instructional salaries	19,994,844	19,832,314	162,530	0.8
Instructional texts and supplies	577,989	529,380	48,609	9.2
Other instruction costs	774,093	718,572	55,521	7.7
Special education	3,339,214	3,305,249	33,965	1.0
Student personnel services	210,559	222,294	(11,735)	(5.3)
Student transportation	2,371,670	2,413,209	(41,539)	(1.7)
Operation of plant and equipment	3,468,925	3,376,940	91,985	2.7
Maintenance of plant	1,207,218	1,114,485	92,733	8.3
Fixed charges	10,956,126	10,398,139	557,987	5.4
Debt service	3,371,200	3,364,432	6,768	0.2
School nurses	639,000	488,546	150,454	30.8
State of Maryland share of retirement and pension contribution	<u>3,541,347</u>	<u>3,350,924</u>	<u>190,423</u>	5.7
TOTAL EXPENDITURES	<u>55,104,203</u>	<u>53,834,288</u>	<u>1,269,915</u>	2.4
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 40,977</u>	<u>\$ 309,476</u>	<u>\$ (268,499)</u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

Table 4

	<u>RESTRICTED GRANT REVENUE</u>			
	<u>FISCAL YEAR</u> 2015	<u>FISCAL YEAR</u> 2014	<u>INCREASE</u> (DECREASE)	<u>PERCENT</u> <u>INCREASE</u> (DECREASE)
Federal Through State	\$ 2,903,174	\$ 3,042,243	\$ (139,069)	(4.6)
State of Maryland	556,698	547,777	8,921	1.6
Other	<u>732,857</u>	<u>640,680</u>	<u>92,177</u>	14.4
TOTAL REVENUES	<u>\$ 4,192,729</u>	<u>\$ 4,230,700</u>	<u>\$ (37,971)</u>	(0.9)

Capital projects fund – The Board has no legal authority to borrow funds for construction. All funds for school construction come from either the transfer of bond proceeds from Talbot County selling capital bonds or from state aid through the Maryland Public School Construction Program (PSCP). During FY 2015, the Board had received state funding of \$17,104 and funding from Talbot County funding of \$275,374 for projects stated in FY 2015.

Fiduciary funds – The following funds are accounted for as fiduciary funds:

- (1) Mid-Shore Special Education Consortium: A four (4) county consortium serving Caroline, Dorchester, Queen Anne's and Talbot County students with disabilities.
- (2) School Activities Accounts: During fiscal year 2015, the Board's eight schools collected revenues and incurred expenditures for various student activities (see Table 5). The Board contracts with an independent Certified Public Accountant to perform an audit of these agency funds on an annual basis. Please refer to the separately issued audited financial statements for the School Activities Fund for specific details.

Table 5

	<u>SCHOOL ACTIVITIES FUND</u>			
	<u>FISCAL YEAR</u> 2015	<u>FISCAL YEAR</u> 2014	<u>INCREASE</u> (DECREASE)	<u>PERCENT</u> <u>INCREASE</u> (DECREASE)
Cash receipts	\$ 883,463	\$ 794,857	\$ 88,606	11.1
Cash disbursements	(867,505)	(807,395)	(60,110)	7.4
Beginning cash balances	<u>181,203</u>	<u>193,741</u>	<u>(12,538)</u>	(6.5)
ENDING CASH BALANCES	<u>\$ 197,161</u>	<u>\$ 181,203</u>	<u>\$ 15,958</u>	8.8

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

General fund budgetary highlights

The actual General Fund revenues were over budget by \$34,433. Actual expenditures and encumbrances were under budget by \$235,298.

Capital assets and debt administration

Capital assets – By the end of fiscal year 2015, the Board had invested \$118 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, and furniture and equipment. (More detailed information about capital assets can be found in Note 3 to the financial statements). Total depreciation expense for the year was approximately \$4 million.

Long-term liabilities – At year-end, the Board had \$31,666,578 in long-term debt of which \$499,520 is due within one year and \$31,167,058 is due after one year. This amount consists of the following:

- \$562,858 due to Maryland State Retirement and Pension System.
- \$699,646 in notes payable.
- \$26,091,425 in net OPEB obligation.
- \$334,608 in accrued compensated absences.
- \$3,978,041 in net pension liability.
- See Notes 6, 7, and 9 for more details.

Factors impacting the school system

Effective with fiscal year 2015, the Board was required to implement the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. As a result of this pronouncement, the Board must report its allocated share of the net pension liability, deferred financing inflows and outflows, and net pension expense from the Employees' Retirement and Pension System of the Maryland State Retirement and Pension System. The impact of this statement on the fiscal year 2015 financial statements is discussed in notes 7 and 12.

During a special session of the Maryland General Assembly – Teacher Pension Cost, it was determined that the State and Local school boards will share the cost of teacher retirement by phasing in a requirement for local school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85%, and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016, and the additional maintenance of effort payments required by each county in the same period. The additional cost for fiscal year 2015 was determined to be \$1,019,080.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2015

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

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, Talbot County Board of Education, 12 Magnolia Street, P.O. Box 1029, Easton, Maryland 21601.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF NET POSITION

June 30, 2015

ASSETS		GOVERNMENTAL ACTIVITIES
Cash and cash equivalents		\$ 5,977,473
Due from other units of government		440,947
Due from Trust and Agency Fund		48,944
Other receivables		13,923
Inventory		57,576
Capital assets:		
Land, at cost		377,446
Construction in progress, at cost		32,101
Other depreciable assets, at cost less accumulated depreciation		<u>59,280,688</u>
TOTAL ASSETS		<u>66,229,098</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - pension plan		<u>570,179</u>
LIABILITIES		
Accounts payable		224,496
Accrued expenditures		3,859,070
Payroll deductions and withholdings		69,372
Unearned revenues		951,738
Long-term liabilities:		
Portion due or payable within one year:		
Compensated absences	200,363	
Notes payable	263,506	
Maryland State Retirement and Pension System	<u>35,651</u>	499,520
Portion due or payable after one year:		
Compensated absences	134,245	
Net OPEB obligation	26,091,425	
Net pension liability	3,978,041	
Notes payable	436,140	
Maryland State Retirement and Pension System	<u>527,207</u>	<u>31,167,058</u>
TOTAL LIABILITIES		<u>36,771,254</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - pension plan investment activity		<u>435,423</u>
NET POSITION		
Net investment in capital assets		58,990,589
Restricted for food service operations		235,612
Unrestricted deficit		<u>(29,633,601)</u>
TOTAL NET POSITION		<u>\$ 29,592,600</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
GOVERNMENTAL ACTIVITIES				
Administration	\$ 1,009,853	\$ -	\$ -	\$ (1,009,853)
Instructional services	27,677,061	-	4,572,665	(23,104,396)
Special education	4,246,432	-	1,768,184	(2,478,248)
Student personnel services	260,559	-	-	(260,559)
Student transportation	2,712,684	-	1,548,948	(1,163,736)
Operation of plant	3,050,359	-	-	(3,050,359)
Maintenance of plant	1,227,206	33,868	-	(1,193,338)
Fixed charges	19,483,923	-	3,541,347	(15,942,576)
Community services	303,003	-	-	(303,003)
Capital outlay	292,478	-	-	(292,478)
Food service operations	1,936,265	582,958	1,400,708	47,401
Debt service	3,371,200	-	3,371,200	-
Interest on long-term debt	18,918	-	-	(18,918)
Depreciation – unallocated	2,372,175	-	-	(2,372,175)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 67,962,116</u>	<u>\$ 616,826</u>	<u>\$ 16,203,052</u>	<u>(51,142,238)</u>
GENERAL REVENUES				
Talbot County appropriations				35,338,852
State of Maryland				9,134,176
Capital outlay/construction funding				292,478
Unrestricted investment earnings				8,501
Other revenue				20,752
				<u>44,794,759</u>
TOTAL GENERAL REVENUES				<u>44,794,759</u>
CHANGE IN NET POSITION				<u>(6,347,479)</u>
NET POSITION, BEGINNING OF YEAR				
As previously reported				39,803,523
Prior period adjustment				<u>(3,863,444)</u>
As restated				<u>35,940,079</u>
NET POSITION, END OF YEAR				<u>\$ 29,592,600</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2015

	<u>MAJOR FUNDS</u>			
	<u>GENERAL</u>	<u>RESTRICTED GRANTS</u>	<u>NONMAJOR FUNDS</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 5,792,919	\$ -	\$ 184,554	\$ 5,977,473
Due from other governments:				
State of Maryland	-	41,906	15,269	57,175
United States government	-	315,027	67,995	383,022
Talbot County	-	-	750	750
Due from other funds	555	720,337	-	720,892
Due from Trust and Agency fund	48,944	-	-	48,944
Other receivables	766	13,157	-	13,923
Inventory	-	-	57,576	57,576
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 5,843,184</u>	<u>\$ 1,090,427</u>	<u>\$ 326,144</u>	<u>\$ 7,259,755</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 224,496	\$ -	\$ -	\$ 224,496
Accrued expenditures	3,630,404	173,855	54,811	3,859,070
Payroll deductions and withholdings	69,372	-	-	69,372
Due to other funds	720,337	-	555	720,892
Unearned revenues	-	916,572	35,166	951,738
Compensated absences	200,363	-	-	200,363
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>4,844,972</u>	<u>1,090,427</u>	<u>90,532</u>	<u>6,025,931</u>
 FUND BALANCES				
Non-spendable:				
Inventory	-	-	23,671	23,671
Restricted for:				
Fund purposes	-	-	211,941	211,941
Assigned				
Future budgets	47,561	-	-	47,561
Encumbrances	680,920	-	-	680,920
Unassigned	269,731	-	-	269,731
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>998,212</u>	<u>-</u>	<u>235,612</u>	<u>1,233,824</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,843,184</u>	<u>\$ 1,090,427</u>	<u>\$ 326,144</u>	<u>\$ 7,259,755</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

Year Ended June 30, 2015

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	\$ 1,233,824
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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, therefore, are not reported as assets in governmental funds:

Cost of assets	118,706,361
Less: accumulated depreciation	(59,016,126)

Deferred financing outflow for change in assumptions in net pension liability	570,179
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Deferred financing inflow for investment activity in net pension liability	(435,423)
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Net OPEB obligation	26,091,425	
Net pension liability	3,978,041	
Notes payable	699,646	
Compensated absences	134,245	
Maryland State Retirement and Pension System	562,858	
	<u>562,858</u>	

Total long-term liabilities	<u>(31,466,215)</u>
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TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES	<u><u>\$ 29,592,600</u></u>
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The accompanying Notes to Financial Statements
are an integral part of this statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended June 30, 2015

	<u>MAJOR FUNDS</u>			<u>TOTAL</u>
	<u>GENERAL</u>	<u>RESTRICTED GRANTS</u>	<u>NONMAJOR FUNDS</u>	
REVENUES				
Talbot County	\$ 39,349,052	\$ -	\$ 275,374	\$ 39,624,426
State of Maryland	15,733,591	556,698	149,294	16,439,583
United States Government	-	2,903,174	1,268,518	4,171,692
Other sources:				-
Food service sales	-	-	582,958	582,958
Interest earned	8,639	-	572	9,211
Other	53,898	732,857	-	786,755
TOTAL REVENUES	<u>55,145,180</u>	<u>4,192,729</u>	<u>2,276,716</u>	<u>61,614,625</u>
EXPENDITURES				
Current:				
Administration	983,992	78,770	-	1,062,762
Mid-level administration	3,668,026	112,976	-	3,781,002
Instructional salaries	19,994,844	603,422	-	20,598,266
Instructional texts and supplies	577,989	241,737	-	819,726
Other instructional costs	774,093	829,506	-	1,603,599
Special education	3,339,214	907,218	-	4,246,432
Student personnel service	210,559	50,000	-	260,559
Student transportation	2,371,670	35,609	-	2,407,279
Operation of plant	3,468,925	119,963	-	3,588,888
Maintenance of plant	1,207,218	19,988	-	1,227,206
Fixed charges	10,956,126	890,537	-	11,846,663
Community services	-	303,003	-	303,003
Capital outlay	-	-	292,478	292,478
Food service operating expenditures	-	-	1,926,185	1,926,185
Debt service	3,371,200	-	-	3,371,200
On-behalf payments	4,180,347	-	-	4,180,347
TOTAL EXPENDITURES	<u>55,104,203</u>	<u>4,192,729</u>	<u>2,218,663</u>	<u>61,515,595</u>
EXCESS OF REVENUES OVER EXPENDITURES	40,977	-	58,053	99,030
FUND BALANCES, BEGINNING OF YEAR	<u>957,235</u>	<u>-</u>	<u>177,559</u>	<u>1,134,794</u>
FUND BALANCES, END OF YEAR	<u>\$ 998,212</u>	<u>\$ -</u>	<u>\$ 235,612</u>	<u>\$ 1,233,824</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ 99,030

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. These consist of:

Capital outlays	1,324,362
Depreciation expense and loss on disposal of capital assets	(3,653,888)

Decreases (increases) in long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures or revenue in governmental funds:

Accrued compensated absences	(1,702)
Increase in long-term debt	(258,724)
Maryland State Retirement System deficit balance	(47,025)
Net OPEB obligation	(4,103,000)
Net pension liability	20,159

Repayments of long-term debt are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Notes payable	239,356
Maryland State Retirement and Pension System	33,953
	33,953

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (6,347,479)

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION

Year Ended June 30, 2015

	<u>AGENCY FUNDS</u>		
	<u>SPECIAL EDUCATION CONSORTIUM</u>	<u>SCHOOL ACTIVITIES FUND</u>	<u>TOTAL</u>
ASSETS			
Cash	\$ 986,485	\$ 197,161	\$ 1,183,646
Accounts receivable	95,998	-	95,998
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 1,082,483</u>	<u>\$ 197,161</u>	<u>\$ 1,279,644</u>
LIABILITIES			
Accrued expenses	\$ 159,540	\$ -	\$ 159,540
Due to general fund	48,944	-	48,944
Funds held for school activities	-	197,161	197,161
Deferred revenue	873,999	-	873,999
	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	<u>\$ 1,082,483</u>	<u>\$ 197,161</u>	<u>\$ 1,279,644</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

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

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

Government-wide and fund financial statements – The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the Board of Education of Talbot County as a whole. For the most part, the effect of interfund activity has been removed from these statements. The activities of the general fund (unrestricted current expense fund), special revenue funds (restricted current expense and food service funds), and capital projects fund (school construction fund) have been presented as governmental activities in the government-wide financial statements.

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

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

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

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

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

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

The government reports the following funds in the financial statements:

Major funds

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

Restricted grants fund – This fund is used to account for revenue sources that are legally restricted to expenditures for a specific purpose, such as federal, state, and local grants.

Non-major funds

Food services fund – This fund is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes (school cafeteria operations).

Capital projects fund – This fund accounts for financial resources that are restricted to construction of new buildings, additions and alterations, and acquisition of equipment. Revenue is recognized from bond issues in the year that funds are either transferred or receivable from Talbot County.

Fiduciary funds

Agency Fund – This fund is used to account for the transactions of the student activities funds, which are the direct responsibility of the principal of each of the respective schools, and the Mid-Shore Special Education Consortium for which the Board acts as the processing agent for invoices.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

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

Budgets and budgetary accounting – The Talbot County Public Schools operate within the following budget requirements for local educational agencies as specified by state law.

1. The Board must submit an annual school budget in writing to the County Council by February 15 of each year.
2. The County Council must approve the budget ordinance by May 31 of each year.
3. The budget is prepared and approved by major categories as specified in the state law.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the inclusion of encumbrances as expenditures. Budget comparisons presented in this report are on a non-GAAP budgetary basis.
5. The Board may transfer funds within the major categories without recourse from the County Council. Transfers between major categories can only be made with the approval of the County Council.
6. Unencumbered appropriations lapse at the end of each fiscal year.

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

Budget calendar

<u>Approximate Date</u>	<u>Procedure Performed</u>
August-October	Outreach presentations through school PTO meetings and community forums
October	Department heads and schools submit requests
October	Review compilation of department budget requests with Superintendent, Assistant Superintendent, and Directors and establish proposed priority listing
December	Board of Education public meeting to review proposed budget
February	Regular meeting – Board of Education for final adoption of the proposed budget. Submission of proposed budget to County Council.
Late May/June	Board public workshops on revised budget based on actual appropriation
June	Public meeting(s) to review actual budget allocations and final adoption

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

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

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

Cash deposits – The Board is authorized to invest any monies in any fund or account for which they have custody or control. The types of investments are specified in accordance with Section 6-222 of the Maryland State Finance and Procurement Article.

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

Inventory – Inventories of the food service fund are stated at cost, determined on a first-in first-out (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 materials and supplies are charged to expenditures when consumed, rather than when purchased or donated.

Capital assets – Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. 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 asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Compensated absences – Twelve-month employees earn annual leave at varying rates dependent upon position and length of service. Annual leave generally must be taken by June 30 each year. For support staff, up to ten days may be transferred to the next fiscal year. For administrative staff, up to 20 days may be transferred to the next fiscal year.

Employees earn sick leave at varying rates of 13 to 18 days per year depending upon position and utilization. There is no limit on the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave; however, at retirement, a portion may be used as additional credited service under the retirement plan.

Expenditures in the statement of revenues and expenditures for such items are the amounts accrued during the year that normally would be liquidated with expendable available financial resources. All accrued compensated absences are recorded in the government-wide financial statements. The compensated absences liability attributable to the governmental activities will be liquidated by the general fund.

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

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Retirement and Pension Plan (SRPS) and additions to/deductions from SRPS's fiduciary net position have been determined on the same basis as they are reported by SRPS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

Net position – The Board classifies net position in the government-wide financial statements as follows:

Net Investment in Capital Assets – includes the Board's capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Board typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position – includes unrestricted liquid assets.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Fund balances – Fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned – all other spendable amounts.

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

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements – During the year, the Board implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65), which amends or supersedes the accounting and financial reporting guidance for certain items previously reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues).

In addition, the Board implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement also requires enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(2) Deposits

At June 30, 2015, the reported amount of the Board's bank deposits was \$7,161,119 and the bank balance was \$8,607,714.

The cash in bank was covered by federal depository insurance or by collateral held by the pledging bank's trust department in the Board's name.

The Board is also authorized to invest in the Maryland Local Government Investment Pool (MLGIP), where deposits are recorded at cost. Due to the nature of the MLGIP investment, it is considered a cash equivalent. MLGIP is not covered by the FDIC, but it is collateralized by United States Treasury instruments. The Maryland State Treasurer oversees the MLGIP. For additional information regarding deposit and investment risks, a separate financial report is available at the website address below.

The pool operates in a manner similar to that of an open-end mutual fund. Participants' deposits and withdrawals are accounted for as purchases and sales of the pool's capital shares. The amount of net proceeds from the sale of shares represents the gross withdrawals, which are redeemed from the pool's shares during the year. The cost of shares purchased represents the gross deposits, which are invested in the pool's shares during the year. Earnings are remitted directly to participants or invested (or reinvested) in the pool's shares.

A separate financial report for the MLGIP can be obtained from www.mlgip.com or by contacting PNC Institutional Investments, One East Pratt Street, 5th Floor West, Baltimore, Maryland 21202.

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

Cash in bank	\$ 2,656,041
Cash equivalents - MGLIP	4,504,578
Cash on hand	<u>500</u>
 Total cash and cash equivalents	 <u>7,161,119</u>
 Less trust and agency cash:	
Mid-Shore Special Education Consortium	986,485
School activities	<u>197,161</u>
Total trust and agency cash	<u>1,183,646</u>
 TOTAL CASH AND CASH EQUIVALENTS (GOVERNMENT WIDE)	 <u><u>\$ 5,977,473</u></u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(3) Capital assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 377,446	\$ -	\$ -	\$ 377,446
Construction in Progress	-	32,101	-	32,101
Total Capital Assets Not Being Depreciated	<u>377,446</u>	<u>32,101</u>	<u>-</u>	<u>409,547</u>
Capital Assets Being Depreciated:				
Buildings	93,050,526	-	-	93,050,526
Land Improvements	1,364,515	-	-	1,364,515
Furniture, Equipment And Vehicles	<u>25,144,592</u>	<u>1,292,261</u>	<u>2,555,080</u>	<u>23,881,773</u>
Total Capital Assets Being Depreciated	<u>119,559,633</u>	<u>1,292,261</u>	<u>2,555,080</u>	<u>118,296,814</u>
Less Accumulated Depreciation for:				
Buildings	36,237,678	2,086,469	-	38,324,147
Land Improvements	675,506	44,102	-	719,608
Furniture, Equipment and Vehicles	<u>21,004,134</u>	<u>1,518,615</u>	<u>2,550,378</u>	<u>19,972,371</u>
Total Accumulated Depreciation	<u>57,917,318</u>	<u>3,649,186</u>	<u>2,550,378</u>	<u>59,016,126</u>
Total Capital Assets Being Depreciated, Net	<u>61,642,315</u>	<u>(2,356,925)</u>	<u>4,702</u>	<u>59,280,688</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 62,019,761</u>	<u>\$(2,324,824)</u>	<u>\$ 4,702</u>	<u>\$ 59,690,235</u>

Depreciation expense for the year ended June 30, 2015 was charged to governmental functions as follows:

Support Services	
Instructional Services	\$ 961,976
Student Transportation	304,955
Food Services	10,080
Unallocated	<u>2,372,175</u>
TOTAL	<u>\$ 3,649,186</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(4) Interfund receivables – payables

Outstanding balances resulting from transactions between funds as of June 30, 2015 consist of the following:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
General Fund	\$ 555	\$ 720,337
Restricted	720,337	-
Capital Projects Fund	-	555
	\$ 720,892	\$ 720,892
TOTAL	\$ 720,892	\$ 720,892

(5) Unearned revenues

Unearned revenues from grantors consist of federal and state grants and other advances that have not been expended by June 30, 2015 and consist of the following:

Restricted federal, Maryland and other grant programs	\$ 916,572
Capital projects	1,260
USDA commodities	33,906
	\$ 951,738
TOTAL	\$ 951,738

(6) Long-term liabilities

The Board is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the county and state governments. The reporting of county debt service and related revenues in the general fund is required by state laws. Annual debt service expenditures are fully offset by county and state revenues. Debt service principal and interest on bond obligations paid by Talbot County was \$3,371,200 for the year ended June 30, 2015.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Long-term liabilities – continued

The Board's long-term debt at June 30, 2015 consists of the following:

Note payable to Bank of America; principal and interest payments of \$7,372.48 are payable monthly through September 29, 2016; interest is payable at 1.72% per annum; collateralized by school buses	\$ 109,330
Note payable to Branch Bank & Trust Co. principal and interest payments of \$2,008.61 are payable monthly through September 5, 2017; interest is payable at 2.11% per annum; collateralized by school bus	52,920
Note payable to Suntrust Equipment Finance & Leasing Corp. principal and interest payments of \$8,638.46 are payable monthly through September 1, 2018; interest is payable at 1.597% per annum; collateralized by school buses	319,891
Note payable to Suntrust Equipment Finance & Leasing Corp. principal and interest payments of \$56,321.12 are payable annually through September 1, 2018; interest is payable at 1.58% per annum; collateralized by school buses	<u>217,505</u>
TOTAL NOTES PAYABLE	<u><u>\$ 699,646</u></u>

Aggregate maturities of long-term notes payable at June 30, 2015 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 263,506	\$ 9,050	\$ 272,556
2017	200,369	5,836	206,205
2018	163,084	2,920	166,004
2019	72,687	909	73,596
TOTAL	\$ 699,646	\$ 18,715	\$ 718,361

State retirement system

State Retirement and Pension System of Maryland (note 7,
funding status); payable annually through December 2035 \$ 562,858

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Long-term liabilities – continued

The remaining deficit reduction payment schedule authorized by House Bill 430 is as follows:

<u>Year Ending June 30,</u>		
2016	\$	35,651
2017		37,434
2018		39,305
2019		41,270
2020		43,334
2021 - 2025		251,421
2026 - 2030		320,883
2031 - 2035		409,537
2036		<u>94,593</u>
Total principal and interest		1,273,428
Less amount representing interest		<u>(710,570)</u>
LIABILITY AS OF JUNE 30, 2015	\$	<u>562,858</u>

The changes in long-term liabilities for the year ended June 30, 2015 are as follows:

	<u>STATE RETIREMENT SYSTEM</u>	<u>COMPENSATED ABSENCES</u>	<u>NOTES PAYABLE</u>	<u>TOTAL</u>
Balance at June 30, 2014	\$ 549,786	\$ 356,671	\$ 680,278	\$ 1,586,735
Increases	47,025	546,382	258,724	852,131
Payments	<u>(33,953)</u>	<u>(568,445)</u>	<u>(239,356)</u>	<u>(841,754)</u>
Balance at June 30, 2015	<u>\$ 562,858</u>	<u>\$ 334,608</u>	<u>\$ 699,646</u>	<u>\$ 1,597,112</u>

The increase to the State Retirement System debt is related to an actuarial valuation that produced updated principal balances and was communicated to Talbot County Board of Education on December 17, 2014.

See notes 7 and 9 for long-term liabilities related to the net pension liability and the OPEB obligation.

(7) Pension plans

Plan description – The Board contributes to the State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland. SRPS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. That report may be obtained by writing to Maryland State Retirement and Pension System, 301 West Preston Street, Baltimore, Maryland 21202 or online at www.sra.maryland.gov.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(7) **Pension plans – continued**

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

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

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

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

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

Teachers' and Employees' Retirement Systems

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

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BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(7) **Pension plans – continued**

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

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

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

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

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

Teachers' and Employees' Pension Systems

An individual who is a member on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(7) **Pension plans – continued**

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

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

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

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

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

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. With certain exceptions, effective July 1, 1998, the adjustment is capped at a maximum 3% compounded and is applied to all benefits which have been in payment for one year. However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

Contributions – During a special session of the Maryland General Assembly – Teacher Pension Cost – it was determined that the State and the local county school boards will share the cost of teacher retirement by phasing in a requirement for school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85%, and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016 and the additional maintenance of effort payments required by each county in the same period. The additional cost for fiscal year 2015 was determined to be \$1,019,080 and is reflected in the below table.

The Board is required to contribute at actuarially determined rates, which are currently 15.47% of covered compensation for teachers and 15.53% for classified employees. The contribution requirements of plan members and the Board are established, and may be amended by, the SRPS Board of Trustees.

The State makes a substantial portion of the Board's annual required contributions to the Teachers systems on behalf of the Board. The State's contributions on behalf of the Board to the Teachers systems for the year ended June 30, 2015, amounted to \$3,541,347. The fiscal 2015 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the general fund in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balances. The Board makes the entire employer required annual contributions to the Employees systems as well as those that relate to positions in the Teachers systems funded through federal and state restricted programs.

The employer's total payroll covered under the various state plans, and contributions paid are as follows for the three most recent fiscal years:

	<u>2015</u>	<u>2014</u>
Total Payroll	\$ 33,625,017	\$ 33,802,713
Payroll Covered Under the Plans	\$ 31,854,565	\$ 31,677,993
Contributions Paid In:		
Board Payments	\$ 1,623,169	\$ 1,665,279
State On-Behalf Payments	\$ 3,541,347	\$ 3,350,924

As a result of a first time actuarial study of the State Retirement and Pension System of Maryland, the Talbot County Board of Education was identified as one of 23 municipal corporations not having enough assets available to fund the present value of accrued benefits for participants in the retirement system. Under the rules of House Bill 1338, the original deficit amount was determined to be \$925,482 as of June 30, 1996, to be repaid over a period of 40 years. The Board was granted relief of \$210,003 (as of June 30, 1996) by HB1348 enacted in 1997 and further relief of \$210,003 (as of June 30, 1996) by HB430 which was enacted in 1998. The fiscal year 2015 payment was \$33,953. See Note 6 for the remaining years' payment stream. The payments reflect a pattern which increases by 5% per year for the next 21 years.

Teachers' and Employees' Retirement Systems

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(7) **Pension plans – continued**

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

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

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

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

Teachers' and Employees' Pension Systems

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

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

Pension Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources – At June 30, 2015, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

District's proportionate share of the net pension liability	\$ 3,978,041
State's proportionate share of the net pension liability associated with the Board	<u>30,872,861</u>
Total	<u><u>\$ 34,850,902</u></u>

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the actual employer contributions billed to the Board for the year ending June 30, 2014 compared to the total billings to all participating government units. That percentage was then multiplied by the total net pension liability for the SRPS to calculate the liability related to the Board. At June 30, 2014 the Board's portion was .0224156%.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

For the year ended June 30, 2015, the Board recognized pension expense of \$492,475. The Board recognized revenue of \$3,541,347 for support provided by the state. At June 30, 2015, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ 57,545	\$ -
Net difference between projected and actual earnings on pension plan investments	-	435,423
Board contributions subsequent to the measurement date	<u>512,634</u>	<u>-</u>
Total	<u>\$ 570,179</u>	<u>\$ 435,423</u>

The \$512,634 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (94,470)
2017	(94,470)
2018	(94,470)
2019	(94,470)

Actuarial Assumptions – The total pension liability in the June 30, 2015 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	2.9% general, 3.4% wage
Salary increases	3.4% to 11.9% including inflation
Investment rate of return	7.65%
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2025

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period 2006 to 2010.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	35%	4.70%
Fixed Income	10%	2.00%
Credit Opportunity	10%	3.00%
Real Return	14%	2.80%
Absolute Return	10%	5.00%
Private Equity	10%	6.30%
Real Estate	10%	4.50%
Cash	1%	1.40%
Total	100%	

Discount rate – A single discount rate of 7.65% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.65%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Board’s proportionate share of the net pension liability to changes in the discount rate – The following presents the Board’s proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the Board’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.65%) or 1% higher (8.65%) than the current rate.

	Discount rate	District's share pension
1% decrease	6.65%	\$5,
Current discount rate	7.65%	\$3,

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(7) **Pension plans – continued**

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

(8) **On-behalf payments**

The Board recognized the following on-behalf payments for the fiscal year ended June 30, 2015:

Pension contribution by the State of Maryland to the state retirement system for the applicable employees of the Board	\$ 3,541,347
School nurses provided by Talbot County, Maryland Health Department	<u>639,000</u>
TOTAL ON-BEHALF PAYMENTS	<u>\$ 4,180,347</u>

(9) **Other postemployment benefits**

Plan description – The Talbot County Public Schools Retiree Health Plan (Plan) is a single-employer defined benefit healthcare plan that is administered by the Talbot County Public Schools (Board) and covers retired employees of the Board and their dependents. The Plan provides for the payment of a portion or all of the health insurance premiums for eligible retired employees depending on their position that was held and length of service. The Board has the authority to establish and amend benefit provisions of the Plan. The Plan does not issue a separate, publicly available report.

Funding policy – Premiums and other contributions for the Boards' share of the cost of the group programs may be paid, as determined by the Board, from the assets of the Board. Premium payments for some programs may require contributions by the participant as well as the Board. The frequency and amount of such contributions shall be established from time to time by the County.

Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Talbot County Public Schools Retiree Health Plan pays 66% of the individual premium for each insured retiree who has at least 8 years of service. Retirees with less than 8 years of service are allowed access, but must pay 100% of the published rates.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(9) Other postemployment benefits – continued

Annual OPEB cost and net OPEB obligation – The Board's annual other post employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation to Talbot County Public Schools Retiree Health Plan:

Annual required contribution	\$ 5,804,000
Interest on net OPEB obligation	880,000
Amortization net OPEB obligation	<u>(953,000)</u>
Annual OPEB cost	5,731,000
Contributions made	<u>(1,628,000)</u>
Increase in net OPEB obligation	4,103,000
Net OPEB obligation – beginning of year	<u>21,988,425</u>
 Net OPEB obligation – end of year	 <u><u>\$ 26,091,425</u></u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and preceding two years was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	\$ 5,731,000	28.41%	\$ 26,091,425
6/30/2014	\$ 5,620,000	26.51%	\$ 21,988,425
6/30/2013	\$ 5,274,000	26.60%	\$ 17,858,425

Funded status and funding progress – As of the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$63,986,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$63,986,000. The covered payroll (annual payroll of active employees covered by the plan) was \$31,854,565 and the ratio of the UAAL to the covered payroll was 200.9 percent.

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(9) Other postemployment benefits – continued

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

In the June 30, 2015 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date, a projected salary increase of 4% per year, and an annual healthcare cost trend rate of 5.7% initially, reduced by decrements to an ultimate rate of 4.9%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2015 was 24 years.

(10) Budget reconciliation

The accompanying schedule of revenues, expenditures and encumbrances – budget and actual has been prepared on a legally prescribed budgetary basis of accounting which differs from generally accepted accounting principles (GAAP). The purpose of the budgetary basis of accounting is to demonstrate compliance with the legal requirements of Talbot County and the State of Maryland. The difference between the two methods is set forth below.

	GENERAL FUND	RESTRICTED GRANTS FUND
	<hr/>	<hr/>
REVENUES		
Budgetary basis	\$ 47,593,633	\$ 3,986,983
Net encumbrance adjustment	-	205,746
Debt service paid by Talbot County, MD	3,371,200	-
State and County on-behalf payments	4,180,347	-
	<hr/>	<hr/>
MODIFIED ACCRUAL BASIS	\$ 55,145,180	\$ 4,192,729
	<hr/>	<hr/>
EXPENDITURES		
Budgetary basis	\$ 47,323,902	\$ 3,986,983
Net encumbrance adjustment	228,754	205,746
Debt service paid by Talbot County, MD	3,371,200	-
State and County on-behalf payments	4,180,347	-
	<hr/>	<hr/>
MODIFIED ACCRUAL BASIS	\$ 55,104,203	\$ 4,192,729
	<hr/>	<hr/>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(11) Risk management

General insurance – The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the Maryland Association of Boards of Education Group Insurance and Workers Compensation Pools (MABE), which provide casualty and property insurance, and workers compensation coverage. MABE operates as authorized by Section 482B of Article 84A of the Annotated Code of Maryland. The Board pays an annual premium to MABE for its insurance coverage. The agreement for formation of MABE provides that it will be self-sustaining through member premiums and will reinsure through commercial companies as specified in the agreement. As of June 30, 2015, MABE had total pool surplus of approximately \$20 million. It is believed that there are no outstanding claims in excess of the equity.

MABE publishes its own audited financial report based on a June 30 year-end. This report may be obtained from Maryland Association of Boards of Education Group Insurance Pool, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401.

Health insurance – The Board participates in the Eastern Shore of Maryland Education Consortium Health Insurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for health insurance coverage. Currently, only five counties are participating in the alliance for their health insurance coverage.

The agreement for formation of the alliance provides that the pool will be self-sustaining through member premiums. These funds have been invested in the PNC Local Government Investment Pool.

The pooling agreement allows for the pool, which is administered by Carefirst Blue Cross/Blue Shield of Maryland, to make additional assessments to make the pool self-sustaining. As of the date of this report, it is believed that there are no outstanding claims in excess of the equity of the trust.

(12) Restatement

To implement GASB 68, the beginning net position balance for governmental activities of \$39,803,523 has been decreased by \$3,863,444 to \$35,940,079. See Note 7 for further information.

(13) Subsequent events

On July 22, 2015, the Board approved a lease purchase of one school bus over five years. The total cost of the lease, including interest, is \$122,263, which is payable in annual installments.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES –
BUDGET AND ACTUAL – GENERAL FUND AND RESTRICTED GRANTS

Year Ended June 30, 2015

	<u>GENERAL FUND</u>			<u>RESTRICTED GRANTS - SEE NOTE 1</u>		
	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE – FAVORABLE (UNFAVORABLE)</u>	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE – FAVORABLE (UNFAVORABLE)</u>
REVENUES						
Talbot County	\$ 35,338,852	\$ 35,338,852	\$ -	\$ -	\$ -	\$ -
State of Maryland	12,154,348	12,192,244	37,896	418,000	535,015	117,015
United States Government	-	-	-	3,448,591	2,804,135	(644,456)
Other sources:						
Interest earned	20,000	8,639	(11,361)	-	-	-
Other	46,000	53,898	7,898	135,000	647,833	512,833
TOTAL REVENUES	47,559,200	47,593,633	34,433	4,001,591	3,986,983	(14,608)
EXPENDITURES AND ECUMBRANCES						
Administration	985,012	984,210	802	30,665	80,285	(49,620)
Mid-level administration	3,610,947	3,610,801	146	114,766	113,176	1,590
Instructional salaries	20,095,928	20,069,324	26,604	721,810	587,582	134,228
Instructional texts and supplies	524,371	523,404	967	168,475	258,575	(90,100)
Other instructional costs	690,240	688,412	1,828	665,412	683,084	(17,672)
Special education	3,343,536	3,339,214	4,322	1,159,355	851,850	307,505
Student personnel services	210,587	209,512	1,075	-	50,000	(50,000)
Student transportation	2,639,165	2,449,540	189,625	-	35,609	(35,609)
Operation of plant	3,320,487	3,319,932	555	-	119,963	(119,963)
Maintenance of plant	1,175,252	1,173,427	1,825	-	19,988	(19,988)
Fixed charges	10,963,675	10,956,126	7,549	869,686	890,537	(20,851)
Community services	-	-	-	271,422	296,334	(24,912)
TOTAL EXPENDITURES AND ENCUMBRANCES	47,559,200	47,323,902	235,298	4,001,591	3,986,983	14,608
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES	\$ -	\$ 269,731	\$ 269,731	\$ -	\$ -	\$ -

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF FUNDING PROGRESS – OPEB

Year Ended June 30, 2015

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
7/1/2015	\$ -	\$ 63,986,000	\$ 63,986,000	0.00%	\$ 31,854,565	200.9%
7/1/2014	\$ -	\$ 62,681,000	\$ 62,681,000	0.00%	\$ 31,677,993	197.9%
7/1/2013	\$ -	\$ 58,837,000	\$ 58,837,000	0.00%	\$ 31,804,864	185.0%

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

	2015
Board's proportion of the net pension liability	0.0224156%
Board's proportionate share of the net pension liability	\$ 3,978,041
State's proportionate share of the net pension liability associated with the Board	30,872,861
Total	\$ 34,850,902
Board's covered employee payroll	\$ 31,854,565
Board's proportionate share of the net pension liability as a percentage of its covered employee payroll	12.488135%
Plan fiduciary net position as a percentage of the total pension liability	71.87%

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF BOARD CONTRIBUTIONS

Employees' Pension Plan

	<u>2015</u>
Contractually required contribution	\$ 512,634
Contributions in relation to the contractually required contribution	<u>(512,634)</u>
Contributions deficiency (excess)	<u>\$ -</u>
Board's covered employee payroll	\$ 31,854,565
Contributions as a percentage of covered employee payroll	1.609295%

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes of assumptions – Amounts reported in 2015 reflect an adjustment of the investment return assumption being changed from 7.70% to 7.65%. The inflation assumption changed from 2.95% to 2.90% as well.

OTHER ADDITIONAL INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
COMBINING BALANCE SHEET – NON-MAJOR FUNDS

Year Ended June 30, 2015

	<u>FOOD SERVICES</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash	\$ 184,554	\$ -	\$ 184,554
Due from other governments			
State of Maryland	14,204	1,065	15,269
United States government	67,995	-	67,995
Talbot County	-	750	750
Inventory	<u>57,576</u>	<u>-</u>	<u>57,576</u>
TOTAL ASSETS	<u>\$ 324,329</u>	<u>\$ 1,815</u>	<u>\$ 326,144</u>
LIABILITIES AND FUND BALANCES			
Accrued expenditures	\$ 54,811	\$ -	\$ 54,811
Due to other funds	-	555	555
Unearned revenue	<u>33,906</u>	<u>1,260</u>	<u>35,166</u>
TOTAL LIABILITIES	<u>88,717</u>	<u>1,815</u>	<u>90,532</u>
Fund balances:			
Nonspendable	23,671	-	23,671
Restricted	<u>211,941</u>	<u>-</u>	<u>211,941</u>
TOTAL FUND BALANCES	<u>235,612</u>	<u>-</u>	<u>235,612</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 324,329</u>	<u>\$ 1,815</u>	<u>\$ 326,144</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – NONMAJOR FUNDS

Year Ended June 30, 2015

	<u>FOOD SERVICES</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUES			
Talbot County	\$ -	\$ 275,374	\$ 275,374
State of Maryland	132,190	17,104	149,294
United States Government	1,268,518	-	1,268,518
Other Sources:			
Food service sales	582,958	-	582,958
Interest income	572	-	572
TOTAL REVENUES	<u>1,984,238</u>	<u>292,478</u>	<u>2,276,716</u>
EXPENDITURES			
Current:			
Capital outlay	-	292,478	292,478
Food services	1,926,185	-	1,926,185
TOTAL EXPENDITURES	<u>1,926,185</u>	<u>292,478</u>	<u>2,218,663</u>
 CHANGE IN FUND BALANCES	 58,053	 -	 58,053
 FUND BALANCES, BEGINNING OF YEAR	 <u>177,559</u>	 <u>-</u>	 <u>177,559</u>
 FUND BALANCES, END OF YEAR	 <u>\$ 235,612</u>	 <u>\$ -</u>	 <u>\$ 235,612</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS
SCHOOL ACTIVITIES FUND (AGENCY FUND)

Year Ended June 30, 2015

	<u>CASH JUNE 30, 2014</u>	<u>CASH RECEIPTS</u>	<u>CASH DISBURSED</u>	<u>CASH JUNE 30, 2015</u>
Easton High School	\$ 7,552	\$ 360,983	\$ 346,315	\$ 22,220
St. Michaels High School	23,892	117,956	121,396	20,452
Easton Middle School	42,425	127,778	134,308	35,895
Easton Elementary School - Moton	42,939	125,201	121,961	46,179
St. Michaels Elementary/Middle School	20,335	46,305	44,366	22,274
Tilghman Elementary School	4,220	9,145	9,285	4,080
White Marsh Elementary School	21,426	40,299	39,656	22,069
Chapel District Elementary School	<u>18,414</u>	<u>55,796</u>	<u>50,218</u>	<u>23,992</u>
TOTALS	<u><u>\$ 181,203</u></u>	<u><u>\$ 883,463</u></u>	<u><u>\$ 867,505</u></u>	<u><u>\$ 197,161</u></u>