

**BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
OTHER SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2018

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BSC GROUP, LLC

Certified Public Accountants

An Independently Owned and Operated CPA Firm

INDEPENDENT AUDITORS' 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, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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 as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in the fiscal year ended June 30, 2018 the Board adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, schedule of changes in the Board's net OPEB liability and related ratios, schedule of Board's proportionate share of net pension liability, schedules of Board's 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 Board's basic financial statements. The schedule of general fund revenues and schedule of school activities fund receipts and 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 accompanying schedule of general fund revenues and schedule of school activities fund receipts and 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 accompanying schedule of general fund revenues, combining nonmajor fund financial statements, and schedule of school activities fund receipts and 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 27, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

B&C Group, LLC

Easton, Maryland
September 27, 2018



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Certified Public Accountants

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**INDEPENDENT AUDITORS' 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 (the Board), as of and for the year ended June 30, 2018, 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 27, 2018.

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 that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Board Members

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

Purpose of This Report

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

B&C Group, LLC

Easton, Maryland
September 27, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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, 2018. 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, 2018 include the following:

- Net position deficit totals \$49,160,880, a decrease of \$65,356,847, or 403.5% from the prior year.
- General Fund unassigned fund balance is \$332,098, after an assignment for encumbrances of \$883,389. The total fund balance is \$1,215,487, a decrease of \$115,521 from the prior year.

Overview of the financial statements

The financial section of the annual report consists of four parts – independent auditors' 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:

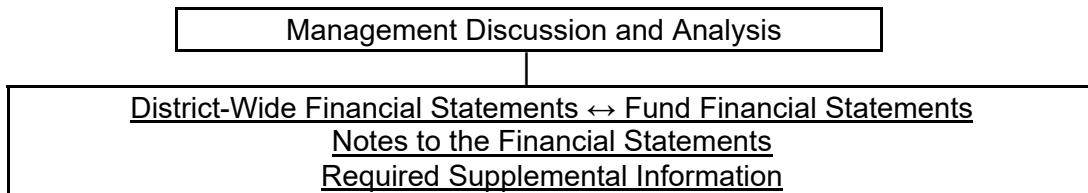
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the Board's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Board, reporting the Board's 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, 2018

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, 2018

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, 2018

Financial analysis of the board as a whole

Net position – The Board's net position deficit was \$49,160,880 on June 30, 2018. This was a decrease of \$65,356,847 from the prior year. (See Table 1).

Table 1

	GOVERNMENTAL ACTIVITIES	
	2018	2017
<u>ASSETS</u>		
Current and other assets	\$ 7,092,541	\$ 6,737,944
Capital assets	<u>56,201,914</u>	<u>56,373,742</u>
TOTAL ASSETS	<u>63,294,455</u>	<u>63,111,686</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred financing outflows - state pension plan	<u>1,189,962</u>	<u>1,457,789</u>
<u>LIABILITIES</u>		
Current liabilities	5,520,689	5,204,064
Long-term liabilities	<u>95,611,828</u>	<u>42,812,423</u>
TOTAL LIABILITIES	<u>101,132,517</u>	<u>48,016,487</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred financing inflows - state pension plan	<u>12,512,780</u>	<u>357,021</u>
<u>NET POSITION</u>		
Net investment in capital assets	55,223,693	56,011,890
Restricted	666,622	443,224
Unrestricted deficit	<u>(105,051,195)</u>	<u>(40,259,147)</u>
TOTAL NET POSITION	<u>\$ (49,160,880)</u>	<u>\$ 16,195,967</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Financial analysis of the board as a whole – continued

Changes in net position – The Board's total revenues were \$67,200,249 for the year ended June 30, 2018. (See Table 2). The county appropriation and general state aid accounted for approximately 71.2% of total revenue for the year. Another 26.2% came from program revenues, and the remainder from investment earnings and other sources. The total cost of all programs and services was \$71,106,852. The Board's expenses are predominantly related to providing direct educational services to students (57.2%). The purely administrative activities of the Board accounted for 1.7% of total expenses. Total expenses surpassed revenues, decreasing net position \$3,906,603 from last year. The pension income included in the fiscal year 2018 was \$319,101. See Note 7 for additional information.

Table 2

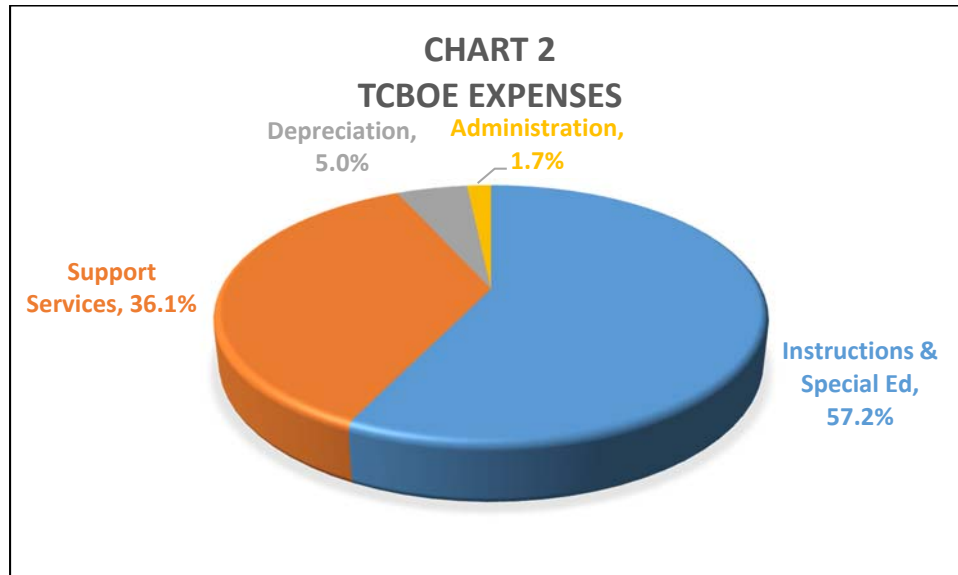
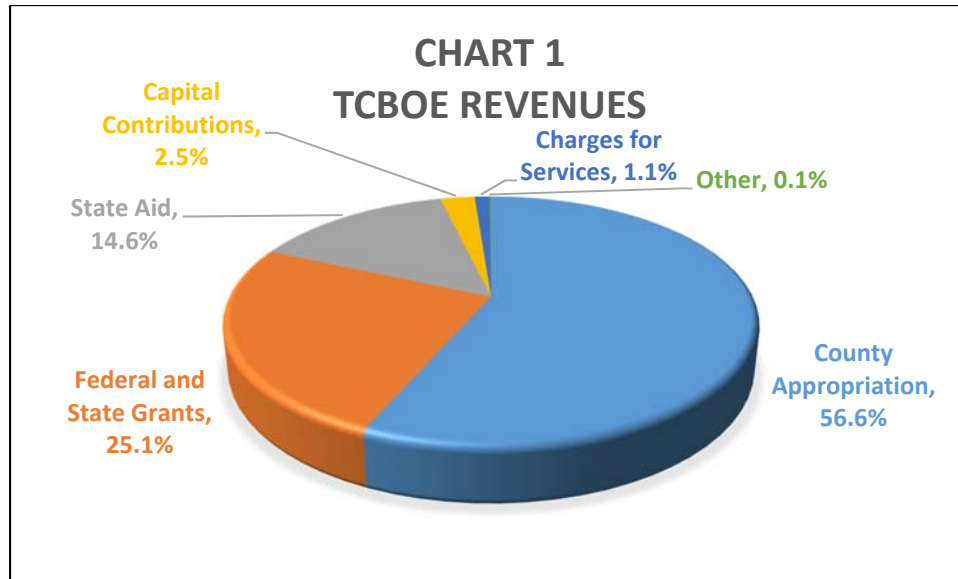
	2018	% OF	2017	% OF
	GOVERNMENTAL	TOTAL	GOVERNMENTAL	TOTAL
	ACTIVITIES		ACTIVITIES	TOTAL
<u>REVENUES</u>				
<i>Program Revenues:</i>				
Charges for services	\$ 766,457	1.1	\$ 716,472	1.2
Federal, state and local grants	16,848,335	25.1	16,836,167	25.9
<i>General Revenues:</i>				
County appropriation	38,004,245	56.6	36,830,230	56.7
State of Maryland	9,810,475	14.6	9,774,963	15.1
Restricted for capital projects	1,702,500	2.5	741,204	1.1
Other	68,237	0.1	25,653	-
	<u>67,200,249</u>	<u>100.0</u>	<u>64,924,689</u>	<u>100.0</u>
<u>EXPENSES</u>				
Instruction and special education	40,732,156	57.2	40,041,584	55.8
Administration	1,198,516	1.7	1,142,600	1.6
Support services	25,650,957	36.1	27,079,861	37.8
Depreciation	3,525,223	5.0	3,470,593	4.8
	<u>71,106,852</u>	<u>100.0</u>	<u>71,734,638</u>	<u>100.0</u>
DECREASE IN NET POSITION	<u>\$ (3,906,603)</u>		<u>\$ (6,809,949)</u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Financial analysis of the board as a whole – continued

Governmental activities – The decrease in net position for governmental activities was \$3,906,603 in 2018.



THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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 \$1,882,109, an increase of \$107,877 from last year's ending fund balance.

Revenues for the Board's governmental funds were \$67,200,249, an increase of \$2,275,560 from the prior year. Total expenditures were \$67,092,372 for the year, an increase of \$2,305,590 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, 2018

Table 3

	<u>GENERAL FUND</u>			
	<u>FISCAL YEAR</u> <u>2018</u>	<u>FISCAL YEAR</u> <u>2017</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>PERCENT</u> <u>INCREASE</u> <u>(DECREASE)</u>
<u>REVENUES</u>				
Talbot County appropriations	\$ 41,275,379	\$ 40,104,620	\$ 1,170,759	2.9
Talbot County - school nurses	621,717	639,697	(17,980)	(2.8)
State of Maryland	13,206,454	13,161,728	44,726	0.3
State of Maryland share of retirement and pension contributions	3,328,815	3,503,652	(174,837)	(5.0)
Other	<u>163,543</u>	<u>152,622</u>	<u>10,921</u>	7.2
TOTAL REVENUES	<u>58,595,908</u>	<u>57,562,319</u>	<u>1,033,589</u>	1.8
<u>EXPENDITURES</u>				
Administration	1,099,482	1,082,426	17,056	1.6
Mid-level administration	3,633,671	3,748,973	(115,302)	(3.1)
Instructional salaries	20,992,896	20,845,852	147,044	0.7
Instructional texts and supplies	1,121,065	511,584	609,481	119.1
Other instruction costs	1,116,926	1,033,404	83,522	8.1
Special education	3,734,585	3,625,439	109,146	3.0
Student personnel services	199,993	203,299	(3,306)	(1.6)
Student transportation	2,736,581	2,740,414	(3,833)	(0.1)
Operation of plant and equipment	3,488,156	3,387,839	100,317	3.0
Maintenance of plant	1,294,822	1,282,145	12,677	1.0
Fixed charges	12,071,586	11,609,586	462,000	4.0
Debt service	3,271,134	3,274,390	(3,256)	(0.1)
School nurses	621,717	639,697	(17,980)	(2.8)
State of Maryland share of retirement and pension contribution	<u>3,328,815</u>	<u>3,503,652</u>	<u>(174,837)</u>	(5.0)
TOTAL EXPENDITURES	<u>58,711,429</u>	<u>57,488,700</u>	<u>1,222,729</u>	2.1
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ (115,521)</u>	<u>\$ 73,619</u>	<u>\$ (189,140)</u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Table 4

	<u>RESTRICTED GRANT REVENUE</u>			
	<u>FISCAL YEAR</u> 2018	<u>FISCAL YEAR</u> 2017	<u>INCREASE</u> (DECREASE)	<u>PERCENT</u> <u>INCREASE</u> (DECREASE)
Federal Through State	\$ 3,686,646	\$ 3,467,270	\$ 219,376	6.3
State of Maryland	378,352	409,129	(30,777)	(7.5)
Other	<u>611,528</u>	<u>713,087</u>	<u>(101,559)</u>	(14.2)
TOTAL REVENUES	<u>\$ 4,676,526</u>	<u>\$ 4,589,486</u>	<u>\$ 87,040</u>	1.9

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 2018, the Board had received state funding of \$30,400 and Talbot County funding of \$1,672,100 for projects started in FY 2018.

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) Retiree Health Plan Trust (OPEB Trust): The OPEB Trust was established by the Board in FY 2016 in order to fund the health care cost of retirees. Total assets as of June 2018 were \$113,911 (see note 9 for more detailed information)
- (3) School Activities Accounts: During fiscal year 2018, the Board's nine 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> 2018	<u>FISCAL YEAR</u> 2017	<u>INCREASE</u> (DECREASE)	<u>PERCENT</u> <u>INCREASE</u> (DECREASE)
Cash receipts	\$ 818,812	\$ 829,242	\$ (10,430)	(1.3)
Cash disbursements	(727,509)	(800,769)	73,260	(9.1)
Beginning cash balances	<u>206,631</u>	<u>178,158</u>	<u>28,473</u>	16.0
ENDING CASH BALANCES	<u>\$ 297,934</u>	<u>\$ 206,631</u>	<u>\$ 91,303</u>	44.2

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

General fund budgetary highlights

The actual General Fund revenues exceeded budgeted revenues by \$47,542. Actual expenditures and encumbrances were under budget by \$32,672.

Original budget compared to final budget – The FY 2018 original budget was increased by \$112,939. The increase was made possible by additional unanticipated revenues.

Capital assets and debt administration

Capital assets – By the end of fiscal year 2018, the Board had invested \$122 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 \$3.53 million.

Future construction – Annually, the Board of Education prepares and submits a 5 year Capital Improvement Plan (CIP) to the MD Public School Construction Program and to the Talbot County Council. Included in the CIP is the request for \$52,748,026 for the Easton Elementary/Dobson replacement project. The funding will be divided with \$31,651,026 from the County and \$21,097,000 from the State of Maryland. The timeline began in October 2017 with the submission of the FY 2020 CIP to the Public School Construction Program for planning approval, with sitework starting in June 2018.

Long-term liabilities – At year-end, the Board had \$96,126,178 in long-term debt of which \$514,350 is due within one year and \$95,611,828 is due after one year. This amount consists of the following:

- \$589,670 due to Maryland State Retirement and Pension System.
- \$978,221 in notes payable.
- \$90,210,000 in net OPEB obligation.
- \$337,246 in accrued compensated absences.
- \$4,011,041 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 2018 financial statements is discussed in note 7.

**THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland**

**Management's Discussion and Analysis (MD&A)
June 30, 2018**

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 2018 was determined to be \$1,274,283.

The Board adheres to the accounting standard issued by the Government Accounting Standards Board (GASB) for reporting other post-employment benefits (OPEB) known as GASB 75. GASB 75 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 75 requires the measurement and disclosure of actuarial accrued liabilities and funded status. Under GASB 75, 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.

Funding for education continues to be a concern of the Board of Education. The charter for Talbot County currently limits the annual increase in property tax revenues to the lesser of 2% or the increase in CPI. Counties may exceed the charter limitation on local property taxes for the purpose of funding the approved budget for the Board. For FY 2018, Talbot County Council approved funding of \$1,122,932 for Talbot County Public Schools non-recurring costs.

The majority of State aid to public schools is distributed inversely to local wealth, whereby less affluent school systems receive more State aid. In addition, State funding is targeted to local school systems based on enrollment of student groups. Talbot County Public Schools ranks 24 out of 24 in receiving the lowest amount (\$3,984) per pupil of State aid.

In October 2016, Talbot County Public Schools established an Education Foundation through the Mid-Shore Community Foundation. This Foundation allows individuals to make tax deductible contributions for a variety of educational projects and programs.

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, 2018

ASSETS		GOVERNMENTAL ACTIVITIES
Cash and cash equivalents		\$ 6,462,488
Due from other units of government		620,933
Other receivables		9,120
Capital assets:		
Capital assets, nondepreciable		2,274,961
Capital assets, net of depreciation		<u>53,926,953</u>
TOTAL ASSETS		<u>63,294,455</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - state pension plan		<u>1,189,962</u>
LIABILITIES		
Accounts payable		309,362
Accrued expenditures		3,841,464
Due to Trust and Agency fund		27,122
Payroll deductions and withholdings		73,997
Unearned revenues		754,394
Long-term liabilities:		
Portion due or payable within one year:		
Compensated absences	204,093	
Notes payable	268,987	
Maryland State Retirement and Pension System	<u>41,270</u>	514,350
Portion due or payable after one year:		
Compensated absences	133,153	
Net OPEB obligation	90,210,000	
Net pension liability	4,011,041	
Notes payable	709,234	
Maryland State Retirement and Pension System	<u>548,400</u>	<u>95,611,828</u>
TOTAL LIABILITIES		<u>101,132,517</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - state pension plan investment activity		569,780
Deferred inflows - other post employment benefits		<u>11,943,000</u>
TOTAL DEFERRED INFLOWS OF RESOURCES		<u>12,512,780</u>
NET POSITION		
Net investment in capital assets		55,223,693
Restricted for food service operations		666,622
Unrestricted deficit		<u>(105,051,195)</u>
TOTAL NET POSITION		<u>\$ (49,160,880)</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, 2018

<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	\$ 1,198,516	\$ -	\$ -	\$ (1,198,516)
Instructional services	29,356,618	72,480	5,018,762	(24,265,376)
Special education	5,246,798	-	2,004,007	(3,242,791)
Student personnel services	366,770	-	-	(366,770)
Student transportation	2,732,934	-	1,671,453	(1,061,481)
Operation of plant	3,447,757	-	-	(3,447,757)
Maintenance of plant	1,314,822	25,100	-	(1,289,722)
Fixed charges	19,598,009	-	3,328,815	(16,269,194)
Community services	247,019	-	-	(247,019)
Food service operations	2,006,347	668,877	1,554,164	216,694
Debt service	3,271,134	-	3,271,134	-
Interest on long-term debt	6,668	-	-	(6,668)
Depreciation – unallocated	2,313,460	-	-	(2,313,460)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 71,106,852</u>	<u>\$ 766,457</u>	<u>\$ 16,848,335</u>	<u>(53,492,060)</u>
GENERAL REVENUES				
Talbot County appropriations				38,004,245
State of Maryland				9,810,475
Capital outlay/construction funding				1,702,500
Unrestricted investment earnings				54,106
Other revenue				14,131
				<u>49,585,457</u>
TOTAL GENERAL REVENUES				<u>49,585,457</u>
CHANGE IN NET POSITION				<u>(3,906,603)</u>
NET POSITION, BEGINNING OF YEAR				
As previously reported				16,195,967
Prior period adjustment				<u>(61,450,244)</u>
As restated				<u>(45,254,277)</u>
NET POSITION, END OF YEAR				<u>\$ (49,160,880)</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, 2018

	<u>MAJOR FUNDS</u>			<u>NONMAJOR FUND</u>	<u>TOTAL</u>
	<u>GENERAL</u>	<u>RESTRICTED GRANTS</u>	<u>FOOD SERVICE</u>	<u>CAPITAL PROJECTS</u>	
ASSETS					
Cash and cash equivalents	\$ 5,763,517	\$ -	\$ 698,971	\$ -	\$ 6,462,488
Due from other governments:					
State of Maryland	-	34,787	13,462	11,600	59,849
United States government	-	444,409	75,895	-	520,304
Talbot County	-	25,000	-	15,780	40,780
Due from other funds	27,380	463,239	-	-	490,619
Other receivables	-	9,120	-	-	9,120
TOTAL ASSETS	<u>\$ 5,790,897</u>	<u>\$ 976,555</u>	<u>\$ 788,328</u>	<u>\$ 27,380</u>	<u>\$ 7,583,160</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 188,496	\$ 589	\$ 120,277	\$ -	\$ 309,362
Accrued expenditures	3,618,463	223,001	-	-	3,841,464
Payroll deductions and withholdings	73,997	-	-	-	73,997
Due to other funds	463,239	-	-	27,380	490,619
Due to Trust and Agency fund	27,122	-	-	-	27,122
Unearned revenues	-	752,965	1,429	-	754,394
Compensated absences	204,093	-	-	-	204,093
TOTAL LIABILITIES	<u>4,575,410</u>	<u>976,555</u>	<u>121,706</u>	<u>27,380</u>	<u>5,701,051</u>
FUND BALANCES					
Restricted for:					
Fund purposes	-	-	666,622	-	666,622
Assigned					
Encumbrances	883,389	-	-	-	883,389
Unassigned	332,098	-	-	-	332,098
TOTAL FUND BALANCES	<u>1,215,487</u>	<u>-</u>	<u>666,622</u>	<u>-</u>	<u>1,882,109</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,790,897</u>	<u>\$ 976,555</u>	<u>\$ 788,328</u>	<u>\$ 27,380</u>	<u>\$ 7,583,160</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, 2018

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	\$ 1,882,109
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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	124,242,043
Less: accumulated depreciation	(68,040,129)

Deferred financing outflow for net pension liability	1,189,962
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Deferred financing inflow for net pension liability	(569,780)
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Deferred financing inflow for net OPEB liability	(11,943,000)
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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	90,210,000	
Net pension liability	4,011,041	
Notes payable	978,221	
Compensated absences	133,153	
Maryland State Retirement and Pension System	589,670	
	589,670	

Total long-term liabilities	(95,922,085)
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TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES	\$ (49,160,880)
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BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

	MAJOR FUNDS			NONMAJOR FUND	TOTAL
	GENERAL	RESTRICTED GRANTS	FOOD SERVICE	CAPITAL PROJECTS	
REVENUES					
Talbot County	\$ 41,897,096	\$ -	\$ -	\$ 1,672,100	\$ 43,569,196
State of Maryland	16,535,269	378,352	120,360	30,400	17,064,381
United States Government	-	3,686,646	1,433,804	-	5,120,450
Other sources:					
Food service sales	-	-	668,877	-	668,877
Interest earned	54,106	-	2,274	-	56,380
Other	109,437	611,528	-	-	720,965
TOTAL REVENUES	58,595,908	4,676,526	2,225,315	1,702,500	67,200,249
EXPENDITURES					
Current:					
Administration	1,099,482	98,938	-	-	1,198,420
Mid-level administration	3,633,671	119,908	-	-	3,753,579
Instructional salaries	20,992,896	650,813	-	-	21,643,709
Instructional texts and supplies	1,121,065	134,575	-	-	1,255,640
Other instructional costs	1,116,926	626,207	-	-	1,743,133
Special education	3,734,585	1,516,724	-	-	5,251,309
Student personnel service	199,993	166,777	-	-	366,770
Student transportation	2,736,581	60,397	-	-	2,796,978
Operation of plant	3,488,156	36,425	-	-	3,524,581
Maintenance of plant	1,294,822	20,000	-	-	1,314,822
Fixed charges	12,071,586	998,743	-	-	13,070,329
Community services	-	247,019	-	-	247,019
Capital outlay	-	-	-	67,765	67,765
Food service operating expenditures	-	-	2,001,917	-	2,001,917
Debt service	3,271,134	-	-	-	3,271,134
On-behalf payments	3,950,532	-	-	1,634,735	5,585,267
TOTAL EXPENDITURES	58,711,429	4,676,526	2,001,917	1,702,500	67,092,372
NET CHANGE TO FUND BALANCE	(115,521)	-	223,398	-	107,877
FUND BALANCES, BEGINNING OF YEAR	1,331,008	-	443,224	-	1,774,232
FUND BALANCES, END OF YEAR	\$ 1,215,487	\$ -	\$ 666,622	\$ -	\$ 1,882,109

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

Year Ended June 30, 2018

NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS	\$ 107,877
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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:</p>	
Capital outlays	2,308,599
Depreciation expense	(3,525,223)
<p>Losses on disposals of capital assets are not reported in governmental funds; however, in the statement of activities, these losses are recognized</p>	
	(852)
<p>Increases in deferred inflows of resources do not use current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
	(12,155,759)
<p>Decreases in deferred outflows of resources do not use current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	
	(267,827)
<p>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:</p>	
Accrued compensated absences	(27,418)
Maryland State Retirement System deficit balance	(46,786)
Net OPEB obligation	8,036,000
Net pension liability	1,196,202
<p>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:</p>	
Notes payable	429,279
Maryland State Retirement and Pension System	39,305
	39,305
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (3,906,603)

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION

Year Ended June 30, 2018

	<u>AGENCY FUNDS</u>			
	<u>SPECIAL EDUCATION CONSORTIUM</u>	<u>SCHOOL ACTIVITIES FUND</u>	<u>RETIREE HEALTH PLAN TRUST</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 348,506	\$ 297,934	\$ 113,911	\$ 760,351
Federal grants receivable	95,047	-	-	95,047
Due from general fund	27,122	-	-	27,122
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 470,675</u>	<u>\$ 297,934</u>	<u>\$ 113,911</u>	<u>\$ 882,520</u>
LIABILITIES				
Accounts payable	\$ 4,456	\$ -	\$ -	\$ 4,456
Accrued expenses	157,533	-	-	157,533
Funds held for school activities	-	297,934	-	297,934
Deferred revenue	308,686	-	-	308,686
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	470,675	297,934	-	768,609
NET POSITION				
Held in trust for OPEB	<hr/>	<hr/>	113,911	<hr/>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 470,675</u>	<u>\$ 297,934</u>	<u>\$ 113,911</u>	<u>\$ 882,520</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2018

	<u>RETIREE HEALTH PLAN TRUST</u>
ADDITIONS	
Net investment portfolio results	\$ 6,821
NET POSITION AT JULY 1, 2017	<u>107,090</u>
NET POSITION AT JUNE 30, 2018	<u><u>\$ 113,911</u></u>

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

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.

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

(1) Summary of significant accounting policies – continued

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 Retiree Health Plan Trust Fund financial statements are reported using the economic resources measurement focus and 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.

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).

Non-major fund

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 from bond issues is recognized 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.

Retiree health plan trust fund – This fund was established in fiscal year 2016 to prefund other postemployment (health insurance) benefits (OPEB) that the Board provides to certain retirees of Talbot County Public Schools.

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>
July	Review strategic plan and budget implications and priorities
August-October	Outreach presentations through school PTO meetings and community forums; Board work session on budget categories
September	Preliminary enrollment by school
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; Board work session
November	Draft proposed budget
December	Board of Education public meeting to review proposed budget
January	Board budget work session

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

(1) Summary of significant accounting policies – continued

<u>Approximate Date</u>	<u>Procedure Performed</u>
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

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. 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).

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.

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

(1) Summary of significant accounting policies – continued

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.

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 25 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 System (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.

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Talbot County Public Schools Retiree Health Plan (TCPSRHP) and additions to/deductions from TCPSRHP's fiduciary net position have been determined on the same basis as they are reported by TCPSRHP. For this purpose, TCPSRHP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

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

(1) Summary of significant accounting policies – continued

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.

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.

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

(1) Summary of significant accounting policies – continued

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 fiscal year 2018, the Board implemented GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for financial statements for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

During fiscal year 2018, the Board implemented GASBS No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB has issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is effective for financial statement for periods beginning after June 15, 2018. This statement may have a material effect on the Board's financial statements once implemented. The Board is analyzing the impact of this pronouncement on the Board's financial statements.

(2) Deposits

At June 30, 2018, the reported amount of the Board's bank deposits was \$7,222,839 and the bank balance was \$8,645,858.

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 with the exception of \$113,911 in funds held by the Retiree Health Plan (OPEB) trust fund.

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.

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

(2) Deposits – continued

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.

MLGIP qualifies for reporting its investment of amortized cost under GASB 79. Participants may obtain up to their entire principal account balance by having an authorized representative notify the MLGIP before 2:00 PM on the day of the withdrawal.

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	\$ 3,237,406
Cash equivalents - MGLIP	3,984,933
Cash on hand	<u>500</u>
Total cash and cash equivalents	<u>7,222,839</u>
Less trust and agency cash:	
Mid-Shore Special Education Consortium	348,506
OPEB trust fund	113,911
School activities	<u>297,934</u>
Total trust and agency cash	<u>760,351</u>
TOTAL CASH AND CASH EQUIVALENTS (GOVERNMENT-WIDE)	<u><u>\$ 6,462,488</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, 2018 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	\$ 624,446	\$ -	\$ -	\$ 624,446
Construction in Progress	-	1,650,515	-	1,650,515
Total Capital Assets Not Being Depreciated	<u>624,446</u>	<u>1,650,515</u>	<u>-</u>	<u>2,274,961</u>
Capital Assets Being Depreciated:				
Buildings	93,183,691	-	-	93,183,691
Land Improvements	2,153,813	45,300	-	2,199,113
Furniture, Equipment And Vehicles	<u>26,357,974</u>	<u>1,658,432</u>	<u>1,432,128</u>	<u>26,584,278</u>
Total Capital Assets Being Depreciated	<u>121,695,478</u>	<u>1,703,732</u>	<u>1,432,128</u>	<u>121,967,082</u>
Less Accumulated Depreciation for:				
Buildings	42,508,884	2,093,165	-	44,602,049
Land Improvements	835,552	77,863	-	913,415
Furniture, Equipment and Vehicles	<u>22,601,746</u>	<u>1,354,195</u>	<u>1,431,276</u>	<u>22,524,665</u>
Total Accumulated Depreciation	<u>65,946,182</u>	<u>3,525,223</u>	<u>1,431,276</u>	<u>68,040,129</u>
Total Capital Assets Being Depreciated, Net	<u>55,749,296</u>	<u>(1,821,491)</u>	<u>852</u>	<u>53,926,953</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 56,373,742</u>	<u>\$ (170,976)</u>	<u>\$ 852</u>	<u>\$ 56,201,914</u>

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

(3) Capital assets – continued

Depreciation expense for the year ended June 30, 2018 was charged to governmental functions as follows:

Support Services		
Instructional Services	\$	837,978
Student Transportation		366,505
Food Services		7,280
Unallocated		<u>2,313,460</u>
 TOTAL		 <u><u>\$ 3,525,223</u></u>

(4) Interfund receivables – payables

Outstanding balances resulting from transactions between funds as of June 30, 2018 consist of the following:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund	\$ 27,380	\$ 463,239
Restricted	463,239	-
Capital Projects Fund	<u>-</u>	<u>27,380</u>
 TOTAL	 <u><u>\$ 490,619</u></u>	 <u><u>\$ 490,619</u></u>

(5) Unearned revenues

Unearned revenues from grantors consist of federal and state grants and other advances that have not been expended by June 30, 2018 and consist of the following:

Restricted federal, Maryland and other grant programs		\$ 752,965
Food service fund		<u>1,429</u>
 TOTAL		 <u><u>\$ 754,394</u></u>

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

(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 law. 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 \$3,271,134 for the year ended June 30, 2018.

The Board's long-term debt at June 30, 2018 consists of the following:

Note payable to Signature Bank; principal and interest payments of \$2,207 are payable monthly through August 26, 2021; interest is payable at 2.09% per annum; collateralized by a school bus	\$ 81,081
Note payable to Suntrust Equipment Finance & Leasing Corp; principal and interest payments of \$8,638 are payable monthly through September 1, 2018; interest is payable at 1.597% per annum; collateralized by school buses	17,242
Note payable to Branch Banking & Trust Co. (BB&T); principal and interest payments of \$2,042 are payable monthly through June 11, 2020; interest is payable at 1.98% per annum; collateralized by school buses	53,882
Note payable to American Capital Financial Services, Inc.; principal and interest payments of \$51,594 are payable annually through September 1, 2021; interest is payable at 3.18% per annum; collateralized by servers	190,949
Note payable to City National Capital Finance; principal and interest payments of \$156,529 are payable annually through September 1, 2021; interest is payable at 1.8% per annum; collateralized by school buses	597,905
Note payable to City National Capital Finance; principal and interest payments of \$12,838 are payable annually through September 1, 2020; interest is payable at 1.9% per annum; collateralized by school buses	<u>37,162</u>
TOTAL NOTES PAYABLE	<u><u>\$ 978,221</u></u>

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

(6) Long-term liabilities – continued

Aggregate maturities of long-term notes payable at June 30, 2018 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 268,987	\$ 20,239	\$ 289,226
2020	257,077	14,872	271,949
2021	244,096	9,475	253,571
2022	208,061	4,476	212,537
TOTAL	<u>\$ 978,221</u>	<u>\$ 49,062</u>	<u>\$ 1,027,283</u>

State retirement system

State Retirement and Pension System of Maryland (Note 7,
funding status); payable annually through December 2035 \$ 589,670

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

2019	\$ 41,270
2020	43,334
2021	45,501
2022	47,776
2023	50,165
2024 - 2028	291,050
2029 - 2033	371,463
2034 - 2036	<u>270,479</u>
Total principal and interest	1,161,038
Less amount representing interest	<u>(571,368)</u>
LIABILITY AS OF JUNE 30, 2018	<u>\$ 589,670</u>

The changes in long-term liabilities for the year ended June 30, 2018 are as follows:

	<u>STATE RETIREMENT SYSTEM</u>	<u>COMPENSATED ABSENCES</u>	<u>NOTES PAYABLE</u>	<u>TOTAL</u>
Balance at June 30, 2017	\$ 582,189	\$ 325,789	\$ 361,852	\$ 1,269,830
Increases	46,786	11,457	1,045,648	1,103,891
Payments	<u>(39,305)</u>	<u>-</u>	<u>(429,279)</u>	<u>(468,584)</u>
Balance at June 30, 2018	<u>\$ 589,670</u>	<u>\$ 337,246</u>	<u>\$ 978,221</u>	<u>\$ 1,905,137</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 9, 2016.

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(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.

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 enroll in the Employees' Pension System on or after July 1, 2011.

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

(7) Pension plans – continued

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.

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 become 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.

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

(7) Pension plans – continued

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.

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.

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

(7) Pension plans – continued

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.

Contributions – The Board is required to contribute at actuarially determined rates, which are currently 15.71% of covered compensation for teachers and 18.56% 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, 2018, amounted to \$3,328,815. The fiscal 2018 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 and are also included as revenue and expenses in the statement of activities. 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>2018</u>	<u>2017</u>	<u>2016</u>
Total Payroll	\$ 34,762,588	\$ 34,411,375	\$ 34,011,761
Payroll Covered Under the Plans	\$ 32,813,417	\$ 32,588,049	\$ 31,869,846
Contributions Paid In:			
Board Payments	\$ 1,781,797	\$ 1,688,610	\$ 1,601,610
State On-Behalf Payments	\$ 3,328,815	\$ 3,503,652	\$ 3,401,839

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

(7) Pension plans – continued

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 2018 payment was \$39,305. See Note 6 for the remaining years' payment stream. The payments reflect a pattern which increases by 5% per year for the next 18 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.

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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

Pension Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources

– At June 30, 2018, 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	\$ 4,011,041
State's proportionate share of the net pension liability associated with the Board	<u>39,578,331</u>
Total	<u>\$ 43,589,372</u>

The net pension liability was measured as of June 30, 2017, 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 ended June 30, 2017 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, 2017 the Board's portion was .0185493%.

For the year ended June 30, 2018, the Board recognized pension income of \$319,101. The Board recognized revenue of \$3,328,815 for support provided by the state. At June 30, 2018, 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	\$ 183,462	\$ -
Net difference between projected and actual earnings on pension plan investments	609,986	269,106
Differences between expected and actual results	-	300,674
Board contributions subsequent to the measurement date	<u>396,514</u>	<u>-</u>
Total	<u>\$ 1,189,962</u>	<u>\$ 569,780</u>

The \$396,514 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, 2018. 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:	
2019	\$ 88,379
2020	182,846
2021	67,556
2022	(86,694)
2023	(28,419)

-Continued-

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

(7) Pension plans – continued

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Inflation	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15% including wage inflation
Investment rate of return	7.50%
Mortality	RP-2014 Mortality tables

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period 2010-2014.

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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	36%	5.30%
Private Equity	11%	7.00%
Rate Sensitive	21%	1.20%
Credit Opportunity	9%	3.60%
Real Assets	15%	5.70%
Absolute Return	8%	3.10%
Total	<u>100%</u>	

Discount rate – A single discount rate of 7.50% 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 7.50%. 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.

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

(7) Pension plans – continued

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 7.50%, 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 (6.50%) or 1% higher (8.50%) than the current rate.

	Discount rate	District’s proportionate share of the net pension liability
1% decrease	6.50%	\$5,684,445
Current discount rate	7.50%	\$4,011,041
1% increase	8.50%	\$2,622,596

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, 2018:

Pension contribution by the State of Maryland to the state retirement system for the applicable employees of the Board	\$ 3,328,815
School nurses provided by Talbot County, Maryland Health Department	621,717
Renovations costs for Easton Elementary School paid for by Talbot County, Maryland	1,634,735
TOTAL ON-BEHALF PAYMENTS	\$ 5,585,267

(9) Other postemployment benefits

General Information about the OPEB Plan

Plan description – The Talbot County Public Schools Retiree Health Plan (TCPSRHP) 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. This plan does not include the pension benefits discussed in Note 7. The Plan does not issue a separate, publicly available report.

Benefits provided – The Plan provides for the payment of a portion or all of the health insurance premiums for eligible retired employees depending on their position with Talbot County Public Schools and length of service. The Board has the authority to establish and amend benefit provisions of the Plan.

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

Employees covered by benefit terms – At July 1, 2016, the following employees were covered by the benefit terms:

Active plan members	491
Inactive employees or beneficiaries currently receiving benefit payments	242
	733
	733

Contributions – Premiums and other contributions for the Board’s 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.

Net OPEB Liability

The Board’s net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2%	
Salary Increases	4%	
Investment Rate of Return	3.58%	
Healthcare Cost Trend Rates	5.8% initially, reduced by decrements to an ultimate rate of 3.8%	

Mortality rates were based on the RP 2014 Employee White Collar Mortality Table, Fully Generational, Projected using Scale MP-2014 for pre-retirement healthy participants, RP 2014 Healthy Annuitant White Collar Mortality Table, Fully Generational, Projected using Scale MP-2014 (Projected from 2012 for Males and 2016 for Females in year 2014) for post-retirement healthy participants, and RP 2014 Disabled Annuitant Mortality Tables, Not Generational, Set forward 1 year for Males for disabled participants.

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

(9) Other postemployment benefits – continued

The long-term expected rate of return on OPEB plan investments was determined using a combination of building-block methodology and third party consultants to develop the best possible estimate ranges of expected future real rates of return. 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. Expected returns, net of OPEB plan investment expense and inflation are arithmetically developed for each major asset class corresponding with the long term time horizons, discount rate, and tolerance for risk. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long Term Expected Rate of Return
Large Cap	16.0%	6.50%
Mid Cap	7.0%	7.10%
Small Cap	7.5%	7.60%
Int'l Developed Equities	16.5%	8.60%
Int'l Emerging Mkt Equities	8.0%	10.80%
U.S. Real Estate	5.0%	7.70%
U.S. Investment Grade Bonds	30.0%	3.70%
U.S. High Yield Bonds	6.0%	6.00%
Emerging Markets Bonds	1.0%	5.70%
Cash	3.0%	2.30%
	<u>100.0%</u>	

Discount rate – The discount rate used to measure the total OPEB liability was 3.58%. The projection of cash flows used to determine the discount rate assumed that Board contributions will be to fund current contribution levels. Based on those assumptions, the unfunded rate was used. The unfunded rate is determined by using the 20 year Treasury bond. Any increase in the discount rate due to the assets of the trust is not deemed material. Therefore, the discount rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

The discount rate changed from the prior measurement date. The discount rate was 2.85% for the June 30, 2016 measurement date.

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

(9) Other postemployment benefits – continued

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance as of June 30, 2015 for FYE 2016	\$ 98,346,000	\$ 100,000	\$ 98,246,000
Changes for the Year:			
Service Cost	4,798,000	-	4,798,000
Interest	2,770,000	-	2,770,000
ER Trust Contribution	-	2,327,000	(2,327,000)
Net Investment Income	-	7,000	(7,000)
Changes in Assumptions	(13,270,000)	-	(13,270,000)
Benefit Payments	(2,327,000)	(2,327,000)	-
Administrative Expense	-	-	-
Net Changes	<u>(8,029,000)</u>	<u>7,000</u>	<u>(8,036,000)</u>
Balance as of June 30, 2016 for FYE 2017	<u>\$ 90,317,000</u>	<u>\$ 107,000</u>	<u>\$ 90,210,000</u>

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates – The following presents the net OPEB liability of the Board, as well as what the Board’s net OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.58%) or 1% higher (4.58%) than the current discount rate:

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
Discount Rate			
Total OPEB Liability	\$ 109,144,000	\$ 90,317,000	\$ 75,588,000
Net OPEB Liability (Asset)	\$ 109,037,000	\$ 90,210,000	\$ 75,481,000

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates – The following presents the net OPEB liability of the Board, as well as what the Board’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (4.8% decreasing to 2.8%) or 1% higher (6.8% decreasing to 4.8%) than the current healthcare cost trend rates:

	1% Decrease 2.80%	Discount Rate 3.80%	1% Increase 4.80%
Ultimate Trend			
Total OPEB Liability	\$ 72,872,000	\$ 90,317,000	\$ 113,797,000
Net OPEB Liability (Asset)	\$ 72,765,000	\$ 90,210,000	\$ 113,690,000

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

(9) Other postemployment benefits – continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the Board recognized OPEB expense of \$6,234,000. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ -	\$ 11,943,000
Total	\$ -	\$ 11,943,000

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

Year ended June 30:

2019	\$ (1,327,000)
2020	(1,327,000)
2021	(1,327,000)
2022	(1,327,000)
2023	(1,327,000)
Thereafter	(5,308,000)

(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
REVENUES		
Budgetary basis	\$ 51,374,242	\$ 4,823,362
Net encumbrance adjustment	-	(146,836)
Debt service paid by Talbot County, MD	3,271,134	-
State and County on-behalf payments	3,950,532	-
MODIFIED ACCRUAL BASIS	\$ 58,595,908	\$ 4,676,526
EXPENDITURES		
Budgetary basis	\$ 51,483,007	\$ 4,823,362
Net encumbrance adjustment	6,756	(146,836)
Debt service paid by Talbot County, MD	3,271,134	-
State and County on-behalf payments	3,950,532	-
MODIFIED ACCRUAL BASIS	\$ 58,711,429	\$ 4,676,526

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, 2018, MABE had total pool surplus of approximately \$29.7 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 six 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) Subsequent events

On July 25, 2018, the Board approved a lease purchase of four school buses over five years. The total cost of the lease, including interest, is \$550,542, which is payable in annual installments.

On August 22, 2018, the Board approved a Guaranteed Maximum Price (GMP) contract in connection with the Easton Elementary School renovation project in the amount of \$45,682,369. The GMP provides a “do not exceed” construction cost threshold to both the Board of Education of Talbot County and the Talbot County Council. Preliminary site work began in early Summer 2018 with a groundbreaking ceremony held September 19, 2018. The project has an estimated completion date of December 2019.

Subsequent events were evaluated through September 27, 2018, which is the date the financial statements were available for release.

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, 2018

	GENERAL FUND				RESTRICTED GRANTS - SEE NOTE 1		
	ORIGINAL BUDGET	AMENDED AND FINAL BUDGET	ACTUAL	VARIANCE – FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE – FAVORABLE (UNFAVORABLE)
REVENUES							
Talbot County	\$ 38,002,162	\$ 38,002,162	\$ 38,004,245	\$ 2,083	\$ -	\$ -	\$ -
State of Maryland	13,145,599	13,198,311	13,206,454	8,143	338,000	366,410	28,410
United States Government	-	-	-	-	3,791,503	3,849,133	57,630
Other sources:							
Interest earned	20,000	40,847	54,106	13,259	-	-	-
Other	46,000	85,380	109,437	24,057	181,895	607,819	425,924
TOTAL REVENUES	<u>51,213,761</u>	<u>51,326,700</u>	<u>51,374,242</u>	<u>47,542</u>	<u>4,311,398</u>	<u>4,823,362</u>	<u>511,964</u>
EXPENDITURES AND ECUMBRANCES							
Administration	1,098,457	1,098,457	1,098,222	235	54,949	96,577	(41,628)
Mid-level administration	3,584,128	3,584,128	3,583,582	546	183,803	122,810	60,993
Instructional salaries	20,991,785	20,991,785	20,983,810	7,975	819,203	651,988	167,215
Instructional texts and supplies	1,179,966	1,179,966	1,179,387	579	164,099	144,674	19,425
Other instructional costs	1,162,723	1,162,723	1,161,994	729	581,699	639,103	(57,404)
Special education	3,682,304	3,735,016	3,734,663	353	1,239,732	1,650,629	(410,897)
Student personnel services	201,541	201,541	200,095	1,446	-	166,777	(166,777)
Student transportation	2,583,394	2,643,621	2,629,145	14,476	10,349	60,559	(50,210)
Operation of plant	3,491,501	3,491,501	3,489,128	2,373	-	36,425	(36,425)
Maintenance of plant	1,351,454	1,351,454	1,351,395	59	-	20,000	(20,000)
Fixed charges	12,075,487	12,075,487	12,071,586	3,901	1,007,141	998,743	8,398
Community services	-	-	-	-	250,423	235,077	15,346
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>51,402,740</u>	<u>51,515,679</u>	<u>51,483,007</u>	<u>32,672</u>	<u>4,311,398</u>	<u>4,823,362</u>	<u>(511,964)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND ENCUMBRANCES BEFORE OTHER FINANCING SOURCES							
	(188,979)	(188,979)	(108,765)	80,214	-	-	-
OTHER FINANCING SOURCES							
Fund balance reappropriated	188,979	188,979	108,765	(80,214)	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES							
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF CHANGES IN THE BOARD'S NET OPEB LIABILITY AND RELATED RATIOS

As of June 30 of Measurement Year

	2017
Total OPEB liability	
Service cost	\$ 4,798,000
Interest	2,770,000
Changes of assumptions	(13,270,000)
Benefit payments	(2,327,000)
Net change in total OPEB liability	(8,029,000)
Total OPEB liability - beginning	98,346,000
Total OPEB liability - ending (a)	\$ 90,317,000
 Plan fiduciary net position	
Contributions - employer	\$ 2,327,000
Net investment income	7,000
Benefit payments	(2,327,000)
Administrative expense	100,000
Net change in fiduciary net position	107,000
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending (b)	\$ 107,000
 Board's net OPEB liability - ending (a) - (b)	 \$ 90,210,000
 Plan fiduciary net position as a percentage of the total OPEB liability	 0.12%
 Notes to Schedule:	
Benefit changes:	None
Changes in assumptions:	None
 Discount Rate:	
6/30/2016 Valuation	2.85%
6/30/2017 Valuation	3.58%

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF BOARD CONTRIBUTIONS

As of June 30 of Measurement Year

	<u>2017</u>
Actuarially required contribution	\$ 6,234,000
Contributions in relation to the actuarially required contribution	<u>(2,327,000)</u>
Contribution deficiency (excess)	<u>\$ 3,907,000</u>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of the net pension liability	0.0185493%	0.0220702%	0.0243216%	0.0224156%
Board's proportionate share of the net pension liability	\$ 4,011,041	\$ 5,207,243	\$ 5,054,438	\$ 3,978,041
State's proportionate share of the net pension liability associated with the Board	<u>39,578,331</u>	<u>47,006,698</u>	<u>37,780,481</u>	<u>30,872,861</u>
Total	<u>\$ 43,589,372</u>	<u>\$ 52,213,941</u>	<u>\$ 42,834,919</u>	<u>\$ 34,850,902</u>
Board's covered payroll	\$ 32,813,417	\$ 32,588,049	\$ 31,869,846	\$ 31,854,565
Board's proportionate share of the net pension liability as a percentage of its covered payroll	12.223783%	15.978996%	15.859625%	12.488135%
Plan fiduciary net position as a percentage of the total pension liability	69.38%	65.79%	68.78%	71.87%

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF BOARD CONTRIBUTIONS
Employees' Pension Plan

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 396,514	\$ 377,540	\$ 429,946	\$ 512,634
Contributions in relation to the contractually required contribution	<u>(396,514)</u>	<u>(377,540)</u>	<u>(429,946)</u>	<u>(512,634)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 32,813,417	\$ 32,588,049	\$ 31,869,846	\$ 31,854,565
Contributions as a percentage of covered payroll	1.208390%	1.158523%	1.349068%	1.609295%

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

Changes of assumptions – Pension amounts reported in 2018 reflect an adjustment to the inflation assumption of 2.70% to 2.65%. The salary increase assumption decreased from 3.3% to 9.2% to 3.15% to 9.15%. The investment rate of return decreased from 7.55% to 7.5%.

OTHER SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES – GENERAL FUND

Year Ended June 30, 2018

TALBOT COUNTY FUNDS

Current appropriations	\$ 36,881,313	
Non recurring appropriation	1,122,932	
Debt service	3,271,134	
On behalf payments - school nurses and supplies	<u>621,717</u>	
Total Talbot County Funds		\$ 41,897,096

STATE OF MARYLAND FUNDS

Current expenses	4,543,250	
Compensatory education	5,063,409	
Transportation	1,671,453	
Students with disabilities – formula	935,915	
Limited english – proficient	788,611	
Declining enrollment	132,961	
Out of county living	70,855	
On behalf payments - pension	<u>3,328,815</u>	
Total State of Maryland Funds		16,535,269

OTHER SOURCES

Out of county living	72,480	
Interest earned	54,106	
Miscellaneous	6,357	
Building rental	25,100	
Sale of equipment	<u>5,500</u>	
Total Other Sources		<u>163,543</u>

TOTAL GENERAL REVENUES \$ 58,595,908

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

Year Ended June 30, 2018

	CASH JULY 1, 2017	CASH RECEIPTS	CASH DISBURSED	CASH JUNE 30, 2018
Easton High School	\$ 66,307	\$ 359,766	\$ 314,596	\$ 111,477
St. Michaels High School	13,493	128,784	131,321	10,956
Easton Middle School	18,007	92,281	64,382	45,906
Easton Elementary School - Moton	6,333	80,562	67,031	19,864
Easton Elementary School - Dobson	23,853	31,021	29,553	25,321
St. Michaels Elementary/Middle School	26,889	27,523	24,261	30,151
Tilghman Elementary School	3,102	7,239	6,227	4,114
White Marsh Elementary School	27,866	35,676	32,842	30,700
Chapel District Elementary School	20,781	55,960	57,296	19,445
TOTALS	\$ 206,631	\$ 818,812	\$ 727,509	\$ 297,934