

**THE BOARD OF EDUCATION OF
WORCESTER COUNTY**

**FINANCIAL REPORT
JUNE 30, 2017**

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INDEPENDENT AUDITOR'S REPORT

The Board of Education of Worcester County
Newark, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Worcester County, Maryland (a component unit of Worcester County), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Worcester County, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of Worcester County's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, on our consideration of The Board of Education of Worcester County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Board of Education of Worcester County's internal control over financial reporting and compliance.


Salisbury, Maryland
September 29, 2017

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

The Board of Education of Worcester County
Newark, 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, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Worcester County, Maryland (the "Board"), a component unit of Worcester County, Maryland, as of and for the year ended June 30, 2017, 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 29, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

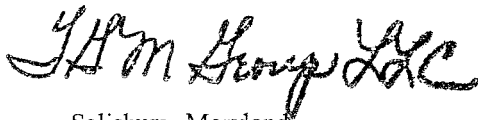
Compliance and Other Matters

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*.

We noted certain matters that we reported to management of the Board in a separate letter dated September 29, 2017.

Purpose of this Report

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

A handwritten signature in black ink that reads "YHM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
September 29, 2017

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2017

This section of the Board of Education of Worcester County's annual financial report presents our discussion and analysis of the district's financial performance during the fiscal year that ended on June 30, 2017, and a comparison with the results of the fiscal year ended June 30, 2016. Please read this section in conjunction with the District's financial statements, notes to the financial statements, and supplemental information, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year (FY) ended June 30, 2017 include the following:

- Net position is \$73,043,258, a decrease of \$13,674,814, or 15.76% over the prior year.
- Total General Fund balance equals \$1,978,100, an increase of \$155,271 from the prior year.
- Unassigned General Fund balance equals \$636,734, an increase of \$31,566 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts; (1) Independent Auditor's Report, (2) required supplementary information which includes the management's discussion and analysis (this section), (3) the basic financial statements, and (4) supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2017

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

As an example, Figure 1 shows how the various parts of this annual report are arranged and related to one another. Figure 2 summarizes the major features of the District's financial statements, including the portion of the District'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 Board of
Education's Annual Financial Report

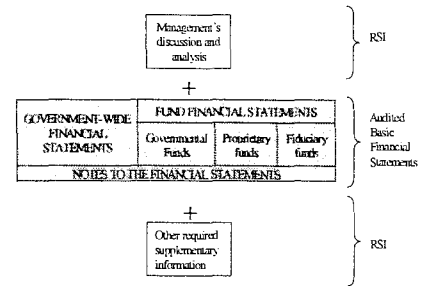


Figure 2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as instruction, special education and building maintenance, and community education	Activities the district operates similar to private businesses: Food Service Operation	Instances in which the district administers resources on behalf of someone else, such as scholarships and Student Activities Fund
Required financial statements	<ul style="list-style-type: none"> * Statements 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 net position * Statement of revenue, expenses, and changes in fund net position * Statement of cash flows 	<ul style="list-style-type: none"> * Statements of Fiduciary net position * Statement of changes in fiduciary net position
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2017

Figure 2 (Continued)				
Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Type of asset/liability information	All assets and liabilities, both financial and capital, short term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions and dedications during the year, regardless of when cash is received or paid.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two district-wide statements report the District's *net position* and any changes. Net position, which is the difference between the District's assets and liabilities, is one way to measure the District's financial health or *position*. District-wide statements provide a means to analyze the district's financial activities as follows:

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the condition of school buildings and other facilities. In the district-wide financial statements the District's activities are shown in one category.
- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation, maintenance and operation of plant, administration, and student services. County and state aid funds most of these activities.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2017

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds* - focusing on its most significant or major funds - not the District as a whole. Fund accounting is a method the District uses to keep track of specific sources of funding and spending on particular programs:

- State law requires some funds.
- The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (e.g., federal grants).

The District has three kinds of funds:

1. *Governmental funds* - Most of the district'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 District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
2. *Proprietary funds* - The Food Service operation is the only fund accounted for as proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
3. *Fiduciary funds* - The District is the trustee, or agent, for assets that belong to others, which include several scholarship funds to assist students in continuing their education past high school. The Student Activities Fund and the OPEB Trust Fund are also accounted for as fiduciary funds. The District 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 District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's *combined* net position was \$73,043,258 on June 30, 2017. This represents a decrease of 15.76 percent from the prior year. (See Table 1.)

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2017

Table 1

THE BOARD OF EDUCATION OF WORCESTER COUNTY STATEMENT OF NET POSITION JUNE 30, 2017

ASSETS	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 10,766,954	\$ 12,104,293	\$ 18,933	\$ 5,021	\$ 10,785,887	\$ 12,109,314
Capital Assets	163,752,128	159,291,562	29,026	38,281	163,781,154	159,329,843
TOTAL ASSETS	174,519,082	171,395,855	47,959	43,302	174,567,041	171,439,157
LIABILITIES						
Current Liabilities	7,571,808	9,458,660	1,127	1,127	7,572,935	9,459,787
Long-Term Liabilities	93,950,848	75,261,298	-	-	93,950,848	75,261,298
TOTAL LIABILITIES	101,522,656	84,719,958	1,127	1,127	101,523,783	84,721,085
NET POSITION						
Investment in Capital Assets, Net of Related Debt	163,752,128	159,291,562	29,026	38,281	163,781,154	159,329,843
Restricted	52,928	52,862	17,806	3,894	70,734	56,756
Unrestricted	(90,808,630)	(72,668,527)	-	-	(90,808,630)	(72,668,527)
TOTAL NET POSITION	\$ 72,996,426	\$ 86,675,897	\$ 46,832	\$ 42,175	\$ 73,043,258	\$ 86,718,072

Changes in net position. The District's total revenues were \$129,097,674 for the year ended June 30, 2017. (See Table 2.) The county appropriations of \$81,193,802 accounted for approximately 62.9 percent of total revenue for the year. Another 19 percent came from federal, state and local grant program revenues of \$24,606,996. General state aid was \$14,206,797 or 11 percent of total funding. Capital contributions of \$8,247,608 represented 6.4% of total revenue. The remainder came from charges for services, and investment earnings. The total cost of all programs and services was \$142,772,488. Approximately 77.3 percent of the District's expenses are related to providing direct educational services to students. Administrative activities of the District accounted for approximately 1.9 percent of total expenses. Total expenditures exceeded revenues, decreasing net position by \$13,674,814 from last year. This decrease is mostly due to recording depreciation and an \$18 million increase in the OPEB liability.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2017

Table 2

THE BOARD OF EDUCATION OF WORCESTER COUNTY CHANGES IN NET POSITION JUNE 30, 2017							
	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		BOARD OF EDUCATION TOTAL		PERCENT OF CHANGE
	2017	2016	2017	2016	2017	2016	
REVENUES							
Program Revenues:							
Charges for Services	\$ 64,192	\$ 50,484	\$ 643,465	\$ 609,144	\$ 707,657	\$ 659,628	7.3%
Federal and State Grants	21,042,125	21,022,357	2,064,871	2,015,963	23,106,996	23,038,320	0.3%
County OPEB Contribution	1,500,000	1,500,000	-	-	1,500,000	1,500,000	0.0%
Capital Contributions	8,247,608	13,446,556	-	-	8,247,608	13,446,556	-38.7%
General Revenues:							
County Appropriation	81,193,802	78,718,960	-	-	81,193,802	78,718,960	3.1%
State Formula Aid	14,206,797	14,280,011	-	-	14,206,797	14,280,011	-0.5%
Other	133,894	175,433	920	760	134,814	176,193	-23.5%
TOTAL REVENUES	126,388,418	129,193,801	2,709,256	2,625,867	129,097,674	131,819,668	-2.1%
EXPENSES							
Instruction and Special							
Education	110,402,198	106,263,781	-	-	110,402,198	106,263,781	3.9%
Administration	2,745,593	2,696,592	-	-	2,745,593	2,696,592	1.8%
Support Services	26,920,098	25,788,197	2,704,599	2,662,999	29,624,697	28,451,196	4.1%
TOTAL EXPENSES	140,067,889	134,748,570	2,704,599	2,662,999	142,772,488	137,411,569	3.9%
INCREASE (DECREASE) IN NET POSITION*	\$ (13,679,471)	\$ (5,554,769)	\$ 4,657	\$ (37,132)	\$ (13,674,814)	\$ (5,591,901)	

Governmental Activities

The decrease in net position for governmental activities was \$13,679,471 in 2017. Charts 1 and 2 present a breakdown of the District's revenues for 2016 and 2017. Charts 3 and 4 present a breakdown of the District's expenses for 2016 and 2017.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2017

Chart 1
Board of Education of Worcester County
Revenues - FY 2017

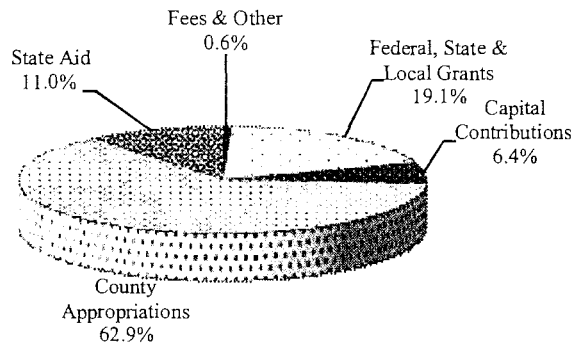
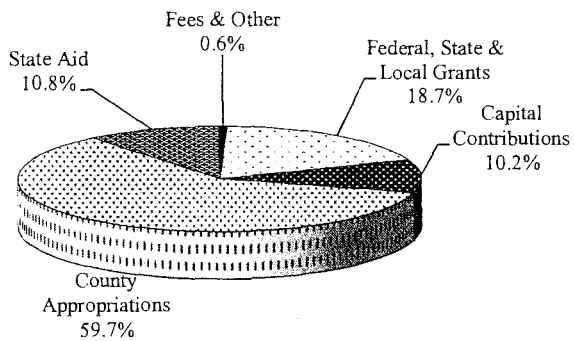


Chart 2
Board of Education of Worcester County
Revenues - FY 2016



THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2017

Chart 3
Board of Education of Worcester County
Expenditures - FY 2017

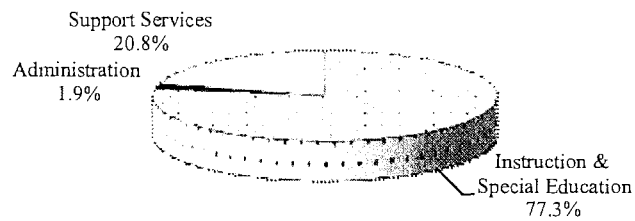
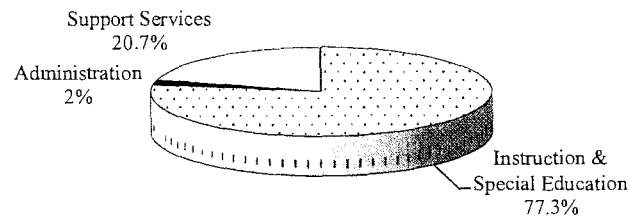


Chart 4
Board of Education of Worcester County
Expenditures - FY 2016



THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2017

Business-type Activities

Revenues of the District's only business-type activity, the food service operation, increased by \$83,389 to \$2,709,256 and expenses increased by \$41,600 to \$2,704,599. (Refer to Table 2.). This resulted in a gain of \$4,657 for the current year. The Board did not increase breakfast and lunch prices for FY18. (Table 3).

<u>TABLE 3</u>	School Year 2016-2017 MEAL PRICES		School Year 2017-2018 MEAL PRICES	
	Elementary	Secondary	Elementary	Secondary
Paid Breakfast	\$ 1.40	\$ 1.40	\$1.40	\$ 1.40
Paid Lunch	2.35	2.75	2.35	2.75
Paid Milk	.55	.55	.55	.55

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a *combined* fund balance of \$2,031,028, an increase of \$155,337 over last year's ending fund balance. Revenues for the District's governmental funds were \$124,013,418 a decrease of \$3,680,383 over last year. Total expenditures were \$123,858,081 for the year, a decrease of \$4,068,921 over the prior year. General fund revenues and expenditures were higher due to salary increases and rising health insurance and pension costs. Overall, governmental revenues and expenditures were less in FY17 due to the change in capital projects activity. The decrease in capital projects related to the Snow Hill High School renovation and addition project and decreased spending as we near project completion in December, 2017.

General Fund

The General Fund includes the primary operations of the District 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 4 for a summary of General Fund revenues and expenditures. The school system continues to efficiently manage the funds provided from various funding agencies, predominately our local government (the Worcester County Commissioners) and the State of Maryland. The most significant variances in revenue were in the areas of Retirement and Pension Contribution and in Other Sources. The retirement and pension contribution revenue variance was directly related to the increasing cost of retirement and pension plans. The majority of the variance in other sources was related to one-time revenue in the amount of \$29,000 received from an estate in FY2016. The most significant variances under expenditures were in the areas of Other Instructional Costs, Special Education, Pupil Transportation, Maintenance of Plant

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2017

and Retirement and Pension Contribution. Other Instructional Costs expenditures were higher due to the timing of purchase orders and when items were received. Special Education costs were higher due to additional staffing requirements associated with meeting the needs of our students with disabilities. Higher costs in Pupil Transportation were related to the increasing number of homeless students and the mandate to provide transportation to their home school. Maintenance of Plant expenditures were higher due to increasing cost of maintaining systems in our older buildings.

Table 4

GENERAL FUND AND RESTRICTED REVENUES

REVENUES	Fiscal Year	Fiscal Year	Increase	%
	2017	2016	(Decrease)	Incr. (Decr.)
Worcester County Appropriations	\$ 79,082,481	\$ 76,766,472	\$ 2,316,009	3.0%
Worcester County Retirement & Pension Contribution	2,550,603	2,416,065	134,538	5.6%
State of Maryland	18,967,262	19,002,715	(35,453)	-0.2%
State of Maryland Share of Retirement & Pension Contribution	6,929,246	6,505,613	423,633	6.5%
Restricted Federal, State, & Other Programs	8,038,132	9,330,463	(1,292,331)	-13.9%
Other Sources	198,020	225,892	(27,872)	-12.3%
TOTAL REVENUES	\$ 115,765,744	\$ 114,247,220	\$ 1,518,524	1.3%

GENERAL FUND AND RESTRICTED EXPENDITURES

EXPENDITURES				
Administration	\$ 1,529,950	\$ 1,527,654	\$ 2,296	0.2%
Mid-Level Administration	6,917,149	6,817,985	99,164	1.5%
Instructional Salaries	40,280,507	39,844,960	435,547	1.1%
Textbooks and Classroom Supplies	2,431,668	2,520,145	(88,477)	-3.5%
Other Instructional Costs	654,658	977,030	(322,372)	-33.0%
Special Education	9,696,057	9,283,951	412,106	4.4%
Pupil Personnel Services	334,137	331,978	2,159	0.7%
Health Services	852,467	849,638	2,829	0.3%
Pupil Transportation	6,344,000	6,076,228	267,772	4.4%
Operation of Plant	7,958,463	7,729,917	228,546	3.0%
Maintenance of Plant	1,146,717	1,040,069	106,648	10.3%
Fixed Charges	19,759,932	19,040,694	719,238	3.8%
Capital Outlay	186,787	188,056	(1,269)	-0.7%
Restricted Programs	8,038,132	9,330,463	(1,292,331)	-13.9%
Worcester County Retirement & Pension Contribution	2,550,603	2,416,065	134,538	5.6%
State of Maryland Share of Retirement & Pension Contribution	6,929,246	6,505,613	423,633	6.5%
TOTAL EXPENDITURES	\$ 115,610,473	\$ 114,480,446	\$ 1,130,027	1.0%
EXCESS (DEFICIENCY) OF REVENUES (USES) OVER EXPENDITURES	\$ 155,271	\$ (233,226)	\$ 388,497	

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2017

Capital Projects Fund

All funds for school construction come from either the Worcester County Commissioners or the State of Maryland. Both levels of government allocate either general tax revenue proceeds or provide bond proceeds for specific school construction projects. The Board has no legal authority to borrow funds. During FY 2017, the Board received county funding of \$8,247,608. These funds were used to pay costs related to the renovation and addition to Snow Hill High School Project, HVAC replacement units at Pocomoke Middle School, and initial planning for the Showell Elementary School project. The Capital Projects School Construction Fund revenues exceeded FY 2017 expenditures by \$66 resulting in a fund balance of \$52,928 at June 30, 2017.

Fiduciary Fund

The following funds are accounted for as Fiduciary Funds:

- (1) Private Purpose Trust Funds: Funds held in trust for specific purposes such as student scholarships and awards total \$306,565 as of June 30, 2017.
- (2) Agency Funds: During FY 2017 the schools collected revenues and incurred expenditures for various student activities (see Table 5).

SCHOOL ACTIVITIES FUND				
	Fiscal Year 2016	Fiscal Year 2015	Increase (Decrease)	% Incr. (Decr.)
Revenues	\$2,570,578	\$2,713,868	(\$143,290)	-5.3%
Expenditures	(2,693,553)	(2,781,079)	87,526	-3.1%
Beginning Due to Schools	\$992,945	1,060,156	(67,211)	-6.3%
Ending Due to Schools	\$869,970	\$992,945	-\$122,975	-12.4%

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2017

GENERAL FUND BUDGETARY HIGHLIGHTS

Four categories of our FY17 budget had actual expenditures that exceeded the original budget. Expenditures in the category of Textbooks and Classroom Supplies were higher than planned due to the local budget having to absorb software costs previously funded by restricted grants. The category of Special Education had higher than planned expenditures due to an increase in the number of staff required to adequately address the needs of our students with disabilities. Student Transportation had expenditures higher than budgeted largely due to an increase in the number of homeless students living outside of our county requiring transportation services to their home school. The category of Maintenance of Plant had higher than budgeted expenditures due to the increasing cost of repairs and supplies to aging HVAC units. The inter-category and intra-category budget transfers were approved by our Board at the August meeting. The inter-category budget transfers were approved by our County Commissioners at their September 5, 2017 meeting. The Board ended the year with an unassigned fund balance totaling \$636,734. This balance will be utilized to address future school system budgetary needs and will be assigned by the Board as part of the FY19 budget process. To remain revenue neutral in FY19, \$567,011 of this total will need to be included as a source of revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the District has invested over \$230 million in a broad range of capital assets, including land, school buildings, athletic facilities, furniture and equipment. (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year totaled \$3.75 million.

Construction - Next Five Years

Annually, the Board of Education prepares and submits to the State Interagency Committee for School Construction and our local county government a 5-Year Capital Improvement Program. Funding for the addition and renovations to Snow Hill High School was approved by the Worcester County Commissioners and the State of Maryland in FY14. The construction bids totaling \$40.2 million were approved by the Worcester County Commissioners in September, 2013. Construction on this project started in January, 2014 with an estimated project completion of December, 2017. A feasibility study for the Showell Elementary School project was completed in FY14. The feasibility study recommended a replacement school. An RFP for construction management services for this project was released in September, 2017. Construction of a new Showell Elementary School is currently scheduled to begin in FY19, subject to State and local funding.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2017

Long-Term Liabilities

At year-end, the District had \$93,950,848 for amounts due or payable after one year. This amount consists of the following:

- \$247,019 of accrued compensated absences which is an obligation resulting primarily from accrued annual leave which is due and payable to employees upon termination, \$5,614,576 in net pension liability and \$88,089,253 for other post-employment benefits.

FACTORS BEARING ON THE DISTRICTS' FUTURE

- (1) Effective for FY13, the State mandated that local school systems should be responsible for paying a portion of the cost of teacher pensions. This cost was phased in over a four year period. In FY17, the cost was \$2,351,391. During the phase-in period, State law required local governments to provide funding of this cost to the local school system above and beyond funding required under the State mandated maintenance of effort formulas. Beginning in FY17, this requirement is no longer in effect. This additional cost coupled with the current economic environment will result in continued fiscal challenges for our school system as we work to continue the programs and services that allow our students the opportunity to be successful.
- (2) Effective for fiscal years beginning after June 15, 2017, GASB 75 replaces the requirements of GASB 45 and will require the Board to report a liability on the Statement of Net Position similar the requirements of GASB 68 for Pensions. A much larger OPEB liability is expected to be reported for the year ending June 30, 2018.
- (3) The Board of Education has a growing list of capital projects. The list includes
 - Replacement of Showell Elementary School – Funding for a feasibility study was approved in FY14. This study was completed and presented to our Board in August. The study recommended the replacement of Showell Elementary School. The current estimated cost of this project is \$42.4 million. Construction of this project is currently scheduled to begin in FY19 with the approval of Local and State funding.
 - Addition to Stephen Decatur Middle School
 - Roof Replacements at Pocomoke Middle and Snow Hill Middle Schools

As more buildings age, delays in funding projects will compound the costs and logistics of the Capital Program.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2017

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office, at the Board of Education of Worcester County, 6270 Worcester Highway, Newark, Maryland 21841.

AUDITED FINANCIAL STATEMENTS

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF NET POSITION

June 30, 2017

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,933,301	\$ 455,022	\$ 6,388,323
Investments	232,236	-	232,236
Accounts receivable:			
Federal, state and other restricted funds	2,497,578	112,856	2,610,434
Miscellaneous	8,643	1,918	10,561
Internal balances	550,863	(550,863)	-
Capital assets:			
Construction in progress	920,822	-	920,822
Land	1,886,779	-	1,886,779
Buildings and improvements	223,773,168	-	223,773,168
Furniture, fixtures and equipment	4,223,563	265,957	4,489,520
Less: accumulated depreciation	(67,052,204)	(236,931)	(67,289,135)
Total capital assets, net of accumulated depreciation	163,752,128	29,026	163,781,154
TOTAL ASSETS	172,974,749	47,959	173,022,708
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (see Note 4)	1,544,333	-	1,544,333
LIABILITIES			
Accounts payable:			
Vendors	1,113,162	-	1,113,162
Others	418,456	1,127	419,583
Payroll deductions and withholdings	4,273,270	-	4,273,270
Payable to external parties	318,843	-	318,843
Unearned revenue	1,025,450	-	1,025,450
Long-term liabilities:			
Portion due or payable within one year:			
Accrued compensated absences	42,412	-	42,412
Early incentive payment	29,530	-	29,530
Portion due or payable after one year:			
Other post employment benefits	88,089,253	-	88,089,253
Pensions	5,614,576	-	5,614,576
Accrued compensated absences	247,019	-	247,019
TOTAL LIABILITIES	101,171,971	1,127	101,173,098
DEFERRED INFLOWS OF RESOURCES			
Pensions (see Note 4)	350,685	-	350,685
NET POSITION			
Net investment in capital assets	163,752,128	29,026	163,781,154
Restricted for:			
Food service activities	-	17,806	17,806
Capital projects	52,928	-	52,928
Unrestricted	(90,808,630)	-	(90,808,630)
TOTAL NET POSITION	\$ 72,996,426	\$ 46,832	\$ 73,043,258

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Current:				
Administration	\$ 1,747,597	\$ -	\$ 177,341	\$ -
Mid-Level Administration	7,042,943	-	125,794	-
Instructional services	51,104,290	64,192	3,908,352	-
Special education	12,124,864	-	4,172,921	-
Student personnel services	334,137	-	-	-
Health services	931,593	-	79,126	-
Student transportation	6,599,146	-	3,271,497	-
Operation of plant and equipment	7,889,383	-	17,759	-
Maintenance of plant	1,146,717	-	-	-
Fixed charges	43,544,756	-	3,378,129	-
Community services	22,189	-	22,189	-
Capital outlay	191,256	-	-	8,247,608
Food services	20,489	-	20,489	-
State of Maryland and county share of retirement and pension contribution	7,368,528	-	7,368,528	-
Total Governmental Activities	140,067,889	64,192	22,542,125	8,247,608
Business-Type Activities				
Food Services	2,704,599	643,465	2,064,871	-
Totals	\$ 142,772,488	\$ 707,657	\$ 24,606,996	\$ 8,247,608

General Revenues
 State of Maryland
 Worcester County appropriation
 Other revenue
 Unrestricted investment earnings

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

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

Net (Expenses) Revenue
and changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,570,256)	\$ -	\$ (1,570,256)
(6,917,149)	-	(6,917,149)
(47,131,746)	-	(47,131,746)
(7,951,943)	-	(7,951,943)
(334,137)	-	(334,137)
(852,467)	-	(852,467)
(3,327,649)	-	(3,327,649)
(7,871,624)	-	(7,871,624)
(1,146,717)	-	(1,146,717)
(40,166,627)	-	(40,166,627)
-	-	-
8,056,352	-	8,056,352
-	-	-
-	-	-
<hr/>		
(109,213,964)	-	(109,213,964)
<hr/>		
-	3,737	3,737
<hr/>		
(109,213,964)	3,737	(109,210,227)
<hr/>		
14,206,797	-	14,206,797
81,193,802	-	81,193,802
31,694	-	31,694
102,200	920	103,120
<hr/>		
95,534,493	920	95,535,413
<hr/>		
(13,679,471)	4,657	(13,674,814)
<hr/>		
86,675,897	42,175	86,718,072
<hr/>		
\$ 72,996,426	\$ 46,832	\$ 73,043,258

THE BOARD OF EDUCATION OF WORCESTER COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,933,301	\$ -	\$ 5,933,301
Investments	232,236	-	232,236
Accounts receivable:			
Federal, state and other restricted funds	1,000,189	1,497,389	2,497,578
Other	6,598	2,045	8,643
Due from other funds	1,277,839	12,449	1,290,288
TOTAL ASSETS	\$ 8,450,163	\$ 1,511,883	\$ 9,962,046
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable:			
Vendors	\$ 381,183	\$ 731,979	\$ 1,113,162
Others	418,456	-	418,456
Payroll deductions and withholdings	4,315,682	-	4,315,682
Due to other funds	331,292	726,976	1,058,268
Deferred revenue - Federal, state and other restricted funds	1,025,450	-	1,025,450
TOTAL LIABILITIES	6,472,063	1,458,955	7,931,018
COMMITMENTS AND CONTINGENCIES			
FUND BALANCES			
Fund Balance:			
Restricted for fund purposes	-	52,928	52,928
Assigned to:			
Insurance reserve	22,024	-	22,024
Subsequent year's expenditures	567,011	-	567,011
Capital and technology projects	174,485	-	174,485
Other purposes (encumbrances)	577,846	-	577,846
Unassigned	636,734	-	636,734
TOTAL FUND BALANCES	1,978,100	52,928	2,031,028
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,450,163	\$ 1,511,883	\$ 9,962,046

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION

June 30, 2017

Total fund balances, governmental funds	\$ 2,031,028
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	163,752,128
Deferred outflow of resources - pensions (see Note 6)	1,544,333
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	
Early incentive payment	(29,530)
Accrued Compensated absences	(247,019)
Net pension liability	(5,614,576)
Other post retirement employment benefits	<u>(88,089,253)</u>
Total long-term liabilities	(93,980,378)
Deferred inflow of resources - pensions (see Note 6)	<u>(350,685)</u>
Net assets of governmental activities in the Statement of Net Position	<u>\$ 72,996,426</u>

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	General	Restricted Grants	Capital Projects	Total Governmental Funds
REVENUES				
Worcester County Appropriations	\$ 81,193,802	\$ -	\$ 8,247,608	\$ 89,441,410
State of Maryland	18,967,262	-	-	18,967,262
On behalf State of Maryland - retirement and pension contribution	6,929,246	-	-	6,929,246
On behalf County - retirement and pension contribution	439,282	-	-	439,282
Restricted Federal, state and other local funds	-	8,038,132	-	8,038,132
Other sources	198,020	-	66	198,086
TOTAL REVENUES	107,727,612	8,038,132	8,247,674	124,013,418
EXPENDITURES				
Administration	1,529,950	177,341	-	1,707,291
Mid-level administration	6,917,149	125,794	-	7,042,943
Instructional salaries and wages	40,280,507	2,527,947	-	42,808,454
Textbooks and instructional supplies	2,431,668	487,838	-	2,919,506
Other instructional costs	654,658	892,567	-	1,547,225
Student personnel services	334,137	-	-	334,137
Health services	852,467	79,126	-	931,593
Student transportation	6,344,000	255,146	-	6,599,146
Operation of plant and equipment	7,958,463	17,759	-	7,976,222
Maintenance of plant	1,146,717	-	-	1,146,717
Fixed charges	21,871,253	1,003,129	-	22,874,382
Capital outlay	186,787	-	8,247,608	8,434,395
Special education	9,696,057	2,428,807	-	12,124,864
Food services	-	20,489	-	20,489
Community services	-	22,189	-	22,189
On behalf County - retirement and pension contribution	439,282	-	-	439,282
On behalf State of Maryland - retirement and pension contribution	6,929,246	-	-	6,929,246
TOTAL EXPENDITURES	107,572,341	8,038,132	8,247,608	123,858,081
Net Change in fund balances	155,271	-	66	155,337
Fund balances, beginning	1,822,829	-	52,862	1,875,691
Fund balances, ending	\$ 1,978,100	\$ -	\$ 52,928	\$ 2,031,028

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

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

Year Ended June 30, 2017

Net change in fund balances, governmental funds \$ 155,337

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

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

Capital outlay	8,495,672	
Depreciation expense	<u>(4,030,637)</u>	
Excess of capital outlay over depreciation expense		4,465,035

Loss on disposal of assets (4,469)

Some items reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in governmental
funds. These activities consist of:

Decrease in compensated absences	9,358	
Increase in early incentive payment	(29,530)	
Increase in pension expense	(273,127)	
Increase in post-retirement benefits	<u>(18,002,075)</u>	
		<u>(18,295,374)</u>

Change in net position of governmental activities \$ (13,679,471)

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF FUND NET POSITION
 PROPRIETARY FUNDS

June 30, 2017

	<u>Enterprise Fund Food Services</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 455,022
Due from other governments	112,856
Other receivables	<u>1,918</u>
Total current assets	<u>569,796</u>
Noncurrent assets:	
Furniture and equipment	265,957
Less: accumulated depreciation	<u>(236,931)</u>
Total noncurrent assets	<u>29,026</u>
TOTAL ASSETS	<u>598,822</u>
LIABILITIES	
Current liabilities:	
Due to general fund	550,863
Accounts payable	<u>1,127</u>
Total current liabilities	551,990
COMMITMENTS AND CONTINGENCIES	
NET POSITION	
Invested in capital assets	29,026
Unrestricted	<u>17,806</u>
TOTAL NET POSITION	<u>\$ 46,832</u>

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
BUSINESS-TYPE ACTIVITIES

Year Ended June 30, 2017

	<u>Enterprise Fund Food Services</u>
OPERATING REVENUES	
Food service sales	<u>\$ 643,465</u>
OPERATING EXPENSES	
Salaries and wages	957,248
Fringe benefits	382,177
Contracted services	6,171
Food and food related supplies	1,124,450
Nonfood supplies	36,043
Value of USDA commodities donated	169,361
Commodity processing	11,919
Depreciation	<u>17,230</u>
TOTAL OPERATING EXPENSES	<u>2,704,599</u>
OPERATING LOSS	<u>(2,061,134)</u>
NONOPERATING REVENUES	
Interest income	920
State of Maryland:	
Reimbursement of food costs	112,709
Federal through state:	
Reimbursement of food costs	1,782,801
Donation of food commodities	169,361
Total Federal through state	<u>1,952,162</u>
TOTAL NONOPERATING REVENUES	<u>2,065,791</u>
Change in net position	4,657
Net position beginning of year	<u>42,175</u>
Net position end of year	<u><u>\$ 46,832</u></u>

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 Year Ended June 30, 2017

	<u>Enterprise Fund</u> <u>Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from user charges	\$ 646,479
Cash payments to employees for services	(957,248)
Cash payments for health and other insurances	(382,177)
Cash payments to suppliers for goods and services	(1,172,412)
Cash payments for facility use and maintenance	(6,171)
Net cash used in operating activities	<u>(1,871,529)</u>
CASH FLOWS FROM CAPITAL ACTIVITIES:	
Purchase of equipment	(7,975)
Net cash used in capital activities	<u>(7,975)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Non operating grants received	1,909,788
Net loans (repayments) to other funds	(20,551)
Net cash provided by noncapital financing activities	<u>1,889,237</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	920
Net change in cash	10,653
Cash and investments, beginning of year	444,369
Cash and investments, end of year	<u>\$ 455,022</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (2,061,134)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	17,230
Donated commodities used	169,361
Changes in assets and liabilities:	
Receivables	3,014
Net cash used in operating activities	<u>\$ (1,871,529)</u>
NONCASH NONCAPITAL FINANCING ACTIVITIES	
During the year the board received food commodities from the U.S. Department of Agriculture	<u>\$ 169,361</u>

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

June 30, 2017

	Private Purpose Trust Fund	Retiree Benefit Trust Fund	Agency Fund School Activities Fund
ASSETS			
Cash	\$ -	\$ 1,210,511	\$ 857,692
Trust investments:			
Money market funds	-	409,594	-
Fixed income securities	-	6,548,184	-
Equities securities	-	12,785,652	-
Due from other funds	306,565	-	12,278
TOTAL ASSETS	<u>306,565</u>	<u>20,953,941</u>	<u>869,970</u>
LIABILITIES			
Due to school activities funds	-	-	869,970
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>869,970</u>
NET POSITION			
Held in trust for:			
Other postemployment benefits	-	20,953,941	-
Scholarships, etc.	306,565	-	-
TOTAL NET POSITION	<u>\$ 306,565</u>	<u>\$ 20,953,941</u>	<u>\$ -</u>

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
Year Ended June 30, 2017

	Private Purpose Trust Fund	Retiree Benefit Trust Fund
ADDITIONS		
Contributions:		
Donations and fees	\$ 59,246	\$ -
Worcester County contributions	-	2,375,000
Plan member contributions	-	609,605
Total contributions	<u>59,246</u>	<u>2,984,605</u>
Investment earnings:		
Interest	1,546	2,842
Increase in fair value of investments	-	2,318,367
Total investment earnings	<u>1,546</u>	<u>2,321,209</u>
Total additions	<u>60,792</u>	<u>5,305,814</u>
DEDUCTIONS		
Plan benefit payments	-	6,346,885
Professional fees	-	-
Scholarships, etc.	35,457	-
Total deductions	<u>35,457</u>	<u>6,346,885</u>
Change in net position	25,335	(1,041,071)
Net position held in trust, beginning	<u>281,230</u>	<u>21,995,012</u>
Net position held in trust, ending	<u>\$ 306,565</u>	<u>\$ 20,953,941</u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Education of Worcester County, Maryland is a component unit of Worcester County, Maryland. These separate financial statements are also included within the basic financial statements of Worcester County.

The Board of Education receives substantial appropriations from and is subject to the indirect control of Worcester County, although the Board has its own separate governing board.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to recipients who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Grants and other revenues not properly included among program revenues are reported instead as general revenues.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues-Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursable basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: interest, tuition, grants, fees and rentals.

Unearned revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants received before the eligibility requirements are met are also recorded as unearned revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The government reports the following major governmental funds:

General and Restricted Funds

All financial resources appropriated for current operating expenditures, including restricted grant funds, are accounted for in the General and Restricted Funds.

Capital Projects Fund

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

The Board reports the following major proprietary fund:

Food Service Fund

This fund accounts for the activity of the Board's Food Service operation which operates cafeterias in the Board's schools.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The Board also reports the following fund types:

Agency Fund

Funds of the School Activity Fund are administered by the individual schools in a fiduciary capacity.

Private Purpose Trust Fund

These funds are held by the Board for scholarships and other student awards.

Retiree Benefit Trust Fund

These funds are held in trust by Worcester County, Maryland, on behalf of the Board, for the benefits of retirees.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board are charges for lunch, breakfast and catered meals. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Position

Cash and Investments

The Board is authorized to invest any monies in any fund or account over which it has custody or control. The type of investments are specified in accordance with Section 6-222 of the Maryland State Finance and Procurement Article.

Cash in the General Fund and Food Service Funds are pooled into one account in order to maximize investment opportunities. Each fund whose monies are deposited in the account has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash and cash investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements.

Accounts Receivable

The Board has amounts due from governmental agencies of \$2,610,434 at June 30, 2017. These receivables are due primarily from the Maryland State Department of Education and from Worcester County.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 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.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

Capital Assets (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the Board is depreciated using the straight-line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Improvements	20 - 25
Buildings	50
Vehicles	8
Furniture, Fixtures And Equipment	5 - 15

Compensated Absences

Compensated absences are reported as accrued in the government wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Net Position

In the government-wide financial statements, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

Net Position (continued)

The Board applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that period. The Board has one item that qualifies for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension obligation (Note 4) for changes in assumptions and contributions subsequent to the measurement date. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one item that qualifies for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension obligation (Note 4) for the net difference between projected and actual investment earnings on pension plan investments. This item is deferred and recognized as an inflow from resources in the period that the amounts become available.

The deferred outflows and inflows of resources represent reconciling items between the governmental fund financial statements and the government-wide financial statements.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Transfers are fund balance amounts reserved and/or designated in the prior year that received County approval to be spent on capital projects.

Fund Balance

Fund balances are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable (i.e. inventory or long term receivables), restricted (by external parties or legislation), committed (by resolution of the Board of Education), assigned (by management approval for specific purposes) and unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board. Assigned fund balances is a limitation imposed by a designee of the Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Proprietary fund equity is classified the same as in the government-wide statements.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are reported as assigned fund balance in the governmental fund financial statements. Encumbrances outstanding at June 30, 2017 that were provided for in the current year's budget for the budgetary basis of accounting but will be accounted for under generally accepted accounting principles in the subsequent year totaled \$577,846.

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The budget is prepared on the budgetary basis of accounting. The budget establishes a limit on the amounts that the Board may appropriate and sets annual limits as to the amount of expenditures at a level of control selected by the Board. The legal level of control has been established by the Board at the category level within each fund.

The budget may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original budget was adopted. The amounts reported in the final budgeted amounts reflect amendments approved by the County government during the year between categories and those approved by the Board within categories.

Note 2. Detailed Notes on All Funds

A. Deposits and Investments

Custodial Risk

The Annotated Code of Maryland (Article 95, Section 22) requires that deposits with financial institutions by local boards of education be collateralized. Collateral for repurchase agreements must be at least 102% of market value of principal and accrued interest. The Board's collateral is held by a custodian in accordance with Section 6-209(c) of the State Finance and Procurement Article of the Annotated Code of Maryland and acceptable collateral is as specified under Section 6-202 of the same document.

These collateralization requirements are established to reduce custodial risk which is the risk that in the event of a bank failure, the Board's deposits may not be returned to it.

At June 30, 2017, the Board's funds were invested as follows:

	CARRYING VALUE
Cash and cash equivalents	\$ 6,388,323
Invested in Maryland Local Government Investment Pool	\$ 232,236

NOTES TO FINANCIAL STATEMENTS

Note 2. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investments of \$232,236 reported in the governmental funds consist of U.S. Government Securities made through the State of Maryland Local Government Investment Pool which provide local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 94 22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Safe Deposit and Trust Company, which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a quarterly basis and provide suggestions to enhance the pool. The MLGIP is rated AAA by Standard and Pooors. The fair value of the pool is the same as the value of the pool shares. Investments are recorded at cost, which approximates market value. Statutes authorize the Board to invest in obligations of the U.S. Treasury and U.S. Agencies, municipal securities and repurchase agreements, collateralized certificates of deposit, bankers acceptance or money market funds.

The Board's exposure to interest rate and credit risk is minimal, as all investments are in cash and MLGIP and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by attempting to have all investments fully collateralized by securities. Cash is invested pursuant to the Annotated Code of Maryland and County Code.

The bank balances were exposed to custodial credit risk as follows:

	Governmental Activities	Business-Type Activities
Insured	\$ 500,000	\$ 250,000
Uninsured and Collateral Held by Pledging Bank's Trust Department in the Board's Name	6,871,856	179,416
Uninsured and Undercollateralized	-	-
TOTAL	\$ 7,371,856	\$ 429,416

Investment – Retiree Benefit Trust Fund

Investments of \$20,953,941 in the Retiree Benefit Trust Fund by type and maturity were at June 30, 2017 were as follows:

	1 Year	1-5 Years	Over 5 Years	Total	Rate
M&T Investments:					
Cash	\$ 1,210,511	\$ -	\$ -	\$ 1,210,511	
Money Market	409,594	-	-	409,594	
Fixed Income:					
U.S. Treasury	127,940	404,816	937,336	1,470,092	.625 - 3.625 %
U.S. Government Agency	-	6,726	738,424	745,150	3 - 5 %
Other Fixed Income	214,528	454,027	3,664,387	4,332,942	1.05 - 6.2 %
Equities	12,785,652	-	-	12,785,652	N/A
Totals	\$ 14,748,225	\$ 865,569	\$ 5,340,147	\$ 20,953,941	

NOTES TO FINANCIAL STATEMENTS

Note 2. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investments at Fair Value

Government Accounting Standards Board Statement (GASB) No. 72, *Fair Value Measurements and Application*, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 – that are observable for the asset or liability, either directly or indirectly (for example, quoted prices in active markets for similar assets or liabilities)
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a combination of prevailing market prices and interest payments that are discounted at prevailing interest rates for similar instruments. Commercial and residential mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques.

As of June 30, 2017, the Board had the following recurring fair value measurements:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
Corporate and foreign bonds	\$ -	\$ 1,248,747	\$ -	\$ 1,248,747
Fixed income funds	3,084,195	-	-	3,084,195
	3,084,195	1,248,747	-	4,332,942
Equity Securities:				
Mutual funds	12,785,652	-	-	12,785,652
Other investments:				
Money market	409,594	-	-	409,594
U.S. Treasury	1,470,092	-	-	1,470,092
U.S. Government Agency	745,150	-	-	745,150
	2,624,836	-	-	2,624,836
Total investment by fair value level	\$ 18,494,683	\$ 1,248,747	\$ -	\$ 19,743,430

NOTES TO FINANCIAL STATEMENTS

Note 2. Detailed Notes on All Funds (continued)

B. Interfund Receivables - Payables

At June 30, 2017, the interfund account balances are as follows:

	DUE FROM OTHER FUNDS	DUE TO OTHER FUNDS
GOVERNMENTAL ACTIVITIES:		
GENERAL FUND		
Due from/to Food Service Fund	\$ 550,863	\$ -
Due from/to Capital Projects Fund	726,976	12,449
Due to School Activities Fund	-	12,278
Due to Trust Fund	-	306,565
Sub-Total	1,277,839	331,292
CAPITAL PROJECTS FUND		
Due from/to General Fund	12,449	726,976
BUSINESS-TYPE ACTIVITIES:		
ENTERPRISE FUND		
Due from/to General Fund	-	550,863
FIDUCIARY NET POSITION		
Due from General Fund	318,843	-
TOTAL ALL FUNDS	\$ 1,609,131	\$ 1,609,131

NOTES TO FINANCIAL STATEMENTS

Note 2. Detailed Notes on All Funds (continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,886,779	\$ -	\$ -	\$ 1,886,779
Construction in Progress	40,602,472	705,596	(40,387,246)	920,822
Total Capital Assets, not Being Depreciated	42,489,251	705,596	(40,387,246)	2,807,601
Capital Assets, Being Depreciated:				
Buildings and Improvements	175,919,777	7,466,145	40,387,246	223,773,168
Furniture, Fixtures, Equipment and Vehicles	3,977,849	323,931	(78,217)	4,223,563
Total Capital Assets, being Depreciated	179,897,626	7,790,076	40,309,029	227,996,731
Less Accumulated Depreciation for:				
Buildings	(59,856,637)	(3,852,010)	-	(63,708,647)
Furniture, Fixtures, Equipment and Vehicles	(3,238,678)	(178,627)	73,748	(3,343,557)
Total Accumulated Depreciation	(63,095,315)	(4,030,637)	73,748	(67,052,204)
Total Capital Assets, being Depreciated, Net	116,802,311	3,759,439	40,382,777	160,944,527
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 159,291,562	\$ 4,465,035	\$ (4,469)	\$ 163,752,128
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Being Depreciated:				
Machinery, Equipment and Vehicles	\$ 262,982	\$ 7,975	\$ (5,000)	\$ 265,957
Less Accumulated Depreciation for:				
Machinery, Equipment and Vehicles	(224,701)	(17,230)	5,000	(236,931)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	\$ 38,281	\$ (9,255)	\$ -	\$ 29,026

NOTES TO FINANCIAL STATEMENTS

Note 2. Detailed Notes on All Funds (continued)

C. Capital Assets (continued)

Depreciation for governmental activities is allocated as follows:

Administration	\$ 40,306
Instruction Services	3,829,105
Operation of Plant	<u>161,225</u>
TOTAL	<u>\$ 4,030,637</u>

D. Changes In Long-Term Debt

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2017</u>	<u>Due in One Year</u>
Other Post Employment Benefits	\$ 70,087,178	\$ 18,002,075	\$ -	\$ 88,089,253	\$ -
Net pension liability	4,917,743	696,833	-	5,614,576	-
Retirement Incentive and Severance	-	29,530	-	29,530	29,530
Long-Term Portion of Accrued Compensated Absences	<u>292,801</u>	<u>33,054</u>	<u>36,424</u>	<u>289,431</u>	<u>42,412</u>
	<u>\$ 75,297,722</u>	<u>\$ 18,761,492</u>	<u>\$ 36,424</u>	<u>\$ 94,022,790</u>	<u>\$ 71,942</u>

E. Fiduciary Fund Types

The fund equity at June 30, 2017 consists of the following:

John Postley Fund	\$ 75,980
Old Home Prize Fund	16,985
Gladys C. Burbage Scholarship Fund	168,504
John Coleman Scholarship Fund	2,254
Mark Pilchard Scholarship Fund	1,529
Stephen Decatur - Class of 1955 Fund	4,372
Worcester Board of Education - Employees Fund	7,603
Other	17,756
Stephen Decatur - JROTC	11,582
TOTAL	<u>\$ 306,565</u>

NOTES TO FINANCIAL STATEMENTS

Note 3. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has joined the Maryland Association of Boards of Education Workers' Compensation Group Insurance Fund (the Fund), a public entity risk pool currently providing workers compensation coverage for participating boards of education in the State of Maryland. The Board pays an annual premium to the Fund calculated based on projected payroll. The agreement for the Fund provides that it will be self-sustaining through member premiums and will reinsure through commercial companies for claims which exceed coverage limits as specified in the agreement. Should the Fund encounter deficits in its casualty and/or property funds, this deficit may be made up from additional assessments of boards participating in the deficit Fund. The Board continues to carry commercial insurance for all other risks of loss, including general liability, employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in the last three years.

Note 4. Pension Plans

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

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Generally, all regular employees of the Board participate in the Employees' Retirement and Pension Systems (Employee's Systems). Teachers employed by the Board generally participate in the Teachers' Retirement and Pensions Systems (Teachers' Systems). Both the Employees' Systems and the Teachers' Systems (collectively the Systems) are cost sharing multiple-employer defined benefit pension plans.

Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems

General Plan Policies

The Teachers' Retirement System of the State of Maryland was established on August 1, 1927 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland for the purpose of providing retirement allowances and other benefits to teachers in the State. In addition, on January 1, 1980, the Teachers' Pension System of the State of Maryland was established. In this regard, teachers hired on or after January 1, 1980 become members of the Teachers' Pension System, unless they elect to join an optional retirement program. Until December 31, 2004, existing members of the Teachers' Retirement System had the option of remaining in the Teachers' Retirement System or transferring to the Teachers' Pension System.

NOTES TO FINANCIAL STATEMENTS

Note 4. Pension Plans (continued)

Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems (continued)

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension system was established. Until December 31, 2004, existing members of the Employees' Retirement System had the option of remaining in the Employees' Retirement System or transferring to the Employees' Pension System.

Significant Plan Benefits and Policies

The following is a general description of the significant plan benefits and related contribution requirements for the Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems:

Teachers' and Employees' Retirement Systems

Retirement Benefits:

A member may retire with full benefits after attaining the age of 60, or after completing 30 years of creditable service regardless of age. The annual retirement allowance is equal to 1/55 of a member's average final compensation (i.e. average of the member's three highest years of annual earnable compensation) multiplied by the number of years and months of accumulated creditable service. A member may retire with reduced benefits after completing 25 years of creditable service regardless of age. Retirement allowances are adjusted each year based on the Consumer Price Index. Cost-of-living adjustments (COLAs) are applied to all allowances payable for the year, however, the method by which the COLA is computed depends upon elections made by members and is tied to member contributions.

Vested Allowance:

A member terminating employment before attaining retirement age but after completing 5 years of creditable service becomes eligible for a vested retirement allowance, provided the member lives to the age of 60 and does not withdraw his or her accumulated contributions. Members terminating employment before attaining retirement age and before completing 5 years of creditable service are refunded their accumulated contributions plus earned interest.

Employee and Employer Contributions:

Members of the Teachers' and Employees' Retirement System are required to contribute to the systems a fixed percentage of their regular salaries and wages (e.g. 7% or 5%, depending on the COLA option selected). The contributions are deducted from each member's salary and wage payment and are remitted to the systems on a regular, periodic basis.

Teachers' and Employees' Pension System

Pension Benefits:

A member may retire with full benefits after completing 30 years of eligibility service regardless of age, or at age 62 or older with specified years of eligibility service. On retirement from service, a member shall receive an annual service pension allowance. The annual pension allowance is equal to 1.2% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued prior to July 1, 1998 and 1.8% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued on or after July 1, 1998. Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

NOTES TO FINANCIAL STATEMENTS

Note 4. Pension Plans (continued)

Teachers' and Employees' Pension System (continued)

Vested Allowance:

A member terminating employment before attaining retirement age, but after completing 5 years of eligibility service, becomes eligible for a vested pension allowance provided the member lives to age 62. Members terminating employment before attaining retirement age and before completing 5 years of eligibility service are refunded their accumulated contributions plus earned interest.

Employee and Employer Contributions:

Effective July 1, 2011, members of the Teachers' and Employees' Pension Systems are required to contribute to the systems 7% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2017. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

For members enrolled on and after July 1, 2011, the employee contribution is 7%; vesting requires ten years of eligible service; service retirement is at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement is age 60 with 15 years of eligibility service; average final compensation is a five year average; and the benefit multiplier per year is 1.5%.

For the year ended June 30, 2017 the Board's total payroll for all employees was \$67,827,731. Total covered payroll was \$60,937,473. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay the State a specified percentage of the normal cost portion of the total pension cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. The specified percentage increases each fiscal year, until fiscal year 2017, when the Board paid 100% of the normal cost for each teacher. The related payment for fiscal year ending 2017 was \$2,351,392. In addition, the State of Maryland contributed \$6,929,246 on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense.

During fiscal year 2017, the Board reported expense of \$439,282 related to the Employees' Systems in the fund financial statements. This amount was paid directly by the County and the Board has recognized the County on-behalf payments as both a revenue and expense.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

Because the State of Maryland pays the unfunded liability for the Teachers' Systems and the Board pays the normal cost for the Teachers' Systems, the Board is not required to record its' share of the unfunded pension liability for the Teachers' Systems, the State of Maryland is required to record that liability. The Board is required to record a liability for the Employees' Systems.

NOTES TO FINANCIAL STATEMENTS

Note 4. Pension Plans (continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (continued)

At June 30, 2017, 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:

	2017
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 5,614,576
Board's proportionate share of the net pension liability (Teachers' Systems)	<u>78,792,130</u>
Total	<u>\$ 84,406,706</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was calculated as follows by the System(s):

1. Net pension liability for the entire System was calculated. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland and one for primary government employees.
2. Determined the total contributions to the System by the State and by the primary governments, inclusive of any underfunding of contributions.
3. Based on the number of participants at each Board of Education, calculate the difference between what each Board would have contributed if they funded at the rate of all other participating governments and what the Board actually contributed. The difference between what the Board contributed and what they would have contributed if they funded at the rate of the other participating governments, is then added to the total contribution to the System, to calculate the System's adjusted contribution.
4. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each primary government contribution. At June 30, 2017, the Board's proportion was approximately .0237966%.

For the year ended June 30, 2017, the Board recognized pension expense for the employees system of \$712,409 in the government wide financial statements and \$439,282 in the fund financial statements. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Year End June 30,	2016 Balance Amortization		2015 Balance Amortization			2014 Balance Amortization	
	Deferred Outflows	Deferred Inflows	Deferred Outflows		Deferred Inflows	Deferred Outflows	Deferred Inflows
	Net Difference in Investment Earnings	Actual and Expected Experience	Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings
2018	\$ 139,232	\$ (12,632)	\$ 108,288	\$ 50,549	\$ (20,680)	\$ 13,820	\$ (104,569)
2019	139,232	(12,632)	108,288	50,549	(20,680)	13,819	(104,568)
2020	139,232	(12,632)	108,287	50,548	(20,680)	-	-
2021	139,230	(12,632)	-	43,977	(17,991)	-	-
2022	-	(10,989)	-	-	-	-	-
Total	<u>\$ 556,926</u>	<u>\$ (61,517)</u>	<u>\$ 324,863</u>	<u>\$ 195,623</u>	<u>\$ (80,031)</u>	<u>\$ 27,639</u>	<u>\$ (209,137)</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Pension Plans (continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (continued)

In addition, there is \$439,282 of deferred outflows of resources resulting from the Board's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.8647, 5.87 and 5 years for the years ended June 30, 2016, 2015, and 2014, respectively. The net difference in investment earnings for 2016, 2015 and 2014 are being amortized over a closed five year period.

Actuarial Assumptions

The total pension liability in the June 30, 2016 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	2.70% general, 3.20% wage
Salary increases	3.30% to 9.20%, including wage inflation
Discount rate	7.55%
Investment rate of return	7.55%
Mortality	RP-2014 Mortality tables

Investments

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	6.6%
Private Equity	10%	7.4%
Rate Sensitive	20%	1.3%
Credit Opportunity	9%	4.2%
Real Assets	15%	4.7%
Absolute Return	9%	3.7%
Total	<u>100%</u>	

NOTES TO FINANCIAL STATEMENTS

Note 4. Pension Plans (continued)

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions (continued)

Discount rate

A single discount rate of 7.55% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Boards Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>Discount Rate</u>	<u>Board's Net Pension Liability</u>
1% decrease	6.55%	\$ 7,712,107
Current discount rate	7.55%	\$ 5,614,576
1% increase	8.55%	\$ 3,869,116

Note 5. Budget Calendar

The following calendar reflects the sequence of events for the preparation and adoption of the operating budget of The Board of Education of Worcester County:

<u>APPROXIMATE DATE</u>	<u>PROCEDURE PERFORMED</u>
September - November	Budget request forms and questionnaires prepared by schools and various departments and then returned to the central office.
December	Public input session is held to assist in preparation of the budget.
December - February	Budget formulation and Superintendent's review.
February - March	Board reviews budget and a second public session is held. The Board then adopts the proposed operating budget.
March	Budget due to County Administrator.
May	In early May, the Board of Education presents the proposed budget to the Worcester County Commissioners. In mid May, the County Commissioners hold a public budget hearing. By the last Tuesday in May, the budget is approved by the County Commissioners.
June	The Board of Education adopts the approved operating budget at the regular monthly Board meeting.

NOTES TO FINANCIAL STATEMENTS

Note 6. Commitments and Contingencies

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. The Board has entered into a contract for the construction of Snow Hill High School. The contract is for approximately \$41 million of which approximately \$40 million had been completed by June 30, 2017. The Board also entered into a contract for the construction of Showell Elementary School. The contract is for approximately \$42.4 million of which approximately \$900,000 had been completed by June 30, 2017. Both contracts are being funded by Worcester County and the State of Maryland.

The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the board.

Note 7. Other Post-Employment Benefits

Plan Description

The Worcester County Public Schools Post-Retirement Medical Benefits Plan (the "Plan") is an agent multiple employer defined benefit healthcare plan administered by the Board. The Plan provides medical and prescription drug benefits to eligible retirees, their spouses and eligible dependents. All classes of employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teachers' pension system, which are age 55 with 15 years of service, age 62 with 5 years of service (15 years if hired on or after November 1, 2007) or 30 years of service regardless of age. Eligible spouses and dependents desiring coverage through the eligible retiree's plan must be enrolled in the Plan immediately prior to the retiree's effective date of retirement. As of February, 2017, the census date used in the last actuarial valuation, approximately 573 retirees and their beneficiaries were receiving benefits, and an estimated 964 active employees are potentially eligible to receive future benefits.

Funding Policy

The Board provides basic major medical insurance (medicare supplemental program for those over 65) and a prescription drug plan for its retired employees. It is the Board's policy to pay 90% of the cost of such benefits for eligible retirees, dependents and spouses hired prior to July 1, 2015 and 80% for employees hired after July 1, 2015. The Board's OPEB Trust currently pays for the cost of these benefits on a pay as you go basis. For the year ended June 30, 2017, the OPEB Trust paid for coverage of approximately 573 retirees at a total cost, net of retiree contributions, of approximately \$6,300,000. For the year ended June 30, 2017, Worcester County Commissioners funded the trust in the amount of \$2,375,000 to fund future benefits.

On behalf of the Board, the Worcester County Commissioners created the Retiree Benefit Trust of the Board of Education of Worcester County (the "Trust") in order to arrange for the establishment of a reserve to pay promised future health and drug benefits for employee services that have already occurred. The Board intends the contributions to the Trust will qualify as "contributions in relation to the actuarial required contribution" within the meaning of GASB Statement Number 45 and that the Trust will qualify as a "trust or equivalent arrangement" within the meaning of GASB Statements 43 and 45.

Contributions by the Board are solely dependent on the governmental entities that provide funding for the Board. Employee and retiree contributions are not permitted. The trustees of the Trust consist of a five member board who have final authority in all matters pertaining to the Trust.

The Trust prohibits any part of the Trust to be used for or diverted to purposes other than providing benefits to participants and beneficiaries under the Plan. The Trust provides that in no event will the assets of the Trust be transferred to an entity that is not a state, a political subdivision, or an entity the income of which is excluded from taxation under Section 115 of the IRS Code.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Post-Employment Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation

The Board's annual other post employment benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined within the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year plus any unfunded liability amortized over a period not to exceed thirty years. The Board pays post retirement medical benefits from the Trust.

The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation.

Annual required contribution	\$ 20,749,547
Interest on net OPEB obligation	4,906,102
Adjustment to annual required contribution	<u>(5,278,574)</u>
Annual OPEB cost (expense)	20,377,075
Contributions made:	
Contributions to trust	(2,375,000)
Pay as you go from the general fund	-
Total contributions made	<u>(2,375,000)</u>
Net change in OPEB obligation	18,002,075
Net OPEB obligation at beginning of year	<u>70,087,178</u>
Net OPEB obligation at end of year	<u><u>\$ 88,089,253</u></u>

The Board's OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 18,973,578	13.18%	\$ 41,260,500
6/30/2015	\$ 15,913,339	9.43%	\$ 70,087,178
6/30/2016	\$ 15,913,339	9.43%	\$ 70,087,178
6/30/2017	\$ 20,377,075	11.66%	\$ 88,089,253

Funding Status and Funding Progress

As of July 1, 2016 the most recent actuarial valuation date, the actuarial accrued liability (AAL) for benefits was \$181.5 million with \$20,953,941 in actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$160.5 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, is designated to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Post-Employment Benefits (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and Plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of net assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the cost method used was the projected unit credit, with linear proration to decrement attribution. The actuarial assumptions include a 7.0% investment return per annum. The projected annual healthcare cost trend rate is 6.5% initially, reduced by decrements to an ultimate rate of 5.0% after ten years. The UAAL is being amortized over thirty (30) years based on a level percentage of projected payrolls.

REQUIRED SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2017

	UNRESTRICTED			VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET		ACTUAL	
	ORIGINAL	FINAL		
UNRESTRICTED REVENUES				
County Appropriation	\$ 81,193,802	\$ 81,193,802	\$ 81,193,802	\$ -
State of Maryland and Federal	18,967,262	18,967,262	18,967,262	-
Other Sources	225,452	225,452	198,020	(27,432)
TOTAL UNRESTRICTED REVENUES	100,386,516	100,386,516	100,359,084	(27,432)
UNRESTRICTED EXPENDITURES				
Administration	1,530,945	1,530,945	1,529,950	995
Instructional Support Services	6,938,019	6,938,019	6,917,149	20,870
Instructional Salaries	41,350,237	40,821,237	40,280,507	540,730
Textbooks and Instructional Supplies	2,128,893	2,328,893	2,318,644	10,249
Other Instruction Costs	986,876	986,876	947,362	39,514
Student Personnel Services	336,054	336,054	334,137	1,917
Health Services	864,262	864,262	852,467	11,795
Student Transportation	6,175,411	6,344,411	6,344,000	411
Operation of Plant and Equipment	7,946,595	7,855,820	7,845,076	10,744
Maintenance of Plant	1,056,689	1,147,464	1,147,462	2
Fixed Charges	21,887,819	21,887,819	21,871,253	16,566
Capital Outlay	214,906	214,906	205,297	9,609
Special Education	9,536,821	9,696,821	9,696,057	764
TOTAL UNRESTRICTED EXPENDITURES	100,953,527	100,953,527	100,289,361	664,166
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES	(567,011)	(567,011)	69,723	636,734
OTHER FINANCING SOURCES				
Appropriation from Fund Balance	567,011	567,011	567,011	-
TOTAL OTHER FINANCING SOURCES	567,011	567,011	567,011	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ -	\$ -	\$ 636,734	\$ 636,734

See Accompanying Notes To Financial Statements.

THE BOARD OF EDUCATION OF WORCESTER COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
July 1, 2013	25,928,324	163,448,619	137,520,295	15.86%	57,603,029	238.74%
July 1, 2014	26,202,743	146,113,607	119,910,864	17.93%	59,107,236	202.87%
July 1, 2014	26,202,743	146,113,607	119,910,864	17.93%	60,120,207	199.45%
July 1, 2016	20,953,941	181,522,466	160,568,525	11.54%	60,937,473	263.50%

Year Ended June 30	Annual Required Contributions	Percentage Contributed	Net OPEB Obligation
2014	\$ 19,035,256	13.18%	\$ 41,260,500
2015	\$ 16,132,614	9.43%	\$ 70,087,178
2016	\$ 16,132,614	9.43%	\$ 70,087,178
2017	\$ 20,749,547	11.66%	\$ 88,089,253

THE BOARD OF EDUCATION OF WORCESTER COUNTY
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Board's Proportion (Percentage) of the NPL A	Board's Proportionate Share of the NPL B	State's Proportionate Share of the NPL C	Total (B + C)	Board's Covered Employee Payroll D	Proportionate Share as a Percentage of Covered Payroll (B / D)	Plan's Total Fiduciary Net Position E	Plan's Total Pension Liability F	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (E / F)
2015	June 30, 2014	0.3068700%	\$ 3,821,376	\$ 51,503,242	\$ 55,324,618	\$ 59,107,236	6.47%	\$ 45,339,988	\$ 63,086,719	71.87%
2016	June 30, 2015	0.3283300%	\$ 4,917,743	\$ 64,079,160	\$ 68,996,903	\$ 60,120,207	8.18%	\$ 45,789,840	\$ 66,571,552	68.78%
2017	June 30, 2016	0.0237966%	\$ 5,614,576	\$ 78,792,130	\$ 84,406,706	\$ 60,937,473	9.21%	\$ 45,365,927	\$ 68,959,954	65.79%

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Employee Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
2015	June 30, 2014	\$ 2,554,208	\$ 2,554,208	-	\$ 59,107,236	4.32%
2016	June 30, 2015	\$ 2,834,217	\$ 2,834,217	-	\$ 60,120,207	4.71%
2017	June 30, 2016	\$ 2,790,974	\$ 2,790,974	-	\$ 60,937,473	4.58%

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

NOTES TO BUDGETARY COMPARISON SCHEDULE

Note 1. Budget

The original budget, subsequent supplements and major transfers are approved by the Worcester County Council. Appropriations are for one year and lapse at year end.

A legally adopted budget is prepared for the General Fund only. Amendments to the budget can be made with approval from Worcester County and the Board for intercategory transfers, and by approval of the Board for intracategory transfers. By law, actual expenditures for each category and for each account within categories may not exceed budgeted expenditures.

The Board of Education prepares its budget and accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP basis). Thus, there are two statements of revenues and expenditures in these financial statements for the general fund; the first is prepared in accordance with generally accepted accounting principles and the second is prepared on the budgetary basis in order to compare revenues and expenditures with the budget. One of the differences between the two statements is that increases (decreases) in asset account balances for prepaid expenditures and inventories are accounted for as expenditure reductions or sources (increases or uses) on the GAAP basis financial statements, but not on the budgetary financial statements. In addition, the appropriation from prior year fund balance is accounted for as additional sources for budgetary purposes. Encumbrances are recorded as expenditures for budgetary purposes but as an assignment of fund balance in the GAAP basis financial statements. Finally, the State's share of the pension and retirement fund contribution is recorded as a revenue and expenditure on the GAAP basis financial statements, but is not included on the budgetary financial statements.

Adjustments necessary to convert revenues, expenditures and other financing uses at the end of the year on the GAAP basis to the budgetary basis are as follows:

	Revenues	Expenditures	Fund Balances
	General	General	General
	June 30, 2017	June 30, 2017	June 30, 2017
GAAP Basis	\$ 107,727,612	\$ 107,572,341	\$ 1,978,100
Increase (Decrease):			
State Share of Retirement and Pension Contribution	(6,929,246)	(6,929,246)	-
County Share of Retirement and Pension Contribution	(439,282)	(439,282)	-
Net Effect of Utilization of Encumbrances:			
Reversal of June 30, 2016 Balances	-	(492,298)	-
Recording of Balances at June 30, 2017	-	577,846	(577,846)
Insurance Reserve and other	-	-	(22,024)
Budgetary basis	\$ 100,359,084	\$ 100,289,361	\$ 1,378,230

ADDITIONAL SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF WORCESTER COUNTY

UNRESTRICTED GENERAL FUND REVENUES AND
OTHER FINANCING SOURCES - BUDGETARY BASIS
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
UNRESTRICTED LOCAL FUNDS				
County appropriation	\$ 81,193,802	\$ 81,193,802	\$ 81,193,802	\$ -
STATE OF MARYLAND FUNDS				
Current expense	6,538,151	6,538,151	6,538,151	-
Transportation	3,016,351	3,016,351	3,016,351	-
Handicapped children	1,744,114	1,744,114	1,744,114	-
Compensatory education	7,301,885	7,301,885	7,301,885	-
Limited english proficiency	366,761	366,761	366,761	-
TOTAL STATE OF MARYLAND FUNDS	18,967,262	18,967,262	18,967,262	-
OTHER FUNDS				
Tuition	70,000	70,000	64,192	(5,808)
Interest and other	80,000	80,000	102,134	22,134
Reimbursement from restricted Programs	75,452	75,452	31,694	(43,758)
TOTAL OTHER FUNDS	225,452	225,452	198,020	(27,432)
TOTAL UNRESTRICTED REVENUES	100,386,516	100,386,516	100,359,084	(27,432)
OTHER FINANCING SOURCES				
Appropriation from Fund balance	567,011	567,011	567,011	-
TOTAL UNRESTRICTED REVENUES AND OTHER FINANCING SOURCES	\$ 100,953,527	\$ 100,953,527	\$ 100,926,095	\$ (27,432)

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF APPROPRIATIONS AND EXPENDITURES
 GENERAL FUND - BUDGETARY BASIS
 Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
ADMINISTRATION				
Salaries and wages	\$ 1,276,509	\$ 1,234,509	\$ 1,234,060	\$ 449
Contracted services	177,242	168,914	168,570	344
Supplies and materials	30,382	49,200	48,999	201
Other charges	45,710	72,764	72,763	1
Land, buildings and equipment	1,102	5,558	5,558	-
TOTAL ADMINISTRATION	1,530,945	1,530,945	1,529,950	995
INSTRUCTIONAL SUPPORT SERVICES				
Salaries and wages	6,647,633	6,589,060	6,568,494	20,566
Contracted services	85,263	125,198	125,197	1
Supplies and materials	137,537	166,049	166,048	1
Other charges	61,200	45,200	44,899	301
Land, buildings and equipment	6,386	12,512	12,511	1
TOTAL INSTRUCTIONAL SUPPORT SERVICES	6,938,019	6,938,019	6,917,149	20,870
INSTRUCTIONAL SALARIES AND WAGES	41,350,237	40,821,237	40,280,507	540,730
TEXTBOOKS AND CLASSROOM SUPPLIES AND MATERIALS	2,128,893	2,328,893	2,318,644	10,249
OTHER INSTRUCTIONAL COSTS				
Contracted services	538,497	435,417	396,685	38,732
Other charges	312,984	416,064	416,063	1
Land, buildings and equipment	85,395	81,795	81,092	703
Outgoing transfers	50,000	53,600	53,522	78
TOTAL OTHER INSTRUCTIONAL COSTS	986,876	986,876	947,362	39,514
STUDENT PERSONNEL SERVICES				
Salaries and wages	333,131	326,144	324,229	1,915
Contracted services	750	750	750	-
Supplies and materials	1,890	2,406	2,405	1
Other charges	283	6,754	6,753	1
TOTAL STUDENT PERSONNEL SERVICES	336,054	336,054	334,137	1,917
HEALTH SERVICES				
Salaries and wages	854,142	836,613	825,741	10,872
Contracted services	252	332	330	2
Supplies and materials	8,118	25,153	25,153	-
Other charges	750	1,244	1,243	1
Land, buildings and equipment	1,000	920	-	920
TOTAL HEALTH SERVICES	\$ 864,262	\$ 864,262	\$ 852,467	\$ 11,795

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF APPROPRIATIONS AND EXPENDITURES - CONTINUED
GENERAL FUND - BUDGETARY BASIS

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
STUDENT TRANSPORTATION				
Salaries and Wages	\$ 302,008	\$ 296,029	\$ 296,029	\$ -
Contracted Services	5,770,683	5,877,683	5,877,326	357
Supplies and Materials	9,636	17,580	17,579	1
Other Charges	93,084	105,654	105,601	53
Land, Buildings and Equipment	-	47,465	47,465	-
TOTAL STUDENT TRANSPORTATION	6,175,411	6,344,411	6,344,000	411
OPERATION OF PLANT				
Salaries and Wages	3,135,849	3,190,393	3,190,393	-
Contracted Services	322,270	545,145	545,145	-
Supplies and Materials	301,120	424,390	424,389	1
Other Charges	4,145,056	3,226,867	3,224,362	2,505
Land, Buildings and Equipment	42,300	469,025	460,787	8,238
TOTAL OPERATION OF PLANT	7,946,595	7,855,820	7,845,076	10,744
MAINTENANCE OF PLANT				
Salaries and Wages	695,196	552,369	552,368	1
Contracted Services	93,738	155,959	155,959	-
Supplies and Materials	229,360	400,844	400,843	1
Other Charges	650	3,152	3,152	-
Land, Buildings and Equipment	37,745	35,140	35,140	-
TOTAL MAINTENANCE OF PLANT	1,056,689	1,147,464	1,147,462	2
FIXED CHARGES				
Insurance and Employee Benefits	21,887,819	21,887,819	21,871,253	16,566
CAPITAL OUTLAY				
Salaries and Wages	112,598	113,441	113,440	1
Contracted Services	450	45,214	45,213	1
Supplies and Materials	1,552	1,552	70	1,482
Other Charges	306	306	-	306
Land, Buildings and Equipment	100,000	54,393	46,574	7,819
TOTAL CAPITAL OUTLAY	214,906	214,906	205,297	9,609
SPECIAL EDUCATION				
Salaries and Wages	8,758,810	9,065,744	9,065,743	1
Contracted Services	403,000	304,487	303,727	760
Supplies and Materials	185,000	174,011	174,010	1
Other Charges	40,011	59,536	59,535	1
Land, Buildings and Equipment	22,000	1,523	1,522	1
Outgoing Transfers	128,000	91,520	91,520	-
TOTAL SPECIAL EDUCATION	9,536,821	9,696,821	9,696,057	764
TOTAL UNRESTRICTED APPROPRIATIONS AND EXPENDITURES				
	\$ 100,953,527	\$ 100,953,527	\$ 100,289,361	\$ 664,166

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHOOL ACTIVITIES FUND OPERATIONS

Year Ended June 30, 2017

	Balance June 30, 2016	Receipts	Disbursements	Balance June 30, 2017
ELEMENTARY				
Buckingham	\$ 30,809	\$ 83,642	\$ 87,449	\$ 27,002
Ocean City	37,711	129,755	122,742	44,724
Pocomoke	50,123	58,943	64,420	44,646
Showell	79,206	63,694	79,160	63,740
Snow Hill	44,036	116,406	115,349	45,093
TOTAL ELEMENTARY	241,885	452,440	469,120	225,205
MIDDLE SCHOOL				
Berlin	97,619	185,397	179,270	103,746
Pocomoke	21,051	101,443	103,918	18,576
Snow Hill	45,997	117,796	126,661	37,132
Stephen Decatur	68,243	100,994	88,400	80,837
TOTAL MIDDLE SCHOOL	232,910	505,630	498,249	240,291
HIGH SCHOOL				
Pocomoke	77,722	266,645	297,842	46,525
Snow Hill	91,330	297,424	308,706	80,048
Stephen Decatur	296,509	701,068	747,648	249,929
TOTAL HIGH SCHOOL	465,561	1,265,137	1,354,196	376,502
SPECIALIZED SCHOOL				
Cedar Chapel	36,182	45,050	73,660	7,572
Vocational	16,407	302,321	298,328	20,400
TOTAL SPECIALIZED SCHOOL	52,589	347,371	371,988	27,972
TOTAL SCHOOL ACTIVITY FUND OPERATION	\$ 992,945	\$ 2,570,578	\$ 2,693,553	\$ 869,970
EXCESS OF DISBURSEMENTS OVER RECEIPTS		\$ (122,975)		

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
 FOOD SERVICE FUND - BUDGETARY BASIS
 Year Ended June 30, 2017

	Budget	Actual	Variance With Budget Favorable (Unfavorable)
REVENUES			
Federal and State:			
Reimbursement for food	\$ 2,002,900	\$ 2,064,871	\$ 61,971
Other Revenues:			
Catering income	6,500	7,138	638
Lunches sold	636,000	627,037	(8,963)
Interest income and other	400	920	520
Rebates - food	13,600	9,290	(4,310)
Total Other Revenues	656,500	644,385	(12,115)
TOTAL REVENUES	2,659,400	2,709,256	49,856
EXPENDITURES			
Food and food related supplies	1,290,000	1,293,811	(3,811)
Commodity processing and storage	40,600	11,919	28,681
Nonfood supplies and other expense	50,100	44,018	6,082
Salaries and wages	958,400	957,248	1,152
Fringe benefits	312,600	382,177	(69,577)
Contracted services	2,700	6,171	(3,471)
Equipment	5,000	-	5,000
TOTAL EXPENDITURES	2,659,400	2,695,344	(35,944)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ 13,912	\$ 13,912

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
 COMBINED RESTRICTED AND UNRESTRICTED
 Year Ended June 30, 2017

REVENUES		
County Appropriation	\$ 81,193,802	
County Appropriation - share of teacher pension	-	
State of Maryland	19,588,087	
Restricted Federal Funds	6,959,141	
Other Sources	584,128	108,325,158
TOTAL REVENUES		
OTHER FINANCING SOURCES		
Appropriation from Fund Balance		567,011
TOTAL REVENUES AND OTHER FINANCING SOURCES		\$ 108,892,169
EXPENDITURES		
Administration	1,707,291	
Mid-Level Administration	7,042,943	
Instructional Salaries and Wages	42,808,454	
Textbooks and Classroom Supplies	2,781,816	
Other Instructional Costs	1,852,254	
Pupil Personnel Services	334,137	
Health Services	931,593	
Pupil Transportation	6,599,146	
Operation of Plant	7,862,835	
Maintenance of Plant	1,147,462	
Fixed Charges	22,874,382	
Special Education	12,065,147	
Food Services	20,489	
Community Services	22,189	
Capital Planning	205,297	
TOTAL EXPENDITURES		108,255,435
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES		\$ 636,734

NOTES TO ADDITIONAL SUPPLEMENTARY INFORMATION

Note 1. Budget

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

	Revenues	Expenditures	Change in Fund
	Proprietary	Proprietary	Proprietary
	June 30, 2017	June 30, 2017	June 30, 2017
GAAP basis	\$ 2,709,256	\$ 2,704,599	\$ 4,657
Capitalized costs	-	7,975	(7,975)
Depreciation	-	(17,230)	17,230
Budgetary basis	<u>\$ 2,709,256</u>	<u>\$ 2,695,344</u>	<u>\$ 13,912</u>

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AUDIT OFFICE

THE BOARD OF EDUCATION OF
WORCESTER COUNTY

AUDIT COMMUNICATIONS

June 30, 2017

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Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



September 29, 2017

To the Board of Directors
The Board of Education of Worcester County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Worcester County for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 5, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by The Board of Education of Worcester County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by The Board of Education of Worcester County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of depreciation expense is based upon the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the "Other Post-Employment Benefit" accrual and annual required contribution which is recorded on the government-wide statements is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the accrual/expense in determining that it is reasonable in relationship to the financial statements taken as a whole.

Management's estimate of the net pension liability is based upon an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the pension liability and pension expense in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 29, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as The Board of Education of Worcester County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

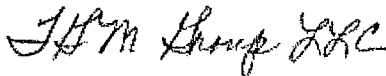
We applied certain limited procedures to the Required Supplementary Information, as listed in the table of contents, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information, as listed in the table of contents, which accompany the financial statements but are not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board of Directors, and management of The Board of Education of Worcester County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script, appearing to read "TGM Group LLC".

TGM Group LLC

II. COMMENTS AND RECOMMENDATIONS

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



September 29, 2017

The Board of Education of Worcester County
Newark, Maryland

In planning and performing our audit of the financial statements of the Board of Education of Worcester County for the year ended June 30, 2017, we considered the Board's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the Board's internal control in our report dated September 29, 2017. This letter does not affect our report dated September 29, 2017 on the financial statements of the Board of Education of Worcester County.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Board personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist in implementing the recommendations.

We wish to thank the employees of the Board of Education of Worcester County for the assistance and cooperation provided us during our engagement.

Sincerely,

A handwritten signature in black ink that reads "TGM Group LLC".

Salisbury, Maryland

CURRENT YEAR COMMENTS

GASB 75-New Pronouncement for OPEB plans

Beginning in fiscal year 2018, the Board will be required to implement GASB Statement 75 -Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. GASB 75 replaces GASB 45 and require the full net OPEB liability and related expenses be presented on the government's GASB 34 financial statements. GASB treats OPEB benefits as a form of compensation and the liability/expense should be recognized while the employee is providing service to the government. Previously the liability was recorded incrementally, generally increasing based on the degree the government funded the annual required contribution. It is expected that the implementation of the Standard will have a material impact on the Board's financial statement's and require a much larger OPEB liability and new disclosures.

We recommend the Board begin planning for the implementation of GASB 75 which includes gaining an understanding of the new requirements and ensuring that actuarial valuations are performed in a timely manner and in compliance with the new requirements.

Review of School Activity Funds

The Board has designated accounting personnel to monitor financial activity at each individual school. Due to limited segregation of duties at the schools, internal controls can be supplemented by having an independent person review bank statements and fund reports each month. We continue to encourage the Board to monitor and review the financial activity at the schools as frequently as possible.

In some instances, cash receipts are being held (i.e., monies for field trips) and being deposited later in a lump deposit at the time of the trip. Timely deposits need to be made in these instances in order to ensure that minimal amounts of funds are left undeposited.

Cash/Gate Receipts

While testing gate receipts, we noted several instances where the ending cash box amount did not reconcile with the number of tickets sold. In addition, we noted that some gate receipts reconciliation forms were not reviewed and approved. All gate receipts should be reconciled with the funds on hand. The reconciliation form should be reviewed and approved by a separate individual.

Cash Disbursements

During our sample cash disbursement testing, we noted the invoice or supporting documentation was missing in some cases. We also found in some cases the supporting documentation was not approved by the principal. We also noted some checks are pre-signed prior to purchase or a "stamped" signature was used. Finally, we noted a transaction at one school where a purchase was made on a personal credit card and the product was shipped to an address other than the school.

Schools should ensure all checks written have adequate support as well as proper approval/actual signature from the principal and the appropriate signatures on the check. It is also recommended that the P-Card be used instead of the personal credit card and that all items purchased should be shipped to the school.

Other Areas

It was noted that one school had petty cash funds. According to the Board of Education, no school should have a petty cash fund.

During our review of internal transfers of funds, it was noted that some were lacking the proper Internal Transfer of Funds Forms or were not properly approved.

We have also shared some other minor recommendations for the schools involving bookkeeping matters. The Board's management will discuss these with the individual bookkeepers in the near future.