

**THE BOARD OF EDUCATION OF
WORCESTER COUNTY**

**FINANCIAL REPORT
JUNE 30, 2018**

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AUDIT OFFICE

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

Management's Responsibility for the Financial Statements

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

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, 2018, 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.

Change in Accounting Principle

As described in Notes 7 and 8 to the financial statements, in 2018, The Board of Education of Worcester County adopted new accounting guidance, *GASB No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 28, 2018, 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 28, 2018

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
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Charles M. Meenehan
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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, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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 27, 2018.

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, stylized font.

Salisbury, Maryland
September 28, 2018

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2018

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, 2018, and a comparison with the results of the fiscal year ended June 30, 2017. 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, 2018 include the following:

- Due to the implementation of *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the government-wide statements reflect a restated beginning net position of (\$153,345,753) per the Statement of Activities. This is a decrease of \$226,389,011 from the June 30, 2017 ending net position of \$73,043,258, as previously reported.
- Net position is (\$171,081,619), a decrease of \$17,735,866 or 11.5% over the prior year, as restated.
- Total General Fund balance equals \$1,594,838, a decrease of \$383,262 from the prior year.
- Unassigned General Fund balance equals \$650,724, an increase of \$13,990 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, 2018

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

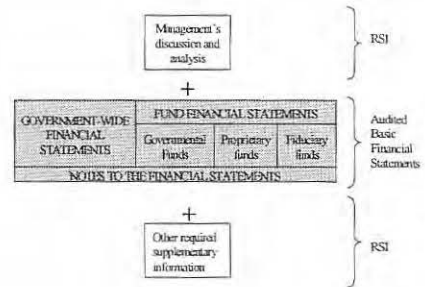


Figure 2

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, 2018

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, 2018

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 position. The District's *combined* net position was (\$171,081,619) on June 30, 2018. This represents a decrease of 11.5 percent from the prior year, as restated. (See Table 1.)

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2018

Table 1

THE BOARD OF EDUCATION OF WORCESTER COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL	
	2018	2017, as restated	2018	2017, as restated	2018	2017, as restated
Current and Other Assets	\$ 15,644,292	\$ 10,766,954	\$ 38,877	\$ 18,933	\$ 15,683,169	\$ 10,785,887
Capital Assets	163,595,978	163,752,128	24,523	29,026	163,620,501	163,781,154
TOTAL ASSETS	179,240,270	174,519,082	63,400	47,959	179,303,670	174,567,041
LIABILITIES						
Current Liabilities	27,351,638	7,571,808	21,127	1,127	27,372,765	7,572,935
Long-Term Liabilities	323,012,524	320,339,859	-	-	323,012,524	320,339,859
TOTAL LIABILITIES	350,364,162	327,911,667	21,127	1,127	350,385,289	327,912,794
NET POSITION						
Investment in Capital Assets, Net of Related Debt	163,595,978	163,752,128	24,523	29,026	163,620,501	163,781,154
Restricted	53,091	52,928	17,750	17,806	70,841	70,734
Unrestricted	(334,772,961)	(317,197,641)	-	-	(334,772,961)	(317,197,641)
TOTAL NET POSITION	\$ (171,123,892)	\$ (153,392,585)	\$ 42,273	\$ 46,832	\$ (171,081,619)	\$ (153,345,753)

Changes in net position. The District's total revenues were \$127,644,969 for the year ended June 30, 2018. (See Table 2.) The county appropriations of \$83,870,125 accounted for approximately 66 percent of total revenue for the year. Another 18 percent came from federal, state and local grant program revenues of \$22,534,002. General state aid was \$14,245,887 or 11.16 percent of total funding. Capital contributions of \$3,649,151 represented 4.83% of total revenue. The remainder came from charges for services, and investment earnings. The total cost of all programs and services was \$145,380,835. Approximately 77.32 percent of the District's expenses were related to providing direct educational services to students. Administrative activities of the District accounted for approximately 1.82 percent of total expenses. Total expenditures exceeded revenues, decreasing net position by \$17,735,866 from last year.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2018

Table 2

THE BOARD OF EDUCATION OF WORCESTER COUNTY CHANGES IN NET POSITION JUNE 30, 2018

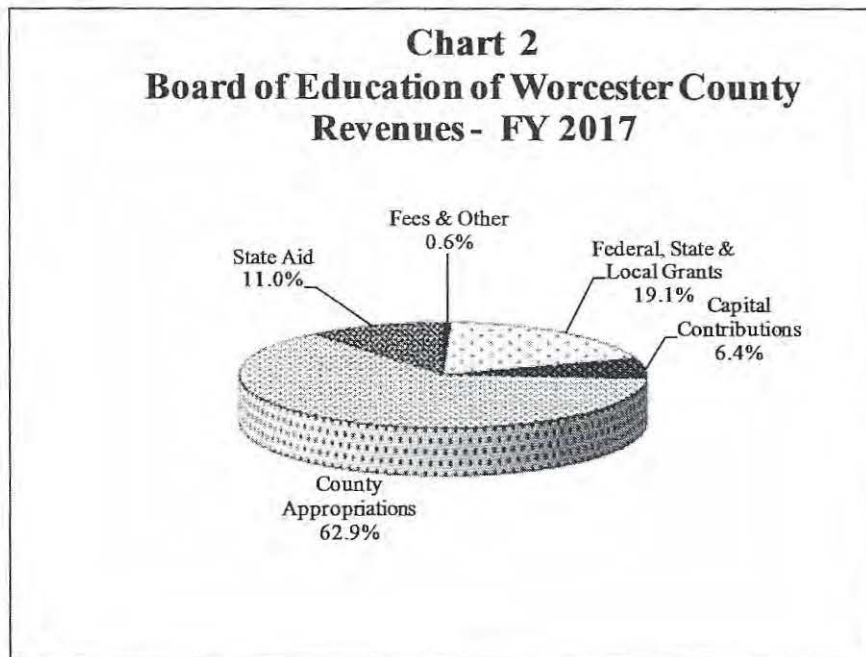
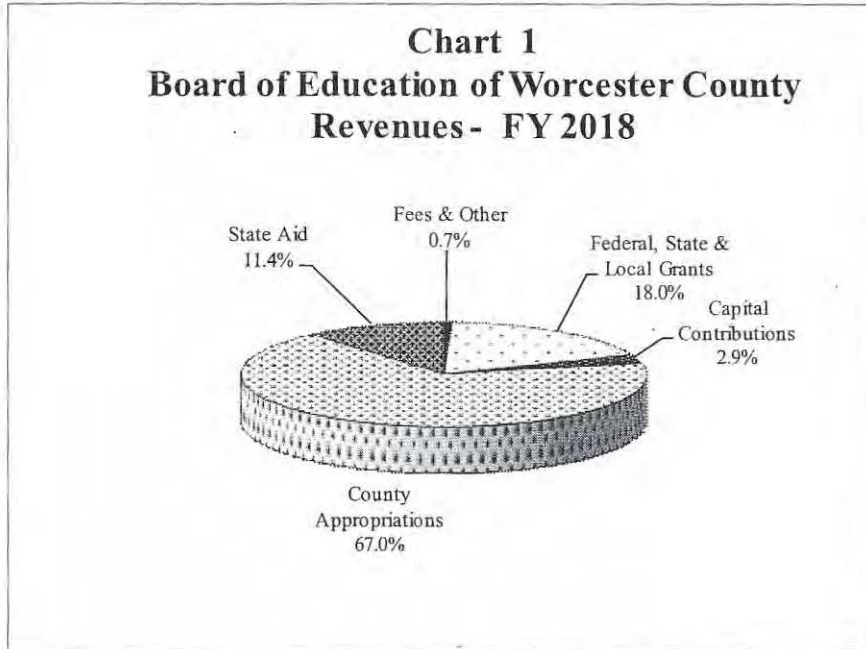
	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		BOARD OF EDUCATION TOTAL		PERCENT OF CHANGE
	2018	2017	2018	2017	2018	2017	
REVENUES							
Program Revenues:							
Charges for Services	\$ 84,583	\$ 64,192	\$ 640,687	\$ 643,465	\$ 725,270	\$ 707,657	2.5%
Federal and State Grants	20,494,522	21,042,125	2,039,480	2,064,871	22,534,002	23,106,996	-2.5%
County OPEB Contribution	2,500,000	1,500,000	-	-	2,500,000	1,500,000	66.7%
Capital Contributions	3,649,151	8,247,608	-	-	3,649,151	8,247,608	-55.8%
General Revenues:							
County Appropriation	83,870,125	81,193,802	-	-	83,870,125	81,193,802	3.3%
State Formula Aid	14,245,887	14,206,797	-	-	14,245,887	14,206,797	0.3%
Other	104,287	133,894	16,247	920	120,534	134,814	-10.6%
TOTAL REVENUES	124,948,555	126,388,418	2,696,414	2,709,256	127,644,969	129,097,674	-1.1%
EXPENSES							
Instruction and Special							
Education	112,401,578	110,402,198	-	-	112,401,578	110,402,198	1.8%
Administration	2,639,298	2,745,593	-	-	2,639,298	2,745,593	-3.9%
Support Services	27,638,986	26,920,098	2,700,973	2,704,599	30,339,959	29,624,697	2.4%
TOTAL EXPENSES	142,679,862	140,067,889	2,700,973	2,704,599	145,380,835	142,772,488	1.8%
INCREASE (DECREASE) IN NET POSITION*	\$ (17,731,307)	\$ (13,679,471)	\$ (4,559)	\$ 4,657	\$ (17,735,866)	\$ (13,674,814)	

Governmental Activities

The decrease in net position for governmental activities was \$17,731,307 in 2018. Charts 1 and 2 present a breakdown of the District's revenues for 2018 and 2017. Charts 3 and 4 present a breakdown of the District's expenses for 2018 and 2017.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2018



THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2018

Chart 3
Board of Education of Worcester County
Expenditures - FY 2018

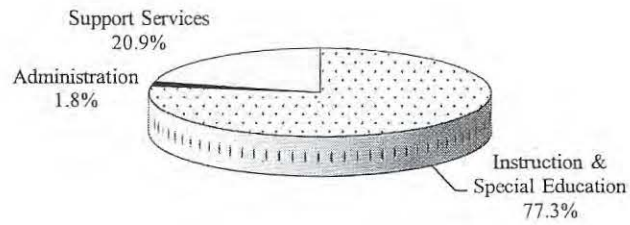
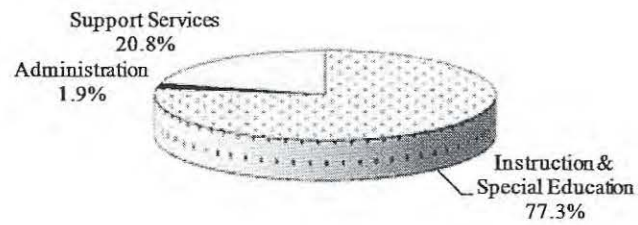


Chart 4
Board of Education of Worcester County
Expenditures - FY 2017



THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2018

Business-type Activities

Revenues of the District's only business-type activity, the food service operation, decreased by \$12,842 to \$2,696,414 and expenses decreased by \$3,626 to \$2,700,973. (Refer to Table 2.). This resulted in a loss of \$4,559 for the current year. Based on both increasing food costs and other costs of doing business, the Board approved an increase in lunch prices for FY19 as shown below. (Table 3).

<u>TABLE 3</u>	School Year 2017-2018 MEAL PRICES		School Year 2018-2019 MEAL PRICES	
	Elementary	Secondary	Elementary	Secondary
Paid Breakfast	\$ 1.40	\$ 1.40	\$1.40	\$ 1.40
Paid Lunch	2.35	2.75	2.45	2.85
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 \$1,647,929, a decrease of \$383,099 over last year's ending fund balance. Revenues for the District's governmental funds were \$122,448,555 a decrease of \$1,564,863 over last year. Total expenditures were \$122,831,654 for the year, a decrease of \$1,026,427 over the prior year. General revenues and expenditures were higher due to salary increases and rising health insurance and pension costs. Overall, governmental revenues and expenditures were less in FY18 due to the change in capital projects activity. The decrease in capital projects related to the completion of the Snow Hill High School renovation and addition project in 2017 and the beginning of the Showell Elementary replacement school project in 2018.

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. General fund revenues were up \$3,033,503. The majority of this was the \$2,650,485 increase in local appropriations to support our FY18 employee salary increase and to fund the health insurance increase. The most significant variances under expenditures were in the areas of Other Instructional Costs and Capital Outlay.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2018

Other Instructional Costs expenditures were higher due to the additional Math and Science partnership grants received in FY18. Expenditures in the area of Capital Outlay were higher due to the utilization of FY17 fund balance to complete one-time projects including a partial roof replacement at Worcester Technical High.

Table 4

GENERAL FUND REVENUES

REVENUES	Fiscal Year	Fiscal Year	Increase	%
	2018	2017	(Decrease)	Incr. (Decr.)
Worcester County Appropriations	\$ 81,732,966	\$ 79,082,481	\$ 2,650,485	3.4%
Worcester County Retirement & Pension Contribution	2,619,525	2,550,603	68,922	2.7%
State of Maryland	19,062,262	18,967,262	95,000	0.5%
State of Maryland Share of Retirement & Pension Contribution	6,672,989	6,929,246	(256,257)	-3.7%
Restricted Federal, State, & Other Programs	8,522,792	8,038,132	484,660	6.0%
Other Sources	188,713	198,020	(9,307)	-4.7%
TOTAL REVENUES	\$ 118,799,247	\$ 115,765,744	\$ 3,033,503	2.6%

GENERAL FUND EXPENDITURES

EXPENDITURES				
Administration	\$ 1,567,922	\$ 1,529,950	\$ 37,972	2.5%
Mid-Level Administration	7,134,563	6,917,149	217,414	3.1%
Instructional Salaries	41,264,505	40,280,507	983,998	2.4%
Textbooks and Classroom Supplies	2,312,197	2,431,668	(119,471)	-4.9%
Other Instructional Costs	1,044,600	654,658	389,942	59.6%
Special Education	10,158,470	9,696,057	462,413	4.8%
Pupil Personnel Services	342,415	334,137	8,278	2.5%
Health Services	877,470	852,467	25,003	2.9%
Pupil Transportation	6,526,397	6,344,000	182,397	2.9%
Operation of Plant	8,083,276	7,958,463	124,813	1.6%
Maintenance of Plant	1,100,895	1,146,717	(45,822)	-4.0%
Fixed Charges	20,592,717	19,759,932	832,785	4.2%
Capital Outlay	361,776	186,787	174,989	93.7%
Restricted Programs	8,522,792	8,038,132	484,660	6.0%
Worcester County Retirement & Pension Contribution	2,619,525	2,550,603	68,922	2.7%
State of Maryland Share of Retirement & Pension Contribution	6,672,989	6,929,246	(256,257)	-3.7%
TOTAL EXPENDITURES	\$ 119,182,509	\$ 115,610,473	\$ 3,572,036	3.1%
EXCESS (DEFICIENCY) OF REVENUES				
(USES) OVER EXPENDITURES	\$ (383,262)	\$ 155,271	\$ (538,533)	

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2018

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 2018, the Board received county funding of \$3,636,795. These funds were used to pay costs related to the renovation and addition to Snow Hill High School, install energy management systems at Buckingham Elementary and Snow Hill Middle School, replace a chiller unit at Stephen Decatur Middle School, complete a partial roof replacement at Worcester Technical High School to install a shaded swing set at Cedar Chapel Special School, and architect and engineering costs for the Showell Elementary school replacement project. The school system also received \$12,356 in State aging school funding to support roof repairs at Stephen Decatur High School. The Capital Projects School Construction Fund revenues exceeded FY 2018 expenditures by \$163 resulting in a fund balance of \$53,091 at June 30, 2018.

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 \$333,520 as of June 30, 2018.
- (2) Agency Funds: During FY2018 the schools collected revenues and incurred expenditures for various student activities (see Table 5).

Table 5				
SCHOOL ACTIVITIES FUND				
	Fiscal Year 2018	Fiscal Year 2017	Increase (Decrease)	%
				Incr. (Decr.)
Revenues	\$2,673,342	\$2,570,578	\$102,764	4.0%
Expenditures	(2,717,227)	(2,693,553)	(23,674)	0.9%
Beginning Fund Balance	\$869,970	992,945	(122,975)	-12.4%
Ending Fund Balance	\$826,085	\$869,970	-\$43,885	-5.0%

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2018

GENERAL FUND BUDGETARY HIGHLIGHTS

Three categories of our FY18 budget had actual expenditures that exceeded the original budget. 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 related to athletic transportation increases, after-school program transportation and transportation costs for our homeless students. The category of Maintenance of Plant had higher than budgeted expenditures due to the increasing cost of repairs and supplies to aging HVAC units and the Capital Outlay category had higher than budgeted expenditures due to the utilization of FY 2017 fund balance to complete one time projects at various schools. 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 4, 2018 meeting. The Board ended the year with an unassigned fund balance totaling \$650,724. This balance will be utilized to address future school system budgetary needs and will be assigned by the Board as part of the FY20 budget process. To remain revenue neutral in FY20, \$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 2018, the District has invested over \$234 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 2 to the financial statements.) Total depreciation expense for the year totaled \$3.9 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 (CIP). Funding for a new Showell Elementary School was approved by the Worcester County Commissioners and the State of Maryland in FY19. The construction bids totaling \$39 million were approved by the Worcester County Commissioners in August, 2018. The total cost of the new school is \$47.5 million. Construction on this project is scheduled to begin in October 2018 with estimated completion in September 2020. Future projects included in our FY20 CIP include roof replacement projects at Pocomoke Middle and Snow Hill Middle Schools, an addition at Stephen Decatur Middle School and a replacement Buckingham Elementary School.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2018

Long-Term Liabilities

At year-end, the District had \$323,012,524 for amounts due or payable after one year. This amount consists of the following:

- \$242,191 of accrued compensated absences which is an obligation resulting primarily from accrued annual leave which is due and payable to employees upon termination, \$4,666,979 in net pension liability and \$318,103,354 for other post-employment benefits.

FACTORS BEARING ON THE DISTRICTS' FUTURE

- (1) Worcester County Public Schools (WCPS) provides post-employment health insurance benefits to their retirees. During fiscal year 2018, WCPS implemented *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which resulted in a restatement of the net OPEB liability for the period June 30, 2017 of \$226,389,011. Implementation of GASB Statement No. 75 resulted in a Net OPEB liability on our district-wide financial statements of \$318,103,354 as of June 30, 2018. Our local government has historically funded the cost of health insurance for all school system employees including retirees. As part of this partnership, the Worcester County Government established and funded a trust to pay the costs of retiree health insurance. This continued partnership will be crucial as we work to ensure adequate resources are available to continue to meet our obligations to current and future retirees.
- (2) The Board of Education has a growing list of capital projects. The list includes:
 - Replacement of Showell Elementary School – Funding for the new replacement school totaling 47.5 million was approved by our County and State in FY19. Construction of this project is currently scheduled to begin in October 2018. Estimated completion date is September 2020.
 - Addition to Stephen Decatur Middle School
 - Roof Replacements at Pocomoke Middle and Snow Hill Middle Schools
 - Replacement of Buckingham Elementary School

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, 2018

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, 2018

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,720,825	\$ 458,967	\$ 7,179,792
Investments	235,155	-	235,155
Accounts receivable:			
Federal, state and other restricted funds	1,266,770	104,550	1,371,320
Miscellaneous	66,861	5,275	72,136
Internal balances	529,915	(529,915)	-
Non depreciable capital assets	4,187,696	-	4,187,696
Depreciable capital assets, net	159,408,282	24,523	159,432,805
TOTAL ASSETS	172,415,504	63,400	172,478,904
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (see Note 4)	1,298,762	-	1,298,762
Other post employment benefits (OPEB) (see Note 7)	5,526,004	-	5,526,004
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,824,766	-	6,824,766
LIABILITIES			
Accounts payable:			
Vendors	491,899	-	491,899
Others	453,529	1,127	454,656
Payroll deductions and withholdings	4,664,693	-	4,664,693
Payable to external parties	345,959	-	345,959
Unearned revenue	1,173,324	20,000	1,193,324
Long-term liabilities:			
Portion due or payable within one year:			
Accrued compensated absences	42,193	-	42,193
Early incentive payment	152,857	-	152,857
Portion due or payable after one year:			
Other post employment benefits	318,103,354	-	318,103,354
Pensions	4,666,979	-	4,666,979
Accrued compensated absences	242,191	-	242,191
TOTAL LIABILITIES	330,336,978	21,127	330,358,105
DEFERRED INFLOWS OF RESOURCES			
Pensions (see Note 4)	625,391	-	625,391
Other post employment benefits (OPEB) (see Note 7)	19,401,793	-	19,401,793
TOTAL DEFERRED INFLOWS OF RESOURCES	20,027,184	-	20,027,184
NET POSITION			
Net investment in capital assets	163,595,978	24,523	163,620,501
Restricted for:			
Food service activities	-	17,750	17,750
Restricted funds	-	-	-
Capital projects	53,091	-	53,091
Unrestricted	(334,772,961)	-	(334,772,961)
TOTAL NET POSITION	\$ (171,123,892)	\$ 42,273	\$ (171,081,619)

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, 2018

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Current:				
Administration	\$ 1,700,046	\$ -	\$ 92,634	\$ -
Mid-Level Administration	7,229,200	-	94,637	-
Instructional services	52,753,715	84,583	4,380,854	-
Special education	12,418,102	-	4,000,725	-
Student personnel services	342,415	-	-	-
Health services	951,784	-	74,314	-
Student transportation	6,886,663	-	3,435,548	-
Operation of plant and equipment	8,249,487	-	8,251	-
Maintenance of plant	1,100,895	-	-	-
Fixed charges	43,620,396	-	1,198,462	2,500,000
Community services	23,638	-	23,638	-
Capital outlay	218,062	-	-	3,649,151
Food services	30,104	-	30,104	-
State of Maryland and county share of retirement and pension contribution	7,155,355	-	7,155,355	-
Total Governmental Activities	142,679,862	84,583	20,494,522	6,149,151
Business-Type Activities				
Food Services	2,700,973	640,687	2,039,480	15,000
Totals	\$ 145,380,835	\$ 725,270	\$ 22,534,002	\$ 6,164,151

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, as restated

Net Position End of Year

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

Net (Expenses) Revenue
and changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,607,412)	\$ -	\$ (1,607,412)
(7,134,563)	-	(7,134,563)
(48,288,278)	-	(48,288,278)
(8,417,377)	-	(8,417,377)
(342,415)	-	(342,415)
(877,470)	-	(877,470)
(3,451,115)	-	(3,451,115)
(8,241,236)	-	(8,241,236)
(1,100,895)	-	(1,100,895)
(39,921,934)	-	(39,921,934)
-	-	-
3,431,089	-	3,431,089
-	-	-
-	-	-
(115,951,606)	-	(115,951,606)
-	(5,806)	(5,806)
(115,951,606)	(5,806)	(115,957,412)
14,245,887	-	14,245,887
83,870,125	-	83,870,125
34,140	-	34,140
70,147	1,247	71,394
98,220,299	1,247	98,221,546
(17,731,307)	(4,559)	(17,735,866)
(153,392,585)	46,832	(153,345,753)
\$ (171,123,892)	\$ 42,273	\$ (171,081,619)

THE BOARD OF EDUCATION OF WORCESTER COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	General	Capital Projects	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 6,720,825	\$ -	\$ 6,720,825
Investments	235,155	-	235,155
Accounts receivable:			
Federal, state and other restricted funds	931,540	335,230	1,266,770
Other	62,400	4,461	66,861
Due from other funds	727,696	12,606	740,302
TOTAL ASSETS	\$ 8,677,616	\$ 352,297	\$ 9,029,913
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable:			
Vendors	\$ 390,474	\$ 101,425	\$ 491,899
Others	453,529	-	453,529
Payroll deductions and withholdings	4,706,886	-	4,706,886
Due to other funds	358,565	197,781	556,346
Deferred revenue - Federal, state and other restricted funds	1,173,324	-	1,173,324
TOTAL LIABILITIES	7,082,778	299,206	7,381,984
COMMITMENTS AND CONTINGENCIES			
FUND BALANCES			
Fund Balance:			
Restricted for fund purposes	-	53,091	53,091
Assigned to:			
Insurance reserve	22,024	-	22,024
Subsequent year's expenditures	567,011	-	567,011
Capital and technology projects	95,103	-	95,103
Other purposes (encumbrances)	259,976	-	259,976
Unassigned	650,724	-	650,724
TOTAL FUND BALANCES	1,594,838	53,091	1,647,929
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,677,616	\$ 352,297	\$ 9,029,913

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, 2018

Total fund balances, governmental funds \$ 1,647,929

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. 163,595,978

Deferred outflow of resources - pensions (see Note 4) 1,298,762

Deferred outflow of resources - OPEB (see Note 7) 5,526,004

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 (152,857)

Accrued compensated absences (242,191)

Net pension liability (4,666,979)

Other post retirement employment benefits (318,103,354)

Total long-term liabilities (323,165,381)

Deferred inflow of resources - pensions (see Note 4) (625,391)

Deferred inflow of resources - OPEB (see Note 7) (19,401,793)

Net assets of governmental activities in the Statement of Net Position \$ (171,123,892)

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, 2018

	General	Restricted Grants	Capital Projects	Total Governmental Funds
REVENUES				
Worcester County Appropriations	\$ 83,870,125	\$ -	\$ 3,636,795	\$ 87,506,920
State of Maryland	19,062,262	-	12,356	19,074,618
On behalf State of Maryland - retirement and pension contribution	6,672,989	-	-	6,672,989
On behalf County - retirement and pension contribution	482,366	-	-	482,366
Restricted Federal, state and other local funds	-	8,522,792	-	8,522,792
Other sources	188,713	-	157	188,870
TOTAL REVENUES	110,276,455	8,522,792	3,649,308	122,448,555
EXPENDITURES				
Administration	1,567,922	92,634	-	1,660,556
Mid-level administration	7,134,563	94,637	-	7,229,200
Instructional salaries and wages	41,264,505	2,539,069	-	43,803,574
Textbooks and instructional supplies	2,312,197	907,718	-	3,219,915
Other instructional costs	1,044,600	934,067	-	1,978,667
Student personnel services	342,415	-	-	342,415
Health services	877,470	74,314	-	951,784
Student transportation	6,526,397	360,266	-	6,886,663
Operation of plant and equipment	8,083,276	8,251	-	8,091,527
Maintenance of plant	1,100,895	-	-	1,100,895
Fixed charges	22,729,876	1,198,462	-	23,928,338
Capital outlay	361,776	-	3,649,145	4,010,921
Special education	10,158,470	2,259,632	-	12,418,102
Food services	-	30,104	-	30,104
Community services	-	23,638	-	23,638
On behalf County - retirement and pension contribution	482,366	-	-	482,366
On behalf State of Maryland - retirement and pension contribution	6,672,989	-	-	6,672,989
TOTAL EXPENDITURES	110,659,717	8,522,792	3,649,145	122,831,654
Net Change in fund balances	(383,262)	-	163	(383,099)
Fund balances, beginning	1,978,100	-	52,928	2,031,028
Fund balances, ending	<u>\$ 1,594,838</u>	<u>\$ -</u>	<u>\$ 53,091</u>	<u>\$ 1,647,929</u>

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, 2018

Net change in fund balances, governmental funds \$ (383,099)

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

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

Capital outlay	3,804,821	
Depreciation expense	<u>(3,949,009)</u>	
Total		(144,188)

Loss on disposal of assets (11,962)

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

Increase in early incentive payment	(123,327)	
Decrease in compensated absences	4,828	
Decrease in pension expense	427,320	
Net Increase in other post-retirement benefits	<u>(17,500,879)</u>	(17,192,058)

Change in net position of governmental activities \$ (17,731,307)

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, 2018

	Enterprise Fund Food Services
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 458,967
Due from other governments	104,550
Other receivables	<u>5,275</u>
Total current assets	<u>568,792</u>
Noncurrent assets:	
Furniture and equipment	265,957
Less: accumulated depreciation	<u>(241,434)</u>
Total noncurrent assets	<u>24,523</u>
TOTAL ASSETS	<u>593,315</u>
LIABILITIES	
Current liabilities:	
Due to general fund	529,915
Accounts payable	1,127
Deferred revenue	<u>20,000</u>
Total current liabilities	551,042
COMMITMENTS AND CONTINGENCIES	
NET POSITION	
Invested in capital assets	24,523
Unrestricted	<u>17,750</u>
TOTAL NET POSITION	<u>\$ 42,273</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, 2018

	Enterprise Fund Food Services
OPERATING REVENUES	
Food service sales	<u>\$ 640,687</u>
OPERATING EXPENSES	
Salaries and wages	984,145
Fringe benefits	361,186
Contracted services	3,466
Food and food related supplies	1,124,514
Nonfood supplies	41,954
Value of USDA commodities donated	163,757
Commodity processing	17,448
Depreciation	<u>4,503</u>
TOTAL OPERATING EXPENSES	<u>2,700,973</u>
OPERATING LOSS	<u>(2,060,286)</u>
NONOPERATING REVENUES	
Interest income	1,247
Grant revenue	15,000
State of Maryland:	
Reimbursement of food costs	118,220
Federal through state:	
Reimbursement of food costs	1,757,503
Donation of food commodities	<u>163,757</u>
Total Federal through state	<u>1,921,260</u>
TOTAL NONOPERATING REVENUES	<u>2,055,727</u>
Change in net position	(4,559)
Net position beginning of year	<u>46,832</u>
Net position end of year	<u><u>\$ 42,273</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, 2018

	Enterprise Fund Food Services
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from user charges	\$ 637,330
Cash payments to employees for services	(984,145)
Cash payments for health and other insurances	(361,186)
Cash payments to suppliers for goods and services	(1,183,916)
Cash payments for facility use and maintenance	(3,466)
Net cash used in operating activities	<u>(1,895,383)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Non operating grants received	1,919,029
Net loans (repayments) to other funds	(20,948)
Net cash provided by noncapital financing activities	<u>1,898,081</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	1,247
Net change in cash	3,945
Cash and investments, beginning of year	<u>455,022</u>
Cash and investments, end of year	<u>\$ 458,967</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (2,060,286)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	4,503
Donated commodities used	163,757
Changes in assets and liabilities:	
Receivables	<u>(3,357)</u>
Net cash used in operating activities	<u>\$ (1,895,383)</u>
NONCASH NONCAPITAL FINANCING ACTIVITIES	
During the year the board received food commodities from the U.S. Department of Agriculture	<u>\$ 163,757</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, 2018

	Private Purpose Trust Fund	Retiree Benefit Trust Fund	Agency Fund School Activities Fund
ASSETS			
Cash	\$ -	\$ 749,670	\$ 813,646
Trust investments:			
Money market funds	-	369,467	-
Fixed income securities	-	5,787,731	-
Equities securities	-	12,154,380	-
Due from other funds	333,520	-	12,439
TOTAL ASSETS	333,520	19,061,248	826,085
LIABILITIES			
Due to school activities funds	-	-	826,085
TOTAL LIABILITIES	-	-	826,085
NET POSITION			
Held in trust for:			
Other postemployment benefits	-	19,061,248	-
Scholarships, etc.	333,520	-	-
TOTAL NET POSITION	\$ 333,520	\$ 19,061,248	\$ -

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, 2018

	Private Purpose Trust Fund	Retiree Benefit Trust Fund
ADDITIONS		
Contributions:		
Donations and fees	\$ 92,441	\$ -
Worcester County contributions	-	2,500,000
Plan member contributions	-	663,826
Total contributions	<u>92,441</u>	<u>3,163,826</u>
Investment earnings:		
Interest	4,046	14,772
Increase in fair value of investments	-	1,568,149
Total investment earnings	<u>4,046</u>	<u>1,582,921</u>
 Total additions	 <u>96,487</u>	 <u>4,746,747</u>
DEDUCTIONS		
Plan benefit payments	-	6,639,440
Professional fees	-	-
Scholarships, etc.	69,532	-
 Total deductions	 <u>69,532</u>	 <u>6,639,440</u>
 Change in net position	 26,955	 (1,892,693)
Net position held in trust, beginning	<u>306,565</u>	<u>20,953,941</u>
Net position held in trust, ending	<u>\$ 333,520</u>	<u>\$ 19,061,248</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 \$1,371,320 at June 30, 2018. 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 two items that qualify for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension obligation (Note 4) and OPEB liability (Note 7) for changes in assumptions and the net difference between projected and actual investment earnings on plan investments. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two items that qualify for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension obligation (Note 4) and OPEB liability (Note 7) for the net difference between projected and actual investment earnings on pension plan investments, changes in assumptions, and differences between expected and actual experience. 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, 2018 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 \$259,976.

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, 2018, the Board's funds were invested as follows:

	<u>CARRYING VALUE</u>
Cash and cash equivalents	\$ <u>7,179,792</u>
Invested in Maryland Local Government Investment Pool	\$ <u>235,155</u>

NOTES TO FINANCIAL STATEMENTS

Note 2. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investments of \$235,155 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 Poors. 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	7,097,741	182,027
Uninsured and Undercollateralized	-	-
TOTAL	\$ 7,597,741	\$ 432,027

Investment - Retiree Benefit Trust Fund

Investments of \$19,061,247 in the Retiree Benefit Trust Fund by type and maturity were at June 30, 2018 were as follows:

	1 Year	1-5 Years	Over 5 Years	Total	Rate
M&T Investments:					
Cash	\$ 749,670	\$ -	\$ -	\$ 749,670	
Money Market	369,467	-	-	369,467	
Fixed Income:					
U.S. Treasury	119,781	314,442	927,384	1,361,607	1.25 - 3.625%
U.S. Government Agency	-	4,145	685,906	690,051	3 - 5%
Other Fixed Income	124,969	641,364	2,969,740	3,736,073	1.82 - 6.2%
Equities	12,154,380	-	-	12,154,380	N/A
Totals	\$ 13,518,267	\$ 959,951	\$ 4,583,030	\$ 19,061,248	

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. The Board has no Level 3 investments.

As of June 30, 2018, the Board had the following recurring fair value measurements:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
Corporate and foreign bonds	\$ -	\$ 1,241,326	\$ -	\$ 1,241,326
Fixed income funds	2,494,747	-	-	2,494,747
	2,494,747	1,241,326	-	3,736,073
Equity Securities:				
Mutual funds	12,154,380	-	-	12,154,380
Other investments:				
Money market	369,467	-	-	369,467
U.S. Treasury	1,361,607	-	-	1,361,607
U.S. Government Agency	690,051	-	-	690,051
	2,421,125	-	-	2,421,125
Total investment by fair value level	\$ 17,070,252	\$ 1,241,326	\$ -	\$ 18,311,578

NOTES TO FINANCIAL STATEMENTS

Note 2. Detailed Notes on All Funds (continued)

B. Interfund Receivables - Payables

At June 30, 2018, 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	\$ 529,915	\$ -
Due from/to Capital Projects Fund	197,781	12,606
Due to School Activities Fund	-	12,439
Due to Trust Fund	-	333,520
Sub-Total	727,696	358,565
CAPITAL PROJECTS FUND		
Due from/to General Fund	12,606	197,781
BUSINESS-TYPE ACTIVITIES:		
ENTERPRISE FUND		
Due from/to General Fund	-	529,915
FIDUCIARY NET POSITION		
Due from General Fund	345,959	-
TOTAL ALL FUNDS	\$ 1,086,261	\$ 1,086,261

NOTES TO FINANCIAL STATEMENTS

Note 2. Detailed Notes on All Funds (continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2018 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	920,822	1,380,095	-	2,300,917
Total Capital Assets, not Being Depreciated	<u>2,807,601</u>	<u>1,380,095</u>	<u>-</u>	<u>4,187,696</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	223,773,168	2,197,755	(165,403)	225,805,520
Furniture, Fixtures, Equipment and Vehicles	4,223,563	226,971	(154,827)	4,295,707
Total Capital Assets, being Depreciated	<u>227,996,731</u>	<u>2,424,726</u>	<u>(320,230)</u>	<u>230,101,227</u>
Less Accumulated Depreciation for:				
Buildings	(63,708,647)	(3,766,321)	165,403	(67,309,565)
Furniture, Fixtures, Equipment and Vehicles	(3,343,557)	(182,688)	142,865	(3,383,380)
Total Accumulated Depreciation	<u>(67,052,204)</u>	<u>(3,949,009)</u>	<u>308,268</u>	<u>(70,692,945)</u>
Total Capital Assets, being Depreciated, Net	<u>160,944,527</u>	<u>(1,524,283)</u>	<u>(11,962)</u>	<u>159,408,282</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 163,752,128</u>	<u>\$ (144,188)</u>	<u>\$ (11,962)</u>	<u>\$ 163,595,978</u>
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Being Depreciated:				
Machinery, Equipment and Vehicles	\$ 265,957	\$ -	\$ -	\$ 265,957
Less Accumulated Depreciation for:				
Machinery, Equipment and Vehicles	(236,931)	(4,503)	-	(241,434)
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 29,026</u>	<u>\$ (4,503)</u>	<u>\$ -</u>	<u>\$ 24,523</u>

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	\$ 39,490
Instruction Services	3,751,559
Operation of Plant	<u>157,960</u>
TOTAL	<u>\$ 3,949,009</u>

D. Changes In Long-Term Debt

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018	Due in One Year
Net OPEB liability, as restated	\$ 314,478,264	\$ 3,625,090		\$ 318,103,354	\$ -
Net pension liability	5,614,576	-	947,597	4,666,979	-
Retirement Incentive and Severance	29,530	152,857	29,530	152,857	152,857
Long-Term Portion of Accrued Compensated Absences	289,431	37,365	42,412	284,384	42,193
	<u>\$ 320,411,801</u>	<u>\$ 3,815,312</u>	<u>\$ 1,019,539</u>	<u>\$ 323,207,574</u>	<u>\$ 195,050</u>

E. Fiduciary Fund Types

The fund equity at June 30, 2018 consists of the following:

John Postley Fund	\$ 77,293
Old Home Prize Fund	17,214
Gladys C. Burbage Scholarship Fund	186,928
John Coleman Scholarship Fund	2,285
Mark Pilchard Scholarship Fund	1,550
Stephen Decatur - Class of 1955 Fund	8,818
Worcester Board of Education - Employees Fund	9,942
Other	17,755
Stephen Decatur - JROTC	11,735
TOTAL	<u>\$ 333,520</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

Worcester
FY 2018

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 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, 2018. 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%.

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

Employer Contributions:

For the year ended June 30, 2018 the Board's total payroll for all employees was \$69,508,200. Total covered payroll was \$62,892,100. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay 100% of the normal cost portion of the total pension cost for teachers beginning in fiscal year 2017. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. The related payment for fiscal year ending 2018 was \$2,555,312. In addition, the State of Maryland contributed \$6,672,989 on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense.

During fiscal year 2018, the Board reported expense of \$482,366 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, 2018, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

	2018
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 4,666,979
Board's proportionate share of the net pension liability (Teachers' Systems)	<u>73,617,121</u>
Total	<u>\$ 78,284,100</u>

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was 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 .0215827%.

For the year ended June 30, 2018, the Board recognized pension expense for the employees system of \$55,045 in the government wide financial statements and \$482,366 in the fund financial statements. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Year End June 30,	Deferred Outflows		Deferred Inflows	
	Net Difference in Investment Earnings	Change in Assumptions	Actual and Expected Experience	Net Difference in Investment Earnings
2019	\$ 247,520	\$ 69,230	\$ (80,631)	\$ (151,182)
2020	247,519	55,410	(80,631)	(46,614)
2021	139,230	48,839	(77,942)	(46,615)
2022	-	4,862	(58,308)	(46,615)
2023	-	3,786	(36,853)	-
Total	<u>\$ 634,269</u>	<u>\$ 182,127</u>	<u>\$ (334,365)</u>	<u>\$ (291,026)</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 \$482,366 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, 2019. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.76, 5.8647, 5.87 and 5 years for the years ended June 30, 2017, 2016, 2015, and 2014 respectively. The net difference in investment earnings for 2017, 2016, 2015 and 2014 are being amortized over a closed five year period.

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15%, including wage inflation
Discount rate	7.5%
Investment rate of return	7.5%
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	36%	5.3%
Private Equity	11%	7.0%
Rate Sensitive	21%	1.2%
Credit Opportunity	9%	3.6%
Real Assets	15%	5.7%
Absolute Return	8%	3.1%
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 7.5% 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 7.5%. 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 7.5%, 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	6.50%	\$ 6,614,033
Current discount rate	7.50%	\$ 4,666,979
1% increase	8.50%	\$ 3,051,474

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 entered into a contract for the construction of Showell Elementary School. The contract is for approximately \$47.5 million of which approximately \$2.3 million had been completed by June 30, 2018. The contract is 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 and benefits provided

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 described below:

For members hired before July 1, 2011, the earliest retirement eligibility is the earlier of:

- Age 55 with 15 years of service,
- Age 62 with 5 years of service,
- Age 63 with 4 years of service,
- Age 64 with 3 years of service,
- Age 65 with 2 years of service, or
- 30 years of service, regardless of age.

For members hired after July 1, 2011, the earliest retirement eligibility is the earlier of

- Rule of 90 (age plus service is at least 90),
- Age 65 with 10 years of service,
- Age 60 with 15 years of service

In addition, 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 July 1, 2017, the date of the last actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	712
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	961
	<u>1,673</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Post-Employment Benefits (continued)

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, 2018, the OPEB Trust paid for coverage of approximately 712 retirees at a total cost, net of retiree contributions, of approximately \$6,000,000. For the year ended June 30, 2018, Worcester County Commissioners funded the trust in the amount of \$2,500,000 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 actuarially determined contribution" within the meaning of GASB Statement Number 75 and that the Trust will qualify as a "trust or equivalent arrangement" within the meaning of GASB Statement 75.

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.

Net OPEB Liability

The Board's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary increases	4.00%, average, including inflation
Discount rate	2.986%
Healthcare cost trend rates	6.00% for fiscal year 2018, decreasing .11% per year to an ultimate rate of 5.00% for fiscal year 2028 and later years
Mortality	RP-2014 Combined Annuitant Mortality Table for males and females

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Post-Employment Benefits (continued)

Investments

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and cash equivalents	5%	0.5%
Fixed income investments	30%	5.7%
Equities	65%	8.1%
Total	100%	

Discount rate

The discount rate used to measure the total OPEB liability was 2.986%. The projection of cash flows used to determine the discount rate assumed that the Board's contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The periods of projected benefit payments were fiscal years 2018 through 2028.

The annual OPEB expense under GASB Statement No. 75 is equal to the change in the unfunded actuarial accrued liability from the prior year's measurement date to the current year measurement date, with some of the liability changes being deferred to future years. Changes in the actuarial accrued liability due to experience gains or losses or changes in assumptions are recognized over the expected future working lifetime of all plan participants, including retirees.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Post-Employment Benefits (continued)

The Board's net OPEB liability is an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The following table shows the components of the Board's net OPEB liability, fiduciary net position, and the resulting net OPEB liability as of June 30, 2018:

	Increase (Decrease)		
	Total OPEB	Plan	Net OPEB
	Liability	Fiduciary	Liability
	(a)	(b)	(a) - (b)
Balance at 6/30/2017	\$ 335,432,205	\$ 20,953,941	\$ 314,478,264
Changes for the year:			
Service cost	14,629,936	-	14,629,936
Interest cost	9,394,241	-	9,394,241
Differences between expected and actual experience	(15,957,568)	28,645	(15,986,213)
Changes of assumptions and other inputs	199,538	-	199,538
Contributions - employer		2,500,000	(2,500,000)
Net investment income	-	1,582,921	(1,582,921)
Benefit payments	(5,974,464)	(5,974,464)	-
Administrative expense	-	(1,150)	1,150
Other changes	(559,286)	(28,645)	(530,641)
Net changes	1,732,397	(1,892,693)	3,625,090
Balances at 6/30/2018	\$ 337,164,602	\$ 19,061,248	\$ 318,103,354

Funding Status and Funding Progress

As of July 1, 2017, the most recent actuarial valuation date, the total OPEB liability for benefits was \$337,164,602, with \$19,061,248 in plan Fiduciary net position, resulting in an unfunded OPEB liability of \$318,103,354. The covered employee payroll was \$62,892,100, and the ratio of the net OPEB liability to the covered payroll was 505.79%.

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

Additional information as of the latest actuarial valuation is as follows:

- *Measurement date* – The Board selected a June 30, 2018 measurement date for fiscal year-end 2018. The measurement date can be any date between the last day of the prior fiscal year and the last day of the current fiscal year.
- *Cost method* – This valuation uses the Entry Age Normal Funding Method calculated on an individual basis with level percentage of payroll.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Post-Employment Benefits (continued)

Sensitivity of the Total and Net OPEB Liability

The following table presents the Board's total and net OPEB liability using the discount rate of 2.986%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>Discount Rate</u>	<u>Board's Net OPEB Liability</u>
1% decrease	1.986%	\$ 381,904,296
Current discount Rate	2.986%	\$ 318,103,354
1% increase	3.986%	\$ 267,977,291

The following table presents the Board's net OPEB liability using the health care trend rate of 6%, decreasing to 5%, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% point lower or 1% point higher than the current rate:

	<u>Health Care Cost Trend Rate</u>	<u>Board's Net OPEB Liability</u>
1% decrease	5% decreasing to 4%	\$ 277,499,941
Current discount Rate	6% decreasing to 5%	\$ 318,103,354
1% increase	7% decreasing to 6%	\$ 371,368,514

OPEB Expense and Deferred Inflows/Outflows of Resources related to OPEB

For the fiscal year ended June 30, 2018, the Board recognized an OPEB expense of \$17,500,879 on the government-wide statements. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 13,594,199
Changes of assumptions	5,526,004	5,807,594
Total	<u>\$ 5,526,004</u>	<u>\$ 19,401,793</u>

Amounts reported as deferred outflows and inflows of resources related to the OPEB plan will be amortized and expensed over the expected average remaining service life of participants as follows:

Year Ended June 30,	<u>Outflows</u>	<u>Inflows</u>
2019	\$ 971,656	\$ 3,413,183
2020	971,656	3,413,183
2021	971,656	3,413,183
2022	971,656	3,413,183
2023	971,656	3,413,183
2024	667,724	2,335,878

Changes in assumptions in the most recent actuarial valuation included the discount rate (a decrease from 7% to 2.986%) and actuarial cost method changes, the starting per capita costs were updated using most recent premiums, and the health care trend rates were reset based on recent experience.

NOTES TO FINANCIAL STATEMENTS

Note 8. Prior Period Restatement

During fiscal year 2018, the Board implemented Governmental Accounting Standards Board's Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and in accordance, has applied its effects retroactively. The statement's objective is to improve the accounting and financial reporting for postemployment benefits other than pensions (OPEB) as well as to improve the information provided by employers about financial support for OPEB (see Note 7).

The following table is a summary of the effects of these changes on net position as of June 30, 2017.

	<u>Governmental Activites</u>
	<u>Net Position</u>
<u>June 30, 2017, as previously reported</u>	<u>\$ 72,996,426</u>
<u>Adjustment to net OPEB liability</u>	<u>(226,389,011)</u>
<u>June 30, 2017, as restated</u>	<u>\$ (153,392,585)</u>

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, 2018

	UNRESTRICTED			VARIANCE FAVORABLE (UNFAVORABLE)
	BUDGET		ACTUAL	
	ORIGINAL	FINAL		
UNRESTRICTED REVENUES				
County Appropriation	\$ 83,870,125	\$ 83,870,125	\$ 83,870,125	\$ -
State of Maryland and Federal	19,062,262	19,062,262	19,062,262	-
Other Sources	225,452	225,452	188,713	(36,739)
TOTAL UNRESTRICTED REVENUES	103,157,839	103,157,839	103,121,100	(36,739)
UNRESTRICTED EXPENDITURES				
Administration	1,575,286	1,575,286	1,567,922	7,364
Instructional Support Services	7,135,390	7,135,390	7,134,563	827
Instructional Salaries	42,268,258	41,717,663	41,264,505	453,158
Textbooks and Instructional Supplies	2,344,816	2,344,816	2,312,197	32,619
Other Instruction Costs	965,917	965,917	880,817	85,100
Student Personnel Services	343,323	343,323	342,415	908
Health Services	881,792	881,792	877,470	4,322
Student Transportation	6,308,165	6,526,399	6,526,397	2
Operation of Plant and Equipment	8,032,086	8,084,031	8,011,137	72,894
Maintenance of Plant	1,069,536	1,099,403	1,099,390	13
Fixed Charges	22,760,129	22,760,129	22,729,876	30,253
Capital Outlay	217,084	314,244	314,244	-
Special Education	9,823,068	10,125,562	10,125,559	3
TOTAL UNRESTRICTED EXPENDITURES	103,724,850	103,873,955	103,186,492	687,463
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES	(567,011)	(716,116)	(65,392)	650,724
OTHER FINANCING SOURCES				
Appropriation from Fund balance - capital projects	-	149,105	149,105	-
Appropriation from Fund Balance	567,011	567,011	567,011	-
TOTAL OTHER FINANCING SOURCES	567,011	716,116	716,116	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ -	\$ -	\$ 650,724	\$ 650,724

See Accompanying Notes To Financial Statements.

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	Board's Share of State's Proportionate Share of the NPL C	Total (B+C)	Board's Covered 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%	\$ 45,339,988,000	\$ 63,086,719,000	71.87%
2016	June 30, 2015	0.3283300%	\$ 4,917,743	\$ 64,079,160	\$ 68,996,903	\$ 60,120,207	8.18%	\$ 45,789,840,000	\$ 66,571,552,000	68.78%
2017	June 30, 2016	0.0237966%	\$ 5,614,576	\$ 78,792,130	\$ 84,406,706	\$ 60,937,473	9.21%	\$ 45,365,927,000	\$ 68,959,954,000	65.79%
2018	June 30, 2017	0.0215827%	\$ 4,666,979	\$ 73,617,121	\$ 78,284,100	\$ 62,892,100	7.42%	\$ 48,987,184,000	\$ 70,610,885,000	69.38%

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 BOARD CONTRIBUTIONS - PENSION PLANS

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
2015	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%
2018	June 30, 2017	\$ 3,037,678	\$ 3,037,678	\$ -	\$ 62,892,100	4.83%

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 CHANGES IN THE BOARD'S NET OPEB
LIABILITY AND RELATED RATIOS**

	2018
Total OPEB liability	
Service cost	\$ 14,629,936
Interest cost	9,394,241
Differences between expected and actual experience	(15,957,568)
Changes of assumptions and other inputs	199,538
Benefit payments	(5,974,464)
Other changes	(559,286)
Net change in total OPEB liability	\$ 1,732,397
Total OPEB liability, beginning of year, as restated	335,432,205
Total OPEB liability, end of year (a)	\$ 337,164,602
Plan fiduciary net position	
Differences between expected and actual experience	\$ 28,645
Contribution - employer	2,500,000
Net investment income	1,582,921
Benefit payments	(5,974,464)
Administrative expense	(1,150)
Other changes	(28,645)
Net change in fiduciary net position	\$ (1,892,693)
Fiduciary net position, beginning of year	20,953,941
Fiduciary net position, end of year (b)	\$ 19,061,248
Net OPEB Liability (a-b)	\$ 318,103,354
Fiduciary net position as a % of total OPEB liability	5.65%
Covered employee payroll	\$ 62,892,100
Net OPEB liability as of % of payroll	505.79%
Expected average remaining service in years	6.69

*Schedule is intended to provide 10-year trend information. Additional years will be displayed as available.
GASB No. 75 was implemented in fiscal year 2018.*

THE BOARD OF EDUCATION OF WORCESTER COUNTY
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT RETURNS

2018

Annual money-weighted rate of return, net of investment

7.00%

*Schedule is intended to provide 10-year trend information. Additional years will be displayed as available.
GASB No. 75 was implemented in fiscal year 2018.*

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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, 2018	June 30, 2018	June 30, 2018
GAAP Basis	\$ 110,276,455	\$ 110,659,717	\$ 1,594,838
Increase (Decrease):			
State Share of Retirement and Pension Contribution	(6,672,989)	(6,672,989)	-
County Share of Retirement and Pension Contribution	(482,366)	(482,366)	-
Net Effect of Utilization of Encumbrances:			
Reversal of June 30, 2016 Balances	-	(577,846)	-
Recording of Balances at June 30, 2017	-	259,976	(259,976)
Insurance Reserve and other	-	-	(22,024)
Budgetary basis	\$ 103,121,100	\$ 103,186,492	\$ 1,312,838

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 2. Pensions

Change in Benefit Terms

There were no benefit changes during the year.

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2017 valuation:

- Inflation assumption changed from 2.70% to 2.65% for general and from 3.20% to 3.15% for wage
- Salary increase assumption changed from 3.30% - 9.20% to 3.15% - 9.15%, including inflation
- Investment rate of return assumption changed from 7.55% to 7.50%

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	25 year closed schedule ending June 30, 2039: 21 years remaining
Asset valuation method	5-year smoothed market (max 120% and min 80% of the market value)
Inflation	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15%, including wage inflation
Investment rate of return	7.5%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Mortality tables with generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 3. Other Post Employment Benefits

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed period
Amortization period	6.69 years
Inflation	3.00%
Healthcare cost trend rates	6.00% for fiscal year 2018, decreasing .11% per year to an ultimate rate of 5.00% for fiscal year 2028 and later years
Salary increases	4.00%, average, including inflation
Investment rate of return	2.986%
Mortality	RP-2014 Combined Annuitant Mortality Table for males and females

Retirement rates

Age	BOE
55 - 59	15%
60 - 61	20%
62 -64	35%
65	25%
66 - 69	35%
70+	100%

Withdrawal rates

Table T-1 from the Pension Actuary's Handbook

Age	BOE
20	5.47%
25	4.77%
30	3.54%
35	2.24%
40	1.14%
45	0.57%
50	0.72%
55	1.13%
60	1.69%

Retiree contributions

	Pre-Medicare		Medicare Eligible	
	Retiree	Spouse	Retiree	Spouse
Pre 7/1/15 hires	\$ 807	\$ 1,393	\$ 719	\$ 719
7/1/15 & Subsequ, hires	1,613	2,787	1,438	1,438
Spouse pay-all		13,934		7,190

ADDITIONAL SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF WORCESTER COUNTY

UNRESTRICTED GENERAL FUND REVENUES AND
OTHER FINANCING SOURCES - BUDGETARY BASIS

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
UNRESTRICTED LOCAL FUNDS				
County appropriation	\$ 83,870,125	\$ 83,870,125	\$ 83,870,125	\$ -
STATE OF MARYLAND FUNDS				
Current expense	6,617,926	6,617,926	6,617,926	-
Transportation	3,075,282	3,075,282	3,075,282	-
Handicapped children	1,741,093	1,741,093	1,741,093	-
Compensatory education	7,280,861	7,280,861	7,280,861	-
Limited english proficiency	347,100	347,100	347,100	-
TOTAL STATE OF MARYLAND FUNDS	19,062,262	19,062,262	19,062,262	-
OTHER FUNDS				
Tuition	70,000	70,000	84,583	14,583
Interest and other	80,000	80,000	69,990	(10,010)
Reimbursement from restricted Programs	75,452	75,452	34,140	(41,312)
TOTAL OTHER FUNDS	225,452	225,452	188,713	(36,739)
TOTAL UNRESTRICTED REVENUES	103,157,839	103,157,839	103,121,100	(36,739)
OTHER FINANCING SOURCES				
Appropriation from Fund balance - capital projects	-	149,105	149,105	-
Appropriation from Fund balance	567,011	567,011	567,011	-
TOTAL OTHER FINANCING SOURCES	567,011	716,116	716,116	-
TOTAL UNRESTRICTED REVENUES AND OTHER FINANCING SOURCES	\$ 103,724,850	\$ 103,873,955	\$ 103,837,216	\$ (36,739)

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF APPROPRIATIONS AND EXPENDITURES
GENERAL FUND - BUDGETARY BASIS

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
ADMINISTRATION				
Salaries and wages	\$ 1,315,824	\$ 1,277,600	\$ 1,270,654	\$ 6,946
Contracted services	177,242	186,679	186,678	1
Supplies and materials	35,408	44,414	44,414	-
Other charges	45,710	65,491	65,490	1
Land, buildings and equipment	1,102	1,102	686	416
TOTAL ADMINISTRATION	1,575,286	1,575,286	1,567,922	7,364
INSTRUCTIONAL SUPPORT SERVICES				
Salaries and wages	6,844,994	6,892,403	6,892,402	1
Contracted services	85,263	60,563	60,471	92
Supplies and materials	137,537	137,537	137,536	1
Other charges	61,200	41,300	41,263	37
Land, buildings and equipment	6,396	3,587	2,891	696
TOTAL INSTRUCTIONAL SUPPORT SERVICES	7,135,390	7,135,390	7,134,563	827
INSTRUCTIONAL SALARIES AND WAGES	42,268,258	41,717,663	41,264,505	453,158
TEXTBOOKS AND CLASSROOM SUPPLIES AND MATERIALS	2,344,816	2,344,816	2,312,197	32,619
OTHER INSTRUCTIONAL COSTS				
Contracted services	531,997	470,526	460,629	9,897
Other charges	298,525	404,896	329,895	75,001
Land, buildings and equipment	85,395	53,395	53,212	183
Outgoing transfers	50,000	37,100	37,081	19
TOTAL OTHER INSTRUCTIONAL COSTS	965,917	965,917	880,817	85,100
STUDENT PERSONNEL SERVICES				
Salaries and wages	340,400	330,800	330,205	595
Contracted services	750	1,865	1,864	1
Supplies and materials	1,890	1,890	1,578	312
Other charges	283	8,768	8,768	-
TOTAL STUDENT PERSONNEL SERVICES	343,323	343,323	342,415	908
HEALTH SERVICES				
Salaries and wages	871,672	855,383	851,064	4,319
Contracted services	252	331	330	1
Supplies and materials	8,118	19,432	19,432	-
Other charges	750	1,711	1,710	1
Land, buildings and equipment	1,000	4,935	4,934	1
TOTAL HEALTH SERVICES	\$ 881,792	\$ 881,792	\$ 877,470	\$ 4,322

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF APPROPRIATIONS AND EXPENDITURES - CONTINUED
 GENERAL FUND - BUDGETARY BASIS
 Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
STUDENT TRANSPORTATION				
Salaries and Wages	\$ 313,847	\$ 302,990	\$ 302,989	\$ 1
Contracted Services	5,891,598	6,088,385	6,088,385	-
Supplies and Materials	9,636	8,046	8,046	-
Other Charges	93,084	117,149	117,149	-
Land, Buildings and Equipment	-	9,829	9,828	1
TOTAL STUDENT TRANSPORTATION	6,308,165	6,526,399	6,526,397	2
OPERATION OF PLANT				
Salaries and Wages	3,228,440	3,343,809	3,343,809	-
Contracted Services	322,270	623,005	623,004	1
Supplies and Materials	301,120	427,116	427,116	-
Other Charges	4,137,956	3,549,277	3,476,384	72,893
Land, Buildings and Equipment	42,300	140,824	140,824	-
TOTAL OPERATION OF PLANT	8,032,086	8,084,031	8,011,137	72,894
MAINTENANCE OF PLANT				
Salaries and Wages	708,043	595,080	595,080	-
Contracted Services	93,738	176,591	176,590	1
Supplies and Materials	229,360	323,973	323,973	-
Other Charges	650	1,014	1,013	1
Land, Buildings and Equipment	37,745	2,745	2,734	11
TOTAL MAINTENANCE OF PLANT	1,069,536	1,099,403	1,099,390	13
FIXED CHARGES				
Insurance and Employee Benefits	22,760,129	22,760,129	22,729,876	30,253
CAPITAL OUTLAY				
Salaries and Wages	114,776	114,742	114,742	-
Contracted Services	450	81,151	81,151	-
Supplies and Materials	1,552	4,638	4,638	-
Other Charges	306	95	95	-
Land, Buildings and Equipment	100,000	113,618	113,618	-
TOTAL CAPITAL OUTLAY	217,084	314,244	314,244	-
SPECIAL EDUCATION				
Salaries and Wages	9,045,057	9,457,814	9,457,813	1
Contracted Services	403,000	293,324	293,323	1
Supplies and Materials	185,000	111,838	111,838	-
Other Charges	40,011	79,121	79,121	-
Land, Buildings and Equipment	22,000	-	-	-
Outgoing Transfers	128,000	183,465	183,464	1
TOTAL SPECIAL EDUCATION	9,823,068	10,125,562	10,125,559	3
TOTAL UNRESTRICTED APPROPRIATIONS AND EXPENDITURES	\$ 103,724,850	\$ 103,873,955	\$ 103,186,492	\$ 687,463

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHOOL ACTIVITIES FUND OPERATIONS

Year Ended June 30, 2018

	Balance June 30, 2017	Receipts	Disbursements	Balance June 30, 2018
ELEMENTARY				
Buckingham	\$ 27,002	\$ 92,549	\$ 99,296	\$ 20,255
Ocean City	44,724	97,252	99,291	42,685
Pocomoke	44,646	77,613	80,728	41,531
Showell	63,740	63,937	60,121	67,556
Snow Hill	45,093	98,913	88,853	55,153
TOTAL ELEMENTARY	225,205	430,264	428,289	227,180
MIDDLE SCHOOL				
Berlin	103,746	206,192	220,992	88,946
Pocomoke	18,576	119,617	125,083	13,110
Snow Hill	37,132	117,353	105,574	48,911
Stephen Decatur	80,837	141,601	142,018	80,420
TOTAL MIDDLE SCHOOL	240,291	584,763	593,667	231,387
HIGH SCHOOL				
Pocomoke	46,525	287,196	289,501	44,220
Snow Hill	80,048	260,751	270,183	70,616
Stephen Decatur	249,929	743,651	797,732	195,848
TOTAL HIGH SCHOOL	376,502	1,291,598	1,357,416	310,684
SPECIALIZED SCHOOL				
Cedar Chapel	7,572	32,858	33,856	6,574
Vocational	20,400	333,859	303,999	50,260
TOTAL SPECIALIZED SCHOOL	27,972	366,717	337,855	56,834
TOTAL SCHOOL ACTIVITY FUND OPERATION	\$ 869,970	\$ 2,673,342	\$ 2,717,227	\$ 826,085
EXCESS OF DISBURSEMENTS OVER RECEIPTS		\$ (43,885)		

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
FOOD SERVICE FUND - BUDGETARY BASIS

Year Ended June 30, 2018

	Budget	Actual	Variance With Budget Favorable (Unfavorable)
REVENUES			
Federal and State:			
Reimbursement for food	\$ 2,050,500	\$ 2,039,480	\$ (11,020)
Other Revenues:			
Grant revenue	-	15,000	15,000
Catering income	6,500	6,815	315
Lunches sold	615,750	609,975	(5,775)
Interest income and other	550	1,247	697
Rebates - food	4,300	23,897	19,597
Total Other Revenues	627,100	656,934	29,834
TOTAL REVENUES	2,677,600	2,696,414	18,814
EXPENDITURES			
Food and food related supplies	1,295,000	1,288,271	6,729
Commodity processing and storage	39,500	17,448	22,052
Nonfood supplies and other expense	34,100	41,954	(7,854)
Salaries and wages	955,000	984,145	(29,145)
Fringe benefits	337,900	361,186	(23,286)
Contracted services	7,400	3,466	3,934
Equipment	8,700	-	8,700
TOTAL EXPENDITURES	2,677,600	2,696,470	(18,870)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ (56)	\$ (56)

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
COMBINED RESTRICTED AND UNRESTRICTED

Year Ended June 30, 2018

REVENUES		
County Appropriation	\$ 83,870,125	
State of Maryland	19,690,536	
Restricted Federal Funds	7,607,394	
Other Sources	720,522	111,888,577
	<u>TOTAL REVENUES</u>	
OTHER FINANCING SOURCES		
Appropriation from Fund Balance		<u>716,116</u>
	TOTAL REVENUES AND OTHER FINANCING SOURCES	\$ 112,604,693
EXPENDITURES		
Administration	1,660,556	
Mid-Level Administration	7,239,245	
Instructional Salaries and Wages	43,803,574	
Textbooks and Classroom Supplies	3,219,915	
Other Instructional Costs	2,044,324	
Pupil Personnel Services	342,415	
Health Services	951,784	
Pupil Transportation	6,886,663	
Operation of Plant	8,019,388	
Maintenance of Plant	1,099,390	
Fixed Charges	23,928,338	
Special Education	12,390,391	
Food Services	30,104	
Community Services	23,638	
Capital Planning	314,244	
	<u>TOTAL EXPENDITURES</u>	<u>111,953,969</u>
	EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>\$ 650,724</u>

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, 2018	June 30, 2018	June 30, 2018
GAAP basis	\$ 2,696,414	\$ 2,700,973	\$ (4,559)
Capitalized costs	-	-	-
Depreciation	-	(4,503)	4,503
Budgetary basis	<u>\$ 2,696,414</u>	<u>\$ 2,696,470</u>	<u>\$ (56)</u>

THE BOARD OF EDUCATION OF
WORCESTER COUNTY

AUDIT COMMUNICATIONS

June 30, 2018

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I. COMMUNICATIONS WITH THOSE CHARGED WITH
GOVERNANCE

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 28, 2018

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, 2018. 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 15, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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. As discussed in Notes 7 and 8, the Board changed accounting policies by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, as discussed in Note 8, the cumulative effect of the accounting change as of the beginning of the year is reported in the Statement of Net Position and Statement of Activities as a restatement of beginning net position. 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” liability 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. There was one adjusting journal entry identified and not recorded in the financial statements as summarized below. Management has determined that the effect is immaterial, both individually and in the aggregate, to the financial statements taken as a whole. 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.

	<u>ASSET</u>	<u>LIABILITY</u>	<u>FUND BALANCE</u>	<u>EXPENSE</u>
<u>CURRENT YEAR</u>				
Portion of early retirement incentive payment not recorded for GAAP purposes		55,324		55,324
		<u>55,324</u>		<u>55,324</u>
total	-		<u>-</u>	<u>55,324</u>
			<u>55,324</u>	

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 28, 2018.

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 Board of Education of Worcester County’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 black ink, appearing to read "TGM Group LLC", is written over a printed name.

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 28, 2018

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, 2018, 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 28, 2018. This letter does not affect our report dated September 28, 2018 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,


Salisbury, Maryland

CURRENT YEAR COMMENTS

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.

Cash/Gate Receipts

While testing gate receipts, we noted that some gate receipts reconciliation forms were not reviewed and approved. The reconciliation form should be reviewed and approved by a separate individual.

TGM also noted for a few schools, the Funds Collection Log was not being used for all funds. Per the Board's school accounting manual, a Funds Collection Log must be completed by all staff collecting funds, and must be attached to the deposit slip as supporting documentation. Also, we noted some cases that the deposit was missing proper supporting documentation. Schools should ensure all deposits have adequate support.

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

Cash Disbursements

During our sample cash disbursement testing, we noted the invoice or supporting documentation was missing in some cases.

We also found in a few cases where the check was printed prior to the principal approval of the check request. We also noted two reimbursement request forms submitted and approved by the principal.

Finally, we noted a transaction at one school where one disbursement was written out to a teacher as a retirement gift. Per the Board's school accounting manual, checks should never be made payable to individuals as gifts.

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.

Other Areas

During our review of internal transfers of funds, it was noted that some were lacking the proper Internal Transfer of Funds Forms.

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.

IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES

Governmental Accounting Standards Board Statement No. 84, Fiduciary Activities

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, *Fiduciary Activities*. The requirements for this statement are effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement establishes criteria for identifying fiduciary activities. The focus of the criteria generally is on (1) whether a governmental entity is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a controlling fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity that meets the criteria should be reported in a fiduciary fund in the basic financial statements.

Governmental Accounting Standards Board Statement No. 87, Leases

In June 2017, GASB issued Statement No. 87, *Leases*. The requirements for this statement are effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to improve financial reporting for leases. This Statement increases the usefulness of governmental entity financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governmental entity leasing activities.

For lessees, the liability will be reduced as payments are made and the asset will be amortized over the shorter of the lease term or the useful life of the underlying asset. The notes to the financial statements for lessees will need to include a description of the leasing arrangements, the amount of the lease assets recognized, and a schedule of future lease payments. For lessors, the lease receivable will be reduced and an inflow of resources (revenue) from the deferred inflow of resources recognized in a systematic and rational manner over the term of the lease. The notes to the financial statements for lessors should include a description of leasing arrangements and the total amount of inflows of resources recognized from leases.

At the beginning of the period of implementation, leases should be recognized and measured using the facts and circumstances that exist at that time. Short-term leases with contracts of 12 months or less, including options to extend, are excluded.

We would be pleased to discuss the effect of these new accounting principles on the Board's financial statements and the information that will be needed for implementation.