

**THE BOARD OF EDUCATION OF  
WORCESTER COUNTY**

**FINANCIAL REPORT  
JUNE 30, 2019**

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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, 2019, 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, 2019, and the respective changes in

financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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

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

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019, 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 27, 2019

Herbert J. Geary III  
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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, 2019, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 27, 2019.

**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 XX, 2019.

**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 "YAM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland  
September 27, 2019

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

# THE BOARD OF EDUCATION OF WORCESTER COUNTY

## Management ' s Discussion and Analysis Year Ended June 30, 2019

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, 2019, and a comparison with the results of the fiscal year ended June 30, 2018. 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, 2019 include the following:

- Net position is (\$182,716,113), an increase of \$11,634,494 or 6.8% over the prior year.
- Total General Fund balance equals \$1,554,258, a decrease of \$40,580 from the prior year.
- Unassigned General Fund balance equals \$617,298, a decrease of \$33,426 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.



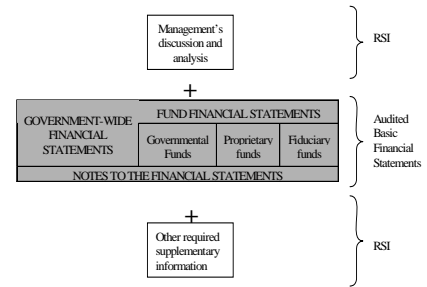
**THE BOARD OF EDUCATION OF WORCESTER COUNTY**

Management's Discussion and Analysis  
Year Ended June 30, 2019

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<br><b>Major Features of the District-Wide and Fund Financial Statements</b> |   |  |  |   |
|--|---|--|--|---|
|  | <b>District-wide Statements</b>                           | <b>Fund Financial Statements</b>   |  |   |
|  |   | <b>Governmental Funds</b>  | <b>Proprietary Funds</b>   | <b>Fiduciary Funds</b>  |
| 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  | * Statements of net position<br>* Statement of activities | * Balance sheet<br>* Statement of revenue, expenditures and changes in fund balances   | * Statement of net position<br>* Statement of revenue, expenses, and changes in fund net position<br>* Statement of cash flows | * Statements of Fiduciary net position<br>* 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, 2019

| Figure 2 (Continued)<br><b>Major Features of the District-Wide and Fund Financial Statements</b> |  |  |   |   |
|--|--|--|---|---|
|  | <b>District-wide Statements</b>  | <b>Fund Financial Statements</b>   |   |   |
|  |  | <b>Governmental Funds</b>  | <b>Proprietary Funds</b>  | <b>Fiduciary Funds</b>  |
| 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, 2019

## 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 (\$182,716,113) on June 30, 2019. This represents a decrease of 6.8 percent from the prior year. (See Table 1.)

**THE BOARD OF EDUCATION OF WORCESTER COUNTY**

Management ' s Discussion and Analysis  
Year Ended June 30, 2019

**Table 1**

THE BOARD OF EDUCATION OF WORCESTER COUNTY  
STATEMENT OF NET POSITION  
JUNE 30, 2019

| A S S E T S  | GOVERNMENTAL<br>ACTIVITIES |                         | BUSINESS-TYPE<br>ACTIVITIES |                  | TOTAL                   |                         |
|--|----------------------------|-------------------------|-----------------------------|------------------|-------------------------|-------------------------|
|  | 2019                       | 2018                    | 2019                        | 2018             | 2019                    | 2018                    |
| Current and Other Assets                             | \$ 10,622,640              | \$ 8,819,526            | \$ 32,731                   | \$ 38,877        | \$ 10,655,371           | \$ 8,858,403            |
| Capital Assets                                       | 171,051,702                | 163,595,978             | 20,020                      | 24,523           | 171,071,722             | 163,620,501             |
| <b>TOTAL ASSETS</b>                                  | <b>181,674,342</b>         | <b>172,415,504</b>      | <b>52,751</b>               | <b>63,400</b>    | <b>181,727,093</b>      | <b>172,478,904</b>      |
| Deferred outflows                                    | 14,825,403                 | 6,824,766               | -                           | -                | 14,825,403              | 6,824,766               |
| <b>LI A B I L I T I E S</b>                          |                            |                         |                             |                  |                         |                         |
| Current Liabilities                                  | 9,454,729                  | 7,324,454               | 21,128                      | 21,127           | 9,475,857               | 7,345,581               |
| Long-Term Liabilities                                | 353,225,433                | 323,012,524             | -                           | -                | 353,225,433             | 323,012,524             |
| <b>TOTAL LIABILITIES</b>                             | <b>362,680,162</b>         | <b>330,336,978</b>      | <b>21,128</b>               | <b>21,127</b>    | <b>362,701,290</b>      | <b>330,358,105</b>      |
| Deferred inflows                                     | 16,567,319                 | 20,027,184              | -                           | -                | 16,567,319              | 20,027,184              |
| <b>NET POSITION</b>                                  |                            |                         |                             |                  |                         |                         |
| Investment in Capital Assets,<br>Net of Related Debt | 171,051,702                | 163,595,978             | 20,020                      | 24,523           | 171,071,722             | 163,620,501             |
| Restricted   | 53,097                     | 53,091                  | 11,603                      | 17,750           | 64,700                  | 70,841                  |
| Unrestricted   | (353,852,535)              | (334,772,961)           | -                           | -                | (353,852,535)           | (334,772,961)           |
| <b>TOTAL NET POSITION</b>                            | <b>\$ (182,747,736)</b>    | <b>\$ (171,123,892)</b> | <b>\$ 31,623</b>            | <b>\$ 42,273</b> | <b>\$ (182,716,113)</b> | <b>\$ (171,081,619)</b> |

**Changes in net position.** The District ' s total revenues were \$141,413,290 for the year ended June 30, 2019. (See Table 2.) The county appropriations of \$86,685,293 accounted for approximately 61.3 percent of total revenue for the year. Another 16 percent came from federal, state and local grant program revenues of \$22,710,169. General state aid was \$14,318,153 or 10.1 percent of total funding. Capital contributions of \$11,345,309 represented 8 percent of total revenue. The County contribution to Other Post Employment Benefits (OPEB) totaled \$5,385,500 or 3.8 percent. The remainder came from charges for services, and investment earnings. The total cost of all programs and services was \$153,047,784. Approximately 77.3 percent of the District ' s expenses were related to providing direct educational services to students. Administrative activities of the District accounted for approximately 1.94 percent of total expenses. Total expenditures exceeded revenues, decreasing net position by \$11,634,494 from last year.

# THE BOARD OF EDUCATION OF WORCESTER COUNTY

## Management ' s Discussion and Analysis Year Ended June 30, 2019

**Table 2**

THE BOARD OF EDUCATION OF WORCESTER COUNTY  
CHANGES IN NET POSITION  
JUNE 30, 2019

|   | GOVERNMENTAL<br>ACTIVITIES |                        | BUSINESS-TYPE<br>ACTIVITIES |                   | BOARD OF EDUCATION<br>TOTAL |                        | PERCENT<br>OF CHANGE |
|---|----------------------------|------------------------|-----------------------------|-------------------|-----------------------------|------------------------|----------------------|
|   | 2019                       | 2018                   | 2019                        | 2018              | 2019                        | 2018                   |                      |
| <b>REVENUES</b>                                 |                            |                        |                             |                   |                             |                        |                      |
| Program Revenues:                               |                            |                        |                             |                   |                             |                        |                      |
| Charges for Services                            | \$ 109,199                 | \$ 84,583              | \$ 621,979                  | \$ 640,687        | \$ 731,178                  | \$ 725,270             | 0.8%                 |
| Federal and State Grants                        | 20,611,596                 | 20,494,522             | 2,098,573                   | 2,039,480         | 22,710,169                  | 22,534,002             | 0.8%                 |
| County OPEB Contribution                        | 5,385,500                  | 2,500,000              | -                           | -                 | 5,385,500                   | 2,500,000              | 115.4%               |
| Capital Contributions                           | 11,345,309                 | 3,649,151              |                             |                   | 11,345,309                  | 3,649,151              | 210.9%               |
| General Revenues:                               |                            |                        |                             |                   |                             |                        |                      |
| County Appropriation                            | 86,685,293                 | 83,870,125             | -                           | -                 | 86,685,293                  | 83,870,125             | 3.4%                 |
| State Formula Aid                               | 14,318,153                 | 14,245,887             | -                           | -                 | 14,318,153                  | 14,245,887             | 0.5%                 |
| Other   | 216,346                    | 104,287                | 21,342                      | 16,247            | 237,688                     | 120,534                | 97.2%                |
| <b>TOTAL REVENUES</b>                           | <b>138,671,396</b>         | <b>124,948,555</b>     | <b>2,741,894</b>            | <b>2,696,414</b>  | <b>141,413,290</b>          | <b>127,644,969</b>     | <b>10.8%</b>         |
| <b>EXPENSES</b>                                 |                            |                        |                             |                   |                             |                        |                      |
| Instruction and Special                         |                            |                        |                             |                   |                             |                        |                      |
| Education                                       | 118,306,958                | 112,401,578            | -                           | -                 | 118,306,958                 | 112,401,578            | 5.3%                 |
| Administration                                  | 2,969,308                  | 2,639,298              | -                           | -                 | 2,969,308                   | 2,639,298              | 12.5%                |
| Support Services                                | 29,018,974                 | 27,638,986             | 2,752,544                   | 2,700,973         | 31,771,518                  | 30,339,959             | 4.7%                 |
| <b>TOTAL EXPENSES</b>                           | <b>150,295,240</b>         | <b>142,679,862</b>     | <b>2,752,544</b>            | <b>2,700,973</b>  | <b>153,047,784</b>          | <b>145,380,835</b>     | <b>5.3%</b>          |
| <b>INCREASE (DECREASE)<br/>IN NET POSITION*</b> | <b>\$ (11,623,844)</b>     | <b>\$ (17,731,307)</b> | <b>\$ (10,650)</b>          | <b>\$ (4,559)</b> | <b>\$ (11,634,494)</b>      | <b>\$ (17,735,866)</b> |                      |

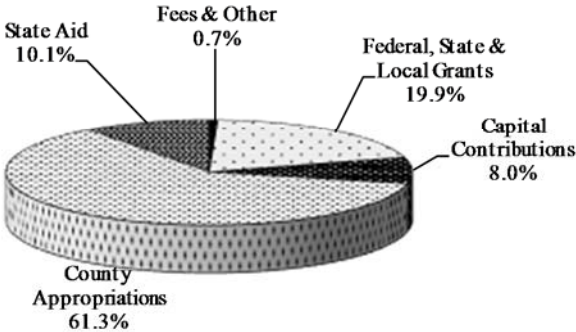
### Governmental Activities

The decrease in net position for governmental activities was \$11,623,844 in 2019. Charts 1 and 2 present a breakdown of the District's revenues for 2019 and 2018. Charts 3 and 4 present a breakdown of the District's expenses for 2019 and 2018.

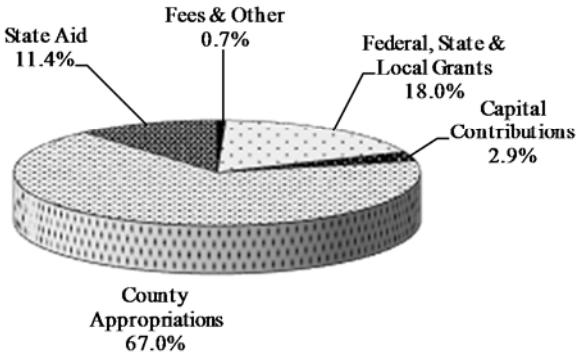
**THE BOARD OF EDUCATION OF WORCESTER COUNTY**

Management 's Discussion and Analysis  
Year Ended June 30, 2019

**Chart 1**  
**Board of Education of Worcester County**  
**Revenues - FY 2019**

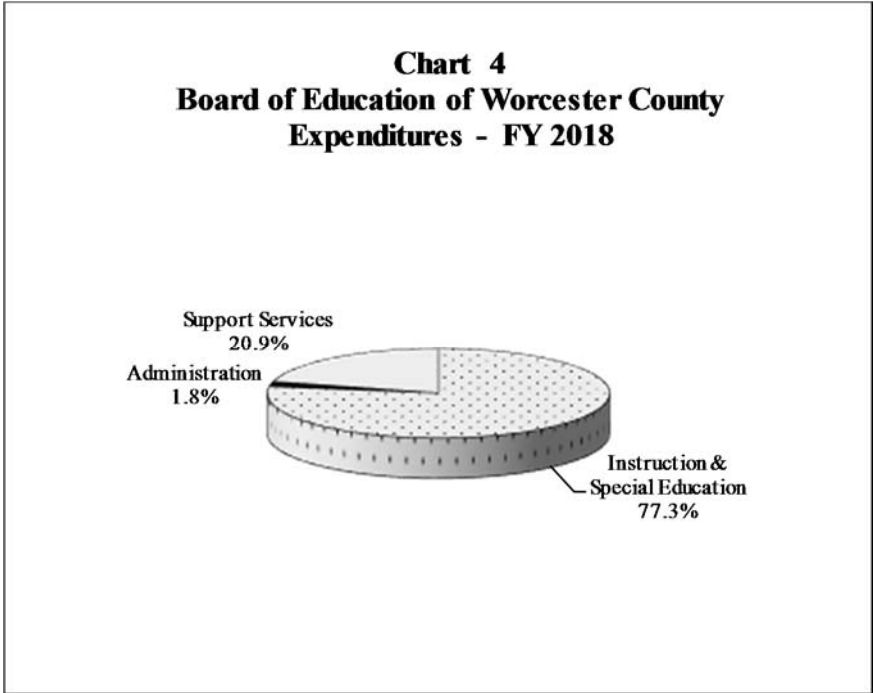
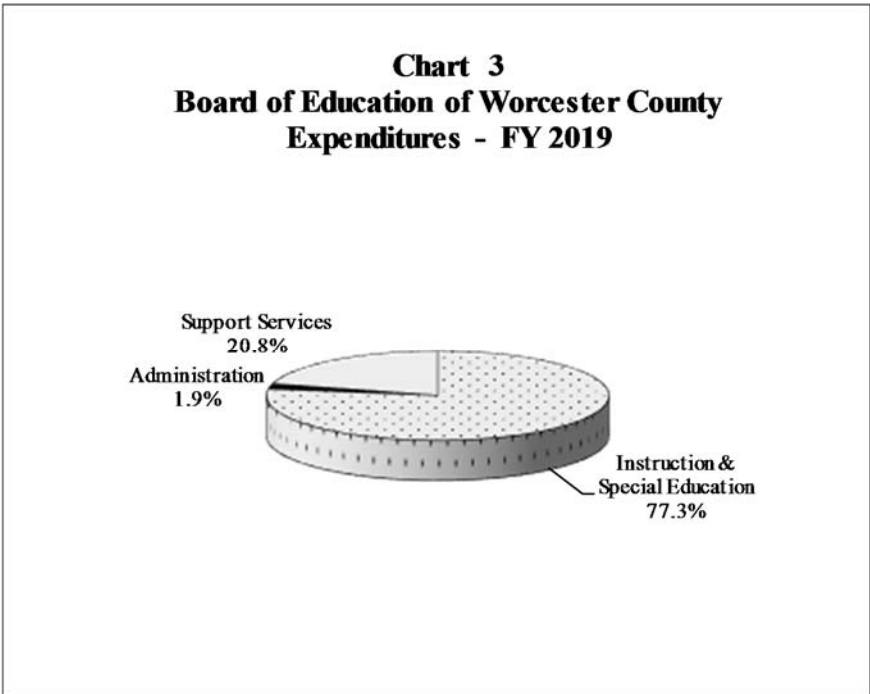


**Chart 2**  
**Board of Education of Worcester County**  
**Revenues - FY 2018**



**THE BOARD OF EDUCATION OF WORCESTER COUNTY**

Management 's Discussion and Analysis  
Year Ended June 30, 2019



**THE BOARD OF EDUCATION OF WORCESTER COUNTY**

Management ' s Discussion and Analysis  
Year Ended June 30, 2019

**Business-type Activities**

Revenues of the District ' s only business-type activity, the food service operation, increased by \$45,480 to \$2,741,894 and expenses increased by \$51,571 to \$2,752,544. (Refer to Table 2.). This resulted in a loss of \$10,650 for the current year. Based on the Board ' s decision to increase student lunch prices in FY19 and in an effort to keep student meals affordable, the Board left prices unchanged in FY20. (Table 3). The Board will continue to monitor the operations of our food service fund and evaluate the need for additional price increases in FY21.

| <u>TABLE 3</u> | School Year 2018-2019<br>MEAL PRICES |           | School Year 2019-2020<br>MEAL PRICES |           |
|----------------|--------------------------------------|-----------|--------------------------------------|-----------|
|                | Elementary                           | Secondary | Elementary                           | Secondary |
| Paid Breakfast | \$ 1.40                              | \$ 1.40   | \$1.40                               | \$ 1.40   |
| Paid Lunch     | 2.45                                 | 2.85      | 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 \$1,607,355, a decrease of \$40,574 over last year ' s ending fund balance. Revenues for the District ' s governmental funds were \$133,285,896 an increase of \$10,837,341 over last year. Total expenditures were \$133,326,470 for the year, an increase of \$10,494,816 over the prior year. General revenues and expenditures were higher due to salary increases and rising health insurance costs. The increase in capital projects related to the current construction of the new Showell Elementary replacement school project. The new school is schedule to open to students in September 2020.

**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 \$3,141,333. The majority of this was the \$2,815,168 increase in local appropriations to support our FY19 employee salary increase and to fund the health insurance increase. most



# THE BOARD OF EDUCATION OF WORCESTER COUNTY

## Management's Discussion and Analysis Year Ended June 30, 2019

The most significant variance in revenues is under Other Sources. The majority of this is directly related to funds received from State Highway Administration for easements on Board owned property needed to complete the Rt. 113 dualization project. The most significant variances under expenditures were in the areas of Administration and Capital Outlay. Expenditures in the area of Administration were higher than the previous year due to several factors including the addition of a Chief Safety Officer position and higher than budgeted legal costs. Expenditures in the area of Capital Outlay were lower in FY19 due to the Board utilizing \$149,105 in prior year fund balance in FY18 to fund one-time capital items.

**Table 4**

### GENERAL FUND REVENUES

| REVENUES   | Fiscal Year           | Fiscal Year           | Increase            | %             |
|--|-----------------------|-----------------------|---------------------|---------------|
|  | 2019                  | 2018                  | (Decrease)          | Incr. (Decr.) |
| Worcester County Appropriations                              | \$ 84,548,134         | \$ 81,732,966         | \$ 2,815,168        | 3.4%          |
| Worcester County Retirement & Pension Contribution           | 2,668,016             | 2,619,525             | 48,491              | 1.9%          |
| State of Maryland  | 19,095,629            | 19,062,262            | 33,367              | 0.2%          |
| State of Maryland Share of Retirement & Pension Contribution | 6,609,245             | 6,672,989             | (63,744)            | -1.0%         |
| Restricted Federal, State, & Other Programs                  | 8,694,018             | 8,522,792             | 171,226             | 2.0%          |
| Other Sources  | 325,538               | 188,713               | 136,825             | 72.5%         |
| <b>TOTAL REVENUES</b>  | <b>\$ 121,940,580</b> | <b>\$ 118,799,247</b> | <b>\$ 3,141,333</b> | <b>2.6%</b>   |

### GENERAL FUND EXPENDITURES

|  |                       |                       |                     |             |
|--|-----------------------|-----------------------|---------------------|-------------|
| <b>EXPENDITURES</b>  |                       |                       |                     |             |
| Administration   | \$ 1,729,209          | \$ 1,567,922          | \$ 161,287          | 10.3%       |
| Mid-Level Administration                                     | 7,476,237             | 7,134,563             | 341,674             | 4.8%        |
| Instructional Salaries                                       | 42,123,025            | 41,264,505            | 858,520             | 2.1%        |
| Textbooks and Classroom Supplies                             | 2,199,102             | 2,312,197             | (113,095)           | -4.9%       |
| Other Instructional Costs                                    | 1,018,741             | 1,044,600             | (25,859)            | -2.5%       |
| Special Education  | 10,486,476            | 10,158,470            | 328,006             | 3.2%        |
| Pupil Personnel Services                                     | 348,031               | 342,415               | 5,616               | 1.6%        |
| Health Services  | 904,534               | 877,470               | 27,064              | 3.1%        |
| Pupil Transportation   | 6,748,411             | 6,526,397             | 222,014             | 3.4%        |
| Operation of Plant   | 8,084,524             | 8,083,276             | 1,248               | 0.0%        |
| Maintenance of Plant   | 1,056,025             | 1,100,895             | (44,870)            | -4.1%       |
| Fixed Charges  | 21,589,304            | 20,592,717            | 996,587             | 4.8%        |
| Capital Outlay   | 246,262               | 361,776               | (115,514)           | -31.9%      |
| Restricted Programs  | 8,694,018             | 8,522,792             | 171,226             | 2.0%        |
| Worcester County Retirement & Pension Contribution           | 2,668,016             | 2,619,525             | 48,491              | 1.9%        |
| State of Maryland Share of Retirement & Pension Contribution | 6,609,245             | 6,672,989             | (63,744)            | -1.0%       |
| <b>TOTAL EXPENDITURES</b>                                    | <b>\$ 121,981,160</b> | <b>\$ 119,182,509</b> | <b>\$ 2,798,651</b> | <b>2.3%</b> |
| <b>EXCESS (DEFICIENCY) OF REVENUES</b>                       |                       |                       |                     |             |
| <b>(USES) OVER EXPENDITURES</b>                              | <b>\$ (40,580)</b>    | <b>\$ (383,262)</b>   | <b>\$ 342,682</b>   |             |

**THE BOARD OF EDUCATION OF WORCESTER COUNTY**

Management ' s Discussion and Analysis  
Year Ended June 30, 2019

**Capital Projects Fund**

All funds for school construction come from either the Worcester County Commissioners or the State of Maryland. Both levels of government either allocate general tax revenue proceeds or provide bond proceeds for specific school construction projects. The Board has no legal authority to borrow funds. During FY 2019, the Board received county funding of \$4,934,960. These funds were used to pay costs related to the construction of the new Showell Elementary School, renovation and addition to Snow Hill High School, and to install energy management systems at Pocomoke Middle and Stephen Decatur Middle School. The school system also received \$6,410,349 in State school construction funding to fund the State share of the new Showell Elementary School. The Capital Projects School Construction Fund revenues exceeded FY 2019 expenditures by \$6 resulting in a fund balance of \$53,097 at June 30, 2019.

**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 \$339,754 as of June 30, 2019.
- (2) Agency Funds: During FY19 the schools collected revenues and incurred expenditures for various student activities (see Table 5).

**Table 5**

|                        | <b><u>SCHOOL ACTIVITIES FUND</u></b> |                     |                        |                    |
|------------------------|--------------------------------------|---------------------|------------------------|--------------------|
|                        | Fiscal Year<br>2019                  | Fiscal Year<br>2018 | Increase<br>(Decrease) | %<br>Incr. (Decr.) |
| Revenues               | \$2,575,279                          | \$2,673,342         | (\$98,063)             | -3.7%              |
| Expenditures           | (2,500,639)                          | (2,717,227)         | 216,588                | -8.0%              |
| Beginning Fund Balance | \$826,085                            | 869,970             | (43,885)               | -5.0%              |
| Ending Fund Balance    | \$900,725                            | \$826,085           | \$74,640               | 9.0%               |

# **THE BOARD OF EDUCATION OF WORCESTER COUNTY**

Management's Discussion and Analysis  
Year Ended June 30, 2019

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Four categories of our FY19 budget had actual expenditures that exceeded the original budget. The category of Administration had higher than planned expenditures due to the creation and hiring of a new Chief Safety Officer position, higher than budgeted legal costs and higher than budgeted subscriptions and membership dues expenditures. Expenditures under the category of Instructional Support exceeded the original budget due to the reorganization of our Student Accountability and Assessment Office and increased copier expenses. 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 increased transportation costs for our homeless students. The Capital Outlay category had higher than budgeted expenditures due to the utilization of FY 2018 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 3, 2019 meeting. The Board ended the year with an unassigned fund balance totaling \$617,298. This balance will be utilized to address future school system budgetary needs and will be assigned by the Board as part of the FY21 budget process. To remain revenue neutral in FY21, \$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 2019, the District has invested over \$245 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 Board and the County Commissioners later approved a bid alternate to add 4 additional pre-kindergarten classrooms at a total approximate additional cost of \$1 million. The total cost of the new school is \$48.5 million. Construction of this project began in October 2018 with estimated completion in September 2020. Future projects included in our FY21 CIP include roof replacement projects at Pocomoke Middle, Pocomoke Elementary 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, 2019

### Long-Term Liabilities

At year-end, the District had \$353,225,433 for amounts due or payable after one year. This amount consists of the following:

- \$274,945 of accrued compensated absences which is an obligation resulting primarily from accrued annual leave which is due and payable to employees upon termination, \$5,075,428 in net pension liability and \$347,875,060 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 \$347,875,060 as of June 30, 2019. 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. In support of continuing to address this issue, our County Commissioners voted to increase the County income tax rate in FY20 and to apply the resulting increase in revenue to funding the both the County and WCPS OPEB liability. 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 48.5 million was approved by our County and State in FY19. Construction of this project started in October 2018. Estimated completion date is September 2020.
  - Addition to Stephen Decatur Middle School
  - Roof Replacements at Pocomoke Middle, Pocomoke Elementary 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, 2019**

- (3) The State of Maryland created the Kirwan Commission in FY18 to study current needs and current funding formulas for public schools in Maryland. This commission has been meeting for two years and submitted a preliminary report to the State Legislature in the spring of 2019 with recommendations on how to improve public education in our State. The recommendations include a move to all day universal pre-kindergarten, teacher salary increases, additional funding for students with disabilities, and more resources for supplemental instruction. Preliminary estimates to fully implement the recommendations included in this report total almost \$4 billion over the next ten years. A sub-committee funding workgroup was appointed by our State legislature and started meeting this summer. Their task is to bring funding recommendations including potential state funding formula changes to the full Kirwan Commission in the fall of this year. The Kirwan Commission will then make their recommendation to the State legislature in January 2020. Our school system feels that many of the recommendations included in the Commission's report will be beneficial to both students and staff. Our Board is concerned on how it will be funded and that based on current state funding formulas a majority of the funding liability will be placed on our local government. Our Board will continue to follow the funding work group as they work to develop their recommendations.

### **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, 2019

|  | Governmental<br>Activities | Business-<br>Type<br>Activities | Total                   |
|--|----------------------------|---------------------------------|-------------------------|
| <b>ASSETS</b>                                      |                            |                                 |                         |
| Cash and cash equivalents                          | \$ 3,792,626               | \$ 459,714                      | \$ 4,252,340            |
| Investments  | 1,743,687                  | -                               | 1,743,687               |
| Accounts receivable:                               |                            |                                 |                         |
| Federal, state and other restricted funds          | 4,516,252                  | 82,806                          | 4,599,058               |
| Miscellaneous                                      | 60,286                     | -                               | 60,286                  |
| Internal balances                                  | 509,789                    | (509,789)                       | -                       |
| Non depreciable capital assets                     | 15,143,564                 | -                               | 15,143,564              |
| Depreciable capital assets, net                    | 155,908,138                | 20,020                          | 155,928,158             |
| <b>TOTAL ASSETS</b>                                | <b>181,674,342</b>         | <b>52,751</b>                   | <b>181,727,093</b>      |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>              |                            |                                 |                         |
| Pensions (see Note 4)                              | 1,061,311                  | -                               | 1,061,311               |
| Other post employment benefits (OPEB) (see Note 7) | 13,764,092                 | -                               | 13,764,092              |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>        | <b>14,825,403</b>          | <b>-</b>                        | <b>14,825,403</b>       |
| <b>LIABILITIES</b>                                 |                            |                                 |                         |
| Accounts payable:                                  |                            |                                 |                         |
| Vendors  | 2,959,466                  | -                               | 2,959,466               |
| Others   | 376,297                    | 1,128                           | 377,425                 |
| Payroll deductions and withholdings                | 4,678,606                  | -                               | 4,678,606               |
| Payable to external parties                        | 352,201                    | -                               | 352,201                 |
| Unearned revenue                                   | 605,510                    | 20,000                          | 625,510                 |
| Long-term liabilities:                             |                            |                                 |                         |
| Portion due or payable within one year:            |                            |                                 |                         |
| Accrued compensated absences                       | 43,205                     | -                               | 43,205                  |
| Early incentive payment                            | 439,444                    | -                               | 439,444                 |
| Portion due or payable after one year:             |                            |                                 |                         |
| Other post employment benefits                     | 347,875,060                | -                               | 347,875,060             |
| Pensions   | 5,075,428                  | -                               | 5,075,428               |
| Accrued compensated absences                       | 274,945                    | -                               | 274,945                 |
| <b>TOTAL LIABILITIES</b>                           | <b>362,680,162</b>         | <b>21,128</b>                   | <b>362,701,290</b>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>               |                            |                                 |                         |
| Pensions (see Note 4)                              | 578,709                    | -                               | 578,709                 |
| Other post employment benefits (OPEB) (see Note 7) | 15,988,610                 | -                               | 15,988,610              |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>         | <b>16,567,319</b>          | <b>-</b>                        | <b>16,567,319</b>       |
| <b>NET POSITION</b>                                |                            |                                 |                         |
| Net investment in capital assets                   | 171,051,702                | 20,020                          | 171,071,722             |
| Restricted for:                                    |                            |                                 |                         |
| Food service activities                            | -                          | 11,603                          | 11,603                  |
| Restricted funds                                   | -                          | -                               | -                       |
| Capital projects                                   | 53,097                     | -                               | 53,097                  |
| Unrestricted                                       | (353,852,535)              | -                               | (353,852,535)           |
| <b>TOTAL NET POSITION</b>                          | <b>\$ (182,747,736)</b>    | <b>\$ 31,623</b>                | <b>\$ (182,716,113)</b> |

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, 2019

|   | Program Revenues      |                      |                                    |                                  |
|---|-----------------------|----------------------|------------------------------------|----------------------------------|
|   | Expenses              | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Governmental Activities</b>  |                       |                      |                                    |                                  |
| Current:  |                       |                      |                                    |                                  |
| Administration  | \$ 1,853,461          | \$ -                 | \$ 85,047                          | \$ -                             |
| Mid-Level Administration  | 7,647,802             | -                    | 171,565                            | -                                |
| Instructional services  | 53,567,299            | 109,199              | 4,501,955                          | -                                |
| Special education   | 12,632,868            | -                    | 3,819,352                          | -                                |
| Student personnel services  | 348,031               | -                    | -                                  | -                                |
| Health services   | 970,262               | -                    | 65,728                             | -                                |
| Student transportation  | 7,104,333             | -                    | 3,460,438                          | -                                |
| Operation of plant and equipment  | 8,354,525             | -                    | 113,181                            | -                                |
| Maintenance of plant  | 1,056,025             | -                    | -                                  | -                                |
| Fixed charges   | 49,339,877            | -                    | 6,574,420                          | -                                |
| Community services  | 13,783                | -                    | 13,783                             | -                                |
| Capital outlay  | 243,446               | -                    | 28,099                             | 11,345,309                       |
| Food services   | 23,426                | -                    | 23,426                             | -                                |
| State of Maryland and county share of retirement and pension contribution | 7,140,102             | -                    | 7,140,102                          | -                                |
| <b>Total Governmental Activities</b>                                      | <b>150,295,240</b>    | <b>109,199</b>       | <b>25,997,096</b>                  | <b>11,345,309</b>                |
| <b>Business-Type Activities</b>   |                       |                      |                                    |                                  |
| Food Services   | 2,752,544             | 621,979              | 2,098,573                          | 20,000                           |
| <b>Totals</b>   | <b>\$ 153,047,784</b> | <b>\$ 731,178</b>    | <b>\$ 28,095,669</b>               | <b>\$ 11,365,309</b>             |

**General Revenues**

State of Maryland  
Worcester County appropriation  
Unrestricted investment earnings and other revenues

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

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



Net (Expenses) Revenue  
and changes in Net Position

| Governmental<br>Activities | Business-Type<br>Activities | Total            |
|----------------------------|-----------------------------|------------------|
| \$ (1,768,414)             | \$ -                        | \$ (1,768,414)   |
| (7,476,237)                | -                           | (7,476,237)      |
| (48,956,145)               | -                           | (48,956,145)     |
| (8,813,516)                | -                           | (8,813,516)      |
| (348,031)                  | -                           | (348,031)        |
| (904,534)                  | -                           | (904,534)        |
| (3,643,895)                | -                           | (3,643,895)      |
| (8,241,344)                | -                           | (8,241,344)      |
| (1,056,025)                | -                           | (1,056,025)      |
| (42,765,457)               | -                           | (42,765,457)     |
| -                          | -                           | -                |
| 11,129,962                 | -                           | 11,129,962       |
| -                          | -                           | -                |
| -                          | -                           | -                |
| (112,843,636)              | -                           | (112,843,636)    |
| -                          | (11,992)                    | (11,992)         |
| (112,843,636)              | (11,992)                    | (112,855,628)    |
| 14,318,153                 | -                           | 14,318,153       |
| 86,685,293                 | -                           | 86,685,293       |
| 216,346                    | 1,342                       | 217,688          |
| 101,219,792                | 1,342                       | 101,221,134      |
| (11,623,844)               | (10,650)                    | (11,634,494)     |
| (171,123,892)              | 42,273                      | (171,081,619)    |
| \$ (182,747,736)           | \$ 31,623                   | \$ (182,716,113) |

THE BOARD OF EDUCATION OF WORCESTER COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2019

|   | General             | Capital<br>Projects | Total<br>Governmental<br>Funds |
|---|---------------------|---------------------|--------------------------------|
| <b>ASSETS</b>   |                     |                     |                                |
| Cash and cash equivalents                                       | \$ 3,792,626        | \$ -                | \$ 3,792,626                   |
| Investments   | 1,743,687           | -                   | 1,743,687                      |
| Accounts receivable:  |                     |                     |                                |
| Federal, state and other restricted funds                       | 1,262,442           | 3,253,810           | 4,516,252                      |
| Other   | 56,436              | 3,850               | 60,286                         |
| Due from other funds  | 937,785             | 11,757              | 949,542                        |
| <b>TOTAL ASSETS</b>   | <b>\$ 7,792,976</b> | <b>\$ 3,269,417</b> | <b>\$ 11,062,393</b>           |
| <b>LIABILITIES AND FUND BALANCES</b>                            |                     |                     |                                |
| <b>LIABILITIES</b>  |                     |                     |                                |
| Accounts payable:   |                     |                     |                                |
| Vendors   | \$ 171,142          | \$ 2,788,324        | \$ 2,959,466                   |
| Others  | 376,297             | -                   | 376,297                        |
| Payroll deductions and withholdings                             | 4,721,811           | -                   | 4,721,811                      |
| Due to other funds  | 363,958             | 427,996             | 791,954                        |
| Deferred revenue - Federal, state and other<br>restricted funds | 605,510             | -                   | 605,510                        |
| <b>TOTAL LIABILITIES</b>  | <b>6,238,718</b>    | <b>3,216,320</b>    | <b>9,455,038</b>               |
| <b>COMMITMENTS AND CONTINGENCIES</b>                            |                     |                     |                                |
| <b>FUND BALANCES</b>  |                     |                     |                                |
| Fund Balance:   |                     |                     |                                |
| Restricted for fund purposes                                    | -                   | 53,097              | 53,097                         |
| Assigned to:  |                     |                     |                                |
| Insurance reserve   | 22,024              | -                   | 22,024                         |
| Subsequent year's expenditures                                  | 567,011             | -                   | 567,011                        |
| Capital and technology projects                                 | 146,536             | -                   | 146,536                        |
| Other purposes (encumbrances)                                   | 201,389             | -                   | 201,389                        |
| Unassigned  | 617,298             | -                   | 617,298                        |
| <b>TOTAL FUND BALANCES</b>                                      | <b>1,554,258</b>    | <b>53,097</b>       | <b>1,607,355</b>               |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>                      | <b>\$ 7,792,976</b> | <b>\$ 3,269,417</b> | <b>\$ 11,062,393</b>           |

*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, 2019

|   |    |           |
|---|----|-----------|
| Total fund balances, governmental funds | \$ | 1,607,355 |
|---|----|-----------|

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. |  | 171,051,702 |
|---|--|-------------|

|   |  |            |
|---|--|------------|
| Deferred outflow of resources - pensions (see Note 4) |  | 1,061,311  |
| Deferred outflow of resources - OPEB (see Note 7)     |  | 13,764,092 |

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                   | (439,444)            |               |
| Accrued compensated absences              | (274,945)            |               |
| Net pension liability                     | (5,075,428)          |               |
| Other post retirement employment benefits | <u>(347,875,060)</u> |               |
| Total long-term liabilities               |                      | (353,664,877) |

|  |  |                     |
|--|--|---------------------|
| Deferred inflow of resources - pensions (see Note 4) |  | (578,709)           |
| Deferred inflow of resources - OPEB (see Note 7)     |  | <u>(15,988,610)</u> |

|  |    |                      |
|--|----|----------------------|
| Net assets of governmental activities in the Statement of Net Position | \$ | <u>(182,747,736)</u> |
|--|----|----------------------|

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2019

|  | General            | Restricted<br>Grants | Capital<br>Projects | Total<br>Governmental<br>Funds |
|--|--------------------|----------------------|---------------------|--------------------------------|
| <b>REVENUES</b>  |                    |                      |                     |                                |
| Worcester County Appropriations                                      | \$ 86,685,293      | \$ -                 | \$ 4,934,960        | \$ 91,620,253                  |
| State of Maryland  | 19,095,629         | -                    | 6,410,349           | 25,505,978                     |
| On behalf State of Maryland - retirement and<br>pension contribution | 6,609,245          | -                    | -                   | 6,609,245                      |
| On behalf County - retirement and<br>pension contribution            | 530,857            | -                    | -                   | 530,857                        |
| Restricted Federal, state and other local funds                      | -                  | 8,694,018            | -                   | 8,694,018                      |
| Other sources  | 325,538            | -                    | 7                   | 325,545                        |
| <b>TOTAL REVENUES</b>  | <b>113,246,562</b> | <b>8,694,018</b>     | <b>11,345,316</b>   | <b>133,285,896</b>             |
| <b>EXPENDITURES</b>  |                    |                      |                     |                                |
| Administration   | 1,729,209          | 85,047               | -                   | 1,814,256                      |
| Mid-level administration   | 7,476,237          | 171,565              | -                   | 7,647,802                      |
| Instructional salaries and wages                                     | 42,123,025         | 2,585,126            | -                   | 44,708,151                     |
| Textbooks and instructional supplies                                 | 2,199,102          | 1,003,956            | -                   | 3,203,058                      |
| Other instructional costs  | 1,018,741          | 912,873              | -                   | 1,931,614                      |
| Student personnel services   | 348,031            | -                    | -                   | 348,031                        |
| Health services  | 904,534            | 65,728               | -                   | 970,262                        |
| Student transportation   | 6,748,411          | 355,922              | -                   | 7,104,333                      |
| Operation of plant and equipment                                     | 8,084,524          | 113,181              | -                   | 8,197,705                      |
| Maintenance of plant   | 1,056,025          | -                    | -                   | 1,056,025                      |
| Fixed charges  | 23,726,463         | 1,188,920            | -                   | 24,915,383                     |
| Capital outlay   | 246,262            | 28,099               | 11,345,310          | 11,619,671                     |
| Special education  | 10,486,476         | 2,146,392            | -                   | 12,632,868                     |
| Food services  | -                  | 23,426               | -                   | 23,426                         |
| Community services   | -                  | 13,783               | -                   | 13,783                         |
| On behalf County - retirement and<br>pension contribution            | 530,857            | -                    | -                   | 530,857                        |
| On behalf State of Maryland - retirement and<br>pension contribution | 6,609,245          | -                    | -                   | 6,609,245                      |
| <b>TOTAL EXPENDITURES</b>  | <b>113,287,142</b> | <b>8,694,018</b>     | <b>11,345,310</b>   | <b>133,326,470</b>             |
| Net Change in fund balances  | (40,580)           | -                    | 6                   | (40,574)                       |
| Fund balances, beginning   | 1,594,838          | -                    | 53,091              | 1,647,929                      |
| Fund balances, ending  | \$ 1,554,258       | \$ -                 | \$ 53,097           | \$ 1,607,355                   |

*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, 2019

Net change in fund balances, governmental funds \$ (40,574)

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       | 11,389,649  |           |
| Depreciation expense | (3,920,501) |           |
|                      |             |           |
| Total                |             | 7,469,148 |

Loss on disposal of assets (13,424)

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            | (286,587)    |              |
| Increase in compensated absences               | (32,754)     |              |
| Increase in pension expense                    | (599,218)    |              |
| Net Increase in other post-retirement benefits | (18,120,435) |              |
|  |              | (19,038,994) |

Change in net position of governmental activities \$ (11,623,844)

*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, 2019

|                                      | <u>Enterprise Fund<br/>Food Services</u> |
|--------------------------------------|--|
| <b>ASSETS</b>                        |  |
| Current assets:                      |  |
| Cash and cash equivalents            | \$ 459,714                               |
| Due from other governments           | <u>82,806</u>                            |
| Total current assets                 | <u>542,520</u>                           |
| Noncurrent assets:                   |  |
| Furniture and equipment              | 255,496                                  |
| Less: accumulated depreciation       | <u>(235,476)</u>                         |
| Total noncurrent assets              | <u>20,020</u>                            |
| <b>TOTAL ASSETS</b>                  | <u>562,540</u>                           |
| <b>LIABILITIES</b>                   |  |
| Current liabilities:                 |  |
| Due to general fund                  | 509,789                                  |
| Accounts payable                     | 1,128                                    |
| Deferred revenue                     | <u>20,000</u>                            |
| Total current liabilities            | 530,917                                  |
| <b>COMMITMENTS AND CONTINGENCIES</b> |  |
| <b>NET POSITION</b>                  |  |
| Invested in capital assets           | 20,020                                   |
| Unrestricted                         | <u>11,603</u>                            |
| <b>TOTAL NET POSITION</b>            | <u><u>\$ 31,623</u></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, 2019

|                                   | <u>Enterprise Fund<br/>Food Services</u> |
|-----------------------------------|--|
| OPERATING REVENUES                |  |
| Food service sales                | <u>\$ 621,979</u>                        |
| OPERATING EXPENSES                |  |
| Salaries and wages                | 989,606                                  |
| Fringe benefits                   | 408,944                                  |
| Contracted services               | 2,876                                    |
| Food and food related supplies    | 1,089,832                                |
| Nonfood supplies                  | 59,798                                   |
| Value of USDA commodities donated | 184,602                                  |
| Commodity processing              | 12,383                                   |
| Depreciation                      | <u>4,503</u>                             |
| TOTAL OPERATING EXPENSES          | <u>2,752,544</u>                         |
| OPERATING LOSS                    | <u>(2,130,565)</u>                       |
| NONOPERATING REVENUES             |  |
| Interest income                   | 1,342                                    |
| Grant revenue                     | 20,000                                   |
| State of Maryland:                |  |
| Reimbursement of food costs       | 128,928                                  |
| Federal through state:            |  |
| Reimbursement of food costs       | 1,785,043                                |
| Donation of food commodities      | 184,602                                  |
| Total Federal through state       | <u>1,969,645</u>                         |
| TOTAL NONOPERATING REVENUES       | <u>2,119,915</u>                         |
| Change in net position            | (10,650)                                 |
| Net position beginning of year    | <u>42,273</u>                            |
| Net position end of year          | <u><u>\$ 31,623</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, 2019

|  | <u>Enterprise Fund</u><br><u>Food Services</u> |
|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |  |
| Cash received from user charges  | \$ 627,254                                     |
| Cash payments to employees for services  | (989,606)                                      |
| Cash payments for health and other insurances  | (408,944)                                      |
| Cash payments to suppliers for goods and services  | (1,162,013)                                    |
| Cash payments for facility use and maintenance   | (2,876)  |
| Net cash used in operating activities  | <u>(1,936,185)</u>                             |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>  |  |
| Non operating grants received  | 1,955,716                                      |
| Net loans (repayments) to other funds  | (20,126)                                       |
| Net cash provided by noncapital financing activities   | <u>1,935,590</u>                               |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |  |
| Interest on investments  | <u>1,342</u>                                   |
| Net change in cash   | 747  |
| Cash and investments, beginning of year  | <u>458,967</u>                                 |
| Cash and investments, end of year  | <u>\$ 459,714</u>                              |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH<br/>USED IN OPERATING ACTIVITIES</b>           |  |
| Operating loss   | \$ (2,130,565)                                 |
| Adjustments to reconcile operating loss to net cash<br>used in operating activities:           |  |
| Depreciation   | 4,503  |
| Donated commodities used   | 184,602  |
| Changes in assets and liabilities:   |  |
| Receivables  | <u>5,275</u>                                   |
| Net cash used in operating activities  | <u>\$ (1,936,185)</u>                          |
| <b>NONCASH NONCAPITAL FINANCING ACTIVITIES</b>   |  |
| During the year the board received food commodities<br>from the U.S. Department of Agriculture | <u>\$ 184,602</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, 2019

|                                | Private<br>Purpose<br>Trust Fund | Retiree Benefit<br>Trust Fund | Agency<br>Fund<br>School<br>Activities<br>Fund |
|--------------------------------|----------------------------------|-------------------------------|--|
| <b>ASSETS</b>                  |                                  |                               |  |
| Cash                           | \$ -                             | \$ 432,453                    | \$ 888,278                                     |
| Trust investments:             |                                  |                               |  |
| Money market funds             | -                                | 207,673                       | -  |
| Fixed income securities        | -                                | 6,233,628                     | -  |
| Equities securities            | -                                | 12,187,417                    | -  |
| Due from other funds           | 339,754                          | -                             | 12,447   |
| <b>TOTAL ASSETS</b>            | <b>339,754</b>                   | <b>19,061,171</b>             | <b>900,725</b>                                 |
| <b>LIABILITIES</b>             |                                  |                               |  |
| Due to school activities funds | -                                | -                             | 900,725  |
| <b>TOTAL LIABILITIES</b>       | <b>-</b>                         | <b>-</b>                      | <b>900,725</b>                                 |
| <b>NET POSITION</b>            |                                  |                               |  |
| Held in trust for:             |                                  |                               |  |
| Other postemployment benefits  | -                                | 19,061,171                    | -  |
| Scholarships, etc.             | 339,754                          | -                             | -  |
| <b>TOTAL NET POSITION</b>      | <b>\$ 339,754</b>                | <b>\$ 19,061,171</b>          | <b>\$ -</b>                                    |

*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, 2019

|                                       | Private<br>Purpose<br>Trust Fund | Retiree Benefit<br>Trust Fund |
|---------------------------------------|----------------------------------|-------------------------------|
| <b>ADDITIONS</b>                      |                                  |                               |
| Contributions:                        |                                  |                               |
| Donations and fees                    | \$ 60,632                        | \$ -                          |
| Worcester County contributions        | -                                | 5,385,500                     |
| Plan member contributions             | -                                | 720,395                       |
| Total contributions                   | <u>60,632</u>                    | <u>6,105,895</u>              |
| Investment earnings:                  |                                  |                               |
| Interest                              | 192                              | 8,155                         |
| Increase in fair value of investments | -                                | 1,067,140                     |
| Total investment earnings             | <u>192</u>                       | <u>1,075,295</u>              |
| <br>Total additions                   | <br><u>60,824</u>                | <br><u>7,181,190</u>          |
| <b>DEDUCTIONS</b>                     |                                  |                               |
| Plan benefit payments                 | -                                | 7,177,867                     |
| Professional fees                     | -                                | 3,400                         |
| Scholarships, etc.                    | 54,590                           | -                             |
| Total deductions                      | <u>54,590</u>                    | <u>7,181,267</u>              |
| <br>Change in net position            | <br>6,234                        | <br>(77)                      |
| Net position held in trust, beginning | <u>333,520</u>                   | <u>19,061,248</u>             |
| Net position held in trust, ending    | <u>\$ 339,754</u>                | <u>\$ 19,061,171</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 \$4,599,058 at June 30, 2019. 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, 2019 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 \$201,389.

#### 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, 2019, the Board's funds were invested as follows:

|  | <u>CARRYING<br/>VALUE</u> |
|--|---------------------------|
| Cash and cash equivalents                                | <u>\$ 4,252,340</u>       |
| Invested in Maryland Local Government<br>Investment Pool | <u>\$ 1,743,687</u>       |



## NOTES TO FINANCIAL STATEMENTS

### Note 2. Detailed Notes on All Funds (continued)

#### A. Deposits and Investments (continued)

Investments of \$1,743,687 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<br>Activities | Business-Type<br>Activities |
|---|----------------------------|-----------------------------|
| Insured   | \$ 250,000                 | \$ 250,000                  |
| Uninsured and Collateral Held by Pledging<br>Bank's Trust Department in the<br>Board's Name | 4,712,644                  | 171,890                     |
| Uninsured and Undercollateralized   | -                          | -                           |
| TOTAL   | \$ 4,962,644               | \$ 421,890                  |

#### Investment – Retiree Benefit Trust Fund

Investments of \$19,061,171 in the Retiree Benefit Trust Fund by type and maturity were at June 30, 2019 were as follows:

|                        | 1 Year        | 1-5 Years    | Over 5 Years | Total         | Rate           |
|------------------------|---------------|--------------|--------------|---------------|----------------|
| M&T Investments:       |               |              |              |               |                |
| Cash                   | \$ 432,453    | \$ -         | \$ -         | \$ 432,453    |                |
| Money Market           | 207,673       | -            | -            | 207,673       |                |
| Fixed Income:          |               |              |              |               |                |
| U.S. Treasury          | 119,690       | 560,213      | 742,130      | 1,422,033     | 1.375 - 3.625% |
| U.S. Government Agency | -             | 2,243        | 950,585      | 952,828       | 3 - 5%         |
| Other Fixed Income     | 195,080       | 738,465      | 2,925,222    | 3,858,767     | 2.4 - 5.95%    |
| Equities               | 12,187,417    | -            | -            | 12,187,417    | N/A            |
| Totals                 | \$ 13,142,313 | \$ 1,300,921 | \$ 4,617,937 | \$ 19,061,171 |                |

## 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, 2019, the Board had the following recurring fair value measurements:

|                                      | Level 1       | Level 2      | Level 3 | Total         |
|--------------------------------------|---------------|--------------|---------|---------------|
| Debt Securities:                     |               |              |         |               |
| Corporate and foreign bonds          | \$ -          | \$ 1,446,787 | \$ -    | \$ 1,446,787  |
| Fixed income funds                   | 2,411,980     | -            | -       | 2,411,980     |
|                                      | 2,411,980     | 1,446,787    | -       | 3,858,767     |
| Equity Securities:                   |               |              |         |               |
| Mutual funds                         | 12,187,417    | -            | -       | 12,187,417    |
| Other investments:                   |               |              |         |               |
| Money market                         | 207,673       | -            | -       | 207,673       |
| U.S. Treasury                        | 1,422,033     | -            | -       | 1,422,033     |
| U.S. Government Agency               | 952,828       | -            | -       | 952,828       |
|                                      | 2,582,534     | -            | -       | 2,582,534     |
| Total investment by fair value level | \$ 17,181,931 | \$ 1,446,787 | \$ -    | \$ 18,628,718 |

NOTES TO FINANCIAL STATEMENTS

**Note 2. Detailed Notes on All Funds (continued)**

**B. Interfund Receivables - Payables**

At June 30, 2019, the interfund account balances are as follows:

|                                   | DUE FROM<br>OTHER FUNDS | DUE TO<br>OTHER FUNDS |
|-----------------------------------|-------------------------|-----------------------|
| GOVERNMENTAL ACTIVITIES:          |                         |                       |
| GENERAL FUND                      |                         |                       |
| Due from/to Food Service Fund     | \$ 509,789              | \$ -                  |
| Due from/to Capital Projects Fund | 427,996                 | 11,757                |
| Due to School Activities Fund     | -                       | 12,447                |
| Due to Trust Fund                 | -                       | 339,754               |
| Sub-Total                         | 937,785                 | 363,958               |
| CAPITAL PROJECTS FUND             |                         |                       |
| Due from/to General Fund          | 11,757                  | 427,996               |
| BUSINESS-TYPE ACTIVITIES:         |                         |                       |
| ENTERPRISE FUND                   |                         |                       |
| Due from/to General Fund          | -                       | 509,789               |
| FIDUCIARY NET POSITION            |                         |                       |
| Due from General Fund             | 352,201                 | -                     |
| TOTAL ALL FUNDS                   | \$ 1,301,743            | \$ 1,301,743          |

NOTES TO FINANCIAL STATEMENTS

**Note 2. Detailed Notes on All Funds (continued)**

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2019 was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u>    | <u>Decreases/<br/>Transfers</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|---------------------|---------------------------------|---------------------------|
| <b>GOVERNMENTAL ACTIVITIES</b>               |                              |                     |                                 |                           |
| Capital Assets, Not Being Depreciated:       |                              |                     |                                 |                           |
| Land   | \$ 1,886,779                 | \$ -                | \$ -                            | \$ 1,886,779              |
| Construction in Progress                     | <u>2,300,917</u>             | <u>10,966,544</u>   | <u>(10,676)</u>                 | <u>13,256,785</u>         |
| Total Capital Assets, not Being Depreciated  | <u>4,187,696</u>             | <u>10,966,544</u>   | <u>(10,676)</u>                 | <u>15,143,564</u>         |
| Capital Assets, Being Depreciated:           |                              |                     |                                 |                           |
| Buildings and Improvements                   | 225,805,520                  | 310,805             | -                               | 226,116,325               |
| Furniture, Fixtures, Equipment and Vehicles  | <u>4,295,707</u>             | <u>112,300</u>      | <u>(104,954)</u>                | <u>4,303,053</u>          |
| Total Capital Assets, being Depreciated      | <u>230,101,227</u>           | <u>423,105</u>      | <u>(104,954)</u>                | <u>230,419,378</u>        |
| Less Accumulated Depreciation for:           |                              |                     |                                 |                           |
| Buildings                                    | (67,309,565)                 | (3,744,318)         | -                               | (71,053,883)              |
| Furniture, Fixtures, Equipment and Vehicles  | <u>(3,383,380)</u>           | <u>(176,183)</u>    | <u>102,206</u>                  | <u>(3,457,357)</u>        |
| Total Accumulated Depreciation               | <u>(70,692,945)</u>          | <u>(3,920,501)</u>  | <u>102,206</u>                  | <u>(74,511,240)</u>       |
| Total Capital Assets, being Depreciated, Net | <u>159,408,282</u>           | <u>(3,497,396)</u>  | <u>(2,748)</u>                  | <u>155,908,138</u>        |
| <b>GOVERNMENTAL ACTIVITIES</b>               |                              |                     |                                 |                           |
| CAPITAL ASSETS, NET                          | <u>\$ 163,595,978</u>        | <u>\$ 7,469,148</u> | <u>\$ (13,424)</u>              | <u>\$ 171,051,702</u>     |
| <b>BUSINESS-TYPE ACTIVITIES</b>              |                              |                     |                                 |                           |
| Capital Assets, Being Depreciated:           |                              |                     |                                 |                           |
| Machinery, Equipment and Vehicles            | \$ 265,957                   | \$ -                | \$ (10,461)                     | \$ 255,496                |
| Less Accumulated Depreciation for:           |                              |                     |                                 |                           |
| Machinery, Equipment and Vehicles            | <u>(241,434)</u>             | <u>(4,503)</u>      | <u>10,461</u>                   | <u>(235,476)</u>          |
| <b>BUSINESS-TYPE ACTIVITIES</b>              |                              |                     |                                 |                           |
| CAPITAL ASSETS, NET                          | <u>\$ 24,523</u>             | <u>\$ (4,503)</u>   | <u>\$ -</u>                     | <u>\$ 20,020</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       | \$ | 39,205                  |
| Instruction Services |    | 3,724,476               |
| Operation of Plant   |    | <u>156,820</u>          |
| TOTAL                | \$ | <u><u>3,920,501</u></u> |

**D. Changes In Long-Term Debt**

During the year ended June 30, 2019, the following changes occurred in long-term liabilities:

|  | <u>Balance at</u><br><u>July 1, 2018</u> | <u>Additions</u>     | <u>Reductions</u> | <u>Balance at</u><br><u>June 30, 2019</u> | <u>Due</u><br><u>in One Year</u> |
|--|--|----------------------|-------------------|---|----------------------------------|
| Net OPEB liability                                   | \$ 318,103,354                           | \$ 29,771,706        | \$ -              | \$ 347,875,060                            | \$ -                             |
| Net pension liability                                | 4,666,979                                | 408,449              | -                 | 5,075,428                                 | -                                |
| Retirement Incentive and Severance                   | 152,857                                  | 439,444              | 152,857           | 439,444                                   | 439,444                          |
| Long-Term Portion of Accrued<br>Compensated Absences | <u>284,384</u>                           | <u>75,959</u>        | <u>42,193</u>     | <u>318,150</u>                            | <u>43,205</u>                    |
|  | <u>\$ 323,207,574</u>                    | <u>\$ 30,695,558</u> | <u>\$ 195,050</u> | <u>\$ 353,708,082</u>                     | <u>\$ 482,649</u>                |

**E. Fiduciary Fund Types**

The fund equity at June 30, 2019 consists of the following:

|   |    |                       |
|---|----|-----------------------|
| John Postley Fund                             | \$ | 77,354                |
| Old Home Prize Fund                           |    | 17,224                |
| Gladys C. Burbage Scholarship Fund            |    | 194,902               |
| John Coleman Scholarship Fund                 |    | 2,286                 |
| Mark Pilchard Scholarship Fund                |    | 1,551                 |
| Stephen Decatur - Class of 1955 Fund          |    | 8,811                 |
| Worcester Board of Education - Employees Fund |    | 8,127                 |
| Other   |    | 17,757                |
| Stephen Decatur - JROTC                       |    | <u>11,742</u>         |
| TOTAL   | \$ | <u><u>339,754</u></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](http://www.sra.maryland.gov).

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

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

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

#### **General Plan Policies**

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

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Pension Plans (continued)

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

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

#### Significant Plan Benefits and Policies

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

#### Teachers' and Employees' Retirement Systems

##### Retirement Benefits:

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

##### Vested Allowance:

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

##### Employee and Employer Contributions:

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

#### Teachers' and Employees' Pension System

##### Pension Benefits:

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

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Pension Plans (continued)

#### Teachers' and Employees' Pension System (continued)

##### Vested Allowance:

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

##### Employee 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, 2019. 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, 2019 the Board's total payroll for all employees was \$71,969,511. Total covered payroll was \$65,337,722. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay 100% of the normal cost portion of the total pension cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. The related payment for fiscal year ending 2019 was \$2,542,199. In addition, the State of Maryland contributed \$6,609,245 on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense.

During fiscal year 2019, the Board reported expense of \$530,857 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, 2019, 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:

|  | <b>2019</b>              |
|--|--------------------------|
| Board's proportionate share of the net pension liability<br>(Employees' Systems) | \$ 5,075,428             |
| Board's proportionate share of the net pension liability<br>(Teachers' Systems)  | <u>70,212,964</u>        |
| <br>Total  | <br><u>\$ 75,288,392</u> |

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Boards 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, 2018, the Board's proportion was approximately .0241899%.

For the year ended June 30, 2019, the Board recognized pension expense for the employees system of \$996,912 in the government wide financial statements and \$530,857 in the fund financial statements. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <b>Deferred<br/>Outflows of<br/>Resources</b> | <b>Deferred<br/>Inflows of<br/>Resources</b> |
|---|---|--|
| Changes in assumptions  | \$ 143,705                                    | \$ -   |
| Net difference between projected and actual investment earnings on pension plan investments | 386,749                                       | (191,003)                                    |
| Difference between actual and expected experience   | -   | (387,706)                                    |
| Board contributions subsequent to measurement date  | <u>530,857</u>                                | <u>-</u>                                     |
| <br>Total   | <br><u>\$ 1,061,311</u>                       | <br><u>\$ (578,709)</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 \$530,857 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, 2020. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life ranging from 5.72 to 5.87 years. The net difference in investment earnings for 2018, 2017, 2016 and 2015 are being amortized over a closed five year period. The following table shows the amortization of these balances:

| <u>Year End<br/>June 30,</u> | <u>Deferred<br/>Outflows</u> | <u>Deferred<br/>Inflows</u> |
|------------------------------|------------------------------|-----------------------------|
| 2020                         | \$ 309,453                   | \$ (168,407)                |
| 2021                         | 194,593                      | (165,719)                   |
| 2022                         | 11,386                       | (146,085)                   |
| 2023                         | 10,310                       | (78,014)                    |
| 2024                         | <u>4,712</u>                 | <u>(20,484)</u>             |
| Total                        | <u>\$ 530,454</u>            | <u>\$ (578,709)</u>         |

#### *Actuarial Assumptions*

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

|                           |  |
|---------------------------|--|
| Actuarial                 | Entry age normal                         |
| Amortization method       | Level percentage of payroll, closed      |
| Inflation                 | 2.60% general, 3.10% wage                |
| Salary increases          | 3.10% to 9.10%, including wage inflation |
| Discount rate             | 7.45%                                    |
| Investment rate of return | 7.45%                                    |
| Mortality                 | RP-2014 Mortality tables                 |

## NOTES TO FINANCIAL STATEMENTS

### Note 4. Pension Plans (continued)

#### *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:

| Asset Class        | Target<br>Allocation | Long-Term<br>Expected Real<br>Rate of Return |
|--------------------|----------------------|--|
| Public Equity      | 37%                  | 5.8%   |
| Private Equity     | 13%                  | 6.7%   |
| Rate Sensitive     | 19%                  | 1.1%   |
| Credit Opportunity | 9%                   | 3.6%   |
| Real Assets        | 14%                  | 4.8%   |
| Absolute Return    | 8%                   | 3.2%   |
| Total              | 100%                 |  |

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

#### *Discount rate*

A single discount rate of 7.45% 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 7.45%. 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 7.45%, 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:

|                       | Discount Rate | Board's Net<br>Pension Liability |
|-----------------------|---------------|----------------------------------|
| 1% decrease           | 6.45%         | \$ 7,310,358                     |
| Current discount rate | 7.45%         | \$ 5,075,428                     |
| 1% increase           | 8.45%         | \$ 3,220,597                     |

## NOTES TO FINANCIAL STATEMENTS

### 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.   |

### 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 \$48.5 million of which approximately \$12.3 million had been completed by June 30, 2019. 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.

## NOTES TO FINANCIAL STATEMENTS

### 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   | <u>961</u>   |
|  | <u>1,673</u> |

#### 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, 2019, the OPEB Trust paid for coverage of approximately 712 retirees at a total cost of approximately \$7,100,000. For the year ended June 30, 2019, Worcester County Commissioners funded the trust in the amount of \$5,385,500 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Other Post-Employment Benefits (continued)

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, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018.

#### Actuarial Assumptions

The total OPEB liability in the June 30, 2019 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               | 2.814%   |
| Healthcare cost trend rates | 5.89% for fiscal year 2019, 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   |

#### 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:

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

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Other Post-Employment Benefits (continued)

#### Discount rate

The discount rate used to measure the total OPEB liability was 2.814% for Fiscal Year 2019. This rate was changed from 2.986% used in Fiscal Year 2018. This is the single equivalent discount rate which represents a blended interest rate based on a long-term rate of return for those payments prior to the Crossover date and a 20 year high grade municipal bond index for all remaining payments after such a crossover date. The rates used are a long-term rate of return of 7.00% and the S & P Municipal Bond 20 year High-Grade rate index as of June 29, 2019 of 2.79%. 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 2019 through 2029.

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

The Board's 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, 2019:

|   | Increase (Decrease)     |                                   |                       |
|---|-------------------------|-----------------------------------|-----------------------|
|   | Total OPEB<br>Liability | Plan<br>Fiduciary<br>Net Position | Net OPEB<br>Liability |
|   | (a)                     | (b)                               | (a) - (b)             |
| Balance at 6/30/2018                                  | \$ 337,164,602          | \$ 19,061,248                     | \$ 318,103,354        |
| Changes for the year:                                 |                         |                                   |                       |
| Service cost  | 15,559,700              | -                                 | 15,559,700            |
| Interest cost   | 9,957,831               | -                                 | 9,957,831             |
| Differences between expected<br>and actual experience | -                       | (221,355)                         | 221,355               |
| Changes of assumptions and<br>other inputs            | 10,366,756              | -                                 | 10,366,756            |
| Contributions - employer                              | -                       | 5,385,500                         | (5,385,500)           |
| Net investment income                                 | -                       | 1,075,295                         | (1,075,295)           |
| Benefit payments                                      | (6,457,472)             | (6,457,472)                       | -                     |
| Administrative expense                                | -                       | (3,400)                           | 3,400                 |
| Other changes   | 344,814                 | 221,355                           | 123,459               |
| Net changes   | 29,771,629              | (77)                              | 29,771,706            |
| Balances at 6/30/2019                                 | \$ 366,936,231          | \$ 19,061,171                     | \$ 347,875,060        |

## NOTES TO FINANCIAL STATEMENTS

### Funding Status and Funding Progress

As of July 1, 2018, the most recent actuarial valuation date, the total OPEB liability for benefits was \$366,936,230, with \$19,061,171 in plan Fiduciary net position, resulting in an unfunded OPEB liability of \$347,875,060. The covered employee payroll was \$65,337,722, and the ratio of the net OPEB liability to the covered payroll was 532.43%.

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, 2019 measurement date for fiscal year-end 2019. 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.

### 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 2.814%, 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:

|                       | Discount Rate | Board's Net<br>OPEB Liability |
|-----------------------|---------------|-------------------------------|
| 1% decrease           | 1.814%        | \$ 417,300,938                |
| Current discount Rate | 2.814%        | \$ 347,875,060                |
| 1% increase           | 3.814%        | \$ 285,606,938                |

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:

|                       | Health Care<br>Cost Trend Rate | Board's Net<br>OPEB Liability |
|-----------------------|--------------------------------|-------------------------------|
| 1% decrease           | 5% decreasing to 4%            | \$ 285,606,938                |
| Current discount Rate | 6% decreasing to 5%            | \$ 347,875,060                |
| 1% increase           | 7% decreasing to 6%            | \$ 429,801,848                |



## NOTES TO FINANCIAL STATEMENTS

### Note 7. Other Post-Employment Benefits (continued)

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

For the fiscal year ended June 30, 2019, the Board recognized an OPEB expense of \$31,996,224 on the government-wide statements. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

|  | Deferred Outflows<br>of Resources | Deferred Inflows of<br>Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience                               | \$ -                              | \$ 11,184,998                    |
| Changes of assumptions   | 13,587,008                        | 4,786,425                        |
| Net difference between projected and actual earnings<br>on OPEB Plan Investments | 177,084                           | 17,187                           |
| Total  | \$ 13,764,092                     | \$ 15,988,610                    |

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<br>June 30, | Outflows     | Inflows      |
|------------------------|--------------|--------------|
| 2020                   | \$ 2,694,836 | \$ 3,413,183 |
| 2021                   | 2,694,836    | 3,413,183    |
| 2022                   | 2,694,836    | 3,413,183    |
| 2023                   | 2,694,836    | 3,407,454    |
| 2024                   | 2,346,632    | 2,341,607    |
| 2025                   | 638,116      | -            |

Changes in assumptions in the most recent actuarial valuation included the discount rate (a decrease from 2.986% to 2.814%).

**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, 2019

|   | UNRESTRICTED       |                    |                    | VARIANCE<br>FAVORABLE<br>(UNFAVORABLE) |
|---|--------------------|--------------------|--------------------|--|
|   | BUDGET             |                    | ACTUAL             |  |
|   | ORIGINAL           | FINAL              |                    |  |
| <b>UNRESTRICTED REVENUES</b>  |                    |                    |                    |  |
| County Appropriation  | \$ 86,685,293      | \$ 86,685,293      | \$ 86,685,293      | \$ -                                   |
| State of Maryland and Federal   | 19,095,629         | 19,095,629         | 19,095,629         | -                                      |
| Other Sources   | 225,452            | 225,452            | 325,538            | 100,086                                |
| <b>TOTAL UNRESTRICTED REVENUES</b>  | <b>106,006,374</b> | <b>106,006,374</b> | <b>106,106,460</b> | <b>100,086</b>                         |
| <b>UNRESTRICTED EXPENDITURES</b>  |                    |                    |                    |  |
| Administration  | 1,615,596          | 1,729,213          | 1,729,209          | 4                                      |
| Instructional Support Services  | 7,331,546          | 7,476,241          | 7,476,237          | 4                                      |
| Instructional Salaries  | 43,299,739         | 42,474,396         | 42,123,025         | 351,371                                |
| Textbooks and Instructional Supplies  | 2,292,020          | 2,292,020          | 2,199,102          | 92,918                                 |
| Other Instruction Costs   | 965,917            | 965,917            | 964,199            | 1,718                                  |
| Student Personnel Services  | 348,467            | 348,467            | 348,031            | 436                                    |
| Health Services   | 904,542            | 904,542            | 904,534            | 8                                      |
| Student Transportation  | 6,454,904          | 6,748,415          | 6,748,411          | 4                                      |
| Operation of Plant and Equipment  | 8,233,117          | 8,103,606          | 8,061,935          | 41,671                                 |
| Maintenance of Plant  | 1,082,140          | 1,082,140          | 1,062,284          | 19,856                                 |
| Fixed Charges   | 23,735,685         | 23,735,685         | 23,726,463         | 9,222                                  |
| Capital Outlay  | 218,823            | 251,103            | 251,103            | -                                      |
| Special Education   | 10,090,889         | 10,493,920         | 10,493,920         | -                                      |
| <b>TOTAL UNRESTRICTED EXPENDITURES</b>  | <b>106,573,385</b> | <b>106,605,665</b> | <b>106,088,453</b> | <b>517,212</b>                         |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES</b> | <b>(567,011)</b>   | <b>(599,291)</b>   | <b>18,007</b>      | <b>617,298</b>                         |
| <b>OTHER FINANCING SOURCES</b>  |                    |                    |                    |  |
| Appropriation from Fund balance - capital projects                                      | -                  | 32,280             | 32,280             | -                                      |
| Appropriation from Fund Balance   | 567,011            | 567,011            | 567,011            | -                                      |
| <b>TOTAL OTHER FINANCING SOURCES</b>  | <b>567,011</b>     | <b>599,291</b>     | <b>599,291</b>     | <b>-</b>                               |
| <b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>                 | <b>\$ -</b>        | <b>\$ -</b>        | <b>\$ 617,298</b>  | <b>\$ 617,298</b>                      |

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**

| <b>Fiscal Year</b> | <b>Measurement Date</b> | <b>Board's Proportion (Percentage) of the NPL<br/>A</b> | <b>Board's Proportionate Share of the NPL<br/>B</b> | <b>Board's Share of State's Proportionate Share of the NPL<br/>C</b> | <b>Total (B+C)</b> | <b>Board's Covered Payroll<br/>D</b> | <b>Proportionate Share as a Percentage of Covered Payroll (B / D)</b> | <b>Plan's Total Fiduciary Net Position<br/>E</b> | <b>Plan's Total Pension Liability<br/>F</b> | <b>Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (E / F)</b> |
|--------------------|-------------------------|---|---|--|--------------------|--------------------------------------|---|--|---|---|
| 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%  |
| 2019               | June 30, 2018           | 0.0241899%  | \$ 5,075,428  | \$ 70,212,964  | \$ 75,288,392      | \$ 65,337,722                        | 7.77%   | \$ 51,827,233,000                                | \$ 72,808,833,000                           | 71.18%  |

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<br>Year | Measurement<br>Date | Contractually<br>Required<br>Contribution<br>A | Actual<br>Contribution<br>B | Contribution<br>Deficiency<br>(Excess)<br>(A - B) | Employer's<br>Covered<br>Payroll<br>C | Actual<br>Contribution<br>as a<br>Percentage<br>of Covered<br>Payroll<br>(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%  |
| 2019           | June 30, 2018       | \$ 3,073,056                                   | \$ 3,073,056                | \$ -  | \$ 65,337,722                         | 4.70%  |

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**

|   | <u>2018</u>                  | <u>2019</u>                  |
|---|------------------------------|------------------------------|
| Total OPEB liability                                  |                              |                              |
| Service cost  | \$ 14,629,936                | \$ 15,559,700                |
| Interest cost   | 9,394,241                    | 9,957,831                    |
| Differences between expected and actual experience    | (15,957,568)                 | -                            |
| Changes of assumptions and other inputs               | 199,538                      | 10,366,756                   |
| Benefit payments                                      | (5,974,464)                  | (6,457,472)                  |
| Other changes   | (559,286)                    | 344,814                      |
| Net change in total OPEB liability                    | <u>\$ 1,732,397</u>          | <u>\$ 29,771,629</u>         |
| Total OPEB liability, beginning of year, as restated  | <u>335,432,205</u>           | <u>337,164,602</u>           |
| Total OPEB liability, end of year (a)                 | <u><u>\$ 337,164,602</u></u> | <u><u>\$ 366,936,231</u></u> |
| Plan fiduciary net position                           |                              |                              |
| Differences between expected and actual experience    | \$ 28,645                    | \$ (221,355)                 |
| Contribution - employer                               | 2,500,000                    | 5,385,500                    |
| Net investment income                                 | 1,582,921                    | 1,075,294                    |
| Benefit payments                                      | (5,974,464)                  | (6,457,472)                  |
| Administrative expense                                | (1,150)                      | (3,400)                      |
| Other changes   | (28,645)                     | 221,356                      |
| Net change in fiduciary net position                  | <u>\$ (1,892,693)</u>        | <u>\$ (78)</u>               |
| Fiduciary net position, beginning of year             | <u>20,953,941</u>            | <u>19,061,248</u>            |
| Fiduciary net position, end of year (b)               | <u><u>\$ 19,061,248</u></u>  | <u><u>\$ 19,061,170</u></u>  |
| Net OPEB Liability (a-b)                              | <u><u>\$ 318,103,354</u></u> | <u><u>\$ 347,875,061</u></u> |
| Fiduciary net position as a % of total OPEB liability | 5.65%                        | 5.19%                        |
| Covered employee payroll                              | \$ 62,892,100                | \$ 65,337,722                |
| Net OPEB liability as of % of payroll                 | 505.79%                      | 532.43%                      |
| Expected average remaining service in years           | 6.69                         | 6.38                         |

*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**

|   | <u>2018</u> | <u>2019</u> |
|---|-------------|-------------|
| Annual money-weighted rate of return, net of investment | 7.00%       | 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<br>Balances |
|--|----------------|----------------|------------------|
|  | General        | General        | General          |
|  | June 30, 2019  | June 30, 2019  | June 30, 2019    |
| GAAP Basis   | \$ 113,246,562 | \$ 113,287,142 | \$ 1,554,258     |
| Increase (Decrease):                                   |                |                |                  |
| State Share of Retirement and<br>Pension Contribution  | (6,609,245)    | (6,609,245)    | -                |
| County Share of Retirement and<br>Pension Contribution | (530,857)      | (530,857)      | -                |
| Net Effect of Utilization of<br>Encumbrances:          |                |                |                  |
| Reversal of June 30, 2018 Balances                     | -              | (259,976)      | -                |
| Recording of Balances at<br>June 30, 2019              | -              | 201,389        | (201,389)        |
| Insurance Reserve and other                            | -              | -              | (22,024)         |
| Budgetary basis  | \$ 106,106,460 | \$ 106,088,453 | \$ 1,330,845     |



## 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 2018 valuation:

- Inflation assumption changed from 2.65% to 2.60% for general and from 3.15% to 3.10% for wage
- Salary increase assumption changed from 3.15% - 9.15% to 3.10% - 9.10%, including inflation
- Investment rate of return assumption changed from 7.50% to 7.45%

#### Method and Assumptions used in Calculations of Actuarially Determined Contributions

|                               |   |
|-------------------------------|---|
| Actuarial                     | Entry age normal  |
| Amortization method           | Level percentage of payroll, closed   |
| Remaining amortization period | 22 years for the State Systems  |
| Asset valuation method        | 5-year smoothed market; 20% collar  |
| Inflation                     | 2.60% general, 3.10% wage   |
| Salary increases              | 3.10% to 9.10%, including wage inflation  |
| Investment rate of return     | 7.45%   |
| 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 calibrated to MSRPS experience with generational mortality projections using 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         | 6.38 years   |
| Inflation                   | 3.00%  |
| Healthcare cost trend rates | 5.89% for fiscal year 2019, 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  |
| Discount rate- 2019         | 2.814%   |
| Discount rate- 2018         | 2.986%   |
| Mortality                   | RP-2014 Combined Annuitant Mortality Table for males and females   |

#### Retirement rates

| <u>Age</u> | <u>BOE</u> |
|------------|------------|
| 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

| <u>Age</u> | <u>BOE</u> |
|------------|------------|
| 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 |               |
|---------------------------|----------------|---------------|-------------------|---------------|
|                           | <u>Retiree</u> | <u>Spouse</u> | <u>Retiree</u>    | <u>Spouse</u> |
| Pre 7/1/15 hires          | \$ 807         | \$ 1,393      | \$ 719            | \$ 719        |
| 7/1/15 & Subsequent 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, 2019

|  | Original<br>Budget    | Final<br>Budget       | Actual                | Variance With<br>Final Budget<br>Favorable<br>(Unfavorable) |
|--|-----------------------|-----------------------|-----------------------|---|
| <b>UNRESTRICTED LOCAL FUNDS</b>  |                       |                       |                       |   |
| County appropriation   | \$ 86,685,293         | \$ 86,685,293         | \$ 86,685,293         | \$ -  |
| <b>STATE OF MARYLAND FUNDS</b>   |                       |                       |                       |   |
| Current expense  | 6,680,664             | 6,680,664             | 6,680,664             | -   |
| Transportation   | 3,104,516             | 3,104,516             | 3,104,516             | -   |
| Handicapped children   | 1,672,960             | 1,672,960             | 1,672,960             | -   |
| Compensatory education   | 7,257,015             | 7,257,015             | 7,257,015             | -   |
| Limited english proficiency  | 380,474               | 380,474               | 380,474               | -   |
| <b>TOTAL STATE OF<br/>MARYLAND FUNDS</b>                               | <b>19,095,629</b>     | <b>19,095,629</b>     | <b>19,095,629</b>     | <b>-</b>  |
| <b>OTHER FUNDS</b>   |                       |                       |                       |   |
| Tuition  | 70,000                | 70,000                | 109,199               | 39,199  |
| Interest and other   | 80,000                | 80,000                | 188,800               | 108,800   |
| Reimbursement from restricted<br>Programs                              | 75,452                | 75,452                | 27,539                | (47,913)  |
| <b>TOTAL OTHER FUNDS</b>   | <b>225,452</b>        | <b>225,452</b>        | <b>325,538</b>        | <b>100,086</b>  |
| <b>TOTAL UNRESTRICTED<br/>REVENUES</b>                                 | <b>106,006,374</b>    | <b>106,006,374</b>    | <b>106,106,460</b>    | <b>100,086</b>  |
| <b>OTHER FINANCING SOURCES</b>   |                       |                       |                       |   |
| Appropriation from Fund balance -<br>capital projects                  | -                     | 32,280                | 32,280                | -   |
| Appropriation from Fund balance  | 567,011               | 567,011               | 567,011               | -   |
| <b>TOTAL OTHER FINANCING<br/>SOURCES</b>                               | <b>567,011</b>        | <b>599,291</b>        | <b>599,291</b>        | <b>-</b>  |
| <b>TOTAL UNRESTRICTED<br/>REVENUES AND OTHER<br/>FINANCING SOURCES</b> | <b>\$ 106,573,385</b> | <b>\$ 106,605,665</b> | <b>\$ 106,705,751</b> | <b>\$ 100,086</b>   |

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF APPROPRIATIONS AND EXPENDITURES  
 GENERAL FUND - BUDGETARY BASIS  
 Year Ended June 30, 2019

|   | Original<br>Budget | Final<br>Budget   | Actual            | Variance With<br>Final Budget<br>Favorable<br>(Unfavorable) |
|---|--------------------|-------------------|-------------------|---|
| <b>ADMINISTRATION</b>                                     |                    |                   |                   |   |
| Salaries and wages  | \$ 1,337,819       | \$ 1,369,152      | \$ 1,369,150      | \$ 2  |
| Contracted services                                       | 177,242            | 197,939           | 197,938           | 1   |
| Supplies and materials                                    | 53,723             | 83,075            | 83,074            | 1   |
| Other charges   | 45,710             | 76,299            | 76,299            | -   |
| Land, buildings and equipment                             | 1,102              | 2,748             | 2,748             | -   |
| <b>TOTAL ADMINISTRATION</b>                               | <b>1,615,596</b>   | <b>1,729,213</b>  | <b>1,729,209</b>  | <b>4</b>  |
| <b>INSTRUCTIONAL SUPPORT SERVICES</b>                     |                    |                   |                   |   |
| Salaries and wages  | 7,006,669          | 7,126,751         | 7,126,750         | 1   |
| Contracted services                                       | 85,263             | 125,850           | 125,850           | -   |
| Supplies and materials                                    | 172,018            | 173,673           | 173,672           | 1   |
| Other charges   | 61,200             | 38,123            | 38,122            | 1   |
| Land, buildings and equipment                             | 6,396              | 11,844            | 11,843            | 1   |
| <b>TOTAL INSTRUCTIONAL<br/>SUPPORT SERVICES</b>           | <b>7,331,546</b>   | <b>7,476,241</b>  | <b>7,476,237</b>  | <b>4</b>  |
| <b>INSTRUCTIONAL SALARIES AND WAGES</b>                   | <b>43,299,739</b>  | <b>42,474,396</b> | <b>42,123,025</b> | <b>351,371</b>  |
| <b>TEXTBOOKS AND CLASSROOM<br/>SUPPLIES AND MATERIALS</b> | <b>2,292,020</b>   | <b>2,292,020</b>  | <b>2,199,102</b>  | <b>92,918</b>   |
| <b>OTHER INSTRUCTIONAL COSTS</b>                          |                    |                   |                   |   |
| Contracted services                                       | 523,647            | 399,506           | 399,506           | -   |
| Other charges   | 306,875            | 443,814           | 443,814           | -   |
| Land, buildings and equipment                             | 85,395             | 60,405            | 58,688            | 1,717   |
| Outgoing transfers  | 50,000             | 62,192            | 62,191            | 1   |
| <b>TOTAL OTHER INSTRUCTIONAL<br/>COSTS</b>                | <b>965,917</b>     | <b>965,917</b>    | <b>964,199</b>    | <b>1,718</b>  |
| <b>STUDENT PERSONNEL SERVICES</b>                         |                    |                   |                   |   |
| Salaries and wages  | 345,544            | 341,231           | 340,798           | 433   |
| Contracted services                                       | 750                | 2,048             | 2,047             | 1   |
| Supplies and materials                                    | 1,890              | 2,437             | 2,436             | 1   |
| Other charges   | 283                | 2,751             | 2,750             | 1   |
| <b>TOTAL STUDENT PERSONNEL<br/>SERVICES</b>               | <b>348,467</b>     | <b>348,467</b>    | <b>348,031</b>    | <b>436</b>  |
| <b>HEALTH SERVICES</b>                                    |                    |                   |                   |   |
| Salaries and wages  | 894,422            | 879,808           | 879,804           | 4   |
| Contracted services                                       | 252                | 331               | 330               | 1   |
| Supplies and materials                                    | 8,118              | 24,083            | 24,082            | 1   |
| Other charges   | 750                | 319               | 318               | 1   |
| Land, buildings and equipment                             | 1,000              | 1                 | -                 | 1   |
| <b>TOTAL HEALTH SERVICES</b>                              | <b>\$ 904,542</b>  | <b>\$ 904,542</b> | <b>\$ 904,534</b> | <b>\$ 8</b>   |

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF APPROPRIATIONS AND EXPENDITURES - CONTINUED  
 GENERAL FUND - BUDGETARY BASIS  
 Year Ended June 30, 2019

|   | Original<br>Budget    | Final<br>Budget       | Actual                | Variance With<br>Final Budget<br>Favorable<br>(Unfavorable) |
|---|-----------------------|-----------------------|-----------------------|---|
| <b>STUDENT TRANSPORTATION</b>                                     |                       |                       |                       |   |
| Salaries and Wages  | \$ 324,922            | \$ 251,046            | \$ 251,046            | \$ -  |
| Contracted Services   | 6,027,262             | 6,355,739             | 6,355,738             | 1   |
| Supplies and Materials  | 9,636                 | 4,752                 | 4,751                 | 1   |
| Other Charges   | 93,084                | 116,953               | 116,952               | 1   |
| Land, Buildings and Equipment                                     | -                     | 19,925                | 19,924                | 1   |
| <b>TOTAL STUDENT<br/>TRANSPORTATION</b>                           | <b>6,454,904</b>      | <b>6,748,415</b>      | <b>6,748,411</b>      | <b>4</b>  |
| <b>OPERATION OF PLANT</b>   |                       |                       |                       |   |
| Salaries and Wages  | 3,429,471             | 3,543,262             | 3,543,262             | -   |
| Contracted Services   | 322,270               | 636,052               | 633,314               | 2,738   |
| Supplies and Materials  | 301,120               | 523,449               | 523,449               | -   |
| Other Charges   | 4,137,956             | 3,288,236             | 3,249,304             | 38,932  |
| Land, Buildings and Equipment                                     | 42,300                | 112,607               | 112,606               | 1   |
| <b>TOTAL OPERATION OF PLANT</b>                                   | <b>8,233,117</b>      | <b>8,103,606</b>      | <b>8,061,935</b>      | <b>41,671</b>   |
| <b>MAINTENANCE OF PLANT</b>                                       |                       |                       |                       |   |
| Salaries and Wages  | 720,647               | 624,905               | 606,512               | 18,393  |
| Contracted Services   | 93,738                | 157,911               | 157,911               | -   |
| Supplies and Materials  | 229,360               | 290,929               | 290,929               | -   |
| Other Charges   | 650                   | 650                   | 61                    | 589   |
| Land, Buildings and Equipment                                     | 37,745                | 7,745                 | 6,871                 | 874   |
| <b>TOTAL MAINTENANCE OF<br/>PLANT</b>                             | <b>1,082,140</b>      | <b>1,082,140</b>      | <b>1,062,284</b>      | <b>19,856</b>   |
| <b>FIXED CHARGES</b>  |                       |                       |                       |   |
| Insurance and Employee Benefits                                   | 23,735,685            | 23,735,685            | 23,726,463            | 9,222   |
| <b>CAPITAL OUTLAY</b>   |                       |                       |                       |   |
| Salaries and Wages  | 116,515               | 105,929               | 105,929               | -   |
| Contracted Services   | 450                   | 21,698                | 21,698                | -   |
| Supplies and Materials  | 1,552                 | 41,893                | 41,893                | -   |
| Other Charges   | 306                   | -                     | -                     | -   |
| Land, Buildings and Equipment                                     | 100,000               | 81,583                | 81,583                | -   |
| <b>TOTAL CAPITAL OUTLAY</b>                                       | <b>218,823</b>        | <b>251,103</b>        | <b>251,103</b>        | <b>-</b>  |
| <b>SPECIAL EDUCATION</b>  |                       |                       |                       |   |
| Salaries and Wages  | 9,312,878             | 9,806,640             | 9,806,640             | -   |
| Contracted Services   | 403,000               | 284,232               | 284,232               | -   |
| Supplies and Materials  | 185,000               | 196,995               | 196,995               | -   |
| Other Charges   | 40,011                | 95,366                | 95,366                | -   |
| Land, Buildings and Equipment                                     | 22,000                | 1,665                 | 1,665                 | -   |
| Outgoing Transfers  | 128,000               | 109,022               | 109,022               | -   |
| <b>TOTAL SPECIAL EDUCATION</b>                                    | <b>10,090,889</b>     | <b>10,493,920</b>     | <b>10,493,920</b>     | <b>-</b>  |
| <b>TOTAL UNRESTRICTED<br/>APPROPRIATIONS AND<br/>EXPENDITURES</b> | <b>\$ 106,573,385</b> | <b>\$ 106,605,665</b> | <b>\$ 106,088,453</b> | <b>\$ 517,212</b>   |

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHOOL ACTIVITIES FUND OPERATIONS

Year Ended June 30, 2019

|  | Balance<br>June 30, 2018 | Receipts            | Disbursements       | Balance<br>June 30, 2019 |
|--|--------------------------|---------------------|---------------------|--------------------------|
| <b>ELEMENTARY</b>                            |                          |                     |                     |                          |
| Buckingham                                   | \$ 20,255                | \$ 112,276          | \$ 101,773          | \$ 30,758                |
| Ocean City                                   | 42,685                   | 104,385             | 116,666             | 30,404                   |
| Pocomoke                                     | 41,531                   | 65,415              | 78,256              | 28,690                   |
| Showell                                      | 67,556                   | 42,995              | 57,509              | 53,042                   |
| Snow Hill                                    | 55,153                   | 86,617              | 97,331              | 44,439                   |
| <b>TOTAL ELEMENTARY</b>                      | <b>227,180</b>           | <b>411,688</b>      | <b>451,535</b>      | <b>187,333</b>           |
| <b>MIDDLE SCHOOL</b>                         |                          |                     |                     |                          |
| Berlin                                       | 88,946                   | 137,140             | 140,377             | 85,709                   |
| Pocomoke                                     | 13,110                   | 118,927             | 117,320             | 14,717                   |
| Snow Hill                                    | 48,911                   | 116,027             | 117,032             | 47,906                   |
| Stephen Decatur                              | 80,420                   | 125,510             | 122,828             | 83,102                   |
| <b>TOTAL MIDDLE SCHOOL</b>                   | <b>231,387</b>           | <b>497,604</b>      | <b>497,557</b>      | <b>231,434</b>           |
| <b>HIGH SCHOOL</b>                           |                          |                     |                     |                          |
| Pocomoke                                     | 44,220                   | 263,621             | 239,390             | 68,451                   |
| Snow Hill                                    | 70,616                   | 292,913             | 280,620             | 82,909                   |
| Stephen Decatur                              | 195,848                  | 768,683             | 720,287             | 244,244                  |
| <b>TOTAL HIGH SCHOOL</b>                     | <b>310,684</b>           | <b>1,325,217</b>    | <b>1,240,297</b>    | <b>395,604</b>           |
| <b>SPECIALIZED SCHOOL</b>                    |                          |                     |                     |                          |
| Cedar Chapel                                 | 6,574                    | 32,257              | 31,958              | 6,873                    |
| Vocational                                   | 50,260                   | 308,513             | 279,292             | 79,481                   |
| <b>TOTAL SPECIALIZED SCHOOL</b>              | <b>56,834</b>            | <b>340,770</b>      | <b>311,250</b>      | <b>86,354</b>            |
| <b>TOTAL SCHOOL ACTIVITY FUND OPERATION</b>  | <b>\$ 826,085</b>        | <b>\$ 2,575,279</b> | <b>\$ 2,500,639</b> | <b>\$ 900,725</b>        |
| <b>EXCESS OF DISBURSEMENTS OVER RECEIPTS</b> |                          | <b>\$ 74,640</b>    |                     |                          |

THE BOARD OF EDUCATION OF WORCESTER COUNTY

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

Year Ended June 30, 2019

|   | Budget           | Actual            | Variance With<br>Budget<br>Favorable<br>(Unfavorable) |
|---|------------------|-------------------|---|
| <b>REVENUES</b>                                 |                  |                   |   |
| Federal and State:                              |                  |                   |   |
| Reimbursement for food                          | \$ 2,099,600     | \$ 2,098,573      | \$ (1,027)  |
| Other Revenues:                                 |                  |                   |   |
| Grant revenue                                   | -                | 20,000            | 20,000  |
| Catering income                                 | 4,300            | 6,980             | 2,680   |
| Lunches sold                                    | 633,000          | 614,334           | (18,666)  |
| Interest income and other                       | 765              | 1,342             | 577   |
| Rebates - food                                  | 9,300            | 665               | (8,635)   |
| Total Other Revenues                            | <u>647,365</u>   | <u>643,321</u>    | <u>(4,044)</u>  |
| <b>TOTAL REVENUES</b>                           | <u>2,746,965</u> | <u>2,741,894</u>  | <u>(5,071)</u>  |
| <b>EXPENDITURES</b>                             |                  |                   |   |
| Food and food related supplies                  | 1,315,200        | 1,274,434         | 40,766  |
| Commodity processing and storage                | 12,000           | 12,383            | (383)   |
| Nonfood supplies and other expense              | 42,400           | 59,798            | (17,398)  |
| Salaries and wages                              | 971,600          | 989,606           | (18,006)  |
| Fringe benefits                                 | 399,665          | 408,944           | (9,279)   |
| Contracted services                             | 6,100            | 2,876             | 3,224   |
| TOTAL EXPENDITURES                              | <u>2,746,965</u> | <u>2,748,041</u>  | <u>(1,076)</u>  |
| <b>EXCESS OF REVENUES OVER<br/>EXPENDITURES</b> | <u>\$ -</u>      | <u>\$ (6,147)</u> | <u>\$ (6,147)</u>                                     |



THE BOARD OF EDUCATION OF WORCESTER COUNTY

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

Year Ended June 30, 2019

|   |                  |                    |
|---|------------------|--------------------|
| REVENUES  |                  |                    |
| County Appropriation  | \$ 86,946,668    |                    |
| State of Maryland   | 20,007,400       |                    |
| Restricted Federal Funds  | 6,668,884        |                    |
| Other Sources   | <u>1,014,128</u> | 114,637,080        |
| TOTAL REVENUES  |                  |                    |
| OTHER FINANCING SOURCES   |                  |                    |
| Appropriation from Fund Balance                                     |                  | <u>599,291</u>     |
| TOTAL REVENUES AND OTHER FINANCING SOURCES                          |                  | \$ 115,236,371     |
| EXPENDITURES  |                  |                    |
| Administration  | 1,814,256        |                    |
| Mid-Level Administration  | 7,637,757        |                    |
| Instructional Salaries and Wages                                    | 44,708,151       |                    |
| Textbooks and Classroom Supplies                                    | 3,203,058        |                    |
| Other Instructional Costs   | 1,698,919        |                    |
| Pupil Personnel Services  | 348,031          |                    |
| Health Services   | 970,262          |                    |
| Pupil Transportation  | 7,104,333        |                    |
| Operation of Plant  | 8,205,116        |                    |
| Maintenance of Plant  | 1,062,284        |                    |
| Fixed Charges   | 24,915,383       |                    |
| Special Education   | 12,635,112       |                    |
| Food Services   | 23,426           |                    |
| Community Services  | 13,783           |                    |
| Capital Planning  | <u>279,202</u>   |                    |
| TOTAL EXPENDITURES  |                  | <u>114,619,073</u> |
| EXCESS OF REVENUES AND OTHER<br>FINANCING SOURCES OVER EXPENDITURES |                  | <u>\$ 617,298</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         | Balances          |
|                   | June 30, 2019       | June 30, 2019       | Proprietary       |
|                   | June 30, 2019       | June 30, 2019       | June 30, 2019     |
| GAAP basis        | \$ 2,741,894        | \$ 2,752,544        | \$ (10,650)       |
| Capitalized costs | -                   | -                   | -                 |
| Depreciation      | -                   | (4,503)             | 4,503             |
| Budgetary basis   | <u>\$ 2,741,894</u> | <u>\$ 2,748,041</u> | <u>\$ (6,147)</u> |