

BOARD OF EDUCATION OF
QUEEN ANNE'S COUNTY, MARYLAND

FINANCIAL REPORT

JUNE 30, 2019

CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	3 - 5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	6 - 7
MANAGEMENT'S DISCUSSION AND ANALYSIS	8 - 16
FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position	18
Statement of Activities	19
FUND FINANCIAL STATEMENTS	
Balance Sheet - Governmental Funds	20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	22
Reconciliation of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	23
Statement of Fiduciary Net Position - Agency Funds	24
NOTES TO FINANCIAL STATEMENTS	25 - 46
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Encumbrances Budget and Actual - General Fund	48
Schedule of Changes in the Board's Net OPEB Liability and Related Ratios	49
Schedule of Board Contributions - OPEB	50
Schedule of the Board's Proportionate Share of the Net Pension Liability	51
Schedule of Board Contributions - Pension	52
Notes to Required Supplementary Information	53 - 54

ADDITIONAL SUPPLEMENTARY INFORMATION

Combining Balance Sheet - Nonmajor Governmental Funds	56
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	57
Schedule of School Construction Expenditures	58
Schedule of Food Service Fund Operations	59
Schedule of School Activities Fund Accounts	60

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



INDEPENDENT AUDITORS' REPORT

The Board of Education of Queen Anne's County
Centreville, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Queen Anne's County, a component unit of Queen Anne's 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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of 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, each major fund, and the aggregate remaining fund information of the Board of Education of Queen Anne's County as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, the schedule of revenues, expenditures and encumbrances – budget and actual – General Fund, the schedule of changes in the board's net OPEB liability, the schedule of board contributions (OPEB), the schedule of the board's proportionate share of net pension liability, and the schedule of board contributions (pension plan), on pages 8 through 16 and 48 through 52 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 Queen Anne's 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 additional supplementary 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 Queen Anne's County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Queen Anne's County's internal control over financial reporting and compliance.



Salisbury, Maryland
September 27, 2019

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



INDEPENDENT AUDITORS' 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 Queen Anne's County
Centreville, Maryland

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of The Board of Education of Queen Anne's County, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The Board of Education of Queen Anne's County'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 of Education of Queen Anne's County'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Salisbury, Maryland
September 27, 2019

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

Our discussion and analysis of the Board of Education of Queen Anne's County financial performance provide an overview of the Board's financial activities for the fiscal year that ended on June 30, 2019. Please read it in conjunction with the Board's financial statements, which immediately follow this section.

The goal of Management's Discussion and Analysis (MD&A) is for the School District's financial managers to present an objective and easily readable analysis of the district's financial activities based on currently known facts, decisions, or conditions.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2019, include the following:

- The Board's total net position was a deficit of \$(46,586,527), a decrease of \$13,735,340 from the prior year. Net position was negatively impacted by the net pension liability recognized under GASB No. 68 and the net OPEB liability recognized under GASB No. 75. Combined pension and OPEB expense for the year totaled \$15,696,959 in the government-wide statement of activities.
- The unrestricted General Fund actual revenues were \$243,850 or 0.26% above the approved budget, not including the use of the prior year's fund balance. Slight increases in interest income and rent of facilities, along with increased out of county tuition payments and participation in the retiree drug subsidy program produced the positive results. The increased state share in the cost for non-public tuition also resulted in a positive variance in state revenue.
- Actual expenditures in the unrestricted General Fund were \$72,297 or 0.08% under the approved budget. This positive variance was the result of numerous accounts across many areas, including staff vacancies. However, continued increases in student transportation costs outpacing available budgets requires careful monitoring and analysis.
- The restricted General Fund actual revenues and expenditures were over the original approved budget, requiring a request of the County Commissioners for additional appropriation authority of \$300,000. Expenditures were \$6,927,158, an increase of \$741,645 over the prior year. The majority of this variance was due to delay in receiving spending authority for the Striving Readers grant that basically doubled the grant allocation for FY 2019. Other grants such as the Individuals with Disabilities Education Act (IDEA), Title I, and Title IIA, which had slight increases above anticipated amounts.
- Increases to capital assets before depreciation are attributable to the finalized addition to Grasonville Elementary School, fire alarm upgrades at Grasonville Elementary and Kent Island High schools, the purchase of four (4) school buses, several roof projects, and the ongoing upgrade of our technology and security infrastructure.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

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

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

These statements measure the change in total economic resources during the period utilizing the accrual basis of accounting. This means that any change in net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in a future fiscal period (such as earned but unused employees' compensated absences), or for which cash has already been expended (depreciation of buildings and equipment already purchased).

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

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Board of Education of Queen Anne's County uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The Board's funds are in two categories, governmental funds, and fiduciary funds. The Board of Education of Queen Anne's County does not operate any enterprise activities that are to be reported as proprietary funds.

The measurement focus of these statements is current financial resources; therefore, the emphasis is placed on the cash flows of the organization within the reporting period or near future. Accordingly, the modified accrual basis of accounting that measures these cash flows, is used. In the case of the Board of Education of Queen Anne's County, open encumbrances are excluded from expenditures and the State of Maryland's contribution to the teacher's retirement system is added to revenue and expenditures.

Fund financial statements are also unrelated to the budget and, accordingly, budget comparisons are not provided in the presentation.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS – continued

Budgetary Financial Statements

Budgetary presentation of individual fund financial information utilizing the current financial resources measurement focus and the budgetary basis of accounting is presented as part of the Required Supplementary Information. In the budgetary presentation, available cash flows of the Board itself are measured as well as the commitment to acquire goods or services with that cash. Encumbrances open at year-end are included in the expenditures in the budgetary presentation.

Since this is the legal basis upon which the budget is adopted, budget comparisons are provided in this presentation. GASB Statement No. 34 requires that we present the original adopted budget as well as the final budget and discuss the changes between them.

The table below presents the differences in the presentation of the basic financial statements.

	District-wide Statements	Fund Statements	Budgetary Fund Statements
Measurement Focus	Economic resources	Current financial resources	Current financial resources
Basis of Accounting	Accrual	Modified accrual	Cash and commitments
Budget	No	No	Yes

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

	June 30,		Change	
	2019	2018	\$	%
ASSETS				
Current and other assets	\$ 15,784,447	\$ 16,306,024	\$ (521,577)	-3.20%
Capital assets	161,041,497	164,874,996	(3,833,499)	-2.33%
TOTAL ASSETS	176,825,944	181,181,020	(4,355,076)	-2.40%
DEFERRED OUTFLOWS OF RESOURCES				
State pension plan	1,007,819	1,211,479	(203,660)	-16.81%
OPEB	10,039,920	-	10,039,920	1000.00%
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,047,739	1,211,479	9,836,260	811.92%
LIABILITIES				
Current and other liabilities	11,942,906	12,354,459	(411,553)	-3.33%
Long-term liabilities	201,374,669	179,132,382	22,242,287	12.42%
TOTAL LIABILITIES	213,317,575	191,486,841	21,830,734	11.40%
DEFERRED INFLOWS OF RESOURCES				
State pension plan	545,810	586,217	(40,407)	-6.89%
OPEB	20,596,825	23,170,628	(2,573,803)	-11.11%
TOTAL DEFERRED INFLOWS OF RESOURCES	21,142,635	23,756,845	(2,614,210)	-11.00%
NET POSITION (DEFICIT)				
Net investment in capital assets	159,113,347	162,791,940	(3,678,593)	-2.26%
Restricted assets	219,715	425,805	(206,090)	-48.40%
Unrestricted	(205,919,589)	(196,068,932)	(9,850,657)	5.02%
TOTAL NET POSITION	\$ (46,586,527)	\$ (32,851,187)	\$ (13,735,340)	41.81%

Net Position represents the difference between assets and liabilities. The unrestricted deficit at June 30, 2019, is the result of recording the Board's unfunded other post-employment benefit obligation. Note 9 of the financial statements provides more detail regarding the Board's OPEB plan.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE – continued

Changes in Net Position

The Board's government-wide changes in net assets for the years ended June 30, 2019, and 2018 are summarized below.

	June 30,		Change	
	2019	2018	\$	%
REVENUES				
Program revenues				
Charges for services	\$ 1,550,586	\$ 1,486,182	\$ 64,404	4.33%
Operating grants and contributions	20,379,544	19,479,172	900,372	4.62%
Capital grants and contributions	4,111,268	6,006,621	(1,895,353)	-31.55%
General revenues				
County appropriation	56,884,381	55,495,261	1,389,120	2.50%
State of Maryland	28,181,341	28,038,819	142,522	0.51%
Other	244,405	216,370	28,035	12.96%
TOTAL REVENUES	111,351,525	110,722,425	629,100	0.57%
EXPENSES				
Instructional services and special education	52,612,494	51,838,552	773,942	1.49%
Restricted programs	6,927,158	6,185,513	741,645	11.99%
Administration	2,106,041	2,075,412	30,629	1.48%
Operation and maintenance of plant	7,944,242	7,852,004	92,238	1.17%
Other support services	13,843,830	12,955,629	888,201	6.86%
Fixed charges	36,569,957	34,889,133	1,680,824	4.82%
Depreciation - unallocated	5,083,143	5,039,503	43,640	0.87%
TOTAL EXPENSES	125,086,865	120,835,746	4,251,119	3.52%
CHANGE IN NET POSITION	\$ (13,735,340)	\$ (10,113,321)	\$ (3,622,019)	35.81%

The majority of revenue received by the Board of Education of Queen Anne's County is from county sources. The Board of Education is required to submit to the County Commissioners a budget request in March. The county then reviews this request along with those from all other county agencies and determines a funding level. The County Commissioners finalize the county budget by June 1. The Board of Education then revises its budget allocations based on this approved funding level. The State of Maryland uses multiple formulas to calculate the allocation of aid to Maryland school systems. Grant revenues can be derived by formula or awarded on a competitive basis.

Charges for services are principally meal revenue derived from food services. Currently, the Board contracts the food services operation with Sodexo Services, Inc. The current contract is for a one-year period, ending June 30, 2020, with the possibility of four (4) one-year extensions. The food services program is designed to be self-funded.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

ANALYSIS OF BUDGET AND ACTUAL COMPARISONS

General Fund – Unrestricted and Restricted

Below is an explanatory list of adjustments made to the original budget, which were approved by the Board of Education and County Commissioners, and funded by the reallocation of funds between categories. These adjustments were made as to cover required software upgrades, substitute overages, health services and transportation costs primarily related to the special education and homeless student transportation. The funds became available through savings associated with staff attrition, insurances, retirement, electricity and heating fuels cost.

Reallocation of funds between state categories - Unrestricted		
i.	Administration	\$ 21,998
ii.	Mid-Level Administration	\$ 0
iii.	Instruction	\$ 23,000
iv.	Special Education	\$ 0
v.	Student Personnel Services	\$ 4,700
vi.	Health Services	\$ 25,800
vii.	Student Transportation	\$ 429,000
viii.	Operation of Plant	\$ (162,500)
ix.	Maintenance of Plant	\$ 0
x.	Fixed Charges	\$ (341,998)
	Total	\$ 0

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

ANALYSIS OF BUDGET AND ACTUAL COMPARISONS – continued

General Fund – Unrestricted and Restricted – continued

A schedule of changes between the original and final budgets for the year ended June 30, 2019, support the list presented on the previous page.

	Original Budget	Final Budget	Actual	Variance
REVENUES				
County funds	\$ 56,884,381	\$ 56,884,381	\$ 56,884,381	\$ -
State of Maryland funds	34,348,452	34,348,452	34,416,398	67,946
Restricted federal, state, and other	6,766,500	7,066,500	6,927,158	(139,342)
Other	674,000	674,000	615,904	(58,096)
TOTAL REVENUES	98,673,333	98,973,333	98,843,841	(129,492)
EXPENDITURES AND ENCUMBRANCES				
Administration	2,043,120	2,065,118	2,063,979	1,139
Mid-level administration	4,892,925	4,892,925	4,892,370	555
Instruction	39,050,972	39,073,972	39,057,338	16,634
Special education	8,505,988	8,505,988	8,500,865	5,123
Student personnel services	469,510	474,210	473,678	532
Student health services	795,570	821,370	821,021	349
Student transportation	6,932,339	7,361,339	7,359,677	1,662
Operation of plant	6,242,177	6,079,677	6,071,166	8,511
Maintenance of plant	1,882,473	1,882,473	1,860,938	21,535
Fixed charges	21,091,759	20,749,761	20,733,504	16,257
Restricted programs	6,766,500	7,066,500	6,927,158	139,342
TOTAL EXPENDITURES AND ENCUMBRANCES	98,673,333	98,973,333	98,761,694	211,639
EXCESS REVENUES OVER EXPENDITURES AND ENCUMBRANCES	\$ -	\$ -	\$ 82,147	\$ 82,147

Please note that local and state revenues account for 92.3% of the total General Fund revenues and 99.3% of the unrestricted General Fund revenues.

Other revenues are budgeted very conservatively due to the unpredictable nature of the receipts. These receipts include, but are not limited to, facilities rental, bus rental, interest income, retiree prescription drug subsidy program, and tuition payments received. Tuition can be collected from other county boards of education under the informal kinship care arrangements and out of county living arrangements. For the kinship care arrangements, criteria established by the state legislature must be met in order for counties to be eligible to bill for these students. Since the inception of this program, only a few counties have met this criterion. Queen Anne's County did qualify in the current fiscal year. Because the determination is made on an annual basis, we do not budget this revenue.

These positive variances shown were varied across numerous accounts and activities within all state categories. Of significance was a reduction in electricity and heating costs due to a mild winter and use of the new solar array behind Centreville Middle School. Savings here were sufficient to help offset continued expenditure growth in Student Transportation.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the Board had approximately \$241 million invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased by approximately \$1.6 million from the same time last year, excluding the effect of depreciation, as shown in the table below. This increase is attributable to the finished addition to Grasonville Elementary School, fire alarm upgrades at Grasonville Elementary and Kent Island High schools, the purchase of four (4) school buses, several roof projects, and the ongoing upgrade of our technology and security infrastructure.

	June 30,		Change
	2019	2018	\$
Construction in progress	\$ 4,753,645	\$ 4,330,772	\$ 422,873
School properties	219,202,491	218,904,946	297,545
Furniture, fixtures and equipment	16,959,287	16,119,435	839,852
TOTAL CAPITAL ASSETS	\$ 240,915,423	\$ 239,355,153	\$ 1,560,270

The Board has no long-term debt related to the construction of school properties. To the extent that such debt is required to make local capital contributions, it is issued by and reported on the books of, Queen Anne's County Government.

Long-term Liabilities

The Board has \$201,057,418 due or payable after one year. The amount consists of the following:

- \$657,901 of accrued compensated absences
- \$1,756,436 capital lease obligations
- \$193,804,027 OPEB benefit obligation
- \$4,839,054 of the Board's proportionate share of the state's net pension liability

FACTORS IMPACTING THE SCHOOL SYSTEM

In 2016, the Maryland State legislature established the Commission on Innovation and Excellence in Education, more prominently known as the Kirwan Commission. While the Commission has a comprehensive charge detailed in the law, in essence, the charge has two parts:

- review and recommend any needed changes to update the current education funding formulas (known as the Thornton formulas); and
- make policy recommendations that would enable Maryland's PreK-12 system to perform at the level of the best-performing systems in the world.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FACTORS IMPACTING THE SCHOOL SYSTEM - continued

In January 2018, the Commission issued a report with its preliminary policy recommendations grouped into five policy areas: (1) early childhood education; (2) high-quality teachers and leaders; (3) college and career readiness pathways, including career and technical education; (4) more resources to ensure all students are successful; and (5) governance and accountability.

During the 2019 legislative session, Senate Bill 1030 - *Blueprint for Maryland's Future* was introduced and passed as the 'down payment' on the funding proposed through the ongoing work of the Kirwan Commission. The effect of SB1030 to Queen Anne's County Public Schools was supplemental unrestricted and restricted funding of \$1,371,671. It is anticipated that these funds, though currently issued as grants to QACPS in FY 2019 and FY 2020, will continue in the future and be folded into revised state aid formulas.

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

Beginning with the fiscal year 2018, the system was required to adhere to the standard issued by the Government Accounting Standards Board (GASB) for reporting other post-employment benefits (OPEB) known as GASB 75. GASB 75 stipulates standards for the measurement, recognition, and display of OPEB expenses and related liabilities and assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. GASB 75 requires the measurement and disclosure of actuarial accrued liabilities and funding status. Under GASB 75, the Board is not only reporting OPEB expense but the associated accrued financial obligations. Funding for a long-term obligation is optional. The Board is also required to disclose the funding status of the benefits as of the most recent valuation and to present as Required Supplementary Information (RSI) multi-year trend information about funding progress.

During a special session of the Maryland General Assembly – Teacher Pension Cost, it was determined the State and Local school boards will share the cost of teacher retirement by phasing in a requirement for school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85%, and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016, and the additional maintenance of effort payments required by each county in the same period. Now fully phased-in, the Board is paying 100% of the annual normal cost.

CONTACTING THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the Board's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact John Pfister, Chief Financial Officer, (410) 758-2403 at the Board of Education of Queen Anne's County, 202 Chesterfield Avenue, Centreville, Maryland 21617.

FINANCIAL STATEMENTS

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF NET POSITION

June 30, 2019

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 13,411,800
Certificates of deposit	300,000
Accounts receivable:	
Federal funds from State of Maryland	765,574
State of Maryland	783,031
Queen Anne's County	67,635
Other	379,933
Prepays	24,318
Inventory	52,156
Land and construction in progress	11,116,685
Other capital assets, net	149,924,812
TOTAL ASSETS	176,825,944
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	1,007,819
Other post-employment benefits (OPEB)	10,039,920
TOTAL DEFERRED OUTFLOWS OF RESOURCES	11,047,739
LIABILITIES	
Accounts payable:	
Vendors	793,263
Agency funds	106,976
Employee salary deferrals	9,202,309
Employee and other withholdings	680,546
Unearned revenues	1,159,812
Long-term liabilities:	
Due within one year	317,251
Due in more than one year	201,057,418
TOTAL LIABILITIES	213,317,575
DEFERRED INFLOWS OF RESOURCES	
Pensions	545,810
Other post-employment benefits (OPEB)	20,596,825
TOTAL DEFERRED INFLOWS OF RESOURCES	21,142,635
NET POSITION (DEFICIT)	
Net investment in capital assets	159,113,347
Restricted for:	
Food service	75,431
Capital projects	144,284
Unrestricted deficit	(205,919,589)
TOTAL NET POSITION (DEFICIT)	\$ (46,586,527)

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expenses) Revenue and changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Governmental Activities					
Current:					
Administration	\$ 2,106,041	\$ -	\$ -	\$ -	\$ (2,106,041)
Mid-level administration	4,896,245	-	-	-	(4,896,245)
Instructional services	39,252,330	104,285	686,034	-	(38,462,011)
Special education	8,463,919	-	2,214,546	-	(6,249,373)
Student personnel services	473,678	-	-	-	(473,678)
Health services	821,021	-	-	-	(821,021)
Student transportation	7,569,531	-	3,334,477	-	(4,235,054)
Operation of plant	6,084,324	-	-	-	(6,084,324)
Maintenance of plant	1,859,918	267,214	-	-	(1,592,704)
Fixed charges	36,569,957	-	5,872,921	-	(30,697,036)
Food services	2,589,813	1,179,087	1,344,408	-	(66,318)
Restricted federal, state, and other	6,927,158	-	6,927,158	-	-
Capital outlay	2,389,787	-	-	4,111,268	1,721,481
Unallocated depreciation	5,083,143	-	-	-	(5,083,143)
Total Governmental Activities	125,086,865	1,550,586	20,379,544	4,111,268	(99,045,467)
Totals	\$ 125,086,865	\$ 1,550,586	\$ 20,379,544	\$ 4,111,268	(99,045,467)
General Revenues					
Local appropriations					56,884,381
State of Maryland - unrestricted					28,181,341
Investment Earnings					55,957
Miscellaneous					188,448
Total General Revenues					85,310,127
Change in Net Position					(13,735,340)
Net Position Beginning of Year					(32,851,187)
Net Position End of Year					<u><u>\$ (46,586,527)</u></u>

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	<u>Major Fund General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and equivalents	\$ 12,597,757	\$ 814,043	\$ 13,411,800
Certificates of deposit	300,000	-	300,000
Accounts receivable:			
Federal funds from State of Maryland	699,898	65,676	765,574
State of Maryland	656,808	126,223	783,031
Other	379,931	2	379,933
Queen Anne's County	-	67,635	67,635
Other governmental funds	476,804	-	476,804
Prepaid items	24,318	-	24,318
Inventory, at cost	52,156	-	52,156
TOTAL ASSETS	<u>\$ 15,187,672</u>	<u>\$ 1,073,579</u>	<u>\$ 16,261,251</u>
LIABILITIES AND FUND BALANCES			
Accounts payable:			
Vendors	\$ 477,836	\$ 315,427	\$ 793,263
Other governmental funds	-	476,804	476,804
Agency funds	106,976	-	106,976
Employee salary deferrals	9,200,935	1,374	9,202,309
Employee and other withholdings	680,546	-	680,546
Accrued compensated absences	145,537	-	145,537
Unearned revenues	1,099,553	60,259	1,159,812
TOTAL LIABILITIES	<u>11,711,383</u>	<u>853,864</u>	<u>12,565,247</u>
COMMITMENTS AND CONTINGENCIES			
FUND BALANCES			
Nonspendable	76,474	-	76,474
Restricted	-	219,715	219,715
Committed	534,000	-	534,000
Assigned	1,734,075	-	1,734,075
Unassigned	1,131,740	-	1,131,740
Total fund balances	<u>3,476,289</u>	<u>219,715</u>	<u>3,696,004</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 15,187,672</u>	<u>\$ 1,073,579</u>	<u>\$ 16,261,251</u>

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2019

Total Governmental Funds Balances \$ 3,696,004

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

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the
governmental fund financial statements 161,041,497

Deferred outflows of resources not reported
in the fund financial statements

Pension	1,007,819	
Other post-employment benefits	10,039,920	
	11,047,739	11,047,739

Long-term liabilities are not due and payable in the current
period and therefore are not reported in the funds

Compensated absences	(657,901)	
Capital leases, net	(1,928,150)	
Pension liability, net	(4,839,054)	
Other post-employment benefits, net	(193,804,027)	
	(201,229,132)	(201,229,132)

Deferred inflows of resources not reported
in the fund financial statements

Pension	(545,810)	
Other post-employment benefits	(20,596,825)	
	(21,142,635)	(21,142,635)

Net Position of Governmental Activities \$ (46,586,527)

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

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

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES			
County Appropriation	\$ 56,884,381	\$ 3,743,044	\$ 60,627,425
State of Maryland	34,416,398	418,272	34,834,670
Restricted federal, state, and other	6,927,158	-	6,927,158
Federal sources	-	1,292,370	1,292,370
State of Maryland on-behalf pension payments	5,872,921	-	5,872,921
Other sources	615,904	1,990	617,894
Charges for food services	-	1,179,087	1,179,087
	<u>104,716,762</u>	<u>6,634,763</u>	<u>111,351,525</u>
TOTAL REVENUES			
EXPENDITURES			
Current:			
Administration	2,070,818	-	2,070,818
Mid-level administration	4,896,245	-	4,896,245
Instructional salaries and wages	37,432,954	-	37,432,954
Textbooks and instructional supplies	935,292	-	935,292
Other instructional costs	676,230	-	676,230
Special education	8,463,919	-	8,463,919
Student personnel services	473,678	-	473,678
Health services	821,021	-	821,021
Student transportation	7,358,823	-	7,358,823
Operation of plant	6,084,324	-	6,084,324
Maintenance of plant	1,815,648	-	1,815,648
Fixed charges	20,733,504	-	20,733,504
Food services	-	2,513,985	2,513,985
Restricted federal, state, and other	6,927,158	-	6,927,158
State of Maryland on-behalf pension payments	5,872,921	-	5,872,921
Capital outlay	-	4,326,868	4,326,868
	<u>104,562,535</u>	<u>6,840,853</u>	<u>111,403,388</u>
TOTAL EXPENDITURES			
Net change in fund balances	154,227	(206,090)	(51,863)
Fund balances, beginning	<u>3,322,062</u>	<u>425,805</u>	<u>3,747,867</u>
Fund balances, ending	<u>\$ 3,476,289</u>	<u>\$ 219,715</u>	<u>\$ 3,696,004</u>

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

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

Net change in fund balances-total Governmental Funds \$ (51,863)

**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 as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Fixed asset additions	1,785,358	
Loss on disposals	(3,183)	
Current year depreciation	<u>(5,615,674)</u>	
 Total		 (3,833,499)

Some expenses 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.

Compensated absences, net	(42,672)	
Retirement incentives, net	1,320	
Capital leases, net	154,906	
Pension liability, net	(602,986)	
Other post-employment benefits , net	<u>(9,360,546)</u>	
 Total		 <u>(9,849,978)</u>

Change in net position of Governmental Activities \$ (13,735,340)

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION
AGENCY FUNDS

June 30, 2019

	AGENCY FUNDS		Total
	Regional Education Funds	School Activities Fund	
ASSETS			
Cash and cash equivalents	\$ -	\$ 851,822	\$ 851,822
Due from other funds	106,976	-	106,976
TOTAL ASSETS	\$ 106,976	\$ 851,822	\$ 958,798
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 3,961	\$ -	\$ 3,961
Funds held for school activities	-	851,822	851,822
Unearned revenues	103,015	-	103,015
TOTAL LIABILITIES	\$ 106,976	\$ 851,822	\$ 958,798

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of the Board of Education of Queen Anne's County

The Board of Education of Queen Anne's County (the "Board") is empowered by Title 13A of the Code of Maryland Regulations to fulfill the elementary and secondary educational needs of students in Queen Anne's County, Maryland (the "County").

Financial Reporting Entity

The Board is the basic level of government which has financial accountability and control over all activities related to public school education in Queen Anne's County, Maryland. The Board receives funding from local, State and Federal government sources and must comply with the requirements of these funding source entities.

The Board is a component unit of Queen Anne's County, Maryland and is included in the County's reporting entity. This conclusion has been reached based on the following criteria: 1) the County is responsible for approving the Board's budget and establishing spending limitations and 2) the Board cannot issue bonded debt, but the County can and does issue bonds to finance school system operations. In addition, there are no component units which are included in the Board's reporting entity.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles.

The most significant of the Board's accounting policies are described below.

A. Basis of Presentation

The Board's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Board as a whole. These statements include the financial activities of the Board. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities. The activities of the General Fund (Current Expense Fund), Special Revenue Fund (Food Service Fund), and the Capital Projects Fund (School Construction Fund) have been presented as governmental activities in the government-wide financial statements. There were no business-type activities. Internal activity between funds is eliminated from the statements.

The statement of net position presents the financial condition of the governmental activities of the Board at year-end, excluding fiduciary funds. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Board's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Board.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (continued)

FUND FINANCIAL STATEMENTS

During the year, the Board segregates transactions related to certain Board functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Board at a more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column and non-major governmental funds are reported combined in a separate column in the fund financial statements.

B. Fund Accounting

The Board uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary (the Board has no proprietary funds).

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Board's major and non-major governmental funds:

Major fund:

General Fund (Current Expense Fund) - The General Fund is the general operating fund of the Board. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Non-major funds:

Capital Projects Fund (School Construction Fund) - School Construction Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Board administers the construction and repair of public schools and uses the School Construction Fund to record the revenues from the County and other governmental units and the expenditures in connection therewith. The State of Maryland made payments to the Board or directly to contractors on-behalf of the Board amounting to \$367,103 for the year ended June 30, 2019.

Special Revenue Fund (Food Service Fund) - Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Food Service Fund is used to account for and report all activities of the Board's nonprofit food service operation.

FIDUCIARY FUND TYPES

Agency Funds - Agency funds represent assets held by the Board on behalf of others. The Regional Education Funds are educational programs for which the Board acts as the processing agent for invoices. The School Activities Fund consists of transactions at the schools for student insurance, pictures, athletics, clubs, other student activities, and principals' miscellaneous expenses.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Board are included on the statement of net position.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

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.

Non-exchange 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 non-exchange 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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting (continued)

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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 fair value of donated commodities used during the year is reported as an expenditure with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

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 Board and the County government during the year between categories.

Annual budgetary comparisons to actual expenditures are not presented in the financial statements for the capital projects fund. School construction is budgeted on a project basis with funds primarily provided by Queen Anne's County and State of Maryland. State funds are approved by the State's interagency committee on school construction.

F. Inventory

On government-wide financial statements and the fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Food received from the USDA is included at values stated by the USDA and is offset by a deferred credit until consumed. Inventories of the current expense fund consist of paper products and various janitorial supplies.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of \$1,000. The Board does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

G. Capital Assets (continued)

All reported capital assets except land, land improvements and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Property, plant and equipment is depreciated using the straight-line method over estimated useful lives of 50 years for buildings, 20 years for land improvements, and 5-20 years for equipment, computers, and vehicles.

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

H. Compensated Absences

The Board accrues a liability for compensated absences (vacation pay) employees have earned but have not been paid. The Board adopted the practice of paying for any unused vacation time, up to the maximum amounts employees can carry over from one year to the next, upon the termination of employment. The full amount of this obligation has been provided for in the statement of net position.

I. Unearned Revenues

Unearned revenues consist of federal and state grants and other refundable advances that have not been expended as of June 30, 2019 and consist of the following:

Restricted federal, state and other grant programs	\$ 1,099,553
Advanced meal payments	<u>60,259</u>
	<u><u>\$ 1,159,812</u></u>

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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.

K. 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.

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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

L. 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 liability (Note 7) and OPEB liability (Note 9) for changes in assumptions, the net difference between projected and actual investment earnings on plan investments, and contributions subsequent to the measurement date. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two items that qualify for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension liability (Note 7) and OPEB liability (Note 9) for the difference between actual and expected experience and the net difference between projected and actual investment earnings on plan investments. This item is deferred and recognized as an inflow from resources in the period that the amounts become available.

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

M. 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.

N. 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.

O. Cash and Cash Equivalents

The Board considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

P. Interfund Receivables and Payables and Transfers

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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

Q. 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 \$270,164.

Note 3. Cash and Investments

At June 30, 2019, the Board had bank deposits with local banks totaling \$14,669,577 (carrying value \$14,263,622). As required by law, each depository is to pledge securities at least equal to the amount on deposit at all times in addition to insurance provided by the Federal Deposit Insurance Corporation (FDIC). 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. As of June 30, 2019, the bank deposits were fully insured or collateralized.

The bank balances were exposed to custodial risk as follows:

	Carrying Value	Bank Balance
Cash in bank	\$ 14,262,160	\$ 14,669,577
Cash on hand	1,462	-
Total cash and cash equivalents	14,263,622	14,669,577
Less:		
School activities agency fund	(851,822)	(855,816)
Total cash and cash equivalents (Government-wide)	\$ 13,411,800	\$ 13,813,761
Insured		\$ 561,108
Uninsured and collateral held by pledging bank's trust department in Board's name		551,845
Uninsured and collateral includes an irrevocable standby letter of credit in favor of the Board		13,556,624
Total bank balance (cash in bank)		\$ 14,669,577

The Board's investments include certificates of deposit totaling \$300,000. The certificates of deposit are earning interest at a rate of 2.04% and mature in March 2020. These deposits are not cash equivalents as defined by generally accepted accounting principles and are presented separate on the statement of net position.

The Board's exposure to interest rate and credit risk is minimal, as all investments are in cash and certificates of deposit 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 or irrevocable standby letters of credit. Cash is invested pursuant to the Annotated Code of Maryland.

NOTES TO FINANCIAL STATEMENTS

Note 4. Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
GOVERNMENTAL FUNDS		
General Fund		
Due from Capital Projects	\$ 107,893	\$ -
Due from Food Services	368,911	
Due to Agency Funds	-	106,976
Capital Projects Fund		
Due to General Fund	-	107,893
Food Services Fund		
Due to General Fund	-	368,911
AGENCY FUNDS		
Regional Education Funds		
Due from General Fund	106,976	-
TOTAL ALL FUNDS	\$ 583,780	\$ 583,780

Due to/from other funds represent advances of cash for operating needs.

Note 5. Capital Assets

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

	Balance June 30, 2018	Additions	Deductions	Transfers	Balance June 30, 2019
Governmental Activities					
Capital Assets, not being depreciated					
Land	\$ 6,363,040	\$ -	\$ -	\$ -	\$ 6,363,040
Construction in progress	4,330,772	708,373	-	(285,500)	4,753,645
Total capital assets, not being depreciated	10,693,812	708,373	-	(285,500)	11,116,685
Capital assets, being depreciated					
Land improvements	5,398,921	12,045	-	-	5,410,966
Buildings	207,142,985	-	-	285,500	207,428,485
Furniture, fixtures, and equipment	16,119,435	1,064,940	(225,088)	-	16,959,287
Total capital assets, being depreciated	228,661,341	1,076,985	(225,088)	285,500	229,798,738
Less accumulated depreciation:					
Land improvements	(4,478,097)	(123,396)	-	-	(4,601,493)
Buildings	(59,722,835)	(4,315,408)	-	-	(64,038,243)
Furniture, fixtures, and equipment	(10,279,225)	(1,176,870)	221,905	-	(11,234,190)
Total accumulated depreciation	(74,480,157)	(5,615,674)	221,905	-	(79,873,926)
Total capital assets, being depreciated, net	154,181,184	(4,538,689)	(3,183)	285,500	149,924,812
Governmental activities capital assets, net	\$ 164,874,996	\$ (3,830,316)	\$ (3,183)	\$ -	\$ 161,041,497

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

SUPPORT SERVICES	
Administration	\$ 35,223
Instructional costs	166,502
Student transportation	210,708
Maintenance of plant	44,270
Food services	75,828
Unallocated	<u>5,083,143</u>
Total governmental depreciation expense	<u><u>\$ 5,615,674</u></u>

Note 6. Long-Term Liabilities

A summary of long-term liabilities for the year ended June 30, 2019 is as follows:

	Balance	Increases	Decreases	Balance	Due within
	June 30, 2018			June 30, 2019	one year
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 818,927	\$ -	\$ 15,489	\$ 803,438	\$ 145,537
Retirement incentives	1,320	-	1,320	-	-
Capital leases	2,083,056	-	154,906	1,928,150	171,714
Net pension liability (Note 7)	4,399,321	439,733	-	4,839,054	-
Net OPEB liability (Note 9)	171,829,758	21,974,269	-	193,804,027	-
Total	<u>\$ 179,132,382</u>	<u>\$ 22,414,002</u>	<u>\$ 171,715</u>	<u>\$ 201,374,669</u>	<u>\$ 317,251</u>

Long-term liabilities are normally paid from the General Fund.

Note 7. Pension Plans

Plan Description

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

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

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

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.

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 10 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 10 years of creditable service are refunded their accumulated contributions plus earned interest.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Employee 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 Systems

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.

Vested Allowance:

A member terminating employment before attaining retirement age, but after completing 10 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 10 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 the Teachers' and Employees' Pension Systems

Employer Contributions:

For the year ended June 30, 2019 the Board's total payroll for all employees was \$61,346,846. Total covered payroll was \$57,590,119. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

During fiscal year 2019, the State of Maryland contributed \$5,872,921 to the Systems on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense in the General Fund.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Teachers' Retirement and Pension Systems:

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay the State 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. As contractually required, during fiscal year 2019, the Board contributed \$2,261,317 to the Teachers' Retirement and Pension System.

Employees' Retirement and Pension Systems:

During fiscal year 2019, the Board contributed \$518,683 to the Employees' Retirement and Pension System.

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.

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:

	2019
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 4,839,054
State's proportionate share of the net pension liability (Teachers' Systems)	<u>62,503,519</u>
Total	<u>\$ 67,342,573</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.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

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 .0231%.

For the year ended June 30, 2019, the Board recognized pension expense of \$2,780,000 in the fund financial statements and \$3,382,986 in the government-wide 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 134,087	\$ -
Net difference between projected and actual investment earnings on pension plan investments	355,049	(180,599)
Difference between actual and expected experience		(365,211)
Board contributions subsequent to measurement date	<u>518,683</u>	<u>-</u>
Total	<u>\$ 1,007,819</u>	<u>\$ (545,810)</u>

The \$518,683 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 of 5.722, 5.7789, 5.8647, and 5.87 for 2018, 2017, 2016, and 2015, respectively. The net difference in investment earnings for 2018, 2017, 2016, and 2015 is being amortized over a closed five year period for each period. The following table shows the amortization of these balances:

	2018 AMORTIZATION			2017 AMORTIZATION		
	DEFERRED OUTFLOWS	DEFERRED INFLOWS		DEFERRED OUTFLOWS	DEFERRED INFLOWS	
	Change in Assumptions	Net Difference in Investment Earnings	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings	Actual and Expected Experience
Year End June 30,						
2019	6,220	(12,194)	(27,051)	4,583	(43,941)	(44,604)
2020	6,220	(12,194)	(27,051)	4,583	(43,941)	(44,604)
2021	6,220	(12,194)	(27,051)	4,583	(43,941)	(44,604)
2022	6,220	(12,194)	(27,051)	3,569	-	(34,744)
2023	4,493	-	(19,531)	-	-	-
	<u>29,373</u>	<u>(48,776)</u>	<u>(127,735)</u>	<u>17,318</u>	<u>(131,823)</u>	<u>(168,556)</u>

	2016 AMORTIZATION		2015 AMORTIZATION		
	DEFERRED OUTFLOWS	DEFERRED INFLOWS	DEFERRED OUTFLOWS		DEFERRED INFLOWS
	Net Difference in Investment Earnings	Actual and Expected Experience	Change in Assumptions	Net Difference in Investment Earnings	Actual and Expected Experience
Year End June 30,					
2019	127,465	(11,577)	46,737	100,121	(19,120)
2020	127,463	(11,577)	40,659	-	(16,636)
2021	-	(10,010)	-	-	-
2022	-	-	-	-	-
2023	-	-	-	-	-
	<u>254,928</u>	<u>(33,164)</u>	<u>87,396</u>	<u>100,121</u>	<u>(35,756)</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Actuarial Assumptions

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

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	22 years for State system
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	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014 mortality improvement scale.

Investments

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	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	<u>100%</u>	

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (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 Board's 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 Pension Liability
1% decrease	6.45%	\$	6,969,892
Current discount rate	7.45%	\$	4,839,054
1% increase	8.45%	\$	3,070,603

Note 8. 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. In 1986, the Maryland Association of Boards of Education Group Insurance Pool (the "Pool") was formed when several Maryland boards of education joined together to pool their casualty risks. Property insurance coverage was added in 1988 and workers compensation in fiscal year 2000. The Board pays an annual premium to the Pool each year which is calculated by an actuary. It is intended that the Pool be self-sustaining through member premiums. Reinsurance is carried through commercial companies for claims which exceed coverage limits as specified in the agreement. Should the Pool encounter deficits in its casualty and/or property funds, such deficits may be made up from assessments of the participating boards on a pro rata basis.

The Board continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. The Board purchases health insurance from a provider through a modified retrospective rating arrangement agreement. Settled claims have not exceeded insurance coverage for each of the past three fiscal years.

The Board is a member of the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self-sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 12% as a recommended conservative reserve. All funds held by ESMEC are restricted to being used only for health care expenses.

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits

Plan Description

The Board of Education of Queen Anne's County administers a single-employer defined benefit healthcare plan ("the Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through the Board's group health insurance plan, which covers both active and retired members. The Plan does not issue a stand-alone report. Benefit provisions are based on contractual agreements with employee groups. 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

As of July 1, 2018, the date of the last actuarial valuation, approximately 395 retirees were receiving benefits, and 951 active employees are potentially eligible to receive future benefits.

Funding Policy

The Board pays a portion of retiree healthcare premiums based on years-of-service ranging from 5 years of service to 25+ years of service until the retiree becomes Medicare-eligible. The retiree pays the remaining premium, including the cost of eligible dependents. Pre-Medicare retirees may choose between two medical plans (a PPN plan and an EPO plan). Both plans include medical and prescription benefits. Once a participant is Medicare eligible, the participant must switch to a Medicare supplement plan, which is also packaged with a prescription plan. Retirees have the option of electing dental and vision coverage in addition to medical coverage.

Employer Contribution

Retirees receive a subsidy for their post-retirement medical insurance based on service. The subsidy requires a minimum of 5 years of service for Administration and 10 years of service for Teachers. For teachers, once ten years of service is reached, the Board covers 36% of the cost of the individual's EPO health plan. The percentage subsidized by the Board increases 3.6% per year for every year of service in excess of ten. At 25 years of service, the maximum subsidy of 90% is reached. For administrators, once five years of service is reached, the Board covers 35% of the cost of the individual's EPO health plan. The percentage subsidized by the Board increases 5.5% per year for every year of service in excess of five. At 15 years of service, the maximum subsidy of 90% is reached. Retirees with less than the minimum years of service required to receive a subsidy are allowed access to the medical coverage, but must pay 100% of the published rates. In addition, the Board is contractually obligated to pay the full cost of medical insurance for certain retired directors, superintendents, and their spouses.

The Board also pays the cost of providing term life insurance for its retirees in varying amounts depending upon length of service and date of retirement. The benefits payable upon death are \$5,000 (fixed) for 5 to 25 years of service or \$50,000 (maximum-based on annual salary at retirement) for over 25 years of service. There is a reduction of benefit of 25% at age 70 and a benefit reduction of 33.3% at age 75 and beyond.

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits (Continued)

Net OPEB Liability

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. For the fiscal year ended June 30, 2019, the Board recognized an OPEB expense of \$12,313,973.

The Board's total 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 total and net OPEB liability as of June 30, 2019:

Total OPEB liability	
Service cost	\$ 7,522,124
Interest cost	6,111,678
Changes in benefit terms	-
Differences between expected and actual experience	4,130,252
Changes of assumptions	7,164,658
Benefit payments	<u>(2,953,427)</u>
Net change in total OPEB liability	\$ 21,975,285
Total OPEB liability, beginning of year	<u>172,337,274</u>
Total OPEB liability, end of year (a)	<u><u>\$ 194,312,559</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 2,953,427
Net investment income	1,016
Benefit payments	(2,953,427)
Administrative expense	<u>-</u>
Net change in fiduciary net position	1,016
Plan fiduciary net position, beginning of year	<u>507,516</u>
Plan fiduciary net position, end of year (b)	<u><u>\$ 508,532</u></u>
Board's net OPEB liability, end of year (a - b)	<u><u>\$ 193,804,027</u></u>

Payments have typically been liquidated from the General Fund in prior years.

Funding Status and Funding Progress

Contributions to the plan are made as benefit payments and expenses become due. As of the most recent actuarial valuation, the plan was 0.26% funded. The total OPEB liability for benefits was \$194,312,559 and plan assets at market value totaled \$508,532, resulting in a net OPEB liability of \$193,804,027. The covered employee payroll was \$57,590,119, and the ratio of the net OPEB liability to the covered payroll was 336.52%.

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits (Continued)

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

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

- *Measurement date* – The Board selected a June 30, 2018 measurement date for fiscal year-end 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.
- *Claims data* – Monthly paid claims, administrative expenses and enrollment for employees and retirees from February 1, 2015 through January 31, 2018 were supplied by the carrier. Claims were divided into pre and post 65 age retirees.
- *Demographic data* – Data included current medical coverage for current employees and retirees as of July 1, 2018.
- *Discount rate assumption* - Benefits are discounted based on the Bond Buyer GO 20-year Bond Municipal Bond Index, an index rate for 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. This rate was 3.62% as of June 30, 2018.
- *Health care trend* – The medical trend assumption was developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model. The SOA model was released in December 2007 and is updated annually. The following assumptions were used as input variables into this model:

Rate of Inflation	2.2%
Rate of growth in real income / GDP per year	1.6%
Excess medical cost growth	1.3%
Health Share of GDP Resistance Point	25.0%
Year for limiting cost growth to GDP growth	2075

- *Salary Scale* – State of Maryland salary scale assumption for teachers.
- *Decrement Assumptions* –

Healthy	PubT.H-2010 Mortality Table (teacher, headcount-weighted), Fully Generational, Projected using Scale MP-2018 and base year 2010
Disability	RP 2014 Disabled Mortality with Males Set Forward One Year

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits (Continued)

Sensitivity of the Net OPEB Liability

The following table presents the Board's net OPEB liability using the discount rate of 3.62%, 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 OPEB Liability
1% decrease	2.62%	\$ 233,698,428
Current discount rate	3.62%	\$ 193,804,027
1% increase	4.62%	\$ 162,470,152

The following table presents the Board's net OPEB liability using the health care trend rate of 3.80%, 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 Trend Rate	Board's Net OPEB Liability
1% decrease	2.80%	\$ 159,481,541
Current trend rate	3.80%	\$ 193,804,027
1% increase	4.80%	\$ 239,709,640

Deferred Inflows/Outflows of Resources related to OPEB

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 of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 6,368,585	\$ (20,243,617)
Net difference between projected and actual investment earnings on OPEB plan investments	-	(1,364)
Difference between actual and expected experience	3,671,335	(351,844)
Total	\$ 10,039,920	\$ (20,596,825)

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits (Continued)

Amounts reported as differences between projected and actual earnings on OPEB plan investments will be amortized and expensed over a closed five-year period. Amounts reported as differences between expected and actual experience will be amortized and expensed over a period equal to the average remaining service lives of all employees that are provided with other post-employment benefits through the plan. Amounts reported as changes in assumptions will be amortized and expensed over a period equal to the average remaining service lives of all employees that are provided with other post-employment benefits through the plan. Amortization expense related to net deferred inflows and outflows of resources over the next five years is expected to be as follows:

Year End June 30,		
2020	\$	(1,319,829)
2021		(1,319,829)
2022		(1,319,831)
2023		(1,319,647)
2024		(1,319,443)
Thereafter		<u>(3,958,326)</u>
	\$	<u>(10,556,905)</u>

Changes in assumptions in the most recent actuarial valuation included adjusting the long term medical trend assumption.

Note 10. Leases

Operating leases:

The Board leases copy machines and other equipment for the majority of the educational system over three to five year terms.

In July 2018, the Board entered into a four year equipment lease totaling \$1,044,400. Payments of \$277,946 are due annually with interest at 2.549%.

Expenses under these leases totaled approximately \$633,000 for the year ended June 30, 2019. Approximate future minimum lease commitments are as follows:

Fiscal year ending June 30,		
2020	\$	330,000
2021		311,000
2022		291,000
2023		9,000

Capital leases:

The Board has entered into various lease agreements as lessee to finance performance contracting equipment that will expire in January 2028. The assets acquired and capitalized as fixed assets under capital leases are as follows:

Equipment, at cost	\$ 3,246,662
Less: accumulated depreciation	<u>(1,595,430)</u>
	<u>\$ 1,651,232</u>

NOTES TO FINANCIAL STATEMENTS

Note 10. Leases (Continued)

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2019 were as follows:

Fiscal year ending June 30,	\$
2020	223,001
2021	229,691
2022	236,582
2023	243,679
2024	250,989
2025 and thereafter	<u>1,002,609</u>
Total minimum lease payments	2,186,551
Less: amount representing interest	<u>(258,401)</u>
Present value of minimum lease payments	<u><u>\$ 1,928,150</u></u>

Note 11. Fund Balances

As of June 30, 2019, fund balances are composed of the following:

	Major Fund General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepaid items	\$ 24,318	\$ -	\$ 24,318
Inventories	<u>52,156</u>	-	<u>52,156</u>
	76,474	-	76,474
Restricted:			
By County Commissioners for capital projects	-	144,284	144,284
By Federal law for nonprofit food service fund	<u>-</u>	<u>75,431</u>	<u>75,431</u>
	-	219,715	219,715
Committed:			
OPEB Liability	200,000	-	200,000
Safety & security	100,000	-	100,000
Current Expense budget	<u>234,000</u>	-	<u>234,000</u>
	534,000	-	534,000
Assigned:			
Future insurance costs	806,010	-	806,010
Long-term accrued annual leave	657,901	-	657,901
Encumbrances	<u>270,164</u>	-	<u>270,164</u>
	1,734,075	-	1,734,075
Unassigned	<u>1,131,740</u>	-	<u>1,131,740</u>
Total fund balance	<u><u>\$ 3,476,289</u></u>	<u><u>\$ 219,715</u></u>	<u><u>\$ 3,696,004</u></u>

NOTES TO FINANCIAL STATEMENTS

Note 12. 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 receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2019 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Board is a defendant in various lawsuits. After considering all relevant facts and the opinion of legal counsel, it is management's opinion that such litigation will not have a material adverse effect on the financial position of the Board.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES

BUDGET AND ACTUAL - GENERAL FUND

Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES				
County appropriation	\$ 56,884,381	\$ 56,884,381	\$ 56,884,381	\$ -
State of Maryland	34,348,452	34,348,452	34,416,398	67,946
Restricted federal, state and other	6,766,500	7,066,500	6,927,158	(139,342)
Other sources	440,000	440,000	615,904	175,904
TOTAL REVENUES	98,439,333	98,739,333	98,843,841	104,508
EXPENDITURES				
Administration	2,043,120	2,065,118	2,063,979	1,139
Mid-level administration	4,892,925	4,892,925	4,892,370	555
Instruction	39,050,972	39,073,972	39,057,338	16,634
Special education	8,505,988	8,505,988	8,500,865	5,123
Student personnel services	469,510	474,210	473,678	532
Student health services	795,570	821,370	821,021	349
Student transportation	6,932,339	7,361,339	7,359,677	1,662
Operation of plant	6,242,177	6,079,677	6,071,166	8,511
Maintenance of plant	1,882,473	1,882,473	1,860,938	21,535
Fixed charges	21,091,759	20,749,761	20,733,504	16,257
Restricted programs	6,766,500	7,066,500	6,927,158	139,342
TOTAL EXPENDITURES AND ENCUMBRANCES	98,673,333	98,973,333	98,761,694	211,639
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	(234,000)	(234,000)	82,147	316,147
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	234,000	234,000	-	(234,000)
TOTAL OTHER FINANCING SOURCES (USES)	234,000	234,000	-	(234,000)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ 82,147	\$ 82,147

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

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

	2018	2019
Total OPEB liability		
Service cost	\$ 9,016,476	\$ 7,522,124
Interest cost	5,268,508	6,111,678
Changes in benefit terms	-	-
Differences between expected and actual experience	(439,806)	4,130,252
Changes of assumptions	(25,304,521)	7,164,658
Benefit payments	<u>(2,566,424)</u>	<u>(2,953,427)</u>
Net change in total OPEB liability	\$ (14,025,767)	\$ 21,975,285
Total OPEB liability, beginning of year	<u>186,363,041</u>	<u>172,337,274</u>
Total OPEB liability, end of year (a)	<u><u>\$172,337,274</u></u>	<u><u>\$194,312,559</u></u>
 Plan fiduciary net position		
Contributions - employer	\$ 2,566,424	\$ 2,953,427
Net investment income	917	1,016
Benefit payments	(2,566,424)	(2,953,427)
Administrative expense	<u>-</u>	<u>-</u>
Net change in fiduciary net position	917	1,016
Plan fiduciary net position, beginning of year	<u>506,599</u>	<u>507,516</u>
Plan fiduciary net position, end of year (b)	<u>\$ 507,516</u>	<u>\$ 508,532</u>
Board's net OPEB liability, end of year (a - b)	<u><u>\$171,829,758</u></u>	<u><u>\$193,804,027</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	0.29%	0.26%
Covered employee payroll	\$ 56,180,104	\$ 57,590,119
Net OPEB liability as of % of covered-employee payroll	305.86%	336.52%

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Schedule of Board Contributions

	2018	2019
Contractually required contributions	\$ 2,566,424	\$ 2,953,427
Contributions in relation to the contractually required contribution	<u>(2,566,424)</u>	<u>(2,953,427)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 56,180,104	\$ 57,590,119
Contributions as a percentage of covered payroll	4.57%	5.13%

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS

Schedule of Proportionate Share of Net Pension Liability

	2015	2016	2017	2018	2019
Board's proportion of the net pension liability	0.0201135%	0.0218792%	0.0217854%	0.0203449%	0.0230633%
Board's proportionate share of the net pension liability	\$ 3,569,488	\$ 4,546,868	\$ 5,140,060	\$ 4,399,321	\$ 4,839,054
State's proportionate share of the net pension liability	46,484,733	61,362,581	80,415,579	67,996,368	62,503,519
Total	\$ 50,054,221	\$ 65,909,449	\$ 85,555,639	\$ 72,395,689	\$ 67,342,573
Board's covered payroll	\$ 53,333,397	\$ 54,372,599	\$ 55,042,032	\$ 56,180,104	\$ 57,590,119
Board's proportionate share of the net pension liability as a percentage of its covered payroll	6.69%	8.36%	9.34%	7.83%	8.40%
Total pension liability as a percentage of the plan fiduciary net position	0.11%	0.14%	0.19%	0.15%	0.13%

Schedules are intended to provide 10-year trend information. Additional years will be displayed as available.
 GASB No. 68 was implemented in fiscal year 2015.

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLANS

Schedule of Board Contributions

	2015	2016	2017	2018	2019
Contractually required contributions	\$ 461,154	\$ 424,398	\$ 414,089	\$ 459,901	\$ 518,683
Contributions in relation to the contractually required contribution	(461,154)	(424,398)	(414,089)	(459,901)	(518,683)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered payroll	\$ 53,333,397	\$ 54,372,599	\$ 55,042,032	\$ 56,180,104	\$ 57,590,119
Contributions as a percentage of covered payroll	0.86%	0.78%	0.75%	0.82%	0.90%

Schedules are intended to provide 10-year trend information. Additional years will be displayed as available. GASB No. 68 was implemented in fiscal year 2015.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Comparison Schedule

The Board of Education annually adopts a budget for the General Fund (Current Expense Fund). All appropriations are legally controlled at the categorical level for the General Fund.

The budget is integrated into the accounting system, and the budgetary data compares the expenditures with the amended budget. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Schedule of Revenues, Expenditures and Encumbrances – Budget and Actual for the General Fund presents actual expenditures in accordance with the accounting principles generally accepted in the United States on a basis consistent with the legally adopted budgets as amended. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

Adjustments necessary to convert the results of operations and fund balances at the end of the year on the GAAP basis to the budgetary basis are as follows:

June 30, 2019 GENERAL FUND			
	Revenues	Expenditures	Fund Balances
GAAP BASIS	\$ 104,716,762	\$ 104,562,535	\$ 3,476,289
Encumbrances at June 30, 2018	-	(198,084)	-
Encumbrances at June 30, 2019	-	270,164	(270,164)
Payments made on-behalf of the Board by State of Maryland to the Maryland State Retirement System	(5,872,921)	(5,872,921)	-
BUDGETARY BASIS	\$ 98,843,841	\$ 98,761,694	\$ 3,206,125

Note 2. Pension Plans

Changes in Benefit Terms

There were no significant 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%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 2. Pension Plans (Continued)

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 State system
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	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014 mortality improvement scale.

Note 3. Post-Employment Health Care Benefits

Changes in Benefit Terms

There were no significant benefit changes during the year.

Changes in Assumptions

- The trend assumption was updated to the most recent table released by the Society of Actuaries.
- The Retirement, Disability, Termination, Salary Scale, and Mortality assumption was updated to the most recent rates used for the July 1, 2018 State of Maryland Pension Plan.

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Asset Valuation Method	Market Value of Assets
Inflation	2.20%
Salary Increases	Varies based on years of service and age
Investment Rate of Return	3.62%
Medical Trend	Based on the Society of Actuaries Long Term Medical Trend Model, the 2018 rate is 5.50% decreasing gradually to the ultimate rate of 3.80% reached in 2080.
Mortality	Healthy - PubT.H-2010 Mortality Table, fully generational, projected using scale MP-2018 and base year 2010. Disabled - RP 2014 Disabled Mortality with males set forward one-year.

ADDITIONAL SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2019

	Capital Projects	Food Services	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 227,858	\$ 586,185	\$ 814,043
Accounts receivable:			
Federal funds from state	-	65,676	65,676
State of Maryland	123,211	3,012	126,223
Other	-	2	2
Queen Anne's County	67,635	-	67,635
TOTAL ASSETS	\$ 418,704	\$ 654,875	\$ 1,073,579
LIABILITIES AND FUND BALANCES			
Accounts payable:			
Vendors	\$ 166,527	\$ 148,900	\$ 315,427
Other governmental funds	107,893	368,911	476,804
Accrued expenses	-	1,374	1,374
Unearned revenues	-	60,259	60,259
TOTAL LIABILITIES	274,420	579,444	853,864
Fund balances:			
Restricted	144,284	75,431	219,715
TOTAL FUND BALANCES	144,284	75,431	219,715
TOTAL LIABILITIES AND FUND BALANCES	\$ 418,704	\$ 654,875	\$ 1,073,579

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2019

	Capital Projects	Food Services	Total Nonmajor Governmental Funds
REVENUES			
County funds	\$ 3,743,044	\$ -	\$ 3,743,044
State of Maryland funds	367,103	51,169	418,272
Federal sources	-	1,292,370	1,292,370
Other sources	1,121	869	1,990
Charges for food services	-	1,179,087	1,179,087
TOTAL REVENUES	<u>4,111,268</u>	<u>2,523,495</u>	<u>6,634,763</u>
EXPENDITURES			
Food service	-	2,513,985	2,513,985
Capital outlay	4,326,868	-	4,326,868
TOTAL EXPENDITURES	<u>4,326,868</u>	<u>2,513,985</u>	<u>6,840,853</u>
CHANGE IN FUND BALANCES	(215,600)	9,510	(206,090)
FUND BALANCES, BEGINNING	<u>359,884</u>	<u>65,921</u>	<u>425,805</u>
FUND BALANCES, ENDING	<u>\$ 144,284</u>	<u>\$ 75,431</u>	<u>\$ 219,715</u>

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHOOL CONSTRUCTION EXPENDITURES

Year Ended June 30, 2019

EXPENDITURES

Americans with Disabilities Act (ADA) upgrades	\$	13,725
Aging Schools program		56,505
Bayside Elementary School - generator		8,075
Church Hill Elementary - chiller replacement		85,427
Comprehensive building assessment		506,938
Custodial equipment		84,037
General improvements		307,724
Grasonville Elementary School - addition		419,385
Grasonville Elementary School - fire		153,192
Kent Island High School - chiller replacement		2,735
Kent Island High School - fire		50,024
School buses		432,682
Security upgrades		6,839
Sitework		22,015
Sudlersville Elementary School - doors & security		286,787
Sudlersville Elementary School - roof		288,609
Technology		1,213,030
Textbooks		389,139
		<hr/>
TOTAL EXPENDITURES	\$	<u>4,326,868</u>

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

FOOD SERVICE FUND OPERATIONS

Year Ended June 30, 2019

REVENUES

Federal through state funds	\$ 1,132,393
USDA donated commodities	159,977
State of Maryland funds	51,169
Other sources - principally sale of meals	<u>1,179,956</u>

TOTAL REVENUES 2,523,495

EXPENDITURES

Salaries and wages	28,897
Contracted services	2,285,254
Equipment	1,963
Other charges	13,852
Supplies - principally USDA donated commodities	<u>184,019</u>

TOTAL EXPENDITURES 2,513,985

EXCESS OF EXPENDITURES OVER REVENUES \$ 9,510

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHOOL ACTIVITIES FUND ACCOUNTS

Year Ended June 30, 2019

<u>School Name</u>	June 30, 2018 Fund <u>Balance</u>	<u>Year Ended June 30, 2019</u>		
		<u>Additions - Revenues</u>	<u>Deductions - Expenditures</u>	<u>Fund Balance</u>
ELEMENTARY				
Bayside	\$ 10,382	\$ 41,624	\$ 34,233	\$ 17,773
Centreville	28,704	51,386	50,964	29,126
Church Hill	7,845	20,595	20,428	8,012
Grasonville	7,314	65,569	51,429	21,454
Kennard	5,629	49,981	55,922	(312)
Kent Island	17,420	45,502	32,665	30,257
Matapeake	13,761	43,388	48,097	9,052
Sudlersville	9,011	27,486	25,932	10,565
TOTAL ELEMENTARY	100,066	345,531	319,670	125,927
MIDDLE				
Centreville	12,542	77,308	75,133	14,717
Matapeake	22,173	66,215	54,853	33,535
Stevensville	21,706	67,219	70,606	18,319
Sudlersville	10,994	116,948	111,588	16,354
TOTAL MIDDLE	67,415	327,690	312,180	82,925
HIGH				
Kent Island	347,749	524,622	477,368	395,003
Queen Anne's County	189,326	321,575	262,934	247,967
TOTAL HIGH	537,075	846,197	740,302	642,970
TOTAL	\$ 704,556	\$ 1,519,418	\$ 1,372,152	\$ 851,822