

BOARD OF EDUCATION OF
QUEEN ANNE'S COUNTY, MARYLAND

FINANCIAL REPORT

JUNE 30, 2020

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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, 2020, 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, 2020, 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 and related ratios, 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 50 through 54 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 28, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board of Education of Queen Anne's County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of Queen Anne's County's internal control over financial reporting and compliance.



Salisbury, Maryland
September 28, 2020

Herbert J. Geary III
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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, 2020, 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 28, 2020.

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) as a basis for designing 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 financial statements. 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.



Salisbury, Maryland
September 28, 2020

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

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, 2020. 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, 2020, include the following:

- The coronavirus disease 2019 (COVID-19) pandemic had a significant effect on the financial statements for the Board of Education. Though there was a larger than anticipated fund balance from operations, many expenditures related to the pandemic, were absorbed by the operating budget.
- The Board's total net position was a deficit of \$(63,093,569), a decrease of \$16,507,042 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 \$19,757,780 in the government-wide statement of activities.
- The unrestricted General Fund actual revenues were \$352,326 or 0.37% over the approved final budget, not including the use of the prior year's fund balance. The increased state share in the cost for non-public tuition resulted in a positive variance in state revenue. Slight increases in interest income and rent of facilities, despite reduced usage due to the COVID-19 school closures, and increased out of county tuition payments produced the positive variance in other revenues.
- Actual expenditures in the unrestricted General Fund were \$1,417,440 or 1.48% under the final approved budget. This positive variance was the result of the school closure in March due to the COVID-19 pandemic. Numerous accounts across many areas, including staff vacancies, temporary help, special education tuition and reduced administration expenses contributed to the surplus. 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 \$739,946. Expenditures were \$7,178,448, an increase of \$251,290 over the prior year. The majority of this variance was due to the receipt of the Elementary and Secondary School Emergency Relief (ESSER) Fund and other federal Title grants.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

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.

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.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

OVERVIEW OF THE FINANCIAL STATEMENTS – continued

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

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

The Board's statement of net position is summarized as follows:

	June 30,		Change	
	2020	2019	\$	%
ASSETS				
Current and other assets	\$ 17,579,109	\$ 15,784,447	\$ 1,794,662	11.37%
Capital assets	157,354,691	161,041,497	(3,686,806)	-2.29%
TOTAL ASSETS	174,933,800	176,825,944	(1,892,144)	-1.07%
DEFERRED OUTFLOWS OF RESOURCES				
State pension plan	736,335	1,007,819	(271,484)	-26.94%
OPEB	25,943,134	10,039,920	15,903,214	158.40%
TOTAL DEFERRED OUTFLOWS OF RESOURCES	26,679,469	11,047,739	15,631,730	141.49%
LIABILITIES				
Current and other liabilities	11,976,009	11,942,906	33,103	0.28%
Long-term liabilities	233,121,956	201,374,669	31,747,287	15.77%
TOTAL LIABILITIES	245,097,965	213,317,575	31,780,390	14.90%
DEFERRED INFLOWS OF RESOURCES				
State pension plan	457,007	545,810	(88,803)	-16.27%
OPEB	19,151,866	20,596,825	(1,444,959)	-7.02%
TOTAL DEFERRED INFLOWS OF RESOURCES	19,608,873	21,142,635	(1,533,762)	-7.25%
NET POSITION (DEFICIT)				
Net investment in capital assets	155,598,255	159,113,347	(3,515,092)	-2.21%
Restricted assets	239,600	219,715	19,885	9.05%
Unrestricted	(218,931,424)	(205,919,589)	(13,011,835)	6.32%
TOTAL NET POSITION	\$ (63,093,569)	\$ (46,586,527)	\$ (16,507,042)	35.43%

Net Position represents the difference between assets and liabilities. The unrestricted deficit at June 30, 2020, 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, 2020**

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, 2020, and 2019 are summarized below.

	June 30,		Change	
	2020	2019	\$	%
REVENUES				
Program revenues				
Charges for services	\$ 1,141,449	\$ 1,550,586	\$ (409,137)	-26.39%
Operating grants and contributions	22,105,107	20,379,544	1,725,563	8.47%
Capital grants and contributions	6,068,398	4,111,268	1,957,130	47.60%
General revenues				
County appropriation	59,491,381	56,884,381	2,607,000	4.58%
State of Maryland	28,484,951	28,181,341	303,610	1.08%
Other	320,606	244,405	76,201	31.18%
TOTAL REVENUES	<u>117,611,892</u>	<u>111,351,525</u>	<u>6,260,367</u>	<u>5.62%</u>
EXPENSES				
Instructional services and special education	54,941,216	52,612,494	2,328,722	4.43%
Restricted programs	7,178,448	6,927,158	251,290	3.63%
Administration	2,110,171	2,106,041	4,130	0.20%
Operation and maintenance of plant	8,211,748	7,944,242	267,506	3.37%
Other support services	15,235,036	13,843,830	1,391,206	10.05%
Fixed charges	41,285,171	36,569,957	4,715,214	12.89%
Depreciation - unallocated	5,157,144	5,083,143	74,001	1.46%
TOTAL EXPENSES	<u>134,118,934</u>	<u>125,086,865</u>	<u>9,032,069</u>	<u>7.22%</u>
CHANGE IN NET POSITION	<u>\$ (16,507,042)</u>	<u>\$ (13,735,340)</u>	<u>\$ (2,771,702)</u>	<u>20.18%</u>

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, 2021, with the possibility of three (3) 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, 2020

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 new position salaries in Health Services, transportation costs primarily related to overtime for special education and homeless student transportation and additional maintenance supplies related to COVID-19 facility modifications. The funds became available through savings associated with substitutes, temporary help, coaches and teacher mentors as the school closure limited the use of these resources.

Reallocation of funds between state categories - Unrestricted		
i.	Administration	\$ 0
ii.	Mid-Level Administration	\$ 0
iii.	Instruction	\$ (230,000)
iv.	Special Education	\$ 0
v.	Student Personnel Services	\$ 0
vi.	Health Services	\$ 45,000
vii.	Student Transportation	\$ 160,000
viii.	Operation of Plant	\$ 0
ix.	Maintenance of Plant	\$ 25,000
x.	Fixed Charges	\$ 0
	Total	\$ 0

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

ANALYSIS OF BUDGET AND ACTUAL COMPARISONS – continued

A schedule of changes between the original and final budgets for the year ended June 30, 2020, is presented on the previous page.

	Original Budget	Final Budget	Actual	Variance
REVENUES				
County funds	\$ 59,491,381	\$ 59,491,381	\$ 59,491,381	\$ -
State of Maryland funds	35,804,703	35,804,703	35,965,390	160,687
Other	440,000	440,000	631,639	191,639
Restricted federal, state, and other	7,376,465	8,116,411	7,178,448	(937,963)
TOTAL REVENUES	<u>103,112,549</u>	<u>103,852,495</u>	<u>103,266,858</u>	<u>(585,637)</u>
EXPENDITURES AND ENCUMBRANCES				
Administration	2,149,632	2,149,632	2,118,872	30,760
Mid-level administration	5,189,882	5,189,882	5,013,699	176,183
Instruction	40,975,784	40,745,784	40,634,556	111,228
Special education	9,120,585	9,120,585	9,007,837	112,748
Student personnel services	497,590	497,590	469,461	28,129
Student health services	860,927	905,927	862,034	43,893
Student transportation	7,289,008	7,449,008	7,418,032	30,976
Operation of plant	6,307,639	6,307,639	6,267,106	40,533
Maintenance of plant	1,888,462	1,913,462	1,908,506	4,956
Fixed charges	21,690,575	21,690,575	20,852,541	838,034
Restricted programs	7,376,465	8,116,411	7,178,448	937,963
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>103,346,549</u>	<u>104,086,495</u>	<u>101,731,092</u>	<u>2,355,403</u>
EXCESS REVENUES OVER EXPENDITURES AND ENCUMBRANCES	<u>(234,000)</u>	<u>(234,000)</u>	<u>1,535,766</u>	<u>1,769,766</u>
OTHER FINANCING SOURCES (USES)				
Transfer to capital projects	-	-	(47,980)	(47,980)
Fund balance appropriated	234,000	234,000	-	(234,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>234,000</u>	<u>234,000</u>	<u>(47,980)</u>	<u>(281,980)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,487,786</u>	<u>\$ 1,487,786</u>

Please note that local and state revenues account for 92.4% 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.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020

ANALYSIS OF BUDGET AND ACTUAL COMPARISONS – continued

These positive variances shown were varied across numerous accounts and activities within all state categories. Of significance was a reduction in numerous instructional and non-instructional accounts due to the school closure related to COVID-19 pandemic. Savings here were sufficient to help offset necessary pandemic related purchases such as cleaning and sanitizing supplies, disinfecting equipment, personal protective equipment, and also to offset continued expenditure growth in Student Transportation.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2020, the Board had approximately \$241.7 million invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased by approximately \$0.8 million from the same time last year, excluding the effect of depreciation, as shown in the table below. Current year additions included a chiller replacement at Church Hill Elementary, a chiller, energy management and fire alarm systems at Kent Island High school, the purchase of four (4) school buses, several roof projects, and the ongoing upgrade of our technology and security infrastructure.

	June 30,		Change
	2020	2019	\$
Construction in progress	\$ 1,515,983	\$ 4,753,645	\$ (3,237,662)
School properties	223,469,534	219,202,491	4,267,043
Furniture, fixtures and equipment	16,750,058	16,959,287	(209,229)
TOTAL CAPITAL ASSETS	\$ 241,735,575	\$ 240,915,423	\$ 820,152

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 \$233,121,956 due or payable after one year. The amount consists of the following:

- \$1,158,057 of accrued compensated absences
- \$1,756,436 capital lease obligations
- \$224,997,744 OPEB benefit obligation
- \$5,209,719 of the Board's proportionate share of the state's net pension liability

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2020

FACTORS IMPACTING THE SCHOOL SYSTEM

The largest single impact on the school system for the period ending June 30, 2020 was the onset of the COVID-19 pandemic and the resulting school closure. Schools were closed on March 13, 2020 in Maryland, and did not reopen the remainder of the school year. There was large budgetary savings across all areas of the school system, however, COVID related expenditures, which were not budgeted or expected, were over \$300,000. The school system continued to pay all full-time and many part-time employees through the end of the school year.

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.

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.

The COVID-19 economic impact was substantial and temporarily delayed the implementation of the Kirwan Commission recommendations (*Blueprint for Maryland's Future*). It is anticipated that once a full economic recovery is in place, the Kirwan Commission recommendation's will be debated by the state legislature for possible implementation.

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.

THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2020**

FACTORS IMPACTING THE SCHOOL SYSTEM - continued

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.

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 the 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, 2020

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 14,858,079
Certificates of deposit	300,000
Accounts receivable:	
Federal funds from State of Maryland	708,939
State of Maryland	975,905
Queen Anne's County	329,774
Other	294,666
Prepays	78,644
Inventory	33,102
Land and construction in progress	7,879,023
Other capital assets, net	149,475,668
TOTAL ASSETS	174,933,800
DEFERRED OUTFLOWS OF RESOURCES	
Pensions	736,335
Other post-employment benefits (OPEB)	25,943,134
TOTAL DEFERRED OUTFLOWS OF RESOURCES	26,679,469
LIABILITIES	
Accounts payable:	
Vendors	943,993
Agency funds	151,262
Employee salary deferrals	9,286,259
Employee and other withholdings	673,614
Unearned revenues	920,881
Long-term liabilities:	
Due within one year	366,253
Due in more than one year	232,755,703
TOTAL LIABILITIES	245,097,965
DEFERRED INFLOWS OF RESOURCES	
Pensions	457,007
Other post-employment benefits (OPEB)	19,151,866
TOTAL DEFERRED INFLOWS OF RESOURCES	19,608,873
NET POSITION (DEFICIT)	
Net investment in capital assets	155,598,255
Restricted for:	
Food service	51,486
Capital projects	188,114
Unrestricted deficit	(218,931,424)
TOTAL NET POSITION (DEFICIT)	\$ (63,093,569)

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, 2020

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>
Governmental Activities					Governmental
					Activities
Current:					
Administration	\$ 2,110,171	\$ -	\$ -	\$ -	\$ (2,110,171)
Mid-level administration	5,013,699	-	-	-	(5,013,699)
Instructional services	40,982,348	31,451	1,604,990	-	(39,345,907)
Special education	8,945,169	-	2,306,558	-	(6,638,611)
Student personnel services	463,772	-	-	-	(463,772)
Health services	862,034	-	-	-	(862,034)
Student transportation	7,656,453	-	3,568,891	-	(4,087,562)
Operation of plant	6,269,398	-	-	-	(6,269,398)
Maintenance of plant	1,942,350	279,582	-	-	(1,662,768)
Fixed charges	41,285,171	-	6,044,587	-	(35,240,584)
Food services	2,335,566	830,416	1,401,633	-	(103,517)
Restricted federal, state, and other	7,178,448	-	7,178,448	-	-
Capital outlay	3,917,211	-	-	6,068,398	2,151,187
Unallocated depreciation	5,157,144	-	-	-	(5,157,144)
Total Governmental Activities	134,118,934	1,141,449	22,105,107	6,068,398	(104,803,980)
Totals	\$ 134,118,934	\$ 1,141,449	\$ 22,105,107	\$ 6,068,398	(104,803,980)
General Revenues					
					59,491,381
Local appropriations					28,484,951
State of Maryland - unrestricted					66,232
Investment Earnings					254,374
Miscellaneous					
Total General Revenues					88,296,938
Change in Net Position					(16,507,042)
Net Position Beginning of Year					(46,586,527)
Net Position End of Year					\$ (63,093,569)

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, 2020

	<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>
ASSETS			
Cash and equivalents	\$ 14,338,870	\$ 519,209	\$ 14,858,079
Certificates of deposit	300,000	-	300,000
Accounts receivable:			
Federal funds from State of Maryland	644,997	63,942	708,939
State of Maryland	967,993	7,912	975,905
Other	290,449	4,217	294,666
Queen Anne's County	-	329,774	329,774
Other governmental funds	255,315	-	255,315
Prepaid items	78,644	-	78,644
Inventory, at cost	33,102	-	33,102
TOTAL ASSETS	<u>\$ 16,909,370</u>	<u>\$ 925,054</u>	<u>\$ 17,834,424</u>
LIABILITIES AND FUND BALANCES			
Accounts payable:			
Vendors	\$ 605,831	\$ 338,162	\$ 943,993
Other governmental funds	-	255,315	255,315
Agency funds	151,262	-	151,262
Employee salary deferrals	9,285,063	1,196	9,286,259
Employee and other withholdings	673,614	-	673,614
Accrued compensated absences	183,009	-	183,009
Unearned revenues	830,100	90,781	920,881
TOTAL LIABILITIES	<u>11,728,879</u>	<u>685,454</u>	<u>12,414,333</u>
COMMITMENTS AND CONTINGENCIES			
FUND BALANCES			
Nonspendable	111,746	-	111,746
Restricted	-	239,600	239,600
Committed	500,000	-	500,000
Assigned	2,267,638	-	2,267,638
Unassigned	2,301,107	-	2,301,107
Total fund balances	<u>5,180,491</u>	<u>239,600</u>	<u>5,420,091</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,909,370</u>	<u>\$ 925,054</u>	<u>\$ 17,834,424</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, 2020

Total Governmental Funds Balances \$ 5,420,091

**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 157,354,691

Deferred outflows of resources not reported
in the fund financial statements

Pension (Note 7)	736,335	
Other post-employment benefits (Note 9)	25,943,134	
		26,679,469

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

Compensated absences	(975,048)	
Capital leases, net	(1,756,436)	
Pension liability, net	(5,209,719)	
Other post-employment benefits, net	(224,997,744)	
		(232,938,947)

Deferred inflows of resources not reported
in the fund financial statements

Pension (Note 7)	(457,007)	
Other post-employment benefits (Note 9)	(19,151,866)	
		(19,608,873)

Net Position of Governmental Activities \$ (63,093,569)

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, 2020

	<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	\$ 59,491,381	\$ 5,351,991	\$ 64,843,372
State of Maryland	35,965,390	799,028	36,764,418
Restricted federal, state, and other	7,178,448	-	7,178,448
Federal sources	-	1,316,975	1,316,975
State of Maryland on-behalf pension payments	6,044,587	-	6,044,587
Other sources	631,639	2,037	633,676
Charges for food services	-	830,416	830,416
	<u>109,311,445</u>	<u>8,300,447</u>	<u>117,611,892</u>
TOTAL REVENUES			
EXPENDITURES			
Current:			
Administration	2,098,941	-	2,098,941
Mid-level administration	5,013,699	-	5,013,699
Instructional salaries and wages	38,822,315	-	38,822,315
Textbooks and instructional supplies	936,499	-	936,499
Other instructional costs	772,727	-	772,727
Special education	8,945,169	-	8,945,169
Student personnel services	463,772	-	463,772
Health services	862,034	-	862,034
Student transportation	7,414,158	-	7,414,158
Operation of plant	6,269,398	-	6,269,398
Maintenance of plant	1,895,822	-	1,895,822
Fixed charges	20,841,694	-	20,841,694
Food services	-	2,255,994	2,255,994
Restricted federal, state, and other	7,178,448	-	7,178,448
State of Maryland on-behalf pension payments	6,044,587	-	6,044,587
Capital outlay	-	6,072,548	6,072,548
	<u>107,559,263</u>	<u>8,328,542</u>	<u>115,887,805</u>
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			
	1,752,182	(28,095)	1,724,087
OTHER FINANCING SOURCES (USES)			
Interfund transfers - capital projects	(47,980)	47,980	-
	<u>1,704,202</u>	<u>19,885</u>	<u>1,724,087</u>
Net change in fund balances			
Fund balances, beginning	3,476,289	219,715	3,696,004
Fund balances, ending	<u>\$ 5,180,491</u>	<u>\$ 239,600</u>	<u>\$ 5,420,091</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, 2020

Net change in fund balances-total Governmental Funds \$ 1,724,087

**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	1,988,529	
Loss on disposals	(4,906)	
Current year depreciation	<u>(5,670,429)</u>	
Total		(3,686,806)

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	(317,147)	
Capital leases, net	171,714	
Pension liability	(370,665)	
Other post-employment benefits liability	(31,193,717)	
Pension - deferred outflows of resources	(271,484)	
OPEB - deferred outflows of resources	15,903,214	
Pension - deferred inflows of resources	88,803	
OPEB - deferred inflows of resources	<u>1,444,959</u>	
Total		<u>(14,544,323)</u>

Change in net position of Governmental Activities \$ (16,507,042)

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
 FIDUCIARY FUNDS
 June 30, 2020

	Retiree Health Plan Trust Fund	AGENCY FUNDS	
		Regional Education Funds	School Activities Fund
ASSETS			
Cash and cash equivalents	\$ 521,809	\$ -	\$ 797,887
Due from other funds	-	151,262	-
TOTAL ASSETS	<u>\$ 521,809</u>	<u>\$ 151,262</u>	<u>\$ 797,887</u>
LIABILITIES			
Accounts payable	\$ -	\$ 14,616	\$ -
Unearned revenues	-	136,646	-
Due to school activities	-	-	797,887
TOTAL LIABILITIES	<u>-</u>	<u>151,262</u>	<u>797,887</u>
NET POSITION			
Restricted for Retiree Health Plan Benefits	<u>521,809</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 521,809</u>	<u>\$ 151,262</u>	<u>\$ 797,887</u>

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

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FIDUCIARY FUNDS

Year Ended June 30, 2020

	Retiree Health Plan Trust
ADDITIONS	
Contributions	\$ 1,098,984
Interest income	5,980
Total additions	<u>1,104,964</u>
DEDUCTIONS	
Benefit payments	<u>1,098,984</u>
Change in Net Position	5,980
Net Position - Beginning of year	<u>515,829</u>
Net Position - End of year	<u><u>\$ 521,809</u></u>

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

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)

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 \$715,171 for the year ended June 30, 2020.

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)

Retiree Health Plan Trust Fund – This fund consists of contributions of the Board to establish a reserve to pay for health benefits of retirees. Contributions to the trust are reported using the economic resource measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred.

Fiduciary funds are not reported in the government-wide financial statements.

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)

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 \$5,000. 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)

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 30-50 years for buildings, 20 years for land improvements, and 5-10 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, 2020 and consist of the following:

Restricted federal, state and other grant programs	\$ 830,100
Advanced meal payments	90,781
	<u>\$ 920,881</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 changes in assumptions, 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, 2020 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 \$486,580.

Note 3. Cash and Investments

At June 30, 2020, the Board had bank deposits with local banks totaling \$16,585,252 (carrying value \$15,655,966). 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, 2020, 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	\$ 15,654,504	\$ 16,585,252
Cash on hand	1,462	-
Total cash and cash equivalents	15,655,966	16,585,252
Less:		
School activities agency fund	(797,887)	(814,939)
Total cash and cash equivalents (Government-wide)	\$ 14,858,079	\$ 15,770,313
Insured		\$ 558,182
Uninsured and collateral held by pledging bank's trust department in Board's name		433,849
Uninsured and collateral includes an irrevocable standby letter of credit in favor of the Board		15,593,221
Total bank balance (cash in bank)		\$ 16,585,252

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 2021. 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 3. Cash and Investments (Continued)

Retiree Health Plan Trust Fund – Funds restricted for the Retiree Health Plan Trust are invested 100% in cash and cash equivalents as of June 30, 2020.

Note 4. Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
GOVERNMENTAL FUNDS		
General Fund		
Due from Capital Projects	\$ 59,913	\$ -
Due from Food Services	195,402	
Due to Agency Funds	-	151,262
Capital Projects Fund		
Due to General Fund	-	59,913
Food Services Fund		
Due to General Fund	-	195,402
AGENCY FUNDS		
Regional Education Funds		
Due from General Fund	151,262	-
TOTAL ALL FUNDS	\$ 406,577	\$ 406,577

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, 2020, was as follows:

	Balance June 30, 2019	Additions	Deductions	Transfers	Balance June 30, 2020
Governmental Activities					
Capital Assets, not being depreciated					
Land	\$ 6,363,040	\$ -	\$ -	\$ -	\$ 6,363,040
Construction in progress	4,753,645	1,668,381	-	(4,906,043)	1,515,983
Total capital assets, not being depreciated	11,116,685	1,668,381	-	(4,906,043)	7,879,023
Capital assets, being depreciated					
Land improvements	5,410,966	-	-	-	5,410,966
Buildings	207,428,485	-	-	4,267,043	211,695,528
Furniture, fixtures, and equipment	16,959,287	320,148	(1,168,377)	639,000	16,750,058
Total capital assets, being depreciated	229,798,738	320,148	(1,168,377)	4,906,043	233,856,552
Less accumulated depreciation:					
Land improvements	(4,601,493)	(116,857)	-	-	(4,718,350)
Buildings	(64,038,243)	(4,402,399)	-	-	(68,440,642)
Furniture, fixtures, and equipment	(11,234,190)	(1,151,173)	1,163,471	-	(11,221,892)
Total accumulated depreciation	(79,873,926)	(5,670,429)	1,163,471	-	(84,380,884)
Total capital assets, being depreciated, net	149,924,812	(5,350,281)	(4,906)	4,906,043	149,475,668
Governmental activities capital assets, net	\$ 161,041,497	\$ (3,681,900)	\$ (4,906)	\$ -	\$ 157,354,691

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

Depreciation expense was charged to governmental functions as follows:

SUPPORT SERVICES	
Administration	\$ 11,230
Instructional costs	133,660
Student transportation	242,295
Maintenance of plant	46,528
Food services	79,572
Unallocated	<u>5,157,144</u>
Total governmental depreciation expense	<u><u>\$ 5,670,429</u></u>

Note 6. Long-Term Liabilities

A summary of long-term liabilities for the year ended June 30, 2020 is as follows:

	Balance	Increases	Decreases	Balance	Due within
	June 30, 2019			June 30, 2020	one year
GOVERNMENTAL ACTIVITIES					
Compensated absences	\$ 803,438	\$ 354,619	\$ -	\$ 1,158,057	\$ 183,009
Capital leases	1,928,150	-	171,714	1,756,436	183,244
Net pension liability (Note 7)	4,839,054	370,665	-	5,209,719	-
Net OPEB liability (Note 9)	193,804,027	31,193,717	-	224,997,744	-
Total	<u>\$ 201,374,669</u>	<u>\$ 31,919,001</u>	<u>\$ 171,714</u>	<u>\$ 233,121,956</u>	<u>\$ 366,253</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, 2020. 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, 2020 the Board's total payroll for all employees was \$63,352,911. Total covered payroll was \$59,503,815. 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 2020, the State of Maryland contributed \$6,044,587 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 2020, the Board contributed \$2,282,178 to the Teachers' Retirement and Pension System.

Employees' Retirement and Pension Systems:

During fiscal year 2020, the Board contributed \$549,684 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, 2020, 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:

	2020
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 5,209,719
State's proportionate share of the net pension liability (Teachers' Systems)	<u>58,988,379</u>
Total	<u>\$ 64,198,098</u>

The net pension liability was measured as of June 30, 2019, 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, 2019, the Board's proportion was approximately .0253%, which was substantially the same as its proportion measured as of June 30, 2018. Due to the proportion remaining substantially the same, the pension expense related to the change in proportion from June 30, 2018 to June 30, 2019 for the net pension liability, deferred financing outflows and deferred financing inflows is recognized as pension expense in the government-wide financial statements.

For the year ended June 30, 2020, the Board recognized pension expense of \$2,831,862 in the fund financial statements and \$3,385,208 in the government-wide financial statements.

At June 30, 2020, 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	\$ 76,547	\$ (141,785)
Net difference between projected and actual investment earnings on pension plan investments	110,104	-
Difference between actual and expected experience	-	(315,222)
Board contributions subsequent to measurement date	549,684	-
Total	\$ 736,335	\$ (457,007)

The \$549,684 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, 2021. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life ranging from 5.68 to 5.87 years. The net difference in investment earnings is being amortized over a closed five year period for each period. The following table shows the amortization of these balances:

Year End June 30,	
2021	\$ 8,231
2022	(141,688)
2023	(78,891)
2024	(29,728)
2025	(28,280)
	\$ (270,356)

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2019 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	19 years for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary Increases	3.10% to 11.60% including wage inflation
Investment Rate of Return	7.40%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Public Sector 2010 Mortality Tables with generational mortality projections using scale MP-2018 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%	6.3%
Private Equity	13%	7.5%
Rate Sensitive	19%	1.3%
Credit Opportunity	9%	3.9%
Real Assets	14%	4.5%
Absolute Return	8%	3.0%
Total	<u>100%</u>	

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Discount rate

A single discount rate of 7.40% 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 7.40%. 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 7.40%, 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	6.40%	\$	7,540,548
Current discount rate	7.40%	\$	5,209,719
1% increase	8.40%	\$	3,268,434

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 actuarial valuation data, 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, 2020, the Board recognized an OPEB expense of \$16,372,572.

The Board's total OPEB liability is an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The total OPEB liability is calculated using a measurement date of June 30, 2019. Therefore, plan information for the year ended June 30, 2019 is utilized. The following table shows the components of the Board's total and net OPEB liability at June 30, 2019.

Total OPEB liability	
Service cost	\$ 8,724,099
Interest cost	6,965,488
Changes in benefit terms	-
Differences between expected and actual experience	(1,264,525)
Changes of assumptions	19,302,980
Benefit payments	<u>(2,527,028)</u>
Net change in total OPEB liability	\$ 31,201,014
Total OPEB liability, beginning of year	<u>194,312,559</u>
Total OPEB liability, end of year (a)	<u><u>\$ 225,513,573</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 2,527,028
Net investment income	7,297
Benefit payments	(2,527,028)
Administrative expense	<u>-</u>
Net change in fiduciary net position	7,297
Plan fiduciary net position, beginning of year	<u>508,532</u>
Plan fiduciary net position, end of year (b)	<u><u>\$ 515,829</u></u>
Board's net OPEB liability, end of year (a - b)	<u><u>\$ 224,997,744</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 June 30, 2019, the plan was 0.23% funded. The total OPEB liability for benefits was \$225,513,573 and plan assets at market value totaled \$515,829, resulting in a net OPEB liability of \$224,997,744. The covered employee payroll was \$57,590,119, and the ratio of the net OPEB liability to the covered payroll was 390.69%.

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 is as follows:

- *Measurement date* – The Board selected a June 30, 2019 measurement date for fiscal year-end 2020. 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 3.13% as of June 30, 2019.
- *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 at June 30, 2019 using the discount rate of 3.13%, 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	2.13%	\$ 272,401,301
Current discount rate	3.13%	\$ 224,997,744
1% increase	4.13%	\$ 187,875,307

The following table presents the Board's net OPEB liability at June 30, 2019 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%	\$ 182,426,249
Current trend rate	3.80%	\$ 224,997,744
1% increase	4.80%	\$ 282,602,245

Deferred Inflows/Outflows of Resources related to OPEB

At June 30, 2020, 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	\$ 22,730,716	\$ (17,713,165)
Net difference between projected and actual investment earnings on OPEB plan investments	-	(6,816)
Difference between actual and expected experience	3,212,418	(1,431,885)
Total	\$ 25,943,134	\$ (19,151,866)

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.

NOTES TO FINANCIAL STATEMENTS

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

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,		
2021	\$	682,985
2022		682,983
2023		683,167
2024		683,369
2025		684,830
Thereafter		3,373,934
	\$	6,791,268

Changes in assumptions in the most recent actuarial valuation included adjusting the discount rate to the updated index rate for 20-year tax exempt general obligation municipal bonds.

GASB Statement No. 74 Information

Plan Membership:

As of January 1, 2020, approximately 418 retirees were receiving benefits, and 966 active employees are potentially eligible to receive future benefits.

Funding Status and Funding Progress:

The employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon annual approval of the operating budget. As of June 30, 2020, the plan was 0.31% funded. The total OPEB liability for benefits was \$167,366,872 and plan assets at market value totaled \$521,809, resulting in a net OPEB liability of \$166,845,063. The covered employee payroll was \$59,503,815, and the ratio of the net OPEB liability to the covered payroll was 280.39%.

Additional information is as follows:

Valuation Date	January 1, 2020	
Measurement Date	June 30, 2020	
Cost Method	Entry Age Normal	
Discount Rate	20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. This rate was 2.45% as of June 30, 2020.	
Medical Trend	Society of Actuaries (SOA) Long-Run Medical Cost Trend baseline assumptions, updated September 2019. The 2020 rate is 4.70% decreasing gradually to 4.00% in 2075. The following assumptions were used as input variables into this model:	
	Rate of Inflation	2.5%
	Rate of growth in real income / GDP per year	1.5%
	Excess medical cost growth	1.1%
	Health Share of GDP Resistance Point	25.0%
	Year for limiting cost growth to GDP growth	2075
Mortality	Pub T.H-2010 Mortality Table, Fully Generational, Projected using Scale MP-2019 and base year 2010	

NOTES TO FINANCIAL STATEMENTS

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

GASB Statement No. 74 Information (continued)

Net OPEB Liability:

The following table shows the components of the Board's total and net OPEB liability utilizing a measurement date of June 30, 2020:

Total OPEB liability	
Service cost	\$ 10,453,114
Interest cost	6,994,566
Changes in benefit terms	-
Differences between expected and actual experience	(92,780,170)
Changes of assumptions	18,284,772
Benefit payments	<u>(1,098,983)</u>
Net change in total OPEB liability	\$ (58,146,701)
Total OPEB liability, beginning of year	<u>225,513,573</u>
Total OPEB liability, end of year (a)	<u><u>\$ 167,366,872</u></u>
Plan fiduciary net position	
Contributions - employer	\$ 1,098,984
Net investment income	5,980
Benefit payments	(1,098,984)
Administrative expense	<u>-</u>
Net change in fiduciary net position	5,980
Plan fiduciary net position, beginning of year	<u>515,829</u>
Plan fiduciary net position, end of year (b)	<u>\$ 521,809</u>
Board's net OPEB liability, end of year (a - b)	<u><u>\$ 166,845,063</u></u>

Favorable claims experience was a result of switching to a fully insured plan as of January 1, 2020 for medical and drug benefits provided to the Medicare eligible population.

Sensitivity of the Net OPEB Liability:

The following table presents the Board's net OPEB liability at June 30, 2020 using the discount rate of 2.45%, 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	1.45%	\$ 203,403,447
Current discount rate	2.45%	\$ 166,845,063
1% increase	3.45%	\$ 138,406,171

The following table presents the Board's net OPEB liability at June 30, 2020 using the health care trend rate of 4.00%, 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	3.00%	\$ 135,552,758
Current trend rate	4.00%	\$ 166,845,063
1% increase	5.00%	\$ 209,613,091

NOTES TO FINANCIAL STATEMENTS

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 \$330,000 for the year ended June 30, 2020. Approximate future minimum lease commitments are as follows:

Fiscal year ending June 30,		\$	
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>(1,767,818)</u>
	\$	<u>1,478,844</u>

Interest expense related to the above capital leases was approximately \$51,000 for the year ended June 30, 2020. The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2020 were as follows:

Fiscal year ending June 30,		\$	
2021		\$	229,691
2022			236,582
2023			243,679
2024			250,989
2025			258,519
2026 and thereafter			<u>744,091</u>
Total minimum lease payments			1,963,551
Less: amount representing interest			<u>(207,115)</u>
Present value of minimum lease payments	\$		<u>1,756,436</u>

NOTES TO FINANCIAL STATEMENTS

Note 11. Fund Balances

As of June 30, 2020, fund balances are composed of the following:

	Major Fund	Nonmajor	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
Nonspendable:			
Prepaid items	\$ 78,644	\$ -	\$ 78,644
Inventories	33,102	-	33,102
	111,746	-	111,746
Restricted:			
By County Commissioners for capital projects	-	188,114	188,114
By Federal law for nonprofit food service fund	-	51,486	51,486
	-	239,600	239,600
Committed:			
OPEB Liability	200,000	-	200,000
Safety & security	100,000	-	100,000
Current Expense budget	200,000	-	200,000
	500,000	-	500,000
Assigned:			
Future insurance costs	806,010	-	806,010
Long-term accrued annual leave	975,048	-	975,048
Encumbrances	486,580	-	486,580
	2,267,638	-	2,267,638
Unassigned	2,301,107	-	2,301,107
Total fund balance	\$ 5,180,491	\$ 239,600	\$ 5,420,091

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, 2020 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.

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic and resulting global disruptions have had significant impacts on the traditional education model of Boards of Education across the Country. In addition, there has been significant economic uncertainty and volatility in financial markets. The impact on future funding and on defined benefit plan (pension and other post-employment benefit) actuarial assumptions used to estimate the net pension and other post-employment liabilities of the Board are not reasonably estimated at this time.

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, 2020

	Budgeted Amounts		Actual	Variance With
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES				
County appropriation	\$ 59,491,381	\$ 59,491,381	\$ 59,491,381	\$ -
State of Maryland	35,804,703	35,804,703	35,965,390	160,687
Restricted federal, state and other	7,376,465	8,116,411	7,178,448	(937,963)
Other sources	440,000	440,000	631,639	191,639
TOTAL REVENUES	103,112,549	103,852,495	103,266,858	(585,637)
EXPENDITURES				
Administration	2,149,632	2,149,632	2,118,872	30,760
Mid-level administration	5,189,882	5,189,882	5,013,699	176,183
Instruction	40,975,784	40,745,784	40,634,556	111,228
Special education	9,120,585	9,120,585	9,007,837	112,748
Student personnel services	497,590	497,590	469,461	28,129
Student health services	860,927	905,927	862,034	43,893
Student transportation	7,289,008	7,449,008	7,418,032	30,976
Operation of plant	6,307,639	6,307,639	6,267,106	40,533
Maintenance of plant	1,888,462	1,913,462	1,908,506	4,956
Fixed charges	21,690,575	21,690,575	20,852,541	838,034
Restricted programs	7,376,465	8,116,411	7,178,448	937,963
TOTAL EXPENDITURES AND ENCUMBRANCES	103,346,549	104,086,495	101,731,092	2,355,403
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	(234,000)	(234,000)	1,535,766	1,769,766
OTHER FINANCING SOURCES (USES)				
Transfer to capital projects	-	-	(47,980)	(47,980)
Fund balance appropriated	234,000	234,000	-	(234,000)
TOTAL OTHER FINANCING SOURCES (USES)	234,000	234,000	(47,980)	(281,980)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ 1,487,786	\$ 1,487,786

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

	2017	2018	2019	2020
Total OPEB liability				
Service cost	\$ 9,016,476	\$ 7,522,124	\$ 8,724,099	\$ 10,453,114
Interest cost	5,268,508	6,111,678	6,965,488	6,994,566
Changes in benefit terms	-	-	-	-
Differences between expected and actual experience	(439,806)	4,130,252	(1,264,525)	(92,780,170)
Changes of assumptions	(25,304,521)	7,164,658	19,302,980	18,284,772
Benefit payments	(2,566,424)	(2,953,427)	(2,527,028)	(1,098,983)
Net change in total OPEB liability	\$ (14,025,767)	\$ 21,975,285	\$ 31,201,014	\$ (58,146,701)
Total OPEB liability, beginning of year	186,363,041	172,337,274	194,312,559	225,513,573
Total OPEB liability, end of year (a)	<u>\$ 172,337,274</u>	<u>\$ 194,312,559</u>	<u>\$ 225,513,573</u>	<u>\$ 167,366,872</u>
Plan fiduciary net position				
Contributions - employer	\$ 2,566,424	\$ 2,953,427	\$ 2,527,028	\$ 1,098,984
Net investment income	917	1,016	7,297	5,980
Benefit payments	(2,566,424)	(2,953,427)	(2,527,028)	(1,098,984)
Administrative expense	-	-	-	-
Net change in fiduciary net position	917	1,016	7,297	5,980
Plan fiduciary net position, beginning of year	506,599	507,516	508,532	515,829
Plan fiduciary net position, end of year (b)	<u>\$ 507,516</u>	<u>\$ 508,532</u>	<u>\$ 515,829</u>	<u>\$ 521,809</u>
Board's net OPEB liability, end of year (a - b)	<u>\$ 171,829,758</u>	<u>\$ 193,804,027</u>	<u>\$ 224,997,744</u>	<u>\$ 166,845,063</u>
Plan fiduciary net position as a percentage of the total OPEB liability	0.29%	0.26%	0.23%	0.31%
Covered employee payroll	\$ 55,042,032	\$ 56,180,104	\$ 57,590,119	\$ 59,503,815
Net OPEB liability as of % of covered-employee payroll	312.18%	344.97%	390.69%	280.39%
Expected average remaining service years of all participants	10	9	9	9
Annual money-weighted rate of return	0.18%	0.20%	1.42%	1.15%

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

	2017	2018	2019	2020
Contractually required contributions	\$ 2,566,424	\$ 2,953,427	\$ 2,527,028	\$ 1,098,984
Contributions in relation to the contractually required contribution	(2,566,424)	(2,953,427)	(2,527,028)	(1,098,984)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 55,042,032	\$ 56,180,104	\$ 57,590,119	\$ 59,503,815
Contributions as a percentage of covered payroll	4.66%	5.26%	4.39%	1.85%

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	2020
Board's proportion of the net pension liability	0.0201135%	0.0218792%	0.0217854%	0.0203449%	0.0230633%	0.0252585%
Board's proportionate share of the net pension liability	\$ 3,569,488	\$ 4,546,868	\$ 5,140,060	\$ 4,399,321	\$ 4,839,054	\$ 5,209,719
State's proportionate share of the net pension liability	46,484,733	61,362,581	80,415,579	67,996,368	62,503,519	58,988,379
Total	\$ 50,054,221	\$ 65,909,449	\$ 85,555,639	\$ 72,395,689	\$ 67,342,573	\$ 64,198,098
Board's covered payroll	\$ 53,333,397	\$ 54,372,599	\$ 55,042,032	\$ 56,180,104	\$ 57,590,119	\$ 59,503,815
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%	8.76%
Total pension liability as a percentage of the plan fiduciary net position	0.11%	0.14%	0.19%	0.15%	0.13%	0.12%

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	2020
Contractually required contributions	\$ 461,154	\$ 424,398	\$ 414,089	\$ 459,901	\$ 518,683	\$ 549,684
Contributions in relation to the contractually required contribution	(461,154)	(424,398)	(414,089)	(459,901)	(518,683)	(549,684)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered payroll	\$ 53,333,397	\$ 54,372,599	\$ 55,042,032	\$ 56,180,104	\$ 57,590,119	\$ 59,503,815
Contributions as a percentage of covered payroll	0.86%	0.78%	0.75%	0.82%	0.90%	0.92%

*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, 2020 GENERAL FUND			
	Revenues	Expenditures	Fund Balances
GAAP BASIS	\$ 109,311,445	\$ 107,559,263	\$ 5,180,491
Encumbrances at June 30, 2019	-	(270,164)	-
Encumbrances at June 30, 2020	-	486,580	(486,580)
Payments made on-behalf of the Board by State of Maryland to the Maryland State Retirement System	(6,044,587)	(6,044,587)	-
BUDGETARY BASIS	\$ 103,266,858	\$ 101,731,092	\$ 4,693,911

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 2019 valuation:

- Inflation assumption changed from 2.60% to 2.65% for general and from 3.10% to 3.15% for wage
- Salary increase assumption changed from 3.20% - 9.10% to 3.10% - 11.60%, including inflation
- Investment rate of return assumption changed from 7.45% to 7.40%

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	19 years for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary Increases	3.10% to 11.60% including wage inflation
Investment Rate of Return	7.40%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2018 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Public Sector 2010 Mortality Tables with generational mortality projections using scale MP-2018 mortality improvement scale.

Note 3. Post-Employment Health Care Benefits

Changes in Benefit Terms

There were no significant benefit changes for the year ended June 30, 2019. As of January 1, 2020, the Board changed to a fully insured plan for medical and drug benefits provided to the Medicare eligible population.

Changes in Assumptions

- The investment rate of return assumption was updated to the most recent index rate for 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Asset Valuation Method	Market Value of Assets
Inflation	2.2% (2019), 2.5% (2020)
Salary Increases	Varies based on years of service and age
Investment Rate of Return	3.13% (2019), 2.45% (2020)
Medical Trend	Based on the Society of Actuaries Long-Run Medical Cost Trend Model, the 2020 rate is 4.70% decreasing gradually to the ultimate rate of 4.0% reached in 2075.
Mortality	Healthy - PubT.H-2010 Mortality Table, fully generational, projected using scale MP-2019 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, 2020

	Capital Projects	Food Services	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 177,214	\$ 341,995	\$ 519,209
Accounts receivable:			
Federal funds from state	-	63,942	63,942
State of Maryland	7,912	-	7,912
Other	-	4,217	4,217
Queen Anne's County	329,774	-	329,774
TOTAL ASSETS	\$ 514,900	\$ 410,154	\$ 925,054
LIABILITIES AND FUND BALANCES			
Accounts payable:			
Vendors	\$ 266,873	\$ 71,289	\$ 338,162
Other governmental funds	59,913	195,402	255,315
Accrued expenses	-	1,196	1,196
Unearned revenues	-	90,781	90,781
TOTAL LIABILITIES	326,786	358,668	685,454
Fund balances:			
Restricted	188,114	51,486	239,600
TOTAL FUND BALANCES	188,114	51,486	239,600
TOTAL LIABILITIES AND FUND BALANCES	\$ 514,900	\$ 410,154	\$ 925,054

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, 2020

	Capital Projects	Food Services	Total Nonmajor Governmental Funds
REVENUES			
County funds	\$ 5,351,991	\$ -	\$ 5,351,991
State of Maryland funds	715,171	83,857	799,028
Federal sources	-	1,316,975	1,316,975
Other sources	1,236	801	2,037
Charges for food services	-	830,416	830,416
TOTAL REVENUES	6,068,398	2,232,049	8,300,447
EXPENDITURES			
Food service	-	2,255,994	2,255,994
Capital outlay	6,072,548	-	6,072,548
TOTAL EXPENDITURES	6,072,548	2,255,994	8,328,542
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(4,150)	(23,945)	(28,095)
OTHER FINANCING SOURCES (USES)			
Interfund transfers - general fund	47,980	-	47,980
CHANGE IN FUND BALANCES	43,830	(23,945)	19,885
FUND BALANCES, BEGINNING	144,284	75,431	219,715
FUND BALANCES, ENDING	\$ 188,114	\$ 51,486	\$ 239,600

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

CAPITAL PROJECTS EXPENDITURES

Year Ended June 30, 2020

EXPENDITURES

Americans with Disabilities Act (ADA) upgrades	\$	46,173
Bayside Elementary School - generator		280,166
Central Office - feasibility study		74,825
Church Hill Elementary - chiller replacement		172,061
Comprehensive building assessment & repairs		789,722
Custodial equipment		27,533
General improvements		291,531
Grasonville Elementary School - addition		37,099
Kent Island High School - chiller replacement		14,325
Kent Island High School - energy management		765,363
Kent Island High School - fire alarm system		564,234
School buses		679,613
Security upgrades		276,342
Sitework		277,850
Technology		1,439,256
Textbooks		<u>336,455</u>
TOTAL EXPENDITURES	\$	<u><u>6,072,548</u></u>

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

FOOD SERVICE FUND OPERATIONS

Year Ended June 30, 2020

REVENUES

Federal through state funds	\$ 1,137,139
USDA donated commodities	179,836
State of Maryland funds	83,857
Other sources - principally sale of meals	<u>831,217</u>

TOTAL REVENUES 2,232,049

EXPENDITURES

Salaries and wages	29,620
Contracted services	2,009,861
Equipment	3,681
Other charges	17,843
Supplies - principally USDA donated commodities	<u>194,989</u>

TOTAL EXPENDITURES 2,255,994

EXCESS OF EXPENDITURES OVER REVENUES \$ (23,945)

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHOOL ACTIVITIES FUND ACCOUNTS

Year Ended June 30, 2020

<u>School Name</u>	June 30, 2019 Fund <u>Balance</u>	<u>Year Ended June 30, 2020</u>		
		<u>Additions - Revenues</u>	<u>Deductions - Expenditures</u>	<u>Fund Balance</u>
ELEMENTARY				
Bayside	\$ 17,773	\$ 22,675	\$ 25,239	\$ 15,209
Centreville	29,126	45,553	50,184	24,495
Church Hill	8,012	15,529	15,103	8,438
Grasonville	21,454	36,886	46,375	11,965
Kennard	(312)	37,058	29,749	6,997
Kent Island	30,257	27,320	31,072	26,505
Matapeake	9,052	24,442	24,739	8,755
Sudlersville	10,565	18,666	20,037	9,194
TOTAL ELEMENTARY	<u>125,927</u>	<u>228,129</u>	<u>242,498</u>	<u>111,558</u>
MIDDLE				
Centreville	14,717	32,737	30,696	16,758
Matapeake	33,535	20,627	20,115	34,047
Stevensville	18,319	28,037	34,943	11,413
Sudlersville	16,354	82,897	62,700	36,551
TOTAL MIDDLE	<u>82,925</u>	<u>164,298</u>	<u>148,454</u>	<u>98,769</u>
HIGH				
Kent Island	395,003	365,320	415,424	344,899
Queen Anne's County	247,967	254,637	259,943	242,661
TOTAL HIGH	<u>642,970</u>	<u>619,957</u>	<u>675,367</u>	<u>587,560</u>
TOTAL	<u>\$ 851,822</u>	<u>\$ 1,012,384</u>	<u>\$ 1,066,319</u>	<u>\$ 797,887</u>