# BOARD OF EDUCATION OF
# QUEEN ANNE'S COUNTY, MARYLAND

AUDITED FINANCIAL STATEMENTS

For the year ended JUNE 30, 2023

# BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

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## INDEPENDENT AUDITORS' REPORT

Board of Education of Queen Anne'sCounty, Maryland
Centreville, Maryland

### Report on the Audit of the Financial Statements

#### *Opinions*

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, component unit of Queen Anne's County, Maryland ("the Board"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

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, Maryland, as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board of Education of Queen Anne's County, Maryland and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2023, the Board adopted new accounting guidance from the Government Accounting Standards Board (GASB) Statement No. 96, "Subscription-Based Information Technology Arrangements". Our opinion is not modified with respect to this matter.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board of Education of Queen Anne's County, Maryland's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Board of Education of Queen Anne's County, Maryland's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board of Education of Queen Anne's County, Maryland's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of revenues, expenditures and encumbrances – budget and actual – General Fund, the schedule of revenues, expenditures and encumbrances – budget and actual – Restricted Fund, the schedule of changes in the Board's net OPEB liability and related ratios, the schedule of investment returns, the schedule of the Board's proportionate share of the net pension liability, and the schedule of Board contributions - pension, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

***Supplementary 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'sCounty's basic financial statements. The accompanying schedule of revenues – General Fund and balance sheet and statement of revenues, expenditures and fund balance – School Activities Fund, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such 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. The 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 schedule of revenues – General Fund and balance sheet and statement of revenues, expenditures and fund balance – School Activities Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2023, on our consideration of the Board of Education of Queen Anne's County, Maryland'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, Maryland'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.

UHY LLP

Salisbury, Maryland
September 29, 2023

# 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, 2023, 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 29, 2023.

## Report on 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.

## Report on 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 29, 2023

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, 2023. 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, 2023, include the following:

- The Board's total net position was a deficit of $(91,831,471), a decrease of $12,518,150 from the prior year. Net position was negatively impacted by the net OPEB liability recognized under GASB No. 75 as well as current year depreciation expense. OPEB expense for the year totaled $5,634,258 in the government-wide statement of activities. Depreciation expense exceeded capital outlays by $2,657,127.

- The unrestricted General Fund actual revenues were $926,623 or .88% above the approved interim budget, not including the use of the prior year's fund balance.

- Actual expenditures in the unrestricted General Fund were $2,863,446 or 2.76% over the interim approved budget. This negative variance was primarily the result of additional salary and capital outlay costs. Other variances were seen within fixed charges. A final budget will be approved by the Board subsequent to fiscal year-end.

## 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.

## 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. The reader should note that a final budget amendment will be approved by the Board subsequent to fiscal year-end.

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 | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| ASSETS | | | | |
| Current and other assets | $ 21,651,389 | $ 24,009,051 | $ (2,357,662) | -9.82% |
| Capital assets | 144,701,028 | 147,358,355 | (2,657,327) | -1.80% |
| TOTAL ASSETS | 166,352,417 | 171,367,406 | (5,014,989) | -2.93% |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| State pension plan | 1,953,231 | 2,077,867 | (124,636) | -6.00% |
| OPEB | 42,825,323 | 50,357,554 | (7,532,231) | -14.96% |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 44,778,554 | 52,435,421 | (7,656,867) | -14.60% |
| LIABILITIES | | | | |
| Current and other liabilities | 14,904,909 | 13,070,151 | 1,834,758 | 14.04% |
| Long-term liabilities | 146,173,581 | 201,788,782 | (55,615,201) | -27.56% |
| TOTAL LIABILITIES | 161,078,490 | 214,858,933 | (53,780,443) | -25.03% |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| State pension plan | 497,894 | 2,390,790 | (1,892,896) | -79.17% |
| OPEB | 141,386,258 | 85,866,425 | 55,519,833 | 64.66% |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 141,884,152 | 88,257,215 | 53,626,937 | 60.76% |
| NET POSITION (DEFICIT) | | | | |
| Net investment in capital assets | 143,531,227 | 145,980,461 | (2,449,234) | -1.68% |
| Restricted assets | 2,049,574 | 2,167,873 | (118,299) | -5.46% |
| Unrestricted | (237,412,272) | (227,461,655) | (9,950,617) | 4.37% |
| TOTAL NET POSITION | $ (91,831,471) | $ (79,313,321) | $ (12,518,150) | 15.78% |

## FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE – continued

Net Position represents the difference between assets and liabilities. The unrestricted deficit at June 30, 2023, 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.

### Changes in Net Position

The Board's government-wide changes in net assets for the years ended June 30, 2023, and 2022 are summarized below.

| | June 30, | | Change | |
|---|---|---|---|---|
| | 2023 | 2022 | $ | % |
| REVENUES | | | | |
| Program revenues | | | | |
| Charges for services | $ 1,486,602 | $ 304,740 | $ 1,181,862 | 387.83% |
| Operating grants and contributions | 35,519,706 | 34,902,958 | 616,748 | 1.77% |
| Capital grants and contributions | 2,003,685 | 1,355,083 | 648,602 | 47.86% |
| General revenues | | | | |
| County appropriation | 64,085,219 | 62,229,352 | 1,855,867 | 2.98% |
| State of Maryland | 31,110,031 | 26,298,092 | 4,811,939 | 18.30% |
| Other | 329,661 | 45,543 | 284,118 | 623.85% |
| TOTAL REVENUES | 134,534,904 | 125,135,768 | 9,399,136 | 7.51% |
| EXPENSES | | | | |
| Instructional services and special education | 54,774,934 | 56,037,003 | (1,262,069) | -2.25% |
| Restricted programs | 15,522,221 | 12,749,188 | 2,773,033 | 21.75% |
| Administration | 2,421,526 | 2,199,637 | 221,889 | 10.09% |
| Operation and maintenace of plant | 10,988,778 | 8,222,311 | 2,766,467 | 33.65% |
| Other support services | 23,204,080 | 15,738,559 | 7,465,521 | 47.43% |
| Fixed charges | 34,526,457 | 31,854,423 | 2,672,034 | 8.39% |
| Depreciation - unallocated | 5,615,058 | 5,871,458 | (256,400) | -4.37% |
| TOTAL EXPENSES | 147,053,054 | 132,672,579 | 14,380,475 | 10.84% |
| CHANGE IN NET POSITION | $ (12,518,150) | $ (7,536,811) | $ (4,981,339) | 66.09% |

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. With the school closures as a result of the pandemic charges for services were significantly reduced.

## ANALYSIS OF BUDGET AND ACTUAL COMPARISONS

### General Fund – Unrestricted and Restricted

Below is an explanatory list of adjustments made to the original unrestricted 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 to cover administrative, student transportation and maintenance and operation of plant costs. The funds became available through savings associated fixed charges and instruction. The reader should note that an additional budget amendment will be approved subsequent to year-end.

| Reallocation of funds between state categories - Unrestricted | | | |
|---|---|---|---|
| i. | Administration | $ | 129,285 |
| ii. | Mid-Level Administration | $ | 761,370 |
| iii. | Instruction | $ | (1,192,805) |
| iv. | Special Education | $ | (40,250) |
| v. | Student Personnel Services | $ | 140,750 |
| vi. | Health Services | $ | 38,000 |
| vii. | Student Transportation | $ | 1,073,750 |
| viii. | Operation of Plant | $ | 266,250 |
| ix. | Maintenance of Plant | $ | 952,250 |
| x. | Fixed Charges | $ | (695,885) |
| xi. | Capital Outlay | $ | - |
| | Total | $ | 1,432,715 |

## ANALYSIS OF BUDGET AND ACTUAL COMPARISONS – continued

A schedule of changes between the original and the interim approved budget for the year ended June 30, 2023, is presented on the previous page.

| | Original Budget | Final Budget | Actual | Variance |
|---|---|---|---|---|
| REVENUES | | | | |
| County funds | $ 64,085,219 | $ 64,085,219 | $ 64,085,219 | $ - |
| State of Maryland funds | 40,915,143 | 40,915,144 | 41,667,551 | 752,407 |
| Other | 440,000 | 440,000 | 614,216 | 174,216 |
| Restricted federal, state, and other | 14,086,998 | 20,341,744 | 14,412,969 | (5,928,775) |
| TOTAL REVENUES | 119,527,360 | 125,782,107 | 120,779,955 | (5,002,152) |
| EXPENDITURES AND ENCUMBRANCES | | | | |
| Administration | 2,232,794 | 2,362,079 | 2,425,509 | (63,430) |
| Mid-level administration | 5,539,625 | 6,300,995 | 6,285,811 | 15,184 |
| Instruction | 45,470,214 | 44,277,409 | 44,859,123 | (581,714) |
| Special education | 10,088,106 | 10,047,856 | 9,874,537 | 173,319 |
| Student personnel services | 585,933 | 726,683 | 719,693 | 6,990 |
| Student health services | 1,057,081 | 1,095,081 | 1,126,720 | (31,639) |
| Student transportation | 8,018,889 | 9,092,639 | 9,476,933 | (384,294) |
| Operation of plant | 6,664,303 | 6,930,553 | 7,554,477 | (623,924) |
| Maintenance of plant | 2,356,408 | 3,308,658 | 3,094,876 | 213,782 |
| Fixed charges | 23,757,009 | 23,061,125 | 23,610,295 | (549,170) |
| Capital outlay | - | - | 1,038,550 | (1,038,550) |
| Restricted programs | 14,086,998 | 20,341,744 | 14,412,969 | 5,928,775 |
| TOTAL EXPENDITURES AND ENCUMBRANCES | 119,857,360 | 127,544,822 | 124,479,493 | 3,065,329 |
| EXCESS REVENUES OVER EXPENDITURES AND ENCUMBRANCES | (330,000) | (1,762,715) | (3,699,538) | (1,936,823) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Fund balance appropriated | 330,000 | 1,762,715 | 2,412,582 | 649,867 |
| TOTAL OTHER FINANCING SOURCES (USES) | 330,000 | 1,762,715 | 2,412,582 | 649,867 |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | $ - | $ - | $ (1,286,956) | $ (1,286,956) |

Please note that local and state revenues account for 87.6% of the total General Fund revenues and 99.4% 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.

## ANALYSIS OF BUDGET AND ACTUAL COMPARISONS – continued

The final budget for restricted revenues and expenses is based on grant award amounts to be received in future years.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2023, the Board had approximately $246.5 million invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased by approximately $3.4 million from the same time last year, excluding the effect of depreciation, as shown in the table below.

| | June 30, | | Change |
|---|---|---|---|
| | 2023 | 2022 | $ |
| Construction in progress | $ 2,400,763 | $ 122,528 | $ 2,278,235 |
| School properties | 224,204,856 | 224,082,328 | 122,528 |
| Furniture, fixtures and equipment | 19,857,557 | 18,873,881 | 983,676 |
| TOTAL CAPITAL ASSETS | $ 246,463,176 | $ 243,078,737 | $ 3,384,439 |

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 $146,173,581 due or payable after one year. The amount consists of the following:

- $1,117,223 of accrued compensated absences
- $948,946 financed purchases obligations
- $211,571 intangible right-to-use leases
- $138,003,570 OPEB benefit obligation
- $5,892,271 of the Board's proportionate share of the state's net pension liability

## FACTORS IMPACTING THE SCHOOL SYSTEM

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

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

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. It is anticipated that these funds, though currently issued as grants to QACPS, will continue in the future and be folded into revised state aid formulas.

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

## 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, 2023

| | Governmental Activities |
|---|---|
| ASSETS | |
| Cash and equivalents | $ 15,663,697 |
| Certificates of deposit | 300,000 |
| Accounts receivable: | |
| Federal funds from State of Maryland | 2,959,843 |
| State of Maryland | 1,615,089 |
| Queen Anne's County | 711,358 |
| Other | 368,830 |
| Prepaids | - |
| Inventory | 32,572 |
| Land and construction in progress | 8,763,803 |
| Other capital assets, net | 135,937,425 |
| TOTAL ASSETS | 166,352,617 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Pensions | 1,953,231 |
| Other post-employment benefits (OPEB) | 42,825,323 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 44,778,554 |
| LIABILITIES | |
| Accounts payable: | |
| Vendors | 2,163,717 |
| Other | 25,246 |
| Fiduciary funds | 397,540 |
| Employee salary deferrals | 10,028,991 |
| Employee and other withholdings | 387,611 |
| Unearned revenues | 1,595,399 |
| Long-term liabilities: | |
| Due within one year | 306,405 |
| Due in more than one year | 146,173,581 |
| TOTAL LIABILITIES | 161,078,490 |
| DEFERRED INFLOWS OF RESOURCES | |
| Pensions | 497,894 |
| Other post-employment benefits (OPEB) | 141,386,258 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 141,884,152 |
| NET POSITION (DEFICIT) | |
| Net investment in capital assets | 143,531,227 |
| Restricted for: | |
| Food service | 1,968,569 |
| Capital projects | 81,005 |
| Unrestricted deficit | (237,412,272) |
| TOTAL NET POSITION (DEFICIT) | $ (91,831,471) |

# BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
## STATEMENT OF ACTIVITIES
## Year Ended June 30, 2023

| | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expenses) Revenue and changes in Net Position: Governmental Activities |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| Current: | | | | | |
| Administration | $ 2,421,526 | $ - | $ - | $ - | $ (2,421,526) |
| Mid-level administration | 6,295,548 | - | - | - | (6,295,548) |
| Instructional services | 44,874,652 | 105,372 | 2,915,545 | - | (41,853,735) |
| Special education | 9,900,282 | - | 3,563,748 | - | (6,336,534) |
| Student personnel services | 719,693 | - | - | - | (719,693) |
| Health services | 1,125,219 | - | - | - | (1,125,219) |
| Student transportation | 9,650,407 | - | 4,078,227 | - | (5,572,180) |
| Operation of plant | 7,729,893 | - | - | - | (7,729,893) |
| Maintenance of plant | 3,258,885 | 179,183 | - | - | (3,079,702) |
| Fixed charges | 34,526,457 | - | 5,467,495 | - | (29,058,962) |
| Food services | 3,552,899 | 1,202,047 | 2,267,298 | - | (83,554) |
| School activities | 1,588,450 | - | 1,705,172 | - | 116,722 |
| Restricted federal, state, and other | 15,522,221 | - | 15,522,221 | - | - |
| Capital outlay | 271,864 | - | - | 2,003,685 | 1,731,821 |
| Unallocated depreciation | 5,615,058 | - | - | - | (5,615,058) |
| Total Governmental Activities | 147,053,054 | 1,486,602 | 35,519,706 | 2,003,685 | (108,043,061) |
| Totals | $147,053,054 | $ 1,486,602 | $ 35,519,706 | $ 2,003,685 | (108,043,061) |
| | **General Revenues** | | | | |
| | Local appropriations | | | | 64,085,219 |
| | State of Maryland - unrestricted | | | | 31,110,031 |
| | Investment Earnings | | | | 325,742 |
| | Miscellaneous | | | | 3,919 |
| | Total General Revenues | | | | 95,524,911 |
| | Change in Net Position | | | | (12,518,150) |
| | Net Position Beginning of Year | | | | (79,313,321) |
| | Net Position End of Year | | | | $ (91,831,471) |

*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, 2023

| | Major Fund | | Nonmajor | Total |
|---|---|---|---|---|
| | General Fund | Food Services | Governmental Funds | Governmental Funds |
| ASSETS | | | | |
| Cash and equivalents | $ 14,321,483 | $ 261,132 | $ 1,081,082 | $ 15,663,697 |
| Certificates of deposit | 300,000 | - | - | 300,000 |
| Accounts receivable: | | | | |
| Federal funds from State of Maryland | 2,905,772 | 54,071 | - | 2,959,843 |
| State of Maryland | 1,536,702 | 28,587 | 49,800 | 1,615,089 |
| Other | 368,339 | 491 | - | 368,830 |
| Queen Anne's County | - | - | 711,358 | 711,358 |
| Other governmental funds | - | 1,902,642 | - | 1,902,642 |
| Prepaid items | - | - | - | - |
| Inventory, at cost | 32,572 | - | - | 32,572 |
| TOTAL ASSETS | $ 19,464,868 | $ 2,246,923 | $ 1,842,240 | $ 23,554,031 |
| LIABILITIES AND FUND BALANCES | | | | |
| Accounts payable: | | | | |
| Vendors | $ 1,459,454 | $ 75,998 | $ 628,265 | $ 2,163,717 |
| Other | 25,246 | - | - | 25,246 |
| Other governmental funds | 1,832,244 | - | 70,398 | 1,902,642 |
| Fiduciary funds | 397,540 | - | - | 397,540 |
| Employee salary deferrals | 10,027,716 | 1,275 | - | 10,028,991 |
| Employee and other withholdings | 387,611 | - | - | 387,611 |
| Unearned revenues | 1,311,225 | 201,081 | 83,093 | 1,595,399 |
| TOTAL LIABILITIES | 15,441,036 | 278,354 | 781,756 | 16,501,146 |
| COMMITMENTS AND CONTINGENCIES | | | | |
| FUND BALANCES | | | | |
| Nonspendable | 32,572 | - | - | 32,572 |
| Restricted | - | 1,968,569 | 81,005 | 2,049,574 |
| Committed | - | - | - | - |
| Assigned | 2,667,568 | - | 979,479 | 3,647,047 |
| Unassigned | 1,323,692 | - | - | 1,323,692 |
| Total fund balances | 4,023,832 | 1,968,569 | 1,060,484 | 7,052,885 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 19,464,868 | $ 2,246,923 | $ 1,842,240 | $ 23,554,031 |

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

| | | |
|---|---|---|
| **Total Governmental Funds Balances** | | $ 7,052,885 |
| **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 | | 144,701,228 |
| Deferred outflows of resources not reported in the fund financial statements | | |
| Pension (Note 7) | 1,953,231 | |
| Other post-employment benefits (Note 9) | 42,825,323 | |
| | | 44,778,554 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds | | |
| Compensated absences | (1,117,223) | |
| Financed purchases, net | (1,170,001) | |
| Long-term leases | (296,921) | |
| Pension liability, net | (5,892,271) | |
| Other post-employment benefits, net | (138,003,570) | |
| | | (146,479,986) |
| Deferred inflows of resources not reported in the fund financial statements | | |
| Pension (Note 7) | (497,894) | |
| Other post-employment benefits (Note 9) | (141,386,258) | |
| | | (141,884,152) |
| **Net Position of Governmental Activities** | | $ (91,831,471) |

# BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS
## Year Ended June 30, 2023

| | Major Fund | | Nonmajor | Total |
|---|---|---|---|---|
| | General Fund | Food Services | Governmental Funds | Governmental Funds |
| REVENUES | | | | |
| County Appropriation | $ 64,085,219 | $ - | $ 1,346,462 | $ 65,431,681 |
| State of Maryland | 41,667,551 | 86,529 | 646,535 | 42,400,615 |
| Restricted federal, state, and other | 15,522,221 | - | - | 15,522,221 |
| Federal sources | - | 2,177,608 | - | 2,177,608 |
| State of Maryland on-behalf pension payments | 5,467,495 | - | - | 5,467,495 |
| Other sources | 614,216 | 3,161 | 10,688 | 628,065 |
| Charges for food services | - | 1,202,047 | - | 1,202,047 |
| School activity revenues | - | - | 1,705,172 | 1,705,172 |
| TOTAL REVENUES | 127,356,702 | 3,469,345 | 3,708,857 | 134,534,904 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Administration | 2,421,190 | - | - | 2,421,190 |
| Mid-level administration | 6,295,548 | - | - | 6,295,548 |
| Instructional salaries and wages | 42,133,138 | - | - | 42,133,138 |
| Textbooks and instructional supplies | 1,682,332 | - | - | 1,682,332 |
| Other instructional costs | 771,036 | - | - | 771,036 |
| Special education | 9,900,282 | - | - | 9,900,282 |
| Student personnel services | 719,693 | - | - | 719,693 |
| Health services | 1,125,219 | - | - | 1,125,219 |
| Student transportation | 9,406,750 | - | - | 9,406,750 |
| Operation of plant | 7,729,893 | - | - | 7,729,893 |
| Maintenance of plant | 3,118,614 | - | - | 3,118,614 |
| Fixed charges | 23,610,294 | - | - | 23,610,294 |
| Food services | - | 3,479,339 | - | 3,479,339 |
| School activity expenditures | - | - | 1,588,450 | 1,588,450 |
| Restricted federal, state, and other | 15,522,221 | - | - | 15,522,221 |
| State of Maryland on-behalf pension payments | 5,467,495 | - | - | 5,467,495 |
| Capital outlay | 1,924,516 | - | 2,111,990 | 4,036,506 |
| TOTAL EXPENDITURES | 131,828,221 | 3,479,339 | 3,700,440 | 139,008,000 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (4,471,519) | (9,994) | 8,417 | (4,473,096) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from long-term leases | 379,187 | - | - | 379,187 |
| Net change in fund balances | (4,092,332) | (9,994) | 8,417 | (4,093,909) |
| Fund balances, beginning | 8,116,164 | 1,978,563 | 1,052,067 | 11,146,794 |
| Fund balances, ending | $ 4,023,832 | $ 1,968,569 | $ 1,060,484 | $ 7,052,885 |

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

| | | |
|---|---|---|
| **Net change in fund balances-total Governmental Funds** | | $ (4,093,909) |
| **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 | 3,474,483 | |
| Loss on disposals | - | |
| Current year depreciation | (6,131,610) | |
| Total | | (2,657,127) |
| Proceeds from financed purchases and long-term leases are revenues in the governmental funds but increases in liabilities in the statement of net position. | | |
| Long-term leases | | (379,187) |
| 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 | (229,418) | |
| Pension liability | (1,582,670) | |
| Other post-employment benefits liability | 57,417,806 | |
| Pension - deferred outflows of resources | (124,636) | |
| OPEB - deferred outflows of resources | (7,532,231) | |
| Pension - deferred inflows of resources | 1,892,896 | |
| OPEB - deferred inflows of resources | (55,519,833) | |
| Total | | (5,678,086) |
| Repayment of finaced purchases and long-term leases are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | |
| Financed purchases, net | 207,893 | |
| Long-term leases | 82,266 | |
| Total | | 290,159 |
| Change in net position of Governmental Activities | | $ (12,518,150) |

# BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
## STATEMENT OF FIDUCIARY NET POSITION
## FIDUCIARY FUNDS
## June 30, 2023

| | Retiree Health Plan Trust Fund | CUSTODIAL FUNDS Regional Education Funds |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 35,864 | $ - |
| Investments | 520,744 | - |
| Accounts receivable: | | |
| Federal funds from state | - | 23,431 |
| Due from other funds | - | 397,540 |
| TOTAL ASSETS | $ 556,608 | $ 420,971 |
| LIABILITIES | | |
| Accounts payable | $ - | $ 25,055 |
| Unearned revenues | | 388,785 |
| Employee salary deferrals | - | 7,131 |
| TOTAL LIABILITIES | - | 420,971 |
| NET POSITION | | |
| Held in trust for other post-employment benefits | 556,608 | - |
| TOTAL LIABILITIES AND NET POSITION | $ 556,608 | $ 420,971 |

*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, 2023

| | | CUSTODIAL FUNDS |
|---|---|---|
| | Retiree Health Plan Trust | Regional Education Funds |
| ADDITIONS | | |
| Restricted Federal revenues | $ - | $ 5,000 |
| Restricted other revenues | - | 1,547,205 |
| Investment income | 55,261 | - |
| TOTAL ADDITIONS | 55,261 | 1,552,205 |
| DEDUCTIONS | | |
| Administrative expenses | 2,555 | - |
| Restricted federal expenses | - | 5,000 |
| Restricted other expenses | - | 1,547,205 |
| TOTAL DEDUCTIONS | 2,555 | 1,552,205 |
| Change in net position | 52,706 | - |
| Net position, beginning of year | 503,902 | - |
| Net position, end of year | $ 556,608 | $ - |

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

## 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 Funds (Food Service Fund and School Activity 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.

**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.

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.

**Non-major funds:**

Capital Projects Fund (School Construction Fund) – The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and other items. 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 $646,535 for the year ended June 30, 2023.

Special Revenue Fund (School Activity Fund) – The School Activity Fund is used to account for revenues and expenditures at the schools for, among other things, student insurance and pictures, athletics, clubs and other student activities, and principals' miscellaneous expenses.

FIDUCIARY FUND TYPES

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.

**Note 2. Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus**

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

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

**D. Basis of Accounting**

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

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

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

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

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

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

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

**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 custodial 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.

**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, 2023 and consist of the following:

| | |
|---|---|
| Restricted federal, state and other grant programs | $ 1,311,225 |
| Advanced capital project | 83,093 |
| Advanced meal payments | 201,081 |
| | $ 1,595,399 |

**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.

**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, change in the proportion and share of contributions, 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.

**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, 2023 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 $744,335.

**R. New Accounting Policies**

The Board adopted Government Accounting Standards Board's Statement No. 96, *Subscription-Based Information Technology Arrangements,* at July 1, 2022. This statement's objective is to better meet the information needs of financial statements users by improving accounting and financial reporting for subscription-based information technology arrangements. The Statement increases the usefulness of the financial statements by requiring the recognition of certain subscription-based assets and liabilities. It additionally requires disclosure of essential information about those arrangements. The Board did not have any arrangements which met the definition of a right-to-use subscription-based information technology arrangement at June 30, 2023.

**Note 3. Cash and Investments**

At June 30, 2023, the Board had bank deposits with local banks totaling $16,589,669 (carrying value $15,662,235). 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, 2023, 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 | $ 15,662,235 | $ 16,589,669 |
| Cash on hand | 1,462 | - |
| Total cash and cash equivalents (Government-wide) | $ 15,663,697 | $ 16,589,669 |
| Insured | | $ 547,620 |
| Uninsured and collateral held by pledging bank's trust department in Board's name | | 10,089,862 |
| Uninsured and collateral includes an irrevocable letter of credit in favor of the Board based on average bank balances | | 5,952,187 |
| Uninsured | | - |
| Total bank balance (cash in bank) | | $ 16,589,669 |

The Board's investments include certificates of deposit totaling $300,000. The certificates of deposit are earning interest at a rate of 4.0% and mature in January 2024. These deposits are not cash equivalents as defined by generally accepted accounting principles and are presented separate on the statement of net position.

**Note 3. Cash and Investments (Continued)**

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.

Investment in External Investment Pool

During 2021, the Board moved its funds designated for Other Postemployment Benefits (OPEB) to the Maryland Association of Counties (MACO) Pooled OPEB Trust (MACO Trust). The MACO Trust is administered by MACO and is a wholly-owned instrumentality of its members. The fifteen members who are the sole contributors to the MACO Trust are Allegany, Queen Anne's, Kent and Talbot County, City of Annapolis, College of Southern Maryland, Town of Bel Air and Hurlock, Talbot and Queen Anne's County Boards of Education, St. Mary's County Metropolitan Commission, Harford Community College, Harford and Queen Anne's County Public Libraries and LaVale Sanitary Commission.

The investments of the MACO Trust are stated at fair value and are deposited with Wilmington Trust Company at June 30, 2023. Cash and cash equivalents consist of an investment in a money market mutual fund. Debt securities consist of U.S. Treasury obligations, U.S. Government agencies, corporate and foreign bonds, and municipal obligations. Equity and mutual fund investments consist of taxable fixed income funds, mutual funds, global funds and international funds. The MACO Trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs. All investments of the MACO Trust are considered Level 1 or Level 2, the Board's membership investment in the MACO Trust are considered Level 2. For investments in mutual funds, there are no unfunded commitments and investments are able to be fully redeemed on a daily basis. At June 30, 2023, the pooled position of the MACO Trust was $74,582,821 in total, of which the Board's allocated investment balance was $556,608. The Board may terminate its membership interest in the MACO Trust and withdraw its allocated investment balance by providing written notice six months prior to the intended date of withdraw.

The MACO Trust is audited annually by an independent CPA firm and issues a publicly available audited report. The report may be obtained at www.mdcounties.org.

**Note 4. Interfund Receivables and Payables**

| | Due From Other Funds | Due To Other Funds |
|---|---|---|
| OVERNMENTAL FUNDS | | |
| General Fund | | |
| Due from Capital Projects | $ 70,398 | $ - |
| Due to Food Services | - | 1,902,642 |
| Due to Custodial Fund | - | 397,540 |
| Capital Projects Fund | | |
| Due to General Fund | - | 70,398 |
| Food Services Fund | | |
| Due from General Fund | 1,902,642 | - |
| IDUCIARY FUND | | |
| Regional Education Funds | | |
| Due from General Fund | 397,540 | - |
| OTAL ALL FUNDS | $ 2,370,580 | $ 2,370,580 |

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, 2023, was as follows:

| | Balance June 30, 2022 | Additions | Deductions | Transfers | Balance June 30, 2023 |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| **Capital Assets, not being depreciated** | | | | | |
| Land | $ 6,363,040 | $ - | $ - | $ - | $ 6,363,040 |
| Construction in progress | 122,528 | 2,400,763 | - | (122,528) | 2,400,763 |
| Total capital assets, not being depreciated | 6,485,568 | 2,400,763 | - | (122,528) | 8,763,803 |
| **Capital assets, being depreciated** | | | | | |
| Land improvements | 5,410,966 | - | - | - | 5,410,966 |
| Buildings | 212,308,322 | - | - | 122,528 | 212,430,850 |
| Furniture, fixtures, and equipment | 18,873,881 | 694,533 | (90,044) | - | 19,478,370 |
| Total capital assets, being depreciated | 236,593,169 | 694,533 | (90,044) | 122,528 | 237,320,186 |
| Less accumulated depreciation: | | | | | |
| Land improvements | (4,926,389) | (100,323) | - | - | (5,026,712) |
| Buildings | (77,460,351) | (4,511,186) | - | - | (81,971,537) |
| Furniture, fixtures, and equipment | (13,333,642) | (1,432,555) | 90,044 | - | (14,676,153) |
| Total accumulated depreciation | (95,720,382) | (6,044,064) | 90,044 | - | (101,674,402) |
| Total capital assets, being depreciated, net | 140,872,787 | (5,349,531) | - | 122,528 | 135,645,784 |
| **Intangible right-to-use assets** | | | | | |
| Leased equipment | - | 379,187 | - | - | 379,187 |
| Less accumulated amortization | - | (87,546) | - | - | (87,546) |
| Total intangible right-to-use assets, net | - | 291,641 | - | - | 291,641 |
| Governmental activities capital assets, net | $ 147,358,355 | $ (2,657,127) | $ - | $ - | $ 144,701,228 |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|---|
| SUPPORT SERVICES | |
| Administration | $ 336 |
| Instructional costs | 58,728 |
| Student transportation | 243,657 |
| Maintenance of plant | 140,271 |
| Food services | 73,560 |
| Unallocated | 5,615,058 |
| Total governmental depreciation expense | $ 6,131,610 |

### Note 6. Long-Term Liabilities

A summary of long-term liabilities for the year ended June 30, 2023 is as follows:

| | Balance June 30, 2022 | Increases | Decreases | Balance June 30, 2023 | Due within one year |
|---|---|---|---|---|---|
| GOVERNMENTAL ACTIVITES | | | | | |
| Compensated absences | $ 887,805 | $ 229,418 | $ - | $ 1,117,223 | $ - |
| Financed purchases | 1,377,894 | - | 207,893 | 1,170,001 | 221,055 |
| Intangible right-to-use leases | - | 379,187 | 82,266 | 296,921 | 85,350 |
| Net pension liability (Note 7) | 4,309,601 | 1,582,670 | - | 5,892,271 | - |
| Net OPEB liability (Note 9) | 195,421,376 | - | 57,417,806 | 138,003,570 | - |
| Total | $ 201,996,676 | $ 2,191,275 | $ 57,707,965 | $ 146,479,986 | $ 306,405 |

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.

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.

**Note 7. Pension Plans (Continued)**

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

Significant Plan Benefits and Policies

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

**Teachers' and Employees' Retirement Systems**

Retirement Benefits:

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

Vested Allowance:

A member terminating employment before attaining retirement age but after completing 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.

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.

**Note 7. Pension Plans (Continued)**

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, 2023. 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, 2023 the Board's total payroll for all employees was $73,888,936. Total covered payroll was $66,931,801. 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 2023, the State of Maryland contributed $5,467,495 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.

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 2023, the Board contributed $2,824,266 to the Teachers' Retirement and Pension System.

Employees' Retirement and Pension Systems:

During fiscal year 2023, the Board contributed $730,514 to the Employees' Retirement and Pension System.

**Note 7. Pension Plans (Continued)**

**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, 2023, 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:

| | 2023 |
|---|---|
| Board's proportionate share of the net pension liability (Employees' Systems) | $ 5,892,271 |
| State's proportionate share of the net pension liability (Teachers' Systems) | 52,667,002 |
| Total | $ 58,559,273 |

The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined. As of June 30, 2022, the Board's proportion of the net pension liability was .029%, which was substantially the same as its proportion measured as of June 30, 2021.

For the year ended June 30, 2023, the Board recognized pension expense of $3,554,780 in the fund financial statements and $3,369,190 in the government-wide financial statements. At June 30, 2023, 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 | $ 656,941 | $ (59,386) |
| investment investments | - | (17,845) |
| experience | - | (420,663) |
| Change in proportion and share of contributions | 565,776 | - |
| date | 730,514 | - |
| Total | $ 1,953,231 | $ (497,894) |

**Note 7. Pension Plans (Continued)**

The $730,514 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, 2024. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life ranging from 5.49 to 5.72 years. The net difference in investment earnings is being amortized over a closed five-year period. The following table shows the amortization of these balances:

| Year End June 30, | |
|---|---|
| 2024 | $ 105,969 |
| 2025 | 109,329 |
| 2026 | 20,936 |
| 2027 | 499,854 |
| 2028 | (11,263) |
| | $ 724,825 |

***Actuarial Assumptions***

The total pension liability in the June 30, 2022 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 | 16 years for State system |
| Asset Valuation Method | 5-year smoothed market; 40% recognized in 2021; 15% equally over next four valuations |
| Inflation | 2.25% general, 2.75% wage |
| Salary Increases | 2.75% to 11.25%, including wage inflation |
| Investment Rate of Return | 6.80% |
| Retirement Age | Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2019 valuation pursuant to the 2019 experience study for the period July 1, 2014 to June 30, 2018. |
| Mortality | Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females. |

**Note 7. Pension Plans (Continued)**

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

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| Public Equity | 34% | 6.0% |
| Private Equity | 16% | 8.4% |
| Rate Sensitive | 21% | 1.2% |
| Credit Opportunity | 8% | 4.9% |
| Real Assets | 15% | 5.2% |
| Absolute Return | 6% | 3.5% |
| Total | 100% | |

***Discount rate***
A single discount rate of 6.80% 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 6.80%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Boards Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***
The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 6.80%, 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 | 5.80% | $ 9,040,619 |
| Current discount rate | 6.80% | $ 5,892,271 |
| 1% increase | 7.80% | $ 3,279,872 |

**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 7% of total premiums. Currently, ESMEC keeps on hand 10.5% as a recommended conservative reserve. All funds held by ESMEC are restricted to being used only for health care expenses.

**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 February 1, 2022, the date of the actuarial valuation data, approximately 463 retirees were receiving benefits, and 938 active employees are potentially eligible to receive future benefits.

## Note 9. Post-Employment Health Care 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 50% at age 75 and beyond.

**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, 2023, the Board recognized an OPEB expense of $8,737,582.

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, 2022. Therefore, plan information for the year ended June 30, 2022 is utilized. The following table shows the components of the Board's total and net OPEB liability at June 30, 2022.

| | |
|---|---|
| **Total OPEB liability** | |
| Service cost | $ 10,111,903 |
| Interest cost | 3,734,228 |
| Changes in benefit terms | 10,136,487 |
| Differences between expected and actual experience | (14,515,342) |
| Changes of assumptions | (63,865,205) |
| Benefit payments | (3,103,324) |
| Net change in total OPEB liability | $ (57,501,253) |
| Total OPEB liability, beginning of year | 196,009,307 |
| Total OPEB liability, end of year (a) | $ 138,508,054 |
| **Plan fiduciary net position** | |
| Contributions - employer | $ 3,103,324 |
| Net investment income | (83,447) |
| Benefit payments | (3,103,324) |
| Administrative expense | - |
| Net change in fiduciary net position | (83,447) |
| Plan fiduciary net position, beginning of year | 587,931 |
| Plan fiduciary net position, end of year (b) | $ 504,484 |
| Board's net OPEB liability, end of year (a - b) | $ 138,003,570 |

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, 2022, the plan was 0.36% funded. The total OPEB liability for benefits was $138,508,054 and plan assets at market value totaled $504,484, resulting in a net OPEB liability of $138,003,570. The covered employee payroll was $62,237,232, and the ratio of the net OPEB liability to the covered payroll was 221.74%.

**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, 2022 measurement date for fiscal year-end 2023. 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 January 2019 through December 2021 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 February 1, 2022.

- *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 3.69% as of June 30, 2022.

- *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 | 2.5% |
| Rate of growth in real income / GDP per year | 1.4% |
| Extra trend due to technology and other factors | 1.0% |
| Expected health share of GDP in 2031 | 19.0% |
| Health Share of GDP Resistance Point | 20.0% |
| Year for limiting cost growth to GDP growth | 2075 |

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

- *Decrement Assumptions* –

| | |
|---|---|
| Healthy | Pub-2010 Mortality Table (teacher and general employees, headcount-weighted), Fully Generational, Projected using Scale MP-2021 |
| Disability | Pub-2010 Mortality Table (teacher and general disabled, headcount-weighted), Fully Generational, Projected using Scale MP-2021 |

**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, 2022 using the discount rate of 3.69%, 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 | 2.69% | $ 164,437,690 |
| Current discount rate | 3.69% | $ 138,003,570 |
| 1% increase | 4.69% | $ 117,062,951 |

The following table presents the Board's net OPEB liability at June 30, 2022 using the health care trend rate of 3.94%, 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 | 2.94% | $ 115,298,558 |
| Current trend rate | 3.94% | $ 138,003,570 |
| 1% increase | 4.94% | $ 167,899,360 |

**Deferred Inflows/Outflows of Resources related to OPEB**

At June 30, 2023, the Board reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

| | Deferred Outflows of | Deferred Inflows of Resources |
|---|---|---|
| Changes in assumptions | $ 40,966,422 | $ (66,003,863) |
| Net difference between projected and actual investment earnings on OPEB plan investments | 23,234 | - |
| Difference between actual and expected experience | 1,835,667 | (75,382,395) |
| Total | $ 42,825,323 | $ (141,386,258) |

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.

**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, | |
|---|---|
| 2024 | $ (15,244,834) |
| 2025 | (15,243,371) |
| 2026 | (15,242,175) |
| 2027 | (15,228,947) |
| 2028 | (13,926,200) |
| Thereafter | (23,675,408) |
| | $ (98,560,935) |

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 February 1, 2022, approximately 463 retirees were receiving benefits, and 938 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, 2023, the plan was 0.39% funded. The total OPEB liability for benefits was $141,377,136 and plan assets at market value totaled $557,276 resulting in a net OPEB liability of $140,819,860. The covered employee payroll was $66,931,801, and the ratio of the net OPEB liability to the covered payroll was 210.39%.

Additional information is as follows:

| | |
|---|---|
| Valuation Date | February 1, 2022 |
| Measurement Date | June 30, 2023 |
| 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 3.86% as of June 30, 2023. |
| Medical Trend | Society of Actuaries (SOA) Model 2022 baseline assumptions. The 2022 rate is 6.00% decreasing gradually to 3.94% 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 | 1.4% |
| Extra trend due to technology and other factors | 1.0% |
| Expected health share of GDP in 2031 | 19.0% |
| Health Share of GDP Resistance Point | 20.0% |
| Year for limiting cost growth to GDP growth | 2075 |

| | |
|---|---|
| Mortality | Pub-2010 Mortality Table, Fully Generational, Projected using Scale MP-2021 |

**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, 2023:

| | |
|---|---|
| **Total OPEB liability** | |
| Service cost | $ 5,168,402 |
| Interest cost | 5,050,477 |
| Changes in benefit terms | - |
| Differences between expected and actual experience | 155,825 |
| Changes of assumptions | (4,072,271) |
| Benefit payments | (3,433,351) |
| Net change in total OPEB liability | $ 2,869,082 |
| Total OPEB liability, beginning of year | 138,508,054 |
| Total OPEB liability, end of year (a) | $ 141,377,136 |
| **Plan fiduciary net position** | |
| Contributions - employer | $ 3,433,351 |
| Net investment income | 52,792 |
| Benefit payments | (3,433,351) |
| Administrative expense | - |
| Net change in fiduciary net position | 52,792 |
| Plan fiduciary net position, beginning of year | 504,484 |
| Plan fiduciary net position, end of year (b) | $ 557,276 |
| Board's net OPEB liability, end of year (a - b) | $ 140,819,860 |

Gains were due to favorable claims experience, updating the medical trend and decrement assumptions, and increasing the discount rate as required by GASB standards.

Sensitivity of the Net OPEB Liability:

The following table presents the Board's net OPEB liability at June 30, 2023 using the discount rate of 3.86%, 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 | 2.86% | $ 167,273,079 |
| Current discount rate | 3.86% | $ 140,819,860 |
| 1% increase | 4.86% | $ 119,810,836 |

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

The following table presents the Board's net OPEB liability at June 30, 2023 using the health care trend rate of 3.94%, 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 | 2.94% | $ 116,969,874 |
| Current trend rate | 3.94% | $ 140,819,860 |
| 1% increase | 4.94% | $ 172,284,453 |

**Note 10. Financed Purchases**

The Board has entered into non-cancelable contracts to finance performance contracting equipment that transfer ownership at the end of the contract term, January 2028. Thus the Board has recorded the related obligations and the related assets in the appropriate funds.

The assets acquired and capitalized as fixed assets under financed purchases are as follows:

| | |
|---|---|
| Equipment, at cost | $ 3,246,662 |
| Less: accumulated depreciation | (2,284,983) |
| | $ 961,679 |

Interest expense related to the above capital leases was approximately $36,000 for the year ended June 30, 2023. The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2023 were as follows:

| | |
|---|---|
| Fiscal year ending June 30, | |
| 2024 | $ 250,989 |
| 2025 | 258,519 |
| 2026 | 266,275 |
| 2027 | 274,263 |
| 2028 | 203,553 |
| Thereafter | - |
| Total minimum lease payments | 1,253,599 |
| Less: amount representing interest | (83,598) |
| Present value of minimum financed purchase payments | $ 1,170,001 |

**Note 11. Intangible Right-to-Use Assets**

The Board implemented the guidance of GASB No. 87, Leases, at July 1, 2021 for accounting and reporting leases that had previously been reported as operating leases and recognized the value of copiers leased under long-term contracts along with a related liability.

During fiscal year 2023, the Board entered into copier lease agreements. Payments under these leases total approximately $65,000 per year for leases that expire in fiscal year 2027 and $31,000 per year for leases expiring in fiscal year 2025. For purposes of discounting future payments on these leases the Board used its incremental borrowing rate in place at the time of lease inception of 3.75%.

The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 5.

Minimum lease payments on copiers over the next five years are as follows:

| | Lease Payments to Maturity | | |
|---|---|---|---|
| | Copiers | | |
| | Principal | Interest | Total |
| 2024 | $ 85,350 | $ 11,135 | $ 96,485 |
| 2025 | 88,551 | 7,934 | 96,485 |
| 2026 | 60,379 | 4,613 | 64,992 |
| 2027 | 62,641 | 2,349 | 64,990 |
| 2028 | - | - | - |
| | $ 296,921 | $ 26,031 | $ 322,952 |

**Note 12. Fund Balances**

As of June 30, 2023, fund balances are composed of the following:

| | Major Fund | | Nonmajor | Total |
|---|---|---|---|---|
| | General Fund | Food Services | Governmental Funds | Governmental Funds |
| Nonspendable: | | | | |
| Inventories | $ 32,572 | $ - | $ - | $ 32,572 |
| | 32,572 | - | - | 32,572 |
| Restricted: | | | | |
| By County Commissioners for capital projects | - | | 81,005 | 81,005 |
| By Federal law for nonprofit food service fund | - | 1,968,569 | - | 1,968,569 |
| | - | 1,968,569 | 81,005 | 2,049,574 |
| Assigned: | | | | |
| Future insurance costs | 806,010 | - | - | 806,010 |
| Long-term accrued annual leave | 1,117,223 | - | - | 1,117,223 |
| School activities | - | - | 979,479 | 979,479 |
| Encumbrances | 744,335 | - | - | 744,335 |
| | 2,667,568 | - | 979,479 | 3,647,047 |
| Unassigned | 1,323,692 | - | - | 1,323,692 |
| Total fund balance | $ 4,023,832 | $ 1,968,569 | $ 1,060,484 | $ 7,052,885 |

**Note 13. 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, 2023 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

REQUIRED SUPPLEMENTARY INFORMATION

# BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
## SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
## BUDGET AND ACTUAL - GENERAL FUND
## Year Ended June 30, 2023

| | Budgeted Amounts | | | Variance With Final Budget Favorable |
|---|---|---|---|---|
| | Original | Final | Actual | (Unfavorable) |
| REVENUES | | | | |
| County appropriation | $ 64,085,219 | $ 64,085,219 | $ 64,085,219 | $ - |
| State of Maryland | 40,915,143 | 40,915,144 | 41,667,551 | 752,407 |
| Restricted federal, state and other | 14,086,998 | 20,341,744 | 14,412,969 | (5,928,775) |
| Other sources | 440,000 | 440,000 | 614,216 | 174,216 |
| TOTAL REVENUES | 119,527,360 | 125,782,107 | 120,779,955 | (5,002,152) |
| EXPENDITURES | | | | |
| Administration | 2,232,794 | 2,362,079 | 2,425,509 | (63,430) |
| Mid-level administration | 5,539,625 | 6,300,995 | 6,285,811 | 15,184 |
| Instruction | 45,470,214 | 44,277,409 | 44,859,123 | (581,714) |
| Special education | 10,088,106 | 10,047,856 | 9,874,537 | 173,319 |
| Student personnel services | 585,933 | 726,683 | 719,693 | 6,990 |
| Student health services | 1,057,081 | 1,095,081 | 1,126,720 | (31,639) |
| Student transportation | 8,018,889 | 9,092,639 | 9,476,933 | (384,294) |
| Operation of plant | 6,664,303 | 6,930,553 | 7,554,477 | (623,924) |
| Maintenance of plant | 2,356,408 | 3,308,658 | 3,094,876 | 213,782 |
| Fixed charges | 23,757,009 | 23,061,125 | 23,610,295 | (549,170) |
| Capital outlay | - | - | 1,038,550 | (1,038,550) |
| Restricted programs | 14,086,998 | 20,341,744 | 14,412,969 | 5,928,775 |
| TOTAL EXPENDITURES AND ENCUMBRANCES | 119,857,360 | 127,544,822 | 124,479,493 | 3,065,329 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES | (330,000) | (1,762,715) | (3,699,538) | (1,936,823) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Fund balance appropriated | 330,000 | 1,762,715 | 2,412,582 | 649,867 |
| TOTAL OTHER FINANCING SOURCES (USES) | 330,000 | 1,762,715 | 2,412,582 | 649,867 |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | $ - | $ - | $ (1,286,956) | $ (1,286,956) |

# 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 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| **Total OPEB liability** | | | | | | |
| Service cost | $ 9,016,476 | $ 7,522,124 | $ 8,724,099 | $ 10,453,114 | $ 8,288,518 | $ 10,111,903 |
| Interest cost | 5,268,508 | 6,111,678 | 6,965,488 | 6,994,566 | 4,065,840 | 3,734,228 |
| Changes in benefit terms | - | - | - | - | - | 10,136,487 |
| Differences between expected and actual experience | (439,806) | 4,130,252 | (1,264,525) | (92,780,170) | (642,889) | (14,515,342) |
| Changes of assumptions | (25,304,521) | 7,164,658 | 19,302,980 | 18,284,772 | 19,116,520 | (63,865,205) |
| Benefit payments | (2,566,424) | (2,953,427) | (2,527,028) | (1,098,983) | (2,185,554) | (3,103,324) |
| Net change in total OPEB liability | $ (14,025,767) | $ 21,975,285 | $ 31,201,014 | $ (58,146,701) | $ 28,642,435 | $ (57,501,253) |
| Total OPEB liability, beginning of year | 186,363,041 | 172,337,274 | 194,312,559 | 225,513,573 | 167,366,872 | 196,009,307 |
| Total OPEB liability, end of year (a) | $ 172,337,274 | $ 194,312,559 | $ 225,513,573 | $ 167,366,872 | $ 196,009,307 | $ 138,508,054 |
| **Plan fiduciary net position** | | | | | | |
| Contributions - employer | $ 2,566,424 | $ 2,953,427 | $ 2,527,028 | $ 1,098,983 | $ 2,185,554 | $ 3,103,324 |
| Net investment income | 917 | 1,016 | 7,297 | 5,979 | 66,123 | (83,447) |
| Benefit payments | (2,566,424) | (2,953,427) | (2,527,028) | (1,098,983) | (2,185,554) | (3,103,324) |
| Administrative expense | - | - | - | - | - | - |
| Net change in fiduciary net position | 917 | 1,016 | 7,297 | 5,979 | 66,123 | (83,447) |
| Plan fiduciary net position, beginning of year | 506,599 | 507,516 | 508,532 | 515,829 | 521,808 | 587,931 |
| Plan fiduciary net position, end of year (b) | $ 507,516 | $ 508,532 | $ 515,829 | $ 521,808 | $ 587,931 | $ 504,484 |
| Board's net OPEB liability, end of year (a - b) | $ 171,829,758 | $ 193,804,027 | $ 224,997,744 | $ 166,845,064 | $ 195,421,376 | $ 138,003,570 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 0.29% | 0.26% | 0.23% | 0.31% | 0.30% | 0.36% |
| Covered employee payroll | $ 55,042,032 | $ 56,180,104 | $ 57,590,119 | $ 59,503,815 | $ 56,673,952 | $ 62,237,232 |
| Net OPEB liability as of % of covered-employee payroll | 312.18% | 344.97% | 390.69% | 280.39% | 344.82% | 221.74% |
| Expected average remaining service years of all participants | 10 | 9 | 9 | 9 | 9 | 9 |
| Annual money-weighted rate of return | 0.18% | 0.20% | 1.42% | 1.15% | 11.92% | -15.28% |

*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 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Contractually required contributions | $ 2,566,424 | $ 2,953,427 | $ 2,527,028 | $ 1,924,634 | $ 2,185,554 | $ 3,103,324 |
| Contributions in relation to the contractually required contribution | (2,566,424) | (2,953,427) | (2,527,028) | (1,924,634) | (2,185,554) | (3,103,324) |
| Contribution deficiency (excess) | $ - | $ - | $ - | $ - | $ - | $ - |
| Covered employee payroll | $ 55,042,032 | $ 56,180,104 | $ 57,590,119 | $ 59,503,815 | $ 56,673,952 | $ 62,237,232 |
| Contributions as a percentage of covered payroll | 4.66% | 5.26% | 4.39% | 3.23% | 3.86% | 4.99% |

*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 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| Board's proportion of the net pension liability | 0.0201135% | 0.0218792% | 0.0217854% | 0.0203449% | 0.0230633% | 0.0252585% | 0.0256375% | 0.0287263% |
| 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 | $ 5,794,422 | $ 4,309,601 |
| 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 | 63,718,224 | 39,545,791 |
| Total | $ 50,054,221 | $ 65,909,449 | $ 85,555,639 | $ 72,395,689 | $ 67,342,573 | $ 64,198,098 | $ 69,512,646 | $ 43,855,392 |
| Board's covered payroll | $ 53,333,397 | $ 54,372,599 | $ 55,042,032 | $ 56,180,104 | $ 57,590,119 | $ 59,503,815 | $ 58,883,836 | $ 64,659,742 |
| pension liability as a percentage of its covered payroll | 6.69% | 8.36% | 9.34% | 7.83% | 8.40% | 8.76% | 9.84% | 6.67% |
| Total pension liability as a percentage of the plan fiduciary net position | 0.11% | 0.14% | 0.19% | 0.15% | 0.13% | 0.12% | 0.12% | 0.06% |

*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 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|---|
| Contractually required contributions | $ 461,154 | $ 424,398 | $ 414,089 | $ 459,901 | $ 518,683 | $ 549,684 | $ 632,990 | $ 672,111 |
| Contributions in relation to the contribution | (461,154) | (424,398) | (414,089) | (459,901) | (518,683) | (549,684) | (632,990) | (672,111) |
| 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 | $58,883,836 | $64,659,742 |
| Contributions as a percentage of covered payroll | 0.86% | 0.78% | 0.75% | 0.82% | 0.90% | 0.92% | 1.07% | 1.04% |

*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
## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
## For the year ended June 30, 2023

### 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, 2023<br>GENERAL FUND | | |
|---|---|---|---|
| | Revenues | Expenditures | Fund Balances |
| GAAP BASIS | $ 127,735,889 | $ 131,828,221 | $ 4,023,832 |
| Encumbrances at June 30, 2022 | (1,702,274) | (2,839,403) | - |
| Encumbrances at June 30, 2023 | 593,022 | 1,337,357 | (744,335) |
| Proceeds from right-to-use leases | (379,187) | (379,187) | |
| Payments made on-behalf of the Board by State of Maryland to the Maryland State Retirement System | (5,467,495) | (5,467,495) | - |
| BUDGETARY BASIS | $ 120,779,955 | $ 124,479,493 | $ 3,279,497 |

### 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 2022 valuation:

- Salary increase assumption changed from 2.75% to 9.25% in the 2021 actuarial valuation to 2.75% to 11.25% in the 2022 actuarial valuation.

**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 | 16 years for State system |
| Asset Valuation Method | 5-year smoothed market; 40% recognized in 2021; 15% equally over next four valuations |
| Inflation | 2.25% general, 2.75% wage |
| Salary Increases | 2.75% to 11.25%, including wage inflation |
| Investment Rate of Return | 6.80% |
| Retirement Age | Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2019 valuation pursuant to the 2019 experience study for the period July 1, 2014 to June 30, 2018. |
| Mortality | Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females. |

### Note 3. Post-Employment Health Care Benefits

**Changes in Benefit Terms**

- The life insurance cost reduces to 75% at age 70 and 50% at age 75
- The subsidy percentage is applied to the EPO plan not the plan selected

**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 – 3.69% at June 30, 2022 and 3.86% at June 30, 2023.
- The medical trend was updated to the latest model released by the SOA and excludes the impact of the Cadillac tax
- The MP mortality improvement scale was updated to MP-2021
- The decrement assumptions and the salary scale were updated to the most recent State of Maryland rates

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

| | |
|---|---|
| Asset Valuation Method | Market Value of Assets |
| Inflation | 2.5% (2021), 2.5% (2022), 2.5% (2023) |
| Salary Increases | Varies based on years of service and age |
| Investment Rate of Return | 1.92% (2021), 3.69% (2022), 3.86% (2023) |
| Medical Trend | Based on the Society of Actuaries Long-Run Medical Cost Trend Mode - SOA Model 2022 baseline assumptions. The 2023 rate is 5.80% decreasing gradually to the ultimate rate of 3.94% reached in 2075. |
| Mortality | Pub-2010 Mortality Tables, fully generational, projected using scale MP- 2021 and base year 2010. |

ADDITIONAL SUPPLEMENTARY INFORMATION

# BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
## COMBINING BALANCE SHEET
## NONMAJOR GOVERNMENTAL FUNDS
## June 30, 2023

| | Capital Projects | School Activities | Total Nonmajor Governmental Funds |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | $ 101,603 | $ 979,479 | $ 1,081,082 |
| Accounts receivable: | | | |
| State of Maryland | 49,800 | - | 49,800 |
| Queen Anne's County | 711,358 | - | 711,358 |
| TOTAL ASSETS | $ 862,761 | $ 979,479 | $ 1,842,240 |
| LIABILITIES AND FUND BALANCES | | | |
| Accounts payable: | | | |
| Vendors | $ 628,265 | $ - | $ 628,265 |
| Other governmental funds | 70,398 | - | 70,398 |
| Unearned revenues | 83,093 | - | 83,093 |
| TOTAL LIABILITIES | 781,756 | - | 781,756 |
| Fund balances: | | | |
| Restricted | 81,005 | - | 81,005 |
| Assigned | - | 979,479 | 979,479 |
| TOTAL FUND BALANCES | 81,005 | 979,479 | 1,060,484 |
| TOTAL LIABILITIES AND FUND BALANCES | $ 862,761 | $ 979,479 | $ 1,842,240 |

# 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, 2023

| | Capital Projects | School Activities | Total Nonmajor Governmental Funds |
|---|---|---|---|
| REVENUES | | | |
| County funds | $ 1,346,462 | $ - | $ 1,346,462 |
| State of Maryland funds | 646,535 | - | 646,535 |
| Other sources | 10,688 | - | 10,688 |
| School activity revenues | - | 1,705,172 | 1,705,172 |
| TOTAL REVENUES | 2,003,685 | 1,705,172 | 3,708,857 |
| EXPENDITURES | | | |
| Capital outlay | 2,111,990 | - | 2,111,990 |
| School activity expenditures | - | 1,588,450 | 1,588,450 |
| TOTAL EXPENDITURES | 2,111,990 | 1,588,450 | 3,700,440 |
| CHANGE IN FUND BALANCES | (108,305) | 116,722 | 8,417 |
| FUND BALANCES, BEGINNING | 189,310 | 862,757 | 1,052,067 |
| FUND BALANCES, ENDING | $ 81,005 | $ 979,479 | $ 1,060,484 |

# BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
## CAPITAL PROJECTS EXPENDITURES
## Year Ended June 30, 2023

| | | |
|---|---|---|
| EXPENDITURES | | |
| Bayside Elementary School - roof replacement | $ | 1,047,115 |
| Central Office - architectural building study | | 271,982 |
| Centreville Elementary School - telephone replacement | | 24,900 |
| Church Hill Elementary School - fire alarm replacement | | 1,744 |
| Church Hill Elementary School - telephone replacement | | 24,900 |
| Kent Island Elementary School - roof replacement | | 354,031 |
| Kent Island High School - chiller replacement | | 36,197 |
| Kent Island High School - energy management system | | 9,936 |
| Kent Island High School - fire alarm replacement | | 5,907 |
| Kent Island High School - roof replacement | | 163,615 |
| Other capital project related expenditures | | 118,411 |
| Sudlersville Elementary School - chiller replacement | | 53,252 |
| TOTAL EXPENDITURES | $ | 2,111,990 |

# BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
## FOOD SERVICE FUND OPERATIONS
## Year Ended June 30, 2023

| | |
|---|---|
| REVENUES | |
| Federal through state funds | $ 1,869,055 |
| USDA donated commodities | 308,553 |
| State of Maryland funds | 86,529 |
| Other sources - principally sale of meals | 1,205,208 |
| TOTAL REVENUES | 3,469,345 |
| EXPENDITURES | |
| Salaries and wages | 109,413 |
| Contracted services | 2,524,542 |
| Equipment | 274,406 |
| Other charges | 41,911 |
| Supplies - principally USDA donated commodities | 377,852 |
| Other | 151,215 |
| TOTAL EXPENDITURES | 3,479,339 |
| EXCESS OF EXPENDITURES OVER REVENUES | $ (9,994) |

# BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND
## SCHOOL ACTIVITIES FUND ACCOUNTS
## Year Ended June 30, 2023

| School Name | June 30, 2022 Fund Balance | Year Ended June 30, 2023 Additions - Revenues | Deductions - Expenditures | Fund Balance |
|---|---|---|---|---|
| ELEMENTARY | | | | |
| Bayside | $ 17,615 | $ 34,560 | $ 39,823 | $ 12,352 |
| Centreville | 31,899 | 29,411 | 46,947 | 14,363 |
| Church Hill | 3,040 | 12,191 | 11,673 | 3,558 |
| Grasonville | 9,078 | 54,836 | 53,761 | 10,153 |
| Kennard | 6,527 | 36,121 | 41,731 | 917 |
| Kent Island | 19,475 | 17,396 | 19,867 | 17,004 |
| Matapeake | 15,415 | 37,580 | 37,551 | 15,444 |
| Sudlersville | 4,349 | 14,136 | 11,564 | 6,921 |
| TOTAL ELEMENTARY | 107,398 | 236,231 | 262,917 | 80,712 |
| MIDDLE | | | | |
| Centreville | 17,446 | 62,077 | 58,147 | 21,376 |
| Matapeake | 34,207 | 30,014 | 30,776 | 33,445 |
| Stevensville | 21,600 | 56,530 | 44,116 | 34,014 |
| Sudlersville | 21,335 | 49,062 | 39,960 | 30,437 |
| TOTAL MIDDLE | 94,588 | 197,683 | 172,999 | 119,272 |
| HIGH | | | | |
| Kent Island | 420,573 | 695,358 | 677,130 | 438,801 |
| Queen Anne's County | 240,198 | 575,900 | 475,404 | 340,694 |
| TOTAL HIGH | 660,771 | 1,271,258 | 1,152,534 | 779,495 |
| TOTAL | $ 862,757 | $ 1,705,172 | $ 1,588,450 | $ 979,479 |