

THE BOARD OF EDUCATION  
OF CAROLINE COUNTY

FINANCIAL REPORT

JUNE 30, 2019

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## INDEPENDENT AUDITORS' REPORT

The Board of Education of Caroline County  
Denton, Maryland

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Caroline County, a component unit of Caroline County, Maryland, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The Board of Education of Caroline County's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Caroline County as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Board of Education of Caroline County's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2019 on our consideration of The Board of Education of Caroline County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Caroline County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Board of Education of Caroline County's internal control over financial reporting and compliance.

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

Salisbury, Maryland  
September 26, 2019

Herbert J. Geary III  
Corey N. Duncan  
Roy J. Geiser  
Chris A. Hall  
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

The Board of Education of Caroline County  
Denton, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Caroline County, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise The Board of Education of Caroline County's basic financial statements, and have issued our report thereon dated September 26, 2019.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Salisbury, Maryland  
September 26, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**THE BOARD OF EDUCATION OF CAROLINE COUNTY**  
**Denton, Maryland**

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2019**

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This section of The Board of Education of Caroline County's (Board) financial report provides management's overview and analysis of the Board's financial performance for the fiscal year that ended on June 30, 2019. This discussion and analysis is intended to serve as an introduction to the financial statements that follow.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The intent of MD&A is to present an analysis of the Board's financial activities based on currently known facts, decisions and conditions.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

### District-wide Financial Statements

The first set of financial statements, the *district-wide statements*, are designed to provide readers with a complete picture regarding the financial status of the Board of Education of Caroline County. The district-wide statements include the *statement of net position* and the *statement of activities*. 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* reports revenues and expenses; it presents information showing how the Board's net position changed during the most recent fiscal year.

In the *statement of net position* and the *statement of activities*, the Board's activities are divided into two categories:

Governmental Activities - Most of the Board's programs and services are included here, such as instruction, administration, special education, pupil services, health services, pupil transportation, operation and maintenance of plant, fixed charges, community services, school activities, and capital outlay.

Business-type activities - The Board's food service operation is reported as a business-type activity. Fees are charged to staff, students, and visitors to help cover the costs of the food service operation.

The *district-wide statements*, measure the change in total economic resources during the period and are presented on a full accrual basis. 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.

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**Denton, Maryland**

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2019**

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

Fund Financial Statements

The second set of statements, the *fund financial statements*, view the government as a collection of separate funds. 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 Caroline County uses fund accounting to ensure and demonstrate compliance with fiscal requirements. The Board's activities are classified into three broad categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - Most of the Board's activities are reported in governmental funds, which focus on an entity's financial position and change in financial position. The governmental fund statements provide a detailed short-term view of the Board's operations and the services it provides. This information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. The Board's major governmental funds are the general fund, capital projects fund, and school activity fund.

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 is used.

Proprietary funds - Proprietary funds are used to account for the business-type activities of a government. The Board's food service fund falls under this classification since a significant portion of the funding is provided through user charges.

Fiduciary funds - Fiduciary funds are used to account for resources held by the government as either a trustee (a party that administers property for a beneficiary) or an agent (one who acts on behalf of another). The Board's fiduciary funds consist of funds accumulating for retirees health benefits and an agency fund.

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

A budgetary presentation of individual fund financial information is presented as part of the required supplementary information. The budgetary statements utilize the current financial resources measurement focus. In these statements, available cash flows of the Board are

**THE BOARD OF EDUCATION OF CAROLINE COUNTY**  
**Denton, Maryland**

**Management's Discussion and Analysis (MD&A)**  
**June 30, 2019**

measured as well as the commitment to acquire goods or services with that cash. Open encumbrances at year-end are reported as expenditures.

**THE BOARD OF EDUCATION OF CAROLINE COUNTY AS A WHOLE**

The largest portion of the Board's total assets reflects the investment in capital assets such as land, buildings, vehicles and equipment. These capital assets are used to provide services to the students and citizens of Caroline County and are not available for future spending.

**Figure 1-1**  
**Statement of Net Position**

	June 30, 2019	June 30, 2018	\$ Change	% Change
Current and other assets	15,263,700	15,313,577	(49,877)	-0.33%
Capital assets	89,416,039	89,713,528	(297,489)	-0.33%
<b>Total Assets</b>	<u>104,679,739</u>	<u>105,027,105</u>	<u>(347,366)</u>	<u>-0.33%</u>
Deferred outflows of resources	<u>17,986,761</u>	<u>1,234,101</u>	<u>16,752,660</u>	<u>1357.48%</u>
Current and other liabilities	9,934,294	10,410,450	(476,156)	-4.57%
Long-term liabilities	108,684,848	128,918,673	(20,233,825)	-15.70%
<b>Total Liabilities</b>	<u>118,619,142</u>	<u>139,329,123</u>	<u>(20,709,981)</u>	<u>-14.86%</u>
Deferred inflows of resources	<u>43,415,849</u>	<u>1,258,389</u>	<u>42,157,460</u>	<u>3350.11%</u>
Net investment in capital assets	84,522,951	86,145,557	(1,622,606)	-1.88%
Unrestricted	(123,891,442)	(120,471,863)	(3,419,579)	2.84%
<b>Total Net Position</b>	<u><u>(39,368,491)</u></u>	<u><u>(34,326,306)</u></u>	<u><u>(5,042,185)</u></u>	<u><u>14.69%</u></u>

**THE BOARD OF EDUCATION OF CAROLINE COUNTY**  
**Denton, Maryland**

**Management's Discussion and Analysis (MD&A)**  
**June 30, 2019**

Net position can be used to serve as an indicator of a district's financial position. As illustrated in figure 1-1, the Board's total net position at the close of the fiscal year was (\$39 million), which represents a decrease of approximately \$5 million from the prior year. During fiscal year 2018, the Board implemented Governmental Accounting Standard Board's Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this statement is to improve the accounting and financial reporting for Other Post-Employment Benefits (OPEB). It requires the full net OPEB liability and related expenses to be presented on the Board's accrual basis statements. The implementation of this statement has had a material impact on the Board's financial statements and has resulted in a negative net position. More detailed information about the Board's net OPEB liability can be found in Note 7 of the financial statements.

Results of operations for the Board as a whole are presented in the table below.

**Figure 1-2**  
**Statement of Activities**

	June 30, 2019	June 30, 2018	\$ Change	% Change
<b>Revenues</b>				
Program Revenues				
Charges for services	5,023,515	5,039,927	(16,412)	-0.33%
Operating grants and contributions	12,388,012	11,512,828	875,184	7.60%
Capital grants and contributions	1,424,788	2,613,942	(1,189,154)	-45.49%
General Revenues				
County	14,436,087	14,207,361	228,726	1.61%
State aid	54,834,517	53,050,265	1,784,252	3.36%
Investment earnings	216,625	122,499	94,126	76.84%
Other	708,697	572,742	135,955	23.74%
Total Revenues	89,032,241	87,119,564	1,912,677	2.20%
<b>Expenses</b>				
Administration	2,152,414	1,966,521	185,893	9.45%
School management and support	5,456,663	5,309,722	146,941	2.77%
Instructional salaries and wages	29,907,286	28,601,388	1,305,898	4.57%

**THE BOARD OF EDUCATION OF CAROLINE COUNTY**  
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**June 30, 2019**

Textbooks and instructional supplies	1,654,914	982,758	672,156	68.39%
Other instructional costs	6,165,544	5,921,652	243,892	4.12%
Special education	7,529,922	7,489,640	40,282	0.54%
Pupil personnel services	561,949	543,451	18,498	3.40%
Health services	822,347	729,979	92,368	12.65%
Pupil transportation	3,911,682	4,122,104	(210,422)	-5.10%
Operation of plant	4,346,463	4,026,136	320,327	7.96%
Maintenance of plant	928,032	871,791	56,241	6.45%
Fixed charges	20,475,754	22,911,723	(2,435,969)	-10.63%
Community Services	495,706	1,333,546	(837,840)	-62.83%
Capital outlay	163,557	284,947	(121,390)	-42.60%
School activity	1,007,717	1,081,674	(73,957)	-6.84%
On-behalf state retirement	4,536,723	4,323,883	212,840	4.92%
Food services	3,957,753	3,855,229	102,524	2.66%
<i>Total Expenses</i>	<u>94,074,426</u>	<u>94,356,144</u>	<u>(281,718)</u>	<u>-0.30%</u>
<i>Change in Net Position</i>	(5,042,185)	(7,236,580)	2,194,395	-30.32%
<i>Net Position End of Year</i>	(39,368,491)	(34,326,306)	(5,042,185)	14.69%

As shown in figure 1-2, there was a significant increase in the amount of state aid. Unrestricted state aid is direct mandated funding, which is calculated on a yearly basis by the Maryland State Department of Education Division of Business Services. This funding is formula driven based on student enrollment, FARMS (Free and Reduced Price Meals) counts and wealth data. The other large fluctuation in revenue was a decrease in the amount of revenue received for capital projects. During the fiscal year, funding was received for the roof replacement at Lockerman Middle School. The other major capital project is the new Greensboro Elementary School which is still in the beginning stages of development.

The largest variances on the expenditure side took place in instructional salaries and wages, fixed charges and community services. Spending for instructional salaries and wages increased as a result of negotiated changes to the salary schedules as well as new positions that were added to the budget. The decrease in fixed charges is due to decreased OPEB expense in the current year related to GASB 75 requirements. The decrease in community services is a result of teaching positions which were reclassified to salaries and wages.

**THE BOARD OF EDUCATION OF CAROLINE COUNTY**  
**Denton, Maryland**

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2019**

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**FUND PERFORMANCE**

As mentioned earlier, funds are self-balancing sets of accounts used by the Board to control and manage money for particular purposes. The balance sheet for the Board's governmental funds is shown on page 20, and the results of operations are presented on page 21. As shown by the results of operations, the fund balance for the general fund decreased by \$508,601. It is important to note that this negative change in fund balance is based on the GAAP basis of accounting (Generally Accepted Accounting Principles), which differs from the budgetary basis of accounting.

The Food Service program is designed to be self-funded. As shown on page 23, the food service program generated a profit of \$53,700. A variety of enhancements including: internal catering, new and innovative menu items, a larger selection of fresh fruits and vegetables and more scratch cooked meals, have been implemented to ensure this program remains fiscally sound.

The general fund statement of revenues, expenditures, and changes in fund balance on the budgetary basis of accounting is shown on pages 52-55. Instructional salaries and wages as well as the fixed charges associated with these costs account for the largest percentage of the general fund unrestricted expenditures.

It is critical for the reader to understand that the county appropriation and unrestricted state aid account for approximately 89% of the total operating budget. Local revenue, provided by the Caroline County Government, is dependent upon the economic condition of the County. However, the education statute requires a minimum level of funding equal to the prior years per pupil contribution times the current year projected enrollment. State aid is largely formula driven based on student enrollment and wealth. Both of these revenue streams are stable and highly predictable.

Additional revenue items include: state and federal restricted revenue, interest revenue and E-rate rebates. It is important to note that restricted federal and restricted state revenue may be one-time and tend to vary from one year to the next. Recurring but unpredictable are the E-rate rebates received from the Federal Communications Commission.

On the budgetary statements for both the general fund and the food services fund, the original budget is the same as the final budget. The Board follows a policy of not amending the original budget until our financial report has been issued. The Board notifies the county in advance of any categories that are over budget. After the financial report has been issued, any necessary changes are presented to the County for approval.

**THE BOARD OF EDUCATION OF CAROLINE COUNTY**  
**Denton, Maryland**

**Management's Discussion and Analysis (MD&A)**  
**June 30, 2019**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

At June 30, 2019, the Board had invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. As shown in figure 1-3, these assets totaled \$136 million.

**Figure 1-3**  
**Capital Assets - Governmental Activities**

	June 30, 2019	June 30, 2018	\$ Change	% Change
Construction in progress and land	1,917,047	308,929	1,608,118	520.55%
Buildings and improvements	128,567,952	128,089,710	478,242	0.37%
Furniture and equipment	2,144,932	2,063,293	81,639	3.96%
Software	361,630	675,517	(313,887)	-46.47%
Vehicles	3,110,700	2,831,349	279,351	9.87%
<i>Total capital assets</i>	<u>136,102,261</u>	<u>133,968,798</u>	<u>2,133,463</u>	<u>1.59%</u>

Projects which contributed to the increase in capital assets include: costs associated with the new Greensboro Elementary School, the renovation of the VFW building on Greensboro Road, the roof replacement at Lockerman Middle School and bus purchases.

School Districts in Maryland are fiscally dependent on the state and county governments. Thus, the Board of Education of Caroline County has ownership of its assets, but does not issue the debt associated with them. Accordingly, the Board carries no bond rating. As mentioned in the notes to the financial statements, the Board has capital lease obligations for building renovations, vehicles and energy equipment upgrades.

**FACTORS BEARING ON THE BOARD'S FUTURE**

At the time these financial statements were prepared and audited, the Board was aware of the following circumstances that could affect its financial health in the future:

- Senate Bill 1030 establishes The Education Blueprint for Maryland's Future as state education policy based on the recommendations of The Commission on Innovation and

**THE BOARD OF EDUCATION OF CAROLINE COUNTY**  
**Denton, Maryland**

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**Management's Discussion and Analysis (MD&A)**  
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Excellence in Education (Kirwan Commission). The bill distributes \$255 million in FY 2020 consistent with the funding priorities identified by the Commission in the areas of Special Education, Concentration of Poverty, Transitional Supplemental Instruction for Struggling Learners, Mental Health, Supplemental Pre-K and Teacher Salaries. It also mandates a total of \$355 million be distributed state-wide in FY 2021 and mandates that \$370 million be distributed in FY 2022. The intent of this funding is to transform Maryland's early childhood, primary, and secondary education system to the levels of the highest performing systems. It also seeks to increase teacher salaries and to improve recruitment and retention of high quality teachers.

- Caroline County continues to cope with overcrowding in many of the schools. As a result, several of our buildings are in need of renovation. Funding for capital projects is shared by both the State and County Government and requires a lengthy approval process.

**CONTACTING THE BOARD'S 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 compliance and show its accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Erin B. Thornton, Comptroller, 410-479-3263 ext. 1124 or Milton E. Nagel, Assistant Superintendent for Administrative Services, 410-479-3252 ext. 1110, at The Board of Education of Caroline County, 204 Franklin Street, Denton, Maryland 21629.

## FINANCIAL STATEMENTS

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF NET POSITION

June 30, 2019

	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and investments	\$ 12,074,516	\$ 137,322	\$ 12,211,838
Accounts receivable:			
Federal funds from State of Maryland	1,165,457	91,896	1,257,353
State of Maryland	353,248	16,447	369,695
Internal balances	(232,555)	232,555	-
Other	1,062,528	1,755	1,064,283
External parties (fiduciary fund)	252,509	-	252,509
Prepays	14,400	-	14,400
Inventory	-	93,622	93,622
Non depreciable capital assets	1,917,047	-	1,917,047
Depreciable capital assets, net	87,342,132	156,860	87,498,992
<b>TOTAL ASSETS</b>	<b>103,949,282</b>	<b>730,457</b>	<b>104,679,739</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions (see Note 6)	996,561	-	996,561
Other post-employment benefits (see Note 7)	16,990,200	-	16,990,200
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>17,986,761</b>	<b>-</b>	<b>17,986,761</b>
<b>LIABILITIES</b>			
Accounts payable:			
Vendors	307,459	49,226	356,685
State of Maryland	36,299	-	36,299
Accrued payroll	5,500,318	125,253	5,625,571
Other accrued expenses	2,463,228	-	2,463,228
Unearned revenue - Federal	296,973	-	296,973
Unearned revenue - other	203,660	-	203,660
Long-term liabilities:			
Due within one year	951,878	-	951,878
Due in more than one year	108,684,848	-	108,684,848
<b>TOTAL LIABILITIES</b>	<b>118,444,663</b>	<b>174,479</b>	<b>118,619,142</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions (see Note 6)	524,674	-	524,674
Other post-employment benefits (see Note 7)	42,891,175	-	42,891,175
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>43,415,849</b>	<b>-</b>	<b>43,415,849</b>
<b>NET POSITION</b>			
Net investment in capital assets	84,366,091	156,860	84,522,951
Unrestricted	(124,290,560)	399,118	(123,891,442)
<b>TOTAL NET POSITION</b>	<b>\$ (39,924,469)</b>	<b>\$ 555,978</b>	<b>\$ (39,368,491)</b>

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

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF ACTIVITIES  
Year Ended June 30, 2019

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Governmental Activities</b>				
Current:				
Administration	\$ 2,152,414	\$ -	\$ 118,351	\$ -
School management and support	5,456,663	-	139,442	-
Instructional salaries and wages	29,907,286	-	2,256,134	-
Textbooks and instructional supplies	1,654,914	-	799,218	-
Other instructional costs	6,165,544	-	716,531	-
Special education	7,529,922	-	1,780,554	-
Pupil personnel services	561,949	-	-	-
Health services	822,347	-	149,413	-
Pupil transportation	3,911,682	-	72,565	-
Operation of plant	4,346,463	-	82,425	-
Maintenance of plant	928,032	-	-	-
Fixed charges	20,475,754	-	1,240,950	-
Community services	495,706	-	495,706	-
School activity expenditures	1,007,717	1,013,217	-	-
On-behalf State Retirement contributions	4,536,723	-	4,536,723	-
Capital outlay	163,557	-	-	1,424,788
Total Governmental Activities	90,116,673	1,013,217	12,388,012	1,424,788
<b>Business-Type Activities</b>				
Food Services	3,957,753	4,010,298	-	-
Total Business-Type Activities	3,957,753	4,010,298	-	-
Totals	\$ 94,074,426	\$ 5,023,515	\$ 12,388,012	\$ 1,424,788

**General Revenues**

Caroline County  
State of Maryland  
Investment earnings  
Miscellaneous

Total General Revenues

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

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

Net (Expenses) Revenue  
and changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (2,034,063)	\$ -	\$ (2,034,063)
(5,317,221)	-	(5,317,221)
(27,651,152)	-	(27,651,152)
(855,696)	-	(855,696)
(5,449,013)	-	(5,449,013)
(5,749,368)	-	(5,749,368)
(561,949)	-	(561,949)
(672,934)	-	(672,934)
(3,839,117)	-	(3,839,117)
(4,264,038)	-	(4,264,038)
(928,032)	-	(928,032)
(19,234,804)	-	(19,234,804)
-	-	-
5,500	-	5,500
-	-	-
1,261,231	-	1,261,231
<hr/>		
(75,290,656)	-	(75,290,656)
<hr/>		
-	52,545	52,545
<hr/>		
-	52,545	52,545
<hr/>		
(75,290,656)	52,545	(75,238,111)
<hr/>		
14,436,087	-	14,436,087
54,834,517	-	54,834,517
215,470	1,155	216,625
708,697	-	708,697
<hr/>		
70,194,771	1,155	70,195,926
<hr/>		
(5,095,885)	53,700	(5,042,185)
<hr/>		
(34,828,584)	502,278	(34,326,306)
<hr/>		
\$ (39,924,469)	\$ 555,978	\$ (39,368,491)

THE BOARD OF EDUCATION OF CAROLINE COUNTY

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2019

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
<b>ASSETS</b>			
Cash and investments	\$ 10,312,554	\$ 1,269,165	\$ 492,797
Accounts receivable:			
Federal funds from State of Maryland	1,165,457	-	-
State of Maryland	353,248	-	-
Other Board of Education funds	1,108,071	-	-
Local	-	978,834	-
Other	83,694	-	-
Prepays	14,400	-	-
<b>TOTAL ASSETS</b>	<b>\$ 13,037,424</b>	<b>\$ 2,247,999</b>	<b>\$ 492,797</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Accounts payable:			
Vendors	\$ 298,052	\$ 4,157	\$ 5,250
State of Maryland	36,299	-	-
Other Board of Education funds	-	1,088,117	-
Accrued payroll	5,500,318	-	-
Accrued leave	191,397	-	-
Other accrued expenses	2,463,228	-	-
Unearned revenue - Federal	296,973	-	-
Unearned revenue - other	173,641	-	30,019
<b>TOTAL LIABILITIES</b>	<b>8,959,908</b>	<b>1,092,274</b>	<b>35,269</b>
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>FUND BALANCES</b>			
Nonspendable	14,400	-	-
Assigned to:			
Accrued leave	737,233	-	-
School construction projects	-	1,155,725	-
School activities	-	-	457,528
Other purposes (encumbrances)	637,689	-	-
Unassigned	2,688,194	-	-
<b>TOTAL FUND BALANCES</b>	<b>4,077,516</b>	<b>1,155,725</b>	<b>457,528</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 13,037,424</b>	<b>\$ 2,247,999</b>	<b>\$ 492,797</b>

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

Total Governmental Funds	<b>Total Governmental Funds Balances</b>	\$ 5,690,769
\$ 12,074,516	<b>Amounts reported for governmental activities in the statement of net position are different because</b>	
1,165,457	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	89,259,179
353,248		
1,108,071	Deferred outflows of resources not reported in the fund financial statements	
978,834		
83,694		
14,400		
<u>\$ 15,778,220</u>	Pension (see Note 6)	996,561
	Other post-employment benefits (see Note 7)	<u>16,990,200</u>
		17,986,761
\$ 307,459	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
36,299	Accrued leave	(737,233)
1,088,117	Accrued leave - retirement	(595,046)
5,500,318	Retirement incentive plan	(359,474)
191,397	Capital leases	(4,893,088)
2,463,228	Net pension liability	(4,869,621)
296,973	Post-employment benefits	<u>(97,990,867)</u>
203,660		(109,445,329)
<u>10,087,451</u>	Deferred inflows of resources not reported in the fund financial statements	
14,400	Pension (see Note 6)	(524,674)
737,233	Other post-employment benefits (see Note 7)	<u>(42,891,175)</u>
1,155,725		(43,415,849)
457,528		
637,689		
2,688,194	<b>Net Position of Governmental Activities</b>	<u>\$ (39,924,469)</u>
<u>5,690,769</u>		
<u>\$ 15,778,220</u>		

THE BOARD OF EDUCATION OF CAROLINE COUNTY  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2019

	GENERAL FUND	SCHOOL CONSTRUCTION	SCHOOL ACTIVITIES
REVENUES			
County Appropriation	\$ 14,436,087	\$ 1,060,191	\$ -
State of Maryland	54,834,517	-	-
Restricted Federal revenues	6,521,622	-	-
Restricted State revenues	1,079,739	363,847	-
Restricted other revenues	250,678	-	-
On-behalf State Retirement contributions	4,536,723	-	-
Other sources	920,395	3,772	-
School activity revenues	-	-	1,013,217
TOTAL REVENUES	82,579,761	1,427,810	1,013,217
EXPENDITURES			
Current:			
Administration	2,078,300	-	-
School management and support	5,421,714	-	-
Instructional salaries and wages	29,875,479	-	-
Instructional textbooks and supplies	1,654,914	-	-
Other instructional costs	3,619,491	-	-
Special education	7,529,922	-	-
Pupil personnel services	561,949	-	-
Health services	822,347	-	-
Pupil transportation	4,215,941	-	-
Operation of plant	4,672,110	-	-
Maintenance of plant	944,767	-	-
Fixed charges	16,420,710	-	-
Community services	495,706	-	-
School activity expenditures	-	-	1,007,717
On-behalf State Retirement contributions	4,536,723	-	-
Capital outlay	238,289	2,040,758	-
TOTAL EXPENDITURES	83,088,362	2,040,758	1,007,717
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	(508,601)	(612,948)	5,500
OTHER FINANCING SOURCES			
Proceeds from capital leases	-	1,750,000	-
TOTAL OTHER FINANCING SOURCES	-	1,750,000	-
Net change in fund balances	(508,601)	1,137,052	5,500
Fund balances, beginning	4,586,117	18,673	452,028
Fund balances, ending	\$ 4,077,516	\$ 1,155,725	\$ 457,528

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



THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF FUND NET POSITION  
 PROPRIETARY FUND

June 30, 2019

	<u>Business-Type Activities</u>
	<u>Food Services</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 137,322
Accounts receivable:	
Federal funds from State	91,896
State funds receivable	16,447
Other Board of Education funds	232,555
Other receivables	1,755
Inventory	<u>93,622</u>
Total current assets	<u>573,597</u>
Capital assets, net	<u>156,860</u>
<b>TOTAL ASSETS</b>	<u>730,457</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	49,226
Accrued payroll	<u>125,253</u>
<b>TOTAL LIABILITIES</b>	<u>174,479</u>
<b>COMMITMENTS AND CONTINGENCIES</b>	
<b>NET POSITION</b>	
Net investment in capital assets	156,860
Unrestricted	<u>399,118</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 555,978</u></u>

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

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION  
PROPRIETARY FUND  
Year Ended June 30, 2019

	Business-Type Activities
	<u>Food</u> <u>Services</u>
OPERATING REVENUES	
Sale of meals	\$ 821,003
Federal assistance	2,616,769
State assistance	279,403
USDA donated commodities	213,347
Other sources	79,776
TOTAL OPERATING REVENUES	<u>4,010,298</u>
OPERATING EXPENSES	
Food	1,919,422
Salaries and wages	1,161,711
Fixed charges	460,792
Contracted services	51,858
Supplies and materials	102,571
Other charges	26,742
USDA donated commodities	213,347
Depreciation	17,393
Additional equipment	3,917
TOTAL OPERATING EXPENSES	<u>3,957,753</u>
OPERATING INCOME	52,545
NON-OPERATING REVENUES	
Interest income	<u>1,155</u>
Change in net position	53,700
Net position beginning of year	<u>502,278</u>
Net position end of year	<u>\$ 555,978</u>

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

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF CASH FLOWS

FOOD SERVICE FUND

Year Ended June 30, 2019

<b>CASH FLOWS FROM OPERATIONS:</b>	
Receipts from students	\$ 821,003
Operating grants received	2,980,745
Other operating receipts	84,916
Payments to food and other suppliers	(2,138,067)
Payments to employees and employee related benefits	(1,612,545)
Net cash used by operating activities	136,052
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Cash transfers to other Board funds	(121,873)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchase of equipment	(37,772)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest income	1,155
Net decrease in cash	(22,438)
Cash and investments, beginning of year	159,760
Cash and investments, end of year	\$ 137,322

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income	\$ 52,545
Adjustments:	
Depreciation	17,393
(Increase) decrease in assets:	
Federal receivables	77,077
State receivables	7,496
Other receivables	5,140
Inventory	(44,032)
Increase (decrease) in liabilities:	
Accounts payable	10,475
Accrued payroll	9,958
Total adjustments	83,507
Net cash used by operating activities	\$ 136,052

**Noncash items:**

Donation of food commodities	\$ 213,347
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*The Notes to Financial Statements are an integral part of this statement.*

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2019

	Retiree Benefit <u>Trust Fund</u>	Agency <u>Funds</u>
<b>ASSETS</b>		
Investments	\$ 1,337,244	\$ -
Accounts receivable:		
Contribution receivable	-	
Federal funds from State	-	303,082
State of Maryland	-	70,844
Other	-	16,459
	<u>1,337,244</u>	<u>390,385</u>
<b>TOTAL ASSETS</b>	<u>1,337,244</u>	<u>\$ 390,385</u>
<b>LIABILITIES</b>		
Accounts payable:		
Vendors	-	\$ 16,844
State of Maryland	-	64,137
Unearned revenue - other	-	56,895
Other Board of Education funds	-	252,509
	<u>-</u>	<u>390,385</u>
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>\$ 390,385</u>
<b>NET POSITION</b>		
Held in trust for other post-employment benefits	<u>\$ 1,337,244</u>	

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

THE BOARD OF EDUCATION OF CAROLINE COUNTY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
RETIREE BENEFIT TRUST FUND  
Year Ended June 30, 2019

	<u>Retiree Benefit Trust Fund</u>
<b>ADDITIONS</b>	
Contributions:	
Investment income	\$ 89,576
<b>TOTAL ADDITIONS</b>	<u>89,576</u>
<b>DEDUCTIONS</b>	
Administrative expenses	6,771
<b>TOTAL DEDUCTIONS</b>	<u>6,771</u>
Change in net position	82,805
Net position held in trust for other post-employment benefits beginning of year	<u>1,254,439</u>
Net position held in trust for other post-employment benefits end of year	<u><u>\$ 1,337,244</u></u>

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

## NOTES TO FINANCIAL STATEMENTS

### **Note 1. The Board of Education of Caroline County and Its Significant Accounting Policies**

The Board of Education of Caroline 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 Caroline County, Maryland (the “County”).

#### **Financial Reporting Entity**

The Board is the basic level of government that has financial accountability and control over all activities related to the public school education in Caroline 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 Caroline 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. Internal activity between the funds is eliminated from the statements.

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

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### A. Basis of Presentation (continued)

##### FUND FINANCIAL STATEMENTS

During the year, the Board segregates transactions related to certain Board functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Board at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. In addition, the Board has presented the School Activities Fund as a major fund because the Board believes this fund is significant to the Board as a whole.

#### 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.

##### 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 governmental funds:

General 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.

Capital Projects Fund - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Board administers the construction and repair of public schools and uses the School Construction Fund to record the revenues from the County and other governmental units and the expenditures in connection therewith.

School Activities Fund - The School Activities 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 expenditures.

##### PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net position, financial position and cash flows and are classified as enterprise.

Enterprise funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Board's major enterprise fund is:

Food service fund - This fund accounts for the financial transactions related to the food service operations of the Board.

##### FIDUCIARY FUNDS

Agency funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### B. Fund Accounting (continued)

Retiree benefit trust fund – This fund consists of contributions of the Board to establish a reserve to pay for health and welfare benefits of future retirees. Contributions to the Trust qualify as contributions and are reported using the economic resource measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred. Fiduciary funds are not reported in the government-wide financial statements.

#### C. Measurement Focus

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

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the Board finances and meets the cash flow needs of its proprietary activities.

#### 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. Proprietary and 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### D. Basis of Accounting (continued)

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

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

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

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

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

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

#### E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The budget is prepared on the budgetary basis of accounting. The budget establishes a limit on the amounts that the Board may appropriate and sets annual limits as to the amount of expenditures at a level of control selected by the Board. The legal level of control has been established by the Board at the object level within each fund and function.

The budget may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original and final budgeted amounts in the budgetary statements reflect the amounts when the original budget was adopted.

#### F. Inventory

On government-wide financial statements and the fund financial statements of proprietary funds, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### 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. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of five thousand dollars. 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.

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. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	15 – 50 years	N/A
Furniture and Equipment	5 – 20 years	15 years
Vehicles	6 – 12 years	6 years
Software	5 years	5 years

#### H. Compensated Absences

##### ACCRUED LEAVE

Employees are allowed to carryover up to 20 days of unused vacation. In addition, certain employees are allowed to carry-over an additional 20 days of unused vacation to be used in the year of retirement. Sick leave vests for certain employees under certain limited circumstances. The Board of Education expenses the cost of vacations as they are earned and the accrued leave account presented in the balance sheet represents vacations earned but not taken at year-end. Compensated absences are reported as accrued in the government wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees, which would be included in accrued leave.

#### I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### J. 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.

#### K. 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 6) and OPEB liability (Note 7) for changes in assumptions, the difference between actual and expected experience, the net difference between projected and actual investment earnings on plan investments, and contributions subsequent to the measurement date. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two items that qualify for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension liability (Note 6) and OPEB liability (Note 7) 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.

#### L. Pensions

Certain employees of the Board are members of the Maryland State Retirement and Pension System (“the System”). The Maryland State Retirement and Pension System is considered a single, multi-employer cost-sharing plan.

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

## NOTES TO FINANCIAL STATEMENTS

### **Note 2. Summary of Significant Accounting Policies (continued)**

#### **M. Other Postemployment Benefits (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Retiree Benefit Trust of the Board of Education of Caroline County and additions to/deductions from the Retiree Benefit Trust of the Board of Education of Caroline County's fiduciary net position have been determined on the same basis as they are reported by the Retiree Benefit Trust of the Board of Education of Caroline County. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

#### **N. Fund Balance Reserves**

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 the highest level of authorities of the government), assigned (i.e. residual amounts in other funds), and unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board. Assigned fund balances is a limitation imposed by a designee of the Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Proprietary fund equity is classified the same as in the government-wide statements.

#### **O. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Board, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

#### **P. Estimates**

The preparation of financial statements in conformity with 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.

#### **Q. Cash and Cash Equivalents**

For purposes of the statement of cash flows for the proprietary fund, the Board considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

#### **R. Interfund Receivables and Payables**

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Transfers are fund balance amounts reserved and/or designated in the prior year that received County approval to be spent on capital projects.

#### **S. Encumbrance Accounting**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are reported as assigned fund balance in the governmental fund financial statements. Encumbrances outstanding at June 30, 2019 that were provided for in the current year's budget for the budgetary basis of accounting but will be accounted for under generally accepted accounting principles in the subsequent year totaled \$637,689.

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Cash and Investments

At June 30, 2019, the Board of Education had bank deposits with various commercial banks totaling \$2,700,015 (carrying value \$1,992,115). As required by law, the depository is to pledge securities in addition to FDIC insurance at least equal to that amount on deposit at all times. The depository banks pledge collateral for specific accounts that are held in the Board's name at the Bank of New York Mellon. As of June 30, 2019, bank deposits were fully collateralized. Investments of \$10,219,723 (carrying value \$10,219,723) consist solely of U.S. Government Securities made through the State of Maryland Local Government Investment Pool which provide local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 §22G of the Annotated Code of Maryland and more recently defined by Title 17, subtitle 3 of the Local Government Article of the Maryland Annotated Code. The MLGIP is managed by PNC Capital Advisors, LLC and custodied by PNC Bank, N.A., which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a semi-annual basis and provide suggestions to enhance the pool. The MLGIP is rated AAAM by Standard and Poor's. The fair value of the pool is the same as the value of the pool shares. Investments are recorded at cost, which approximates market value. Statutes authorize the Board to invest in obligations of the U.S. Treasury and U.S. Agencies, municipal securities and repurchase agreements, collateralized certificates of deposit, banker's acceptance or money market funds.

The Board's exposure to investment rate and credit risk is minimal, as all investments are in cash and MLGIP and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by attempting to have all investments fully collateralized by securities.

At June 30, 2019, the Board has an agreement with its primary bank to maintain a cash balance of \$200,000 in lieu of payment of service fees.

#### Reconciliation to Statement of Net Position:

Cash at carrying value	\$	1,992,115
<u>Investments</u>		<u>10,219,723</u>
Total cash and investments	\$	12,211,838

#### Investment in External Investment Pool

The Board has funds designated for Other Postemployment Benefits (OPEB) that are held by the Maryland Association of Boards of Education (MABE) in the MABE Pooled OPEB Investment Trust (MABE Trust). The MABE Trust is administered by MABE, and is a wholly-owned instrumentality of its members. The ten members who are the sole contributors to the MABE Trust are the Allegany Fiduciary Fund and the boards of education of the following counties in Maryland: Allegany, Caroline, Cecil, Charles, Harford, Kent, Prince George's, St. Mary's and Washington.

The investments of the MABE Trust are stated at fair value and are deposited with Fidelity as of June 30, 2019. Investments consist of money market funds, U.S. government and agency fixed income and asset backed securities, equity securities, mutual funds and exchange traded funds, corporate bonds and corporate asset backed securities, and municipal bonds. The MABE 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 MABE Trust are considered Level 1 or Level 2, the Board's membership investment in the MABE 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. As of June 30, 2019, the pooled position of the MABE Trust was \$397,278,841 in total, of which the Board's allocated investment balance was \$1,337,244. The Board may terminate its membership interest in the MABE Trust and withdraw its allocated investment balance by providing written notice six months prior to the intended date of withdraw.

## NOTES TO FINANCIAL STATEMENTS

### Note 3. Cash and Investments (continued)

#### Investment in External Investment Pool (continued)

The MABE Trust is audited annually by an independent CPA firm and issues a publicly available audited report. The report may be obtained by sending a request to the Administrator of the MABE Pooled OPEB Investment Trust, 621 Ridgely Avenue, Suite 300, Annapolis, MD 21401-1112 or calling (410) 841-5414.

### Note 4. Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
General Fund	\$ 1,108,071	\$ -
School Construction Fund	(1,088,117)	
Food Service - Enterprise Fund	232,555	
External Parties - Fiduciary Fund	-	252,509
	\$ 252,509	\$ 252,509

Due to/from other funds represent advances of cash for operating needs. There were no transfers during the year.

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Capital Assets

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

	Balance				Balance
	June 30, 2018	Additions	Deductions	Transfers	June 30, 2019
<b>Governmental Activities</b>					
<b>Capital Assets, not being depreciated</b>					
Construction in progress	\$ -	\$ 1,608,118	\$ -	\$ -	\$ 1,608,118
Land	308,929	-	-	-	308,929
Total capital assets, not being depreciated	<u>308,929</u>	<u>1,608,118</u>	<u>-</u>	<u>-</u>	<u>1,917,047</u>
<b>Capital assets, being depreciated</b>					
Buildings and improvements	128,089,710	478,242	-	-	128,567,952
Furniture and equipment	2,063,293	92,739	(11,100)	-	2,144,932
Software	675,517	-	(313,887)	-	361,630
Vehicles	2,831,349	428,550	(149,199)	-	3,110,700
Total capital assets, being depreciated	<u>133,659,869</u>	<u>999,531</u>	<u>(474,186)</u>	<u>-</u>	<u>134,185,214</u>
Less accumulated depreciation:					
Buildings and improvements	(40,782,158)	(2,622,448)	-	-	(43,404,606)
Furniture and equipment	(1,342,962)	(85,213)	11,100	-	(1,417,075)
Software	(670,367)	(3,432)	313,887	-	(359,912)
Vehicles	(1,596,264)	(205,216)	139,991	-	(1,661,489)
Total accumulated depreciation	<u>(44,391,751)</u>	<u>(2,916,309)</u>	<u>464,978</u>	<u>-</u>	<u>(46,843,082)</u>
Total capital assets, being depreciated, net	<u>89,268,118</u>	<u>(1,916,778)</u>	<u>(9,208)</u>	<u>-</u>	<u>87,342,132</u>
Governmental activities capital assets, net	<u>\$ 89,577,047</u>	<u>\$ (308,660)</u>	<u>\$ (9,208)</u>	<u>\$ -</u>	<u>\$ 89,259,179</u>
<b>Business-type activities</b>					
<b>Capital Assets, being depreciated</b>					
Equipment	\$ 993,060	\$ 37,772	\$ -	\$ -	\$ 1,030,832
Software	27,122	-	-	-	27,122
Vehicles	55,670	-	-	-	55,670
Total capital assets, being depreciated	<u>1,075,852</u>	<u>37,772</u>	<u>-</u>	<u>-</u>	<u>1,113,624</u>
Less accumulated depreciation:					
Equipment	(858,615)	(15,357)	-	-	(873,972)
Software	(27,122)	-	-	-	(27,122)
Vehicles	(53,634)	(2,036)	-	-	(55,670)
Total accumulated depreciation	<u>(939,371)</u>	<u>(17,393)</u>	<u>-</u>	<u>-</u>	<u>(956,764)</u>
Business-type activities capital assets, net	<u>\$ 136,481</u>	<u>\$ 20,379</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 156,860</u>

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 74,114
School management and support	34,949
Other instructional costs	2,622,930
Pupil transportation	142,983
Maintenance of plant	<u>41,333</u>
Total depreciation expense	<u>\$ 2,916,309</u>

## NOTES TO FINANCIAL STATEMENTS

### **Note 6. Pension Plans**

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

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

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

##### **General Plan Policies**

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

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

##### **Significant Plan Benefits and Policies**

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

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Pension Plans (continued)

#### Teachers' and Employees' Retirement Systems

##### Retirement Benefits:

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

##### Vested Allowance:

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

##### Employee Contributions:

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

#### Teachers' and Employees' Pension System

##### Pension Benefits:

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

##### Vested Allowance:

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

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Pension Plans (continued)

#### Employee Contributions:

Effective July 1, 2011, members of the Teachers' and Employees' Pension Systems are required to contribute to the systems 7% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2019. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

For members enrolled on and after July 1, 2011, the employee contribution is 7%; vesting requires ten years of eligible service; service retirement is at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement is age 60 with 15 years of eligibility service; average final compensation is a five year average; and the benefit multiplier per year is 1.5%.

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

#### Employer Contributions:

For the year ended June 30, 2019 the Board's total payroll for all employees was \$49,704,057. Total covered payroll was \$39,053,847. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay 100% of the normal cost portion of the total pension cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. The related payment for fiscal year ending 2019 was \$1,748,847. In addition, the State of Maryland contributed \$4,536,723 on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense.

During fiscal year 2019, the Board reported expense of \$545,885 related to the Employees' Systems in the fund financial statements.

#### Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

Because the State of Maryland pays the unfunded liability for the Teachers' Systems and the Board pays the normal cost for the Teachers' Systems, the Board is not required to record its' share of the unfunded pension liability for the Teachers' Systems, the State of Maryland is required to record that liability. The Board is required to record a liability for the Employees' Systems.

At June 30, 2019, the Board reported a liability for its proportionate share of the net pension liability. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

	<b>2019</b>
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 4,869,621
State's proportionate share of the net pension liability (Teachers' Systems)	<u>45,495,750</u>
Total	<u>\$ 50,365,371</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Pension Plans (continued)

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was calculated as follows by the System(s):

1. Net pension liability for the entire System was calculated. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland and one for primary government employees.
2. Determined the total contributions to the System by the State and by the primary governments, inclusive of any underfunding of contributions.
3. Based on the number of participants at each Board of Education, calculate the difference between what each Board would have contributed if they funded at the rate of all other participating governments and what the Board actually contributed. The difference between what the Board contributed and what they would have contributed if they funded at the rate of the other participating governments, is then added to the total contribution to the System, to calculate the System's adjusted contribution.
4. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each primary government contribution. At June 30, 2018, the Board's proportion was approximately .0232090%.

For the year ended June 30, 2019, the Board recognized pension expense of \$3,174,949 in the government-wide financial statements. \$2,294,732 was recognized in the fund financial statements. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 126,084	\$ -
Net difference between projected and actual investment earnings on pension plan investments	324,592	173,709
Differences between expected and actual experience	-	350,965
Board contributions subsequent to measurement date	545,885	-
	\$ 996,561	\$ 524,674
Total	\$ 996,561	\$ 524,674

## NOTES TO FINANCIAL STATEMENTS

### Note 6. Pension Plans (continued)

The \$545,885 of deferred outflows of resources resulting from the Board's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life ranging from 5.00 to 5.87 years. The net difference in investment earnings are being amortized over a closed five-year period. The following table shows the amortization of these balances:

Year Ending June 30,	Deferred Outflows	Deferred Inflows
2020	\$ 261,664	\$ (151,310)
2021	164,267	(149,030)
2022	10,592	(132,343)
2023	9,634	(72,338)
2024	4,519	(19,653)
	\$ 450,676	\$ (524,674)

### *Actuarial Assumptions*

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

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.60% general, 3.10% wage
Salary increases	3.10% to 9.10%, including inflation
Discount rate	7.45%
Investment rate of return	7.45%
Mortality	RP-2014 Mortality Tables calibrated to MSRPS experience with generational mortality projections using MP-2014 (2-dimensional) mortality improvement scale.

### *Investments*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting 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:

NOTES TO FINANCIAL STATEMENTS

**Note 6. Pension Plans (continued)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	5.80%
Private Equity	13%	6.70%
Rate Sensitive	19%	1.10%
Credit Opportunity	9%	3.60%
Real Assets	14%	4.80%
Absolute Return	8%	3.20%
 Total	 <u>100%</u>	

***Discount rate***

A single discount rate of 7.45% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.45%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Boards Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the System’s proportionate share of the net pension liability calculated using the discount rate of 7.45%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>Discount Rate</u>	<u>Board's Net Pension Liability</u>
1% decrease	6.45%	\$ 7,013,922
Current discount rate	7.45%	\$ 4,869,621
1% increase	8.45%	\$ 3,090,001

**Note 7. Other Postemployment Benefits**

**Plan Description**

The Board administers a single employer defined benefit plan, The Caroline County Public Schools Post-Retirement Medical and Life Insurance Benefits Plan (the “Plan”), that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees, their spouses and eligible dependents. The Plan does not issue a publicly available financial report.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Other Postemployment Benefits (continued)

#### Plan Administration

In May 2009, the Board created the Retiree Benefit Trust of the Board of Education of Caroline County (the "Trust") in order to facilitate the funding or partial funding of the actuarially calculated OPEB liability. The Trust established a trust account with, and became a member of, the Maryland Association of Boards of Education Pooled OPEB Investment Trust (MABE Trust). It is a member owned trust that provides the Board and the other nine members a structure to pool assets to reduce investment costs and share administrative expenses. The Board reserves the right to establish and amend the provisions of its relationship with the MABE Trust with respect to participants, and benefit provided thereunder, or its participation therein, in whole or in part at any time, by resolution of the governing body and upon advance notice to the Trustees of the MABE Trust.

The MABE Trust was established to pool assets of its members for investment purposes only. Each member of the MABE Trust is required to designate a member trustee. The member trustees of the MABE Trust shall ensure that the MABE Trust keep such records as are necessary in order to maintain a separation of the assets of the MABE Trust from the assets of trusts maintained by other governmental employers. Assets of the member trusts are reported in the respective financial statements using the economic resources measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, if available. The Trust prohibits any part of the Trust to be used for or diverted to purposes other than providing benefits to participants and beneficiaries under the Plan. The Trust provides that in no event will the assets of the Trust be transferred to an entity that is not a state, a political subdivision, or an entity the income of which is excluded from taxation under Section 115 of the IRS Code.

The MABE Trust issues a publicly available audited GAAP-basis report that includes financial statements and required supplementary information for the MABE Trust. This report may be obtained by writing to the Trust Administrator, Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, MD 21401 or calling (410) 841-5414.

#### Plan Membership

At May 1, 2018 (valuation date), the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	399
Inactive plan members or beneficiaries entitled but not yet receiving benefits	-
Active plan members	<u>695</u>
	<u><u>1,094</u></u>

#### Benefits Provided

The Plan provides medical, prescription drug, dental, and vision benefits to eligible retirees, their spouses and eligible dependents. The benefits provided are the same as those provided to active employees. Retirees receive a subsidy for their post-retirement medical insurance based on the years of service with the Board. Retirees with at least 5 years of service receive a subsidy based on 90% of the single rate prior to age 65. Retirees with less than 15 years of service receive no employer subsidy after attaining age 65. After attaining age 65, retirees with at least 15 years of service receive a subsidy of up to 100% of the pre-Medicare subsidy amount. There is no explicit subsidy for dependents or surviving spouses, although they are allowed access to the plan and pay 100% of the costs. There is no subsidy for dental premiums once the participant reaches Medicare age.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Other Postemployment Benefits (continued)

#### Benefits Provided (continued)

Participants must meet the eligibility requirements of the Maryland State Teachers'/Employees' pension system (EPS). For members hired before July 1, 2011, the earliest retirement eligibility is 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 eligibility is age 60 with 15 years of service, age 65 with 10 years of service, or age plus service is at least 90 (Rule of 90). Participants must also have at least 5 years of service in Caroline County (15 years of service if hired after 7/1/2013). Disability health benefits require the participant meet the retirement eligibility requirements noted above or have 5 years of service (15 years if hired after 7/1/2013). The disability benefit is until age 65 unless the retirement eligibility requirements above are met. Eligible spouses and dependents must be enrolled in the plan immediately prior to the retiree's effective date of retirement to receive coverage.

#### Contributions

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.

#### Investment Policy

The MABE Trust's policy in regard to the allocation of invested assets is established and may be amended by the Trustees by a majority vote of its members. It is the policy of the Trust to pursue an investment strategy that emphasizes growth of principal while avoiding excess risk. Short-term volatility will be tolerated inasmuch as it is consistent with volatility of a comparable market index. The MABE Trust's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2019:

Asset Class	Target Allocation
Equity	61.00%
Fixed income	29.60%
Cash	9.40%
Total	100.00%

#### Rate of Return

Best estimates of real rates of return for each major asset class included in the target asset allocations as of June 30, 2019, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity	6.80%
Fixed income	4.06%
Cash	2.60%

For the year ended June 30, 2019, the total rate of return, net of investment expense, was 6.63%. The total rate of return represents a hypothetical return on capital balance invested in the Trust during the entire year. Actual returns may vary due to the timing of capital contributions and redemptions.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Other Postemployment Benefits (continued)

#### Net OPEB Liability

The Board's net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of May 1, 2018 rolled forward to the June 30, 2019 measurement date. These calculations are based on the entry age normal cost method as required by GASB 74 and GASB 75. The discount rate used to determine liabilities under GASB 75 is based on an index rate for 20-year tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The rate was 3.62 percent as of June 30, 2018 and 3.13 percent as of June 30, 2019.

#### Actuarial Assumptions

Projections of benefits for financial reporting are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and Plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and Plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of net assets, consistent with the long-term perspective of the calculations.

Significant valuation methods and assumptions are as follows:

Actuarial cost method - GASB 74 and 75	Entry age normal
Actuarial valuation date	May 1, 2018
Amortization method	Level percentage of projected payroll
Actuarial Assumptions:	
Discount rate - June 30, 2018	3.62%
Discount rate - June 30, 2019	3.13%
Economic Assumptions:	
Inflation rate	2.40%
Rate of growth in real income/GDP per capita	1.50%
Extra trend due to technology and other factors	1.20%
Health share of GDP resistance point	25.00%
Year for limiting cost growth to GDP growth	2075
Medical trend	Based on Society of Actuaries Long Term Medical Trend Model, the 2018 rate is 5.4% decreasing gradually. The post Medicare rate in 2050 is 4.9%. The ultimate post Medicare trend rate is 3.9% and is attained in 2075.
Mortality	The mortality rates for healthy active and inactive retirees was calculated using the Pub T.H-2010 Mortality Table (teacher, headcount-weighted), Fully Generational, Projected using Scale MP-2018 and base year 2010. The mortality rates for disabled retirees was calculated using the RP 2014 Disabled Annuitant Mortality Tables, Not Generational, Set forward 1 year for males.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Other Postemployment Benefits (continued)

#### Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is selected from a range of 20-Year Municipal Bond Indices and include the Bond Buyer 20-Bond GO Index, the S&P Municipal Bond 20-Year High Grade Rate Index, and the Fidelity 20-Year GO Municipal Bond Index. The final equivalent single discount rate used for this year's valuation is 3.13 percent as of June 30, 2019. This rate has been adjusted from 3.62 percent as of June 30, 2018.

#### Change in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2018	\$ 121,234,092	\$ 1,208,439	\$ 120,025,653
Changes for the Year			
Service Cost	5,344,777		5,344,777
Interest	4,331,478		4,331,478
Changes of Benefit Terms	-		-
Experience Losses/Gains	(47,552,366)		(47,552,366)
Trust Contributions - Employer		3,186,788	(3,186,788)
Net Investment Income		82,805	(82,805)
Changes in Assumptions	19,110,918		19,110,918
Benefit Payments (net of retiree contributions)	(3,140,788)	(3,140,788)	-
Administrative Expense		-	-
Net Changes	(21,905,981)	128,805	(22,034,786)
<b>Balance as of June 30, 2019</b>	<b>\$ 99,328,111</b>	<b>\$ 1,337,244</b>	<b>\$ 97,990,867</b>

#### Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following amounts present the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.13%) or one percentage point higher (4.13%) than the current discount rate:

	Discount Rate	Net OPEB Liability
1% decrease	2.13%	\$ 117,808,987
Current discount rate	3.13%	\$ 97,990,867
1% increase	4.13%	\$ 82,413,669

NOTES TO FINANCIAL STATEMENTS

**Note 7. Other Postemployment Benefits (continued)**

**Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates**

The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (3.10%) or one percentage point higher (5.10%) than the current healthcare cost trend rates:

	<b>Healthcare Cost Trend Rate</b>	<b>Net OPEB Liability</b>
1% decrease	3.10%	\$ 78,812,490
Current healthcare cost trend rate	4.10%	\$ 97,990,867
1% increase	5.10%	\$ 123,966,581

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources**

For the year ended June 30, 2019, the Board will recognize OPEB expense in the amount of \$6,341,085 on the government-wide statements. At June 30, 2019, the Board reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in assumptions	\$ 16,987,483	\$ 619,397
Net difference between projected and actual investment earnings	2,717	3,008
Differences between expected and actual experience	-	42,268,770
Total	\$ 16,990,200	\$ 42,891,175

The deferred inflows and outflows related to non-investment activity are being amortized over nine years. The net difference in investment earnings are being amortized over a closed five-year period. The following table shows the amortization of these balances:

<b>Year Ending June 30,</b>	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
2020	\$ 2,124,114	\$ (5,373,083)
2021	2,124,114	(5,373,083)
2022	2,124,114	(5,373,085)
2023	2,124,115	(5,372,081)
2024	2,123,435	(5,372,081)
Thereafter	6,370,308	(16,027,762)
	\$ 16,990,200	\$(42,891,175)

## NOTES TO FINANCIAL STATEMENTS

### 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. The Board pays an annual premium to the Pool that 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 that 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 workers' compensation and employee health and accident insurance. The Board purchases health insurance from a provider through a modified retrospective rating arrangement agreement. The Board is a member of the Eastern Shore of Maryland Educational Consortium Health Insurance Alliance (the Alliance), a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that the Alliance be self-sustaining through member premiums. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 12% as a recommended conservative reserve. As of January 9, 2019, the Board's funds held by ESMEC exceeded the recommended reserve by \$1,222,873. All funds held by ESMEC are restricted to being used only for health care expenses. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### Note 9. Capital Leases

The Board has entered into non-cancelable leases that transfer ownership at the end of the lease, thus the Board has recorded the lease obligations and the related assets in the appropriate funds.

Capital lease obligations at June 30, 2019 consist of the following:

Building renovation, Capital One Public Funding, LLC, interest at 3.95%; payable in semi-annual installments of approximately \$64,000, including interest through October 2036	\$ 1,720,870
Vehicles, bank, interest at 2.50%; payable in annual installments of approximately \$90,000, including interest through 2020	88,135
Energy equipment, bank, interest at 3.816%; payable in annual installments ranging from approximately \$42,000 to \$470,000 through October 2025	1,699,958
Energy equipment, General Capital Management, Inc., interest at 3.126%; payable in annual installments ranging from approximately \$111,000 to \$175,000 through October 2029	1,384,125
	<hr/> <hr/> \$ 4,893,088

The vehicle and equipment leases are secured by the vehicles and equipment financed under the related agreements. In the event of nonappropriation of funds in a given year, the vehicle and equipment leases would be deemed terminated. The building renovation agreement is the result of the Board entering into a ground lease with Capital One Public Funding, LLC for property owned by the Board for a total of \$10 through August 2048. Capital One Public Funding, LLC immediately subleased this property back to the Board and provided funding for renovations on the property. In the event of default by the Board on the sublease, the property is available for Capital One Public Funding, LLC to use through the term of the ground lease. Under the terms of the ground lease, it expires on full payment under the terms of the sublease agreement.

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Capital Leases (continued)

Future minimum lease payments under these capital leases, which will be funded from the General Fund, are as follows:

	2020		\$	760,481
	2021			692,050
	2022			715,311
	2023			739,072
	2024			316,059
	2025-2029			1,522,211
	2030-2034			811,789
	2035-2039			573,231
				6,130,204
	Less amounts representing interest			1,237,116
	Present value of net minimum lease payments			\$ 4,893,088

Interest expense on the above capital leases was approximately \$158,000 for the year ended June 30, 2019.

The cost of items acquired under capital lease arrangements, as included in capital assets and construction in progress, totaled \$5,339,489 and the related accumulated depreciation was \$930,485 at June 30, 2019.

### Note 10. Long-Term Liabilities

Changes in long-term liabilities were as follows:

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Due within one year
Capital leases	\$ 3,567,971	\$ 1,750,000	\$ 424,883	\$ 4,893,088	\$ 760,481
Compensated absences	849,690	751,132	672,192	928,630	191,397
Compensated absences - retirement	611,036	74,046	90,036	595,046	-
Retirement incentive plan	368,954	-	9,480	359,474	-
Net pension liability (Note 6)	4,159,121	710,500	-	4,869,621	-
Net OPEB liability (Note 7)	120,025,653	-	22,034,786	97,990,867	-
	\$ 129,582,425	\$ 3,285,678	\$ 23,231,377	\$ 109,636,726	\$ 951,878

Long-term liabilities are generally liquidated by the General Fund.

## NOTES TO FINANCIAL STATEMENTS

### Note 11. Operating Lease

The Board leases administrative copy machines, computer equipment, and office space over terms ranging from three to five years.

Approximate future minimum lease commitments are as follows:

Fiscal year ending June 30,		
2020	\$	356,689
2021		322,385
2022		63,138
2023		-
2024		-

Rent expense, under these leases, totaled approximately \$504,000 for the year ended June 30, 2019.

### Note 12. Required Fund Disclosures

The Food Service Fund had an excess of actual expenditures over budgeted expenditures of \$99,685 for the year ended June 30, 2019.

### 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. In the opinion of the Board, there are no approved contracts that would have a material effect on the financial statements.

The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Board.

There are various legal claims pending against the Board that arise in the normal course of the Board's activities. In the opinion of legal counsel and management, the ultimate disposition of these various claims will have no adverse impact on the financial position of the Board.

The Board has active school construction projects as of June 30, 2019. At June 30, 2019 the Board's commitments with contractors were as follows:

Projects	Expenditures to Date	Remaining Commitments
Greensboro Elementary School Architectural Design	\$ 978,834	\$ 406,803
VFW Renovation	617,475	702,498

REQUIRED SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS

GENERAL FUND

Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
County appropriation	\$ 14,436,087	\$ 14,436,087	\$ 14,436,087	\$ -
State revenues:				
Current expense	29,041,813	29,041,813	29,041,813	-
Transportation	2,753,328	2,753,328	2,751,328	(2,000)
Guaranteed tax base	1,741,494	1,741,494	1,741,494	-
Handicapped children	2,548,744	2,548,744	2,548,744	-
Limited English proficiency	2,461,802	2,461,802	2,461,802	-
Supplemental grant	966,820	966,820	966,820	-
Compensatory education	15,322,516	15,322,516	15,322,516	-
Total state revenues	54,836,517	54,836,517	54,834,517	(2,000)
Other sources:				
Tuition	7,000	7,000	29,208	22,208
Interest income	10,000	10,000	219,242	209,242
Miscellaneous	600,000	600,000	671,945	71,945
Total other sources	617,000	617,000	920,395	303,395
Total unrestricted revenues	69,889,604	69,889,604	70,190,999	301,395
Restricted revenues:				
Restricted Federal revenues	5,546,620	5,546,620	6,582,855	1,036,235
Restricted State revenues	1,221,320	1,221,320	1,204,770	(16,550)
Restricted other revenues	-	-	250,678	250,678
Total restricted revenues	6,767,940	6,767,940	8,038,303	1,270,363
TOTAL REVENUES	76,657,544	76,657,544	78,229,302	1,571,758
OTHER FINANCING SOURCES				
Reserved and unexpended funds	1,134,000	1,134,000	1,134,000	-
TOTAL OTHER FINANCING SOURCES	1,134,000	1,134,000	1,134,000	-
TOTAL REVENUE AND OTHER FINANCING SOURCES	77,791,544	77,791,544	79,363,302	1,571,758

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS

GENERAL FUND

Year Ended June 30, 2019

(Continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>EXPENDITURES</b>				
Administration:				
Salaries and wages	\$ 1,255,984	\$ 1,255,984	\$ 1,294,737	\$ (38,753)
Contracted services	315,177	315,177	373,118	(57,941)
Supplies and materials	76,950	76,950	69,796	7,154
Other charges	288,198	288,198	284,320	3,878
Equipment	2,000	2,000	776	1,224
Transfers	-	-	(43,246)	43,246
Total Administration	1,938,309	1,938,309	1,979,501	(41,192)
School management and support:				
Salaries and wages	4,552,633	4,552,633	4,527,488	25,145
Contracted services	4,000	4,000	4,386	(386)
Supplies and materials	126,300	126,300	131,758	(5,458)
Other charges	584,704	584,704	608,155	(23,451)
Equipment	12,619	12,619	10,484	2,135
Total school management and support	5,280,256	5,280,256	5,282,271	(2,015)
Instructional salaries and wages:				
Salaries and wages	28,588,605	28,588,605	27,619,345	969,260
Instructional textbooks and supplies:				
Supplies and materials	776,954	776,954	822,051	(45,097)
Other instructional costs:				
Contracted services	1,818,893	1,818,893	1,744,415	74,478
Other charges	187,350	187,350	153,353	33,997
Equipment	919,190	919,190	1,063,570	(144,380)
Transfers	21,400	21,400	25,268	(3,868)
Total other instructional costs	2,946,833	2,946,833	2,986,606	(39,773)
Special education:				
Salaries and wages	4,528,525	4,528,525	4,530,257	(1,732)
Contracted services	24,980	24,980	57,113	(32,133)
Supplies and materials	60,582	60,582	30,877	29,705

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS

GENERAL FUND

Year Ended June 30, 2019

(Continued)

	Budgeted Amounts			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Favorable (Unfavorable)
Other charges	\$ 28,500	\$ 28,500	\$ 23,042	\$ 5,458
Equipment	9,441	9,441	10,536	(1,095)
Transfers	1,238,005	1,238,005	1,098,741	139,264
<b>Total special education</b>	<b>5,890,033</b>	<b>5,890,033</b>	<b>5,750,566</b>	<b>139,467</b>
Pupil personnel services:				
Salaries and wages	516,890	516,890	530,212	(13,322)
Contracted services	27,550	27,550	13,220	14,330
Supplies and materials	16,000	16,000	7,187	8,813
Other charges	10,100	10,100	11,330	(1,230)
<b>Total pupil personnel services</b>	<b>570,540</b>	<b>570,540</b>	<b>561,949</b>	<b>8,591</b>
Health services:				
Salaries and wages	641,618	641,618	642,459	(841)
Contracted services	6,000	6,000	5,301	699
Supplies and materials	27,200	27,200	14,874	12,326
Other charges	4,500	4,500	4,419	81
Equipment	5,500	5,500	5,413	87
<b>Total health services</b>	<b>684,818</b>	<b>684,818</b>	<b>672,466</b>	<b>12,352</b>
Pupil transportation:				
Salaries and wages	1,746,549	1,746,549	1,818,553	(72,004)
Contracted services	2,087,480	2,087,480	1,866,266	221,214
Supplies and materials	220,836	220,836	283,110	(62,274)
Other charges	51,664	51,664	55,488	(3,824)
Equipment	181,720	181,720	136,959	44,761
<b>Total pupil transportation</b>	<b>4,288,249</b>	<b>4,288,249</b>	<b>4,160,376</b>	<b>127,873</b>
Operation of plant:				
Salaries and wages	1,859,040	1,859,040	2,001,911	(142,871)
Contracted services	389,623	389,623	426,315	(36,692)
Supplies and materials	257,650	257,650	276,849	(19,199)
Other charges	1,690,584	1,690,584	1,892,359	(201,775)
Equipment	17,500	17,500	14,251	3,249
<b>Total operation of plant</b>	<b>4,214,397</b>	<b>4,214,397</b>	<b>4,611,685</b>	<b>(397,288)</b>

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGETARY BASIS

GENERAL FUND

Year Ended June 30, 2019

(Continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
Maintenance of plant:				
Salaries and wages	\$ 517,517	\$ 517,517	\$ 526,305	\$ (8,788)
Contracted services	216,400	216,400	244,357	(27,957)
Supplies and materials	106,000	106,000	142,219	(36,219)
Other charges	16,260	16,260	13,244	3,016
Equipment	60,086	60,086	113,897	(53,811)
Total maintenance of plant	916,263	916,263	1,040,022	(123,759)
Fixed charges:				
Insurance and employee benefits	14,684,003	14,684,003	15,179,761	(495,758)
	14,684,003	14,684,003	15,179,761	(495,758)
Capital outlay:				
Contracted services	18,000	18,000	-	18,000
Building improvements	226,344	226,344	332,094	(105,750)
Total capital outlay	244,344	244,344	332,094	(87,750)
TOTAL EXPENDITURES OF LOCAL AND UNRESTRICTED FUNDS	71,023,604	71,023,604	70,998,693	24,911
Restricted programs				
Restricted Federal programs	5,546,620	5,546,620	6,582,855	(1,036,235)
Restricted State programs	1,221,320	1,221,320	1,204,770	16,550
Restricted other programs	-	-	250,678	(250,678)
Total restricted programs	6,767,940	6,767,940	8,038,303	(1,270,363)
TOTAL UNRESTRICTED AND RESTRICTED EXPENDITURES	77,791,544	77,791,544	79,036,996	(1,245,452)
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 326,306	\$ 326,306

THE BOARD OF EDUCATION OF CAROLINE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2019

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

As of June 30,	Fiscal Year									
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total OPEB liability</b>										
Service cost									\$ 5,201,246	\$ 5,344,777
Interest									4,096,803	4,331,478
Changes of benefit terms									-	-
Differences between expected and actual experience									-	(47,552,366)
Changes of assumptions									(796,367)	19,110,918
Benefit payments									(3,406,859)	(3,140,788)
<b>Net change in OPEB liability</b>									5,094,823	(21,905,981)
<b>Total OPEB liability - beginning</b>									116,139,269	121,234,092
<b>Total OPEB liability - ending (a)</b>									<u>\$ 121,234,092</u>	<u>\$ 99,328,111</u>
<b>Plan fiduciary net position</b>										
Contributions - employer									\$ 3,406,860	\$ 3,186,788
Net investment income									83,935	82,805
Benefit payments									(3,406,859)	(3,140,788)
Administrative expenses									(5,958)	-
<b>Net change in plan fiduciary net position</b>									77,978	128,805
<b>Plan fiduciary net position - beginning</b>									1,130,461	1,208,439
<b>Plan fiduciary net position - ending (b)</b>									<u>\$ 1,208,439</u>	<u>\$ 1,337,244</u>
<b>Board's net OPEB liability - ending (a) - (b)</b>									<u>\$ 120,025,653</u>	<u>\$ 97,990,867</u>
<b>Plan fiduciary net position as a percentage of the total OPEB liability</b>									1.00%	1.35%
<b>Covered employee payroll</b>									\$ 38,356,101	\$ 39,053,847
<b>Board's net OPEB liability as a percentage of covered employee payroll</b>									312.92%	250.91%
<b>Expected Average Remaining Service Years of All Participants</b>									9	9

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

THE BOARD OF EDUCATION OF CAROLINE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2019

SCHEDULE OF INVESTMENT RETURNS

	<u>Fiscal Year</u>									
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Annual money-weighted rate of return, net of investment								10.52%	6.84%	6.63%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, OPEB plans should present information for those years for which information is available.

THE BOARD OF EDUCATION OF CAROLINE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2019

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Board's Proportion of the NPL (Percentage) A	Board's Proportionate Share of the NPL B	State's Proportionate Share of the NPL C	Total (B+C)	Board's Covered Payroll D	Board's Proportionate Share as a Percentage of Covered Payroll (B / D)	Plan's Total Fiduciary Net Position E	Plan's Total Pension Liability F	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (E / F)
2010										
2011										
2012										
2013										
2014										
2015	June 30, 2014	0.0180451%	\$ 3,202,423	\$32,296,888	\$ 35,499,311	\$ 33,545,377	9.55%	\$45,339,988,000	\$63,086,719,000	71.87%
2016	June 30, 2015	0.0200659%	\$ 4,170,028	\$42,446,720	\$ 46,616,748	\$ 34,560,151	12.07%	\$45,789,840,000	\$66,571,552,000	68.78%
2017	June 30, 2016	0.0198918%	\$ 4,693,266	\$52,612,087	\$ 57,305,353	\$ 37,308,221	12.58%	\$45,365,927,000	\$68,959,954,000	65.79%
2018	June 30, 2017	0.0192341%	\$ 4,159,121	\$47,736,155	\$ 51,895,276	\$ 38,356,101	10.84%	\$48,987,184,000	\$70,610,885,000	69.38%
2019	June 30, 2018	0.0232090%	\$ 4,869,621	\$45,495,750	\$ 50,365,371	\$ 39,053,847	12.47%	\$51,827,233,000	\$72,808,833,000	71.18%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

THE BOARD OF EDUCATION OF CAROLINE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2019

SCHEDULE OF CONTRIBUTIONS

<b>Fiscal Year</b>	<b>Measurement Date</b>	<b>Contractually Required Contribution</b> <b>A</b>	<b>Actual Contribution</b> <b>B</b>	<b>Contribution Deficiency (Excess)</b> <b>(A - B)</b>	<b>Board's Covered Payroll</b> <b>C</b>	<b>Actual Contribution as a Percentage of Covered Payroll</b> <b>(B / C)</b>
2010						
2011						
2012						
2013						
2014						
2015	June 30, 2014	\$ 1,721,938	\$ 1,721,938	\$ -	\$ 33,545,377	5.13%
2016	June 30, 2015	\$ 1,889,117	\$ 1,889,117	\$ -	\$ 34,560,151	5.47%
2017	June 30, 2016	\$ 1,991,654	\$ 1,991,654	\$ -	\$ 37,308,221	5.34%
2018	June 30, 2017	\$ 2,160,014	\$ 2,160,014	\$ -	\$ 38,356,101	5.63%
2019	June 30, 2018	\$ 2,294,732	\$ 2,294,732	\$ -	\$ 39,053,847	5.88%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### Note 1. Budgetary Comparison Schedule

The Board of Education annually adopts budgets for the General Fund and Food Service Fund. All appropriations are legally controlled at the departmental level for the General Fund and the Food Service Fund.

The budgets are integrated into the accounting system, and the budgetary data, as presented in the financial statements for all funds with annual budgets, compare the expenditures with the amended budgets. All budgets are presented on the modified accrual basis of accounting. Accordingly, the accompanying Budgetary Comparison Schedule 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. The budgetary schedule for the Food Service Fund is included in the additional supplementary information section. Unexpended appropriations on annual budgets lapse at the end of each fiscal year.

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

	June 30, 2019 GENERAL FUND		
	Revenues and other financing sources	Expenditures and other financing uses	Fund Balance
GAAP BASIS	\$ 82,579,761	\$ 83,088,362	\$ 4,077,516
Encumbrances at June 30, 2018	(22,206)	(152,332)	-
Encumbrances at June 30, 2019	208,470	637,689	(429,219)
Payments made on-behalf of the Board by the State of Maryland	(4,536,723)	(4,536,723)	-
<b>BUDGETARY BASIS</b>	<b>\$ 78,229,302</b>	<b>\$ 79,036,996</b>	<b>\$ 3,648,297</b>

	June 30, 2019 FOOD SERVICE FUND		
	Revenues	Expenditures	Fund Balance
GAAP BASIS	\$ 4,011,453	\$ 3,957,753	\$ 555,978
Capital asset additions	-	37,772	(37,772)
Commodities donated by the State of Maryland	(213,347)	(213,347)	-
<b>BUDGETARY BASIS</b>	<b>\$ 3,798,106</b>	<b>\$ 3,782,178</b>	<b>\$ 518,206</b>

### Note 2. Required Fund Disclosures

The General Fund had an excess of actual expenditures over budgeted expenditures of \$1,245,452 for the year ended June 30, 2019 attributable to an increase in grant funds. Additional revenues of \$1,404,030 provided for the excess expenditures as restricted expenditures were over budget by \$1,270,363 and unrestricted expenditures were under budget by \$24,911.

### Note 3. Pensions

#### Change in Benefit Terms

There were no benefit changes during the year.

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### Note 3. Pensions (continued)

#### Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2018 valuation:

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

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

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	22 years for State system
Asset valuation method	5-year smoothed market; 20% collar
Inflation	2.60% general, 3.10% wage
Salary increases	3.10% to 9.10%, including inflation
Investment rate of return	7.45%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2015 valuation pursuant to an experience study of the period 2010 - 2014
Mortality	RP-2014 Mortality Tables calibrated to MSRPS experience with generational mortality projections using MP-2014 (2-dimensional) mortality improvement scale.

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### Note 4. Other Postemployment Benefits (OPEB)

#### Change in Benefit Terms

As of January 2019, the medical and prescription plan for Medicare retirees is fully insured through Labor First. The prescription part of the plan is an Employer Group Waiver Plan. The savings due to this move is the primary reason for the decrease in liabilities due to claims experience.

#### Change in Assumptions

- The claims assumption was updated to include the most recent plan experience.
- The medical trend was updated to the latest model.
- The State of Maryland Teachers Pension Plan decrement rates were updated to match their most recent valuation assumptions.
- The mortality was updated to the latest SOA model for public sector teachers.
- The discount rate was changed from 3.62% at June 30, 2018 to 3.13% at June 30, 2019.

#### Methods and Assumptions used in Calculations of the Net OPEB Liability

Actuarial cost method - GASB 74 and 75	Entry age normal
Actuarial valuation date	May 1, 2018
Amortization method	Level percentage of projected payroll
Actuarial Assumptions:	
Discount rate - June 30, 2018	3.62%
Discount rate - June 30, 2019	3.13%
Economic Assumptions:	
Inflation rate	2.40%
Rate of growth in real income/GDP per capita	1.50%
Extra trend due to technology and other factors	1.20%
Health share of GDP resistance point	25.00%
Year for limiting cost growth to GDP growth	2075
Medical trend	Based on Society of Actuaries Long Term Medical Trend Model, the 2018 rate is 5.4% decreasing gradually. The post Medicare rate in 2050 is 4.9%. The ultimate post Medicare trend rate is 3.9% and is attained in 2075.
Mortality	The mortality rates for healthy active and inactive retirees was calculated using the Pub T.H-2010 Mortality Table (teacher, headcount-weighted), Fully Generational, Projected using Scale MP-2018 and base year 2010. The mortality rates for disabled retirees was calculated using the RP 2014 Disabled Annuitant Mortality Tables, Not Generational, Set forward 1 year for males.

ADDITIONAL SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF CAROLINE COUNTY  
SCHOOL ACTIVITIES FUND

BALANCE SHEET AND STATEMENT OF  
REVENUES, EXPENDITURES AND FUND BALANCE  
June 30, 2019

<u>Fund title</u>	<u>Fund Number</u>	<u>June 30, 2018 Fund Balance</u>	<u>Year Ended June 30, 2019</u>							
			<u>Revenues</u>	<u>Expenditures</u>	<u>Transfers</u>	<u>Cash</u>	<u>Receivables</u>	<u>Prepaid Asset</u>	<u>Payables</u>	<u>Fund Balance</u>
Central Office	100	\$ 10,434	\$ 56,967	\$ 46,543	\$ (3,644)	\$ 17,477	\$ -	\$ -	\$ 100	\$ 17,214
Administration and Faculty	150	5,843	18,755	15,848	996	9,746	-	-	-	9,746
Athletics	200	81,802	296,443	289,389	(15,672)	73,184	-	-	-	73,184
Graduating Class Activities	250	40,945	83,853	78,280	3,593	50,749	-	-	638	50,111
Clubs, Groups and Organizations	300	70,457	145,315	140,709	(1,343)	74,305	-	-	-	73,720
School Publications	350	32,050	21,868	20,870	54	36,533	-	-	3,431	33,102
General Instruction Fund	400	103,385	222,081	224,198	(15,617)	85,901	-	-	250	85,651
Additional Sports Materials, Supplies, Equipment and Expenses	600	-	-	-	-	-	-	-	-	-
School General Fund	650	107,112	167,935	191,880	31,633	114,883	-	-	831	114,800
Certificate of deposit		-	-	-	-	30,019	-	-	-	-
<b>Total</b>		<b>\$ 452,028</b>	<b>\$ 1,013,217</b>	<b>\$ 1,007,717</b>	<b>\$ -</b>	<b>\$ 492,797</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,250</b>	<b>\$ 457,528</b>

THE BOARD OF EDUCATION OF CAROLINE COUNTY

STATEMENT OF REVENUES AND EXPENSES - BUDGETARY BASIS  
 FOOD SERVICES FUND  
 Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable)
<b>REVENUES</b>				
Sale of meals	\$ 772,293	\$ 772,293	\$ 821,003	\$ 48,710
Federal assistance	2,600,000	2,600,000	2,616,769	16,769
State assistance	270,000	270,000	279,403	9,403
Interest income	200	200	1,155	955
Other	40,000	40,000	79,776	39,776
<b>TOTAL REVENUES</b>	<b>3,682,493</b>	<b>3,682,493</b>	<b>3,798,106</b>	<b>115,613</b>
<b>EXPENDITURES</b>				
Current:				
Food	1,847,000	1,847,000	1,919,422	(72,422)
Depreciation	-	-	17,393	(17,393)
Salaries and wages	1,160,173	1,160,173	1,161,711	(1,538)
Fixed charges	452,020	452,020	460,792	(8,772)
Contracted services	35,500	35,500	51,858	(16,358)
Supplies and materials	123,000	123,000	102,571	20,429
Other charges	23,800	23,800	26,742	(2,942)
Capital outlay	41,000	41,000	41,689	(689)
<b>TOTAL EXPENDITURES</b>	<b>3,682,493</b>	<b>3,682,493</b>	<b>3,782,178</b>	<b>(99,685)</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,928</b>	<b>\$ 15,928</b>