

**BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
OTHER SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2017

C O N T E N T S

	<u>PAGE</u>
<u>INDEPENDENT AUDITORS' REPORT</u>	1
<u>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</u>	4
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u>	6
<u>BASIC FINANCIAL STATEMENTS</u>	
GOVERNMENT – WIDE FINANCIAL STATEMENTS:	
Statement of Net Position	17
Statement of Activities	18
FUND FINANCIAL STATEMENTS:	
Balance Sheet – Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	22
STATEMENT OF FIDUCIARY NET POSITION	23
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	24
NOTES TO FINANCIAL STATEMENTS	25
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES – BUDGET AND ACTUAL – GENERAL FUND AND RESTRICTED GRANTS	47
SCHEDULE OF FUNDING PROGRESS – OPEB	48
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	49
SCHEDULE OF BOARD CONTRIBUTIONS	50
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	51
<u>OTHER SUPPLEMENTARY INFORMATION</u>	
COMBINING BALANCE SHEET – NONMAJOR FUNDS	52
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – NONMAJOR FUNDS	53
SCHEDULE OF REVENUES – GENERAL FUND	54
SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS – SCHOOL ACTIVITIES FUND (AGENCY FUND)	55



BSC GROUP, LLC

Certified Public Accountants

An Independently Owned and Operated CPA Firm

INDEPENDENT AUDITORS' REPORT

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland (the Board), a component unit of Talbot County, Maryland, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the foregoing 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 auditors' 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland, as of June 30, 2017, and the respective changes in financial position 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, the schedule of funding progress for other post-employment benefits, the schedule of the Board's proportionate share of the net pension liability, schedule of Board contributions, and notes to required supplementary information* 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 Talbot County Board of Education's basic financial statements. The combining nonmajor fund financial statements, schedule of general fund revenues, and schedule of school activities cash receipts and cash disbursements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements, schedule of general fund revenues, and schedule of school activities cash receipts and cash disbursements, are the responsibility of management and were derived from, and relate 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 combining nonmajor fund financial statements, schedule of general fund revenues, and the schedule of school activities cash receipts and cash disbursements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2017 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

BSC Group LLC

Easton, Maryland
September 26, 2017



BSC GROUP, LLC

Certified Public Accountants

An Independently Owned and Operated CPA Firm

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, 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, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the board's basic financial statements, and have issued our report thereon dated September 26, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility a material misstatement of the Board'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 over financial reporting 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of 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 Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BSC Group LLC

Easton, Maryland
September 26, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

This section of the Board of Education of Talbot County's annual financial report presents management's discussion and analysis of the Board's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the Board's financial statements, which immediately follow this section.

Financial highlights

Key financial highlights for the fiscal year (FY) ended June 30, 2017 include the following:

- Net position totals \$16,195,967, a decrease of \$6,809,949, or 29.6% from the prior year.
- General Fund unassigned fund balance is \$440,864, after an assignment for encumbrances of \$890,144. The total fund balance is \$1,331,008, an increase of \$56,619 from the prior year.

Overview of the financial statements

The financial section of the annual report consists of four parts – independent auditors' reports, required supplementary information, which includes management's discussion and analysis (this section), the basic financial statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the Board:

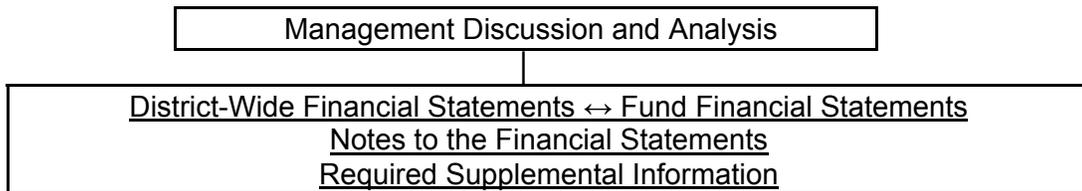
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the Board's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Board, reporting the Board's operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds statements* provide information about the financial relationships in which the Board acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure 1 shows how the various parts of this annual report are arranged and relate to one another. Figure 2 summarizes the major features of the Board's financial statements, including the portion of the Board's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure 1 – Organization of TCBOE Annual Financial Report



The illustration above represents the minimum requirements for the basic financial statements.

Figure 2 – Major Features of District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the Board that are not proprietary or fiduciary, such as general and special education, general and building maintenance, food service, and capital projects	Instances in which the Board administers resources on behalf of someone else, such as the Special Education Consortium and Student Activities Fund
Required financial statements	<ul style="list-style-type: none"> Statement of net position Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenue, expenditures and changes in fund balances 	<ul style="list-style-type: none"> Statement of fiduciary net position Statement of changes in fiduciary net position (excluding agency funds)
Accounting basis and measurement focus	Full accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

District-wide financial statements

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

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

All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

Over time, increases or decreases in the Board's net position are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Board you also need to consider additional non-financial factors such as changes in the condition of school buildings and other facilities.

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

Fund financial statements

The fund financial statements provide more detailed information about the Board's *funds* – focusing on its most significant or “major” funds – not the Board as a whole. Funds are accounting devices the Board uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (e.g., federal and state grants).
- The Board has two kinds of funds:
 - *Governmental funds* – Most of the Board's basic services are included in governmental funds, which generally focus on (1) *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information reconciling governmental funds statements with the district-wide statements.
 - *Fiduciary funds* – The Board is the trustee, or agent, for assets that belong to others, such as the Mid-Shore Special Education Consortium. The Student Activities Fund is also accounted for as a fiduciary fund. The Board is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the Board cannot use these assets to finance its operations.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

Financial analysis of the board as a whole

Net position – The Board's net position was \$16,195,967 on June 30, 2017. This was a decrease of \$6,809,949 from the prior year. (See Table 1).

Table 1

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Current and other assets	\$ 6,737,944	\$ 6,513,602
Capital assets	<u>56,373,742</u>	<u>57,867,820</u>
TOTAL ASSETS	<u>63,111,686</u>	<u>64,381,422</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred financing outflows - state pension plan	<u>1,457,789</u>	<u>1,171,311</u>
<u>LIABILITIES</u>		
Current liabilities	5,204,064	4,750,698
Long-term liabilities	<u>42,812,423</u>	<u>37,366,041</u>
TOTAL LIABILITIES	<u>48,016,487</u>	<u>42,116,739</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred financing inflows - state pension plan	<u>357,021</u>	<u>430,078</u>
<u>NET POSITION</u>		
Net investment in capital assets	56,011,890	57,332,912
Restricted	443,224	361,936
Unrestricted deficit	<u>(40,259,147)</u>	<u>(34,688,932)</u>
TOTAL NET POSITION	<u>\$ 16,195,967</u>	<u>\$ 23,005,916</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

Financial analysis of the board as a whole – continued

Changes in net position – The Board's total revenues were \$64,924,689 for the year ended June 30, 2017. (See Table 2). The county appropriation and general state aid accounted for approximately 71.8% of total revenue for the year. Another 27.1% came from program revenues, and the remainder from investment earnings and other sources. The total cost of all programs and services was \$71,734,638. The Board's expenses are predominantly related to providing direct educational services to students (55.8%). The purely administrative activities of the Board accounted for 1.6% of total expenses. Total expenses surpassed revenues, decreasing net position \$6,809,949 from last year. The pension expense included in the fiscal year 2017 was \$170,810. See Note 7 for additional information.

Table 2

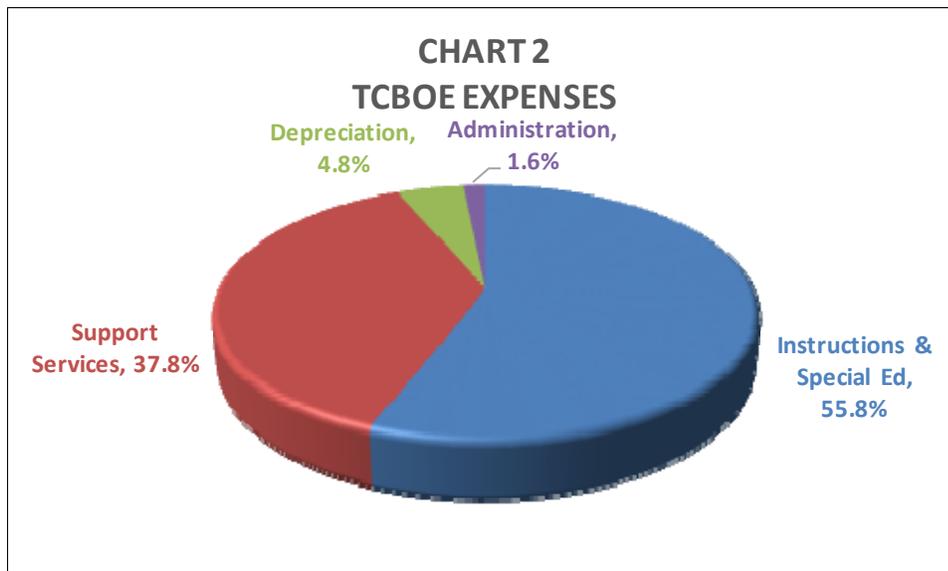
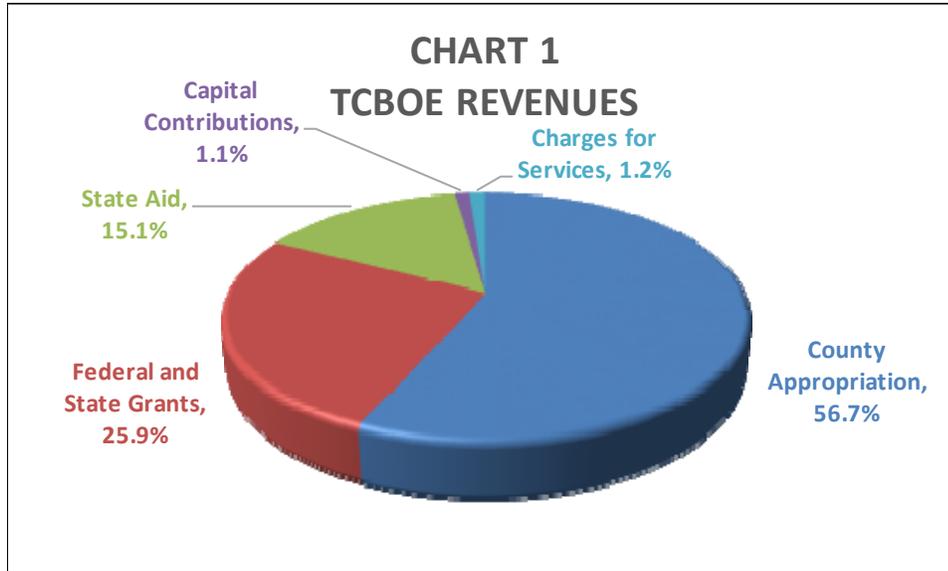
	2017	% OF	2016	% OF
	GOVERNMENTAL	TOTAL	GOVERNMENTAL	TOTAL
	ACTIVITIES		ACTIVITIES	
<u>REVENUES</u>				
<i>Program Revenues:</i>				
Charges for services	\$ 716,472	1.2	\$ 618,115	1.0
Federal, state and local grants	16,836,167	25.9	16,150,857	25.4
<i>General Revenues:</i>				
County appropriation	36,830,230	56.7	36,216,540	56.9
State of Maryland	9,774,963	15.1	9,496,461	14.9
Restricted for capital projects	741,204	1.1	1,089,480	1.7
Other	25,653	-	70,787	0.1
TOTAL REVENUE	<u>64,924,689</u>	<u>100.0</u>	<u>63,642,240</u>	<u>100.0</u>
<u>EXPENSES</u>				
Instruction and special education	40,041,584	55.8	38,444,424	54.7
Administration	1,142,600	1.6	1,047,846	1.5
Support services	27,079,861	37.8	27,237,927	38.8
Depreciation	3,470,593	4.8	3,498,727	5.0
TOTAL EXPENSES	<u>71,734,638</u>	<u>100.0</u>	<u>70,228,924</u>	<u>100.0</u>
DECREASE IN NET POSITION	<u>\$ (6,809,949)</u>		<u>\$ (6,586,684)</u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

Financial analysis of the board as a whole – continued

Governmental activities – The decrease in net position for governmental activities was \$6,809,949 in 2017.



THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

Financial analysis of the Board's funds

The financial performance of the Board as a whole is reflected in its governmental funds. As the Board completed the year, its governmental funds reported a *combined* fund balance of \$1,774,232, an increase of \$137,907 from last year's ending fund balance.

Revenues for the Board's governmental funds were \$64,924,689, an increase of \$1,282,449 from fiscal year 2016. Total expenditures were \$64,786,782 for the year, an increase of \$1,547,043 from the prior year.

General Fund – The General Fund includes the primary operations of the Board in providing educational services to students from pre-kindergarten through grade 12, including pupil transportation activities, and maintenance and operations of all school facilities. See Table 3 for a summary of General Fund revenues and expenditures.

Restricted Grants – These funds are used to account for grants from federal, state, and local sources. Grants provide a major source of revenue for specific educational programs not funded by the General Fund. Programs include initiatives for special education students and students from families who are socially and economically deprived. Table 4 reflects the increases (decreases) in grant funds by source over the prior year.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

Table 3

	<u>GENERAL FUND</u>			
	<u>FISCAL YEAR</u> <u>2017</u>	<u>FISCAL YEAR</u> <u>2016</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>PERCENT</u> <u>INCREASE</u> <u>(DECREASE)</u>
<u>REVENUES</u>				
Talbot County appropriations	\$ 40,104,620	\$39,253,006	\$ 851,614	2.2
Talbot County - school nurses	639,697	670,950	(31,253)	(4.7)
State of Maryland	13,161,728	12,851,208	310,520	2.4
State of Maryland share of retirement and pension contributions	3,503,652	3,401,839	101,813	3.0
Other	<u>152,622</u>	<u>87,700</u>	<u>64,922</u>	74.0
TOTAL REVENUES	<u>57,562,319</u>	<u>56,264,703</u>	<u>1,297,616</u>	2.3
<u>EXPENDITURES</u>				
Administration	1,082,426	1,002,253	80,173	8.0
Mid-level administration	3,748,973	3,603,475	145,498	4.0
Instructional salaries	20,845,852	20,298,781	547,071	2.7
Instructional texts and supplies	511,584	597,230	(85,646)	(14.3)
Other instruction costs	1,033,404	767,969	265,435	34.6
Special education	3,625,439	3,421,790	203,649	6.0
Student personnel services	203,299	193,641	9,658	5.0
Student transportation	2,740,414	2,396,758	343,656	14.3
Operation of plant and equipment	3,387,839	3,258,997	128,842	4.0
Maintenance of plant	1,282,145	1,209,019	73,126	6.0
Fixed charges	11,609,586	12,129,358	(519,772)	(4.3)
Debt service	3,274,390	3,036,466	237,924	7.8
School nurses	639,697	670,950	(31,253)	(4.7)
State of Maryland share of retirement and pension contribution	<u>3,503,652</u>	<u>3,401,839</u>	<u>101,813</u>	3.0
TOTAL EXPENDITURES	<u>57,488,700</u>	<u>55,988,526</u>	<u>1,500,174</u>	2.7
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 73,619</u>	<u>\$ 276,177</u>	<u>\$ (202,558)</u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

Table 4

	<u>RESTRICTED GRANT REVENUE</u>			
	<u>FISCAL YEAR</u>	<u>FISCAL YEAR</u>	<u>INCREASE</u>	<u>PERCENT</u>
	<u>2017</u>	<u>2016</u>	<u>(DECREASE)</u>	<u>INCREASE</u>
				<u>(DECREASE)</u>
Federal Through State	\$ 3,467,270	\$ 3,180,890	\$ 286,380	9.0
State of Maryland	409,129	474,329	(65,200)	(13.7)
Other	<u>713,087</u>	<u>580,218</u>	<u>132,869</u>	22.9
TOTAL REVENUES	<u>\$4,589,486</u>	<u>\$4,235,437</u>	<u>\$ 354,049</u>	8.4

Capital projects fund – The Board has no legal authority to borrow funds for construction. All funds for school construction come from either the transfer of bond proceeds from Talbot County selling capital bonds or from state aid through the Maryland Public School Construction Program (PSCP). During FY 2017, the Board had received state funding of \$50,532 and Talbot County funding of \$690,672 for projects started in FY 2017.

Fiduciary funds – The following funds are accounted for as fiduciary funds:

- (1) Mid-Shore Special Education Consortium: A four (4) county consortium serving Caroline, Dorchester, Queen Anne's and Talbot County students with disabilities.
- (2) Retiree Health Plan Trust (OPEB Trust): The OPEB Trust was established by the Board in FY 2016 in order to fund the health care cost of retirees. Total assets as of June 2017 were \$107,090 (see note 9 for more detailed information)
- (3) School Activities Accounts: During fiscal year 2017, the Board's nine schools collected revenues and incurred expenditures for various student activities (see Table 5). The Board contracts with an independent Certified Public Accountant to perform an audit of these agency funds on an annual basis. Please refer to the separately issued audited financial statements for the School Activities Fund for specific details.

Table 5

	<u>SCHOOL ACTIVITIES FUND</u>			
	<u>FISCAL YEAR</u>	<u>FISCAL YEAR</u>	<u>INCREASE</u>	<u>PERCENT</u>
	<u>2017</u>	<u>2016</u>	<u>(DECREASE)</u>	<u>INCREASE</u>
				<u>(DECREASE)</u>
Cash receipts	\$ 829,242	\$ 880,449	\$ (51,207)	(5.8)
Cash disbursements	(800,769)	(899,452)	98,683	(11.0)
Beginning cash balances	<u>178,158</u>	<u>197,161</u>	<u>(19,003)</u>	(9.6)
ENDING CASH BALANCES	<u>\$ 206,631</u>	<u>\$ 178,158</u>	<u>\$ 28,473</u>	16.0

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

General fund budgetary highlights

The actual General Fund revenues exceeded budgeted revenues by \$125,668. Actual expenditures and encumbrances were under budget by \$127,214.

Original budget compared to final budget – The FY 2017 original budget was increased by \$26,000. The increase was made possible by the re-appropriation of FY 2016 fund balance. The County Council approved the fund balance transfer of \$26,000 to operation of plant for payroll time clocks.

Capital assets and debt administration

Capital assets – By the end of fiscal year 2017, the Board had invested \$122.3 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, and furniture and equipment. (More detailed information about capital assets can be found in Note 3 to the financial statements). Total depreciation expense for the year was approximately \$3.47 million.

Future construction – Annually, the Board of Education prepares and submits a 5 year Capital Improvement Plan (CIP) to the MD Public School Construction Program and to the Talbot County Council. Included in the CIP is the request for \$49,884,000 for the Easton Elementary/Dobson replacement project. The funding will be divided with \$29,002,000 from the County and \$20,882,000 from the State of Maryland. The timeline will begin in October 2017 with the submission of the FY 2020 CIP to the Public School Construction Program for planning approval, with construction to start June 2018.

Long-term liabilities – At year-end, the Board had \$43,272,829 in long-term debt of which \$460,406 is due within one year and \$42,812,423 is due after one year. This amount consists of the following:

- \$582,189 due to Maryland State Retirement and Pension System.
- \$361,852 in notes payable.
- \$36,795,756 in net OPEB obligation.
- \$325,789 in accrued compensated absences.
- \$5,207,243 in net pension liability.
- See Notes 6, 7, and 9 for more details.

Factors impacting the school system

Effective with fiscal year 2015, the Board was required to implement the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. As a result of this pronouncement, the Board must report its allocated share of the net pension liability, deferred financing inflows and outflows, and net pension expense from the Employees' Retirement and Pension System of the Maryland State Retirement and Pension System. The impact of this statement on the fiscal year 2016 financial statements is discussed in note 7.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2017

During a special session of the Maryland General Assembly – Teacher Pension Cost, it was determined that the State and Local school boards will share the cost of teacher retirement by phasing in a requirement for local school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85%, and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016, and the additional maintenance of effort payments required by each county in the same period. The additional cost for fiscal year 2017 was determined to be \$1,288,700.

The Board adheres to the accounting standard issued by the Government Accounting Standards Board (GASB) for reporting other post-employment benefits (OPEB) known as GASB 45. GASB 45 stipulates standards for the measurement, recognition, and display of OPEB expenses and related liabilities and assets, note disclosures and required supplementary information in the financial reports of state and local governmental employers. GASB 45 requires the measurement and disclosure of actuarial accrued liabilities and funded status. Under GASB 45, the Board is not only reporting OPEB expense, but the associated accrued financial obligations. Funding of the obligation is optional. The Board is also required to disclose the funded status of the benefits as of the most recent valuation and to present as Required Supplementary Information (RSI) multi-year trend information about funding progress.

Funding for education continues to be a concern of the Board of Education. The charter for Talbot County currently limits the annual increase in property tax revenues to the lesser of 2% or the increase in CPI. Counties may exceed the charter limitation on local property taxes for the purpose of funding the approved budget for the Board. For FY 2018, Talbot County Council approved funding of \$1,122,932 for Talbot County Public Schools non-recurring costs.

The majority of State aid to public schools is distributed inversely to local wealth, whereby less affluent school systems receive more State aid. In addition, State funding is targeted to local school systems based on enrollment of student groups. Talbot County Public Schools ranks 23 out of 24 in receiving the second lowest amount (\$4,091) per pupil of State aid.

In October 2016, Talbot County Public Schools established an Education Foundation through the Mid-Shore Community Foundation. This Foundation allows individuals to make tax deductible contributions for a variety of educational projects and programs.

Contacting the board's financial management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office, Talbot County Board of Education, 12 Magnolia Street, P.O. Box 1029, Easton, Maryland 21601.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF NET POSITION

June 30, 2017

ASSETS		GOVERNMENTAL ACTIVITIES
Cash and cash equivalents		\$ 6,274,286
Due from other units of government		441,272
Due from Trust and Agency fund		1,704
Other receivables		20,682
Capital assets:		
Land, at cost		624,446
Other depreciable assets, at cost		
less accumulated depreciation		<u>55,749,296</u>
TOTAL ASSETS		<u>63,111,686</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows - state pension plan		<u>1,457,789</u>
LIABILITIES		
Accounts payable		292,612
Accrued expenditures		3,867,244
Payroll deductions and withholdings		3,314
Unearned revenues		580,488
Long-term liabilities:		
Portion due or payable within one year:		
Compensated absences	220,054	
Notes payable	201,044	
Maryland State Retirement and Pension System	<u>39,308</u>	460,406
Portion due or payable after one year:		
Compensated absences	105,735	
Net OPEB obligation	36,795,756	
Net pension liability	5,207,243	
Notes payable	160,808	
Maryland State Retirement and Pension System	<u>542,881</u>	42,812,423
TOTAL LIABILITIES		<u>48,016,487</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows - state pension plan investment activity		<u>357,021</u>
NET POSITION		
Net investment in capital assets		56,011,890
Restricted for food service operations		443,224
Unrestricted deficit		<u>(40,259,147)</u>
TOTAL NET POSITION		<u>\$ 16,195,967</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUES AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
GOVERNMENTAL ACTIVITIES				
Administration	\$ 1,142,600	\$ -	\$ -	\$ (1,142,600)
Instructional services	28,444,589	107,043	4,839,274	(23,498,272)
Special education	5,322,219	-	2,133,156	(3,189,063)
Student personnel services	340,799	-	-	(340,799)
Student transportation	2,901,647	-	1,643,518	(1,258,129)
Operation of plant	2,104,875	-	-	(2,104,875)
Maintenance of plant	1,302,145	22,576	-	(1,279,569)
Fixed charges	21,550,467	-	3,503,652	(18,046,815)
Community services	263,371	-	-	(263,371)
Capital outlay	758,204	-	-	(758,204)
Food service operations	1,958,846	586,853	1,442,177	70,184
Debt service	3,274,390	-	3,274,390	-
Interest on long-term debt	11,272	-	-	(11,272)
Depreciation – unallocated	2,359,214	-	-	(2,359,214)
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 71,734,638</u>	<u>\$ 716,472</u>	<u>\$ 16,836,167</u>	<u>(54,181,999)</u>
GENERAL REVENUES				
Talbot County appropriations				36,830,230
State of Maryland				9,774,963
Capital outlay/construction funding				741,204
Unrestricted investment earnings				20,189
Other revenue				5,464
				<u>47,372,050</u>
TOTAL GENERAL REVENUES				<u>47,372,050</u>
CHANGE IN NET POSITION				<u>(6,809,949)</u>
NET POSITION, BEGINNING OF YEAR				<u>23,005,916</u>
NET POSITION, END OF YEAR				<u>\$ 16,195,967</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	<u>MAJOR FUNDS</u>			
	<u>GENERAL</u>	<u>RESTRICTED GRANTS</u>	<u>NONMAJOR FUNDS</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 5,944,245	\$ -	\$ 330,041	\$ 6,274,286
Due from other governments:				
State of Maryland	-	35,940	1,792	37,732
United States government	-	357,951	28,589	386,540
Talbot County	-	-	17,000	17,000
Due from other funds	17,000	366,303	158,885	542,188
Due from Trust and Agency fund	1,704	-	-	1,704
Other receivables	-	20,682	-	20,682
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 5,962,949</u>	<u>\$ 780,876</u>	<u>\$ 536,307</u>	<u>\$ 7,280,132</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 216,474	\$ 55	\$ 76,083	\$ 292,612
Accrued expenditures	3,666,911	200,333	-	3,867,244
Payroll deductions and withholdings	3,314	-	-	3,314
Due to other funds	525,188	-	17,000	542,188
Unearned revenues	-	580,488	-	580,488
Compensated absences	220,054	-	-	220,054
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>4,631,941</u>	<u>780,876</u>	<u>93,083</u>	<u>5,505,900</u>
 FUND BALANCES				
Restricted for:				
Fund purposes	-	-	443,224	443,224
Assigned				
Future budgets	-	-	-	-
Encumbrances	890,144	-	-	890,144
Unassigned	440,864	-	-	440,864
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL FUND BALANCES	<u>1,331,008</u>	<u>-</u>	<u>443,224</u>	<u>1,774,232</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,962,949</u>	<u>\$ 780,876</u>	<u>\$ 536,307</u>	<u>\$ 7,280,132</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
Year Ended June 30, 2017

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 1,774,232

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds:

Cost of assets	122,319,924
Less: accumulated depreciation	(65,946,182)

Deferred financing outflow for change in assumptions in net pension liability	1,457,789
---	-----------

Deferred financing inflow for investment activity in net pension liability	(357,021)
--	-----------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Net OPEB obligation	36,795,756
Net pension liability	5,207,243
Notes payable	361,852
Compensated absences	105,735
Maryland State Retirement and Pension System	582,189

Total long-term liabilities	<u>(43,052,775)</u>
-----------------------------	---------------------

TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES	<u><u>\$ 16,195,967</u></u>
--	-----------------------------

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2017

	MAJOR FUNDS			TOTAL
	GENERAL	RESTRICTED GRANTS	NONMAJOR FUNDS	
REVENUES				
Talbot County	\$ 40,744,317	\$ -	\$ 690,672	\$ 41,434,989
State of Maryland	16,665,380	409,129	177,672	17,252,181
United States Government	-	3,467,270	1,315,037	4,782,307
Other sources:				
Food service sales	-	-	586,853	586,853
Interest earned	20,189	-	2,650	22,839
Other	132,433	713,087	-	845,520
TOTAL REVENUES	57,562,319	4,589,486	2,772,884	64,924,689
EXPENDITURES				
Current:				
Administration	1,082,426	98,038	-	1,180,464
Mid-level administration	3,748,973	119,963	-	3,868,936
Instructional salaries	20,845,852	630,066	-	21,475,918
Instructional texts and supplies	511,584	150,847	-	662,431
Other instructional costs	1,033,404	555,854	-	1,589,258
Special education	3,625,439	1,696,780	-	5,322,219
Student personnel service	203,299	137,500	-	340,799
Student transportation	2,740,414	86,701	-	2,827,115
Operation of plant	3,387,839	128,470	-	3,516,309
Maintenance of plant	1,282,145	20,000	-	1,302,145
Fixed charges	11,609,586	701,896	-	12,311,482
Community services	-	263,371	-	263,371
Capital outlay	-	-	758,204	758,204
Food service operating expenditures	-	-	1,950,392	1,950,392
Debt service	3,274,390	-	-	3,274,390
On-behalf payments	4,143,349	-	-	4,143,349
TOTAL EXPENDITURES	57,488,700	4,589,486	2,708,596	64,786,782
EXCESS OF REVENUES OVER EXPENDITURES	73,619	-	64,288	137,907
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	17,000	17,000
Transfers out	(17,000)	-	-	(17,000)
TOTAL OTHER FINANCING SOURCES (USES)	(17,000)	-	17,000	-
NET CHANGE TO FUND BALANCE	56,619	-	81,288	137,907
FUND BALANCES, BEGINNING OF YEAR	1,274,389	-	361,936	1,636,325
FUND BALANCES, END OF YEAR	\$ 1,331,008	\$ -	\$ 443,224	\$ 1,774,232

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ 137,907

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. These consist of:

Capital outlays	1,976,515
Depreciation expense	(3,470,593)

Decreases in deferred inflows of resources do not use current financial resources and, therefore, are not reported as expenditures in governmental funds.	73,057
---	--------

Increases in deferred outflows of resources do not create current financial resources and, therefore, are not reported as revenues in governmental funds.	286,478
---	---------

Decreases (increases) in long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures or revenue in governmental funds:

Accrued compensated absences	108,499
Increase in long-term debt	(125,628)
Maryland State Retirement System deficit balance	(43,882)
Net OPEB obligation	(5,935,617)
Net pension liability	(152,805)

Repayments of long-term debt are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Notes payable	298,684
Maryland State Retirement and Pension System	37,436

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (6,809,949)

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION

Year Ended June 30, 2017

	<u>AGENCY FUNDS</u>			
	<u>SPECIAL EDUCATION CONSORTIUM</u>	<u>SCHOOL ACTIVITIES FUND</u>	<u>RETIREE HEALTH PLAN TRUST</u>	<u>TOTAL</u>
ASSETS				
Cash and cash equivalents	\$ 757,980	\$ 206,631	\$ 107,090	\$ 1,071,701
Federal grants receivable	<u>116,527</u>	<u>-</u>	<u>-</u>	<u>116,527</u>
TOTAL ASSETS	<u><u>\$ 874,507</u></u>	<u><u>\$ 206,631</u></u>	<u><u>\$ 107,090</u></u>	<u><u>\$ 1,188,228</u></u>
LIABILITIES				
Accrued expenses	\$ 143,923	\$ -	\$ -	\$ 143,923
Due to general fund	1,704	-	-	1,704
Funds held for school activities	-	206,631	-	206,631
Deferred revenue	<u>728,880</u>	<u>-</u>	<u>-</u>	<u>728,880</u>
TOTAL LIABILITIES	874,507	206,631	-	1,081,138
NET POSITION				
Held in trust for OPEB	<u>-</u>	<u>-</u>	<u>107,090</u>	<u>107,090</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 874,507</u></u>	<u><u>\$ 206,631</u></u>	<u><u>\$ 107,090</u></u>	<u><u>\$ 1,188,228</u></u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2017

	<u>RETIREE HEALTH PLAN TRUST</u>
ADDITIONS	
Net investment portfolio results	\$ 7,090
NET POSITION AT JULY 1, 2016	<u>100,000</u>
NET POSITION AT JUNE 30, 2017	<u>\$ 107,090</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

The Board of Education of Talbot County, Maryland (the Board) is a component unit of Talbot County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. Accordingly, the financial statements of the Board are included in the financial statements of Talbot County, Maryland.

The accounting policies of the Board of Education of Talbot County conform to generally accepted accounting principles (GAAP) for governmental units. The following is a summary of the significant policies employed by the Board:

Government-wide and fund financial statements – The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the Board of Education of Talbot County as a whole. For the most part, the effect of interfund activity has been removed from these statements. The activities of the general fund (unrestricted current expense fund), special revenue funds (restricted current expense and food service funds), and capital projects fund (school construction fund) have been presented as governmental activities in the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational requirements of a particular program. Local appropriations, state and federal aid, and other items that are not classified as program revenues are presented as general revenues of the Board.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the non-major governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Local appropriations and state and federal aid are recognized as revenues in the year for which they were approved by the provider. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to certain compensated absences are recognized when the obligations are expected to be liquidated with expendable available resources.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Local appropriations and state and federal aid associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria have been met. Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus. Agency funds do, however, use the accrual basis of accounting.

The Retiree Health Plan Trust Fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The government reports the following funds in the financial statements:

Major funds

General fund – All financial resources appropriated for current operating expenditures, exclusive of certain restricted funds, are accounted for in the general fund.

Restricted grants fund – This fund is used to account for revenue sources that are legally restricted to expenditures for a specific purpose, such as federal, state, and local grants.

Non-major funds

Food services fund – This fund is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes (school cafeteria operations).

Capital projects fund – This fund accounts for financial resources that are restricted to construction of new buildings, additions and alterations, and acquisition of equipment. Revenue from bond issues is recognized in the year that funds are either transferred or receivable from Talbot County.

Fiduciary funds

Agency fund – This fund is used to account for the transactions of the student activities funds, which are the direct responsibility of the principal of each of the respective schools, and the Mid-Shore Special Education Consortium for which the Board acts as the processing agent for invoices.

Retiree health plan trust fund – This fund was established in fiscal year 2016 to prefund other postemployment (health insurance) benefits (OPEB) that the Board provides to certain retirees of Talbot County Public Schools.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

The accounting policies of the Board conform to accounting principles generally accepted in the United States of America. Accordingly, the Board applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: *Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins.*

Budgets and budgetary accounting – The Talbot County Public Schools operate within the following budget requirements for local educational agencies as specified by state law.

1. The Board must submit an annual school budget in writing to the County Council by February 15 of each year.
2. The County Council must approve the budget ordinance by May 31 of each year.
3. The budget is prepared and approved by major categories as specified in the state law.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the inclusion of encumbrances as expenditures. Budget comparisons presented in this report are on a non-GAAP budgetary basis.
5. The Board may transfer funds within the major categories without recourse from the County Council. Transfers between major categories can only be made with the approval of the County Council.
6. Unencumbered appropriations lapse at the end of each fiscal year.

The expenditures under special state and federal restricted programs may exceed budgeted amounts. The grants included in this category are not part of budget categories subject to the spending limitations of the operating budget. Expenditures under these programs are limited to the amounts of the respective grants.

Budget calendar

<u>Approximate Date</u>	<u>Procedure Performed</u>
July	Review strategic plan and budget implications and priorities
August-October	Outreach presentations through school PTO meetings and community forums; Board work session on budget categories
September	Preliminary enrollment by school
October	Department heads and schools submit requests
October	Review compilation of department budget requests with Superintendent, Assistant Superintendent, and Directors and establish proposed priority listing; Board work session
November	Draft proposed budget
December	Board of Education public meeting to review proposed budget
January	Board budget work session

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

<u>Approximate Date</u>	<u>Procedure Performed</u>
February	Regular meeting – Board of Education for final adoption of the proposed budget. Submission of proposed budget to County Council.
Late May/June	Board public workshops on revised budget based on actual appropriation
June	Public meeting(s) to review actual budget allocations and final adoption

Encumbrances – Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Due to/from other funds – All transactions between funds represent “*due to/from other funds*” caused by cash from one fund paying for expenditures or expenses of another. The Board did not incur transactions between funds that would represent lending/borrowing arrangements outstanding at the end of the fiscal year.

Cash deposits – The Board is authorized to invest any monies in any fund or account for which they have custody or control. The types of investments are specified in accordance with Section 6-222 of the Maryland State Finance and Procurement Article.

Article 95, Section 22 of the Annotated Code of Maryland requires that deposits with financial institutions by local boards of education be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution. In addition, this section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code (i.e., direct obligations of the United States, or its agencies and/or obligations of states, counties, or municipalities).

Capital assets – Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Property, plant, and equipment are depreciated using the straight-line method over estimated useful lives of 20-50 years for buildings, improvements, and infrastructure, and 5-20 years for equipment.

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

Compensated absences – Twelve-month employees earn annual leave at varying rates dependent upon position and length of service. Annual leave generally must be taken by June 30 each year. For support staff, up to ten days may be transferred to the next fiscal year. For administrative staff, up to 20 days may be transferred to the next fiscal year.

Employees earn sick leave at varying rates of 13 to 18 days per year depending upon position and utilization. There is no limit on the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave; however, at retirement, a portion may be used as additional credited service under the retirement plan.

Expenditures in the statement of revenues and expenditures for such items are the amounts accrued during the year that normally would be liquidated with expendable available financial resources. All accrued compensated absences are recorded in the government-wide financial statements. The compensated absences liability attributable to the governmental activities will be liquidated by the general fund.

Deferred outflows of resources – A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (revenue) until that future time.

Pensions – 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 State Retirement and Pension System (SRPS) and additions to/deductions from SRPS's fiduciary net position have been determined on the same basis as they are reported by SRPS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred inflows of resources – A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an outflow of resources (revenue) until that future time.

On behalf payments – The Board recognizes as revenue and expenditures amounts expended on its behalf during the fiscal year for amounts paid by third parties.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies – continued**

Net position – The Board classifies net position in the government-wide financial statements as follows:

Net Investment in Capital Assets – includes the Board’s capital assets (net of accumulated depreciation) reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Position – includes assets that have third-party (statutory, bond covenant, or granting agency) limitations on their use. The Board typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use until a future project.

Unrestricted Net Position – includes unrestricted liquid assets.

Fund balances – Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board of Education members. The Board of Education is the highest level of decision-making authority for the entity. Commitments may be established, modified, or rescinded only through formal actions approved by the Board members.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. These amounts are designated by management.

Unassigned – all other spendable amounts.

When an expenditure is incurred for which both restricted and unrestricted fund balance is available, the Board considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Board considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

New Accounting Pronouncements – During fiscal year 2017, the Board implemented GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirement for the selection of assumptions was not implemented for year end June 30, 2017 because the employer’s pension liability is measured as of June 30, 2016. The requirements for the selection of assumptions will be effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* which is effective for financial statements for periods beginning after June 15, 2017. This statement may have a material effect on the Board’s financial statements once implemented. The Board is analyzing the impact of this pronouncement on the Board’s financial statements.

GASB has issued Statement No. 85, *Omnibus 2017* which is effective for financial statements for periods beginning after June 15, 2017. This statement may have a material effect on the Board’s financial statements once implemented. The Board is analyzing the impact of this pronouncement on the Board’s financial statements.

(2) Deposits

At June 30, 2017, the reported amount of the Board’s bank deposits was \$7,345,987 and the bank balance was \$9,175,936.

The cash in bank was covered by federal depository insurance or by collateral held by the pledging bank’s trust department in the Board’s name with the exception of \$107,090 in funds held by the Retiree Health Plan (OPEB) trust fund.

The Board is also authorized to invest in the Maryland Local Government Investment Pool (MLGIP), where deposits are recorded at cost. Due to the nature of the MLGIP investment, it is considered a cash equivalent. MLGIP is not covered by the FDIC, but it is collateralized by United States Treasury instruments. The Maryland State Treasurer oversees the MLGIP. For additional information regarding deposit and investment risks, a separate financial report is available at the website address below.

The pool operates in a manner similar to that of an open-end mutual fund. Participants’ deposits and withdrawals are accounted for as purchases and sales of the pool’s capital shares. The amount of net proceeds from the sale of shares represents the gross withdrawals, which are redeemed from the pool’s shares during the year. The cost of shares purchased represents the gross deposits, which are invested in the pool’s shares during the year. Earnings are remitted directly to participants or invested (or reinvested) in the pool’s shares.

MLGIP qualifies for reporting its investment of amortized cost under GASB 79. Participants may obtain up to their entire principal account balance by having an authorized representative notify the MLGIP before 2:00 PM on the day of the withdrawal.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(2) Deposits – continued

A separate financial report for the MLGIP can be obtained from www.mlgip.com or by contacting PNC Institutional Investments, One East Pratt Street, 5th Floor West, Baltimore, Maryland 21202.

The components of cash and cash equivalents on the government-wide statements are:

Cash in bank	\$ 3,077,026
Cash equivalents - MGLIP	4,268,461
Cash on hand	<u>500</u>
Total cash and cash equivalents	<u>7,345,987</u>
Less trust and agency cash:	
Mid-Shore Special Education Consortium	757,980
OPEB trust fund	107,090
School activities	<u>206,631</u>
Total trust and agency cash	<u>1,071,701</u>
TOTAL CASH AND CASH EQUIVALENTS (GOVERNMENT WIDE)	<u>\$ 6,274,286</u>

(3) Capital assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 377,446	\$ 247,000	\$ -	\$ 624,446
Total Capital Assets Not Being Depreciated	<u>377,446</u>	<u>247,000</u>	<u>-</u>	<u>624,446</u>
Capital Assets Being Depreciated:				
Buildings	93,171,841	11,850	-	93,183,691
Land Improvements	1,431,459	722,354	-	2,153,813
Furniture, Equipment And Vehicles	<u>25,362,663</u>	<u>995,311</u>	<u>-</u>	<u>26,357,974</u>
Total Capital Assets Being Depreciated	<u>119,965,963</u>	<u>1,729,515</u>	<u>-</u>	<u>121,695,478</u>
Less Accumulated Depreciation for:				
Buildings	40,416,263	2,092,621	-	42,508,884
Land Improvements	768,204	67,348	-	835,552
Furniture, Equipment and Vehicles	<u>21,291,122</u>	<u>1,310,624</u>	<u>-</u>	<u>22,601,746</u>
Total Accumulated Depreciation	<u>62,475,589</u>	<u>3,470,593</u>	<u>-</u>	<u>65,946,182</u>
Total Capital Assets Being Depreciated, Net	<u>57,490,374</u>	<u>(1,741,078)</u>	<u>-</u>	<u>55,749,296</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 57,867,820</u>	<u>\$(1,494,078)</u>	<u>\$ -</u>	<u>\$ 56,373,742</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(3) Capital assets – continued

Depreciation expense for the year ended June 30, 2017 was charged to governmental functions as follows:

Support Services	
Instructional Services	\$ 844,065
Student Transportation	258,860
Food Services	8,454
Unallocated	<u>2,359,214</u>
TOTAL	<u><u>\$ 3,470,593</u></u>

(4) Interfund receivables – payables

Outstanding balances resulting from transactions between funds as of June 30, 2017 consist of the following:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund	\$ 17,000	\$ 525,188
Restricted	366,303	-
Food Services Fund	158,885	-
Capital Projects Fund	<u>-</u>	<u>17,000</u>
TOTAL	<u><u>\$ 542,188</u></u>	<u><u>\$ 542,188</u></u>

(5) Unearned revenues

Unearned revenues from grantors consist of federal and state grants and other advances that have not been expended by June 30, 2017 and consist of the following:

Restricted federal, Maryland and other grant programs	\$ 580,488
--	------------

(6) Long-term liabilities

The Board is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the county and state governments. The reporting of county debt service and related revenues in the general fund is required by state law. Annual debt service expenditures are fully offset by county and state revenues. Debt service principal and interest on bond obligations paid by Talbot County was \$3,274,390 for the year ended June 30, 2017.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Long-term liabilities – continued

The Board’s long-term debt at June 30, 2017 consists of the following:

Note payable to Signature Bank; principal and interest payments of \$2,207 are payable monthly through August 26, 2021; interest is payable at 2.09% per annum; collateralized by a school bus	\$ 105,590
Note payable to Branch Banking & Trust Co. (BB&T); principal and interest payments of \$2,009 are payable monthly through September 5, 2017; interest is payable at 2.11% per annum; collateralized by a school bus	4,007
Note payable to Suntrust Equipment Finance & Leasing Corp. principal and interest payments of \$8,638 are payable monthly through September 1, 2018; interest is payable at 1.597% per annum; collateralized by school buses	119,739
Note payable to Suntrust Equipment Finance & Leasing Corp. principal and interest payments of \$56,321 are payable annually through September 1, 2018; interest is payable at 1.58% per annum; collateralized by school buses	55,445
Note payable to Branch Banking & Trust Co. (BB&T); principal and interest payments of \$2,142 are payable monthly through June 11, 2020; interest is payable at 1.98% per annum; collateralized by school buses	77,071
TOTAL NOTES PAYABLE	<u><u>\$ 361,852</u></u>

Aggregate maturities of long-term notes payable at June 30, 2017 are as follows:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 201,044	\$ 5,306	\$ 206,350
2019	74,525	2,378	76,903
2020	49,680	1,308	50,988
2021	32,201	409	32,610
2022	4,402	12	4,414
TOTAL	\$ 361,852	\$ 9,413	\$ 371,265

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Long-term liabilities – continued

State retirement system

State Retirement and Pension System of Maryland (Note 7, funding status); payable annually through December 2035 \$ 582,189

The remaining deficit reduction payment schedule authorized by House Bill 430 is as follows:

<u>Year Ending June 30,</u>		
2018	\$	39,308
2019		41,270
2020		43,334
2021		45,501
2022		47,776
2023 - 2027		277,191
2028 - 2032		353,774
2033 - 2036		<u>352,192</u>
Total principal and interest		1,200,346
Less amount representing interest		<u>(618,157)</u>
LIABILITY AS OF JUNE 30, 2017		<u>\$ 582,189</u>

The changes in long-term liabilities for the year ended June 30, 2017 are as follows:

	<u>STATE RETIREMENT SYSTEM</u>	<u>COMPENSATED ABSENCES</u>	<u>NOTES PAYABLE</u>	<u>TOTAL</u>
Balance at June 30, 2016	\$ 575,743	\$ 340,813	\$ 534,908	\$ 1,451,464
Increases	43,882	501,354	125,628	670,864
Payments	<u>(37,436)</u>	<u>(516,378)</u>	<u>(298,684)</u>	<u>(852,498)</u>
Balance at June 30, 2017	<u>\$ 582,189</u>	<u>\$ 325,789</u>	<u>\$ 361,852</u>	<u>\$ 1,269,830</u>

The increase to the State Retirement System debt is related to an actuarial valuation that produced updated principal balances and was communicated to Talbot County Board of Education on December 9, 2016.

See notes 7 and 9 for long-term liabilities related to the net pension liability and the OPEB obligation.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans

Plan description – The Board contributes to the State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland. SRPS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. That report may be obtained by writing to Maryland State Retirement and Pension System, 301 West Preston Street, Baltimore, Maryland 21202 or online at www.sra.maryland.gov.

The Teachers' Retirement System (TRS) was established on August 1, 1927, to provide retirement allowances and other benefits to teachers in the State. Effective January 1, 1980, the TRS was closed to new members and the Teachers' Pension System (TPS) was established. As a result, teachers hired after December 31, 1979, became members of the TPS as a condition of employment. On or after January 1, 2005, an individual who is a member of the TRS may not transfer membership to the TPS.

On October 1, 1941, the Employees' Retirement System (ERS) 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 ERS was essentially closed to new members and the Employees' Pension System (EPS) was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the EPS as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the ERS. On or after January 1, 2005, an individual who is a member of the ERS may not transfer membership to the EPS.

All individuals who are members of the TPS on or before June 30, 2011, participate in the Alternate Contributory Pension Selection (ACPS) except for the few members who transferred from the TRS after April 1, 1998 or former vested members who terminated employment prior to July 1, 1998. All individuals who enroll in the Teachers' Pension System on or after July 1, 2011, participate in the Reformed Contributory Pension Benefit (RCPB).

The Employees' Pension System (EPS) consists of four parts. The Non-Contributory Pension System (NCPS) was established on January 1, 1980 and consists only of those participating employers that did not elect membership in the Employees' Contributory Pension System (ECPS) or the Alternate Contributory Pension Selection (ACPS). The Employees' Contributory Pension System (ECPS) was established as of July 1, 1998 and consists of those participating employers that elected participation in the ECPS effective July 1, 1998 through July 1, 2005 and did not elect membership in the ACPS as of July 1, 2006. Employees who transferred from the ERS to the EPS after April 1, 1998 were not eligible for the benefits of the ECPS. The Alternate Contributory Pension Selection (ACPS) was established as of July 1, 2006 and consists of all eligible State employees and those participating employers that elected participation in the ACPS effective July 1, 2006. Employees who transferred from the ERS to the EPS after April 1, 1998 were not eligible for the benefits of the ACPS. The Reformed Contributory Pension Benefit (RCPB) was established as of July 1, 2011 and consists of all State employees and employees of participating governmental units enrolling in the EPS on or after July 1, 2011. It does not apply to employees of participating governmental units participating in the NCPS or ECPS who in enroll in the Employees' Pension System on or after July 1, 2011.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

Benefits provided – SRPS provides retirement, disability and death benefits as well as annual cost-of-living adjustments to plan members and beneficiaries.

Teachers' and Employees' Retirement Systems

A member is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. Retirement allowances are computed using both the highest three years' average final compensation (AFC) and the actual number of years of accumulated creditable service.

A member may retire with reduced benefits after completing 25 years of eligibility service prior to attaining age 60. Benefits are reduced by 0.5% per month for each month remaining until the retiree either attains age 60 or would have accumulated 30 years of creditable service, whichever is less. The maximum reduction is 30%. The maximum reduction for a member who elected Selection C (details provided in Contributions section below) is 30% on the first part and 42% on the second part of the benefit calculation.

Any individual who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

Generally, a member covered under retirement plan provisions who is permanently disabled after 5 years of service receives a service allowance based on a minimum percentage (usually 25%) of the member's AFC. Members are eligible for accidental disability benefits if the Medical Board certifies that, in the course of job performance and as the direct result of an accidental injury, they become totally and permanently disabled. Accidental disability allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, plus 66.7% of AFC. Allowances may not exceed the members' AFC.

To be eligible for death benefits, members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty. The benefit provided upon death for members equals the members' annual earnable compensation at the time of death plus accumulated contributions. There is a special death benefit paid to the surviving spouse, dependent children, or dependent parents of employees killed in the line of duty equal to 66.7% of the deceased member's average final compensation.

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. For the Teachers' and Employees' Retirement Systems the method by which the annual COLA's are computed depends upon elections made by members who were active on July 1, 1984 (or within 90 days of returning to service, for members who were inactive on July 1, 1984) enabling the member to receive either an unlimited COLA, a COLA limited to 5% or a two part combination COLA depending upon the COLA election made by the member.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

Teachers' and Employees' Pension Systems

An individual who is a member on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

An individual who is a member on or before June 30, 2011, may retire with reduced benefits upon attaining age 55 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 62. The maximum reduction for these members is 42%. An individual who becomes a member on or after July 1, 2011, may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members is 30%.

For all individuals who are members on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' AFC and the actual number of years of accumulated creditable service. For any individual who becomes a member on or after July 1, 2011, pension allowances are computed using both the highest five consecutive years' AFC and the actual number of years of accumulated creditable service.

Any individual who is a member on or before June 30, 2011, and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins on or after July 1, 2011, and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. A member, who terminates employment prior to attaining retirement age and before vesting, receives a refund of all member contributions and interest.

A member who is permanently disabled after accumulating 5 years of eligibility service receives a service allowance computed as if service had continued with no change in salary until the retiree attained age 62. A member who is permanently and totally disabled as the result of an accident occurring in the line of duty receives 66.7% of the member's AFC plus an annuity based on all member contributions and interest.

To be eligible for death benefits, members must have either accumulated at least one year of eligibility service prior to the date of death or died in the line of duty. Death benefits are equal to a member's annual salary as of the date of death plus all member contributions and interest. There is a special death benefit paid to the surviving spouse, dependent children, or dependent parents of employees killed in the line of duty equal to 66.7% of the deceased member's average final compensation.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. With certain exceptions, effective July 1, 1998, the adjustment is capped at a maximum 3% compounded and is applied to all benefits which have been in payment for one year. However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

Contributions – The Board is required to contribute at actuarially determined rates, which are currently 15.79% of covered compensation for teachers and 18.28% for classified employees. The contribution requirements of plan members and the Board are established, and may be amended by, the SRPS Board of Trustees.

The State makes a substantial portion of the Board’s annual required contributions to the Teachers systems on behalf of the Board. The State’s contributions on behalf of the Board to the Teachers systems for the year ended June 30, 2017, amounted to \$3,503,652. The fiscal 2017 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the general fund in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balances and are also included as revenue and expenses in the statement of activities. The Board makes the entire employer required annual contributions to the Employees systems as well as those that relate to positions in the Teachers systems funded through federal and state restricted programs.

The employer’s total payroll covered under the various state plans, and contributions paid are as follows for the three most recent fiscal years:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Payroll	\$ 34,411,375	\$ 34,011,761	\$ 33,625,017
Payroll Covered Under the Plans	\$ 32,588,049	\$ 31,869,846	\$ 31,854,565
Contributions Paid In:			
Board Payments	\$ 1,688,610	\$ 1,601,610	\$ 1,623,169
State On-Behalf Payments	\$ 3,503,652	\$ 3,401,839	\$ 3,541,347

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

As a result of a first time actuarial study of the State Retirement and Pension System of Maryland, the Talbot County Board of Education was identified as one of 23 municipal corporations not having enough assets available to fund the present value of accrued benefits for participants in the retirement system. Under the rules of House Bill 1338, the original deficit amount was determined to be \$925,482 as of June 30, 1996, to be repaid over a period of 40 years. The Board was granted relief of \$210,003 (as of June 30, 1996) by HB1348 enacted in 1997 and further relief of \$210,003 (as of June 30, 1996) by HB430 which was enacted in 1998. The fiscal year 2017 payment was \$37,436. See Note 6 for the remaining years' payment stream. The payments reflect a pattern which increases by 5% per year for the next 20 years.

Teachers' and Employees' Retirement Systems

Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% or 5% of earnable compensation depending upon the retirement option selected.

Members who elected in 1984 to receive unlimited future cost-of-living adjustments (COLA) contribute 7% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 7% or 2% more than the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection A (Unlimited COLA).

Members who elected in 1984 to receive limited future COLA's contribute 5% if enrolled after June 30, 1973. Members enrolled before July 1, 1973 contribute the lesser of 5% or the rate of contribution in effect on the date of their enrollment. This option is referred to as Selection B (Limited COLA).

All other members contribute in accordance with the provisions of the Teachers' Pension System or Employees' Pension System. This option is referred to as Selection C (Combination Formula), which provides a two-part benefit calculation upon retirement.

Members who are in Selection A, B, or C will remain in these until their retirement. As of January 1, 2005, they were no longer permitted to change selections.

Teachers' and Employees' Pension Systems

Beginning July 1, 2011, the member contribution rate was increased for members of the Teachers' Pension System from 5% to 7%.

For the Employee's Pension System, NCPS members are required to contribute 5% of earnable compensation in excess of the social security wage base, ECPS members are required to contribute 2% of earnable compensation, and ACPS and RCPB members are required to contribute 7% of earnable compensation.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

Pension Liabilities, Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources
 – At June 30, 2017, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

District's proportionate share of the net pension liability	\$ 5,207,243
State's proportionate share of the net pension liability associated with the Board	47,006,698
Total	\$ 52,213,941

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the actual employer contributions billed to the Board for the year ended June 30, 2016 compared to the total billings to all participating government units. That percentage was then multiplied by the total net pension liability for the SRPS to calculate the liability related to the Board. At June 30, 2016 the Board's portion was .0220702%.

For the year ended June 30, 2017, the Board recognized pension expense of \$170,810. The Board recognized revenue of \$3,503,652 for support provided by the state. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 229,834	\$ -
Net difference between projected and actual earnings on pension plan investments	850,415	217,711
Differences between expected and actual results	-	139,310
Board contributions subsequent to the measurement date	377,540	-
Total	\$ 1,457,789	\$ 357,021

The \$377,540 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 164,930
2019	164,932
2020	259,399
2021	144,109
2022	(10,142)

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

Actuarial Assumptions – The total pension liability in the June 30, 2017 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	2.7% general, 3.2% wage
Salary increases	3.3% to 9.2% including wage inflation
Investment rate of return	7.55%
Mortality	RP-2014 Mortality tables

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 2010-2014.

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 after considering input from the System’s investment consultant(s) and actuary(s). For each major asset class that is included in the System’s target asset allocation, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	6.60%
Private Equity	10%	7.40%
Rate Sensitive	20%	1.30%
Credit Opportunity	9%	4.20%
Real Assets	15%	4.70%
Absolute Return	9%	3.70%
Total	<u>100%</u>	

Discount rate – A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) Pension plans – continued

Sensitivity of the Board’s proportionate share of the net pension liability to changes in the discount rate – The following presents the Board’s proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the Board’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.55%) or 1% higher (8.55%) than the current rate.

	Discount rate	District's proportionate share of the net pension liability
1% decrease	6.55%	\$7,152,608
Current discount rate	7.55%	\$5,207,243
1% increase	8.55%	\$3,588,419

Plan Fiduciary Net Position – Detailed information about the Schedule of Employer Allocations and the Schedule of Pension Amounts by employer is located at <http://www.sra.maryland.gov/Employers/>.

(8) On-behalf payments

The Board recognized the following on-behalf payments for the fiscal year ended June 30, 2017:

Pension contribution by the State of Maryland to the state retirement system for the applicable employees of the Board	\$ 3,503,652
School nurses provided by Talbot County, Maryland Health Department	639,697
TOTAL ON-BEHALF PAYMENTS	\$ 4,143,349

(9) Other postemployment benefits

Plan description – The Talbot County Public Schools Retiree Health Plan (Plan) is a single-employer defined benefit healthcare plan that is administered by the Talbot County Public Schools (Board) and covers retired employees of the Board and their dependents. The Plan provides for the payment of a portion or all of the health insurance premiums for eligible retired employees depending on their position that was held and length of service. The Board has the authority to establish and amend benefit provisions of the Plan. The Plan does not issue a separate, publicly available report.

Funding policy – Premiums and other contributions for the Board’s share of the cost of the group programs may be paid, as determined by the Board, from the assets of the Board. Premium payments for some programs may require contributions by the participant as well as the Board. The frequency and amount of such contributions shall be established from time to time by the County.

Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Talbot County Public Schools Retiree Health Plan pays 66% of the individual premium for each insured retiree who has at least 8 years of service. Retirees with less than 8 years of service are allowed access, but must pay 100% of the published rates.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(9) Other postemployment benefits – continued

Annual OPEB cost and net OPEB obligation – The Board's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation to Talbot County Public Schools Retiree Health Plan:

Annual required contribution	\$	7,357,000
Interest on net OPEB obligation		1,234,000
Amortization net OPEB obligation		<u>(1,459,000)</u>
Annual OPEB cost		7,132,000
Contributions made		<u>(1,196,383)</u>
Increase in net OPEB obligation		5,935,617
Net OPEB obligation – beginning of year		<u>30,860,139</u>
Net OPEB obligation – end of year	\$	<u><u>36,795,756</u></u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and preceding two years was as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage</u> <u>of Annual</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2017	\$ 7,132,000	16.77%	\$ 36,795,756
6/30/2016	\$ 6,090,000	21.70%	\$ 30,860,139
6/30/2015	\$ 5,731,000	28.41%	\$ 26,091,425

Funded status and funding progress – As of the most recent actuarial valuation date, the plan was .13% funded. The actuarial accrued liability for benefits was \$81,099,000, and the value of the trust fund assets was \$107,090, resulting in an unfunded actuarial accrued liability (UAAL) of \$80,991,910. The covered payroll (annual payroll of active employees covered by the plan) was \$32,588,049 and the ratio of the UAAL to the covered payroll was 248.5 percent.

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(9) Other postemployment benefits – continued

Actuarial methods and assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2017 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer’s own investments calculated based on the funded level of the plan at the valuation date, a projected salary increase of 4% per year, and an annual healthcare cost trend rate of 5.9% initially, reduced by decrements to an ultimate rate of 5.4%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2016 was 22 years.

(10) Budget reconciliation

The accompanying schedule of revenues, expenditures and encumbrances – budget and actual has been prepared on a legally prescribed budgetary basis of accounting which differs from generally accepted accounting principles (GAAP). The purpose of the budgetary basis of accounting is to demonstrate compliance with the legal requirements of Talbot County and the State of Maryland. The difference between the two methods is set forth below.

	GENERAL FUND	RESTRICTED GRANTS FUND
REVENUES		
Budgetary basis	\$ 50,144,580	\$ 4,375,995
Net encumbrance adjustment	-	213,491
Debt service paid by Talbot County, MD	3,274,390	-
State and County on-behalf payments	4,143,349	-
MODIFIED ACCRUAL BASIS	\$ 57,562,319	\$ 4,589,486
EXPENDITURES		
Budgetary basis	\$ 49,917,698	\$ 4,375,995
Net encumbrance adjustment	153,263	213,491
Debt service paid by Talbot County, MD	3,274,390	-
State and County on-behalf payments	4,143,349	-
MODIFIED ACCRUAL BASIS	\$ 57,488,700	\$ 4,589,486

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(11) Risk management

General insurance – The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates in the Maryland Association of Boards of Education Group Insurance and Workers Compensation Pools (MABE), which provide casualty and property insurance, and workers compensation coverage. MABE operates as authorized by Section 482B of Article 84A of the Annotated Code of Maryland. The Board pays an annual premium to MABE for its insurance coverage. The agreement for formation of MABE provides that it will be self-sustaining through member premiums and will reinsure through commercial companies as specified in the agreement. As of June 30, 2017, MABE had total pool surplus of approximately \$29 million. It is believed that there are no outstanding claims in excess of the equity.

MABE publishes its own audited financial report based on a June 30 year-end. This report may be obtained from Maryland Association of Boards of Education Group Insurance Pool, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401.

Health insurance – The Board participates in the Eastern Shore of Maryland Education Consortium Health Insurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for health insurance coverage. Currently, only six counties are participating in the alliance for their health insurance coverage.

The agreement for formation of the alliance provides that the pool will be self-sustaining through member premiums. These funds have been invested in the PNC Local Government Investment Pool.

The pooling agreement allows for the pool, which is administered by Carefirst Blue Cross/Blue Shield of Maryland, to make additional assessments to make the pool self-sustaining. As of the date of this report, it is believed that there are no outstanding claims in excess of the equity of the trust.

(12) Subsequent events

On July 12, 2017, the Board approved a lease purchase of six school buses over five years. The total cost of the lease, including interest, is \$782,645, which is payable in annual installments. In addition, on July 12, 2017, the Board approved a lease purchase of computer equipment over five years. The cost of the lease, including interest, is \$257,969 which is payable in annual installments.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES –
BUDGET AND ACTUAL – GENERAL FUND AND RESTRICTED GRANTS

Year Ended June 30, 2017

	GENERAL FUND				RESTRICTED GRANTS - SEE NOTE 1		
	ORIGINAL BUDGET	AMENDED AND FINAL BUDGET	ACTUAL	VARIANCE – FAVORABLE (UNFAVORABLE)	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE – FAVORABLE (UNFAVORABLE)
REVENUES							
Talbot County	\$ 36,830,230	\$ 36,830,230	\$ 36,830,230	\$ -	\$ -	\$ -	\$ -
State of Maryland	13,122,682	13,122,682	13,161,728	39,046	376,795	440,933	64,138
United States Government	-	-	-	-	3,963,161	3,212,396	(750,765)
Other sources:							
Interest earned	20,000	20,000	20,189	189	-	-	-
Other	46,000	46,000	132,433	86,433	145,000	722,666	577,666
TOTAL REVENUES	<u>50,018,912</u>	<u>50,018,912</u>	<u>50,144,580</u>	<u>125,668</u>	<u>4,484,956</u>	<u>4,375,995</u>	<u>(108,961)</u>
EXPENDITURES AND ENCUMBRANCES							
Administration	1,080,921	1,080,921	1,080,275	646	56,773	99,288	(42,515)
Mid-level administration	3,946,142	3,806,142	3,801,618	4,524	190,709	119,578	71,131
Instructional salaries	20,750,677	20,750,677	20,724,211	26,466	910,206	631,986	278,220
Instructional texts and supplies	554,615	554,615	553,114	1,501	112,547	138,145	(25,598)
Other instructional costs	1,072,146	1,072,146	1,069,337	2,809	585,349	539,802	45,547
Special education	3,485,840	3,625,840	3,625,717	123	1,293,605	1,470,828	(177,223)
Student personnel services	197,827	197,827	197,544	283	-	137,500	(137,500)
Student transportation	2,566,348	2,566,348	2,536,358	29,990	20,349	86,701	(66,352)
Operation of plant	3,438,794	3,464,794	3,433,089	31,705	-	128,470	(128,470)
Maintenance of plant	1,290,069	1,290,069	1,286,849	3,220	-	20,000	(20,000)
Fixed charges	11,635,533	11,635,533	11,609,586	25,947	1,064,995	701,896	363,099
Community services	-	-	-	-	250,423	301,801	(51,378)
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>50,018,912</u>	<u>50,044,912</u>	<u>49,917,698</u>	<u>127,214</u>	<u>4,484,956</u>	<u>4,375,995</u>	<u>108,961</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND ENCUMBRANCES BEFORE OTHER FINANCING SOURCES							
	-	(26,000)	226,882	252,882	-	-	-
OTHER FINANCING SOURCES							
Fund balance reappropriated	-	26,000	-	(26,000)	-	-	-
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES							
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 226,882</u>	<u>\$ 226,882</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF FUNDING PROGRESS – OPEB

Year Ended June 30, 2017

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
7/1/2016	\$ 107,090	\$ 81,099,000	\$ 80,991,910	0.13%	\$ 32,588,049	248.5%
7/1/2015	\$ 100,000	\$ 67,916,000	\$ 67,816,000	0.15%	\$ 31,869,846	212.8%
7/1/2014	\$ -	\$ 63,986,000	\$ 63,986,000	0.00%	\$ 31,854,565	200.9%

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Employees' Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of the net pension liability	0.0220702%	0.0243216%	0.0224156%
Board's proportionate share of the net pension liability	\$ 5,207,243	\$ 5,054,438	\$ 3,978,041
State's proportionate share of the net pension liability associated with the Board	<u>47,006,698</u>	<u>37,780,481</u>	<u>30,872,861</u>
Total	<u>\$ 52,213,941</u>	<u>\$ 42,834,919</u>	<u>\$ 34,850,902</u>
Board's covered payroll	\$ 32,588,049	\$ 31,869,846	\$ 31,854,565
Board's proportionate share of the net pension liability as a percentage of its covered payroll	15.978996%	15.859625%	12.488135%
Plan fiduciary net position as a percentage of the total pension liability	65.79%	68.78%	71.87%

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF BOARD CONTRIBUTIONS
Employees' Pension Plan

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 377,540	\$ 429,946	\$ 512,634
Contributions in relation to the contractually required contribution	<u>(377,540)</u>	<u>(429,946)</u>	<u>(512,634)</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered payroll	\$ 32,588,049	\$ 31,869,846	\$ 31,854,565
Contributions as a percentage of covered payroll	1.158523%	1.349068%	1.609295%

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Changes of assumptions – Amounts reported in 2017 reflect an adjustment to the inflation assumption of 2.90% to 2.70%.

OTHER SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

COMBINING BALANCE SHEET – NONMAJOR FUNDS

Year Ended June 30, 2017

	<u>FOOD SERVICES</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash	\$ 330,041	\$ -	\$ 330,041
Due from other governments			
State of Maryland	1,792	-	1,792
United States government	28,589	-	28,589
Talbot County	-	17,000	17,000
Due from other funds	<u>158,885</u>	<u>-</u>	<u>158,885</u>
 TOTAL ASSETS	 <u>\$ 519,307</u>	 <u>\$ 17,000</u>	 <u>\$ 536,307</u>
LIABILITIES AND FUND BALANCES			
Accounts payable	\$ 76,083	\$ -	\$ 76,083
Due to other funds	<u>-</u>	<u>17,000</u>	<u>17,000</u>
TOTAL LIABILITIES	<u>76,083</u>	<u>17,000</u>	<u>93,083</u>
Fund balances:			
Restricted	<u>443,224</u>	<u>-</u>	<u>443,224</u>
TOTAL FUND BALANCES	<u>443,224</u>	<u>-</u>	<u>443,224</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 519,307</u>	 <u>\$ 17,000</u>	 <u>\$ 536,307</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – NONMAJOR FUNDS
Year Ended June 30, 2017

	<u>FOOD SERVICES</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUES			
Talbot County	\$ -	\$ 690,672	\$ 690,672
State of Maryland	127,140	50,532	177,672
United States Government	1,315,037	-	1,315,037
Other Sources:			
Food service sales	586,853	-	586,853
Interest income	2,650	-	2,650
TOTAL REVENUES	<u>2,031,680</u>	<u>741,204</u>	<u>2,772,884</u>
EXPENDITURES			
Current:			
Capital outlay	-	758,204	758,204
Food services	1,950,392	-	1,950,392
TOTAL EXPENDITURES	<u>1,950,392</u>	<u>758,204</u>	<u>2,708,596</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	81,288	(17,000)	64,288
OTHER FINANCING SOURCES			
Transfers in	-	17,000	17,000
CHANGE IN FUND BALANCES	81,288	-	81,288
FUND BALANCES, BEGINNING OF YEAR	<u>361,936</u>	<u>-</u>	<u>361,936</u>
FUND BALANCES, END OF YEAR	<u>\$ 443,224</u>	<u>\$ -</u>	<u>\$ 443,224</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES – GENERAL FUND

Year Ended June 30, 2017

TALBOT COUNTY FUNDS

Current appropriations	\$ 36,690,230	
Pension appropriation	140,000	
Debt service	3,274,390	
On behalf payments - school nurses and supplies	<u>639,697</u>	
Total Talbot County Funds		\$ 40,744,317

STATE OF MARYLAND FUNDS

Current expenses	4,596,762	
Compensatory education	5,129,155	
Transportation	1,643,518	
Students with disabilities – formula	938,028	
Limited english – proficient	805,219	
Out of county living	49,046	
On behalf payments - pension	<u>3,503,652</u>	
Total State of Maryland Funds		16,665,380

OTHER SOURCES

Out of county living	107,043	
Interest earned	20,189	
Miscellaneous	2,814	
Building rental	<u>22,576</u>	
Total Other Sources		<u>152,622</u>

TOTAL GENERAL REVENUES \$ 57,562,319

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS
SCHOOL ACTIVITIES FUND (AGENCY FUND)
Year Ended June 30, 2017

	<u>CASH JULY 1, 2016</u>	<u>CASH RECEIPTS</u>	<u>CASH DISBURSED</u>	<u>CASH JUNE 30, 2017</u>
Easton High School	\$ 31,766	\$ 374,352	\$ 339,811	\$ 66,307
St. Michaels High School	3,497	129,953	119,957	13,493
Easton Middle School	30,361	83,370	95,724	18,007
Easton Elementary School - Moton	17,686	70,544	81,897	6,333
Easton Elementary School - Dobson	19,108	30,606	25,861	23,853
St. Michaels Elementary/Middle School	25,588	27,544	26,243	26,889
Tilghman Elementary School	2,646	7,242	6,786	3,102
White Marsh Elementary School	25,229	39,723	37,086	27,866
Chapel District Elementary School	22,277	65,908	67,404	20,781
TOTALS	<u>\$ 178,158</u>	<u>\$ 829,242</u>	<u>\$ 800,769</u>	<u>\$ 206,631</u>