

BOARD OF EDUCATION OF
TALBOT COUNTY, MARYLAND

FINANCIAL REPORT

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

Board of Education of Talbot County, Maryland
Easton, 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, 2020, and the related notes to the financial statements, which collectively comprise the Board’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland as of June 30, 2020, 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 management's discussion and analysis, the schedule of revenues, expenditures and encumbrances – budget and actual – General Fund, the schedule of revenues, expenditures and encumbrances – budget and actual – Restricted Fund, the schedule of changes in the board's net OPEB liability and related ratios, the schedule of investment returns, the schedule of the board's proportionate share of net pension liability, and the schedule of board contributions (pension plan), as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of Talbot County, Maryland's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020 on our consideration of the Board of Education of Talbot County, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of Talbot County, Maryland's internal control over financial reporting and compliance.



Salisbury, Maryland
September 30, 2020

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

INDEPENDENT AUDITORS' REPORT

Board of Education of Talbot County, Maryland
Easton, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Board of Education of Talbot County, Maryland's basic financial statements, and have issued our report thereon dated September 30, 2020.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Salisbury, Maryland
September 30, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2020

This section of the Board of Education of Talbot County's annual financial report represents management's discussion and analysis of the Board's performance during the fiscal year that ended June 30, 2020. Please read it in conjunction with the financial statements, which immediately follow this section.

The goal of the MD&A is for the Board's financial managers to present an objective and easily readable analysis of the Board's financial activities based on currently known facts, decisions, or conditions.

Financial Highlights

Key financial highlights for the fiscal year ("FY") ended June 30, 2020 include the following:

- The net position deficit totals \$20,516,228, a favorable increase of \$18,678,245, or 47.7% from the prior year.
- The General Fund unassigned fund balance is \$3,133,661, after an assignment for encumbrances of \$1,694,961. The total fund balance is \$4,828,622, an increase of \$3,065,333 from the prior year.

Basic Financial Statements

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

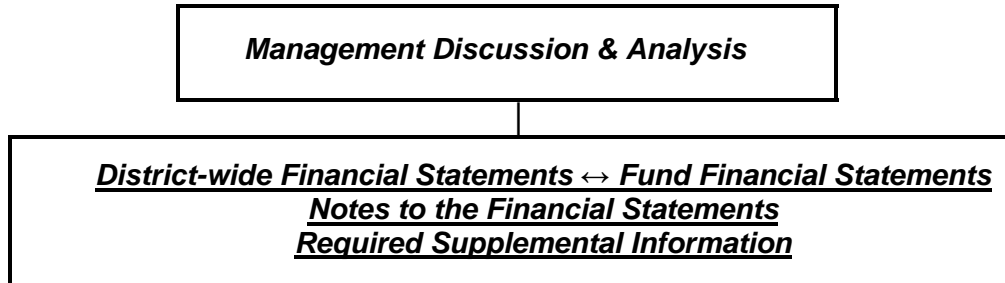
- The first two statement are *district-wide financial statements* that provide both *short-term* and *long-term* information about the Board's overall financial status.
- The remaining statements are *fund financial statement* that focus on *individual parts* of the Board, reporting the Board's operations 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 fund 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 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.

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2020

Figure 1 – Organization of TCBOE Annual Financial Report



The illustration above represents the minimum requirements for the Board's financial statements.

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

	District-Wide Statements	<u>Fund Financial Statements</u> 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 that 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, 2020

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, 2020

Financial analysis of the Board as a whole

Net position – The Board's net position deficit was \$20,516,228 on June 30, 2020. This was a favorable increase from the prior year. (See Table 1).

Table 1

	June 30, 2020	June 30, 2019	\$ Change	% Change
Current and other assets	\$ 12,696,917	\$ 13,618,015	\$ (921,098)	-6.76%
Capital assets	93,523,791	70,886,057	22,637,734	31.94%
Total Assets	<u>106,220,708</u>	<u>84,504,072</u>	<u>21,716,636</u>	<u>25.70%</u>
Deferred outflows of resources	<u>17,846,321</u>	<u>9,726,604</u>	<u>8,119,717</u>	<u>83.48%</u>
Current and other liabilities	6,977,899	11,599,626	(4,621,727)	-39.84%
Long-term liabilities	127,382,001	110,098,408	17,283,593	15.70%
Total Liabilities	<u>134,359,900</u>	<u>121,698,034</u>	<u>12,661,866</u>	<u>10.40%</u>
Deferred inflows of resources	<u>10,223,357</u>	<u>11,727,115</u>	<u>(1,503,758)</u>	<u>-12.82%</u>
Net position:				
Invested in capital assets	92,632,609	69,614,803	23,017,806	33.06%
Restricted	681,022	678,506	2,516	0.37%
Unrestricted	<u>(113,829,859)</u>	<u>(109,487,782)</u>	<u>(4,342,077)</u>	<u>-3.97%</u>
Total Net Position	<u>\$ (20,516,228)</u>	<u>\$ (39,194,473)</u>	<u>\$ 18,678,245</u>	<u>47.66%</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2020

Financial analysis of the Board as a whole – continued

Changes in net position – The Board's total revenues were \$97,781,771 for the year ended June 30, 2020. (See Table 2). The county appropriation and general state aid accounted for approximately 58.3% of the total revenue for the year. Another 41.5% came from program revenues, and the remainder from investment earnings and other sources. The total cost of all programs and services was \$79,103,526. The Board's expenses are predominantly related to providing direct educational services to students (46.9%). The purely administrative activities of the Board accounted for 1.8% of total expenses. Total revenues surpassed expenses, increasing net position \$18,678,245 from last year.

Table 2

	June 30, 2020	June 30, 2019	\$ Change	% Change
Revenues				
Program Revenues				
Charges for services	\$ 467,215	\$ 695,787	\$ (228,572)	-32.85%
Operating grants and contributions	12,460,374	17,729,506	(5,269,132)	-29.72%
Capital grants and contributions	27,608,995	16,507,680	11,101,315	67.25%
General Revenues				
County appropriation	42,062,225	40,668,750	1,393,475	3.43%
State of Maryland	14,905,349	10,187,879	4,717,470	46.30%
Other	277,613	117,442	160,171	136.38%
Total Revenues	97,781,771	85,907,044	11,874,727	13.82%
Expenses				
Instruction and special education	37,072,614	36,607,925	464,689	1.27%
Administration	1,426,126	1,387,998	38,128	2.75%
Support services	38,264,973	35,685,279	2,579,694	7.23%
Depreciation - unallocated	2,339,813	2,259,435	80,378	3.56%
Total Expenses	79,103,526	75,940,637	3,162,889	4.16%
Change in Net Position	18,678,245	9,966,407	8,711,838	87.41%
Net Position Beginning	(39,194,473)	(49,160,880)	9,966,407	20.27%
Net Position End of Year	\$ (20,516,228)	\$ (39,194,473)	\$ 18,678,245	47.66%

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2020

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 \$5,509,644, an increase of \$3,067,849 from last year's ending fund balance.

Revenues for the Board's governmental funds were \$97,781,771, an increase of \$11,864,727 from the prior year. Total expenditures were \$94,713,922 for the year, an increase of \$9,366,564 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, 2020

Table 3

	<u>General Fund</u>			Percent Increase (Decrease)
	Fiscal Year 2020	Fiscal Year 2019	Increase (Decrease)	
Revenues				
Talbot County appropriations	\$ 42,062,225	\$ 40,668,750	\$ 1,393,475	3.43%
State of Maryland	14,905,349	13,952,474	952,875	6.83%
State of Maryland share of retirement and pension contributions	3,418,321	3,224,685	193,636	6.00%
Other	277,613	194,722	82,891	42.57%
Total Revenues	60,663,508	58,040,631	2,622,877	4.52%
Expenditures				
Administration	1,176,010	1,135,992	40,018	3.52%
Mid-level administration	3,900,800	4,059,183	(158,383)	-3.90%
Instructional salaries	21,929,580	21,846,387	83,193	0.38%
Instructional texts and supplies	480,950	579,523	(98,573)	-17.01%
Instructional other costs	1,435,368	1,456,324	(20,956)	-1.44%
Special education	4,583,838	4,062,230	521,608	12.84%
Student personnel services	283,272	273,620	9,652	3.53%
Student transportation	2,539,893	2,590,188	(50,295)	-1.94%
Operation of plant	3,498,799	3,599,939	(101,140)	-2.81%
Maintenance of plant and equipment	1,476,133	1,446,324	29,809	2.06%
Fixed charges	12,875,211	13,218,434	(343,223)	-2.60%
State of Maryland share of retirement and pension contribution	3,418,321	3,224,685	193,636	6.00%
Total Expenditures	57,598,175	57,492,829	105,346	0.18%
Excess of Revenues over Expenditures	\$ 3,065,333	\$ 547,802	\$ 2,517,531	459.57%

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2020

Table 4

	<u>Restricted Grant Revenue</u>			Percent Increase (Decrease)
	Fiscal Year 2020	Fiscal Year 2019	Increase (Decrease)	
Federal Through State	\$ 4,665,285	\$ 4,421,400	\$ 243,885	5.52%
State of Maryland	1,553,141	748,334	804,807	107.55%
Other	1,084,143	581,145	502,998	86.55%
<i>Total Revenues</i>	<u>\$ 7,302,569</u>	<u>\$ 5,750,879</u>	<u>\$ 1,551,690</u>	<u>26.98%</u>

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 2020, the Board had received state funding of \$9,123,900 and Talbot County funding of \$18,485,095 for projects started in FY 2018.

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 2020 were \$121,971 (see note 9 for more detailed information).
- (3) School Activities Accounts: During fiscal year 2020, the Board's nine schools collected revenues and incurred expenditures for various student activities (see Table 5).

Table 5

	<u>School Activities Fund</u>			Perent Increase (Decrease)
	Fiscal Year 2020	Fiscal Year 2019	Increase (Decrease)	
Cash receipts	\$ 514,104	\$ 772,462	\$ (258,358)	-33.45%
Cash disbursements	(475,250)	(734,966)	259,716	35.34%
Beginning cash balances	335,430	297,934	37,496	12.59%
<i>Ending cash balances</i>	<u>\$ 374,284</u>	<u>\$ 335,430</u>	<u>\$ 38,854</u>	<u>11.58%</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2020

General fund budgetary highlights

The actual General Fund revenues exceeded budgeted revenues by \$206,061. Actual expenditures and encumbrances were under budget by \$2,388,656. This was the result of reduced instructional salaries and related fixed charges.

Original budget compared to final budget – The FY 2020 original budget was decreased by \$142,940. The decrease occurred primarily due to budgeted non-recurring costs.

Capital assets and debt administration

Capital assets – By the end of fiscal year 2020, the Board had invested \$158 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 5 to the financial statements). Total depreciation expense for the year was approximately \$3.30 million.

Current construction – Annually, the Board of Education prepares and submits a five 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 \$52,748,026 for the Easton Elementary/Dobson replacement project. The funding will be divided with \$31,651,026 from the County and \$21,097,000 from the State of Maryland. The timeline began in October 2017 with the submission of the FY 2020 CIP to the Public School Construction Program for planning approval, with sitework starting in June 2018. Anticipated completion of the project is during fiscal year 2021.

Long-term liabilities – At year-end, the Board had \$127,382,001 in long-term debt of which \$624,016 is due within one year and \$126,757,985 is due after one year. This amount consists of the following:

- \$552,062 due to Maryland State Retirement and Pension System.
- \$891,182 in capital leases.
- \$121,131,480 in net OPEB obligation.
- \$541,475 in accrued compensated absences.
- \$4,265,802 in net pension liability.
- See Notes 7, 9 and 10 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 2020 financial statements is discussed in note 7.

Funding other post-retirement benefits (OPEB) in accordance with GASB 75 remains a concern. GASB 75 is an accounting standard for all governmental agencies which addresses post-employment benefits, other than pensions, such as health care. Under GASB 75 the District must recognize the present cost and liability of future health care that has been earned by current and

THE BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2020

retired employees. There is no requirement to fund this obligation, however, it does become a liability against the Board's assets as reported in the Government-wide Statement of Net Position. Currently, health care expenses for retirees and active employees are expensed when paid. This practice is expected to continue especially with the economic conditions our funding entities face at this time. Whether or not this liability is funded in the future may affect our budget, and the bond rating of county and state governments.

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. 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 24 out of 24 in receiving the lowest amount 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.

The COVID-19 pandemic continues to create challenges in operations and how education is provided. The economic impact to funding authorities remains unknown but could have significant impacts on future revenues. Expenses are impacted both negatively and positively. The uncertainty will continue into FY2021.

The Maryland Commission on Innovation and Excellence in Education, known as the Kirwan Commission, was tasked with updating the State's school financing formula. Based on Commission recommendations, Senate Bill 1030 established The Blueprint for Maryland's Future as current State education policy. Funding has been mandated for FY2020 and FY2021, however, due to the economic effects of COVID-19, funding in FY2022 is uncertain.

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.

FINANCIAL STATEMENTS

BOARD OF EDUCATION OF TALOBT COUNTY, MARYLAND

STATEMENT OF NET POSITION
June 30, 2020

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 9,095,739
Accounts receivable:	
Federal funds from State of Maryland	1,643,175
State of Maryland	569,239
Local	1,349,311
Other	39,453
Non depreciable capital assets	46,307,435
Depreciable capital assets, net	<u>47,216,356</u>
TOTAL ASSETS	<u>106,220,708</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions (see Note 7)	633,942
Other post-employment benefits (see Note 9)	<u>17,212,379</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>17,846,321</u>
LIABILITIES	
Accounts payable:	
Vendors	907,417
Due to fiduciary fund	33,931
Accrued payroll	4,103,380
Accrued payroll deductions and withholdings	415,424
Unearned revenue	1,517,747
Long-term liabilities:	
Due within one year	624,016
Due in more than one year	<u>126,757,985</u>
TOTAL LIABILITIES	<u>134,359,900</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions (see Note 7)	399,150
Other post-employment benefits (see Note 9)	<u>9,824,207</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>10,223,357</u>
NET POSITION	
Net investment in capital assets	92,632,609
Restricted for food service operations	681,022
Unrestricted	(113,829,859)
TOTAL NET POSITION	<u><u>\$ (20,516,228)</u></u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities					
Current:					
Administration	\$ 1,426,126	\$ -	\$ 264,425	\$ -	\$ (1,161,701)
Mid-level administration	3,903,384	-	2,584	-	(3,900,800)
Instructional salaries and wages	24,027,276	-	1,938,338	-	(22,088,938)
Textbooks and instructional supplies	991,056	-	510,106	-	(480,950)
Other instructional costs	2,034,576	-	876,739	-	(1,157,837)
Special education	6,116,322	-	1,539,131	-	(4,577,191)
Pupil personnel services	347,439	-	64,167	-	(283,272)
Health services	68,421	-	68,421	-	-
Pupil transportation	2,544,955	-	44,236	-	(2,500,719)
Operation of plant	3,853,481	-	363,590	-	(3,489,891)
Maintenance of plant	1,477,093	-	14,850	-	(1,462,243)
Fixed charges	21,532,631	-	1,409,367	-	(20,123,264)
Community services	206,615	-	206,615	-	-
Capital outlay	2,611,834	-	-	27,608,995	24,997,161
Food service	2,204,183	467,215	1,739,484	-	2,516
Unallocated depreciation	2,339,813	-	-	-	(2,339,813)
On-behalf State Retirement contributions	3,418,321	-	3,418,321	-	-
Total Governmental Activities	\$ 79,103,526	\$ 467,215	\$ 12,460,374	\$ 27,608,995	(38,566,942)
 General Revenues					
Talbot County Appropriations					42,062,225
State of Maryland - unrestricted					14,905,349
Investment earnings					95,511
Miscellaneous					182,102
Total General Revenues					57,245,187
 Change in Net Position					 18,678,245
 Net Position Beginning of Year					 <u>(39,194,473)</u>
 Net Position End of Year					 <u><u>\$ (20,516,228)</u></u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020

	MAJOR FUNDS			
	General Fund	Restricted Grants Fund	Capital Projects Fund	Nonmajor Food Service Fund
ASSETS				
Cash and investments	\$ 8,424,711	\$ -	\$ -	\$ 671,028
Accounts receivable:				
Federal funds from State of Maryland	-	1,544,462	-	98,713
State of Maryland	-	496,311	72,928	-
Other Board of Education funds	989,006	-	17,335	-
Local	-	-	1,349,311	-
Other	-	39,453	-	-
TOTAL ASSETS	\$ 9,413,717	\$ 2,080,226	\$ 1,439,574	\$ 769,741
LIABILITIES AND FUND BALANCES				
Accounts payable:				
Vendors	\$ 182,004	\$ 3,736	\$ 634,387	\$ 87,290
Other Board of Education funds	-	1,006,341	-	-
Due to fiduciary fund	33,931	-	-	-
Accrued payroll	3,744,362	359,018	-	-
Accrued payroll deductions and withholdings	415,424	-	-	-
Accrued leave	209,374	-	-	-
Unearned revenue - Federal	-	356,251	-	-
Unearned revenue - State	-	61,956	-	-
Unearned revenue - other	-	292,924	805,187	1,429
TOTAL LIABILITIES	4,585,095	2,080,226	1,439,574	88,719
COMMITMENTS AND CONTINGENCIES				
FUND BALANCES				
Restricted	-	-	-	681,022
Assigned to:				
Encumbrances	1,694,961	-	-	-
Unassigned	3,133,661	-	-	-
TOTAL FUND BALANCES	4,828,622	-	-	681,022
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,413,717	\$ 2,080,226	\$ 1,439,574	\$ 769,741

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020

Total Governmental <u>Funds</u>	Total Governmental Funds Balances	\$ 5,509,644
\$ 9,095,739	Amounts reported for governmental activities in the statement of net position are different because	
1,643,175	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	93,523,791
569,239		
1,006,341		
1,349,311		
39,453		
<u>\$ 13,703,258</u>	Deferred outflows of resources not reported in the fund financial statements	
	Pension (see Note 7)	633,942
	Other post-employment benefits (see Note 9)	<u>17,212,379</u>
\$ 907,417		17,846,321
1,006,341		
33,931	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
4,103,380	Capital leases	(891,182)
415,424	Compensated absences	(332,101)
209,374	State Retirement System	(552,062)
356,251	Net pension liability	(4,265,802)
61,956	Post-employment benefits	<u>(121,131,480)</u>
<u>1,099,540</u>		(127,172,627)
<u>8,193,614</u>		
	Deferred inflows of resources not reported in the fund financial statements	
681,022	Pension (see Note 7)	(399,150)
	Other post-employment benefits (see Note 9)	<u>(9,824,207)</u>
1,694,961		(10,223,357)
3,133,661		
<u>5,509,644</u>		
<u>\$ 13,703,258</u>	Net Position of Governmental Activities	<u>\$ (20,516,228)</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2020

	MAJOR FUNDS			
	General Fund	Restricted Grants Fund	Capital Projects Fund	Nonmajor Food Service Fund
REVENUES				
Talbot County	\$42,062,225	\$ -	\$ 18,188,877	\$ -
State of Maryland	14,905,349	1,553,141	9,123,900	127,804
United States Government	-	4,665,285	-	1,611,680
On-behalf Talbot County contributions	-	-	296,218	-
On-behalf State Retirement contributions	3,418,321	-	-	-
Other sources:				
Food service sales	-	-	-	467,215
Interest earned	95,511	-	-	-
Other	182,102	1,084,143	-	-
TOTAL REVENUES	60,663,508	7,302,569	27,608,995	2,206,699
EXPENDITURES				
Current:				
Administration	1,176,010	264,425	-	-
Mid-level administration	3,900,800	2,584	-	-
Instructional salaries and wages	21,929,580	1,938,338	-	-
Instructional textbooks and supplies	480,950	510,106	-	-
Other instructional costs	1,435,368	876,738	-	-
Special education	4,583,838	1,539,131	-	-
Student personnel services	283,272	64,167	-	-
Student health services	-	68,421	-	-
Student transportation	2,539,893	44,236	-	-
Operation of plant	3,498,799	363,590	-	-
Maintenance of plant	1,476,133	14,850	-	-
Fixed charges	12,875,211	1,409,368	-	-
Community services	-	206,615	-	-
Capital outlay	-	-	27,312,777	-
Food services	-	-	-	2,204,183
On-behalf Talbot County contributions	-	-	296,218	-
On-behalf State Retirement contributions	3,418,321	-	-	-
TOTAL EXPENDITURES	57,598,175	7,302,569	27,608,995	2,204,183
Net change in fund balances	3,065,333	-	-	2,516
Fund balances, beginning	1,763,289	-	-	678,506
Fund balances, ending	\$ 4,828,622	\$ -	\$ -	\$ 681,022

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2020

<p>Total Governmental <u>Funds</u></p>	<p>Net change in fund balances-total Governmental Funds</p>	<p>\$ 3,067,849</p>
<p>\$ 60,251,102 25,710,194 6,276,965 296,218 3,418,321 467,215 95,511 <u>1,266,245</u> <u>97,781,771</u></p>	<p>Amounts reported for governmental activities in the statement of activities are different because</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p> <p>Fixed asset additions 28,500,463</p> <p>Current year depreciation <u>(3,302,926)</u></p> <p>Total 25,197,537</p> <p>In governmental fund financial statements, proceeds from a sale are shown as an increase in financial resources.</p> <p>In government wide financial statements, gain or loss is calculated and reported.</p> <p>Loss on Dobson and Moton elementary schools (2,559,803)</p> <p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p> <p>Increase in pension expense due to deferred financing outflow (186,923)</p> <p>Increase in pension expense due to net pension liability (93,695)</p> <p>Increase in pension expense due to deferred financing inflows (11,420)</p> <p>Decrease in post-employment benefits expense due to deferred financing outflow 8,418,341</p> <p>Increase in post-employment benefits expense due to net OPEB liability (16,821,169)</p> <p>Decrease in post-employment benefits expense due to deferred financing inflow 1,403,477</p> <p>Increase in compensated absences (159,358)</p> <p>Repayment of capital lease obligations and long-term debt are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.</p> <p>Capital leases 380,072</p> <p>State Retirement System <u>43,337</u></p> <p>Change in net position of Governmental Activities <u>\$ 18,678,245</u></p>	
<p><u>\$ 5,509,644</u></p>		

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2020

	AGENCY FUNDS		
	Special Education Consortium	School Activities Fund	Retiree Health Plan Trust Fund
ASSETS			
Cash and cash equivalents	\$ 434,779	\$ 374,284	\$ 4,125
Investments	-	-	117,846
Federal grants receivable	45,277	-	
Other Board of Education funds	33,931	-	
TOTAL ASSETS	\$ 513,987	\$ 374,284	\$ 121,971
LIABILITIES			
Accounts payable:			
Vendors	\$ 2,523	\$ -	\$ -
Funds held for school activities	-	374,284	-
Funds held for Special Education Consortium	337,679	-	-
Accrued payroll	111,730	-	-
Deferred revenue	62,055	-	-
TOTAL LIABILITIES	513,987	374,284	-
NET POSITION			
Held in trust for other post-employment benefits	-	-	121,971
TOTAL LIABILITIES AND NET POSITION	\$ 513,987	\$ 374,284	\$ 121,971

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
RETIREE BENEFIT TRUST FUND

Year Ended June 30, 2020

	Retiree Health Plan <u>Trust Fund</u>
ADDITIONS	
Contributions:	
Investment income	\$ 2,346
TOTAL ADDITIONS	<u>2,346</u>
DEDUCTIONS	
Administrative expenses	<u>537</u>
TOTAL DEDUCTIONS	<u>537</u>
Change in net position	1,809
Net position held in trust for other post-employment benefits beginning of year	<u>120,162</u>
Net position held in trust for other post-employment benefits end of year	<u>\$ 121,971</u>

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of the Board of Education of Talbot County, Maryland

The Board of Education of Talbot County (the “Board”) is empowered by Title 13A of the Code of Maryland Regulations to fulfill the elementary and secondary educational needs of students in Talbot County, Maryland (the “County”).

Financial Reporting Entity

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

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

Note 2. Summary of Significant Accounting Policies

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

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

A. Basis of Presentation

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the Board as a whole. These statements include the financial activities of the Board. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities. The activities of the General Fund (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. There were no business-type activities. Internal activity between funds is eliminated from the statements.

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (continued)

FUND FINANCIAL STATEMENTS

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

B. Fund Accounting

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

GOVERNMENTAL FUND TYPES

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

Major funds:

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

Restricted Grants Fund (Restricted Current Expense Fund) - The 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.

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

Non-major fund:

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

FIDUCIARY FUND TYPES

Agency Funds - Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The School Activities Fund consists of transactions at the schools which are the direct responsibility of the principal of each of the respective schools. The Board acts as the processing agent for the Mid-Shore Special Education Consortium.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (continued)

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

C. Measurement Focus

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

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

D. Basis of Accounting

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting (continued)

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

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

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

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

E. Budgetary Data

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

The budget may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original budget was adopted. The amounts reported in the final budgeted amounts reflect amendments approved by the County government during the year between categories and those approved by the Board within categories. Unexpended appropriations lapse at the end of each fiscal year.

The Talbot County Public Schools operate with 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 mid-February of each year.
2. The County Council must approve the budget ordinance by May 31st of each year.
3. The budget is prepared and approved by major categories as specified in 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 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 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.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

E. Budgetary Data (continued)

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
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

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

F. Encumbrances

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

G. Capital Assets

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

NOTES TO FINANCIAL STATEMENTS

G. Capital Assets (continued)

All capital assets with an estimated useful life in excess of two years are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of \$5,000 beginning in fiscal year 2020. The Board does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

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

H. 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 25 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.

I. Unearned Revenues

Unearned revenues consist of federal and state grants and other refundable advances for capital projects and food service that have not been expended as of June 30, 2020 as follows:

Restricted federal, state and other grant programs	\$	711,131
Capital projects		805,187
Food service fund		1,429
<u>Total</u>	<u>\$</u>	<u>1,517,747</u>

J. Accrued Liabilities and Long-Term Obligations

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

K. Net Position

In the government-wide financial statements, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

The Board applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

L. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that period. The Board has two items that qualify for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension liability (Note 7) and OPEB liability (Note 9) for changes in assumptions, the net difference between projected and actual investment earnings on plan investments, the difference between actual and expected experience, and contributions subsequent to the measurement date. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

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

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

M. Fund Balance

Fund balances are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable (i.e. inventory or long term receivables), restricted (by external parties or legislation), committed (by resolution of the Board of Education), assigned (by management approval for specific purposes) and unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board. Assigned fund balances is a limitation imposed by a designee of the Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories.

N. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (Continued)

O. Cash and Cash Equivalents

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

P. Interfund Receivables and Payables and Transfers

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

Q. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are reported as assigned fund balance in the governmental fund financial statements. General fund unrestricted encumbrances outstanding at June 30, 2020 that were provided for in the current year's budget for the budgetary basis of accounting but will be accounted for under generally accepted accounting principles in the subsequent year totaled \$1,694,961.

R. 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. During fiscal year 2020, the Board recognized \$3,418,321 for amounts expended on its behalf by the State of Maryland for retirement contributions and \$296,218 for amounts expended on its behalf by Talbot County for capital projects.

Note 3. Cash and Investments

At June 30, 2020, the reported amount of the Board's deposits was \$9,908,927 and the bank balance was \$12,432,364. As required by law, each depository is to pledge securities at least equal to the amount on deposit at all times in addition to insurance provided by the Federal Deposit Insurance Corporation (FDIC). These collateralization requirements are established to reduce custodial risk which is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As of June 30, 2020, the bank deposits were fully insured or collateralized.

Included in the balances above, are investments of \$6,455,450 (carrying value of \$6,455,450) which consist solely of U.S. Government Securities made through the State of Maryland Local Government Investment Pool which provides local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 Section 22G of the Annotated Code of Maryland and more recently defined by Title 17, subtitle 3 of the Local Government Article of the Maryland Annotated Code of Maryland. The MLGIP is managed by PNC Capital Advisors, LLC and custodied by PNC Bank, N.A., which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a semi-annual basis and provide suggestions to enhance the pool. The MLGIP is rated AAAM by Standard and Poor's. The fair value of the pool is the same as the value of the pool shares. Investments are recorded at cost, which approximates market value. Statutes authorize the Board to invest in obligations of the U.S. Treasury and U.S. Agencies, municipal securities and repurchase agreements, collateralized certificates of deposit, banker's acceptance or money market funds.

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

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (Continued)

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

Cash at carrying value	\$	3,453,477
Investments		6,455,450
<u>Less: Amounts in fiduciary funds</u>		<u>(813,188)</u>
Total cash and investments per Statement of Net Position	\$	<u>9,095,739</u>

Investment in External Investment Pool

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

The investments of the MACO Trust are stated at fair value and are deposited with Wilmington Trust Company at June 30, 2020. Cash and cash equivalents consist of an investment in a money market mutual fund. Debt securities consist of U.S. Treasury obligations, U.S. Government agencies, corporate and foreign bonds, and municipal obligations. Equity and mutual fund investments consist of taxable fixed income funds, mutual funds, global funds and international funds. The MACO Trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 are significant unobservable inputs. All investments of the MACO Trust are considered Level 1 or Level 2, the Board’s membership investment in the MACO Trust are considered Level 2. For investments in mutual funds, there are no unfunded commitments and investments are able to be fully redeemed on a daily basis. At June 30, 2020, the pooled position of the MACO Trust was \$48,378,096 in total, of which the Board’s allocated investment balance was \$121,971. The Board may terminate its membership interest in the MACO Trust and withdraw its allocated investment balance by providing written notice six months prior to the intended date of withdraw.

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

Note 4. Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
General Fund	\$ 1,006,341	\$ 51,266
Restricted Grants Fund	-	1,006,341
Capital Projects Fund	17,335	-
Fiduciary Fund	33,931	-
	\$ 1,057,607	\$ 1,057,607

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

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2020, was as follows:

	Balance June 30, 2019	Additions	Deductions	Transfers	Balance June 30, 2020
Governmental Activities					
Capital Assets, not being depreciated					
Land	\$ 624,446	\$ -	\$ -	\$ -	\$ 624,446
Buses not in service	381,594	-	-	(381,594)	-
Construction in progress	18,158,194	27,524,795	-	-	45,682,989
Total capital assets, not being depreciated	<u>19,164,234</u>	<u>27,524,795</u>	<u>-</u>	<u>(381,594)</u>	<u>46,307,435</u>
Capital assets, being depreciated					
Buildings	93,183,691	-	(10,092,511)	-	83,091,180
Improvements	2,205,440	-	(137,948)	-	2,067,492
Furniture, equipment and vehicles	27,201,729	975,668	(1,567,226)	381,594	26,991,765
Total capital assets, being depreciated	<u>122,590,860</u>	<u>975,668</u>	<u>(11,797,685)</u>	<u>381,594</u>	<u>112,150,437</u>
Less accumulated depreciation:					
Buildings	(46,641,165)	(2,089,324)	7,820,501	-	(40,909,988)
Improvements	(994,894)	(81,458)	111,810	-	(964,542)
Furniture, equipment and vehicles	(23,232,978)	(1,132,144)	1,305,571	-	(23,059,551)
Total accumulated depreciation	<u>(70,869,037)</u>	<u>(3,302,926)</u>	<u>9,237,882</u>	<u>-</u>	<u>(64,934,081)</u>
Total capital assets, being depreciated, net	<u>51,721,823</u>	<u>(2,327,258)</u>	<u>(2,559,803)</u>	<u>381,594</u>	<u>47,216,356</u>
Governmental activities capital assets, net	<u>\$ 70,886,057</u>	<u>\$ 25,197,537</u>	<u>\$ (2,559,803)</u>	<u>\$ -</u>	<u>\$ 93,523,791</u>

Depreciation expense was charged to governmental functions as follows:

Instructional services	\$ 564,043
Student transportation	399,070
Unallocated	<u>2,339,813</u>
Total depreciation expense	<u>\$ 3,302,926</u>

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Liabilities

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

	Balance			Balance		Due within
	June 30, 2019	Increases	Decreases	June 30, 2020	one year	
Capital leases	\$ 1,271,254	\$ -	\$ 380,072	\$ 891,182	\$	369,138
Compensated absences	359,028	546,539	364,092	541,475		209,374
State Retirement System (Note 7)	595,399	-	43,337	552,062		45,504
Net pension liability (Note 7)	4,172,107	93,695	-	4,265,802		-
Net OPEB liability (Note 9)	104,310,311	16,821,169	-	121,131,480		-
	<u>\$ 110,708,099</u>	<u>\$ 17,461,403</u>	<u>\$ 787,501</u>	<u>\$ 127,382,001</u>	<u>\$</u>	<u>624,016</u>

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

Note 7. Pension Plans

Plan Description

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

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

General Plan Policies

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

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

Significant Plan Benefits and Policies

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

Teachers' and Employees' Retirement Systems

Retirement Benefits:

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

Vested Allowance:

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

Employee Contributions:

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

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Teachers' and Employees' Pension Systems

Pension Benefits:

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

Vested Allowance:

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

Employee Contributions:

Effective July 1, 2011, members of the Teachers' and Employees' Pension Systems are required to contribute to the systems 7% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2020. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

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

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

Employer Contributions:

For the year ended June 30, 2020 the Board's total payroll for all employees was \$38,807,762. Total covered payroll was \$36,552,281. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

During fiscal year 2020, the State of Maryland contributed \$3,418,321 to the Systems on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense in the General Fund.

Teachers' Retirement and Pension Systems:

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay the State 100% of the normal cost portion of the total pension cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. As contractually required, during fiscal year 2020, the Board contributed \$1,291,686 to the Teachers' Retirement and Pension System.

Employees' Retirement and Pension Systems:

During fiscal year 2020, the Board contributed \$452,006 to the Employees' Retirement and Pension System.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

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

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

At June 30, 2020, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

	2019
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 4,265,802
State's proportionate share of the net pension liability (Teachers' Systems)	<u>33,703,981</u>
Total	<u>\$ 37,969,783</u>

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on a projection of the Board's long-term share of contributions to the pension plan relative to the projected contributions of all participating government units, actuarially determined. As of June 30, 2019, the Board's proportion of the net pension liability was .021%, which was substantially the same as its proportion measured as of June 30, 2018. Due to the proportion remaining substantially the same, the pension expense related to the change in proportion from June 30, 2018 to June 30, 2019 for the net pension liability, deferred financing inflows and deferred financing outflows is recognized in pension expense in the government-wide financial statements.

For the year ended June 30, 2020, the Board recognized pension expense of \$1,743,692 in the fund financial statements and \$2,035,730 in the government-wide financial statements. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 76,772	\$ 116,095
Net difference between projected and actual investment earnings on pension plan investments	105,164	-
Differences between expected and actual experience	-	283,055
Board contributions subsequent to measurement date	<u>452,006</u>	<u>-</u>
Total	<u>\$ 633,942</u>	<u>\$ 399,150</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

The \$452,006 of deferred outflows of resources resulting from the Board's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.68 to 5.87 years. The net difference in investment earnings are being amortized over a closed five year period. The following table shows the amortization of these balances:

Year Ending June 30,	Amortization
2021	\$ 27,055
2022	(127,194)
2023	(68,922)
2024	(24,996)
2025	(23,157)
	\$ (217,214)

Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.65% general, 3.15% wage
Salary increases	3.10% to 11.60%, including inflation
Discount rate	7.40%
Investment rate of return	7.40%
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Investments

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37%	6.30%
Private Equity	13%	7.50%
Rate Sensitive	19%	1.30%
Credit Opportunity	9%	3.90%
Real Asssets	14%	4.50%
Absolute Return	8%	3.00%
Total	100%	

Discount rate

A single discount rate of 7.40% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.40%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 7.40%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate	Board's Net Pension Liability
1% decrease	6.40%	\$ 6,174,322
Current discount rate	7.40%	\$ 4,265,802
1% increase	8.40%	\$ 2,676,246

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plans (Continued)

Funding Status

As a result of a 1997 actuarial study of the Maryland State Retirement and Pension System, the Board was identified as one of 23 agencies not having enough assets in the system to fund the present value of accrued benefits for participants in the retirement system. Under House Bills 1348 and 430, the Board will repay the \$552,062 fund deficit as of June 30, 2020 through December 31, 2035. The fiscal year 2020 annual payment was \$43,337 and will increase 5% per year until maturity. The liability and related expense have been recorded in the government-wide financial statements. The remaining deficit reduction schedule is as follows:

2021	\$	45,504
2022		47,779
2023		50,168
2024		52,677
2025		55,310
2026 - 2030		320,906
2031 - 2035		409,567
2036		94,600
		1,076,511
<u>Less amounts representing interest</u>		<u>524,449</u>
<u>Present value of net minimum lease payments</u>		<u>\$ 552,062</u>

Note 8. Risk Management

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

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

The Board is a member of the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self-sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 12% as a recommended conservative reserve. As of December 31, 2019, the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$1,479,829. All funds held by ESMEC are restricted to being used only for health care expenses.

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits

Plan Description

The Board of Education of Talbot County, Maryland administers a single-employer defined benefit healthcare plan, The Talbot County Public Schools Retiree Health Plan (“the Plan”), that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees, their spouses and other dependents. The Plan does not issue a publicly available report.

Plan Administration

A trust account was established and the Board became a member of the Maryland Association of Counties Pooled OPEB Trust (MACO Trust). It is a member owned trust that provides the Board and ten other members a structure to pool assets to reduce investment costs and share administrative expenses. The Board reserves the right to establish and amend the provisions of its relationship with the MACO Trust with respect to participants, and benefits provided thereunder, or its participation therein, in whole or in part at any time, by resolution of the governing body and upon advance notice to the Trustees of the MACO Trust.

The MACO Trust issues a publicly available audited GAAP-basis report that includes the financial statements and required supplementary information for the MACO Trust. The report may be obtained at www.mdcounties.org.

Plan Membership

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

Inactive plan members or beneficiaries currently receiving benefits	263
Inactive plan members or beneficiaries entitled but not yet receiving benefits	65
Active plan members	531
	<hr/>
	859
	<hr/>

Benefits Provided

The Plan provides for the payment of a portion of all of the health insurance premiums for eligible retired employees depending on their position with Talbot County Public Schools and length of service. Dental coverage is also included. The Board has the authority to establish and amend benefit provisions of the Plan.

Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Talbot County Public Schools Retiree Health Plan pays approximately 66% of the individual premium for each insured retiree that has at least eight years of service and is receiving a pensions from the Board. Retirees with less than eight years of service are allowed access, but must pay 100% of published rates. Dependents and surviving spouses also receive a subsidy.

Contributions

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 Board.

NOTES TO FINANCIAL STATEMENTS

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

Investment Policy

The MACO Trust's policy in regard to the allocation of invested assets is established and may be amended by the Trustees by a majority vote of its members. It is the policy of the Trust to pursue an investment strategy that emphasizes growth of principal while avoiding excess risk. Short-term volatility will be tolerated inasmuch as it is consistent with volatility of a comparable market index. The MACO Trust's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2020:

<u>Asset Class</u>	<u>Target Allocation</u>
Equity	65.00%
Fixed income	35.00%
Total	<u>100.00%</u>

Rate of Return

For the year ended June 30, 2019, the total rate of return, net of investment expense, was 5.49%. The total rate of return represents a hypothetical return on capital balance invested in the Trust during the entire year. Actual return rates may vary due to the timing of capital contributions and redemptions.

Net OPEB Liability

The Board's net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to the June 30, 2019 measurement date. The methods, assumptions, and participant data used are detailed in the fiscal year 2019 valuation report dated August 29, 2019 with the exception of the discount rate. The rate was 3.62% as of June 30, 2018 and 3.13% as of June 30, 2019.

NOTES TO FINANCIAL STATEMENTS

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

Actuarial Assumptions

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

Valuation date	July 1, 2018
Measurement date	June 30, 2019
Actuarial cost method - GASB 75	Entry age normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2018	3.62%
Discount rate - June 30, 2019	3.13%
Payroll growth	3.00%
Inflation rate	2.20%
Rate of growth in real income	1.60%
Medical trend	Based on the Society of Actuaries (SOA) Long Term Medical Cost Trend Model baseline assumptions. The SOA Model was released in December 2007 and updated in 2018. The latest baseline assumptions as noted above were used as input variables.
Mortality	The mortality rates for healthy pre - retirees was calculated using the RP 2014 Employee White Collar Mortality Table, Fully Generational, Projected using Scale MP-2014. The mortality rates for healthy post - retirees was calculated using the RP 2014 Healthy Annuitant White Collar Mortality Table, Fully Generational, Projected using Scale MP-2014 (Projected from 2012 for males and 2014 for females). The mortality rates for disabled individuals was calculated using the RP 2014 Disabled Annuitant Mortality Tables, Not Generational, set forward one year for males.

Discount Rate

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

NOTES TO FINANCIAL STATEMENTS

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

Change in Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2018	\$ 104,424,222	\$ 113,911	\$ 104,310,311
Changes for the Year			
Service Cost	4,629,442	-	4,629,442
Interest	3,741,991	-	3,741,991
Changes of Benefit Terms	-	-	-
Experience Losses/Gains	141,236	-	141,236
Trust Contributions - Employer	-	2,249,839	(2,249,839)
Net Investment Income	-	6,251	(6,251)
Changes in Assumptions	10,564,590	-	10,564,590
Benefit Payments (net of retiree contributions)	(2,249,839)	(2,249,839)	-
Administrative Expense	-	-	-
Net Changes	16,827,420	6,251	16,821,169
Balance as of June 30, 2019	\$ 121,251,642	\$ 120,162	\$ 121,131,480

Plan fiduciary net position as a percentage of the total OPEB liability at June 30, 2019 is approximately .10%.

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

The following presents the net OPEB liability of the Board using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate	Net OPEB Liability
1% decrease	2.13%	\$ 147,241,387
Current discount rate	3.13%	\$ 121,131,480
1% increase	4.13%	\$ 100,848,889

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

The following presents the net OPEB liability of the Board, as well as what the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1% point lower or 1% point higher than the current rate:

	Healthcare Cost Trend Rate	Net OPEB Liability
1% decrease	2.80%	\$ 96,960,320
Current healthcare cost trend rate	3.80%	\$ 121,131,480
1% increase	4.80%	\$ 154,040,037

NOTES TO FINANCIAL STATEMENTS

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

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

For the year ended June 30, 2020, the Board will recognize OPEB expense in the amount of \$9,249,190 on the government-wide statements. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to the OPEB plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 9,390,747	\$ 9,824,207
Net difference between projected and actual investment earnings	1,747	-
Differences between expected and actual experience	7,819,885	-
Board's contributions subsequent to measurement date	-	-
Total	\$ 17,212,379	\$ 9,824,207

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

Year Ending June 30,	Amortization
2021	\$ 885,731
2022	885,731
2023	885,749
2024	885,612
2025	885,269
Thereafter	2,960,080
	\$ 7,388,172

NOTES TO FINANCIAL STATEMENTS

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

GASB 74 Information

Plan Membership

At January 1, 2020 (valuation date), the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	273
Inactive plan members or beneficiaries entitled but not yet receiving benefits	105
Active plan members	571
	949

Contributions

The employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon annual approval of the operating budget.

Rate of Return

For the year ended June 30, 2020, the total rate of return, net of investment expense, was 1.51%. The total rate of return represents a hypothetical return on capital balance invested in the Trust during the entire year. Actual return rates may vary due to the timing of capital contributions and redemptions.

Actuarial Assumptions

Valuation date	January 1, 2020
Measurement date	June 30, 2020
Actuarial cost method - GASB 74	Entry age normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2019	3.13%
Discount rate - June 30, 2020	2.45%
Payroll growth	3.00%
Inflation rate	2.50%
Rate of growth in real income	1.50%
Medical trend	Based on the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The SOA Model was released in October 2010 and updated in September 2019. The latest baseline assumptions as noted above were used as input variables.
Mortality	The mortality rates for healthy pre - retirees was calculated using the Pub-2010 Teacher Employees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale. The mortality rates for healthy post - retirees was calculated using the Pub-2010 Teacher Retirees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale. The mortality rates for disabled individuals was calculated using the Pub-2010 Teacher Disabled Retirees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale.

NOTES TO FINANCIAL STATEMENTS

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

GASB 74 Information (Continued)

Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is selected from a range of 20-Year Municipal Bond Indices and include the Bond Buyer 20-Bond GO Index, the S&P Municipal Bond 20-Year High Grade Rate Index and the Fidelity 20-Year GO Municipal Bond Index. The final equivalent single discount rate used for this year's valuation is 2.45% as of June 30, 2020. The rate has been adjusted from 3.13% as of June 30, 2019.

Change in Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2019	\$ 121,251,642	\$ 120,162	\$ 121,131,480
Changes for the Year			
Service Cost	5,546,279	-	5,546,279
Interest	3,759,649	-	3,759,649
Changes of Benefit Terms	-	-	-
Esperience Losses/Gains	(20,624,895)	-	(20,624,895)
Trust Contributions - Employer	-	1,935,922	(1,935,922)
Net Investment Income	-	1,809	(1,809)
Changes in Assumptions	9,324,078	-	9,324,078
Benefit Payments (net of retiree contributions)	(1,935,922)	(1,935,922)	-
Administrative Expense	-	-	-
Net Changes	(3,930,811)	1,809	(3,932,620)
Balance as of June 30, 2020	\$ 117,320,831	\$ 121,971	\$ 117,198,860

Plan fiduciary net position as a percentage of the total OPEB liability at June 30, 2020 is approximately .10%.

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

The following presents the net OPEB liability of the Board using the discount rate of 3.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate	Net OPEB Liability
1% decrease	1.45%	\$ 142,802,440
Current discount rate	2.45%	\$ 117,198,860
1% increase	3.45%	\$ 97,264,588

NOTES TO FINANCIAL STATEMENTS

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

GASB 74 Information (Continued)

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

The following presents the net OPEB liability of the Board, as well as what the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1% point lower or 1% point higher than the current rate:

	Healthcare Cost Trend Rate	Net OPEB Liability
1% decrease	3.00%	\$ 93,673,234
Current healthcare cost trend rate	4.00%	\$ 117,198,860
1% increase	5.00%	\$ 149,306,070

Note 10. Leases

Capital leases

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

Capital lease obligations at June 30, 2020 consist of the following:

School buses, Signature Bank, interest at 2.09%; payable in monthly installments of approximately \$2,207, including interest through August 2021.	\$ 30,497
School buses, Branch Banking & Trust Co., interest at 1.98%; payable in monthly installments of approximately \$2,042, including interest through September 2020.	6,106
Servers, American Capital Financial Services, Inc., interest at 3.18%; payable in annual installments of approximately \$51,594, including interest through September 2021.	98,464
School buses, City National Capital Finance, interest at 1.80%; payable in annual installments of approximately \$104,353, including interest through September 2021.	203,076
School buses, City National Capital Finance, interest at 1.90%; payable in annual installments of approximately \$12,838, including interest through September 2020.	12,599
School buses, City National Capital Finance, interest at 2.98%; payable in annual installments of approximately \$110,108, including interest through July 2022.	311,574
School buses, City National Capital Finance, interest at 2.46%; payable in annual installments of approximately \$80,073, including interest through April 2023.	228,866
	\$ 891,182

NOTES TO FINANCIAL STATEMENTS

Note 10. Leases (Continued)

Capital leases (Continued)

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

2021	\$	391,575
2022		350,541
2023		190,181
		<hr/>
		932,297
<u>Less amounts representing interest</u>		<u>41,115</u>
<u>Present value of net minimum lease payments</u>	\$	<u>891,182</u>

Interest expense on the above capital lease was approximately \$30,000 for the year ended June 30, 2020.

The cost of items acquired under the capital lease arrangement, as included in capital assets, totaled \$1,873,016 and the related accumulated depreciation was \$828,405.51 at June 30, 2020.

Note 11. Commitments and Contingencies

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years.

The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2020 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

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

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
 BUDGET AND ACTUAL - GENERAL FUND
 Year Ended June 30, 2020

	General Fund			Variance with Final Budget Favorable (Unfavorable)
	Original <u>Budget</u>	Amended and Final <u>Budget</u>	<u>Actual</u>	
REVENUES				
Talbot County	\$ 42,464,895	\$ 42,062,225	\$ 42,062,225	\$ -
State of Maryland	14,486,171	14,745,901	14,905,349	159,448
Other sources				
Interest earned	95,000	95,000	95,511	511
Other	136,000	136,000	182,102	46,102
TOTAL REVENUES	57,182,066	57,039,126	57,245,187	206,061
EXPENDITURES AND ENCUMBRANCES				
Administration	1,177,162	1,177,162	1,176,021	1,141
Mid-level administration	4,115,227	4,115,227	3,935,429	179,798
Instructional salaries	23,164,186	22,998,916	21,976,192	1,022,724
Instructional texts and supplies	611,037	547,837	528,660	19,177
Instructional other costs	1,428,267	1,428,267	1,415,562	12,705
Special education	4,262,607	4,562,607	4,561,099	1,508
Student personnel services	277,944	277,944	267,330	10,614
Student transportation	2,872,033	2,722,033	2,700,359	21,674
Operation of plant	3,690,759	3,676,759	3,636,927	39,832
Maintenance of plant	1,758,860	1,708,390	1,652,680	55,710
Fixed charges	13,823,984	13,823,984	12,800,211	1,023,773
TOTAL EXPENDITURES AND ENCUMBRANCES	57,182,066	57,039,126	54,650,470	2,388,656
EXCESS OF REVENUES OVER OVER EXPENDITURES	\$ -	\$ -	\$ 2,594,717	\$ 2,594,717

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
 BUDGET AND ACTUAL - RESTRICTED GRANTS FUND
 Year Ended June 30, 2020

	Restricted Grants Fund		
	Original and Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable <u>(Unfavorable)</u>
REVENUES			
State of Maryland	\$ 1,855,463	\$ 1,461,814	\$ (393,649)
United States Government	3,570,632	4,674,464	1,103,832
Other	183,500	1,078,683	895,183
TOTAL REVENUES	5,609,595	7,214,961	1,605,366
EXPENDITURES AND ENCUMBRANCES			
Restricted Federal programs	1,855,463	1,461,814	393,649
Restricted State programs	3,570,632	4,674,464	(1,103,832)
Restricted other programs	183,500	1,078,683	(895,183)
TOTAL EXPENDITURES AND ENCUMBRANCES	5,609,595	7,214,961	(1,605,366)
EXCESS OF REVENUES OVER OVER EXPENDITURES	\$ -	\$ -	\$ -

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2020

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

As of June 30, Measurement date:	Fiscal Year									
	2011 6/30/2011	2012 6/30/2012	2013 6/30/2013	2014 6/30/2014	2015 6/30/2015	2016 6/30/2016	2017 6/30/2017	2018 6/30/2018	2019 6/30/2019	2020 6/30/2020
Total OPEB liability										
Service cost							\$ 4,798,070	\$ 4,014,682	\$ 4,629,442	\$ 5,546,279
Interest							2,769,712	3,200,732	3,741,991	3,759,649
Changes of benefit terms							-	-	-	-
Differences between expected and actual experience							-	9,892,726	141,236	(20,624,895)
Changes of assumptions							(13,269,867)	(688,245)	10,564,590	9,324,078
Benefit payments							(2,326,763)	(2,313,099)	(2,249,839)	(1,935,922)
Net change in OPEB liability							(8,028,848)	14,106,796	16,827,420	(3,930,811)
Total OPEB liability - beginning							98,346,275	90,317,426	104,424,222	121,251,642
Total OPEB liability - ending (a)							<u>\$ 90,317,427</u>	<u>\$ 104,424,222</u>	<u>\$ 121,251,642</u>	<u>\$ 117,320,831</u>
Plan fiduciary net position										
Contributions - employer							\$ 2,326,763	\$ 2,313,099	\$ 2,249,839	\$ 1,935,922
Net investment income							7,090	6,821	6,251	1,809
Benefit payments							(2,326,763)	(2,313,099)	(2,249,839)	(1,935,922)
Administrative expenses							-	-	-	-
Net change in plan fiduciary net position							7,090	6,821	6,251	1,809
Plan fiduciary net position - beginning							100,000	107,090	113,911	120,162
Plan fiduciary net position - ending (b)							<u>\$ 107,090</u>	<u>\$ 113,911</u>	<u>\$ 120,162</u>	<u>\$ 121,971</u>
Board's net OPEB liability - ending (a) - (b)							<u>\$ 90,210,337</u>	<u>\$ 104,310,311</u>	<u>\$ 121,131,480</u>	<u>\$ 117,198,860</u>
Plan fiduciary net position as a percentage of the total OPEB liability							0.12%	0.11%	0.10%	0.10%
Covered employee payroll							\$ 32,588,049	\$ 32,813,417	\$ 34,999,960	\$ 36,552,281
Board's net OPEB liability as a percentage of covered employee payroll							276.82%	317.89%	346.09%	320.63%
Expected Average Remaining Service Years of All Participants							10	9	9	9

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2020

SCHEDULE OF INVESTMENT RETURNS

	<u>Fiscal Year</u>									
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Annual money-weighted rate of return, net of investment							7.09%	6.37%	5.49%	1.51%

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2020

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Board's	Board's	State's	Total	Board's	Board's	Plan's	Plan's	Plan's
		Proportion (Percentage) of the NPL	Proportionate Share of the NPL	Share of the NPL			Share as a Percentage of Covered Payroll	Total Fiduciary Net Position		Total Pension Liability
		A	B	C	(B+C)	D	(B / D)	E	F	(E / F)
2011										
2012										
2013										
2014										
2015	June 30, 2014	0.0224156%	\$ 3,978,041	\$30,872,861	\$ 34,850,902	\$ 31,854,565	12.49%	\$45,339,988,000	\$63,086,719,000	71.87%
2016	June 30, 2015	0.0243216%	\$ 5,054,438	\$37,780,481	\$ 42,834,919	\$ 31,869,846	15.86%	\$45,789,840,000	\$66,571,552,000	68.78%
2017	June 30, 2016	0.0220702%	\$ 5,207,243	\$47,006,698	\$ 52,213,941	\$ 32,588,049	15.98%	\$45,365,927,000	\$68,959,954,000	65.79%
2018	June 30, 2017	0.0185493%	\$ 4,011,041	\$39,578,331	\$ 43,589,372	\$ 32,813,417	12.22%	\$48,987,184,000	\$70,610,885,000	69.38%
2019	June 30, 2018	0.0198846%	\$ 4,172,107	\$38,398,768	\$ 42,570,875	\$ 34,999,960	11.92%	\$51,827,233,000	\$72,808,833,000	71.18%
2020	June 30, 2019	0.0206821%	\$ 4,265,802	\$33,703,981	\$ 37,969,783	\$ 36,552,281	11.67%	\$53,943,420,000	\$74,569,030,000	72.34%

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2020

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Measurement Date	Contractually Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Board's Covered Payroll	Actual Contribution as a Percentage of Covered Payroll (B / C)
		A	B	(A - B)	C	(B / C)
2011						
2012						
2013						
2014						
2015	June 30, 2014	\$ 512,634	\$ 512,634	\$ -	\$ 31,854,565	1.61%
2016	June 30, 2015	\$ 429,946	\$ 429,946	\$ -	\$ 31,869,846	1.35%
2017	June 30, 2016	\$ 377,540	\$ 377,540	\$ -	\$ 32,588,049	1.16%
2018	June 30, 2017	\$ 396,514	\$ 396,514	\$ -	\$ 32,813,417	1.21%
2019	June 30, 2018	\$ 424,706	\$ 424,706	\$ -	\$ 34,999,960	1.21%
2020	June 30, 2019	\$ 452,006	\$ 452,006	\$ -	\$ 36,552,281	1.24%

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1. Budgetary Comparison Schedule

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

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

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

June 30, 2020			
GENERAL FUND			
	Revenues and other financing sources	Expenditures and other financing uses	Fund Balance
GAAP BASIS	\$ 60,663,508	\$ 57,598,175	\$ 4,828,622
Encumbrances at June 30, 2019	-	(1,224,345)	-
Encumbrances at June 30, 2020	-	1,694,961	(1,694,961)
Payments made on-behalf of the Board by the State of Maryland	(3,418,321)	(3,418,321)	-
BUDGETARY BASIS	\$ 57,245,187	\$ 54,650,470	\$ 3,133,661

June 30, 2020			
RESTRICTED GRANTS FUND			
	Revenues and other financing sources	Expenditures and other financing uses	Fund Balance
GAAP BASIS	\$ 7,302,569	\$ 7,302,569	-
Encumbrances at June 30, 2019	(285,064)	(285,064)	-
Encumbrances at June 30, 2020	197,456	197,456	-
BUDGETARY BASIS	\$ 7,214,961	\$ 7,214,961	-

Note 2. Pension Plans

Changes in Benefit Terms

There were no benefit changes during the year.

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2019 valuation:

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 2. Pension Plans (Continued)

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	19 years for State system
Asset valuation method	5-year smoothed market; 20% collar
Inflation	2.65% general, 3.15% wage
Salary increases	3.10% to 11.60%, including inflation
Investment rate of return	7.40%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2018 valuation pursuant to an experience study of the period July 1, 2014 to July 30, 2018
Mortality	Public Sector 2010 Mortality Tables calibrated to MSRPS experience with generational projections using MP-2018 (2-dimensional) mortality improvement scale.

Note 3. Post-Employment Health Care Benefits

Changes in Benefit Terms

There were no significant benefit changes during the year.

Changes in Assumptions

- The discount rate at June 30, 2018, 2019 and 2020 was 3.62%, 3.13% and 2.45%, respectively.
- The medical trend was updated to the latest model released by the SOA and excludes the impact of the Cadillac tax.
- The mortality assumption was updated to the latest experience study on public sector employees and retirees released by the SOA.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 3. Post-Employment Health Care Benefits (Continued)

Method and Assumptions

Valuation date	January 1, 2020
Measurement date	June 30, 2020
Actuarial cost method - GASB 74	Entry age normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2019	3.13%
Discount rate - June 30, 2020	2.45%
Payroll growth	3.00%
Inflation rate	2.50%
Rate of growth in real income	1.50%
Medical trend	Based on the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The SOA Model was released in October 2010 and updated in September 2019. The latest baseline assumptions as noted above were used as input variables.
Mortality	The mortality rates for healthy pre - retirees was calculated using the Pub-2010 Teacher Employees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale. The mortality rates for healthy post - retirees was calculated using the Pub-2010 Teacher Retirees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale. The mortality rates for disabled individuals was calculated using the Pub-2010 Teacher Disabled Retirees Headcount-Weighted Mortality Projected with Fully Generational MP2019 Mortality Improvement Scale.

ADDITIONAL SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES

GENERAL FUND
Year Ended June 30, 2020

TALBOT COUNTY FUNDS	
Annual appropriation	\$ 42,055,725
Non recurring appropriation	<u>6,500</u>
Total Talbot County Funds	42,062,225
STATE OF MARYLAND FUNDS	
Current expenses	4,776,694
Compensatory education	5,519,626
Transportation	1,841,605
Students with disabilities - formula	1,059,136
Limited English - proficient	1,164,733
Maryland Blue Print	259,730
Out of county living	283,825
On behalf payments - pension	<u>3,418,321</u>
Total State of Maryland Funds	18,323,670
OTHER SOURCES	
Out of county living	150,500
Interest income	95,511
Miscellaneous	16,509
Building rental	<u>15,093</u>
Total Other Sources	<u>277,613</u>
TOTAL REVENUES	<u><u>\$ 60,663,508</u></u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHOOL ACTIVITIES AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS
For the Year Ended June 30, 2020

	Balance July 1, 2019	Receipts	Disbursements	Balance June 30, 2020
Chapel District Elementary School	\$ 17,920	\$ 36,528	\$ 35,081	\$ 19,367
Easton Elementary School - Dobson	21,854	17,513	14,564	24,803
Easton Elementary School - Moton	15,065	30,151	29,689	15,527
Easton High School	140,026	256,030	249,457	146,599
Easton Middle School	47,103	30,026	24,515	52,614
Saint Michaels Elementary School	33,181	18,369	11,771	39,779
Saint Michaels Middle High School	24,066	112,550	101,419	35,197
Tilghman Elementary School	4,790	2,255	245	6,800
White Marsh Elementary School	31,425	10,682	8,509	33,598
Total	\$ 335,430	\$ 514,104	\$ 475,250	\$ 374,284