

**BOARD OF EDUCATION OF
TALBOT COUNTY, MARYLAND**

AUDITED FINANCIAL STATEMENTS

For the year ended June 30, 2022

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

TABLE OF CONTENTS

	Page
Independent Auditors' Report on the Financial Statements	1 - 3
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	4 - 5
Management's Discussion and Analysis	7 - 16
Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements	
Balance Sheet - Governmental Funds	20 - 21
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	22 - 23
Statement of Fiduciary Net Position	24
Statement of Changes in Fiduciary Net Position	25
Notes to Financial Statements	26 - 56
Required Supplementary Information	
Schedule of Revenues, Expenditures and Encumbrances Budget and Actual - General Fund	58
Schedule of Revenues, Expenditures and Encumbrances Budget and Actual - Restricted Grants Fund	59
Schedule of Changes in the Board's Net OPEB Liability and Related Ratios	60
Schedule of Investment Returns	61
Schedule of the Board's Proportionate Share of the Net Pension Liability	62
Schedule of Board Contributions - Pension	63
Notes to Required Supplementary Information	64 - 66
Additional Supplementary Information	
Schedule of Revenues - General Fund	68
Balance Sheet and Statement of Revenues, Expenditures and Fund Balance - School Activities Fund	69

INDEPENDENT AUDITORS' REPORT

Board of Education of Talbot County, Maryland
Easton, Maryland

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, component unit of Talbot County, Maryland ("the Board"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board of Education of Talbot County, Maryland and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 13 to the financial statements, during the year ended June 30, 2022, the Board adopted new accounting guidance from the Government Accounting Standards Board (GASB) Statement No. 87, "Leases". Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board of Education of Talbot County, Maryland's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board of Education of Talbot County, Maryland's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of revenues, expenditures and encumbrances – budget and actual – General Fund, the schedule of revenues, expenditures and encumbrances – budget and actual – Restricted Fund, the schedule of changes in the Board's net OPEB liability and related ratios, the schedule of investment returns, the schedule of the Board's proportionate share of the net pension liability, and the schedule of Board contributions - pension, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do

not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2022, 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, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board of Education of Talbot County, Maryland's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of Talbot County's internal control over financial reporting and compliance.

The image shows a handwritten signature in dark ink that reads "UHY LLP". The letters are stylized and cursive.

Salisbury, Maryland
September 29, 2022

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

The Board of Education of 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, 2022, 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 29, 2022.

Report on 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 of Education of Talbot County, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board of Education of Talbot County, Maryland's internal control.

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

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

Report on 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.

UHY LLP

Salisbury, Maryland
September 29, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2022

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, 2022. 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, 2022 include the following:

- The net position deficit totals \$26,518,975, an unfavorable increase in the deficit of \$3,395,077, or 14.7% from the prior year.
- The General Fund unassigned fund balance is \$5,040,245 after an assignment for encumbrances of \$1,316,928. The total fund balance is \$6,357,173, an increase of \$936,355 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:

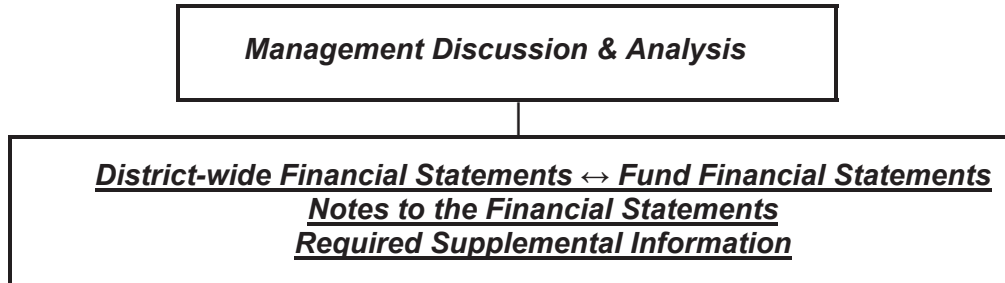
- The first two statement are *district-wide financial statements* that provide both *short-term* and *long-term* information about the Board's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Board, reporting the Board's operations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

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management’s Discussion and Analysis (MD&A)
June 30, 2022

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, 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
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
Accounting basis and measurement focus	Full accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Full accrual accounting and economic resources focus

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2022

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 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.

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2022

Financial analysis of the Board as a whole

Net position – Table 1 provides a comparison of the Board's net position for fiscal year 2022 and 2021. The Board's net position deficit was \$26,518,975 on June 30, 2022. This was an unfavorable increase in the deficit from the prior year of \$3,395,077. The deficit increase is primarily the result of an increase in liabilities related to the recognition and reporting of Other Post-Employment Benefits (OPEB). Further details on the OPEB liability can be found at Note 9.

Table 1

	June 30, 2022	June 30, 2021	\$ Change	% Change
Current and other assets	\$ 15,611,250	\$ 14,511,037	\$ 1,100,213	7.58%
Capital assets	99,569,674	95,954,772	3,614,902	3.77%
Total Assets	<u>115,180,924</u>	<u>110,465,809</u>	<u>4,715,115</u>	<u>4.27%</u>
Deferred outflows of resources	<u>34,628,145</u>	<u>24,628,869</u>	<u>9,999,276</u>	<u>40.60%</u>
Current and other liabilities	7,728,020	7,754,419	(26,399)	-0.34%
Long-term liabilities	143,107,773	123,352,285	19,755,488	16.02%
Total Liabilities	<u>150,835,793</u>	<u>131,106,704</u>	<u>19,729,089</u>	<u>15.05%</u>
Deferred inflows of resources	<u>25,492,251</u>	<u>27,032,699</u>	<u>(1,540,448)</u>	<u>-5.70%</u>
Net position:				
Invested in capital assets	98,489,820	95,526,754	2,963,066	3.10%
Restricted	1,534,949	804,609	730,340	90.77%
Unrestricted	<u>(126,543,744)</u>	<u>(119,455,261)</u>	<u>(7,088,483)</u>	<u>-5.93%</u>
Total Net Position	<u>\$ (26,518,975)</u>	<u>\$ (23,123,898)</u>	<u>\$ (3,395,077)</u>	<u>-14.68%</u>

- The June 30, 2021 amounts have been restated for the implementation of GASB Statement No. 87. More detailed information about the implementation of GASB Statement No. 87 can be found in Note 13 to the financial statements.

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2022

Financial analysis of the Board as a whole – continued

Changes in net position – Table 2 shows the key elements for the unfavorable increase in the Board's net position deficit. The Board's total revenues were \$83,464,705 for the year ended June 30, 2022 an increase of approximately \$6.0 million from the prior year. Revenues for operating grants and contributions increased significantly due to additional restricted grant funding in the current year. The county appropriation and general state aid accounted for approximately 72.1% of the total revenue for the year. Another 27.7% came from program revenues, and the remainder was from investment earnings and other sources. The total cost of all programs and services was \$86,859,782 and increase of nearly \$6.4 million from the prior year. The Board's expenses are predominantly related to providing direct educational services to students (47.1%). The purely administrative activities of the Board accounted for 1.9% of total expenses. Expenses increased in the areas of instruction and special education and support services.

Table 2

	June 30, 2022	June 30, 2021	\$ Change	% Change
Revenues				
Program Revenues				
Charges for services	\$ 258,144	\$ 31,935	\$ 226,209	708.34%
Operating grants and contributions	17,224,363	13,121,339	4,103,024	31.27%
Capital grants and contributions	5,632,431	4,611,565	1,020,866	22.14%
General Revenues				
County appropriation	43,949,871	43,624,398	325,473	0.75%
State of Maryland	16,244,298	15,807,379	436,919	2.76%
Other	155,598	263,614	(108,016)	-40.98%
Total Revenues	83,464,705	77,460,230	6,004,475	7.75%
Expenses				
Instruction and special education	40,940,520	38,916,222	2,024,298	5.20%
Administration	1,621,610	1,403,651	217,959	15.53%
Support services	40,605,112	37,772,761	2,832,351	7.50%
Depreciation - unallocated	3,692,540	2,349,550	1,342,990	57.16%
Total Expenses	86,859,782	80,442,184	6,417,598	7.98%
Change in Net Position	(3,395,077)	(2,981,954)	(413,123)	13.85%
Net Position Beginning, as restated	(23,123,898)	(20,141,944)	(2,981,954)	-14.80%
Net Position End of Year	\$ (26,518,975)	\$ (23,123,898)	\$ (3,395,077)	-14.68%

- The June 30, 2021 amounts have been restated for the implementation of GASB Statement No. 87. More detailed information about the implementation of GASB Statement No. 87 can be found in Note 13 to the financial statements.

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2022

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 \$8,238,159, an increase of \$1,433,762 from last year's ending fund balance.

Revenues for the Board's governmental funds were \$83,484,972, an increase of \$6,024,742 from the prior year. This increase is primarily related to the Board's receipt of additional restricted grant funding in the current year. Total expenditures were \$83,239,695 for the year, an increase of \$6,699,934 from the prior year. The increase in expenditures correlates with the increase in additional restricted grant funding. Other financing sources attributable to proceeds from financed purchases and long-term leases totaled \$1,433,762 in the current year. Other financing uses totaled \$249,880 in the prior year. Both revenues and expenditures were impacted by the return of students and staff to in-person instruction in the current 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.

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2022

Table 3

	<u>General Fund</u>			Percent Increase (Decrease)
	Fiscal Year 2022	Fiscal Year 2021	Increase (Decrease)	
Revenues				
Talbot County appropriations	\$ 43,949,871	\$ 43,624,398	\$ 325,473	0.75%
State of Maryland	16,244,298	15,807,379	436,919	2.76%
State of Maryland share of retirement and pension contributions	3,583,953	3,481,606	102,347	2.94%
Other	175,865	122,217	53,648	43.90%
Total Revenues	63,953,987	63,035,600	918,387	1.46%
Expenditures				
Administration	1,250,400	1,180,958	69,442	5.88%
Mid-level administration	3,933,310	3,792,281	141,029	3.72%
Instructional salaries	23,941,309	22,418,507	1,522,802	6.79%
Instructional materials and supplies	687,318	1,056,673	(369,355)	-34.95%
Instructional other costs	996,466	1,722,800	(726,334)	-42.16%
Special education	5,664,609	4,899,135	765,474	15.62%
Student personnel services	315,330	310,412	4,918	1.58%
Student transportation	3,956,762	2,488,008	1,468,754	59.03%
Operation of plant	3,925,982	3,809,641	116,341	3.05%
Maintenance of plant and equipment	1,583,142	1,593,509	(10,367)	-0.65%
Fixed charges	14,367,556	15,439,974	(1,072,418)	-6.95%
State of Maryland share of retirement and pension contribution	3,583,953	3,481,606	102,347	2.94%
Total Expenditures	64,206,137	62,193,504	2,012,633	3.24%
Excess of Revenues over Expenditures Before Other Financing Sources	(252,150)	842,096	(1,094,246)	-129.94%
Other Financing Sources - Interfund				
Proceeds from financed purchases	1,161,220	-	1,161,220	100.00%
Proceeds from long-term leases	27,265	(249,880)	277,145	100.00%
Excess of Revenues and Other Financing Sources over Expenditures	\$ 936,335	\$ 592,216	\$ 344,119	58.11%

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2022

Table 4

	<u>Restricted Grant Revenue</u>			Percent Increase (Decrease)
	Fiscal Year 2022	Fiscal Year 2021	Increase (Decrease)	
Federal Through State	\$ 6,065,371	\$ 4,950,061	\$ 1,115,310	22.53%
State of Maryland	2,149,258	2,085,367	63,891	3.06%
Other	<u>1,710,756</u>	<u>745,933</u>	<u>964,823</u>	<u>129.34%</u>
<i>Total Revenues</i>	<u>\$ 9,925,385</u>	<u>\$ 7,781,361</u>	<u>\$ 2,144,024</u>	<u>27.55%</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 2022, the Board had received state funding of \$1,648,925 and Talbot County funding of \$3,183,506 for projects. The Board also received \$800,000 in federal funding passed through Talbot County.

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 2022 were \$918,459 (see Note 9 for more detailed information).

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2022

General fund budgetary highlights

The General Fund actual revenues exceeded budgeted revenues by \$355,121. Actual expenditures and encumbrances were under budget by \$640,266.

Original budget compared to final budget – While there were transfers between categories during FY 2022, the original budget and final budget totals remained the same.

Capital assets and debt administration

Capital assets – By the end of fiscal year 2022, the Board had invested \$172 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 \$4.8 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 are costs for a new roof at Easton High School. Anticipated completion of the project is during fiscal year 2023.

Long-term liabilities – At year-end, the Board had \$143,462,702 in long-term debt of which \$354,929 is due within one year and \$143,107,773 is due after one year. This amount consists of the following:

- \$569,586 due to Maryland State Retirement and Pension System.
- \$892,529 in financed purchases.
- \$187,325 in intangible right-to-use leases.
- \$137,710,045 in net OPEB obligation.
- \$462,833 in accrued compensated absences.
- \$3,640,384 in net pension liability.
- See Notes 7, 9, 10 and 11 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 2022 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 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

BOARD OF EDUCATION OF TALBOT COUNTY
Easton, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2022

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. 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.

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. The effects on the use of education funding continue to change as the law is being interpreted and implemented.

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 TALBOT COUNTY, MARYLAND
STATEMENT OF NET POSITION
June 30, 2022

	Governmental <u>Activities</u>
ASSETS	
Cash and investments	\$ 11,530,944
Accounts receivable:	
Federal funds from State of Maryland	2,349,985
State of Maryland	1,476,443
Local	83,995
Other	173,043
Non depreciable capital assets	4,923,310
Depreciable capital assets, net	<u>94,646,364</u>
TOTAL ASSETS	<u>115,184,084</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pensions (see Note 7)	1,866,492
Other post-employment benefits (see Note 9)	<u>32,761,653</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>34,628,145</u>
LIABILITIES	
Accounts payable:	
Vendors	696,780
Due to fiduciary fund	1,846
Accrued payroll	4,162,207
Accrued payroll deductions and withholdings	1,359,025
Unearned revenue	1,156,393
Long-term liabilities:	
Due within one year	354,929
Due in more than one year	<u>143,107,773</u>
TOTAL LIABILITIES	<u>150,838,953</u>
DEFERRED INFLOWS OF RESOURCES	
Pensions (see Note 7)	2,019,536
Other post-employment benefits (see Note 9)	<u>23,472,715</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>25,492,251</u>
NET POSITION	
Net investment in capital assets	98,489,820
Restricted for food service operations	1,534,949
Unrestricted	<u>(126,543,744)</u>
TOTAL NET POSITION	<u>\$ (26,518,975)</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2022

	<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	\$ 1,621,610	\$ -	\$ 371,210	\$ -	\$ (1,250,400)
Mid-level administration	4,075,694	-	142,384	-	(3,933,310)
Instructional salaries and wages	25,893,704	-	2,026,476	-	(23,867,228)
Textbooks and instructional supplies	1,149,079	-	461,761	-	(687,318)
Other instructional costs	2,677,190	-	2,188,370	-	(488,820)
Special education	7,211,134	-	1,546,525	-	(5,664,609)
Pupil personnel services	755,840	-	440,510	-	(315,330)
Health services	15,106	-	15,106	-	-
Pupil transportation	2,923,345	-	172,127	-	(2,751,218)
Operation of plant	4,283,217	-	657,168	-	(3,626,049)
Maintenance of plant	1,683,309	-	100,167	-	(1,583,142)
Fixed charges	23,537,712	-	1,304,170	-	(22,233,542)
Community services	499,410	-	499,410	-	-
Capital outlay	31,077	-	-	5,632,431	5,601,354
Food service	2,815,791	258,144	3,287,987	-	730,340
School activities	410,071	-	427,038	-	16,967
Unallocated depreciation	3,692,540	-	-	-	(3,692,540)
On-behalf State Retirement contributions	3,583,953	-	3,583,953	-	-
Total Governmental Activities	\$86,859,782	\$ 258,144	\$17,224,362	\$ 5,632,431	(63,744,845)
General Revenues					
Talbot County Appropriations					43,949,871
State of Maryland - unrestricted					16,244,298
Investment earnings					30,924
Miscellaneous					124,675
Total General Revenues					60,349,768
Change in Net Position					(3,395,077)
Net Position Beginning of Year, as restated (see Note 13)					(23,123,898)
Net Position End of Year					\$ (26,518,975)

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2022

	MAJOR FUNDS				
	General Fund	Restricted Grants Fund	Capital Projects Fund	Food Service Fund	School Activities
ASSETS					
Cash and investments	\$ 10,618,950	\$ -	\$ -	\$ 565,957	\$ 346,037
Accounts receivable:					
Federal funds from State of Maryland	-	1,268,332	-	1,081,653	-
State of Maryland	806,095	229,423	440,925	-	-
Other Board of Education funds	162,664	-	433,266	-	-
Local	-	-	83,995	-	-
Other	66,323	106,720	-	-	-
TOTAL ASSETS	\$ 11,654,032	\$ 1,604,475	\$ 958,186	\$ 1,647,610	\$ 346,037
LIABILITIES AND FUND BALANCES					
Accounts payable:					
Vendors	\$ 205,486	\$ -	\$ 379,722	\$ 111,572	\$ -
Other Board of Education funds	-	594,841	-	1,089	-
Due to fiduciary fund	1,846	-	-	-	-
Accrued payroll	3,835,234	326,973	-	-	-
Accrued payroll deductions and withholdings	1,254,293	104,732	-	-	-
Unearned revenue - Federal	-	225,799	-	-	-
Unearned revenue - State	-	64,252	-	-	-
Unearned revenue - other	-	287,878	578,464	-	-
TOTAL LIABILITIES	5,296,859	1,604,475	958,186	112,661	-
COMMITMENTS AND CONTINGENCIES					
FUND BALANCES					
Restricted	-	-	-	1,534,949	-
Assigned to:					
Encumbrances	1,316,928	-	-	-	-
School construction and capital maintenance	-	-	-	-	-
School activities	-	-	-	-	346,037
Subsequent year's budget	-	-	-	-	-
Unassigned	5,040,245	-	-	-	-
TOTAL FUND BALANCES	6,357,173	-	-	1,534,949	346,037
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,654,032	\$ 1,604,475	\$ 958,186	\$ 1,647,610	\$ 346,037

Total Governmental Funds	Total Governmental Funds Balances		\$ 8,238,159
\$ 11,530,944	Amounts reported for governmental activities in the statement of net position are different because		
2,349,985			
1,476,443	Capital assets used in governmental activities are not		
595,930	financial resources and therefore are not reported in the funds		99,569,674
83,995			
173,043	Deferred outflows of resources not reported in the fund financial statements		
<u>\$ 16,210,340</u>			
	Pension (see Note 7)	1,866,492	
	Other post-employment benefits (see Note 9)	<u>32,761,653</u>	34,628,145
\$ 696,780			
595,930	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		
1,846			
4,162,207	Financed Purchases (see Note 10)	(892,529)	
1,359,025	Long-term leases	(187,325)	
225,799	Compensated absences	(462,833)	
64,252	State Retirement System	(569,586)	
866,342	Net pension liability (see Note 7)	(3,640,384)	
<u>7,972,181</u>	Post-employment benefits (see Note 7)	<u>(137,710,045)</u>	(143,462,702)
	Deferred inflows of resources not reported in the fund financial statements		
1,534,949			
1,316,928	Pension (see Note 7)	(2,019,536)	
-	Other post-employment benefits (see Note 9)	<u>(23,472,715)</u>	(25,492,251)
346,037			
-			
5,040,245	Net Position of Governmental Activities		<u>\$ (26,518,975)</u>
<u>8,238,159</u>			
<u>\$ 16,210,340</u>			

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2022

	MAJOR FUNDS				
	General Fund	Restricted Grants Fund	Capital Projects Fund	Food Service Fund	School Activities
REVENUES					
Talbot County	\$43,949,871	\$ -	\$ 3,183,506	\$ -	\$ -
State of Maryland	16,244,298	2,149,258	1,648,925	110,018	-
United States Government	-	6,065,371	800,000	3,177,969	-
On-behalf State Retirement contributions	3,583,953	-	-	-	-
Other sources:					
Food service sales	-	-	-	258,144	-
School activity revenues	-	-	-	-	427,038
Interest earned	30,924	-	-	-	-
Other	144,941	1,710,756	-	-	-
TOTAL REVENUES	63,953,987	9,925,385	5,632,431	3,546,131	427,038
EXPENDITURES					
Current:					
Administration	1,250,400	371,210	-	-	-
Mid-level administration	3,933,310	142,384	-	-	-
Instructional salaries and wages	23,941,309	2,026,477	-	-	-
Instructional textbooks and supplies	687,318	461,761	-	-	-
Other instructional costs	996,466	2,188,370	-	-	-
Special education	5,664,609	1,546,525	-	-	-
Student personnel services	315,330	440,510	-	-	-
Student health services	-	15,106	-	-	-
Student transportation	3,929,497	172,127	-	-	-
Operation of plant	3,953,247	657,168	-	-	-
Maintenance of plant	1,583,142	100,167	-	-	-
Fixed charges	14,367,556	1,304,170	-	-	-
Community services	-	499,410	-	-	-
Capital outlay	-	-	5,882,311	-	-
Food services	-	-	-	2,815,791	-
School activity expenditures	-	-	-	-	410,071
On-behalf State Retirement contributions	3,583,953	-	-	-	-
TOTAL EXPENDITURES	64,206,137	9,925,385	5,882,311	2,815,791	410,071
EXCESS OF REVENUES OVER EXPENDITURES					
BEFORE OTHER FINANCING SOURCES (USES)	(252,150)	-	(249,880)	730,340	16,967
OTHER FINANCING SOURCES (USES)					
Proceeds from financed purchases	1,161,220	-	-	-	-
Proceeds from long-term leases	27,265	-	-	-	-
Net change in fund balances	936,335	-	(249,880)	730,340	16,967
Fund balances, beginning	5,420,838	-	249,880	804,609	329,070
Fund balances, ending	\$ 6,357,173	\$ -	\$ -	\$ 1,534,949	\$ 346,037

Total			
Governmental Funds	Net change in fund balances-total Governmental Funds		\$ 1,433,762
	Amounts reported for governmental activities in the statement of activities are different because		
\$47,133,377			
20,152,499			
10,043,340	Governmental funds report capital outlays as expenditures. However, in the		
3,583,953	statement of activities, the cost of those assets is allocated over their estimated useful		
	lives as depreciation expense.		
258,144			
427,038	Fixed asset additions	8,447,870	
30,924	Current year depreciation	(4,812,702)	
1,855,697	Total		3,635,168
<u>83,484,972</u>			
	Proceeds from financed purchases and long-term leases are revenues in the		
	governmental funds but increases in liabilities in the statement of net position.		
1,621,610	Financed purchases	(1,161,220)	
4,075,694	Long-term leases	(27,265)	
25,967,786	State Retirement System	(66,645)	
1,149,079	Total		(1,255,130)
3,184,836			
7,211,134	In governmental fund financial statements, proceeds from a sale are shown as an		
755,840	increase in financial resources. In government wide financial statements,		
15,106	gain or loss is calculated and reported.		(20,268)
4,101,624			
4,610,415	Some expenses reported in the statement of activities do not require the use of current		
1,683,309	financial resources and therefore are not reported as expenditures in governmental funds.		
15,671,726			
499,410	Decrease in pension benefit due to deferred financing outflow		954,164
5,882,311	Decrease in pension benefit due to net pension liability		1,124,370
2,815,791	Increase in pension benefit due to deferred financing inflows		(1,740,854)
410,071	Decrease in post-employment benefits expense due to deferred financing outflow		9,045,113
3,583,953	Increase in post-employment benefits expense due to net OPEB liability		(20,511,185)
<u>83,239,695</u>	Decrease in post-employment benefits expense due to deferred financing inflow		3,281,273
	Decrease in compensated absences		74,082
245,277	Repayment of financed purchases and long-term leases are expenditures in the		
	governmental funds, but the repayment reduces long-term liabilities in the		
	statement of net position.		
1,161,220			
27,265	Financed purchases	453,763	
	Long-term leases	82,886	
1,433,762	State Retirement System	47,779	
	Total		584,428
<u>6,804,397</u>			
	Change in net position of Governmental Activities		<u>\$ (3,395,077)</u>
<u>\$ 8,238,159</u>			

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2022

	<u>CUSTODIAL FUND</u>	
	<u>Special Education Consortium</u>	<u>Retiree Health Plan Trust Fund</u>
ASSETS		
Cash and cash equivalents	\$ 550,631	\$ 202,014
Investments	-	716,445
Federal grants receivable	77,373	-
Other receivables	7,563	
Other Board of Education funds	1,846	
TOTAL ASSETS	<u><u>\$ 637,413</u></u>	<u><u>\$ 918,459</u></u>
LIABILITIES		
Accounts payable:		
Accrued payroll	\$ 140,901	\$ -
Deferred revenue	3,928	-
TOTAL LIABILITIES	<u>144,829</u>	<u>-</u>
NET POSITION		
Held in trust for other post-employment benefits	-	918,459
Held for Special Education Consortium	492,584	-
TOTAL NET POSITION	<u>492,584</u>	<u>918,459</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 637,413</u></u>	<u><u>\$ 918,459</u></u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2022

	CUSTODIAL FUND	
	<u>Special Education Consortium</u>	<u>Retiree Health Plan Trust Fund</u>
ADDITIONS		
Employer contributions	\$ -	\$ 400,000
Investment income	2,768	-
Restricted Federal revenues	413,987	-
Other contributions	1,814,020	-
TOTAL ADDITIONS	<u>2,230,775</u>	<u>400,000</u>
DEDUCTIONS		
Investment loss	-	132,659
Administrative expenses	-	2,324
Restricted federal programs	413,987	-
Other program expenses	1,816,379	-
TOTAL DEDUCTIONS	<u>2,230,366</u>	<u>134,983</u>
Change in net position	409	265,017
Net position, beginning of year	<u>492,175</u>	<u>653,442</u>
Net position, end of year	<u>\$ 492,584</u>	<u>\$ 918,459</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, Food Service and School Activity 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

A. Basis of Presentation (continued)

GOVERNMENT-WIDE FINANCIAL STATEMENTS (continued)

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.

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:

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (continued)

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.

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

Non-major fund:

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

FIDUCIARY FUND TYPES

Custodial Funds – Custodial funds report fiduciary activities that are not required to be reported as another fiduciary type. The Board acts as the processing agent for the Mid-Shore Special Education Consortium.

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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus (continued)

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

D. Basis of Accounting

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

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

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

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

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

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

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting (continued)

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

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

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

E. Budgetary Data

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

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

G. Capital Assets

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

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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

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, 2022 as follows:

Restricted federal, state and other grant programs	\$	577,929
Total	\$	577,929

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Net Position

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

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

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, change in the proportion and share of contributions, and contributions subsequent to the measurement date. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

L. Deferred Outflows and Inflows of Resources (continued)

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

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

M. Fund Balance

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

N. Estimates

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

O. Cash and Cash Equivalents

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

P. Interfund Receivables and Payables and Transfers

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Summary of Significant Accounting Policies (Continued)

Q. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are reported as assigned fund balance in the governmental fund financial statements. General fund unrestricted encumbrances outstanding at June 30, 2022 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 \$1,316,928.

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 2022, the Board recognized \$3,583,953 for amounts expended on its behalf by the State of Maryland for retirement contributions.

S. New Accounting Policies

The Board adopted Government Accounting Standards Board's Statement No. 87, *Leases*, at July 1, 2021. This statement's objective is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases. The Statement increases the usefulness of the financial statements by requiring the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases.

Note 3. Cash and Investments

At June 30, 2022, the reported amount of the Board's deposits was \$12,283,589 and the bank balance was \$12,929,546. 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, 2022, the bank deposits were fully insured or collateralized.

Included in the balances above, are investments of \$8,977,040 (carrying value of \$8,977,040) 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 3. Cash and Investments (Continued)

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

Cash at carrying value	\$	3,306,549
Investments		8,977,040
Less: Amounts in fiduciary funds		(752,645)
Total cash and investments per Statement of Net Position	\$	11,530,944

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 fifteen members who are the sole contributors to the MACO Trust are Allegany, Queen Anne’s, Kent and Talbot County, City of Annapolis, College of Southern Maryland, Town of Bel Air and Hurlock, Talbot and Queen Anne’s County Boards of Education, St. Mary’s County Metropolitan Commission, Harford Community College, Harford and Queen Anne’s County Public Libraries and LaVale Sanitary Commission.

The investments of the MACO Trust are stated at fair value and are deposited with Wilmington Trust Company at June 30, 2022. 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, 2022, the pooled position of the MACO Trust was \$62,603,613 in total, of which the Board’s allocated investment balance was \$918,459. 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 4. Interfund Receivables and Payables

	Due From Other Funds	Due To Other Funds
General Fund	\$ 595,930	\$ 435,112
Restricted Grants Fund	-	594,841
Capital Projects Fund	433,266	-
Food Service Fund	-	1,089
Fiduciary Fund	1,846	-
	<u>\$ 1,031,042</u>	<u>\$ 1,031,042</u>

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

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2022, was as follows:

	Balance June 30, 2021	Additions	Deductions	Transfers	Balance June 30, 2022
Governmental Activities					
Capital Assets, not being depreciated					
Land	\$ 624,446	\$ -	\$ -	\$ -	\$ 624,446
Buses not-in-service	-	606,016	-	-	606,016
Construction in progress	48,804,515	3,692,848	-	(48,804,515)	3,692,848
Total capital assets, not being depreciated	<u>49,428,961</u>	<u>4,298,864</u>	<u>-</u>	<u>(48,804,515)</u>	<u>4,923,310</u>
Capital assets, being depreciated					
Buildings	83,091,180	1,602,826	-	48,621,815	133,315,821
Improvements	2,209,468	-	-	-	2,209,468
Furniture, equipment and vehicles	29,232,887	2,518,915	(671,977)	182,700	31,262,525
Total capital assets, being depreciated	<u>114,533,535</u>	<u>4,121,741</u>	<u>(671,977)</u>	<u>48,804,515</u>	<u>166,787,814</u>
Less accumulated depreciation:					
Buildings	(42,653,357)	(2,965,328)	-	-	(45,618,685)
Improvements	(1,066,356)	(106,440)	-	-	(1,172,796)
Furniture, equipment and vehicles	(24,525,216)	(1,657,775)	651,709	-	(25,531,282)
Total accumulated depreciation	<u>(68,244,929)</u>	<u>(4,729,543)</u>	<u>651,709</u>	<u>-</u>	<u>(72,322,763)</u>
Total capital assets, being depreciated, net	<u>46,288,606</u>	<u>(607,802)</u>	<u>(20,268)</u>	<u>48,804,515</u>	<u>94,465,051</u>
Intangible right-to-use assets:					
Leased equipment	395,345	27,265	-	-	422,610
Less accumulated amortization	(158,138)	(83,159)	-	-	(241,297)
Total intangible right-to-use assets, net	<u>237,207</u>	<u>(55,894)</u>	<u>-</u>	<u>-</u>	<u>181,313</u>
Governmental activities capital assets, net, as restated (see Note 13)	<u>\$95,954,774</u>	<u>\$ 3,635,168</u>	<u>\$ (20,268)</u>	<u>\$ -</u>	<u>\$99,569,674</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 5. Capital Assets (Continued)

Depreciation and amortization expense was charged to governmental functions as follows:

Instructional services	\$	683,173
Student transportation		436,989
Unallocated		<u>3,692,540</u>
Total depreciation expense	\$	<u>4,812,702</u>

Note 6. Long-Term Liabilities

A summary of long-term liabilities for the year ended June 30, 2022 is as follows:

	Balance			Balance	Due within
	June 30, 2021	Increases	Decreases	June 30, 2022	one year
Financed purchases	\$ 185,072	\$ 1,161,220	\$ 453,763	\$ 892,529	\$ 268,691
Intangible right-to-use leases	242,946	27,265	82,886	187,325	86,238
Compensated absences	536,915	-	74,082	462,833	-
State Retirement System (Note 7)	550,720	66,645	47,779	569,586	-
Net pension liability (Note 7)	4,764,754	-	1,124,370	3,640,384	-
Net OPEB liability (Note 9)	117,198,860	20,511,185	-	137,710,045	-
	<u>\$123,479,267</u>	<u>\$21,766,315</u>	<u>\$ 1,782,880</u>	<u>\$143,462,702</u>	<u>\$ 354,929</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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Pension Plans (Continued)

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

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

General Plan Policies

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

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

Significant Plan Benefits and Policies

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

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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Pension Plans (Continued)

Vested Allowance:

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

Employee Contributions:

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

Teachers' and Employees' Pension 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. 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%.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Pension Plans (Continued)

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

Employer Contributions:

For the year ended June 30, 2022 the Board's total payroll for all employees was \$41,050,262. Total covered payroll was \$38,934,390. 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 2022, the State of Maryland contributed \$3,583,953 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 2022, the Board contributed \$1,371,128 to the Teachers' Retirement and Pension System.

Employees' Retirement and Pension Systems:

During fiscal year 2022, the Board contributed \$572,686 to the Employees' Retirement and Pension System.

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

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

At June 30, 2022, 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:

	2022
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 3,640,384
State's proportionate share of the net pension liability (Teachers' Systems)	<u>23,703,901</u>
Total	<u>\$ 27,344,285</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Pension Plans (Continued)

The net pension liability was measured as of June 30, 2021, 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, 2021, the Board's proportion of the net pension liability was .024% which was substantially the same as its proportion measured as of June 30, 2020.

For the year ended June 30, 2022, the Board recognized pension expense of \$1,943,814 in the fund financial statements and \$1,606,135 in the government-wide financial statements. At June 30, 2022, 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	\$ 704,627	\$ 78,025
Net difference between projected and actual investment earnings on pension plan investments	-	1,662,495
Differences between expected and actual experience	-	279,015
Change in proportion and share of contributions	589,179	-
Board contributions subsequent to measurement date	572,686	-
	<hr/>	<hr/>
Total	\$ 1,866,492	\$ 2,019,535

The \$572,686 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, 2023. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life ranging from 5.50 to 5.78 years. The net difference in investment earnings is being amortized over a closed five-year period. The following table shows the amortization of these balances:

Year Ending June 30,	Amortization
2023	\$ (238,959)
2024	(182,857)
2025	(180,088)
2026	(252,924)
2027	129,099
	<hr/>
	\$ (725,729)

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Pension Plans (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2021 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	2.25% general, 2.75% wage
Salary increases	projected range from 0.00% to 8.50% per year
Discount rate	6.80%
Investment rate of return	6.80%
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females.

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%	4.70%
Private Equity	13%	6.50%
Rate Sensitive	19%	-0.40%
Credit Opportunity	9%	2.60%
Real Assets	14%	4.20%
Absolute Return	8%	2.00%
Total	100%	

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Pension Plans (Continued)

Discount rate

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

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

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 6.80%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>Discount Rate</u>	<u>Board's Net Pension Liability</u>
1% decrease	5.80%	\$ 6,200,083
Current discount rate	6.80%	\$ 3,640,384
1% increase	7.80%	\$ 1,517,129

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 \$569,586 fund deficit as of June 30, 2022 through December 31, 2035. The fiscal year 2022 annual payment was \$47,779 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:

2023	\$	50,168
2024		52,677
2025		55,310
2026		58,076
2027		60,980
2028 - 2032		353,799
2033 - 2036		352,218
		<u>983,228</u>
Less amounts representing interest		(413,642)
Present value of net minimum payments	\$	<u>569,586</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2021, the Boards' funds held by ESMEC exceeded the recommended conservative reserve by \$1,988,758. All funds held by ESMEC are restricted to being used only for health care expenses.

Note 9. Post-Employment Health Care Benefits

Plan Description

The Board of Education of 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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

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
	<u>949</u>

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 pension 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.

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, 2022:

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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

Rate of Return

For the year ended June 30, 2021, the total rate of return, net of investment expense, was 25.80%. 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, 2021. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2020 rolled forward to the June 30, 2021 measurement date. The methods, assumptions, and participant data used are detailed in the fiscal year 2020 GASB 74 valuation report dated September 11, 2020 except for the discount rate. The discount rate was 2.45% as of June 30, 2020 and 1.92% as of June 30, 2021.

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:

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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

Valuation date	January 1, 2022
Measurement date	June 30, 2022
Actuarial cost method - GASB 74	Entry age normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2021	1.92%
Discount rate - June 30, 2022	3.69%
Payroll growth	2.50%
Inflation rate	2.50%
Rate of growth in real income	1.40%
Medical trend	Based on the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The SOA Model was updated on October 30, 2021. The initial rate assumed is 6.00% and decreases to 4.64% in 2050 ultimately leveling off at 3.94% in 2075.
Mortality	The mortality rates for healthy pre - retirees was calculated using the Pub-2010 Teacher Employees Headcount-Weighted Mortality Projected with Fully Generational MP2021 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 MP2021 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 MP2021 Mortality Improvement Scale.

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 1.92% as of June 30, 2021. The rate has been adjusted from 2.45% as of June 30, 2020.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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, 2020	\$ 117,320,831	\$ 121,971	\$ 117,198,860
Changes for the Year			
Service Cost	6,318,643	-	6,318,643
Interest	2,848,658	-	2,848,658
Changes of Benefit Terms	-	-	-
Experience Losses/Gains	(450,315)	-	(450,315)
Trust Contributions - Employer	-	1,647,799	(1,647,799)
Net Investment Income	-	31,471	(31,471)
Changes in Assumptions	13,473,469	-	13,473,469
Benefit Payments (net of retiree contributions)	(1,647,799)	(1,647,799)	-
Administrative Expense	-	-	-
Net Changes	20,542,656	31,471	20,511,185
Balance as of June 30, 2021	\$ 137,863,487	\$ 153,442	\$ 137,710,045

Plan fiduciary net position as a percentage of the total OPEB liability at June 30, 2021 is approximately .11%.

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 2.45%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate	Net OPEB Liability
1% decrease	0.92%	\$ 168,638,767
Current discount rate	1.92%	\$ 137,710,045
1% increase	2.92%	\$ 113,659,740

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 9. Post-Employment Health Care Benefits (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%	\$ 108,147,489
Current healthcare cost trend rate	4.00%	\$ 137,710,045
1% increase	5.00%	\$ 178,516,790

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

For the year ended June 30, 2022, the Board will recognize OPEB expense in the amount of \$10,232,599 on the government-wide statements. At June 30, 2022, 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	\$ 26,271,538	\$ 7,017,289
Net difference between projected and actual investment earnings	-	13,561
Differences between expected and actual experience	5,590,115	16,441,865
Board's contributions subsequent to measurement date	900,000	-
Total	<u>\$ 32,761,653</u>	<u>\$ 23,472,715</u>

The \$900,000 of deferred outflows of resources resulting from the Board's contributions to the plan subsequent to the measurement date of June 30, 2021 will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2022. 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:

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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

Year Ending June 30,	Amortization
2023	\$ 1,073,853
2024	1,073,716
2025	1,073,375
2026	1,072,055
2027	1,076,644
Thereafter	<u>3,019,295</u>
	<u>\$ 8,388,938</u>

GASB 74 Information

Plan Membership

At January 1, 2022 (valuation date), the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	371
Inactive plan members or beneficiaries entitled but not yet receiving benefits	117
Active plan members	<u>585</u>
	<u><u>1,073</u></u>

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, 2022, the total rate of return, net of investment expense, was -4.69%. 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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

GASB 74 Information (continued)

Actuarial Assumptions

Valuation date	January 1, 2022
Measurement date	June 30, 2022
Actuarial cost method - GASB 74	Entry age normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2021	1.92%
Discount rate - June 30, 2022	3.69%
Payroll growth	2.50%
Inflation rate	2.50%
Rate of growth in real income	1.40%
Medical trend	Based on the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The SOA Model was updated on October 30, 2021. The initial rate assumed is 6.00% and decreases to 4.64% in 2050 ultimately leveling off at 3.94% in 2075.
Mortality	The mortality rates for healthy pre - retirees was calculated using the Pub-2010 Teacher Employees Headcount-Weighted Mortality Projected with Fully Generational MP2021 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 MP2021 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 MP2021 Mortality Improvement Scale.

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 3.69% as of June 30, 2022. The rate has been adjusted from 1.69% as of June 30, 2021.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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

GASB 74 Information (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, 2021	\$ 137,863,487	\$ 153,442	\$ 137,710,045
Changes for the Year			
Service Cost	7,702,222	-	7,702,222
Interest	2,625,762	-	2,625,762
Changes of Benefit Terms	-	-	-
Experience Losses/Gains	(42,697,111)	-	(42,697,111)
Trust Contributions - Employer	-	2,080,837	(2,080,837)
Net Investment Income	-	365,017	(365,017)
Changes in Assumptions	(32,295,745)	-	(32,295,745)
Benefit Payments (net of retiree contributions)	(1,680,837)	(1,680,837)	-
Administrative Expense	-	-	-
Net Changes	(66,345,709)	765,017	(67,110,726)
Balance as of June 30, 2022	\$ 71,517,778	\$ 918,459	\$ 70,599,319

Plan fiduciary net position as a percentage of the total OPEB liability at June 30, 2021 is approximately 1.28%.

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 2.69%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	Discount Rate	Net OPEB Liability
1% decrease	2.69%	\$ 83,852,061
Current discount rate	3.69%	\$ 70,599,319
1% increase	4.69%	\$ 60,044,686

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

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	2.94%	\$ 58,303,316
Current healthcare cost trend rate	3.94%	\$ 70,599,319
1% increase	4.94%	\$ 86,762,567

Note 10. Financed Purchases

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

Financed purchase obligations at June 30, 2022 consist of the following:

School buses, BciCapital, Inc., interest at 1.09%; payable in annual installments of approximately \$141,066, including interest through July 2024.	\$	414,138
School buses, BciCapital, interest at 2.65%; payable in annual installments of approximately \$127,625, including interest through June 2026.		478,391
	\$	892,529

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

2023	\$	268,691
2024		268,691
2025		268,691
2026		127,625
		933,698
Less amounts representing interest		41,169
Present value of net minimum purchased finance payments	\$	892,529

Interest expense on the above financed purchases was approximately \$5,000 for the year ended June 30, 2022.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 10. Financed Purchases (Continued)

The cost of items acquired under these financed purchase arrangements, as included in capital assets, totaled \$1,161,505 and the related accumulated depreciation was \$83,323 at June 30, 2022.

Note 11. Intangible Right-to-Use Assets

The Board implemented the guidance of GASB No. 87, *Leases*, at July 1, 2021 for accounting and reporting leases that had previously been reported as operating leases and recognized the value of copiers leased under long-term contracts along with a related liability (see also Note 13).

As of July 1, 2021 the Board had a variety of lease agreements in place for copiers. Payments under these leases total approximately \$85,000 per year. The lease agreements in place for these copiers began during fiscal year 2020 and will expire during fiscal year 2024. For purposes of discounting future payments on these leases the Board used its incremental borrowing rate in place at the time of lease inception of 2.46%. During October 2021, the Board negotiated a new lease agreement for two additional copiers which require payments of approximately \$5,800 per year. These leases will expire during fiscal year 2027. For purposes of discounting future payments on these leases, the Board used its incremental borrowing rate in place at the time of lease inception of 2.65%. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 5.

Minimum lease payments over the next five years include:

	Lease Payments to Maturity								
	2020 Leases			2022 Leases			Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 80,966	\$ 4,033	\$ 84,999	\$ 5,272	\$ 556	\$ 5,828	\$ 86,238	\$ 4,589	\$ 90,827
2024	82,957	2,041	84,998	5,413	415	5,828	88,370	2,456	90,826
2025	-	-	-	5,558	270	5,828	5,558	270	5,828
2026	-	-	-	5,708	120	5,828	5,708	120	5,828
2027	-	-	-	1,451	7	1,458	1,451	7	1,458
Total	163,923	6,074	169,997	23,402	1,368	24,770	187,325	7,442	194,767

Interest expense on the above intangible right-to-use assets was approximately \$6,500 for the year ended June 30, 2022.

Note 12. Commitments and Contingencies

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

The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2022 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 12. Commitments and Contingencies (Continued)

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.

Note 13. Prior Period Restatement

The Board has determined to restate its Statement of Net Position and its Statement of Activities at June 30, 2021. The determination was made to restate these financial statements in connection with the fiscal year 2022 implementation of Government Accounting Standards Board’s Statement No. 87, *Leases*. This statement’s objective is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases. The Statement increases the usefulness of the financial statements by requiring the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases.

The following tables are a summary of the effects of this change on the statement of net position and the statement of activities at June 30, 2021.

Statement of Net Position				
	As Previously Reported	GASB 87 Adjustment		As Restated
Non depreciable capital assets	\$ 49,428,961	\$ -	\$	49,428,961
Depreciable capital assets, net	46,288,604	237,207		46,525,811
Total	\$ 95,717,565	\$ 237,207	\$	95,954,772
Long-term liabilities				
Due within one year	\$ (47,779)	\$ (79,203)	\$	(126,982)
Due in more than one year	(123,188,542)	(163,743)		(123,352,285)
Total	\$ (123,236,321)	\$ (242,946)	\$	(123,479,267)
Net position				
Net investment in capital assets	\$ 95,532,493	\$ (5,739)	\$	95,526,754
Restricted for food service operations	804,609	-		804,609
Unrestricted	(119,455,261)	-		(119,455,261)
	\$ (23,118,159)	\$ (5,739)	\$	(23,123,898)

Statement of Activities				
	As Previously Reported	GASB 87 Adjustment		As Restated
Net position	\$ (23,118,159)	\$ (5,739)	\$	(23,123,898)

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, 2022

	General Fund			Variance with
	Original	Amended	Actual	Final Budget
	<u>Budget</u>	and Final		Favorable
		<u>Budget</u>		(Unfavorable)
REVENUES				
Talbot County	\$ 43,949,871	\$ 43,949,871	\$ 43,949,871	\$ -
State of Maryland	15,880,042	15,880,042	16,244,298	364,256
Other sources				
Interest earned	95,000	95,000	30,924	(64,076)
Other	90,000	90,000	144,941	54,941
TOTAL REVENUES	60,014,913	60,014,913	60,370,034	355,121
EXPENDITURES AND ENCUMBRANCES				
Administration	1,259,083	1,259,083	1,253,469	5,614
Mid-level administration	4,003,364	3,903,364	3,896,666	6,698
Instructional salaries	24,501,445	24,001,445	23,937,814	63,631
Instructional materials and supplies	594,410	594,410	526,940	67,470
Instructional other costs	1,409,189	1,409,189	1,402,755	6,434
Special education	5,654,013	5,804,013	5,780,867	23,146
Student personnel services	317,517	317,517	293,096	24,421
Student transportation	2,431,801	2,731,801	2,729,589	2,212
Operation of plant	3,962,718	4,022,718	4,016,979	5,739
Maintenance of plant	1,533,041	1,533,041	1,528,916	4,125
Fixed charges	14,708,332	14,798,332	14,367,556	430,776
TOTAL EXPENDITURES AND ENCUMBRANCES	60,374,913	60,374,913	59,734,647	640,266
EXCESS OF REVENUES OVER EXPENDITURES	(360,000)	(360,000)	635,387	995,387
OTHER FINANCING SOURCES (USES)				
Fund balance appropriated	360,000	360,000	360,000	-
TOTAL OTHER FINANCING SOURCES (USES)	360,000	360,000	360,000	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ 995,387	\$ 995,387

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
BUDGET AND ACTUAL - RESTRICTED GRANTS FUND
Year Ended June 30, 2022

	Restricted Grants Fund		
	Original and Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
REVENUES			
State of Maryland	\$ 4,512,422	\$ 2,093,149	\$ (2,419,273)
United States Government	12,003,855	5,974,961	(6,028,894)
Other	381,900	1,677,355	1,295,455
TOTAL REVENUES	16,898,177	9,745,465	(7,152,712)
EXPENDITURES AND ENCUMBRANCES			
Restricted State programs	4,512,422	2,093,149	2,419,273
Restricted Federal programs	12,003,855	5,974,961	6,028,894
Restricted other programs	381,900	1,677,355	(1,295,455)
TOTAL EXPENDITURES AND ENCUMBRANCES	16,898,177	9,745,465	7,152,712
EXCESS OF REVENUES OVER OVER EXPENDITURES	\$ -	\$ -	\$ -

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2022

SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

As of June 30, Measurement date:	Fiscal Year									
	<u>2013</u> <u>6/30/2013</u>	<u>2014</u> <u>6/30/2014</u>	<u>2015</u> <u>6/30/2015</u>	<u>2016</u> <u>6/30/2016</u>	<u>2017</u> <u>6/30/2017</u>	<u>2018</u> <u>6/30/2018</u>	<u>2019</u> <u>6/30/2019</u>	<u>2020</u> <u>6/30/2020</u>	<u>2021</u> <u>6/30/2021</u>	<u>2022</u> <u>6/30/2022</u>
Total OPEB liability										
Service cost					\$ 4,798,070	\$ 4,014,682	\$ 4,629,442	\$ 5,546,279	\$ 6,318,643	\$ 7,702,222
Interest					2,769,712	3,200,732	3,741,991	3,759,649	2,848,658	2,625,762
Changes of benefit terms					-	-	-	-	-	-
Differences between expected and actual experience					-	9,892,726	141,236	(20,624,895)	(450,315)	(42,697,111)
Changes of assumptions					(13,269,867)	(688,245)	10,564,590	9,324,078	13,473,469	(32,295,745)
Benefit payments					(2,326,763)	(2,313,099)	(2,249,839)	(1,935,922)	(1,647,799)	(1,680,837)
Net change in OPEB liability					(8,028,848)	14,106,796	16,827,420	(3,930,811)	20,542,656	(66,345,709)
Total OPEB liability - beginning					98,346,275	90,317,426	104,424,222	121,251,642	117,320,831	137,863,487
Total OPEB liability - ending (a)					\$ 90,317,427	\$ 104,424,222	\$ 121,251,642	\$ 117,320,831	\$ 137,863,487	\$ 71,517,778
Plan fiduciary net position										
Contributions - employer					\$ 2,326,763	\$ 2,313,099	\$ 2,249,839	\$ 1,935,922	\$ 1,647,799	\$ 2,080,837
Net investment income					7,090	6,821	6,251	1,809	31,471	365,017
Benefit payments					(2,326,763)	(2,313,099)	(2,249,839)	(1,935,922)	(1,647,799)	(1,680,837)
Administrative expenses					-	-	-	-	-	-
Net change in plan fiduciary net position					7,090	6,821	6,251	1,809	31,471	765,017
Plan fiduciary net position - beginning					100,000	107,090	113,911	120,162	121,971	153,442
Plan fiduciary net position - ending (b)					\$ 107,090	\$ 113,911	\$ 120,162	\$ 121,971	\$ 153,442	\$ 918,459
Board's net OPEB liability - ending (a) - (b)					\$ 90,210,337	\$ 104,310,311	\$ 121,131,480	\$ 117,198,860	\$ 137,710,045	\$ 70,599,319
Plan fiduciary net position as a percentage of the total OPEB liability					0.12%	0.11%	0.10%	0.10%	0.11%	1.28%
Covered employee payroll					\$ 32,588,049	\$ 32,813,417	\$ 34,999,960	\$ 36,552,281	\$ 37,422,439	\$ 38,934,390
Board's net OPEB liability as a percentage of covered employee payroll					276.82%	317.89%	346.09%	320.63%	367.99%	181.33%
Expected Average Remaining Service Years of All Participants					10	9	9	9	9	8

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, 2022

SCHEDULE OF INVESTMENT RETURNS

	<u>Fiscal Year</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>	<u>2021</u>	<u>2022</u>
Annual money-weighted rate of return, net of investment					7.09%	6.37%	5.49%	1.74%	10.81%	-4.69%

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, 2022

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Fiscal Year	Measurement Date	Board's Proportion (Percentage) of the NPL A	Board's Proportionate Share of the NPL B	State's Proportionate Share of the NPL C	Total (B+C)	Board's Covered Payroll D	Board's Proportionate Share as a Percentage of Covered Payroll (B / D)	Plan's Total Fiduciary Net Position E	Plan's Total Pension Liability F	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (E / F)
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%
2021	June 30, 2020	0.0210817%	\$ 4,764,754	\$ 36,033,784	\$ 40,798,538	\$ 37,422,439	12.73%	\$ 54,586,037,000	\$ 77,187,397,000	70.72%
2022	June 30, 2021	0.0242655%	\$ 3,640,384	\$ 23,703,901	\$ 27,344,285	\$ 38,934,390	9.35%	\$ 67,604,500,000	\$ 82,606,805,000	81.84%

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, 2022

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Board's Covered Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
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%
2021	June 30, 2020	\$ 534,697	\$ 534,697	\$ -	\$ 37,422,439	1.43%
2022	June 30, 2021	\$ 572,686	\$ 572,686	\$ -	\$ 38,934,390	1.47%

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
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2022

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, 2022 GENERAL FUND		
	Revenues and financing sources	Expenditures and other financing	Fund Balance
GAAP BASIS	\$ 65,142,472	\$ 64,206,137	\$ 6,357,173
Encumbrances at June 30, 2021	-	(1,015,980)	-
Encumbrances at June 30, 2022	-	1,316,928	(1,316,928)
Proceeds from financed purchases	(1,161,220)	(1,161,220)	
Proceeds from right-to-use assets	(27,265)	(27,265)	
Payments made on-behalf of the Board by the State of Maryland	(3,583,953)	(3,583,953)	-
BUDGETARY BASIS	\$ 60,370,034	\$ 59,734,647	\$ 5,040,245

	June 30, 2022 RESTRICTED GRANTS FUND		
	Revenues and financing sources	Expenditures and other financing	Fund Balance
GAAP BASIS	\$ 9,925,385	\$ 9,925,385	-
Encumbrances at June 30, 2021	(308,348)	(308,348)	-
Encumbrances at June 30, 2022	128,428	128,428	-
BUDGETARY BASIS	\$ 9,745,465	\$ 9,745,465	-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2022

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 2021 valuation:

- Inflation assumption changed from 2.60% to 2.25% for general and from 3.10% to 2.75% for wage

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	17 years for State system
Asset valuation method	5-year smoothed market; 40% recognized in 2021; 15% equally over next four valuations
Inflation	2.25% general, 2.75% wage
Salary increases	projected range from 0.00% to 8.50% per year
Investment rate of return	6.80%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2019 valuation pursuant to the 2018 experience study for the period July 1, 2014 to July 30, 2018.
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females.

Note 3. Post-Employment Health Care Benefits

Changes in Benefit Terms

There were no significant benefit changes during the year.

Changes in Assumptions

- The discount rate changes year to year at June 30, 2018, 2019, 2020, 2021 and 2022 was 3.62%, 3.13%, 2.45%, 1.92% and 3.69%, respectively.
- The long-term healthcare cost trend was updated to the latest model released by the SOA on October 30, 2021.
- The teacher’s retirement, disability, withdrawal, and salary scale assumptions have been updated to match the 2021 Maryland State Retirement and Pension System actuarial valuation report.
- The mortality improvement scale has been updated to the MP2021.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2022

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

Method and Assumptions

Valuation date	January 1, 2022
Measurement date	June 30, 2022
Actuarial cost method - GASB 74	Entry age normal
Asset valuation method	Market value of assets
Actuarial Assumptions:	
Discount rate - June 30, 2021	1.92%
Discount rate - June 30, 2022	3.69%
Payroll growth	2.50%
Inflation rate	2.50%
Rate of growth in real income	1.40%
Medical trend	Based on the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The SOA Model was updated on October 30, 2021. The initial rate assumed is 6.00% and decreases to 4.64% in 2050 ultimately leveling off at 3.94% in 2075.
Mortality	The mortality rates for healthy pre - retirees was calculated using the Pub-2010 Teacher Employees Headcount-Weighted Mortality Projected with Fully Generational MP2021 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 MP2021 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 MP2021 Mortality Improvement Scale.

ADDITIONAL SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES
GENERAL FUND
Year Ended June 30, 2022

Board of Education of Talbot County	
Annual appropriation	\$43,624,398
Nonrecurring cost	44,275
Additional funding above maintenance of effort	<u>281,198</u>
Total Talbot County Funds	<u>43,949,871</u>
STATE OF MARYLAND FUNDS	
Current expenses	4,757,128
Compensatory education	5,413,274
Transportation	1,872,175
Students with disabilities - formula	1,058,605
Limited English - proficient	1,398,819
Hold harmless	805,794
Maryland Blue Print	353,562
Nonpublic placement	584,941
On behalf payments - pension	<u>3,583,953</u>
Total State of Maryland Funds	<u>19,828,251</u>
OTHER SOURCES	
Out of county living	90,629
Interest income	30,924
Miscellaneous	43,082
Building rental	<u>11,230</u>
Total Other Sources	<u>175,865</u>
TOTAL REVENUES	<u><u>\$63,953,987</u></u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
BALANCE SHEET AND STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCE
SCHOOL ACTIVITIES FUND
June 30, 2022

	Fund Balance June 30, 2021	Year Ended June 30, 2022				Fund Balance
		Revenues	Expenditures	Cash	Payables	
Chapel District Elementary School	\$ 14,437	\$ 20,421	\$ 12,423	\$ 22,435	\$ -	\$ 22,435
Easton Elementary School	31,367	49,611	45,285	35,693	-	35,693
Easton High School	148,945	191,961	184,803	156,103	-	156,103
Easton Middle School	49,197	60,004	62,110	47,091	-	47,091
Saint Michaels Elementary School	38,658	9,470	8,090	40,038	-	40,038
Saint Michaels Middle High School	14,076	73,026	75,991	11,111	-	11,111
Tilghman Elementary School	5,368	3,169	2,142	6,395	-	6,395
White Marsh Elementary School	27,023	19,376	19,227	27,172	-	27,172
Total	\$ 329,070	\$ 427,038	\$ 410,071	\$ 346,037	\$ -	\$ 346,037