

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
OTHER SUPPLEMENTARY INFORMATION
Year Ended June 30, 2018

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BSC GROUP, LLC

Certified Public Accountants

An Independently Owned and Operated CPA Firm

INDEPENDENT AUDITORS' REPORT

To the Board Members

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Kent County, Maryland (the Board), a component unit of Kent County, Maryland as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

To the Board Members

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, in the fiscal year ended June 30, 2018 the Board adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The general fund revenues, combining nonmajor fund financial statements, schedule of revenues and expenditures of the food service fund, and schedule of school activities fund receipts and disbursements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

To the Board Members

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

Other information - continued

The accompanying schedule of general fund revenues, combining nonmajor fund financial statements, schedule of revenues and expenditures of the food service fund, and schedule of school activities fund receipts and disbursements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of general fund revenues, combining nonmajor fund financial statements, schedule of revenues and expenditures of the food service fund, and schedule of school activities fund receipts and disbursements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

B&C Group, LLC

Easton, Maryland
September 26, 2018



BSC GROUP, LLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S 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

To the Board Members

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Kent County, Maryland (the Board), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 26, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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.

To the Board Members

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

Compliance and Other Matters

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

Purpose of This Report

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

BSC Group, LLC

Easton, Maryland
September 26, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF KENT COUNTY
Rock Hall, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Our discussion and analysis of the Board of Education of Kent County's financial performance provides an overview of the Board's financial activities for the fiscal year ended June 30, 2018. Please read it in conjunction with the financial statements.

The goal of 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

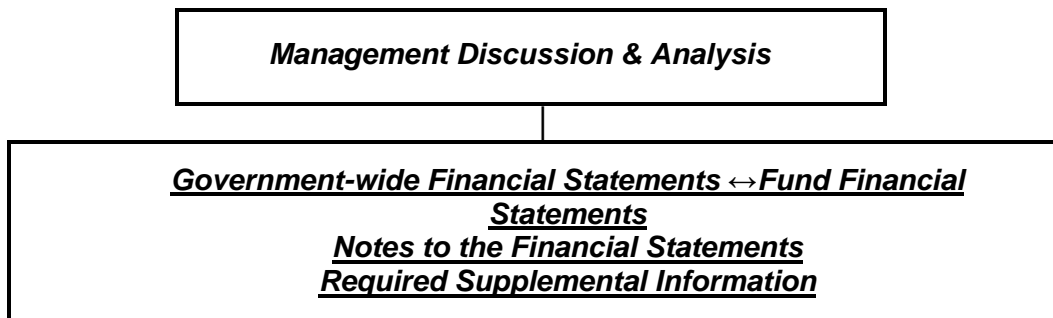
The General Fund budget was increased by \$272,131, or 1.0%, during the year from the originally adopted budget.

The General Fund fund balance decreased by \$482,340 on a budgetary basis.

The General Fund revenues were less than the amended budget by \$262,476; expenditures and encumbrances were \$675,855, or approximately 2.45%, under the amended budget.

Details of the General Fund budget variances can be found on page 50 of the financial statements.

Basic Financial Statements



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

Government-wide Financial Statements

The government-wide perspective is designed to provide readers with a complete financial view of the entity known as The Board of Education of Kent 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.

THE BOARD OF EDUCATION OF KENT COUNTY
Rock Hall, Maryland

Management’s Discussion and Analysis (MD&A)
June 30, 2018

These statements measure the change in total economic resources during the period utilizing the accrual basis of accounting. This means any change in net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (like earned but unused employee leave), or for which cash has already been expended (depreciation of buildings and equipment already purchased).

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

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Board of Education of Kent County uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The Board’s funds are presented in two categories, governmental funds and fiduciary funds. The Board of Education of Kent County does not operate any enterprise activities that are reported as proprietary funds.

The measurement focus of these statements is current financial resources; therefore the emphasis is placed on the cash flows of the organization within the reporting period or in the near future. Accordingly, the modified accrual basis of accounting that measures these cash flows is used. In the case of The Board of Education of Kent County, open encumbrances are excluded from expenditures. Additionally, the State of Maryland’s contribution to the teachers’ retirement system, resource officer provided by Kent County, information technology services provided by Kent County, grounds maintenance services provided by Kent County, football stadium improvements at Kent County High School provided by Kent County, and capital asset expenditures paid directly to the contractor (intergovernmental) are added to revenue and expenditures.

Budgetary presentation of individual fund financial information utilizing the current financial resources measurement focus and the budgetary basis of accounting is presented as part of the Required Supplementary Information. In this presentation, available cash flows of the Board itself are measured, as well as the commitment to acquire goods or services with that cash. Open encumbrances at year-end are included in the expenditures.

This is the legal basis upon which the budget is adopted, so budget comparisons are provided. Governmental Accounting Standards (GASB) requires that we present the original adopted budget as well as the final budget, and discuss the changes between them.

| | Government-wide Statements | Fund Statements | Budgetary Fund Statements |
|----------------------------|-----------------------------------|-----------------------------|----------------------------------|
| Measurement Focus | Economic Resources | Current Financial Resources | Current Financial Resources |
| Basis of Accounting | Accrual | Modified Accrual | Cash and Commitments |
| Budget | No | No | Yes |

The table above presents the differences in the presentation of the basic financial statements.

THE BOARD OF EDUCATION OF KENT COUNTY
Rock Hall, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Fiduciary Responsibility – Trust and Agency Funds

School Activity Funds

The Board is the trustee, or fiduciary, for its student activity funds. These funds are reported as a separate Agency Fund. We exclude these activities from The Board of Education of Kent County's other financial statements because the assets cannot be used to finance the Board's activities. We are responsible for ensuring the assets reported in the School Activity Funds are used for their intended purpose. The funds utilize a web-based accounting program that includes online payment options for parents. These funds are regulated by Board Policy and Procedures and are reviewed throughout the year by the Finance office and recommendations are discussed with applicable personnel as a follow up to the reviews.

Retiree Health Plan Trust

The Board is the trustee, or fiduciary, for its retiree health plan trust. We exclude the activity from Kent County Public Schools' other financial statements because the assets cannot be used to finance the Board's activities. We are responsible for ensuring the assets reported in this fund are used for their intended purposes.

The Board of Education of Kent County as a Whole

Table 1

| | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|--------------------------------|-----------------------|----------------------|
| Current and other assets | \$ 4,409,008 | \$ 4,802,244 |
| Capital assets | <u>18,529,139</u> | <u>18,153,578</u> |
| Total Assets | <u>22,938,147</u> | <u>22,955,822</u> |
| Deferred outflows of resources | <u>667,599</u> | <u>821,733</u> |
| Current liabilities | 2,874,161 | 2,658,253 |
| Long term liabilities | <u>23,230,339</u> | <u>11,084,304</u> |
| Total Liabilities | <u>26,104,500</u> | <u>13,742,557</u> |
| Deferred inflows of resources | <u>2,562,603</u> | <u>183,482</u> |
| Net position: | | |
| Capital assets | 17,450,138 | 18,153,578 |
| Restricted assets | 161,902 | 224,466 |
| Unrestricted | <u>(22,673,397)</u> | <u>(8,526,528)</u> |
| TOTAL NET POSITION | <u>\$ (5,061,357)</u> | <u>\$ 9,851,516</u> |

THE BOARD OF EDUCATION OF KENT COUNTY
Rock Hall, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

During the fiscal year ended June 30, 2018, the Board's net position decreased by \$14,912,873. Of that decrease, \$1,584,525 resulted from operations from the Board during the year and the remaining \$13,328,348 is a result of a prior period adjustment related to the implementation of GASB Statement 75 (Note 7). The decrease is primarily attributable to the continued increase in the OPEB obligation and allocated portion of the State's net pension obligation.

Capital assets are insured with the Maryland Association of Boards of Education Group Insurance Pool. The capital assets are managed using Sungard Pentamotion Fixed Asset software. Inventory is updated annually.

The unrestricted net deficit at June 30, 2018 is \$22,673,397. The significant decrease in unrestricted net assets is due to the rising long term obligation amount for the OPEB and the Board's proportionate share of the net pension liability in the state pension system. The Board has the cash flow available to meet all current obligations.

Table 2

| | 2018 | % OF | 2017 | % OF |
|-----------------------------------|-----------------------|--------------|---------------------|--------------|
| | GOVERNMENTAL | TOTAL | GOVERNMENTAL | TOTAL |
| | ACTIVITIES | | ACTIVITIES | |
| Revenues | | | | |
| Program revenues: | | | | |
| Charges for services | \$ 261,078 | 0.82% | \$ 279,147 | 0.88% |
| Federal, state and local grants | 7,176,403 | 22.66% | 7,488,231 | 23.63% |
| General revenues: | | | | |
| Kent County | 17,225,281 | 54.39% | 17,112,378 | 54.01% |
| State of Maryland | 6,489,412 | 20.49% | 6,520,033 | 20.57% |
| Capital outlay | 226,570 | 0.72% | 40,948 | 0.12% |
| Federal | 73,853 | 0.23% | 84,424 | 0.27% |
| Other | 217,732 | 0.69% | 164,881 | 0.52% |
| Total revenues | <u>31,670,329</u> | 100.00% | <u>31,690,042</u> | 100.00% |
| Expenses | | | | |
| Instruction and special education | 16,528,049 | 49.71% | 17,344,591 | 49.22% |
| Administration | 1,148,289 | 3.45% | 1,153,440 | 3.27% |
| Support services | 14,323,587 | 43.07% | 15,491,845 | 43.96% |
| Depreciation - unallocated | 1,254,929 | 3.77% | 1,251,402 | 3.55% |
| Total expenses | <u>33,254,854</u> | 100.00% | <u>35,241,278</u> | 100.00% |
| Decrease in net position | <u>(1,584,525)</u> | | <u>(3,551,236)</u> | |
| Net position, beginning | 9,851,516 | | 13,402,752 | |
| Prior period adjustment | <u>(13,328,348)</u> | | <u>-</u> | |
| Net position, as restated | <u>(3,476,832)</u> | | <u>13,402,752</u> | |
| Net position, ending | <u>\$ (5,061,357)</u> | | <u>\$ 9,851,516</u> | |

**THE BOARD OF EDUCATION OF KENT COUNTY
Rock Hall, Maryland**

**Management's Discussion and Analysis (MD&A)
June 30, 2018**

Fund Performance

Funds are self-balancing sets of accounts used by the Board to control and manage money for particular purposes. As pointed out earlier, fund information is presented in two ways to satisfy two specific purposes.

General Fund

The following paragraph describes the additions made to the original budget, which were funded by a combination of supplemental appropriations from other sources and category transfers during the fiscal year.

Additional state funds were received for out-of-county and non-public reimbursement. The school system also receives funds annually through Medicare Part D to offset retiree health cost.

The total unrestricted budget was expended at 97.55%. The variances in the end of year unexpended funds versus budgeted amounts are detailed by category on page 50 of the financial statements. Expenditure changes between major categories occurred to accommodate school system priorities during the fiscal year.

The Board and the County entered into a solar agreement which began in July 2012. The project is located on the school system's Worton campus and currently contains five properties. The waterfall consists of Worton Elementary School, Kent County Community Center, Kent County Parks & Recreation, Transmitter Building, and Kent County High School. The school system then entered into another solar arrangement with the Town of Rock Hall in January 2013. The Board of Education and Rock Hall Elementary School are both participants in this venture. The school system has recognized savings from this project.

A schedule of changes between the original and final budgets for the year ended June 30, 2018 support the explanations presented above.

| | ORIGINAL BUDGET | FINAL BUDGET | TOTAL CHANGE |
|---------------------------|----------------------------|-------------------------|-------------------------|
| REVENUE | | | |
| Local | \$ 17,242,043 | \$ 17,233,593 | \$ (8,450) |
| State | 9,076,240 | 9,001,823 | (74,417) |
| Federal | 69,000 | 248,998 | 179,998 |
| Other sources | 218,292 | 218,292 | - |
| Prior year's fund balance | 720,719 | 895,719 | 175,000 |
| TOTAL REVENUES | \$ 27,326,294 | \$ 27,598,425 | \$ 272,131 |

THE BOARD OF EDUCATION OF KENT COUNTY
Rock Hall, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

| | ORIGINAL BUDGET | FINAL BUDGET | TOTAL CHANGE |
|--|-----------------------------|-----------------------------|--------------------------|
| EXPENDITURES AND ENCUMBRANCES | | | |
| Administration | \$ 1,103,913 | \$ 1,175,282 | \$ 71,369 |
| Mid-level administration | 1,695,873 | 1,682,152 | (13,721) |
| Instructional salaries | 9,458,069 | 9,300,092 | (157,977) |
| Instructional texts and supplies | 199,154 | 199,154 | - |
| Other instructional costs | 828,550 | 859,989 | 31,439 |
| Special education | 2,905,155 | 2,908,545 | 3,390 |
| Pupil personnel services | 274,601 | 314,192 | 39,591 |
| Student health services | 352,000 | 390,500 | 38,500 |
| Student transportation | 1,828,407 | 2,011,008 | 182,601 |
| Operation of plant | 1,836,892 | 1,839,093 | 2,201 |
| Maintenance of plant | 530,342 | 620,482 | 90,140 |
| Food service | 4,500 | 4,500 | - |
| Fixed charges | 6,063,566 | 5,871,466 | (192,100) |
| Capital outlay | 245,272 | 421,970 | 176,698 |
| TOTAL EXPENDITURES AND ENCUMBRANCES | <u>\$ 27,326,294</u> | <u>\$ 27,598,425</u> | <u>\$ 272,131</u> |

There were variations between the original and final budget amounts in the general fund. Under the state revenue, as reflected on page 50, a majority of the \$156,871 variance was a required reclassification of medical assistance from unrestricted to restricted fund. Under the federal revenue, as reflected on page 50, the major variance of \$175,145 was attributed to QZAB and Aging School anticipated reimbursements which were received after the 60-day revenue recognition policy.

For the budget expenditures, the variance in special education was due mostly to the savings in salary from retirements. Under fixed charges, the variance was in health care due difference in number of employees anticipated needing coverage to the employees who actually obtained coverage.

It is critical for the reader to understand that local and state revenues account for 99% of the total general fund revenue. Both are stable and highly predictable. Additional revenues are neither stable nor predictable, and usually are not budgeted in full in the original budget, but handled as adjustments during the year.

Recurring, but unpredictable, are the E-rate rebates received from the Federal Communications Commission amounting to \$48,170 for the year ended June 30, 2018. Our intention is to continue to budget from this source to support technology. Beginning in fiscal year 2016, certain telephones, such as cellular, were not eligible for E-rate rebates. This has increased the annual amount the school system received in year ended June 30, 2018 by \$1,928.

THE BOARD OF EDUCATION OF KENT COUNTY
Rock Hall, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

The County agreed to fund non-recurring costs in 2018 in the amount of \$267,330, of which \$259,018 were used. These funds were used to purchase technology devices for students to continue the "one to one initiative", widening the entrance into Galena Elementary School with asphalt parking lot, and reimbursement for one time expenditures directly attributed to the consolidation of elementary schools.

Food Service

The Board's food service program is a special revenue fund. Increased staff costs and related expenses, along with the need to replace kitchen equipment, are ongoing trends of concern. In fiscal year 2018, expenditures exceeded revenues by \$47,134, resulting in a decrease in the program's fund balance.

The use of technology in inventory control and basic operations has resulted in tremendous improvements in managing the program. The school system uses a number of best practices in its food service operations and uses certain performance measures to monitor the efficiency of its operations. The system takes advantage of available USDA commodities and maximizes its participation in the National School Meal Program.

The school system has a secure web-based software program that gives parents the convenience of paying for school meals and other activities online by using MySchoolBucks. This software integrates and updates to our current Meal Tracker program eTriton. This allows parents to track their child's meal balance online. This program enabled the school system to collect more than \$80,000 in online parent payments; improving collections and reducing loss of cash. Plans are ongoing to improve the service to parents and improve system efficiency.

Other

School districts in Maryland are in the uncommon position, as they are fully fiscally dependent on the state and county governments, of owning assets but not the debt associated with those facilities. Accordingly, the Board carries no bond rating and does not have a debt policy.

Capital Assets and Debt Administration

Capital assets – By the end of fiscal year 2018, the Board had invested \$58.1 million in a broad range of capital assets, including land, school buildings, athletic facilities, vehicles, and furniture and equipment. More detailed information about capital assets can be found in Note 3 to the financial statements. Total depreciation expense for the year was approximately \$1.5 million.

Long-term liabilities – At year end, the Board had \$23,346,156 in long term liabilities of which \$115,817 is due in the next fiscal year. This amount consists of the following:

- \$19,640,857 in net OPEB obligation
- \$2,626,298 in net pension liability
- \$1,079,001 in a capital lease on buses

THE BOARD OF EDUCATION OF KENT COUNTY
Rock Hall, Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Factors Bearing on the Board's Future

The most significant factors influencing the Board's future are declining student enrollment trends and its impact on future funding. On March 20, 2017, the school system voted to consolidate schools. Worton Elementary and Millington Elementary Schools were closed due to student enrollment declines over the past decade.

The use of fund balance, a one-time funding source, to balance the Board's operating budget creates a long-term sustainability concern. Continuing to use fund balance in this manner presents a future burden for the Board to generate a similar level of funding in subsequent years. In fiscal year 2020, in the absence of available fund balance, the Board will be faced with identifying a new revenue source or reducing the operating budget by \$695,000 to cover the deficit.

Additional factors that present challenges for the operating budget are that surrounding school systems consistently provide their employees with annual step increases in conjunction with a cost of living adjustment (COLA), underscoring the importance of boosting salaries to remain competitive. Other factors include increases in fixed costs, health care premiums, fuel, and utilities that are beyond the Board's control.

The Board recognizes the OPEB obligation in the statement of net position and statement of activities in accordance with GASB Statement No. 75, based on an actuarial valuation of the annual OPEB expense and liability. Funding of these postemployment benefits began in fiscal year 2009 with funds appropriated by the school system and the county government. The school system is a member of the Maryland Association of Boards of Education OPEB trust that serves as a depository for these funds.

Contacting the Board of Education of Kent County's Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the Board's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact the Finance Office, (410) 778-7123, at The Board of Education of Kent County, Maryland.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

STATEMENT OF NET POSITION

June 30, 2018

| | Governmental Activities |
|--|------------------------------------|
| | <hr/> |
| ASSETS | |
| Cash | \$ 3,114,508 |
| Due from other units of government | 1,152,125 |
| Other receivables | 87,577 |
| Inventory | 52,210 |
| Prepays | 2,588 |
| Capital assets, nondepreciable | 259,155 |
| Capital assets, net of depreciation | 18,269,984 |
| TOTAL ASSETS | <hr/> 22,938,147 <hr/> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred outflows - state pension plan | <hr/> 667,599 <hr/> |
| LIABILITIES | |
| Accounts payable | 245,820 |
| Accrued expenses | 125,514 |
| Accrued salaries | 1,687,209 |
| Payroll deductions and withholdings | 171,671 |
| Unearned revenue | 427,417 |
| Due to other units of government | 51,730 |
| Due to agency funds | 13,543 |
| Compensated absences | 35,440 |
| Noncurrent liabilities: | |
| Due within one year | 115,817 |
| Due in more than one year | 23,230,339 |
| TOTAL LIABILITIES | <hr/> 26,104,500 <hr/> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred inflows - other postemployment benefits | 2,219,228 |
| Deferred inflows - state pension plan | 343,375 |
| TOTAL DEFERRED INFLOWS | <hr/> 2,562,603 <hr/> |
| NET POSITION | |
| Net investment in capital assets | 17,450,138 |
| Restricted for: | |
| Smith Estate fund | 3,085 |
| School construction activities | (15,435) |
| Food service activities | 174,252 |
| Unrestricted | (22,673,397) |
| TOTAL NET POSITION | <hr/> \$ (5,061,357) <hr/> |

See Notes to Financial Statements

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

| Functions/Programs | Expenses | Program Revenues | | Net (Expenses) Revenues and Changes in Net Position |
|--------------------------------------|----------------------|-------------------------|--|--|
| | | Charges For Services | Operating Grants and Contributions | |
| GOVERNMENTAL ACTIVITIES | | | | |
| Administration | \$ 1,148,289 | \$ - | \$ - | \$ (1,148,289) |
| Instructional services | 13,015,376 | 65,521 | 3,638,945 | (9,310,910) |
| Special education | 3,512,673 | - | 1,021,038 | (2,491,635) |
| Student personnel services | 306,858 | - | - | (306,858) |
| Student health services | 410,081 | - | - | (410,081) |
| Student transportation | 1,861,241 | - | 1,578,034 | (283,207) |
| Operation of plant | 1,845,519 | - | - | (1,845,519) |
| Maintenance of plant | 539,804 | 12,897 | - | (526,907) |
| Community services | 84,493 | - | - | (84,493) |
| Capital outlay | 74,445 | - | - | (74,445) |
| Food services | 1,245,814 | 182,660 | 938,386 | (124,768) |
| Fixed charges | 7,955,332 | - | - | (7,955,332) |
| Depreciation – unallocated | 1,254,929 | - | - | (1,254,929) |
| TOTAL GOVERNMENTAL ACTIVITIES | \$ 33,254,854 | \$ 261,078 | \$ 7,176,403 | \$ (25,817,373) |
| General revenues: | | | | |
| | | | | 17,225,281 |
| | | | | 6,489,412 |
| | | | | 226,570 |
| | | | | 73,853 |
| | | | | 217,732 |
| | | | | <u>24,232,848</u> |
| | | | | <u>CHANGE IN NET POSITION (1,584,525)</u> |
| | | | | NET POSITION AT JULY 1, 2017 |
| | | | | As previously reported 9,851,516 |
| | | | | Prior period adjustment (13,328,348) |
| | | | | <u>As restated (3,476,832)</u> |
| | | | | NET POSITION AT JUNE 30, 2018 |
| | | | | <u><u>\$ (5,061,357)</u></u> |

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2018

| | <u>MAJOR FUNDS</u> | | | |
|--|--|----------------------------|--|---|
| | <u>Unrestricted General Fund</u> | <u>Restricted Fund</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
| ASSETS | | | | |
| Cash | \$ 3,043,413 | \$ - | \$ 71,095 | \$ 3,114,508 |
| Due from other governments | 762,846 | 327,981 | 61,298 | 1,152,125 |
| Due from other governmental funds | 15,252 | 288,861 | 6,794 | 310,907 |
| Other receivables | 87,577 | - | - | 87,577 |
| Inventories, at cost | - | - | 52,210 | 52,210 |
| Prepays | 2,588 | - | - | 2,588 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL ASSETS | \$ 3,911,676 | \$ 616,842 | \$ 191,397 | \$ 4,719,915 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| LIABILITIES | | | | |
| Payroll deductions and withholdings | \$ 160,547 | \$ 11,124 | \$ - | \$ 171,671 |
| Accounts payable | 196,680 | 45,126 | 4,014 | 245,820 |
| Accrued salaries | 1,541,251 | 145,958 | - | 1,687,209 |
| Accrued expenses | 125,514 | - | - | 125,514 |
| Compensated absences | 35,440 | - | - | 35,440 |
| Due to other units of government | 51,730 | - | - | 51,730 |
| Due to other governmental funds | 295,655 | - | 15,252 | 310,907 |
| Due to agency funds | 13,543 | - | - | 13,543 |
| Unearned revenue | 2,554 | 414,634 | 10,229 | 427,417 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL LIABILITIES | 2,422,914 | 616,842 | 29,495 | 3,069,251 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| FUND BALANCES | | | | |
| Nonspendable | - | - | 45,067 | 45,067 |
| Restricted | - | - | 116,835 | 116,835 |
| Committed | 1,257,275 | - | - | 1,257,275 |
| Assigned | 175,815 | - | - | 175,815 |
| Unassigned | 55,672 | - | - | 55,672 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL FUND BALANCES | 1,488,762 | - | 161,902 | 1,650,664 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 3,911,676 | \$ 616,842 | \$ 191,397 | \$ 4,719,915 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

See Notes to Financial Statements

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

June 30, 2018

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 1,650,664

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

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

| | |
|--------------------------------|--------------|
| Cost of assets | 58,139,324 |
| Less: accumulated depreciation | (39,610,185) |

| | |
|---|---------|
| Deferred outflows for net pension liability | 667,599 |
|---|---------|

| | |
|--|-----------|
| Deferred inflows for net pension liability | (343,375) |
|--|-----------|

| | |
|---|-------------|
| Deferred inflows for net OPEB liability | (2,219,228) |
|---|-------------|

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

| | |
|-----------------------|--------------------|
| Capital leases | (1,079,001) |
| Net OPEB obligation | (19,640,857) |
| Net pension liability | <u>(2,626,298)</u> |

TOTAL NET POSITION – GOVERNMENTAL ACTIVITIES \$ (5,061,357)

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

| | MAJOR FUNDS | | Nonmajor Governmental Funds | Total Governmental Funds |
|---------------------------------------|--|----------------------------|--|---|
| | Unrestricted General Fund | Restricted Fund | | |
| REVENUES | | | | |
| Kent County | \$ 17,567,811 | \$ - | \$ - | \$ 17,567,811 |
| State of Maryland | 10,481,500 | 392,401 | 76,242 | 10,950,143 |
| United States Government | 73,853 | 1,674,948 | 862,144 | 2,610,945 |
| Other Sources: | | | | |
| Sales of food | - | - | 182,661 | 182,661 |
| Other | 296,144 | - | 62,625 | 358,769 |
| TOTAL REVENUES | 28,419,308 | 2,067,349 | 1,183,672 | 31,670,329 |
| EXPENDITURES | | | | |
| Current | | | | |
| Administration | 1,143,732 | 4,557 | - | 1,148,289 |
| Mid-level administration | 1,666,976 | 65,330 | - | 1,732,306 |
| Instructional salaries | 9,217,154 | 569,608 | - | 9,786,762 |
| Instructional texts and supplies | 181,540 | 144,123 | - | 325,663 |
| Instructional other costs | 768,386 | 187,046 | - | 955,432 |
| Special education | 2,756,340 | 756,333 | - | 3,512,673 |
| Student personnel services | 302,858 | 4,000 | - | 306,858 |
| Student health services | 410,081 | - | - | 410,081 |
| Student transportation | 1,934,448 | 20,042 | - | 1,954,490 |
| Operation of plant | 1,838,398 | - | - | 1,838,398 |
| Maintenance of plant | 586,289 | - | - | 586,289 |
| Fixed charges | 5,704,209 | 226,817 | - | 5,931,026 |
| Community services | - | 84,493 | - | 84,493 |
| Capital outlay | 356,082 | - | 46,942 | 403,024 |
| Food services | 4,500 | 5,000 | 1,168,181 | 1,177,681 |
| On behalf payments | 1,979,078 | - | 31,113 | 2,010,191 |
| TOTAL EXPENDITURES | 28,850,071 | 2,067,349 | 1,246,236 | 32,163,656 |
| NET CHANGE IN FUND BALANCES | (430,763) | - | (62,564) | (493,327) |
| FUND BALANCES AT JULY 1, 2017 | 1,919,525 | - | 224,466 | 2,143,991 |
| FUND BALANCES AT JUNE 30, 2018 | \$ 1,488,762 | \$ - | \$ 161,902 | \$ 1,650,664 |

See Notes to Financial Statements

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

Year Ended June 30, 2018

| | | |
|--|----|-----------|
| TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS | \$ | (493,327) |
|--|----|-----------|

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

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

| | | |
|----------------------|--|-------------|
| Capital outlays | | 724,101 |
| Depreciation expense | | (1,548,947) |

| | | |
|--|--|----------|
| Losses on disposals of capital assets are not reported in governmental funds; however, in the statement of activities, these losses are recognized | | (20,019) |
|--|--|----------|

| | | |
|---|--|-----------|
| OPEB costs reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds | | 1,832,861 |
|---|--|-----------|

| | | |
|--|--|---------|
| Repayment of capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position | | 141,425 |
|--|--|---------|

| | | |
|---|--|-------------|
| Increases in deferred inflows of resources do not use current financial resources and, therefore, are not reported as expenditures in governmental funds. | | (2,379,121) |
|---|--|-------------|

| | | |
|--|--|-----------|
| Decreases in deferred outflows of resources do not use current financial resources and, therefore, are not reported as expenditures in governmental funds. | | (154,134) |
|--|--|-----------|

| | | |
|---|--|---------|
| Decreases in the net pension liability do not create current financial resources and, therefore, are not reported as revenues in governmental funds | | 312,636 |
|---|--|---------|

| | | |
|---|----|--------------------|
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | \$ | <u>(1,584,525)</u> |
|---|----|--------------------|

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2018

| | <u>Agency Funds</u> | <u>Retiree Health Plan Trust</u> | <u>Total</u> |
|---|--------------------------|--------------------------------------|----------------------------|
| ASSETS | | | |
| Cash | \$ 113,522 | \$ - | \$ 113,522 |
| Investment in OPEB trust | - | 1,079,876 | 1,079,876 |
| Due from other funds | <u>13,543</u> | <u>-</u> | <u>13,543</u> |
| TOTAL ASSETS | <u><u>\$ 127,065</u></u> | <u><u>\$ 1,079,876</u></u> | <u><u>\$ 1,206,941</u></u> |
| LIABILITIES | | | |
| School activity funds payable | \$ 113,522 | \$ - | \$ 113,522 |
| Accounts payable | 161 | | 161 |
| Accrued expenses | <u>13,382</u> | <u>-</u> | <u>13,382</u> |
| TOTAL LIABILITIES | 127,065 | - | 127,065 |
| NET POSITION | | | |
| Held in trust for OPEB | <u>-</u> | <u>1,079,876</u> | <u>1,079,876</u> |
| TOTAL LIABILITIES AND NET POSITION | <u><u>\$ 127,065</u></u> | <u><u>\$ 1,079,876</u></u> | <u><u>\$ 1,206,941</u></u> |

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

June 30, 2018

| | <u>Retiree Health Plan Trust</u> |
|----------------------------------|--------------------------------------|
| ADDITIONS | |
| Net investment portfolio results | \$ 78,801 |
| DEDUCTIONS | |
| Administrative expenses | <u>10,287</u> |
| NET INCREASE | 68,514 |
| NET POSITION AT JULY 1, 2017 | <u>1,011,362</u> |
| NET POSITION AT JUNE 30, 2018 | <u><u>\$ 1,079,876</u></u> |

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

(1) Summary of significant accounting policies

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

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

Government-wide and fund financial statements – The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the Board of Education of Kent County as a whole. For the most part, the effect of interfund activity has been removed from these statements. The activities of the General Fund (Unrestricted Current Expense Fund), Special Revenue Funds (Restricted Current Expense and Food Service Funds), Capital Projects Fund (School Construction Fund), and permanent fund (Smith Estate Fund) have been presented as governmental activities in the government-wide financial statements.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The individual major governmental and the nonmajor governmental funds are reported as separate columns in the fund financial statements. Combining statements are provided for the nonmajor funds and are included in the supplementary information to the financial statements. The Board has no proprietary funds.

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

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

(1) Summary of significant accounting policies – continued

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

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

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

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

The government reports the following governmental funds:

Major funds

General fund (current expense fund) – The general fund is the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund.

Restricted fund (special revenue fund) – This fund is used to account for revenue sources that are legally restricted to expenditure for a specific purpose for federal, state, and local grants.

Non-major funds

Food service fund (special revenue 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 accounts for the operation of the schools' cafeterias.

Capital projects fund (school construction fund) – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Smith Estate fund – The Smith Estate fund is a permanent fund resulting from a bequest of funds that provides for the payment of library expenses to the extent of investment income.

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

(1) Summary of significant accounting policies – continued

Fiduciary funds

These funds are not available for current operations, thus they are not reported in the governmental funds financial statements or the government-wide financial statements. The Board reports the following fiduciary funds:

Agency funds – These funds are used to account for the transactions of the student activities funds, which are the direct responsibility of the principal of each of the respective schools. Additionally, the Board processes the payroll for an officer of the Maryland State Teachers Association (MSTA).

Retiree health plan trust fund – This fund was established in fiscal year 2009 to prefund other postemployment benefits (OPEB) that the Board provides to retirees of Kent County Public Schools.

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

Cash and cash equivalents – The Board considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Interfund activities – During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as interfund receivables/payables on the balance sheet. Short-term interfund loans are also classified as interfund receivables/payables.

Capital assets – Capital assets, which include property, plant, equipment and infrastructure assets, are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than \$5,000. Capital assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

(1) Summary of significant accounting policies – continued

Capital assets – Assets which 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.

Operating budgets – The Kent County Public Schools operated within the following budget requirements for local educational agencies as specified by state law.

1. The Board of Education must submit an annual school budget in writing to the County Commissioners each year.
2. The County Commissioners must approve the budget ordinance by June 30 each year.
3. The budget is prepared and approved by major categories as specified in the state law.
4. The Board of Education may transfer funds within the major categories without recourse to the County Commissioners, and a report of the transfer shall be submitted to the County Commissioners at the end of each month. Transfers between major categories can only be made with the approval of the County Commissioners.
5. Unexpended appropriations lapse at the end of each fiscal year.

Budgetary compliance is measured using the budgetary basis of accounting, the purpose of which is to demonstrate compliance with the legal requirements of Kent County, the State of Maryland, and special federal and state programs.

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.

The budget is presented in its original form and as amended for the fiscal year ended June 30, 2018.

Capital budget – school construction fund (capital projects fund) – 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 Kent County and the State of Maryland. State funds are approved by the State's Interagency Committee.

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

(1) Summary of significant accounting policies – continued

Budgetary accounting – The budgetary basis differs from the modified accrual basis, which is used for the fund financial statements, in that encumbrances, which represent commitments to purchase goods and services, are treated as expenditures of the current period rather than as reservations of the fund balance. The other principal differences are that under the budgetary basis, designations of the prior years’ fund balance are treated as revenue of the current period and compensated absences currently payable are not recognized as expenditures until the subsequent fiscal year. The statement of revenues, expenditures and encumbrances - budget and actual is presented using the budgetary basis of accounting.

Budget calendar

| <u>Date</u> | <u>Procedure Performed</u> |
|-------------------------------|--|
| Mid-November to Early January | Department heads and schools submit requests |
| Early December to Mid-January | Review compilation of department budget requests with Superintendent, Assistant Superintendent, and Directors and establish proposed priority listing. |
| Early January to March | Board of Education public meeting to review proposed budget |
| Early February to April | Regular meeting – Board of Education for final adoption of the proposed budget. Submission of proposed budget to County Commissioners |

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

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

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

(1) Summary of significant accounting policies – continued

Postemployment Benefits Other Than Pensions (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Kent County Public Schools Retiree Health Plan (KCPSRHP) and additions to/deductions from KCPSRHP’s fiduciary net position have been determined on the same basis as they are reported by KCPSRHP. For this purpose, KCPSRHP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Deposits and investments – The Board is authorized to invest any monies in any fund or account for which they have custody or control. The types of investments are specified in accordance with Section 6-222 of the Maryland State Finance and Procurement Article. Article 95, Section 22 of the Annotated Code of Maryland requires that deposits with financial institutions by local boards of education be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution. In addition, this section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code (i.e., direct obligations of the United States or its agencies and/or obligations of states, counties, or municipalities).

Inventory – Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of expendable food and supplies held for consumption. The cost is recorded as an asset at the time individual inventory items are purchased. Inventory is charged to expenditures as the inventory is consumed.

Food received from the USDA is included at values stated by the USDA, but is offset by a liability for unearned revenue until consumed.

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

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

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

(1) Summary of significant accounting policies – continued

Net position – Net position represents the difference between assets and liabilities. Net position invested in capital assets consists of capital assets, net of accumulated depreciation and related debt. Net position is reported as restricted when there are limitations placed through external restrictions imposed by grantors, or laws or regulations of other governments.

Fund balances – governmental funds – The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Board is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- *Nonspendable* – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* – amounts that can be spent only for specific purposes because of enabling legislation or externally imposed conditions by grantors or creditors.
- *Committed* – amounts that can be used only for specific purposes determined by a formal action of the Board of Education. The Board members are the highest level of decision-making authority for the Board. Commitments may be established, modified, or rescinded only through motions approved by the Board members.
- *Assigned* – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. The finance department may assign amounts through approving purchase orders and creating encumbrances.
- *Unassigned* – all amounts not included in other spendable classifications.

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

New Accounting Pronouncements – During fiscal year 2018, the Board implemented GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for financial statements for periods beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB.

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

(1) Summary of significant accounting policies – continued

During fiscal year 2018, the Board implemented GASBS No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB has issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is effective for financial statement for periods beginning after June 15, 2018. This statement may have a material effect on the Board's financial statements once implemented. The Board is analyzing the impact of this pronouncement on the Board's financial statements.

(2) Deposits and investments

At June 30, 2018, the reported amount of the Board's deposits was \$3,228,030 and the bank balance was \$3,652,437. Of the total deposits, \$3,158,618 was not covered by FDIC but was collateralized by securities held by the pledging financial institution's trust department or agent, but not in the Board's name. The value of the pledged securities exceeded the amount of deposits in excess of coverage by the FDIC. Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, the Board would not be able to recover collateral securities that are in the possession of the financial institution or Federal Reserve.

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

| | |
|---|-------------------------|
| Carrying amount of deposits | \$ 3,228,030 |
| Less: Amounts in fiduciary funds | <u>(113,522)</u> |
| TOTAL CASH AND INVESTMENTS PER STATEMENT OF NET POSITION | <u>\$ 3,114,508</u> |

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

(3) Capital assets

Capital asset activity for the year ended June 30, 2018 was as follows:

| | <u>BEGINNING BALANCE</u> | <u>INCREASES</u> | <u>DECREASES</u> | <u>ENDING BALANCE</u> |
|---|------------------------------|-------------------|-------------------|---------------------------|
| GOVERNMENT ACTIVITIES | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 147,475 | \$ - | \$ - | \$ 147,475 |
| Construction in progress | 11,862 | 390,230 | 290,412 | 111,680 |
| Total capital assets, not being depreciated | <u>159,337</u> | <u>390,230</u> | <u>290,412</u> | <u>259,155</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 726,079 | - | - | 726,079 |
| Buildings, furniture, fixtures and equipment | 55,827,435 | 611,187 | 900,386 | 55,538,236 |
| Vehicles | 382,332 | 1,233,522 | - | 1,615,854 |
| Total capital assets, being depreciated | <u>56,935,846</u> | <u>1,844,709</u> | <u>900,386</u> | <u>57,880,169</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 279,180 | 37,579 | - | 316,759 |
| Buildings, furniture, fixtures and equipment | 38,379,328 | 1,435,185 | 880,367 | 38,934,146 |
| Vehicles | 283,097 | 76,183 | - | 359,280 |
| Total accumulated depreciation | <u>38,941,605</u> | <u>1,548,947</u> | <u>880,367</u> | <u>39,610,185</u> |
| Total capital assets, being depreciated, net | <u>17,994,241</u> | <u>295,762</u> | <u>20,019</u> | <u>18,269,984</u> |
| GOVERNMENTAL ACTIVITIES | | | | |
| CAPITAL ASSETS, NET | <u>\$ 18,153,578</u> | <u>\$ 685,992</u> | <u>\$ 310,431</u> | <u>\$18,529,139</u> |

Depreciation expense for the year ended June 30, 2018 was charged to governmental functions as follows:

| | |
|--------------------------------|-------------------------|
| <u>Support Services</u> | |
| Instructional services | \$ 154,895 |
| Student transportation | 61,676 |
| Food services | 77,447 |
| Unallocated | <u>1,254,929</u> |
| TOTAL | <u>\$ 1,548,947</u> |

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

(4) Unearned revenue

Unearned revenue consists of federal and state grants and USDA commodities that have not been expended by June 30, 2018 as noted below:

| | |
|--|--------------------------|
| Restricted federal and Maryland grant programs | \$ 414,634 |
| USDA commodities | 10,229 |
| Other unearned revenue | <u>2,554</u> |
| TOTAL | <u><u>\$ 427,417</u></u> |

(5) Interfund receivable – payables

At June 30, 2018, the interfund account balances are as follows:

| Fund | Interfund Receivable | Interfund Payable |
|--------------------------|--------------------------|-------------------------|
| General fund | \$ 15,252 | \$295,655 |
| Restricted fund | 288,861 | - |
| School construction fund | - | 15,252 |
| Food service fund | <u>6,794</u> | <u>-</u> |
| TOTAL | <u><u>\$ 310,907</u></u> | <u><u>\$310,907</u></u> |

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

(6) Compensated absences

As of June 30, 2018, the value of accumulated unused sick leave has not been determined. It is not practical to estimate the portion of such values which will ultimately be paid because payment is contingent upon employees’ future illnesses or retirement. The Board expects its commitment to provide sick leave to be met during the normal course of activities over the working lives of its present employees.

Any accumulated unused sick leave at retirement will ultimately be taken into consideration and paid through retirement benefits by the State of Maryland.

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 15 days may be transferred to the next fiscal year. For administrative staff, up to three days may be transferred to the first week of July, and they can contribute 10 unused days to their 403(b) plans at the end of the fiscal year.

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

(6) Compensated absences – continued

At June 30, 2018, a total of \$35,440 in unused annual leave is available, which has been recorded as compensated absences payable in the Statement of Net Position.

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.

(7) Other postemployment benefits

General Information about the OPEB Plan

Plan description – The Kent County Public Schools Retiree Health Plan (KCPSRHP) is a single-employer defined benefit healthcare Plan that is administered by the Board of Education and covers retired employees of the Board and their dependents. This plan does not include the pension benefits discussed in Note 8. The Plan does not issue a separate, publicly available report.

Benefits provided – The Plan provides for the payment of a portion or all of the health insurance premiums for eligible retired employees depending on their position with Kent County Public Schools and length of service. The Board of Education 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 Kent County Public Schools Retiree Health Plan pays 45% of the individual premium for each insured retiree who was a teacher, 55% for administrative and support service (A&S) employees with under 30 years of service, and 100% for A&S employees with over 30 years of service. Spouses and other dependents are eligible for coverage, but the employee is responsible for the entire cost of such coverage if they retired on or after January 1, 1998. If they retired prior to December 31, 1997 the Board pays 45% of the premiums.

Employees covered by benefit terms – At July 1, 2017, the following employees were covered by the benefit terms:

| | |
|--|-------------------|
| Active plan members | 259 |
| Inactive employees or beneficiaries currently receiving benefit payments | <u>144</u> |
| | <u><u>403</u></u> |

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

(7) Other postemployment benefits – continued

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 or from the assets of the Retiree Benefit Trust of the Board of Education of Kent County (the Trust). 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. In no event will payments made by participants be excluded from their taxable income. No participant shall have any claim against, right to, or interest in the Trust. In the event that the Board or the trustee of the Trust for any reason fails to pay premiums for, or otherwise implement, the group programs for participants, the sole liability of the Board shall be limited to the amount of premiums otherwise payable. The Board shall not be responsible for any losses to participants or dependents for such failure beyond the amount of such premiums or contributions.

Net OPEB Liability

The Board’s net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|---|
| Inflation | 2% |
| Salary Increases | 0.2% - 5.7% |
| Investment Rate of Return | 3.58% |
| Healthcare Cost Trend Rates | 5.9% initially, reduced by decrements to an ultimate rate of 3.9% |

Mortality rates were based on the RP2014 EE mortality/Annuitant mortality with scale MP2014 for active healthy participants, SOA RP-2014 White Collar Mortality with Scale MP-2014 Base Year Male 2016, Female 2012 for inactive healthy participants, and RP2014 Disabled Mortality (set forward 1 Year for Males) for inactive disabled participants.

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

(7) Other postemployment benefits – continued

The long-term expected rate of return on OPEB plan investments was determined using a combination of building-block methodology and third party consultants to develop the best possible estimate ranges of expected future real rates of return. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Expected returns, net of OPEB plan investment expense and inflation are arithmetically developed for each major asset class corresponding with the long term time horizons, discount rate, and tolerance for risk. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| | <u>Target Allocation</u> | <u>Long Term Expected Rate of Return</u> |
|-----------------------------|------------------------------|--|
| Large Cap | 16.0% | 6.50% |
| Mid Cap | 7.0% | 7.10% |
| Small Cap | 7.5% | 7.60% |
| Int'l Developed Equities | 16.5% | 8.60% |
| Int'l Emerging Mkt Equities | 8.0% | 10.80% |
| U.S. Real Estate | 5.0% | 7.70% |
| U.S. Investment Grade Bonds | 30.0% | 3.70% |
| U.S. High Yield Bonds | 6.0% | 6.00% |
| Emerging Markets Bonds | 1.0% | 5.70% |
| Cash | 3.0% | 2.30% |
| | 100.0% | |

Discount rate – The discount rate used to measure the total OPEB liability was 3.58%. The projection of cash flows used to determine the discount rate assumed that Board contributions will be to fund current contribution levels. Based on those assumptions, the unfunded rate was used. The unfunded rate is determined by using the 20 year Treasury bond. Any increase in the discount rate due to the assets of the trust is not deemed material. Therefore, the discount rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

The discount rate changed from the prior measurement date. The discount rate was 2.85% for the June 30, 2016 measurement date.

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

(7) **Other postemployment benefits – continued**

Changes in the Net OPEB Liability

| | Increase (Decrease) | | |
|--|--------------------------------|---------------------------------------|------------------------------------|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (a) - (b) |
| Balance as of June 30, 2016 for FYE 2017 | \$ 22,389,308 | \$ 915,590 | \$ 21,473,718 |
| Changes for the Year: | | | |
| Service Cost | 753,715 | - | 753,715 |
| Interest | 629,260 | - | 629,260 |
| ER Trust Contribution | - | 620,000 | (620,000) |
| Net Investment Income | - | 103,414 | (103,414) |
| Changes in Assumptions | (2,500,064) | - | (2,500,064) |
| Benefit Payments | (620,000) | (620,000) | - |
| Administrative Expense | - | (7,642) | 7,642 |
| Net Changes | <u>(1,737,089)</u> | <u>95,772</u> | <u>(1,832,861)</u> |
| Balance as of June 30, 2017 for FYE 2018 | <u>\$ 20,652,219</u> | <u>\$ 1,011,362</u> | <u>\$ 19,640,857</u> |

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates – The following presents the net OPEB liability of the Board, as well as what the Board’s net OPEB liability would be if it were calculated using a discount rate that is 1% lower (2.58%) or 1% higher (4.58%) than the current discount rate:

| | 1% Decrease 2.58% | Discount Rate 3.58% | 1% Increase 4.58% |
|----------------------------|----------------------|------------------------|----------------------|
| Discount Rate | | | |
| Total OPEB Liability | \$ 24,188,805 | \$ 20,652,219 | \$ 17,826,076 |
| Net OPEB Liability (Asset) | \$ 23,177,443 | \$ 19,640,857 | \$ 16,814,714 |

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates – The following presents the net OPEB liability of the Board, as well as what the Board’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (4.9% decreasing to 2.9%) or 1% higher (6.9% decreasing to 4.9%) than the current healthcare cost trend rates:

| | 1% Decrease 2.90% | Discount Rate 3.90% | 1% Increase 4.90% |
|----------------------------|----------------------|------------------------|----------------------|
| Ultimate Trend | | | |
| Total OPEB Liability | \$ 17,426,114 | \$ 20,652,219 | \$ 24,823,445 |
| Net OPEB Liability (Asset) | \$ 16,414,752 | \$ 19,640,857 | \$ 23,812,083 |

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

(7) Other postemployment benefits – continued

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the Board recognized OPEB expense of \$998,725. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Changes of assumptions | \$ - | \$ 2,187,556 |
| Net difference between projected and actual earnings on OPEB plan investments | - | 31,672 |
| Total | \$ - | \$ 2,219,228 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ended June 30: | |
|---------------------|--------------|
| 2019 | \$ (320,426) |
| 2020 | (320,426) |
| 2021 | (320,426) |
| 2022 | (320,426) |
| 2023 | (312,508) |
| Thereafter | (625,016) |

(8) Pension plans

Plan description – The Board contributes to the State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. The report may be downloaded by visiting <http://www.sra.maryland.gov/Agency/Downloads/CAFR/>.

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

(8) Pension plans – continued

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

On October 1, 1941, the Employees' Retirement System (ERS) was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the ERS was essentially closed to new members and the Employees' Pension System (EPS) was established. As a result, State employees (other than correctional officers) and employees of participating governmental units hired after December 31, 1979, became members of the EPS as a condition of employment, while all State correctional officers and members of the Maryland General Assembly continue to be enrolled as members of the ERS. On or after January 1, 2005, an individual who is a member of the ERS may not transfer membership to the EPS.

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

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

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

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

(8) Pension plans – continued

Teachers' and Employees' Retirement Systems

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

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

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

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

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

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

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

(8) Pension plans – continued

Teachers' and Employees' Pension Systems

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

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

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

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

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

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

Retirement and pension allowances are increased annually to provide for changes in the cost of living according to prescribed formulae. Such adjustments for retirees are based on the annual change in the CPI. With certain exceptions, effective July 1, 1998, the adjustment is capped at a maximum 3% compounded and is applied to all benefits which have been in payment for one year.

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

(8) Pension plans – continued

However, beginning July 1, 2011, for benefits attributable to service earned on or after July 1, 2011, the adjustment is capped at the lesser of 2.5% or the increase in CPI if the most recent calendar year market value rate of return was greater than or equal to the assumed rate. The adjustment is capped at the lesser of 1% or the increase in CPI if the market value return was less than the assumed rate of return. In years in which COLAs would be less than zero due to a decline in the CPI, retirement allowances will not be adjusted. COLAs in succeeding years are adjusted until the difference between the negative COLA that would have applied and the zero COLA is fully recovered.

Contributions – The Board is required to contribute at an actuarially determined rate. The current rate is 15.71% of annual covered payroll for teachers and 18.56% for classified employees. The contribution requirements of plan members and the Board are established and may be amended by the SRPS Board of Trustees.

The State makes a substantial portion of the Board’s annual required contributions to the Teacher systems on behalf of the Board. The State’s contributions on behalf of the Board to the Teachers system for the year ended June 30, 2018 amounted to \$1,636,548. The fiscal 2018 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the general fund in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balances and are also included as revenue and expenses in the statement of activities. The Board makes the entire employer required annual contributions to the Employees systems as well as those that relate to positions in the Teachers systems funded through federal and state restricted programs.

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

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---------------------------------|---------------|---------------|---------------|
| Total Payroll | \$ 17,265,312 | \$ 17,143,830 | \$ 16,506,623 |
| Payroll Covered Under the Plans | \$ 14,137,589 | \$ 13,848,985 | \$ 14,025,709 |
| Contributions Paid In: | | | |
| Board Payments | \$ 1,101,821 | \$ 1,093,567 | \$ 1,062,161 |
| State On-Behalf Payments | \$ 1,636,548 | \$ 1,796,999 | \$ 1,646,554 |

Teachers’ and Employees’ Retirement Systems

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

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

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

(8) Pension plans – continued

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

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

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

Teachers' and Employees' Pension Systems

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

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

Pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources – At June 30, 2018, 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:

| | |
|---|-----------------------------|
| Board's proportionate share of the net pension liability | \$ 2,626,298 |
| State's proportionate share of the net pension liability associated with the Board | <u>19,958,700</u> |
| Total | <u><u>\$ 22,584,998</u></u> |

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the actual employer contributions billed to the Board for the year ending June 30, 2017 compared to the total billings to all participating government units. That percentage was then multiplied by the total net pension liability for the SRPS to calculate the liability related to the Board. At June 30, 2017 the Board's portion was .0121455%.

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

(8) Pension plans – continued

For the year ended June 30, 2018, the Board recognized pension expense of \$242,074. The Board recognized revenue of \$1,636,548 for support provided by the state. At June 30, 2018, 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 | \$ 95,172 | \$ - |
| Net difference between projected and actual investment earnings | 330,353 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 159,927 |
| Difference between actual and expected experience | - | 183,448 |
| Board contributions subsequent to the measurement date | 242,074 | - |
| Total | \$ 667,599 | \$ 343,375 |

The \$242,074 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30: | |
|---------------------|-----------|
| 2019 | \$ 39,669 |
| 2020 | 87,401 |
| 2021 | 29,538 |
| 2022 | (55,848) |
| 2023 | (18,610) |

Actuarial assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Actuarial | Entry Age Normal |
| Amortization method | Level Percentage of Payroll, Closed |
| Inflation | 2.65% general, 3.15% wage |
| Salary Increases | 3.15% to 9.15%, including wage inflation |
| Investment Rate of Return | 7.50% |
| Mortality | RP-2014 Mortality tables |

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

(8) Pension plans – continued

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period 2010 to 2014.

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------|--------------------------|---|
| Public Equity | 36% | 5.30% |
| Private Equity | 11% | 7.00% |
| Rate Sensitive | 21% | 1.20% |
| Credit Opportunity | 9% | 3.60% |
| Real Assets | 15% | 5.70% |
| Absolute Return | 8% | 3.10% |
| Total | <u>100%</u> | |

Discount rate – A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. 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 Board’s proportionate share of the net pension liability to changes in the discount rate – The following presents the Board’s proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the Board’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

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

(8) Pension plans – continued

| | Discount rate | Board's proportionate share of the net pension liability |
|-----------------------|------------------|--|
| 1% decrease | 6.50% | \$3,721,997 |
| Current discount rate | 7.50% | \$2,626,298 |
| 1% increase | 8.50% | \$1,717,194 |

Plan fiduciary net position – Detailed information about the Plan’s fiduciary net position is available in the separately issued SRPS financial report.

(9) Long-term liabilities

A summary of long-term liability activity for the year ended June 30, 2018 is as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|--------------|--------------|-------------------|------------------------|
| Governmental activities: | | | | | |
| Net OPEB benefit obligation (restated) | \$ 21,473,718 | \$ - | \$ 1,832,861 | \$ 19,640,857 | \$ - |
| Capital lease | - | 1,220,426 | 141,425 | 1,079,001 | 115,817 |
| Net pension liability | 2,938,934 | - | 312,636 | 2,626,298 | - |
| | \$ 24,412,652 | \$ 1,220,426 | \$ 2,286,922 | \$ 23,346,156 | \$ 115,817 |

During fiscal year 2018, reductions in long-term liabilities attributable to the governmental activities were liquidated by the unrestricted fund.

(10) Leases

Operating leases – At June 30, 2018, the Board was obligated under various operating leases for photocopying equipment for which future lease payments aggregated \$313,481. Total rent expense under these leases for fiscal year 2018 was \$89,566. Future lease payments are as follows:

| Year ended June 30, | Amount |
|-------------------------|------------|
| 2019 | \$ 89,566 |
| 2020 | 89,566 |
| 2021 | 89,566 |
| 2022 | 44,783 |
| TOTAL LEASE COMMITMENTS | \$ 313,481 |

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

(10) Leases – continued

Capital leases – At June 30, 2018, the Board has entered into a lease agreement as lessee to finance the purchase of buses that will expire in October 2026. The assets acquired and capitalized as fixed assets under capital leases are as follows:

| | Governmental Activities |
|-------------------------------|------------------------------------|
| Equipment at cost | \$ 1,220,426 |
| Less accumulated depreciation | (61,001) |
| TOTAL | \$ 1,159,425 |

Amortization of equipment under capital assets is included with depreciation expense.

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2018, were as follows:

| Year ended June 30, | Amount |
|--|---------------|
| 2019 | \$ 141,425 |
| 2020 | 141,425 |
| 2021 | 141,425 |
| 2022 | 141,425 |
| 2023 | 141,425 |
| 2024-2027 | 500,660 |
| Total minimum lease payments | 1,207,785 |
| Less amount representing interest | (128,784) |
| PRESENT VALUE OF MINIMUM LEASE PAYMENTS | \$ 1,079,001 |

(11) Fund balances

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

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

(11) Fund balances – continued

As of June 30, 2018, fund balances are composed of the following:

| | Unrestricted General Fund | Nonmajor Governmental Funds |
|-------------------------------|--|--|
| Nonspendable: | | |
| Inventory | \$ - | \$ 41,982 |
| Permanent fund principal | - | 3,085 |
| Total nonspendable | - | 45,067 |
| Restricted: | | |
| Fund purposes | - | 116,835 |
| Committed to: | | |
| Budget reserve | 695,000 | - |
| Contingency | 500,000 | - |
| Facility Repairs | 47,275 | - |
| Textbooks | 15,000 | - |
| Total committed | 1,257,275 | - |
| Assigned to: | | |
| Other purposes - encumbrances | 175,815 | - |
| Unassigned: | 55,672 | - |
| Total fund balances | \$ 1,488,762 | \$ 161,902 |

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

(12) On-behalf payments

The Board recognized the following on-behalf payments for the fiscal year ended June 30, 2018:

| | |
|--|----------------------------|
| Pension contribution by the State of Maryland to the state retirement system for applicable employees of the Board | \$ 1,636,548 |
| School resource officer provided by Kent County, Maryland | 50,284 |
| Information technology services provided by Kent County, Maryland | 5,625 |
| Grounds maintenance services provided by Kent County, Maryland | 7,121 |
| Football stadium improvements at Kent County High School provided by Kent County, Maryland | 279,500 |
| Radio station improvements paid for by Chesapeake Charities | <u>31,113</u> |
| TOTAL ON-BEHALF PAYMENTS | <u>\$ 2,010,191</u> |

(13) Budget reconciliation

The accompanying Statement of Revenues, Expenditures and Encumbrances – Budget and Actual has been prepared on a legally prescribed budgetary basis of accounting which differs from the modified accrual basis of accounting. The purpose of the budgetary basis of accounting is to demonstrate compliance with the legal requirements of Kent County and the State of Maryland. The difference between the two methods is set forth below.

| | <u>General Fund</u> |
|--------------------------------------|----------------------------|
| REVENUES | |
| Budgetary basis | \$ 26,440,230 |
| Kent County on-behalf payments | 342,530 |
| State of Maryland on-behalf payments | <u>1,636,548</u> |
| Modified accrual basis | <u>\$ 28,419,308</u> |
| EXPENDITURES | |
| Budgetary basis | \$ 26,922,570 |
| Net encumbrance adjustment | (51,577) |
| Kent County on-behalf payments | 342,530 |
| State of Maryland on-behalf payments | <u>1,636,548</u> |
| Modified accrual basis | <u>\$ 28,850,071</u> |

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

(13) Budget reconciliation – continued

Under generally accepted accounting principles (GAAP), encumbrances representing appropriations based on purchase orders, contracts and other forms of legal commitments are regarded as reservations of fund equity and are not reported as expenditures. Under the non-GAAP budgetary basis, encumbrances are accounted for similar to expenditures.

(14) Risk management

General insurance – The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board is a member of the Maryland Association of Boards of Education Group Insurance Pool (MABE), which provides casualty and property insurance coverage, as well as the MABE Workers Compensation Trust. MABE operates as authorized by Section 482B of Article 84A of the Annotated Code of Maryland. The Board pays an annual premium to MABE for its insurance coverage. The agreement for formation of MABE provides that it will be self-sustaining through member premiums and will reinsure through commercial companies as specified in the agreement. As of June 30, 2018, MABE had total fund equity of approximately \$29.7 million. It is believed that there are no outstanding claims in excess of the equity.

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

Health insurance – Effective with the 1996 fiscal year, the Board joined together with the Eastern Shore of Maryland Boards of Education to form the Eastern Shore of Maryland Education Consortium Health Insurance Alliance, a public entity risk pool currently operating as a common risk management and insurance group for health insurance coverage. Currently, six boards of education and two county governments are participating in the alliance for their health insurance coverage.

The agreement for formation of the alliance provides that the pool will be self-sustaining through member premiums. In fiscal year 2018, the Board was not required to contribute additional premiums toward its 8% call. This call serves as a deposit reserve for potential excess claims. These funds have been invested in the PNC Local Government Investment Pool.

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

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

(15) Commitments and contingencies

Grants – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Maryland State Department of Education. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Board expects such amounts, if any, to be immaterial.

(16) Restatement

The Board adopted GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the beginning net position balance for governmental activities of \$9,851,516 has been decreased by \$13,328,348 to a deficit of \$3,476,832. See Note 7 for further information.

(17) Subsequent events

On August 30, 2018, the Interagency Commission on School Construction approved the transfer by the Board of the former Millington Elementary School, located at 172 Sassafras Street, Millington, Maryland, to the Kent County Government. The net book value of the land and building as of June 30, 2018 was \$114,448.

REQUIRED SUPPLEMENTARY INFORMATION

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

Year Ended June 30, 2018

| | General Fund | | | |
|---|----------------------------|-------------------------|-------------------|---|
| | Original Budget | Final Budget | Actual | Variance - Favorable (Unfavorable) |
| REVENUES | | | | |
| Kent County | \$ 17,242,043 | \$ 17,233,593 | \$ 17,225,281 | \$ (8,312) |
| State of Maryland | 9,076,240 | 9,001,823 | 8,844,952 | (156,871) |
| United States Government | 69,000 | 248,998 | 73,853 | (175,145) |
| Other Sources | 218,292 | 218,292 | 296,144 | 77,852 |
| TOTAL REVENUES | <u>26,605,575</u> | <u>26,702,706</u> | <u>26,440,230</u> | <u>(262,476)</u> |
| EXPENDITURES AND ENCUMBRANCES | | | | |
| Administration | 1,103,913 | 1,175,282 | 1,162,405 | 12,877 |
| Mid-level administration | 1,695,873 | 1,682,152 | 1,649,774 | 32,378 |
| Instructional salaries | 9,458,069 | 9,300,092 | 9,217,154 | 82,938 |
| Instructional texts and supplies | 199,154 | 199,154 | 167,502 | 31,652 |
| Instructional other costs | 828,550 | 859,989 | 813,317 | 46,672 |
| Special education | 2,905,155 | 2,908,545 | 2,779,028 | 129,517 |
| Student personnel services | 274,601 | 314,192 | 302,858 | 11,334 |
| Student health services | 352,000 | 390,500 | 352,889 | 37,611 |
| Student transportation | 1,828,407 | 2,011,008 | 1,934,448 | 76,560 |
| Operation of plant | 1,836,892 | 1,839,093 | 1,838,398 | 695 |
| Maintenance of plant | 530,342 | 620,482 | 620,006 | 476 |
| Fixed charges | 6,063,566 | 5,871,466 | 5,704,209 | 167,257 |
| Food Service | 4,500 | 4,500 | 4,500 | - |
| Community services | - | - | - | - |
| Capital outlay | 245,272 | 421,970 | 376,082 | 45,888 |
| TOTAL EXPENDITURES AND ENCUMBRANCES | <u>27,326,294</u> | <u>27,598,425</u> | <u>26,922,570</u> | <u>675,855</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND ENCUMBRANCES BEFORE OTHER FINANCING SOURCES | (720,719) | (895,719) | (482,340) | 413,379 |
| OTHER FINANCING SOURCES | | | | |
| Prior year's fund balance | 720,719 | 895,719 | 482,340 | (413,379) |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND ENCUMBRANCES | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Restricted Fund

| <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance - Favorable (Unfavorable)</u> |
|------------------------|---------------------|------------------|---|
| \$ - | \$ - | \$ - | \$ - |
| 327,155 | 476,151 | 392,401 | (83,750) |
| 1,582,821 | 2,912,801 | 1,674,948 | (1,237,853) |
| - | - | - | - |
| <u>1,909,976</u> | <u>3,388,952</u> | <u>2,067,349</u> | <u>(1,321,603)</u> |
| 26,338 | 29,664 | 4,557 | 25,107 |
| 25,394 | 74,211 | 65,330 | 8,881 |
| 784,181 | 823,278 | 569,608 | 253,670 |
| 128,203 | 199,324 | 144,123 | 55,201 |
| 57,199 | 375,763 | 187,046 | 188,717 |
| 449,646 | 1,267,059 | 756,333 | 510,726 |
| 33,555 | 4,000 | 4,000 | - |
| - | - | - | - |
| - | 42,672 | 20,042 | 22,630 |
| - | - | - | - |
| - | - | - | - |
| 333,354 | 475,025 | 226,817 | 248,208 |
| - | 5,000 | 5,000 | - |
| 68,306 | 92,956 | 84,493 | 8,463 |
| 3,800 | - | - | - |
| <u>1,909,976</u> | <u>3,388,952</u> | <u>2,067,349</u> | <u>1,321,603</u> |
| - | - | - | - |
| - | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
SCHEDULE OF CHANGES IN THE BOARD'S NET OPEB LIABILITY AND RELATED RATIOS

As of June 30 of Measurement Year

| | 2017 |
|--|-------------------|
| Total OPEB liability | |
| Service cost | \$ 753,715 |
| Interest | 629,260 |
| Changes of assumptions | (2,500,064) |
| Benefit payments | (620,000) |
| Net change in total OPEB liability | (1,737,089) |
| Total OPEB liability - beginning | 22,389,308 |
| Total OPEB liability - ending (a) | \$ 20,652,219 |
| Plan fiduciary net position | |
| Contributions - employer | \$ 620,000 |
| Net investment income | 103,414 |
| Benefit payments | (620,000) |
| Administrative expense | (7,642) |
| Net change in fiduciary net position | 95,772 |
| Plan fiduciary net position - beginning | 915,590 |
| Plan fiduciary net position - ending (b) | \$ 1,011,362 |
| Board's net OPEB liability - ending (a) - (b) | \$ 19,640,857 |
| Plan fiduciary net position as a percentage of the total OPEB liability | 4.9% |
| Notes to Schedule: | |
| Benefit changes: | None |
| Changes in assumptions: | None |
| Discount Rate: | |
| 6/30/2016 Valuation | 2.85% |
| 6/30/2017 Valuation | 3.58% |

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND
SCHEDULE OF BOARD CONTRIBUTIONS

As of June 30 of Measurement Year

| | <u>2017</u> |
|-------------------------------------|--------------------|
| Contractually required contribution | \$ 620,000 |
| Contributions in relation to the | |
| Contractually required contribution | <u>(620,000)</u> |
| Contribution deficiency (excess) | <u><u>\$ -</u></u> |

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

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Board's proportion of the net pension liability | 0.0121455% | 0.0124563% | 0.0122061% | 0.0113256% |
| Board's proportionate share of the net pension liability | \$ 2,626,298 | \$ 2,938,934 | \$ 2,536,630 | \$ 2,009,929 |
| State's proportionate share of the net pension liability associated with the Board | 19,958,700 | 24,758,151 | 18,627,177 | 16,219,599 |
| Total | <u>\$ 22,584,998</u> | <u>\$ 27,697,085</u> | <u>\$ 21,163,807</u> | <u>\$ 18,229,528</u> |
| Board's covered employee payroll | \$ 14,137,589 | \$ 13,848,985 | \$ 14,025,709 | \$ 13,696,066 |
| Board's proportionate share of the net pension liability as a percentage of its covered employee payroll | 18.576704% | 21.221295% | 18.085574% | 14.675229% |
| Plan fiduciary net position as a percentage of the total pension liability | 69.38% | 65.79% | 68.78% | 71.87% |

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

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 242,074 | \$ 247,202 | \$ 242,658 | \$ 257,272 |
| Contributions in relation to the contractually required contribution | <u>(242,074)</u> | <u>(247,202)</u> | <u>(242,658)</u> | <u>(257,272)</u> |
| Contributions deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Board's covered employee payroll | \$ 14,137,589 | \$ 13,848,985 | \$ 14,025,709 | \$ 13,696,066 |
| Contributions as a percentage of covered employee payroll | 1.712272% | 1.784983% | 1.730094% | 1.878437% |

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

Changes of assumptions – Pension amounts reported in 2018 reflect an adjustment to the inflation assumption of 2.70% to 2.65%. The salary increase assumption decreased from 3.3% to 9.2% to 3.15% to 9.15%. The investment rate of return decreased from 7.55% to 7.5%.

OTHER SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION KENT COUNTY, MARYLAND

SCHEDULE OF REVENUES

GENERAL FUND

For the Year Ended June 30, 2018

KENT COUNTY FUNDS

| | | |
|-------------------------|----------------|---------------|
| Annual appropriation | \$ 16,966,263 | |
| Capital expenditures | 259,018 | |
| On-behalf payments | <u>342,530</u> | |
| Total Kent County Funds | | \$ 17,567,811 |

STATE OF MARYLAND FUNDS

| | | |
|---------------------------------------|--------------|------------|
| Compensatory education | 2,592,922 | |
| State share of basic current expenses | 2,519,392 | |
| On-behalf payments | 1,636,548 | |
| Student transportation | 1,578,034 | |
| Supplemental grant | 1,003,414 | |
| Handicapped children – formula | 483,046 | |
| QZAB | 163,950 | |
| Declining Enrollment | 142,181 | |
| Geographic cost of ED IDX | 132,737 | |
| ESL program | 130,510 | |
| Supplemental Pre K | 72,534 | |
| Net Taxable Adjustment | 16,473 | |
| Out of county living | <u>9,759</u> | |
| Total State of Maryland Funds | | 10,481,500 |

UNITED STATES GOVERNMENT

73,853

OTHER SOURCES

| | | |
|---------------------------|--------------|----------------|
| Miscellaneous | 68,599 | |
| Out of county living | 65,521 | |
| E-Rate reimbursement | 48,170 | |
| Interest income | 43,206 | |
| MABE grant | 20,000 | |
| Sports events | 13,732 | |
| Excise tax refund | 12,943 | |
| Extended day | 10,000 | |
| WKHS | 7,500 | |
| Sale of surplus equipment | 3,576 | |
| Lease of building space | <u>2,897</u> | |
| Total Other Sources | | <u>296,144</u> |

TOTAL REVENUES

\$ 28,419,308

BOARD OF EDUCATION KENT COUNTY, MARYLAND
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2018

| | School Construction | Food Services | Smith Estate | Total Nonmajor Governmental Funds |
|--|--------------------------------|--------------------------|-------------------------|--|
| ASSETS | | | | |
| Cash | \$ - | \$ 68,010 | \$ 3,085 | \$ 71,095 |
| Due from other governments | - | 61,298 | - | 61,298 |
| Due from other funds | - | 6,794 | - | 6,794 |
| Inventories, at cost | - | 52,210 | - | 52,210 |
| | | | | |
| TOTAL ASSETS | \$ - | \$ 188,312 | \$ 3,085 | \$ 191,397 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 183 | \$ 3,831 | \$ - | \$ 4,014 |
| Due to other funds | 15,252 | - | - | 15,252 |
| Unearned revenue | - | 10,229 | - | 10,229 |
| TOTAL LIABILITIES | 15,435 | 14,060 | - | 29,495 |
| Fund balances: | | | | |
| Nonspendable | | | | |
| Inventory | - | 41,982 | - | 41,982 |
| Permanent fund principal | - | - | 3,085 | 3,085 |
| Restricted | | | | |
| Fund purposes | (15,435) | 132,270 | - | 116,835 |
| TOTAL FUND BALANCES | (15,435) | 174,252 | 3,085 | 161,902 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ - | \$ 188,312 | \$ 3,085 | \$ 191,397 |

BOARD OF EDUCATION KENT COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2018

| | <u>School Construction</u> | <u>Food Services</u> | <u>Smith Estate</u> | <u>Total Nonmajor Governmental Funds</u> |
|----------------------------------|--------------------------------|--------------------------|-------------------------|--|
| REVENUES | | | | |
| State of Maryland | \$ - | \$ 76,242 | \$ - | \$ 76,242 |
| United States Government | - | 862,144 | - | 862,144 |
| Other Sources: | | | | |
| Sales of food | - | 182,661 | - | 182,661 |
| Other | 62,620 | - | 5 | 62,625 |
| TOTAL REVENUES | <u>62,620</u> | <u>1,121,047</u> | <u>5</u> | <u>1,183,672</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Capital outlay | 46,942 | - | - | 46,942 |
| Food services | - | 1,168,181 | - | 1,168,181 |
| On behalf payments | 31,113 | - | - | 31,113 |
| TOTAL EXPENDITURES | <u>78,055</u> | <u>1,168,181</u> | <u>-</u> | <u>1,246,236</u> |
| CHANGE IN FUND BALANCES | (15,435) | (47,134) | 5 | (62,564) |
| FUND BALANCES, JULY 1, 2017 | <u>-</u> | <u>221,386</u> | <u>3,080</u> | <u>224,466</u> |
| FUND BALANCES, JUNE 30, 2018 | <u>\$ (15,435)</u> | <u>\$ 174,252</u> | <u>\$ 3,085</u> | <u>\$ 161,902</u> |

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

SCHEDULE OF REVENUES AND EXPENDITURES

FOOD SERVICE FUND

For the Year Ended June 30, 2018

REVENUES

| | | |
|-----------------|---------------|--------------|
| Cafeteria sales | \$ 182,661 | |
| Federal sources | 862,144 | |
| State sources | <u>76,242</u> | |
| TOTAL REVENUES | | \$ 1,121,047 |

EXPENDITURES

| | | |
|------------------------|--------------|------------------|
| Salaries and wages | 462,556 | |
| Contracted services | 40,133 | |
| Supplies and materials | 617,017 | |
| Other charges | 41,647 | |
| Equipment | <u>6,828</u> | |
| TOTAL EXPENDITURES | | <u>1,168,181</u> |

EXCESS OF EXPENDITURES OVER REVENUES \$ (47,134)

BOARD OF EDUCATION OF KENT COUNTY, MARYLAND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS

SCHOOL ACTIVITIES AGENCY FUND

For the Year Ended June 30, 2018

| | Balance July 1, 2017 | Receipts | Disbursements | Balance June 30, 2018 |
|--------------------------------|-------------------------------------|--------------------------|--------------------------|--------------------------------------|
| Galena Elementary School | \$ 5,534 | \$ 11,996 | \$ 11,987 | \$ 5,543 |
| H.H. Garnett Elementary School | 3,106 | 13,600 | 14,368 | 2,338 |
| Kent County High School | 80,938 | 164,991 | 170,870 | 75,059 |
| Kent County Middle School | 30,832 | 37,044 | 45,818 | 22,058 |
| Millington Elementary School | 3,408 | 35 | 3,443 | - |
| Rock Hall Elementary School | 4,261 | 10,391 | 6,128 | 8,524 |
| Worton Elementary School | <u>9,418</u> | <u>10,938</u> | <u>20,356</u> | <u>-</u> |
| TOTALS | <u>\$ 137,497</u> | <u>\$ 248,995</u> | <u>\$ 272,970</u> | <u>\$ 113,522</u> |