

Audited  
Financial  
Statements

June 30,  
2016

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# Washington County Board of Education

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## INDEPENDENT AUDITOR'S REPORT

Members of the Board  
Washington County Board of Education  
Hagerstown, Maryland

### REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Washington County Board of Education, a component unit of Washington County, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Washington County Board of Education'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 of financial statements that are free of material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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



## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Washington County Board of Education as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information on pages 4 through 14 and 57 through 62 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 Washington County Board of Education's basic financial statements. The combining fund financial statements presented as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.



The combining fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements and the schedule of expenditures of federal awards 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 a report dated September 22, 2016, on our consideration of Washington County Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington County Board of Education's internal control over financial reporting and compliance.

*Smith Elliott Kearns & Company, LLC*

Hagerstown, Maryland  
September 22, 2016

# WASHINGTON COUNTY BOARD OF EDUCATION

## Management's Discussion and Analysis

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This section of the Washington County Board of Education's (School System) annual financial report presents a discussion and analysis, prepared by the School System's senior financial management, of the financial performance for the fiscal year ended June 30, 2016. Please read it in conjunction with the basic financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

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- The School System's financial position decreased over the past year due to significant increases in the pension and other post-employment benefits liabilities. Total net position decreased by 7.2% to \$218.2 million.
- Overall revenues were \$330.9 million, falling \$17.0 million short of expenses.
- The total cost of educational programs was \$335.3 million, an increase of 5.7% from the past year. After related charges, fees, operating and capital grants and contributions, the net cost that required general revenue funding increased by 7.5% to \$275.4 million.
- The net position of our business-type activities, i.e., School Food Service, decreased slightly and is now in a deficit position of \$552 thousand. Expenses were \$12.6 million while revenues were \$12.5 million.
- Investment income doubled due to market performance of investments measured at June 30 and higher levels of investment during the year.
- Capital Projects Fund expenditures of \$14.2 million included capital maintenance work on our older schools and substantial construction of the new Jonathan Hager Elementary School.
- The School System made a contribution of nearly \$5.0 million to a trust fund established exclusively for the purpose of non-pension post-employment benefits.

### OVERVIEW OF THE FINANCIAL STATEMENTS

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This annual report consists of several sections. They are: independent auditor's report, management's discussion and analysis (this section), the basic financial statements, required supplementary information, supplementary information, and the Single Audit. The basic financial statements include two kinds of statements that present different views of the School System:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the School System's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School System, reporting the operations in *more detail* than the government-wide statements. The fund financial statements include:
  - The *governmental funds statements* that tell how basic services such as regular and special education were financed in the *short-term* as well as what remains for future spending.
  - *Proprietary funds statements* that offer *short-term* and *long-term* financial information about the activities the School System operates *like businesses*, such as food services and self-insurance.
  - *Fiduciary funds statements* that provide information about the financial relationships in which the School System acts solely as a *trustee* or *agent* for the benefit of others.

The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison to the School System's budget for the year. Figure 1 shows how the various parts of this annual report are arranged and related to one another.

# WASHINGTON COUNTY BOARD OF EDUCATION

## Management's Discussion and Analysis

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*Figure 1: Organization of the Washington County Public Schools Annual Financial Report*

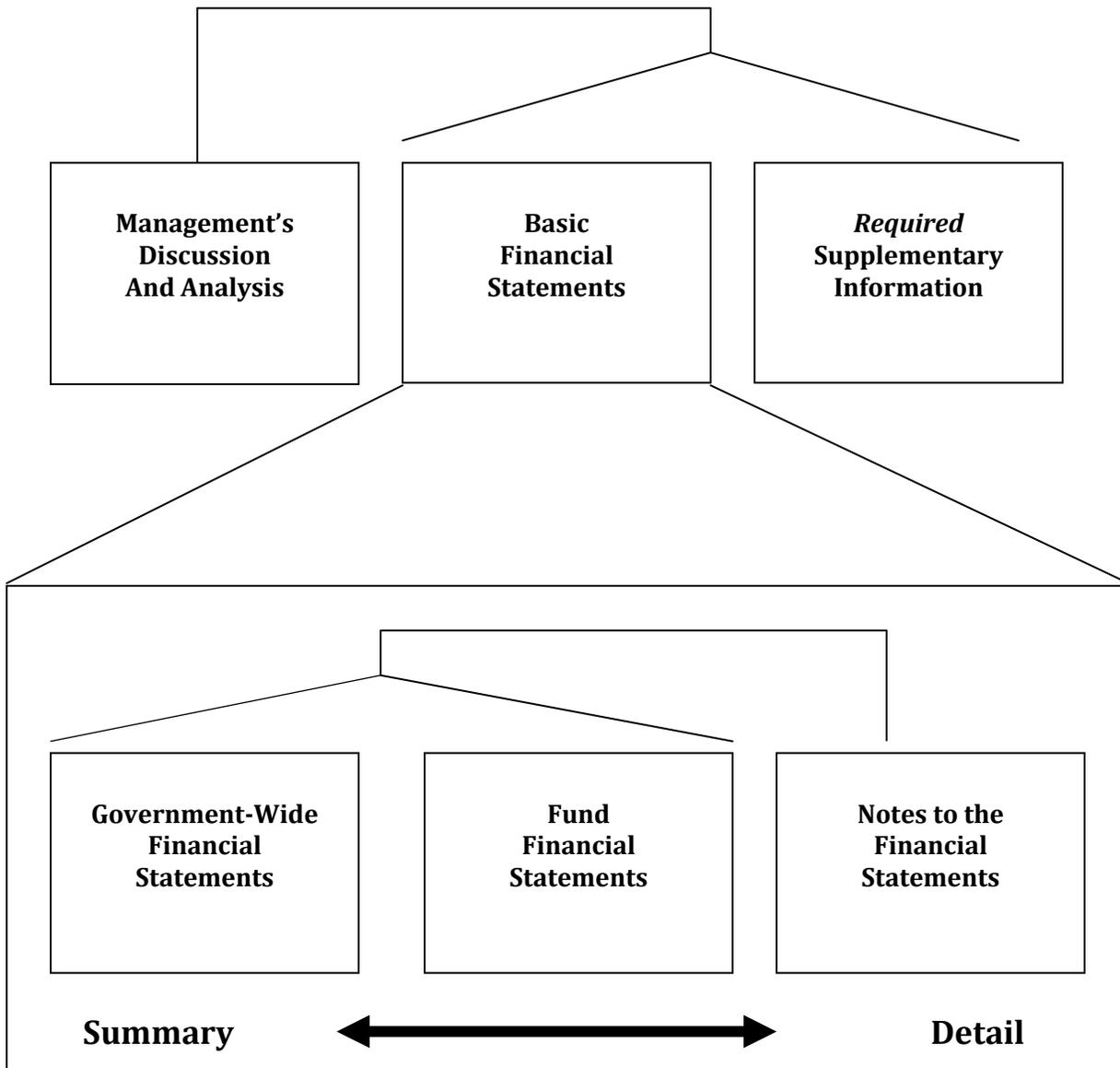


Figure 2 summarizes the major features of the School System's financial statements, including the portion of the activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Management's Discussion and Analysis**

*Figure 2: Major Features of the Government-Wide and Fund Financial Statements*

	<b>Government-wide Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
Scope	Entire School System (except fiduciary funds)	The activities of the School System that are not proprietary or fiduciary, such as special education and building maintenance	Activities the School System operates similar to private businesses: food services and self-insurance	Instances in which the School System administers resources on behalf of someone else, such as scholarship programs, student activities, and other MD LEA's.
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses, and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liabilities are due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

# WASHINGTON COUNTY BOARD OF EDUCATION

## Management's Discussion and Analysis

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### *Government-Wide Statements*

The government-wide statements report information about the School System as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School System's assets and liabilities. The statement of activities includes all of the year's revenues and expenses, regardless of when cash is received or paid.

The two government-wide statements report the net position and how they have changed. Net position, the difference between assets and liabilities, is one way to measure the School System's financial health.

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

In the government-wide financial statements, the activities of the School System are divided into two categories:

- **Governmental Activities** - Most of the School System's basic services are included here, such as regular and special education, transportation, operations and maintenance, and administration. County appropriations, state formula aid, and grants finance most of these activities.
- **Business-Type Activities** - The School System charges fees to help it cover the cost of certain services it provides. School Food Service is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the School System's funds, focusing on its most significant or "major" funds, not the School System as a whole. Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs:

- State law mandates certain funds, and
- The School System establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues such as restricted grants.

The School System has three kinds of funds:

- **Governmental Funds** - Most of the School System's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending, subject to various levels of constraints. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School System's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided in a reconciliation of the governmental funds balance sheet to the statement of net position and a separate reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit) to the statement of activities.

# WASHINGTON COUNTY BOARD OF EDUCATION

## Management's Discussion and Analysis

- **Proprietary Funds** - Services for which the School System charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The School System's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The Food Services Fund is the only enterprise fund of the School System. The School System also uses *internal service funds* (the other type of proprietary fund) to report activities that support other programs and activities. The Self-Insurance Fund is the only internal service fund.
- **Fiduciary Funds** - The School System is the trustee, or *fiduciary*, for assets that belong to others, such as the Scholarship Fund, the Student Activities Funds, and the Fringe Benefit Fund (Section 125 spending accounts). The School System is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These activities are excluded from the government-wide financial statements because the assets cannot be used to finance operations.

### FINANCIAL ANALYSIS OF THE SCHOOL SYSTEM AS A WHOLE (GOVERNMENT-WIDE)

#### Net Position

The School System's *combined* net position was lower on June 30, 2016, than it was the previous year, decreasing by 7.2% to \$218.2 million (See Figure 3).

**Figure 3: Condensed Statement of Net Position (in millions of dollars)**

	Governmental Activities		Business-Type Activities		Total School System	
	2016	2015	2016	2015	2016	2015
Current & Other Assets	\$ 54.4	\$ 56.4	\$ 1.2	\$ 1.1	\$ 55.6	\$ 57.5
Capital assets	239.6	231.2	1.5	1.4	241.1	232.6
Deferred outflows of resources	3.6	1.7	0.7	0.4	4.3	2.1
<b>Total Assets and Deferred Outflows of Resources</b>	<b>297.6</b>	<b>289.3</b>	<b>3.4</b>	<b>2.9</b>	<b>301.0</b>	<b>292.2</b>
Long-Term Liabilities	46.4	26.0	3.4	2.8	49.8	28.8
Other liabilities	31.1	26.4	0.3	0.3	31.4	26.7
Deferred inflows of resources	1.4	1.3	0.3	0.3	1.7	1.6
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>78.9</b>	<b>53.7</b>	<b>4.0</b>	<b>3.4</b>	<b>82.9</b>	<b>57.1</b>
Net Position						
Net investment in capital assets	229.0	224.2	1.5	1.4	230.5	225.6
Restricted	-	-	-	-	-	-
Unrestricted	(10.3)	11.4	(2.1)	(1.9)	(12.7)	9.5
<b>Total Net Position</b>	<b>\$ 218.7</b>	<b>\$ 235.6</b>	<b>\$ (0.6)</b>	<b>\$ (0.5)</b>	<b>\$ 218.1</b>	<b>\$ 235.1</b>

# WASHINGTON COUNTY BOARD OF EDUCATION

## Management's Discussion and Analysis

### *Change in Net Position*

The School System's total revenues were \$330.9 million (See Figure 4). Local funding amounted to 30.3%. State and federal funding amounted to 57.9% and 7.3%, respectively. The remaining 4.5% came from fees charged for services and other miscellaneous sources (See Figure 5). County funding was lower due to decreased capital funding.

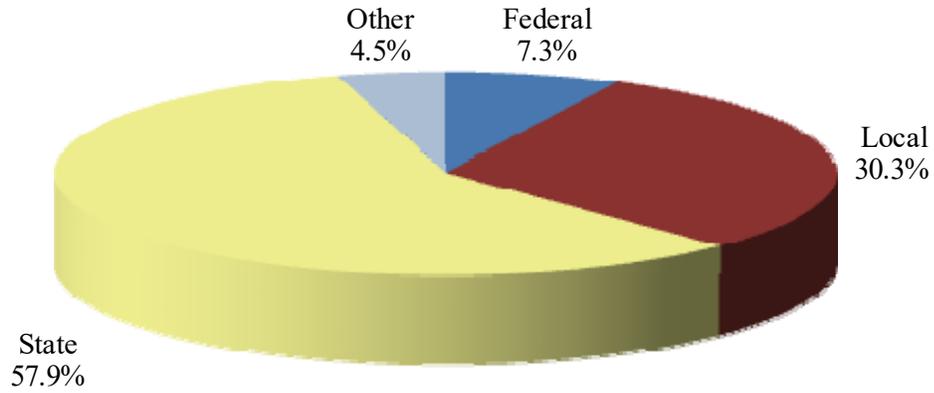
The total cost of all programs and services was 5.5% higher than last year at \$347.9 million. The School System's expenses, as shown graphically in Figure 6, are predominately related to instructing, caring for and transporting students (55.3%). Administrative and business activities accounted for 2.1%, while employee benefits, the majority of which are related to personnel who provide direct student services, represented 30.6% of the total cost. Another 9.6% of the total expenditures is used to operate and maintain the School System's 47 school sites and associated relocatable buildings. Major cost increases in fiscal year 2016 included instructional textbooks and supplies, special education, and employee benefits.

**Figure 4: Changes in Net Position from Operating Results (in millions of dollars)**

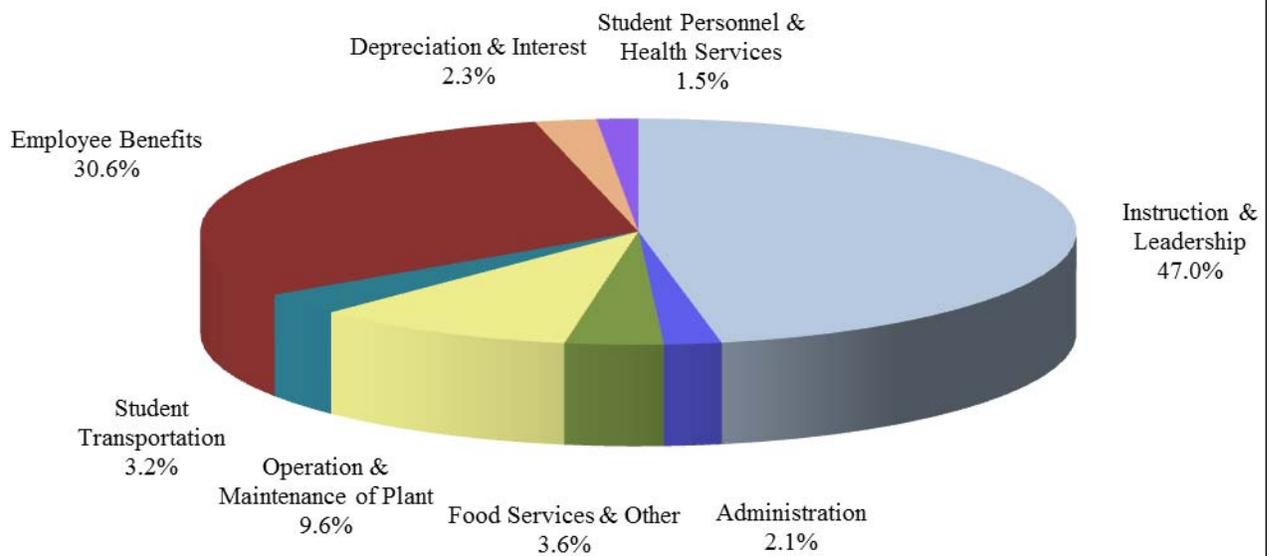
	Governmental Activities		Business-Type Activities		Total School System	
	2016	2015	2016	2015	2016	2015
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 10.3	\$ 9.8	\$ 3.2	\$ 3.3	\$ 13.5	\$ 13.1
Operating grants & contributions	49.7	51.3	9.0	8.6	58.7	59.9
Capital grants & contributions	0.0	0.0	0.0	0.0	0.0	0.0
General revenues						
Local appropriation	100.3	100.9	-	-	100.3	100.9
State aid	157.5	157.2	-	-	157.5	157.2
Other	0.6	0.4	0.3	0.2	0.9	0.6
<b>Total Revenues</b>	<b>318.4</b>	<b>319.6</b>	<b>12.5</b>	<b>12.1</b>	<b>330.9</b>	<b>331.7</b>
<b>Expenses</b>						
Instruction & leadership	163.4	162.6	-	-	163.4	162.6
Student personnel & health services	5.3	5.4	-	-	5.3	5.4
Administration	7.4	7.1	-	-	7.4	7.1
Operation & maintenance of plant	33.5	33.8	-	-	33.5	33.8
Student transportation	11.2	11.4	-	-	11.2	11.4
Fixed charges (employee benefits)	106.5	88.8	-	-	106.5	88.8
Food services & other	0.1	0.0	12.6	12.4	12.7	12.4
Depreciation & interest	7.9	8.1	-	-	7.9	8.1
<b>Total Expenses</b>	<b>335.3</b>	<b>317.2</b>	<b>12.6</b>	<b>12.4</b>	<b>347.9</b>	<b>329.6</b>
<b>Increase in Net Position</b>	<b>\$ (16.9)</b>	<b>\$ 2.4</b>	<b>\$ (0.1)</b>	<b>\$ (0.3)</b>	<b>\$(17.0)</b>	<b>\$2.1</b>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Management's Discussion and Analysis**

**Figure 5: Sources of Revenues for FY2016**



**Figure 6: Expenses for FY2016**



# WASHINGTON COUNTY BOARD OF EDUCATION

## Management's Discussion and Analysis

### Governmental Activities

General revenues for the governmental activities remained level at \$258.5 million, while total expenses, net of charges for services and grants, were up 7.5% to \$275.4 million. The decrease in net position for governmental activities was \$16.9 million and can be largely attributed to increases in the pension and other post-employment benefits obligations, current year capital outlays net of depreciation, and an excess of expenses over revenue in the internal service fund.

Figure 7 presents the cost of the eight major School System activities: Instruction and Instructional Leadership, Student Personnel and Health Services, Administration, Operation and Maintenance of Plant, Student Transportation, Employee Benefits, Food Services and Other, and Depreciation and Interest. This table also shows each activity's *net cost* (total cost less fees generated by the activities, less intergovernmental aid such as grants provided for specific programs). The *net cost* shows the financial burden placed upon state and local taxpayers for each of these functions after the above-mentioned intergovernmental grants.

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction & instructional leadership	163.4	162.6	\$ 142.9	\$ 141.1
Student personnel & health services	5.3	5.4	5.3	5.3
Administration	7.4	7.1	6.8	6.7
Operation & maintenance of plant	33.5	33.8	32.6	32.3
Student transportation	11.2	11.4	3.9	4.3
Employee benefits	106.5	88.8	76.0	58.4
Food services and other	0.1	0.0	-	-
Depreciation & interest	7.9	8.1	7.9	8.0
<b>Total</b>	<b>\$ 335.3</b>	<b>\$ 317.2</b>	<b>\$ 275.4</b>	<b>\$ 256.1</b>

The cost of all governmental activities this year was \$335.3 million. Charges for services amounted to \$10.3 million, which were primarily amounts received from employees and retirees for health insurance premiums. Additionally, certain programs were subsidized to the extent of \$49.7 million by the federal (\$15.7 million) and state (\$33.5 million) governments, as well as other organizations (\$0.5 million). However, general revenues and the reduction in net position financed the majority of the costs of governmental activities (\$275.4 million). Total local funding amounted to \$100.3 million, while the state contributed \$191.5 million and federal funding amounted to \$15.7 million. Investment earnings, charges for services, and other miscellaneous sources funded the balance of the governmental activities.

# WASHINGTON COUNTY BOARD OF EDUCATION

## Management's Discussion and Analysis

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### ***Business-Type Activities***

School Food Service is the only business-type activity in the School System. Revenues of this business-type activity were \$12.5 million and expenses were \$12.6 million for fiscal year 2016 (See Figure 4). School Food Service's expenses exceeded revenues by \$72 thousand. Without depreciation expense and other adjustments to conform to generally accepted accounting principles, the business-type activities would have shown a \$121 thousand increase in net position.

Research indicates that students who are not hungry learn better. To that end, School Food Service maintained reasonable meal prices while continuing to offer students tasty, nutritious meals. In addition to the lunch meal, all schools now serve breakfast. Several of our schools also enjoy a school-wide free breakfast program to ensure that students start their school day off with a full stomach. The majority of these programs are sponsored by the State Department of Education.

School Food Services staff continues to make prudent management decisions, taking advantage of all available government commodities, participating in cost-saving buying consortia, and developing marketing and promotion campaigns for products that are healthy yet attractive to our young consumers. Every effort is made to assure that students who qualify for free or reduced meal prices receive that benefit.

### **FINANCIAL ANALYSIS OF THE SCHOOL SYSTEM'S FUNDS**

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The financial performance of the School System as a whole is reflected in its governmental funds as well. At year-end, its governmental funds reported combined fund balances of \$22.2 million. This is almost the same as last year's ending fund balance of \$22.3 million, resulting from a slight excess of expenses over revenues in the general fund partially offset by a small gain in the capital projects fund due to timing of revenues and expenses.

#### ***Current Expense Fund (Governmental)***

The current expense (general) funds had \$0.4 million less revenues than expenditures in fiscal year 2016. The resulting fund balance represents just 7.3% or less than four weeks' worth of annual expenditures. This \$0.4 million deficit is calculated on the modified accrual basis and is significantly different from the \$2.3 million budgetary basis surplus. This difference is due to the treatment of prior and current year encumbrances.

#### ***Capital Projects Fund (Governmental)***

The Capital Projects Fund showed a \$0.2 million excess of revenues over expenditures. The fund balance equals the amount of outstanding retainage due on construction contracts in progress offset by funding transfers in excess of expenditures to date on a replacement school.

#### ***Food Service Fund (Proprietary-Enterprise)***

As previously noted, Food Service experienced a negative change in net position of \$72 thousand. This is due to higher food, labor, and equipment costs without commensurate increases in sales and subsidies.

# WASHINGTON COUNTY BOARD OF EDUCATION

## Management's Discussion and Analysis

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### *Self-Insurance Fund (Proprietary-Internal Service)*

The self-insurance fund began the year with a fund balance of \$6.8 million. Excess expenses over revenues totaled \$6.1 million, due to very high claims. This loss resulted in a \$0.7 million fund balance at year-end. Claims and other expenses were up 12.1% and revenue was up 4.2% due to a small increase in premiums and enrollment.

### *General Fund Budgetary Highlights*

Over the course of the year, the School System revised the annual operating budget several times. These budget amendments were completed to adjust to revised needs and priorities.

Most expense areas of the budget experienced costs lower than revised estimates. Instructional salaries were slightly over budget due to quality teacher incentives. Other instructional costs and maintenance of plant were higher than anticipated due to redirected spending priorities and reduced County funding for maintenance projects. Special education was higher due to an increase in the number of students with needs for these services.

The School System anticipates approval for a final budget adjustment from the funding authority for shifts between revenue and expense categories in October 2016.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

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### *Capital Assets*

By the end of fiscal year 2016, the School System had invested \$230.5 million (net of depreciation and related debt) in a broad range of capital assets including school buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, custodial and maintenance equipment, food service equipment, and miscellaneous instructional assets. This amount represents a net increase of \$4.9 million or 2.2% from last year. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year approximated \$11.0 million, while buildings, improvements and additions to equipment and furniture amounted to approximately \$15.2 million, including an increase in construction in progress of \$10.1 million.

The School System's enrollment decreased slightly. Because numerous Washington County schools are over forty years old and in need of renovation or replacement, maintenance and systemic project spending were emphasized during the past several years and will continue to be needed.

The fiscal year 2017 capital budget forecasts that the School System will spend another \$7.2 million for capital projects, as follows:

- Additional construction of the new Jonathan Hager Elementary School at the west end of Hagerstown,
- Capital maintenance projects at various schools, funded primarily by the State.

### *Debt*

The County, not the School System, reflects debt and annual debt service expenditures for school construction in their financial statements. The School System's debt consists of compensated absences payable and obligations related to capital leases. See Note 8 to the financial statements for more detailed information concerning the current year activity and balances.

# WASHINGTON COUNTY BOARD OF EDUCATION

## Management's Discussion and Analysis

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In connection with post-employment benefits other than pensions, information on the actuarially accrued liability and funding progress is detailed in Note 12 to the financial statements. The long-term net liability of \$13.4 million in the statement of net position at June 30, 2016 represents the actuarial calculations for the accrued cost of retiree health care offset by the amount of contributions and current medical claims the School System made. A trust fund for the management of assets and accounting of financial transactions associated with the provision of retiree health insurance coverage has been established.

### FACTORS BEARING ON THE SCHOOL SYSTEM'S FUTURE

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At the time these financial statements were prepared and audited, the School System was aware of several existing circumstances that could significantly affect its financial health in the future.

#### *School Construction and Maintenance Funding*

Due to the condition of certain school facilities, the School System is in the process of improving conditions through renovations or replacements of existing schools. The challenge will be to obtain the needed capital funding, at both the state and local levels, to fund the need for new facilities as well as support necessary major maintenance projects to older buildings.

#### *Cost-Shifting and Uncertainty of Revenue Increases*

In recent years, the County Commissioners have eliminated funding outside the maintenance of effort level established by State law, as well as funding for the school nurse program. Maintenance of effort provides level funding per student by requiring increased funding for increased enrollment. However, it does not provide for inflation or improvement initiatives. The cost of school health nurses, annual bus purchases, crossing guards, and other items previously funded separately have been absorbed within the existing operating budget without the additional funding. The State of Maryland is also in the beginning stages of eliminating a structural deficit. As a result, it appears that future revenue will be dependent upon changes in enrollment, poverty levels, and County wealth. In addition, the State of Maryland has shifted a portion of the employer share of costs related to the combined Teachers Retirement and Pension Systems (the Plan) to the School System and requires funding by the County. As disclosed in Note 11 to the financial statements, the State contributed \$16.6 million for this benefit in fiscal year 2016, but costs escalate as the number of participants and other workforce changes, such as salary increases and mortality assumptions impact the Plan. Minimal revenue increases at both the local and State level, as well as the impact of cost-shifting, will continue to present challenges to the School System's ability to provide desired programs and initiatives in the future.

### CONTACTING THE SCHOOL SYSTEM'S FINANCIAL MANAGEMENT

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This financial report is designed to provide the citizens and taxpayers of Washington County, and the creditors, parents and employees of the Washington County Public Schools with a general overview of the School System's finances and to demonstrate its accountability for the money it receives. If you have questions about this report, please contact the Finance Office, Washington County Public Schools, 10435 Downsville Pike, Hagerstown, Maryland 21740, or call (301) 766-2825.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Statement of Net Position**  
**June 30, 2016**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 22,462,617	\$ 5,113	\$ 22,467,730
Investments	22,006,950	-	22,006,950
Due from other governments	8,189,888	327,223	8,517,111
Internal balances	(663,513)	663,513	-
Accounts receivable	292,485	32,168	324,653
Inventory, at cost	97,048	136,746	233,794
Prepaid items	2,003,325	-	2,003,325
<b>Capital Assets</b>			
Land	8,692,987	-	8,692,987
Buildings and improvements	320,780,827	-	320,780,827
Furniture and equipment	47,168,849	5,064,260	52,233,109
Buildings and equipment under capital lease	13,867,835	-	13,867,835
Construction in process	18,390,191	-	18,390,191
Accumulated depreciation	<u>(169,315,918)</u>	<u>(3,535,112)</u>	<u>(172,851,030)</u>
Total Assets	<u>293,973,571</u>	<u>2,693,911</u>	<u>296,667,482</u>
Deferred outflows of resources	<u>3,605,935</u>	<u>752,458</u>	<u>4,358,393</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 297,579,506</u></u>	<u><u>\$ 3,446,369</u></u>	<u><u>\$ 301,025,875</u></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 8,241,449	\$ 91,317	\$ 8,332,766
Due to other funds	5	-	5
Accrued liabilities	21,282,758	115,631	21,398,389
Unearned revenue	1,614,045	81,710	1,695,755
<b>Long-term liabilities</b>			
<b>Due Within One Year</b>			
Compensated absences	375,260	1,156	376,416
Capital leases payable	7,756,121	-	7,756,121
<b>Due After One Year</b>			
Compensated absences	6,719,660	251,247	6,970,907
Capital leases payable	2,870,924	-	2,870,924
Other post-employment benefits	13,444,644	-	13,444,644
Net pension liability	<u>15,212,058</u>	<u>3,174,334</u>	<u>18,386,392</u>
Total Liabilities	<u>77,516,924</u>	<u>3,715,395</u>	<u>81,232,319</u>
Deferred inflows of resources	<u>1,354,467</u>	<u>282,640</u>	<u>1,637,107</u>
<b>Net Position</b>			
Net investment in capital assets	228,957,726	1,529,148	230,486,874
Unrestricted	<u>(10,249,611)</u>	<u>(2,080,814)</u>	<u>(12,330,425)</u>
Total Net Position	<u>218,708,115</u>	<u>(551,666)</u>	<u>218,156,449</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><u>\$ 297,579,506</u></u>	<u><u>\$ 3,446,369</u></u>	<u><u>\$ 301,025,875</u></u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Statement of Activities**  
**Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>GOVERNMENTAL ACTIVITIES</b>							
Administration	\$ 7,350,583	\$ -	\$ 575,136	\$ -	\$ (6,775,447)	\$ -	\$ (6,775,447)
Mid-level administration	17,953,242	-	769,118	-	(17,184,124)	-	(17,184,124)
Instructional salaries	104,076,542	-	5,855,057	-	(98,221,485)	-	(98,221,485)
Instructional textbooks and supplies	9,313,450	85,830	745,389	-	(8,482,231)	-	(8,482,231)
Other instructional costs	5,520,342	-	580,530	5,649	(4,934,163)	-	(4,934,163)
Special education	26,503,426	-	12,488,170	-	(14,015,256)	-	(14,015,256)
Student personnel services	1,541,238	-	31,850	-	(1,509,388)	-	(1,509,388)
Student health services	3,768,628	-	385	-	(3,768,243)	-	(3,768,243)
Student transportation services	11,204,168	-	7,274,104	-	(3,930,064)	-	(3,930,064)
Operation of plant	19,650,090	-	480,574	-	(19,169,516)	-	(19,169,516)
Maintenance of plant	13,886,442	-	441,047	-	(13,445,395)	-	(13,445,395)
Fixed charges	106,559,247	10,175,932	20,315,195	-	(76,068,120)	-	(76,068,120)
Food services	-	-	25,993	-	25,993	-	25,993
Community services	58,973	-	58,973	-	-	-	-
Interest on long-term obligations	347,722	-	-	-	(347,722)	-	(347,722)
Depreciation - unallocated	7,578,285	-	-	-	(7,578,285)	-	(7,578,285)
Total Governmental Activities	<u>335,312,378</u>	<u>10,261,762</u>	<u>49,641,521</u>	<u>5,649</u>	<u>(275,403,446)</u>	<u>-</u>	<u>(275,403,446)</u>
<b>BUSINESS-TYPE ACTIVITIES</b>							
Food services	12,553,392	3,201,896	9,031,794	-	-	(319,702)	(319,702)
<b>Total Business-Type Activities</b>	<u>12,553,392</u>	<u>3,201,896</u>	<u>9,031,794</u>	<u>-</u>	<u>-</u>	<u>(319,702)</u>	<u>(319,702)</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 347,865,770</u>	<u>\$ 13,463,658</u>	<u>\$ 58,673,315</u>	<u>\$ 5,649</u>	<u>\$ (275,403,446)</u>	<u>\$ (319,702)</u>	<u>\$ (275,723,148)</u>
<b>General Revenues and Transfers</b>							
Unrestricted Grants and Contributions							
Local					\$ 100,318,203	\$ -	\$ 100,318,203
State					157,540,642	-	157,540,642
Federal					27,901	-	27,901
Investment earnings					371,156	17	371,173
Other					468,128	-	468,128
Transfers					(247,674)	247,674	-
Total General Revenues and Transfers					<u>258,478,356</u>	<u>247,691</u>	<u>258,726,047</u>
<b>Change in Net Position</b>					(16,925,090)	(72,011)	(16,997,101)
<b>Net Position</b>							
Beginning of year					<u>235,633,205</u>	<u>(479,655)</u>	<u>235,153,550</u>
End of year					<u>\$ 218,708,115</u>	<u>\$ (551,666)</u>	<u>\$ 218,156,449</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Balance Sheet – Governmental Funds**  
**June 30, 2016**

	<b>General Fund (Current Expense)</b>	<b>Capital Projects Fund (School Construction)</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 22,462,617	\$ -	\$ 22,462,617
Investments	14,502,860	-	14,502,860
Due from other governments	4,956,433	3,233,455	8,189,888
Due from other funds	4,384,451	611,861	4,996,312
Accounts receivable	268,141	-	268,141
Inventory, at cost	97,048	-	97,048
Prepaid items	345,544	-	345,544
<b>TOTAL ASSETS</b>	<b><u>\$ 47,017,094</u></b>	<b><u>\$ 3,845,316</u></b>	<b><u>\$ 50,862,410</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 4,110,149	\$ 3,182,071	\$ 7,292,220
Accrued liabilities	18,529,639	-	18,529,639
Due to other funds	1,275,379	-	1,275,379
Unearned revenue	1,614,045	-	1,614,045
Total Liabilities	<u>25,529,212</u>	<u>3,182,071</u>	<u>28,711,283</u>
<b>Fund Balances</b>			
Nonspendable	442,594	-	442,594
Committed	10,667,935	-	10,667,935
Assigned	7,791,951	-	7,791,951
Unassigned	2,585,402	663,245	3,248,647
Total Fund Balances	<u>21,487,882</u>	<u>663,245</u>	<u>22,151,127</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 47,017,094</u></b>	<b><u>\$ 3,845,316</u></b>	<b><u>\$ 50,862,410</u></b>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of**  
**Net Position**  
**June 30, 2016**

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**TOTAL FUND BALANCES - GOVERNMENTAL FUNDS** \$ 22,151,127

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 capital assets	\$ 408,900,689	
Accumulated depreciation	<u>(169,315,918)</u>	239,584,771

An internal service fund is used by the school system's management to charge the costs of medical and prescription claims to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. 724,156

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

Compensated absences	\$ 6,719,660	
Capital leases payable	10,627,045	
Other post-employment benefits	<u>13,444,644</u>	(30,791,349)

The net pension liability associated with the school system's proportionate share of the Maryland State Retirement and Pension System is not payable with current financial resources and is not reported in the governmental funds. The activity associated with the school system's share of the net pension liability consist of:

Net pension liability	(15,212,058)	
Deferred outflows of resources	3,605,935	
Deferred inflows of resources	<u>(1,354,467)</u>	<u>(12,960,590)</u>

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** **\$ 218,708,115**

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Statement of Revenues, Expenditures and Changes In Fund Balance**  
**Governmental Funds**  
**Year Ended June 30, 2016**

	<b>General Fund (Current Expense)</b>	<b>Capital Projects Fund (School Construction)</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Local	\$ 94,844,030	\$ 5,474,173	\$ 100,318,203
State of Maryland	182,170,118	8,861,898	191,032,016
Federal government	15,740,646	-	15,740,646
Tuition	85,830	-	85,830
Investment income	207,262	-	207,262
Other	978,882	-	978,882
	<u>294,026,768</u>	<u>14,336,071</u>	<u>308,362,839</u>
<b>EXPENDITURES</b>			
<b>Current</b>			
Administration	7,344,677	-	7,344,677
Mid-level administration	17,953,242	-	17,953,242
Instructional salaries	104,076,542	-	104,076,542
Instructional textbooks and supplies	9,313,450	-	9,313,450
Other instructional costs	4,366,535	-	4,366,535
Special education	26,552,296	-	26,552,296
Student personnel services	1,543,977	-	1,543,977
Student health services	3,768,628	-	3,768,628
Student transportation services	11,946,875	-	11,946,875
Operation of plant	19,872,197	19,560	19,891,757
Maintenance of plant	10,517,632	3,928,908	14,446,540
Community services	58,973	-	58,973
Fixed charges	74,708,905	-	74,708,905
Capital outlay - buildings and improvements	1,155,570	10,229,602	11,385,172
<b>Capital Lease Payments</b>			
Principal	817,452	-	817,452
Interest	347,722	-	347,722
	<u>294,344,673</u>	<u>14,178,070</u>	<u>308,522,743</u>
Excess (Deficit) of Revenues Over Expenditures	(317,905)	158,001	(159,904)
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers - food service	(43,659)	-	(43,659)
Excess (Deficit) of Revenues and Other Financing Sources (Uses) Over Expenditures	(361,564)	158,001	(203,563)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>21,849,446</u>	<u>505,244</u>	<u>22,354,690</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 21,487,882</u>	<u>\$ 663,245</u>	<u>\$ 22,151,127</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Reconciliation of the Governmental Funds State of Revenues, Expenditures and Changes**  
**in Fund Balance to the Statement of Activities**  
**Year Ended June 30, 2016**

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**TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS** \$ (203,563)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the period.

Capital outlays	\$ 14,835,514	
Depreciation	<u>(10,829,230)</u>	4,006,284

In the statement of activities, only the gain or loss on the disposition of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by costs of the capital assets sold less any accumulated depreciation. (34,747)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 817,452

In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid and accrued). This year, vacation and sick leave earned exceeded the amounts used.

Amounts earned	\$ (3,097,118)	
Amounts used	3,129,700	
Decrease in accrued balances	<u>(64,332)</u>	(31,750)

The annual required contribution related to other post-employment benefits are recognized in the change in net position in the Statement of Activities while the cash contribution to the Retiree Benefit Trust is recorded in the governmental funds. This represents the difference. (13,856,534)

An internal service fund is used by the school system's management to charge the costs of medical and prescription claims to the individual funds. The net revenue of the internal service fund is reported with governmental activities. (6,121,190)

In the government-wide financial statements, activity related to the school system's proportionate share of the Maryland State Retirement and Pension System is recognized when the costs are incurred, adjusted for the actuarial measurement date of the plan. In the governmental funds, expenditures are recognized when current financial resources are used. This year, actual costs of the plan were more than current resources used. (1,501,042)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES** \$ (16,925,090)

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Statement of Net Position – Proprietary Funds**  
**June 30, 2016**

	<b>Enterprise Fund (Food Services)</b>	<b>Internal Service Fund (Self-Insurance)</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,113	\$ -
Investments	-	7,504,090
Due from other governments	327,223	-
Due from other funds	663,513	(4,384,451)
Accounts receivable	32,168	24,344
Inventory, at cost	136,746	-
Prepaid items	-	1,657,781
	<u>1,164,763</u>	<u>4,801,764</u>
<b>Total Current Assets</b>	<b>1,164,763</b>	<b>4,801,764</b>
<b>Noncurrent Assets</b>		
Food service equipment	5,064,260	-
Accumulated depreciation	(3,535,112)	-
	<u>1,529,148</u>	<u>-</u>
<b>Total Noncurrent Assets</b>	<b>1,529,148</b>	<b>-</b>
<b>Total Assets</b>	<b>2,693,911</b>	<b>4,801,764</b>
Deferred outflows of resources	<u>752,458</u>	<u>-</u>
	<u>752,458</u>	<u>-</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 3,446,369</b>	<b>\$ 4,801,764</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 91,317	\$ 949,229
Accrued liabilities	115,631	3,128,379
Compensated absences	1,156	-
Unearned revenue	81,710	-
	<u>289,814</u>	<u>4,077,608</u>
<b>Total Current Liabilities</b>	<b>289,814</b>	<b>4,077,608</b>
<b>Noncurrent Liabilities</b>		
Compensated absences	251,247	-
Net pension liability	3,174,334	-
	<u>3,425,581</u>	<u>-</u>
<b>Total Noncurrent Liabilities</b>	<b>3,425,581</b>	<b>-</b>
<b>Total Liabilities</b>	<b>3,715,395</b>	<b>4,077,608</b>
Deferred inflows of resources	<u>282,640</u>	<u>-</u>
	<u>282,640</u>	<u>-</u>
<b>Net Position</b>		
Net investment in capital assets	1,529,148	-
Unrestricted	(2,080,814)	724,156
	<u>(551,666)</u>	<u>724,156</u>
<b>Total Net Position</b>	<b>(551,666)</b>	<b>724,156</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 3,446,369</b>	<b>\$ 4,801,764</b>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds**  
**Year Ended June 30, 2016**

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	<b>Enterprise Fund (Food Services)</b>	<b>Internal Service Fund (Self-Insurance)</b>
<b>OPERATING REVENUES</b>		
Food service sales	\$ 2,942,146	\$ -
Medicare Part D subsidy	-	683,666
Charges to other funds	-	31,077,727
Charges to employees and retirees	-	10,435,682
	<u>2,942,146</u>	<u>10,435,682</u>
Total Operating Revenues	<u>2,942,146</u>	<u>42,197,075</u>
<b>OPERATING EXPENSES</b>		
Payroll costs	5,830,203	77,452
Professional and contract services	-	3,052,443
Supplies and materials	5,894,924	-
Depreciation	199,379	-
Other post-employment benefits contribution	-	683,666
Insurance claims	-	44,668,598
Other operating costs	369,159	-
	<u>369,159</u>	<u>-</u>
Total Operating Expenses	<u>12,293,665</u>	<u>48,482,159</u>
Operating (Loss)	<u>(9,351,519)</u>	<u>(6,285,084)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	17	163,893
State matching and other	468,883	-
Federal grants and commodities	8,543,095	-
Other grants	19,816	-
Gain on disposition of equipment	23	-
	<u>23</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>9,031,834</u>	<u>163,893</u>
Net (Loss) Before Contributions and Transfers	(319,685)	(6,121,191)
<b>CAPITAL CONTRIBUTIONS</b>	204,015	-
<b>INTERFUND TRANSFERS - CURRENT EXPENSE</b>	<u>43,659</u>	<u>-</u>
Change In Net Position	<u>(72,011)</u>	<u>(6,121,191)</u>
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>(479,655)</u>	<u>6,845,347</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ (551,666)</u></u>	<u><u>\$ 724,156</u></u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Statement of Cash Flows – Proprietary Funds**  
**Year Ended June 30, 2016**

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	<b>Enterprise Fund (Food Services)</b>	<b>Internal Service Fund (Self-Insurance)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from user charges and other funds	\$ 2,477,543	\$ -
Cash received from assessments made to other funds	-	37,741,161
Cash received from assessments made to employees and retirees	-	10,435,682
Cash received from Medicare Part D	-	683,666
Payments for other post-employment contributions	-	(683,666)
Insurance claims paid	-	(44,186,167)
Payments to employees for services	(5,574,343)	(76,969)
Payments to suppliers for goods and services	(4,992,420)	(4,015,113)
Payments for other operating expenses	(369,159)	-
Net Cash (Used In) Operating Activities	<u>(8,458,379)</u>	<u>(101,406)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating grants received	8,427,399	-
Interfund transfers - current expense	43,659	-
Net Cash Provided by Noncapital Financing Activities	<u>8,471,058</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisitions of capital assets	(65,993)	-
Proceeds from sale of capital assets	23	-
Net Cash (Used In) Capital and Related Financing Activities	<u>(65,970)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received on investments	17	101,406
Purchases of investments	-	(3,500,000)
Proceeds from the sales of investments	-	3,500,000
Net Cash Provided by Investing Activities	<u>17</u>	<u>101,406</u>
Net Decrease in Cash and Cash Equivalents	(53,274)	-
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>58,387</u>	<u>-</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 5,113</u>	<u>\$ -</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Statement of Cash Flows – Proprietary Funds (Continued)**  
**Year Ended June 30, 2016**

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(Continued)

	<b>Enterprise Fund (Food Services)</b>	<b>Internal Service Fund (Self-Insurance)</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN</b>		
<b>OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ (9,351,519)	\$ (6,285,084)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	199,379	-
Commodities used	647,661	-
Changes in assets and liabilities		
Receivables	(449,529)	6,646,998
Inventory	231,355	-
Prepays	-	(756,996)
Accounts payable	27,883	(205,674)
Accrued liabilities	(8,219)	499,350
Unearned revenue	(19,469)	-
Compensated absences	(1,524)	-
Net pension liability	265,603	-
	<u>265,603</u>	<u>-</u>
<b>NET CASH (USED IN) OPERATING ACTIVITIES</b>	<u>\$ (8,458,379)</u>	<u>\$ (101,406)</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Food commodities received from the U.S. Department of Agriculture	<u>\$ 647,661</u>	<u>\$ -</u>
Capital contributions	<u>\$ 204,015</u>	<u>\$ -</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Statement of Net Position – Fiduciary Funds**  
**June 30, 2016**

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	<b>Private-Purpose Trust Fund (Scholarship)</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 64,719	\$ 3,304,980
Investments	62,992	-
Due from other funds	<u>5</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 127,716</u></b>	<b><u>\$ 3,304,980</u></b>
<b>LIABILITIES</b>		
Accounts payable	\$ -	\$ 46,830
Due to student groups	<u>-</u>	<u>3,258,150</u>
Total Liabilities	<u>-</u>	<u>3,304,980</u>
<b>NET POSITION</b>		
Held in trust for scholarships	<u>127,716</u>	<u>-</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 127,716</u></b>	<b><u>\$ 3,304,980</u></b>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Statement of Changes in Net Position - Fiduciary Fund (Private-Purpose Trust Fund)**  
**Year Ended June 30, 2016**

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<b>ADDITIONS</b>	
Gifts and contributions	\$ 29,200
Investment income	<u>3,641</u>
Total Additions	<u>32,841</u>
<b>DEDUCTIONS</b>	
Scholarships awarded	<u>31,846</u>
Change in Net Position	995
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>126,721</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 127,716</u></u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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In Maryland, public schools are part of a statewide system of county school boards. The school boards' political boundaries conform to the county boundaries. The purpose of The Washington County Board of Education (School System) is to operate the local public school system in accordance with state and community standards.

The School System does not have the authority to levy any taxes or incur debt. Schools are funded with local, state, and federal monies. Washington County, Maryland has oversight responsibility for approval and partial funding of the School System's operating budget.

The School System is a component unit of Washington County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the School System.

The School System's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). The more significant policies of the School System are described below:

***Government-Wide Financial Statements***

The government-wide financial statements report information on all of the non-fiduciary activities of the School System as a whole and categorize primary activities as either governmental or business-type. The School System's food service program is classified as a business-type activity.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resources basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School System's net position is reported in three parts – net investment in capital assets; restricted net position; and unrestricted net position. The School System first uses restricted resources to finance qualifying activities.

The government-wide Statement of Activities reduces gross expenses by directly related program revenues. Program revenues include: 1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Other income, including investment income and grants and contributions that are not restricted to meeting the operational requirements of a particular function, is instead reported as general revenue. The School System does not allocate indirect costs.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Fund Financial Statements***

The financial transactions of the School System are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. School System resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The emphasis in the fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures of either fund category or the governmental funds and enterprise funds combined) for the determination of major funds.

The various funds are grouped, in the financial statements in this report, into six generic fund types and three broad fund categories as follows:

***Governmental Fund Balances***

Governmental funds classify fund balance based on the relative strength of the spending constraints placed on the purpose for which resources can be used. The classifications are as follows:

***Nonspendable***

This classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. This classification includes items such as prepaid amounts and inventories.

***Restricted***

This classification includes amounts where the constraints placed on the use of resources are externally imposed by creditors, grantors, contributors or imposed by law through constitutional provisions or enabling legislation.

***Committed***

This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Washington County Board of Education. Once an amount is committed, it cannot be used for any other purpose unless changed by the same type of formal action use to initially constrain the funds.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

***Assigned***

For all governmental funds other than the general fund, this classification includes any remaining positive amounts that are not classified as Nonspendable, Restricted, or Committed. For the General Fund, this classification includes amounts intended to be used for specific purposes that do not meet the criteria to be classified as Restricted or Committed. The assignment of fund balance cannot result in a negative unassigned fund balance. The Board delegates to the Superintendent (and his/her designee) the authority to assign fund balance.

***Unassigned***

This classification represents the portion of spendable fund balance that has not been categorized as Restricted, Committed or Assigned. The General Fund is the only fund which would indicate a positive unassigned fund balance as all other fund types must categorize amounts within the other classifications. A negative Unassigned fund balance may occur in any fund when there is an over expenditure of Restricted or Committed fund balance. In this case, any assigned fund balance (and unassigned fund balance in the general fund) would be eliminated prior to reporting a negative unassigned fund balance.

When fund balance resources are available for a specific purpose in multiple classifications, the School System's policy is to use restricted resources first and then apply unrestricted resources in the following order: Committed, Assigned, and Unassigned. Committed or Assigned resources would only be used upon specific authorization by the School Board or the Superintendent (and his/her designee), respectively.

The School System has established an Unassigned General Fund Balance guideline of between 45-60 days of the revenue it receives from all sources except the county government. For the Internal Service Fund (Self-Insurance) a goal of ten (10) times the specific stop loss retention level before insurance coverage has been established. At June 30, 2016 the specific stop loss level was \$300,000.

***Governmental Funds***

***General Fund***

The General Fund is the general operating fund of the School System. It is used to account for all financial resources except those required to be accounted for in another fund. This fund includes appropriations and grants.

***Capital Projects Fund***

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

***Proprietary Funds***

***Enterprise Fund***

The Enterprise Fund is used to account for the operations of the food service program. The Enterprise Fund is presented in the business-type activities column in the government-wide financial statements.

***Internal Service Fund***

The Internal Service Fund is used to account for the costs of maintaining the School System's group health self-insurance programs. Because the principal users of the internal services are the School System's governmental activities, the net residual balances are consolidated into the governmental activities column when presented in the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods or services in connection with a proprietary fund's ongoing operations. Operating revenue of the Enterprise Fund consists of fees charged to users of food services and operating revenues of the Internal Service Fund consist of charges to other funds, employees, and retirees for medical costs. Operating expenses of the Enterprise Fund consist of employee salaries and benefits, supplies, materials, administrative costs, and depreciation on capital assets. Operating expenses of the Internal Service Fund consist of employee salaries and benefits, purchased services, insurance claims, and administrative costs.

All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses, including state and federal subsidies and grants.

***Fiduciary Funds***

***Private-Purpose Trust Fund***

The Private Purpose Trust Fund accounts for the assets donated to the School System to finance memorial scholarships, which are limited to revenues earned.

***Agency Funds***

Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School Activity Fund accounts for the funds of other persons or organizations that are the direct responsibility of the principals of the respective schools. The Fringe Benefit Plan accounts for the activity related to the School System's IRC Section 125 Cafeteria Plan.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Fiduciary Funds (Continued)***

***Agency Funds (Continued)***

Since by definition Fiduciary Funds' assets are being held for the benefit of a third party and cannot be used to satisfy obligations of the School System, they are not incorporated into the government-wide financial statements.

***Basis of Accounting***

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. United States Department of Agriculture (USDA) food commodities are recorded as revenue and expense when they are consumed.

The governmental funds financial statements are presented 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 School System considers revenues to be available if they are collected within 90 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include debt service expenditures and expenditures related to compensated absences that are recorded only when payment is due.

***Cash and Cash Equivalents***

The School System's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less.

***Investments***

Investments are carried at fair value.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Interfund Activity***

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to eliminations upon consolidation in the government-wide financial statements. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as internal balances. Services provided, deemed to be at market, or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

***Inventory***

Inventory is valued at the lower of average cost or market. Inventory in the General Fund consists of instructional materials and custodial supplies. The cost of governmental fund inventory is recorded as expenditures when used or delivered to schools. Inventory in the Enterprise Fund consists of expendable food and supplies held for consumption. The cost of enterprise fund inventory is recorded as an asset at the time individual inventory items are purchased. As inventory is consumed, the cost is charged to expenditures.

***Capital Assets***

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Library books and textbooks are expensed at the time they are purchased. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	25 – 40 years
Furniture and equipment	4 – 15 years
Equipment under capital lease	4 – 5 years

***Deferred Outflows and Inflows of Resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows 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 (expense) until then. At June 30, 2016, the School System's deferred outflows of resources represent employer contributions made for the School System's share of the Maryland State Retirement and Pension System (Pension Plan) after the actuarial measurement date of the Pension Plan. Deferred outflows also include amounts deferred due to changes in the Pension Plan's actuarial assumptions that will be amortized in future periods.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows 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 that time. The School System's deferred inflows of resources at June 30, 2016 consist of the net difference between projected and actual earnings on the School System's proportionate share of the State of Maryland Retirement and Pension System pension plan investments.

***Net Position***

In the government-wide financial statements and proprietary fund financial statements, net position is classified in the following categories:

***Net Investment in Capital Assets***

This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt reduce this category. Net investment in capital assets as of June 30, 2016 consists of the following:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
<hr/>		
Government-Wide Activities		
Capital assets, net of accumulated depreciation	\$ 216,806,564	\$ 1,529,148
Capital leases payable	(10,627,045)	-
	<u>\$ 206,179,519</u>	<u>\$ 1,529,148</u>
	<b>Enterprise Fund (Food Services)</b>	
<hr/>		
Proprietary Funds		
Capital assets, net of accumulated depreciation	\$ 1,529,148	
Capital leases payable		-
	<u>\$ 1,529,148</u>	

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Unrestricted***

This category is the amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets of net position.

***Net Position Flow Assumption***

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position, a flow assumption must be made about the order in which the resources are considered to be applied. It is the School System's policy to use restricted resources first, then unrestricted resources as they are needed.

***Long-term Debt***

The School System is not obligated to repay principal or interest on any debt incurred for school construction except for the construction of a school for the arts which was financed through a capital lease (See note 8). Bonds and loans are obligations of the county and state governments. The authorization for expenditures related to debt service for school construction is in the County's Operating Budget. The County, not the School System, reflects annual debt service expenditures for school construction in their annual financial statements. However, the School System does reflect long-term debt in their financial statements for capital lease obligations and compensated absences.

***Compensated Absences***

The School System accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30. The accrual of sick leave is based on payment upon retirement at rates set forth in the various negotiated agreements. Sick leave is estimated to be earned once an employee has obtained 25 years of service or 55 years of age. Total unpaid vacation and sick leave accrued at June 30, 2016 amounted to \$7,347,323. Total employee related costs associated and accrued with these compensated absences amounted to \$522,127 at June 30, 2016. For governmental funds, \$375,260 at June 30, 2016 is considered payable with current resources and is included in accrued liabilities. This amount represents the pending payouts of unused leave owed to employees separated from active service as of the year ended June 30, 2016. The remaining amounts are estimated to be used in subsequent fiscal years, are maintained separately and represent a reconciling item between the fund and government-wide financial statement presentations.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

---

**NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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***Post-Employment Benefits***

The School System partially supports the group insurance plan for retired employees. Eligibility is determined by a point system based on a retiree's age at the date of retirement and the number of years of service with the School System. The School System pays up to a maximum of 85% of the premium, based on the points earned. There were 2,007 eligible retirees and their dependents at June 30, 2016. Total claims paid on behalf of retirees amounted to \$11,771,364 of which \$3,330,564 was reimbursed through contributions received from retirees for the year ended June 30, 2016.

***Estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

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The School System generally follows these procedures in establishing the budgetary data reflected in the required supplementary information:

***Operating Budget***

***Unrestricted Current Expense Fund***

1. A budget request form for the following fiscal year's operating budget is published annually, seeking input. The requests are based upon needs identified in the School System's approved five-year Master Plan.
2. The proposed budget is made available to the public and the County Government in February/March.
3. Public hearings are held to obtain comments from the community.
4. The final proposed operating budget is submitted to the County Commissioners in late March or early April.
5. After approval or adjustment by the County Commissioners, the final operating budget is generally approved by the School System in June.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

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***Operating Budget (Continued)***

***Unrestricted Current Expense Fund (Continued)***

6. Budgets are adopted on a basis consistent with GAAP except for: (1) the inclusion of encumbrances and operating transfers as expenditures, (2) annual debt service requirements on capital leases which are recognized as a current expense in the General Fund, (3) capital lease proceeds and corresponding acquisition costs which are not recognized as another financing source and current expense, (4) occasionally the inclusion of the previous years' unexpended budgetary appropriations as revenue, (5) retirement contributions made by the State on behalf of the School System are not recognized as revenue and current expense, and (6) value of donated fixed assets is not recognized as revenue and current expense.
7. Requests for transfers between major categories must be submitted to the County Commissioners for approval or denial. No action within thirty (30) days of submission constitutes approval.
8. Unexpended budgetary appropriations are generally available to be used as revenues to fund budgets in the subsequent years.

Budgetary comparisons presented in the required supplementary information are on a non-GAAP budgetary basis.

***Restricted Current Expense Fund***

The restricted current expense fund accounts for certain federal and state programs, which are not part of the operating budget. Under these programs, revenues are recognized at the same time as the related expenditures. Under the budgetary (non-GAAP) basis of accounting, this results in a fund balance of zero at the end of each period. Under GAAP, revenues are not recognized to the extent of the outstanding reserve for encumbrances causing a deficit in undesignated fund balance equal to that reserve. This situation reverses in the subsequent accounting period.

***Capital Budget***

***Capital Projects Fund***

School construction is budgeted on a project basis with funds primarily provided by the State of Maryland and Washington County bonds. Revenues from the bond proceeds and grants are earned when all significant terms of the proceeds have been met. Such terms are generally met at the time of expenditure. Annual budgetary comparisons to actual expenditures are not presented in the required supplementary information for the Capital Projects Fund.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

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***Budget Compliance***

At June 30, 2016, the School System had exceeded the amended expenditure budget for the following functions: instructional salaries, other instructional costs, special education and maintenance of plant. The School System anticipates approval from the County Commissioners for budget category transfers to cover these deficits in October 2016.

**NOTE 3 CASH AND INVESTMENTS**

---

***Cash***

***Credit Risk***

Maryland State Law prescribes that local government units, such as the School System, must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels with collateral whose market value is at least equal to the deposits. Any cash deposit exceeding the FDIC insurance level will require collateralization. Beginning January 1, 2013, FDIC coverage limits are applied to total noninterest-bearing accounts separately from interest-bearing accounts. Additionally, a compensating balance agreement exists with the Board's primary financial institution. This non-interest bearing deposit is maintained in lieu of cash payments for standard bank services. The required average balance totaled \$250,000 at June 30, 2016. Compliance is summarized as follows:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Fiduciary Responsibilities</b>	<b>Total</b>
Carrying amount of cash deposits	\$ 22,462,617	\$ 5,113	\$ 3,369,699	\$ 25,837,429
Bank balance of cash deposits	24,782,823	4,194	3,468,983	28,256,000
Amount covered by FDIC	499,605	2,028	878,067	1,379,700
Amount collateralized with securities held by an agent of the pledging financial institution in the School System's name	24,283,218	2,166	2,590,916	26,876,300

***Investments***

***Credit Risk***

Maryland statutes authorize the School System to invest in obligations of the United States government or agency obligations.

***Interest and Custodial Risk***

Investments are made in Federal government securities without risk of loss due to market conditions. The Board's investments, which include uninsured and unregistered investments, are held by a bank's trust department or agent in the School System's name. The Board's policy is generally to require delivery of the investments to a third party custodian.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 3 CASH AND INVESTMENTS (CONTINUED)**

***Foreign Currency Risk***

Maryland law does not permit the School System to have or hold any type of international investment vehicle.

***Market Risk***

The School System's investments are exposed to various risks, such as interest rate, market, currency and credit risks. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment assets reported in the financial statements.

As of June 30, 2016, the School System had the following investments and maturities:

	Governmental Activities	Business-Type Activities	Fiduciary Responsibilities	Total
Federal Farm Credit Bank - 1.100% matures October 15, 2018	\$ 5,500,110	\$ -	\$ -	\$ 5,500,110
Federal Home Loan Mortgage Corp. - 1.250% matures October 29, 2018	5,002,150	-	-	5,002,150
Federal National Mortgage Association - 1.250% matures January 30, 2019	4,000,600	-	-	4,000,600
Federal National Mortgage Association - 1.125% matures June 28, 2019	3,503,990	-	-	3,503,990
Federal Home Loan Bank - 1.370% matures October 24, 2019	3,000,090	-	-	3,000,090
Federal Home Loan Bank - 1.390% matures December 26, 2019	1,000,010	-	-	1,000,010
Income Fund of America	-	-	62,992	62,992
	<u>\$ 22,006,950</u>	<u>\$ -</u>	<u>\$ 62,992</u>	<u>\$ 22,069,942</u>

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Agencies	\$ 22,006,950	\$ -	\$ 22,006,950	\$ -	\$ -
Income Fund	62,992	62,992	-	-	-
	<u>\$ 22,069,942</u>	<u>\$ 62,992</u>	<u>\$ 22,006,950</u>	<u>\$ -</u>	<u>\$ -</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

**NOTE 4 RECEIVABLES AND PAYABLES**

Receivables and payables at June 30, 2016, consist of the following:

	Governmental Activities			Business	Total
	General	Capital Projects	Internal Service	Type Activities	
<b>Due From Other Governments</b>					
County	\$ -	\$ 623,380	\$ -	\$ -	\$ 623,380
State	1,688,715	2,610,075	-	-	4,298,790
Federal	3,101,858	-	-	327,223	3,429,081
Other MD school systems	165,860	-	-	-	165,860
	<u>\$ 4,956,433</u>	<u>\$ 3,233,455</u>	<u>\$ -</u>	<u>\$ 327,223</u>	<u>\$ 8,517,111</u>
<b>Other Receivables</b>					
Account	\$ 213,149	\$ -	\$ 16,436	\$ 32,168	\$ 261,753
School loans	9,000	-	-	-	9,000
Employees	1,964	-	-	-	1,964
Interest	44,028	-	7,908	-	51,936
	<u>\$ 268,141</u>	<u>\$ -</u>	<u>\$ 24,344</u>	<u>\$ 32,168</u>	<u>\$ 324,653</u>
<b>Accounts Payable</b>					
Vendors	\$ 4,089,034	\$ 3,014,400	\$ 949,229	\$ 91,317	\$ 8,143,980
Contractor retainages	21,116	167,670	-	-	188,786
	<u>\$ 4,110,150</u>	<u>\$ 3,182,070</u>	<u>\$ 949,229</u>	<u>\$ 91,317</u>	<u>\$ 8,332,766</u>
<b>Accrued Liabilities</b>					
Payroll and payroll taxes	\$ 18,529,639	\$ -	\$ 4,462	\$ 115,631	\$ 18,649,732
Pending insurance claims	-	-	3,123,917	-	3,123,917
Current portion of compensated absences reclassified in statement of net position	(375,260)	-	-	-	(375,260)
	<u>\$ 18,154,379</u>	<u>\$ -</u>	<u>\$ 3,128,379</u>	<u>\$ 115,631</u>	<u>\$ 21,398,389</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
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**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the years ended June 30, 2016 is as follows:

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land	\$ 8,692,987	\$ -	\$ -	\$ 8,692,987
Facilities under construction	8,277,129	10,373,517	(260,455)	18,390,191
	<u>16,970,116</u>	<u>10,373,517</u>	<u>(260,455)</u>	<u>27,083,178</u>
Capital Assets Being Depreciated				
Buildings and improvements	319,487,836	1,292,991	-	320,780,827
Furniture and equipment	45,780,323	3,429,462	(2,040,936)	47,168,849
Buildings and equipment under capital leases	9,426,852	4,440,983	-	13,867,835
	<u>374,695,011</u>	<u>9,163,436</u>	<u>(2,040,936)</u>	<u>381,817,511</u>
Accumulated Depreciation				
Buildings and improvements	(130,184,262)	(7,086,404)	-	(137,270,666)
Furniture and equipment	(29,002,794)	(3,291,504)	2,006,188	(30,288,110)
Buildings and equipment under capital leases	(1,305,820)	(451,322)	-	(1,757,142)
	<u>(160,492,876)</u>	<u>(10,829,230)</u>	<u>2,006,188</u>	<u>(169,315,918)</u>
Governmental Activities Capital Assets, Net	<u>\$ 231,172,251</u>	<u>\$ 8,707,723</u>	<u>\$ (295,203)</u>	<u>\$ 239,584,771</u>
<b>Business-Type Activities</b>				
Capital Assets Being Depreciated				
Furniture and equipment	\$ 4,797,296	\$ 270,008	\$ (3,044)	\$ 5,064,260
Accumulated Depreciation				
Furniture and equipment	<u>(3,338,777)</u>	<u>(199,379)</u>	<u>3,044</u>	<u>(3,535,112)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 1,458,519</u>	<u>\$ 70,629</u>	<u>\$ -</u>	<u>\$ 1,529,148</u>

Depreciation expense was charged in the statement of activities for the years ended June 30, 2016 as follows:

<b>Governmental Activities</b>	
Other instructional costs	\$ 1,787,560
Student transportation services	1,287,305
Operation of plant	176,080
Depreciation - unallocated	7,578,285
Total Governmental Activities Depreciation Expense	<u>\$ 10,829,230</u>
<b>Business-Type Activities</b>	
Food services	<u>\$ 199,379</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
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**NOTE 6    UNEARNED REVENUE**

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***General Fund***

Unearned revenue consists of summer school and other tuition, which is collected in advance and recorded as a liability since the corresponding expenditures do not occur until the following fiscal year. Additionally, revenues received under restricted programs in excess of the expenditures under those programs are included in unearned revenue.

***Enterprise Fund***

Unearned revenue includes commodities donated by the Federal government and included in inventory. Unearned revenue also includes student lunch ticket sales collected in advance which will be consumed by students in the subsequent fiscal year.

**NOTE 7    INTERFUND BALANCES AND TRANSFERS**

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The composition of interfund balances as of June 30, 2016 is as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
Current expense fund - unrestricted	Current expense fund - restricted	\$ 1,752,034
Capital projects fund	Current expense fund - unrestricted	\$ 611,861
Current expense fund - unrestricted	Self insurance fund	\$ 4,384,451
Food service fund	Current expense fund - unrestricted	\$ 663,513
Scholarship fund	Current expense fund - unrestricted	\$ 5

The above balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund receivables and payables are not interest-bearing and are normally settled in the subsequent period.

The School System approved interfund transfers of \$43,659 from the current expense fund to the food service fund for the year ended June 30, 2016, to pay for summer school meals, certain outdoor school meals, certain equipment and other costs, and a portion of compensation to employees.

**NOTE 8    LONG-TERM LIABILITIES**

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General long-term liabilities consist of capital lease obligations and accumulated compensated absences payable. The interest rates on the capital lease obligations range from 1.95% to 11.64%, with maturity dates up to March 2020. The capital lease obligations are secured by the equipment and real estate under lease.

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**NOTE 8 LONG-TERM LIABILITIES (CONTINUED)**

During fiscal year 2008, the School System began construction on a new school facility which was financed by proceeds received from a capital lease totaling \$8,324,000. During the fiscal year ended June 30, 2010, construction on this new school facility was completed and was reported as a capital asset. Lease payments of \$52,789 are payable monthly and include interest at a rate of 4.5% for a term of 20 years. Upon expiration of the lease, the School System will receive title and interest in the land and constructed facility. In May 2016, the Board voted to commit \$5,700,000 of fund balance for the purpose of paying off the lease. In July 2016, the lease was paid in full.

The following is a summary of changes in the School System's long-term liabilities for the year ended June 30, 2016.

	Balance June 30, 2015	Additions	Deductions/ Maturities	Balance June 30, 2016	Amounts Due Within One Year
<b>Governmental Activities</b>					
<b>Capital Leases</b>					
Barbara Ingram School	\$ 5,954,316	\$ -	\$ (372,666)	\$ 5,581,650	\$ 5,581,650
Copiers	1,049,199	52,968	(193,863)	908,304	211,452
IPads	-	4,388,015	(250,924)	4,137,091	1,963,019
	<u>7,003,515</u>	<u>4,440,983</u>	<u>(817,453)</u>	<u>10,627,045</u>	<u>7,756,121</u>
<b>Other Long-Term Liabilities</b>					
Compensated absences	<u>7,127,502</u>	<u>3,097,118</u>	<u>(3,129,700)</u>	<u>7,094,920</u>	<u>375,260</u>
<b>Governmental Activities</b>					
Long-Term Liabilities	<u>\$ 14,131,017</u>	<u>\$ 7,538,101</u>	<u>\$ (3,947,153)</u>	<u>\$ 17,721,965</u>	<u>\$ 8,131,381</u>
<b>Business-Type Activities</b>					
<b>Other Long-Term Liabilities</b>					
Compensated Absences	<u>\$ 253,927</u>	<u>\$ 92,369</u>	<u>\$ (93,893)</u>	<u>\$ 252,403</u>	<u>\$ 1,156</u>

The compensated absences liability attributable to the governmental activities will be liquidated solely by the General Fund.

Following is a schedule of future minimum lease payments under capital leases as of June 30, 2016:

Years Ended June 30,	Total	Principal	Interest
2017	\$ 7,988,322	\$ 7,756,121	\$ 232,201
2018	796,781	710,845	85,936
2019	1,119,074	1,062,366	56,708
2020	1,118,566	1,097,713	20,853
	<u>\$ 11,022,743</u>	<u>\$ 10,627,045</u>	<u>\$ 395,698</u>

The following is an analysis of the buildings and equipment acquired through capital leases, which is included in capital assets on the statement of net position at June 30, 2016:

Cost	\$ 13,867,835
Less accumulated depreciation	<u>(1,757,142)</u>
	<u>\$ 12,110,693</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
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**NOTE 10 GOVERNMENTAL FUND BALANCES**

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The detail of the fund balance classifications aggregated on the balance sheet as of June 30, 2016 are as follows:

	<b>General Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b>Fund Balances</b>			
Nonspendable			
Inventory	\$ 97,048	\$ -	\$ 97,048
Prepays	345,544	-	345,544
Total Nonspendable	<u>442,592</u>	<u>-</u>	<u>442,592</u>
Committed			
School loans	335,562	-	335,562
BIFSA capital lease	5,700,000	-	5,700,000
Technology	48,948	-	48,948
Facilities	4,583,425	-	4,583,425
Total Committed	<u>10,667,935</u>	<u>-</u>	<u>10,667,935</u>
Assigned			
Encumbrances	<u>7,791,951</u>	<u>-</u>	<u>7,791,951</u>
Unassigned			
	2,585,404	663,245	3,248,649
	<u>\$ 21,487,882</u>	<u>\$ 663,245</u>	<u>\$ 22,151,127</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
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**NOTE 11 RISK MANAGEMENT**

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The School System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disasters. The School System is one of seventeen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Group Insurance Pool (the Pool), a public entity risk pool organized as a trust. The School System pays an annual premium to the Pool for its property, liability, and automobile coverage. Such premiums are actuarially calculated for the Pool as a whole based on loss data and are allocated to members based on student enrollment, number, and type of vehicles as well as experience modification factors. The Pool is reinsured on a claims-made basis for legal liability, covering claims aggregating \$3 million per district per year.

Additionally, the School System is one of seventeen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Workers' Compensation Group Self-Insurance Fund (the Fund). The Fund was established as a public entity risk pool organized to provide workers' compensation indemnity and medical benefits coverage for participating school boards. The Fund is operated under regulations promulgated by the State's Workers' Compensation Commission (COMAR 14.09.02). Each Fund participant pays an annual premium calculated on its payroll, according to the standard classifications, with an experience modification applied. Premiums billed to the Fund members are determined on an actuarial basis. Six months following the end of the Fund's fiscal year, the Fund's trustees declare unneeded funds as surplus and may distribute 50% of the declared surplus as dividends or rate stabilization to the Fund members. This dividend distribution is made no sooner than one year after the close of that fiscal year. Members dedicate the remaining 50% of the surplus each year to a surplus fund until it reaches 75% net annual premium. The Fund carries an excess insurance policy providing specific excess and employer liability protection coverage, thus reducing the potential of assessment against Fund members. The Fund provides coverage for up to a maximum of \$500,000 for each worker's compensation claim.

Settled claims from these risks have not exceeded the insurance plan coverage during any of the past three years.

The School System also offers a program of self-insured health, dental, and vision benefits to its employees and retirees. Charges are made to other Funds, employees, and retirees for their respective share of the costs in amounts planned to match the estimated claims, the cost of insurance premiums for coverage in excess of self-insured amounts, and the administrative costs in providing the program. Such costs are also offset by interest income earned from investing receipts until they are paid out in the form of claims or expenses. Administrative costs directly related to the program are borne by the Self-Insurance Fund.

In accordance with the Governmental Standards Board's Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", charges to other funds must be accounted for as revenue by an internal service fund and expenditures/expenses by the other funds. The amounts of these charges were \$31,077,727 for the year ended June 30, 2016.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
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**NOTE 11 RISK MANAGEMENT (CONTINUED)**

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The Self-Insurance Fund’s accrued liabilities include an estimate of the amount to be paid for self-insured claims incurred prior to June 30, 2016. This estimate is prepared based upon the School System’s experience and other relevant facts. Changes in the Fund’s claims liability amount for the year ended June 30, 2016, was as follows:

Liability at Beginning of Year	\$ 2,625,050
Claims and changes in estimates during the year	44,668,598
Claims paid	<u>(44,169,731)</u>
Liability at End of Year	<u>\$ 3,123,917</u>

**NOTE 12 PENSION PLANS**

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***Summary of Significant Accounting Policies***

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

***General Information About the Pension Plans***

***Plan Description***

The School System participates in the Maryland Teachers’ Retirement System (TRS), the Maryland Teachers’ Pension System (TPS), the Maryland State Employee’s Retirement System (ERS), and the Maryland State Employee’s Pension System (EPS). These are multiple-employer cost sharing public employee retirement systems administered by the Maryland State Retirement and Pension System in accordance with the State of Maryland Personnel and Pensions Article of the Annotated Code of Maryland. Eligible professional and clerical personnel are covered under TRS or TPS. Eligible maintenance, custodial, and food service personnel are covered under ERS or EPS.

**NOTE 12 PENSION PLANS (CONTINUED)**

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***General Information About the Pension Plans (Continued)***

***Benefits Provided***

***Maryland Teachers' Pension System***

Under TPS, there are two membership classes. All employees who were members on or before June 30, 2011, participate in the Alternate Contributory Pension Selection (ACPS) and all employees who enroll after July 1, 2011 participate in the Reformed Contributory Pension Benefit (RCPB). ACPS members are eligible for early retirement benefits after attainment of the age of 55 with at least 15 years of eligible service and RCPB members are eligible for early retirement up attaining the age of 60 with at least 15 years of eligible services. ACPS members qualify for normal retirement benefits upon (a) completing 30 years of eligible service, (b) reaching age 62 with 5 years of eligible service, (c) reaching age 63 with 4 years of eligible service, (d) reaching age 64 with 3 years of eligible services, or (e) reaching age 65 or older with 2 years of eligible service. RCPB members qualify for normal retirement benefits when they attain a combined age and eligibility service of at least 90 years or after reaching age 65 with 10 years of eligible service. Benefits are generally equal to 1.5% to 3% of the member's final average salary multiplied by the number of years of credited service, depending upon membership class.

Participants are eligible for ordinary disability retirement benefits after completing five years of service. The benefit allowance is computed on the basis that the service continues until age 62 without any change in rate of earnable compensation. If disability occurs after age 62, the benefit is based on creditable service at time of retirement. Participants are eligible for accidental disability retirement benefits if the disability occurred in the actual performance of the employee's duty. The accidental disability benefit is equal to two-thirds of the employee's average final compensation for the three highest consecutive years as a member plus the annuity provided by accumulated member contributions, but cannot be greater than the average final compensation.

Death benefits are payable upon the death of an active member who was eligible to retire or had at least 25 years of eligible service, was at 55 years old and had at least 15 years of eligible service, or if the active member was killed in the line of duty. Such benefits consist of a one-time lump sum payment equal to the member's annual earnable compensation at the time of death, plus accumulated member contributions.

***Maryland Teachers' Retirement System***

Under TRS, the members are eligible for full service retirement allowances upon attaining the age of 60 or upon accumulating 30 years of eligibility service regardless of age. TRS members are eligible for early service retirement allowances upon accumulating at least 25 years prior to attaining age 60.

**NOTE 12 PENSION PLANS (CONTINUED)**

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***Maryland Teachers' Retirement System (Continued)***

They are also eligible for ordinary disability retirement allowance upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job function. TRS 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. The accidental disability benefit is equal to two-thirds of the employee's average final compensation for the three highest consecutive years as a member plus the annuity provided by accumulated member contributions, but cannot be greater than the average final compensation.

To be eligible for death benefits under the TRS plan, members must have either accumulated at least one year of eligible service prior to the date of death or died in the line of duty. Such benefits consist of a one-time lump sum payment equal to the member's annual earnable compensation at the time of death, plus accumulated member contributions.

***Maryland State Employee's Pension System***

Under the EPS plan, members are eligible for full service pension allowance upon accumulating 30 years of eligibility regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowance: (a) age 62 and five years of eligibility service, (b) age 63 and four years of eligibility service, (c) age 64 and three years of eligibility service, or (d) age 65 or older and two years of eligibility service. Members are eligible for early service pension liability upon attaining age 55 with at least 15 years of service.

There are also eligible for ordinary disability retirement allowance upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job function. TRS 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. The accidental disability benefit is equal to two-thirds of the employee's average final compensation for the three highest consecutive years as a member plus the annuity provided by accumulated member contributions, but cannot be greater than the average final compensation.

To be eligible for death benefits under the EPS plan, members must have either accumulated at least one year of eligible service prior to the date of death or died in the line of duty. Such benefits consist of a one-time lump sum payment equal to the member's annual earnable compensation at the time of death, plus accumulated member contributions.

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**NOTE 12 PENSION PLANS (CONTINUED)**

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***Maryland State Employee's Retirement System***

Under ERS, the members are eligible for full service retirement allowances upon attaining the age of 60 or upon accumulating 30 years of eligibility service regardless of age. TRS members are eligible for early service retirement allowances upon accumulating at least 25 years prior to attaining age 60.

They are also eligible for ordinary disability retirement allowance upon completing five years of eligibility service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job function. ERS 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. The accidental disability benefit is equal to two-thirds of the employee's average final compensation for the three highest consecutive years as a member plus the annuity provided by accumulated member contributions, but cannot be greater than the average final compensation.

To be eligible for death benefits under the ERS plan, members must have either accumulated at least one year of eligible service prior to the date of death or died in the line of duty. Such benefits consist of a one-time lump sum payment equal to the member's annual earnable compensation at the time of death, plus accumulated member contributions.

***Contributions***

Members of the TPS and TRS plans are required to make contributions to the plan equal to 7% of earnable compensation.

For the year ended June 30, 2016 the School System is responsible for paying 100% of the normal cost related to the TPS and TRS plans. The State of Maryland is responsible for paying 100% of the School System's past service cost related to the TPS and TRS plans. This arrangement meets the criteria of a special funding situation in accordance with Governmental Accounting Standards. Contributions made by the State on the School System's behalf amounted to \$16,646,100. The contributions are recognized as revenues and expenditures in the Unrestricted Current Expense Fund as required by Governmental Accounting Standards. The normal cost of \$5,768,524 on these plans was paid by the School System.

Members of the EPS and ERS plans are required to make contributions to the plan from 2% to 7% of earnable compensation depending on the plan selected and the date they enrolled.

The School System is responsible for paying 100% of the retirement expense related to the EPS and ERS plans. Contributions made by the School System amounted to \$1,651,954.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
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**NOTE 12 PENSION PLANS (CONTINUED)**

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

At June 30, 2016, the School System reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the School System. The amount recognized by the School System 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 School System were as follows:

	<b>Teachers' Retirement and Pension System</b>	<b>Employees' Retirement and Pension System</b>
School System's proportionate share of net pension liability	\$ -	\$ 18,386,392
State's proportionate share of net pension liability associated with the School System	<u>164,126,551</u>	<u>-</u>
	<u>\$ 164,126,551</u>	<u>\$ 18,386,392</u>

The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School System's proportion of the net pension liability was based on a projection of the School System's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, Libraries and the State, actuarially determined. At June 30, 2015, the School System's proportion was .0884739% for the EPS and ERS plans.

Since the State of Maryland pays the unfunded liability and the School System pays the normal cost for the TPS and TRS plans, the local Boards of Education are not required to record their share of the unfunded pension liability but instead, that liability is to be recorded by the State of Maryland.

For the year ended June 30, 2016, the School System recognized pension expense of \$23,915,666 related to governmental activities and \$265,603 related to business-type activities. As of June 30, 2016, the School System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in assumptions	\$ 1,086,981	\$ -
Net difference between projected and actual investment earnings	1,619,458	-
Difference between actual and expected experience	-	1,637,107
School System contributions subsequent to the measurement date	<u>1,651,954</u>	<u>-</u>
	<u>\$ 4,358,393</u>	<u>\$ 1,637,107</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
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**NOTE 12 PENSION PLANS (CONTINUED)**

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\$1,651,954 reported as deferred outflows of resources related to pensions resulting from the School System contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2017	\$	159,167
2018	\$	159,167
2019	\$	159,167
2020	\$	159,167
2021	\$	432,664

***Actuarial Methods and Assumptions***

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2015, using the entry age normal actuarial cost method. Inflation is assumed to be 2.95% for general and 3.45% for wages. The discount rate and long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.55%. Mortality rates were based on the RP-2000 Combined Healthy Mortality table projected to the year 2025.

***Investments***

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-term Expected Real Rate of Return</b>
Public equity	35%	6.30%
Fixed income	10%	0.60%
Credit/Debt Strategies	10%	3.20%
Real return	14%	1.80%
Absolute return	10%	4.20%
Private equity	10%	7.20%
Real estate	10%	4.40%
Cash	1%	0.00%
<b>Total</b>	<b>100%</b>	

**WASHINGTON COUNTY BOARD OF EDUCATION**  
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**NOTE 12 PENSION PLANS (CONTINUED)**

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***Discount Rate***

A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits 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 School System's proportionate share of the net pension liability to changes in the discount rate***

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.55%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

	<b>1% Decrease to 6.55%</b>	<b>Current Discount Rate (7.55%)</b>	<b>1% Increase to 8.55%</b>
School System's proportionate share of the net pension liability - EPS and ERS	\$ 25,986,344	\$ 18,386,392	\$ 12,084,516

***Additional financial and actuarial information***

Additional financial information supporting the preparation of the Schedule of Employer Allocations and the Schedule of Pension Amounts by Employer (including the disclosure of the net pension liability and the unmodified audit opinion on the financial statements) is located in the System's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

This can be found at [www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2015.pdf](http://www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2015.pdf).

**WASHINGTON COUNTY BOARD OF EDUCATION**  
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**NOTE 13 POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN**

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***Plan Description***

In addition to providing the pension benefits described, the School System provides post-employment health care and life insurance benefits (OPEB) for retired employees, their spouses and dependents, and surviving spouses and dependents. On April 15, 2008, the Board created the Retiree Benefit Trust of the Board of Education of Washington County (the "Trust") in order to arrange for the establishment of a reserve to pay health and welfare benefits for future retirees. The Trust is affiliated with the Maryland Association of Boards of Education Pooled OPEB Investment Trust, an agent multiple-employer public employee retirement system established by the Maryland Association of Boards of Education ("MABE"). The Board reserves the right to establish and amend the provisions of the trust with respect to participants, any benefit provided thereunder, or its participation therein, in whole or in part at any time, by resolution of its governing body and upon advance written notice to the Trustees. The Maryland Association of Boards of Education Pooled OPEB Investment Trust issues an annual financial report for the Trust. That report may be obtained by writing to Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401, or by calling 1-800-841-8197.

A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension system. Retirees can continue the same medical coverage they had (including family coverage) as active employees. Retirees receive a subsidy for their post-retirement medical insurance based on points (Age + Service). A minimum of 66 points (with 5 years of service) is required to receive a subsidy. The maximum subsidy of 85% is reached at 85 points (note that this is a blended subsidy percentage based on the subsidy for each plan and the current enrollment distribution). Retirees with less than 66 points are allowed access, but must pay 100% of the published rates.

***Funding Policy***

The School system is required to recognize the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB accounting standards. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

***Annual OPEB Cost and Net OPEB Obligation***

The School System had an actuarial valuation performed for the plan as of June 30, 2016 to determine the funded status of the plan as of that date as well as the employer's annual required contribution (ARC). The fiscal year 2016 estimated annual OPEB cost (expense) of \$27,266,000 was \$3,000 more than the ARC, due to adjustments related to amortization and interest on the net OPEB obligation. The School System made contributions to the plan during the year ended June 30, 2016 of \$16,730,030, resulting in a decrease of the net OPEB receivable of \$411,890 and creation of a payable. The balance of the net OPEB payable at June 30, 2016 is \$13,444,644.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 13 POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (CONTINUED)**

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The School System’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years is as follows:

<b>Fiscal Year Ended June 30,</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation (Benefit)</b>
2014	\$ 16,324,000	75.95%	\$ (4,718,849)
2015	\$ 16,986,000	74.64%	\$ (411,890)
2016	\$ 27,266,000	49.18%	\$ 13,444,644

***Funded Status and Funding Progress***

The funded status of the plan as of June 30, 2016, was as follows:

Actuarial accrued liability (AAL)	\$ 317,648,000
Actuarial value of plan assets	40,897,700
Unfunded actuarial accrued liability (UAAL)	<u>\$ 276,750,300</u>
Funded ratio (actuarial value of plan assets/AAL)	12.88%

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

***Actuarial Methods and Assumptions***

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

In the June 30, 2016, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 6.9 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.0 percent initially, decreasing gradually to 5.3 percent. Both rates include a 2.3 percent inflation assumption. The plan’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2016, was twenty-one years.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 14 FAIR VALUE MEASUREMENTS**

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Government Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- **Level 1** – Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities.
- **Level 2** – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed securities and swap agreements.
- **Level 3** – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity’s own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows:

	Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 486	\$ 486	\$ -	\$ -
Government Agency Securities	22,006,950	-	22,006,950	-
Mutual Fund - Income Fund	62,506	62,506	-	-
	<u>\$ 22,069,942</u>	<u>\$ 62,992</u>	<u>\$ 22,006,950</u>	<u>\$ -</u>

The fair value measurement for these assets are based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the hierarchy.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Financial Statements**  
**June 30, 2016**

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**NOTE 15 COMMITMENTS AND CONTINGENCIES**

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***Legal Proceedings***

In the normal course of operations, the School System is subject to lawsuits and claims. In the opinion of management, the disposition of such lawsuits and claims will not have a material effect on the School System's financial position or results of operations.

***Encumbrances***

As of June 30, 2016, the School system had outstanding purchase orders of \$9,943,882. These amounts are partially included in assigned fund balance in the appropriate funds.

Current expense fund - unrestricted	\$ 7,177,769
Current expense fund - restricted	614,182
Capital projects fund	2,089,283
Food services fund	62,648
	<u>\$ 9,943,882</u>

***School Construction and Major Repairs***

As of June 30, 2016, the School system entered into various school construction commitments that will be funded by the State of Maryland or County sources, totaling approximately \$2,826,754, and are included in encumbrances.

***Operating Leases***

The School System leases classroom space, cafeteria space, storage, and parking deck passes for the Barbara Ingram School for the Arts. These leases are renewable on an annual basis. The lease for the parking deck spaces does not have a set term. Total required minimum monthly payments for the year ending June 30, 2017 are approximately \$95,264. Rent expense for these leases amounted to \$127,267 for the year ended June 30, 2016.

***Grant Programs***

The School System participates in a number of state and federally assisted grant programs that are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* for the current year. The amount of expenditures, which may be disallowed by the granting agencies, cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Required Supplementary Information – Budgetary Comparison Schedule**  
**Unrestricted Current Expense Fund**  
**(Unaudited)**  
**Year Ended June 30, 2016**

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	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Amended Budget Favorable (Unfavorable)
	Original	Amended		
<b>REVENUES</b>				
Local	\$ 94,844,030	\$ 94,844,030	\$ 94,844,030	\$ -
State of Maryland	163,678,279	163,778,279	163,989,286	211,007
Federal government	30,000	30,000	27,901	(2,099)
Tuition	88,500	86,000	85,830	(170)
Investment income	150,000	180,000	207,262	27,262
Other	531,965	564,465	476,509	(87,956)
	<u>259,322,774</u>	<u>259,482,774</u>	<u>259,630,818</u>	<u>148,044</u>
<b>EXPENDITURES</b>				
Administration	6,854,643	6,568,606	6,394,611	173,995
Mid-level administration	17,662,682	17,241,632	17,143,641	97,991
Instructional salaries	100,392,998	98,091,655	98,221,485	(129,830)
Instructional textbooks and supplies	6,227,461	6,236,163	6,069,078	167,085
Other instructional costs	3,703,376	4,313,301	4,405,811	(92,510)
Special education	21,908,459	22,109,184	22,339,298	(230,114)
Student personnel services	1,546,926	1,517,691	1,510,756	6,935
Student health services	4,009,441	3,919,476	3,910,385	9,091
Student transportation services	12,220,663	11,797,688	11,583,290	214,398
Operation of plant	21,375,318	20,523,108	19,684,107	839,001
Maintenance of plant	8,105,977	9,625,890	10,541,176	(915,286)
Fixed charges	54,107,015	54,893,615	54,393,710	499,905
Food service transfers	20,000	20,000	17,666	2,334
Capital outlay - buildings and improvements	1,187,815	1,121,340	1,118,709	2,631
	<u>259,322,774</u>	<u>257,979,349</u>	<u>257,333,723</u>	<u>645,626</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ 1,503,425</u>	<u>2,297,095</u>	<u>\$ 793,670</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Adjustments to Conform with Generally Accepted Accounting Principles			(607,607)	
Interfund transfers			<u>(2,051,052)</u>	
Total Other Financing Sources (Uses)			<u>(2,658,659)</u>	
(Deficit) of Revenues and Other Financing Sources Over Expenditures			(361,564)	
<b>FUND BALANCE - BEGINNING OF YEAR</b>			<u>21,849,446</u>	
<b>FUND BALANCE - END OF YEAR</b>			<u>\$ 21,487,882</u>	

\*The School System does not complete an annual budget for the restricted portion of the Current Expense Fund.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Required Supplementary Information**  
**Other Post – Employment Benefits – Schedule of Funding Progress**  
**(Unaudited)**  
**Year Ended June 30, 2016**

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<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (A)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (B)</b>	<b>Unfunded AAL (UAAL) (B-A)</b>	<b>Funded Ratio (A/B)</b>
6/30/2012	\$ 23,034,693	\$ 155,894,618	\$ 132,859,925	14.78%
6/30/2014	\$ 36,803,823	\$ 185,310,000	\$ 148,506,177	19.86%
6/30/2016	\$ 40,897,700	\$ 317,648,000	\$ 276,750,300	12.88%

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of School System's Proportionate Share of the Net Pension Liability**  
**Maryland State Retirement and Pension System**  
**Employees' Retirement and Pension System**  
**Last 10 Fiscal Years\* (Unaudited)**

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	<b>2015</b>	<b>2016</b>
School System's proportion of the net pension liability	0.0811%	0.0885%
School System's proportionate share of the net pension liability	\$ 14,395,785	\$ 18,386,392
State's proportionate share of the net pension liability associated with the School System	-	-
<b>Total</b>	<b>\$ 14,395,785</b>	<b>\$ 18,386,292</b>
School System's covered-employee payroll	\$ 19,299,035	\$ 19,748,847
School System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	74.59%	93.10%
Plan fiduciary net position as a percentage of the total pension liability	71.87%	68.78%

**Notes**

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For MSRPS, the measurement period year-end is one year prior to the fiscal year-end.

\* This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of School System's Proportionate Share of the Net Pension Liability**  
**Maryland State Retirement and Pension System**  
**Teachers' Retirement and Pension Plan**  
**Last 10 Fiscal Years\* (Unaudited)**

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	<b>2015</b>	<b>2016</b>
School System's proportion of the net pension liability	0.0%	0.0%
School System's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with the School System	<u>131,873,740</u>	<u>164,126,551</u>
<b>Total</b>	<b>\$ 131,873,740</b>	<b>\$ 164,126,551</b>
School System's covered-employee payroll	\$ 135,148,647	\$ 137,189,948
School System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	71.87%	68.78%

**Notes**

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For MSRPS, the measurement period year-end is one year prior to the fiscal year-end.

\* This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of School System's Contributions**  
**Maryland State Retirement and Pension System**  
**Employees' Retirement and Pension System**  
**Last 10 Fiscal Years\* (Unaudited)**

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	<b>2015</b>	<b>2016</b>
Contractually required contribution	\$ 1,864,791	\$ 1,651,954
Contributions in relation to the contractually required contribution	<u>1,864,791</u>	<u>1,651,954</u>
Contribution deficiency (excess)	\$ -	\$ -
School System's covered-employee payroll	\$ 19,748,847	\$ 21,533,807
Contributions as a percentage of covered-employee payroll	9.44%	7.67%

**Notes**

The amounts presented for each fiscal year were determined as of the measurement period year-end that was used for the fiscal year. For MSRPS, the measurement period year-end is one year prior to the fiscal year-end.

\* This schedule will be expanded to show 10 fiscal years once information becomes available in the future.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Notes to Required Supplementary Information**  
**June 30, 2016**

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**NOTE 1 RECONCILIATION OF BUDGETARY BASIS TO GAAP**

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Actual results of operations are presented in the Budgetary Comparison Schedule on the budgetary basis of accounting, in order to provide a meaningful comparison of actual results with budget estimates. Under the budgetary basis, encumbrances are recorded as the equivalent of expenditures, as opposed to only an assignment of fund balance as on a GAAP basis. With respect to capital leases, the School System recognizes the annual debt service requirements as a current expense for budgetary purposes. Capital lease proceeds and the corresponding acquisition expense are not recognized on the budget basis. In addition, retirement contributions made by the State on behalf of the School System, and donations of fixed assets received are not recognized as revenue and current expense on the budget basis.

	<b>Revenues and Other Financing Sources</b>	<b>Expenditures, Encumbrances, and Transfers</b>	<b>Current Year Effect on Fund Balance</b>
Unrestricted Current Expense Fund			
Budgetary Basis	\$ 259,630,818	\$ 257,333,723	\$ 2,297,095
Budget to GAAP Reconciliation			
Prior year encumbrances expended during current year	-	7,392,687	(7,392,687)
Retirement contribution made by the State on behalf of the School System	16,646,100	16,646,100	-
Increase in reserve for school loans	59,322	-	59,322
Donations of fixed assets and materials received	5,649	5,649	-
Current year encumbrances outstanding, June 30, 2016	-	(6,725,758)	6,725,758
Revenues from restricted current expense fund	19,735,930	-	19,735,930
Expenditures from restricted current expense fund	-	19,735,930	(19,735,930)
Total Reconciling Items	36,447,001	37,054,608	(607,607)
Current Expense Fund - GAAP Basis	\$ 296,077,819	\$ 294,388,331	\$ 1,689,488

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Combining Balance Sheet – General Fund**  
**June 30, 2016**

	<b>Current Expense</b>		<b>Combined</b>
	<b>Unrestricted</b>	<b>Restricted</b>	
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 22,462,617	\$ -	\$ 22,462,617
Investments	14,502,860	-	14,502,860
Due from other governments	642,143	4,314,290	4,956,433
Due from other funds	6,136,485	(1,752,034)	4,384,451
Accounts receivable	241,577	26,564	268,141
Inventory, at cost	97,048	-	97,048
Prepaid items	345,544	-	345,544
	<u>345,544</u>	<u>-</u>	<u>345,544</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 44,428,274</u></b>	<b><u>\$ 2,588,820</u></b>	<b><u>\$ 47,017,094</u></b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 3,981,859	\$ 128,290	\$ 4,110,149
Accrued liabilities	17,683,154	846,485	18,529,639
Due to other funds	1,275,379	-	1,275,379
Unearned revenue	-	1,614,045	1,614,045
	<u>-</u>	<u>1,614,045</u>	<u>1,614,045</u>
Total Liabilities	<u>22,940,392</u>	<u>2,588,820</u>	<u>25,529,212</u>
<b>Fund Balances</b>			
Nonspendable	442,594	-	442,594
Committed	10,667,935	-	10,667,935
Assigned	7,177,769	-	7,177,769
Unassigned	3,199,584	-	3,199,584
	<u>3,199,584</u>	<u>-</u>	<u>3,199,584</u>
Total Fund Balances	<u>21,487,882</u>	<u>-</u>	<u>21,487,882</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 44,428,274</u></b>	<b><u>\$ 2,588,820</u></b>	<b><u>\$ 47,017,094</u></b>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**General Fund**  
**Year Ended June 30, 2016**

	<b>Current Expense</b>		<b>Combined</b>
	<b>Unrestricted</b>	<b>Restricted</b>	
<b>REVENUES</b>			
Local	\$ 94,844,030	\$ -	\$ 94,844,030
State of Maryland	180,635,386	1,534,732	182,170,118
Federal government	27,901	15,712,745	15,740,646
Tuition	85,830	-	85,830
Investment income	207,262	-	207,262
Other	541,480	437,402	978,882
	<u>276,341,889</u>	<u>17,684,879</u>	<u>294,026,768</u>
<b>EXPENDITURES</b>			
<b>Current</b>			
Administration	6,769,541	575,136	7,344,677
Mid-level administration	17,184,124	769,118	17,953,242
Instructional salaries	98,221,485	5,855,057	104,076,542
Instructional textbooks and supplies	6,617,009	2,696,441	9,313,450
Other instructional costs	3,786,005	580,530	4,366,535
Special education	22,273,441	4,278,855	26,552,296
Student personnel services	1,512,127	31,850	1,543,977
Student health services	3,768,243	385	3,768,628
Student transportation services	11,773,998	172,877	11,946,875
Operation of plant	19,391,623	480,574	19,872,197
Maintenance of plant	10,123,475	394,157	10,517,632
Community services	-	58,973	58,973
Fixed charges	71,039,810	3,669,095	74,708,905
Capital outlay - buildings and improvements	1,008,680	146,890	1,155,570
<b>Capital Lease Payments</b>			
Principal	817,452	-	817,452
Interest	347,722	-	347,722
	<u>274,634,735</u>	<u>19,709,938</u>	<u>294,344,673</u>
Excess (Deficit) of Revenues Over Expenditures	1,707,154	(2,025,059)	(317,905)
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers - food service	(17,666)	(25,993)	(43,659)
Interfund transfers	(2,051,052)	2,051,052	-
	<u>(2,068,718)</u>	<u>2,025,059</u>	<u>(43,659)</u>
(Deficit) of Revenues and Other Financing Sources Over Expenditures	(361,564)	-	(361,564)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>21,849,446</u>	<u>-</u>	<u>21,849,446</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 21,487,882</u>	<u>\$ -</u>	<u>\$ 21,487,882</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**General Fund (Budgetary Basis)**  
**Year Ended June 30, 2016**

	<b>Current Expense</b>		<b>Combined</b>
	<b>Unrestricted</b>	<b>Restricted</b>	
<b>REVENUES</b>			
Local	\$ 94,844,030	\$ -	\$ 94,844,030
State of Maryland	163,989,286	1,585,253	165,574,539
Federal government	27,901	15,559,656	15,587,557
Tuition	85,830	-	85,830
Investment income	207,262	-	207,262
Other	476,509	53,500	530,009
	<u>259,630,818</u>	<u>17,198,409</u>	<u>276,829,227</u>
<b>EXPENDITURES</b>			
<b>Current</b>			
Administration	6,394,611	575,136	6,969,747
Mid-level administration	17,143,641	770,818	17,914,459
Instructional salaries	98,221,485	5,855,057	104,076,542
Instructional textbooks and supplies	6,069,078	2,487,088	8,556,166
Other instructional costs	4,405,811	576,326	4,982,137
Special education	22,339,298	4,287,054	26,626,352
Student personnel services	1,510,756	31,850	1,542,606
Student health services	3,910,385	385	3,910,770
Student transportation services	11,583,290	172,877	11,756,167
Operation of plant	19,684,107	487,469	20,171,576
Maintenance of plant	10,541,176	(363,071)	10,178,105
Community services	-	63,696	63,696
Fixed charges	54,393,710	3,669,094	58,062,804
Food service transfers	17,666	100,598	118,264
Capital outlay - buildings and improvements	1,118,709	535,084	1,653,793
	<u>257,333,723</u>	<u>19,249,461</u>	<u>276,583,184</u>
Excess (Deficit) of Revenues Over Expenditures	2,297,095	(2,051,052)	246,043
<b>OTHER FINANCING SOURCES (USES)</b>			
Adjustments to Conform with Generally Accepted Accounting Principles	(607,607)	-	(607,607)
Interfund transfers	(2,051,052)	2,051,052	-
	<u>(2,658,659)</u>	<u>2,051,052</u>	<u>(607,607)</u>
Total Other Financing Sources (Uses)	(2,658,659)	2,051,052	(607,607)
(Deficit) of Revenues and Other Financing Sources Over Expenditures	(361,564)	-	(361,564)
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>21,849,446</u>	<u>-</u>	<u>21,849,446</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 21,487,882</u>	<u>\$ -</u>	<u>\$ 21,487,882</u>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Combining Statement of Net Position – Fiduciary Funds (Agency Funds)**  
**June 30, 2016**

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	<b>Fringe Benefits Fund</b>	<b>School Activity Fund</b>	<b>Combined</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 13,652	\$ 3,291,328	\$ 3,304,980
<b>TOTAL ASSETS</b>	<u>\$ 13,652</u>	<u>\$ 3,291,328</u>	<u>\$ 3,304,980</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 13,652	\$ 33,178	\$ 46,830
Due to student groups	-	3,258,150	3,258,150
<b>TOTAL LIABILITIES</b>	<u>\$ 13,652</u>	<u>\$ 3,291,328</u>	<u>\$ 3,304,980</u>



**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***

Members of the Board  
Washington County Board of Education  
Hagerstown, Maryland

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Washington County Board of Education (School System), a component unit of Washington County, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School System’s basic financial statements and have issued our report thereon dated September 22, 2016.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audit of the financial statements, we considered the School System’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 School System’s internal control. Accordingly, we do not express an opinion on the effectiveness of the School System’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (Finding 16-001).



### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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*.

### ***School System's Response to Findings***

The School System's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The School System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***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.

*Smith Elliott Kearns & Company, LLC*

Hagerstown, Maryland  
September 22, 2016



**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Members of the Board  
Washington County Board of Education  
Hagerstown, Maryland

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited the Washington County Board of Education’s (School System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School System’s major federal programs for the year ended June 30, 2016. The School System’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

***Management’s Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the School System’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School System’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the School System’s compliance with those requirements.



### ***Opinion on Each Major Federal Program***

In our opinion, the School System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

### **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Management of the School System is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the School System's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School System's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

### ***Purpose of this Report***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Smith Elliott Kearns & Company, LLC*

Hagerstown, Maryland  
September 22, 2016

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

PROGRAM	PROJECT NUMBER	GRANT NUMBER	FEDERAL CATALOGUE NUMBER	PROJECT PERIOD	TOTAL GRANT AMOUNT	Passed Through Subrecipients	FY-2016 REVENUE RECOGNIZED & EXPENDITURES
<b>U. S. DEPARTMENT OF AGRICULTURE</b>							
<b>PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION</b>							
<b>CHILD NUTRITION CLUSTER:</b>							
SCHOOL BREAKFAST	N/A	N/A	10.553	7/1/14-6/30/15	\$ 2,173,165	-	\$ -
SCHOOL BREAKFAST	N/A	N/A	10.553	7/1/15-6/30/16	2,346,482	-	2,346,482
<b>TOTAL PROGRAM</b>					<b>4,519,647</b>	-	<b>2,346,482</b>
USDA COMMODITIES USED	N/A	N/A	10.555	7/1/14-6/30/15	605,036	-	4,395
USDA COMMODITIES USED	N/A	N/A	10.555	7/1/15-6/30/16	643,266	-	643,266
NATIONAL SCHOOL LUNCH	N/A	N/A	10.555	7/1/14-6/30/15	4,517,916	-	-
NATIONAL SCHOOL LUNCH	N/A	N/A	10.555	7/1/15-6/30/16	4,739,920	-	4,739,920
AFTER SCHOOL PROGRAM SNACKS	N/A	N/A	10.555	7/1/15-6/30/16	2,376	-	2,376
HEALTHY HUNGER FREE KIDS ACT ADDITIONAL SUBSIDY	N/A	N/A	10.555	7/1/14-6/30/15	125,135	-	-
HEALTHY HUNGER FREE KIDS ACT ADDITIONAL SUBSIDY	N/A	N/A	10.555	7/1/15-6/30/16	124,622	-	124,622
<b>TOTAL PROGRAM</b>					<b>10,758,271</b>	-	<b>5,514,579</b>
SUMMER FOOD SERVICE PROGRAM	N/A	N/A	10.559	7/1/14-6/30/15	185,489	-	-
SUMMER FOOD SERVICE PROGRAM	N/A	N/A	10.559	7/1/15-6/30/16	244,849	-	244,849
<b>TOTAL PROGRAM</b>					<b>430,338</b>	-	<b>244,849</b>
<b>TOTAL NUTRITION CLUSTER</b>					<b>15,708,256</b>	-	<b>8,105,910</b>
AFTER SCHOOL SUPPERS	N/A	N/A	10.558	7/1/14-6/30/15	354,671	-	-
AFTER SCHOOL SUPPERS	N/A	N/A	10.558	7/1/15-6/30/16	351,874	-	351,874
CASH IN LIEU OF COMMODITIES	N/A	N/A	10.558	7/1/14-6/30/15	29,457	-	-
CASH IN LIEU OF COMMODITIES	N/A	N/A	10.558	7/1/15-6/30/16	27,222	-	27,222
<b>TOTAL PROGRAM</b>					<b>763,224</b>	-	<b>379,096</b>
HHFKA CULINARY SKILLS TRAINING	15253	154326-02	10.560	6/23/14-6/30/15	1,766	-	-
<b>TOTAL PROGRAM</b>					<b>1,766</b>	-	-
<b>DIRECT FEDERAL AWARD</b>							
HEALTHIER US SCHOOL CHILDREN (HUSSC)	15254	N/A	10.574	3/20/14-6/30/15	13,500	-	2,363
<b>PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION</b>							
TEAM NUTRITION WELLNESS LEADERS	16256	164171	10.574	7/1/15-8/31/16	20,000	-	18,647
<b>TOTAL PROGRAM</b>					<b>33,500</b>	-	<b>21,010</b>
2014 EQUIPMENT ASSISTANCE GRANT	15255	155487	10.579	7/1/14-9/30/16	17,960	-	-
2015 EQUIPMENT ASSISTANCE GRANT	16255	164825	10.579	10/1/15-9/30/17	63,395	-	5,395
<b>TOTAL PROGRAM</b>					<b>81,355</b>	-	<b>5,395</b>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2016**

PROGRAM	PROJECT NUMBER	GRANT NUMBER	FEDERAL CATALOGUE NUMBER	PROJECT PERIOD	TOTAL GRANT AMOUNT	Passed Through Subrecipients	FY-2016 REVENUE RECOGNIZED & EXPENDITURES
FRESH FRUIT AND VEGETABLE PROGRAM	N/A	N/A	10.582	7/1/14-6/30/15	68,789	-	-
FRESH FRUIT AND VEGETABLE PROGRAM	N/A	N/A	10.582	7/1/15-6/30/16	58,091	-	58,091
<b>TOTAL PROGRAM</b>					<b>126,880</b>	<b>-</b>	<b>58,091</b>
<b>TOTAL U. S. DEPARTMENT OF AGRICULTURE</b>					<b>16,714,981</b>	<b>-</b>	<b>8,569,502</b>
<b>U. S. DEPARTMENT OF COMMERCE</b>							
<b>PASSED THROUGH THE UNIVERSITY OF MARYLAND CENTER FOR ENVIRONMENTAL SCIENCE - APPALACHIAN LAB</b>							
NOAA BWET SYSTEMIC MWEE IMPLEMENTATION GRANT	16181	NA14NMF4570247	11.457	9/2/15-6/30/16	2,208	-	2,208
<b>TOTAL U. S. DEPARTMENT OF COMMERCE</b>					<b>2,208</b>	<b>-</b>	<b>2,208</b>
<b>U. S. DEPARTMENT OF LABOR</b>							
<b>PASSED THROUGH THE WESTERN MARYLAND CONSORTIUM</b>							
WESTERN MD CONSORTIUM-SUMMER STUDENT INTERVENTION PROGRAM FY15	15247	N/A	17.259	8/1/14-7/30/15	41,502	-	5,133
WESTERN MD CONSORTIUM-SUMMER STUDENT INTERVENTION PROGRAM FY16	16247	N/A	17.259	8/1/15-7/31/16	18,336	-	16,650
<b>TOTAL U. S. DEPARTMENT OF LABOR</b>					<b>59,838</b>	<b>-</b>	<b>21,783</b>
<b>U. S. DEPARTMENT OF EDUCATION</b>							
<b>PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION</b>							
TITLE I NEGLECTED/DELINQUENT FY14	14115	144908	84.010	7/1/13-9/30/14	183,954	-	-
TITLE I PART A FY15	15111	154371	84.010	7/1/14-6/30/16	5,962,298	-	1,324,401
TITLE I - NEGLECTED /DELINQUENT FY15	15115	155323	84.010	7/1/14-9/30/15	155,406	-	62,191
TITLE I APPROACHING TARGET FY15	15116	155160	84.010	7/1/14-10/31/15	116,358	-	61,748
TITLE I CONTINUING FOCUS GRANT	15121	154926/154996	84.010	7/1/14-10/31/15	69,150	-	11,525
TITLE I PART A FY16	16111	165109	84.010	7/1/15-6/30/17	5,710,325	-	4,841,567
TITLE I NEGLECTED & DELINQUENT FY16	16115	165418	84.010	7/1/15-9/30/16	191,874	-	122,443
TITLE I PART A SUPPLEMENTAL	16118	165608	84.010	7/1/14-9/30/16	3,244	-	939
TITLE I CONTINUING FOCUS GRANT FY16	16121	165150	84.010	7/1/15-10/31/16	55,000	-	39,077
<b>TOTAL PROGRAM</b>					<b>12,447,609</b>	<b>-</b>	<b>6,463,891</b>
<b>SPECIAL EDUCATION CLUSTER</b>							
SUPPLEMENTAL DISCRETIONARY PART B611-INFANT/TODDLER FY14	14331	145291	84.027	5/15/14-8/31/15	25,660	-	21,870
SUPPLEMENTAL DISCRETIONARY PART B611 FY14	14334	145243	84.027	5/15/14-8/31/15	51,694	-	29,451
DISCRETIONARY SUPPL-PART B 611 FY15	15342	155361-01	84.027	1/7/15-9/30/15	10,125	-	-
PASSTHROUGH FY 15	15360	154205-01	84.027	7/1/2014-9/30/15	4,515,483	-	698,417
PASSTHROUGH-PPSS FY15	15361	154205-02	84.027	7/1/2014-9/30/15	26,586	-	18,599
STATE DISCRETIONARY - SECAC FY15	15364	154205-05	84.027	7/1/2014-9/30/15	2,500	-	2,143
LOCAL PRIORITY FLEX-PARTNERS FOR SUCCESS FY15	15366	154205-06	84.027	7/1/2014-9/30/15	16,000	-	2,383
LOCAL PRIORITY FLEX-LOCALLY DETERMINED FY15	15367	154205-06	84.027	7/1/2014-9/30/15	93,202	-	39,989
LOCAL PRIORITY FLEX-COLLEGE/CAREER READINESS FY15	15368	154205-06	84.027	7/1/2014-9/30/15	11,000	-	2,165
STATE DISCRETIONARY-NCSC ASSESSMENT	15369	155536	84.027	3/31/15-8/31/15	23,250	-	23,250
INFANT/TODDLER-PART B FY15	15376	154244-02	84.027	7/1/2014-9/30/15	76,434	-	15,055
NCSC-REGIONAL COMMUNITIES OF PRACTICE TEAMS	15382	R00P5402337	84.027	3/11/15-7/31/15	5,533	-	-

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2016**

<b>PROGRAM</b>	<b>PROJECT NUMBER</b>	<b>GRANT NUMBER</b>	<b>FEDERAL CATALOGUE NUMBER</b>	<b>PROJECT PERIOD</b>	<b>TOTAL GRANT AMOUNT</b>	<b>Passed Through Subrecipients</b>	<b>FY-2016 REVENUE RECOGNIZED &amp; EXPENDITURES</b>
INFANT/TODDLER-PART B FY16	16376	164739	84.027	7/1/15-9/30/16	68,682	-	58,476
ONE TIME SUPPLEMENTAL GRANT (3 TO 21)	16342	164692-01	84.027A	7/1/15-8/31/16	50,294	-	22,281
ONE TIME SUPPLEMENTAL GRANT (3 TO K)	16348	164692-02	84.027A	7/1/15-8/31/16	25,170	-	12,432
PASSTHROUGH FY16	16360	164694-01	84.027A	7/1/15-9/30/17	4,440,666	-	3,739,193
PASSTHROUGH-PPSS FY16	16361	164694-02	84.027A	7/1/15-9/30/17	20,112	-	8,160
STATE DISCRETIONARY-SPECIAL ED ADVISORY CMTE FY16	16364	164694-03	84.027A	7/1/15-9/30/16	2,500	-	1,633
LOCAL PRIORITY FLEX-PARTNERS FOR SUCCESS FY16	16366	164694-04	84.027A	7/1/15-9/30/16	16,000	-	12,660
LOCAL PRIORITY FLEX-LOCALLY DETERMINED FY16	16367	164694-04	84.027A	7/1/15-9/30/16	88,678	-	76,202
LOCAL PRIORITY FLEX-SECONDARY TRANSITION FY16	16368	164694-04	84.027A	7/1/15-9/30/16	22,000	-	12,390
NATIONAL ASSOC OF STATE DIRECTORS OF SPECIAL ED	16369	164692-03	84.027A	7/1/15-8/31/16	600	-	553
INFANT/TODDLER-PART C ONE-TIME SUPPLEMENTAL	16383	164741	84.027A	7/1/15-8/31/16	33,530	-	28,485
<b>TOTAL SPECIAL EDUCATION CLUSTER</b>					<b>9,625,699</b>	<b>-</b>	<b>4,825,788</b>
<b>DIRECT FEDERAL AWARD</b>							
IMPACT AID	N/A	N/A	84.041	7/1/15-6/30/16	27,902	-	27,902
<b>TOTAL PROGRAM</b>					<b>27,902</b>	<b>-</b>	<b>27,902</b>
<b>PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION</b>							
PERKINS TITLE I FY15	15400	155120	84.048	7/1/14-6/30/15	258,036	-	55,367
CTE RESERVE FUND GRANTS FY15	15404	155135	84.048	7/1/14-9/30/15	31,933	-	4,961
PERKINS-TITLE I FY16	16400	165061	84.048	7/1/15-6/30/16	228,392	-	203,924
CTE RESERVE-ENVIRONMENTAL STUDIES	16405	165013	84.048	7/1/15-6/30/16	6,480	-	5,294
CTE RESERVE-CASE IMPLEMENTATION-HHS	16406	165013	84.048	7/1/15-6/30/16	15,383	-	15,383
CTE RESERVE-PRIORITY 4	16407	165013	84.048	7/1/15-6/30/16	6,304	-	4,629
<b>TOTAL PROGRAM</b>					<b>546,528</b>	<b>-</b>	<b>289,558</b>
DISCRETIONARY SUPPL-PART B (619) FY15	15348	155361-02	84.173	1/7/15-9/30/15	10,125	-	1,034
PRESCHOOL PASSTHROUGH FY15	15362	154205-03	84.173	7/1/2014-9/30/15	81,730	-	10,524
PRESCHOOL PASSTHROUGH-PPSS FY15	15363	154205-04	84.173	7/1/2014-9/30/15	328	-	315
INFANT/TODDLER-PART B(619) FY15	15377	154244-03	84.173	7/1/2014-9/30/15	7,000	-	266
PRESCHOOL PART B ONE-TIME DISCRETIONARY FUNDS	16334	164693-03	84.173A	7/1/15-9/30/17	5,000	-	-
PRESCHOOL PASSTHROUGH FY16	16362	164693-01	84.173A	7/1/15-9/30/17	81,745	-	62,127
PRESCHOOL PASSTHROUGH-PPSS FY16	16363	164693-02	84.173A	7/1/15-9/30/17	313	-	58
INFANT/TODDLER-PART B(619) FY16	16377	164740-01	84.173A	7/1/15-9/30/16	7,000	-	5,807
INFANT/TODDLER-PART B(619) PRESCHOOL FY16	16382	164740-02	84.173A	7/1/15-9/30/16	5,596	-	-
<b>TOTAL PROGRAM</b>					<b>198,837</b>	<b>-</b>	<b>80,130</b>
INFANT/TODDLER-PART C FY15	15375	154244-01	84.181	7/1/2014-9/30/15	132,838	-	19,043
INFANT/TODDLER PART C ONE-TIME DISCRETIONARY FUNDS	16331	164738-02	84.181A	7/1/15-9/30/17	10,000	-	-
INFANT/TODDLER-PART C FY16	16375	164738-01	84.181A	7/1/15-9/30/16	144,412	-	114,945
<b>TOTAL PROGRAM</b>					<b>287,250</b>	<b>-</b>	<b>133,988</b>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2016**

PROGRAM	PROJECT NUMBER	GRANT NUMBER	FEDERAL CATALOGUE NUMBER	PROJECT PERIOD	TOTAL GRANT AMOUNT	Passed Through Subrecipients	FY-2016 REVENUE RECOGNIZED & EXPENDITURES
EDUCATING HOMELESS CHILDREN AND YOUTH PROGRAMS	15106	155378	84.196A	7/1/14-9/30/15	56,156	-	45,103
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	16106	165561	84.196A	7/1/15-9/30/16	47,345	-	16,204
<b>TOTAL PROGRAM</b>					<b>103,501</b>	<b>-</b>	<b>61,307</b>
AP/IB TEST WAIVER	16177	165028	84.330	8/1/15-7/31/16	2,058	-	2,058
<b>TOTAL PROGRAM</b>					<b>2,058</b>	<b>-</b>	<b>2,058</b>
TITLE III LIMITED ENGLISH PROFICIENT & IMMIGRANTS	14113	144592	84.365A	7/1/13-9/30/15	55,580	-	-
TITLE III - ENGLISH LANGUAGE ACQUISITION FY15	15113	154441	84.365A	7/1/14-9/30/16	61,779	-	42,711
TITLE III SUMMER PD FUNDS	15114	155430	84.365A	3/4/15-9/30/15	5,989	-	4,973
TITLE III-ENGLISH LANGUAGE ACQUISITION-LEP	16113	164310-01	84.365A	7/1/16-9/30/17	63,993	-	7,578
TITLE III-ENGLISH LANGUAGE ACQUISITION-IMMIGRANTS	16114	164310-02	84.365A	7/1/15-9/30/17	4,996	-	2,474
TITLE III SUMMER COMPETITIVE GRANT	16123	165711	84.365A	5/10/16-9/30/16	2,894	-	738
TITLE III-UNACCOMPANIED MINORS	16117	164264	84.365B	7/1/15-9/30/16	28,337	-	26,568
<b>TOTAL PROGRAM</b>					<b>223,568</b>	<b>-</b>	<b>85,042</b>
<b>PASSED THROUGH THE WORCESTER COUNTY PUBLIC SCHOOLS</b>							
MATH/SCIENCE PARTNERSHIP-ENVIRONMENTAL/ENERGY-WORCESTER	15145	154323	84.366B	6/1/14-6/30/15	45,090	-	5,429
MATH/SCIENCE PARTNERSHIP-ENVIRONMENTAL/ENERGY-MTLS-WORCESTER	15146	154323	84.366B	6/1/14-6/30/15	7,680	-	(4,680)
MATH/SCIENCE PARTNERSHIP-MATH IN CHEMISTRY/BIOLOGY-WORCESTER	15147	155284	84.366B	1/1/15-6/30/16	54,942	-	37,953
MATH/SCIENCE PARTNERSHIP-MATH IN CHEMISTRY/BIOLOGY-MTLS-WORCESTER	15148	155284	84.366B	1/1/15-6/30/16	3,000	-	-
<b>TOTAL PROGRAM</b>					<b>110,712</b>	<b>-</b>	<b>38,702</b>
<b>PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION</b>							
TITLE II PART A FY14	14112	144779	84.367	7/1/13-6/30/15	758,763	-	-
TITLE II PART A FY15	15112	154949	84.367	7/1/14-6/30/16	766,440	-	569,708
TITLE II - PART A FY16	16112	165270	84.367	7/1/15-6/30/17	754,348	-	345,147
TITLE II-A RESTORED FUNDS	16119	164758	84.367	7/1/15-6/30/16	356	-	356
<b>TOTAL PROGRAM</b>					<b>2,279,907</b>	<b>-</b>	<b>915,210</b>
<b>DIRECT FEDERAL AWARD</b>							
TEACHER INCENTIVE FUND-YR 3	13140	S374A100006	84.374A	10/1/10-9/30/16	1,721,244	-	22,507
TEACHER INCENTIVE FUND-YR 4	14140	S374A100006	84.374A	10/1/10-9/30/16	1,132,718	-	56,152
TEACHER INCENTIVE FUND-YR 5	15140	S374A100006	84.374A	7/1/14-9/30/16	1,347,760	-	899,311
<b>TOTAL PROGRAM</b>					<b>4,201,722</b>	<b>-</b>	<b>977,970</b>
<b>PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION</b>							
RACE TO THE TOP-COLLEGE & CAREER READINESS FY15	15222	155625	84.395	4/1/2015-7/15/15	41,966	-	8,478
RACE TO THE TOP-PROMISING PRINCIPALS	15224	154610	84.395	8/1/14-6/30/15	2,938	-	-
RACE TO THE TOP-FAME COMMUNITIES OF PRACTICE SUBS	15230	154847	84.395	9/2/14-6/30/15	18,318	-	-
RACE TO THE TOP-STEM TEACHER SUBS FY15	15233	155264-01	84.395	12/1/14-6/30/15	4,500	-	(355)
RACE TO THE TOP-STEM TEACHER STIPENDS FY15	15234	155264-02	84.395	12/1/14-6/30/15	3,750	-	-
RACE TO THE TOP-FORMATIVE ASSESSMENT	15239	155074	84.395	10/2/14-6/30/15	357,528	-	154,093

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2016**

<b>PROGRAM</b>	<b>PROJECT NUMBER</b>	<b>GRANT NUMBER</b>	<b>FEDERAL CATALOGUE NUMBER</b>	<b>PROJECT PERIOD</b>	<b>TOTAL GRANT AMOUNT</b>	<b>Passed Through Subrecipients</b>	<b>FY-2016 REVENUE RECOGNIZED &amp; EXPENDITURES</b>
RACE TO THE TOP-SUPPLEMENTAL PROFESSIONAL LEARNING	15240	155576	84.395	5/1/15-7/15/15	274,435	-	-
RTTT-FORMATIVE ASSESSMENT PROJECT	16239	164619	84.395	7/1/14-8/28/15	83,445	-	83,445
<b>TOTAL PROGRAM</b>					<b>786,880</b>	<b>-</b>	<b>245,662</b>
RACE TO THE TOP-ELC-MAKING ACCESS HAPPEN	15235	155227	84.412	10/1/14-9/30/15	20,000	-	10,997
RACE TO THE TOP-EARLY LEARNING CHALLENGE-R4K	15238	155361-03	84.412	1/7/15-9/30/15	6,750	-	4,221
RACE TO THE TOP-EARLY CHILDHOOD COUNCIL FY14	14221	145121	84.412A	1/1/14-10/16/15	33,172	-	20,916
<b>TOTAL PROGRAM</b>					<b>59,922</b>	<b>-</b>	<b>36,134</b>
RTTT-PREKINDERGARTEN PROFESSIONAL DEVELOPMENT FY16	16161	164807	84.419B	7/1/15-6/30/16	440,640	-	429,163
<b>TOTAL PROGRAM</b>					<b>440,640</b>	<b>-</b>	<b>429,163</b>
<b>TOTAL U. S. DEPARTMENT OF EDUCATION</b>					<b>31,342,734</b>	<b>-</b>	<b>14,612,504</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>					<b>\$ 48,119,761</b>	<b>\$ -</b>	<b>\$ 23,205,997</b>

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2016**

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**NOTE 1 SINGLE AUDIT OVERVIEW**

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The Single Audit is the performance of a uniform audit of all the School System's federal grants in conjunction with the annual audit of the basic financial statements. The adoption of such a procedure was formalized by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). The Single Audit fulfills all the Federal agencies' audit requirements, which include financial, compliance and the adequacy of internal control. The programs tested as major programs are indicated on the Schedule of Expenditures of Federal Awards and on the Schedule of Findings and Questioned Costs.

**NOTE 2 FISCAL PERIOD AUDITED**

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Single audit testing procedures were performed for transactions occurring during the fiscal year ended June 30, 2016.

**NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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***Basis of presentation***

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the modified accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when expenditures are made in accordance with the requirements of the respective grants.

The School System's indirect cost rate is approved annually by the Maryland State Department of Education. For the year ended June 30, 2016, the indirect cost rate was 4.28%.

***Accrued and Unearned Reimbursement***

Various reimbursement procedures are used for federal awards received by the School System. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and end of the fiscal year. Accrued balances at year-end represent an excess of reimbursable expenditures over cash receipts to date. Unearned balances at year-end represent an excess of cash receipts over reimbursable expenditures to date. Generally, accrued or unearned balances caused by differences in the timing of cash receipts and expenditures will be reversed in the remaining grant period or subsequent fiscal year.

**NOTE 4 PROGRAM EXCLUSIONS**

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Medical assistance received under CFDA No. 93.778 has not been included in the accompanying Schedule of Expenditures of Federal Awards and is not subject to single audit testing since funding is received under a contractor-type relationship.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Expenditures of Federal Awards - Continued**  
**Year Ended June 30, 2016**

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**NOTE 4 PROGRAM EXCLUSIONS (CONTINUED)**

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Total expenditures of federal awards	\$ 23,205,997
Add:	
Medical Assistance - 93.778	1,077,746
Less:	
U.S. Dept of Agriculture/Food Service Subsidies <sup>1</sup>	(8,543,097)
Impact Aid - 84.041 <sup>2</sup>	<u>(27,902)</u>
Restricted Federal Government revenues per Combining Statement of Revenues, Expenditures and changes in Fund Balance - General Fund	<u>\$ 15,712,745</u>

<sup>1</sup> Included in proprietary fund - food service enterprise fund

<sup>2</sup> Included in the unrestricted fund

**NOTE 5 PROGRAM CLUSTERS**

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The following programs in the accompanying Schedule of Expenditures of Federal Awards have been clustered together in accordance with the *OMB Compliance Supplement* for determination of current year major programs. The child nutrition cluster includes the School Breakfast program CFDA No. 10.553, the National School Lunch program CFDA No. 10.555, and the Summer Food Service program for children CFDA No. 10.559. The special education cluster includes the Special Education – Grants to States program CFDA No. 84.027, and the Special Education Preschool Grants program CFDA No. 84.173, the Special Education – Grants to States. The special education cluster was considered a major program.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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**I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

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Financial Statements

Type of Auditor's report issued: Unmodified

Internal control over financial reporting:

Material Weakness(es) identified?            Yes   X   No

Significant deficiencies identified that are not considered to be material weaknesses?   X   Yes            None Reported

Noncompliance material to financial statements notes?            Yes   X   No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?            Yes   X   No

Significant deficiencies identified that are not considered to be material weaknesses?            Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be report in accordance with 2 CFR section 200.516(a)?            Yes   X   No

Identification of major programs:

<b>CFDA</b>	<b>Name of Federal Program or Cluster</b>
84.010	Title I
84.027 & 84.027A	Special Education Cluster
84.173 & 84.173A	Special Education Cluster
84.367	Title II
84.419B	RTTT-Prekindergarten

Dollar threshold used to distinguish between type A and type B programs:   \$750,000  

Auditee qualified as low-risk auditee?   X   Yes            No

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2016**

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**II. FINANCIAL STATEMENT FINDINGS**

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***Finding 16-001***

<b><i>Criteria</i></b>	The School System's bank accounts should be reconciled to the general ledger on a timely basis.
<b><i>Condition</i></b>	During the audit it was noted that the bank accounts were not reconciled to the general ledger on a timely basis. The bank reconciliations from January 2016 to June 2016 were not completed until August 2016 and still contained a reconciling difference of \$236. Also the review and approval of the bank reconciliations was not completed timely.
<b><i>Questioned Costs</i></b>	There were no questioned costs.
<b><i>Cause</i></b>	The bank accounts were not reconciled and reviewed on a timely basis.
<b><i>Effect</i></b>	The financial records may not accurately reflect the correct cash and other general ledger accounts of the school system.
<b><i>Recommendation</i></b>	The School System should reconcile the bank accounts on a timely manner and these reconciliations should be reviewed by management. Any corrections identified during the bank reconciliation process should be promptly made.
<b><i>Management's Response</i></b>	Management acknowledges the finding. While no improprieties occurred, staff understands that this situation created a temporary period where our usual bank reconciliation controls could not be performed.

***Causation and Attempts to Rectify***

- Data conversion of the outstanding payroll checks had not been completed prior to the going live on the new Tyler MUNIS software on January 1, 2016.
- As the payroll and accounts payable checks are reconciled using a combined process, no reconciliation could occur until the outstanding payroll check information was converted.
- WCPS staff and Tyler believed that this would be a short-term problem that would be quickly resolved after pay check generation was moved to the MUNIS system.
- After numerous attempts to load the outstanding check data and create "crosswalks" were unsuccessful, it became apparent that the solution would be more involved than originally anticipated.
- Nevertheless, management did not take this matter lightly. During the seven months between January and July 2016, WCPS staff members worked diligently amongst themselves and with Tyler, attempting to remedy this situation. During that time, WCPS has documented no less than twenty-two (22) e-mails between Accounting, IT, and Tyler about the various issues surrounding the payroll account reconciliation. There was a plethora of telephone and face to face conversations as well.

**WASHINGTON COUNTY BOARD OF EDUCATION**  
**Schedule of Findings and Questioned Costs (Continued)**  
**Year Ended June 30, 2016**

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- The timeframe for corrective action was exacerbated because Tyler had only one programmer with knowledge about the payroll cash reconciliation program. That individual was working on multiple projects and turnaround was often an issue.

***Current Status***

- It is important to note that during the period that staff could not reconcile the account, a control known as *Payee Positive Pay* was in place to ensure that no checks were paid that had not been properly issued by WCPS. The Director of Accounting also reviewed bank activity daily and compared balances to the general ledger monthly as a second compensating control.
- The bank account reconciliation program has now been working since mid-August.
- Going forward, the account will be reconciled on a monthly basis, just as it had been for years prior to the implementation of the Tyler MUNIS system.
- The unreconciled balance of \$236.26 will be monitored over the next several months to determine that it is a stable out-of-balance condition. Once that determination is made, it will be adjusted.

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

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No federal award findings and questioned costs reported for fiscal year ending June 30, 2016.

**IV. FY 2015 FINDINGS STATUS**

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No financial statement or federal award findings and questioned costs were reported for fiscal year ended June 30, 2015.