

Audited
Financial
Statements

June 30,
2017

WCPS | Washington County
Public Schools

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Smith Elliott Kearns & Company, LLC
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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, 2017, 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, 2017, 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 21, 2017, 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 Heavens & Company, LLC

Hagerstown, Maryland
September 21, 2017

WASHINGTON COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis

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, 2017. Please read it in conjunction with the basic financial statements that follow this section.

FINANCIAL HIGHLIGHTS

- 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 9.4% to \$197.6 million.
- Overall revenues were \$324.4 million, falling \$20.6 million short of expenses.
- The total cost of educational programs was \$332.8 million, a decrease of 0.7% from the past year. After related charges, fees, operating and capital grants and contributions, the net cost that required general revenue funding decreased by 1.5% to \$271.2 million.
- The net position of our business-type activities, i.e., School Food Service, increased slightly but remains in a small deficit position of \$110 thousand. Expenses were \$12.2 million while revenues were \$12.6 million.
- Investment income was lower due to a reduced level of investments during most of the year as a result of paying off the Barbara Ingram School for the Arts capital lease in the amount of \$5.7 million.
- Capital Projects Fund expenditures of \$4.0 million included capital maintenance work on our older schools and completion of the new Jonathan Hager Elementary School.
- The School System made a contribution of \$4.8 million to a trust fund established exclusively for the purpose of non-pension post-employment benefits.

OVERVIEW OF THE FINANCIAL STATEMENTS

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.

WASHINGTON COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis

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.

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

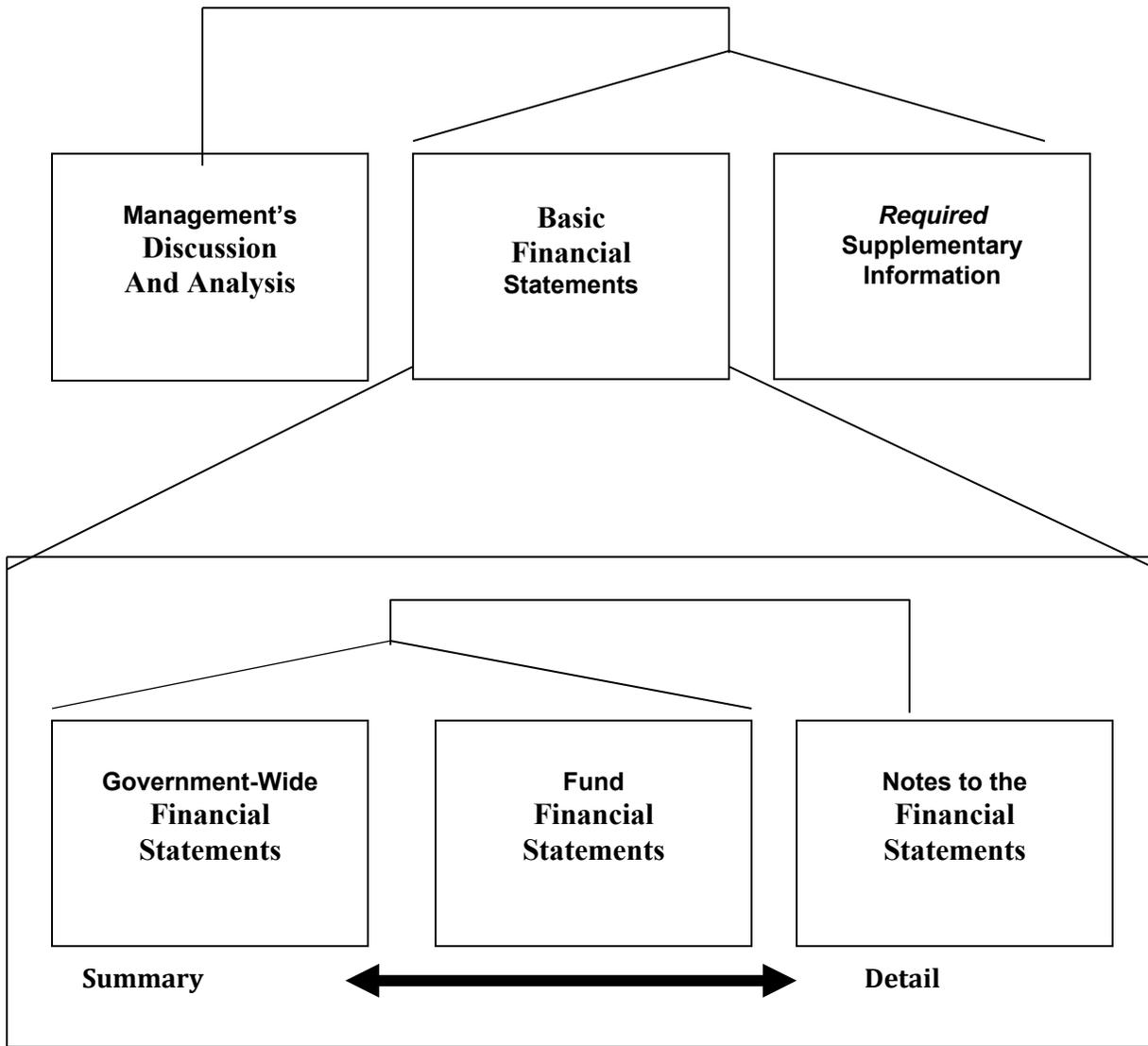


Figure 2 summarizes the major features of the School System's financial statements, including the portion of the activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each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

	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
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"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses, and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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

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.

WASHINGTON COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis

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.

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, 2017, than it was the previous year, decreasing by 9.4% to \$197.6 million (See Figure 3).

WASHINGTON COUNTY BOARD OF EDUCATION
Management's Discussion and Analysis

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

	Governmental Activities		Business-Type Activities		Total School System	
	2017	2016	2017	2016	2017	2016
Current & Other Assets	\$ 40.8	\$ 54.4	\$ 1.5	\$ 1.2	\$ 42.3	\$ 55.6
Capital assets	233.1	239.6	1.6	1.5	234.7	241.1
Deferred outflows of resources	4.7	3.6	1.0	0.7	5.7	4.3
Total Assets and Deferred Outflows of Resources	278.6	297.6	4.1	3.4	282.7	301.0
Long-term liabilities	54.9	46.4	3.6	3.4	58.5	49.8
Other liabilities	24.7	31.1	0.3	0.3	25.0	31.4
Deferred inflows of resources	1.3	1.4	0.3	0.3	1.6	1.7
Total Liabilities and Deferred Inflows of Resources	80.9	78.9	4.2	4.0	85.1	82.9
Net Position						
Net investment in capital assets	230.2	229.0	1.6	1.5	231.8	230.5
Restricted	-	-	-	-	-	-
Unrestricted	(32.5)	(10.3)	(1.7)	(2.1)	(34.2)	(12.7)
Total Net Position	\$ 197.7	\$ 218.7	\$ (0.1)	\$ (0.6)	\$ 197.6	\$ 218.1

Change in Net Position

The School System's total revenues were \$324.4 million (See Figure 4). Local funding amounted to 29.5%. State and federal funding amounted to 57.9% and 7.1%, respectively. The remaining 5.5% 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 0.8% lower than last year at \$345.0 million. The School System's expenses, as shown graphically in Figure 6, are predominately related to instructing, caring for and transporting students (54.8%). Administrative and business activities accounted for 2.0%, while employee benefits, the majority of which are related to personnel who provide direct student services, represented 30.9% of the total cost. Another 9.9% 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 2017 included instructional textbooks and supplies, special education, and employee benefits.

WASHINGTON COUNTY BOARD OF EDUCATION
Management's Discussion and Analysis

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

	Governmental Activities		Business-Type Activities		Total School System	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for services	\$ 10.9	\$ 10.3	\$ 3.3	\$ 3.2	\$ 14.2	\$ 13.5
Operating grants & contributions	48.4	49.7	9.1	9.0	57.5	58.7
Capital grants & contributions	2.3	0.0	0.0	0.0	2.3	0.0
General Revenues						
Local appropriation	95.6	100.3	-	-	95.6	100.3
State aid	153.9	157.5	-	-	153.9	157.5
Other	0.7	0.6	0.2	0.3	0.9	0.9
Total Revenues	311.8	318.4	12.6	12.5	324.4	330.9
Expenses						
Instruction & leadership	160.0	163.4	-	-	160.0	163.4
Student personnel & health services	5.5	5.3	-	-	5.5	5.3
Administration	7.0	7.4	-	-	7.0	7.4
Operation & maintenance of plant	34.1	33.5	-	-	34.1	33.5
Student transportation	11.6	11.2	-	-	11.6	11.2
Fixed charges (employee benefits)	106.6	106.5	-	-	106.6	106.5
Food services & other	-	0.1	12.2	12.6	12.2	12.7
Depreciation & interest	8.0	7.9	-	-	8.0	7.9
Total Expenses	332.8	335.3	12.2	12.6	345.0	347.9
Increase in Net Position	\$ (21.0)	\$ (16.9)	\$ 0.4	\$ (0.1)	\$(20.6)	\$(17.0)

Figure 5: Sources of Revenues for FY2017

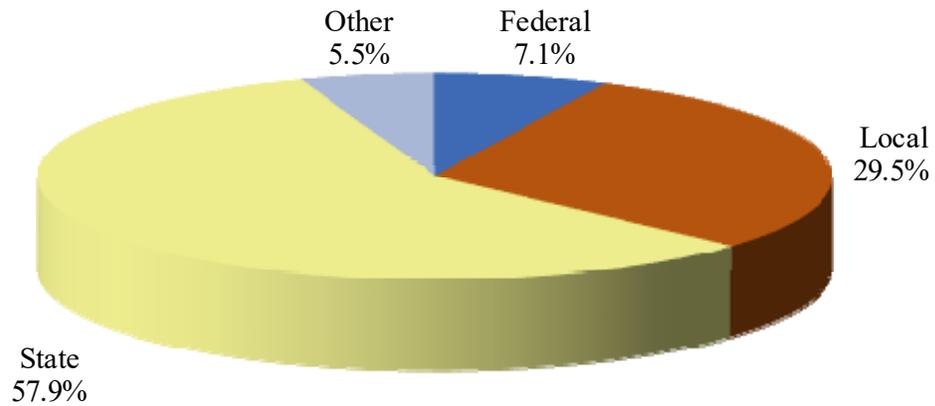
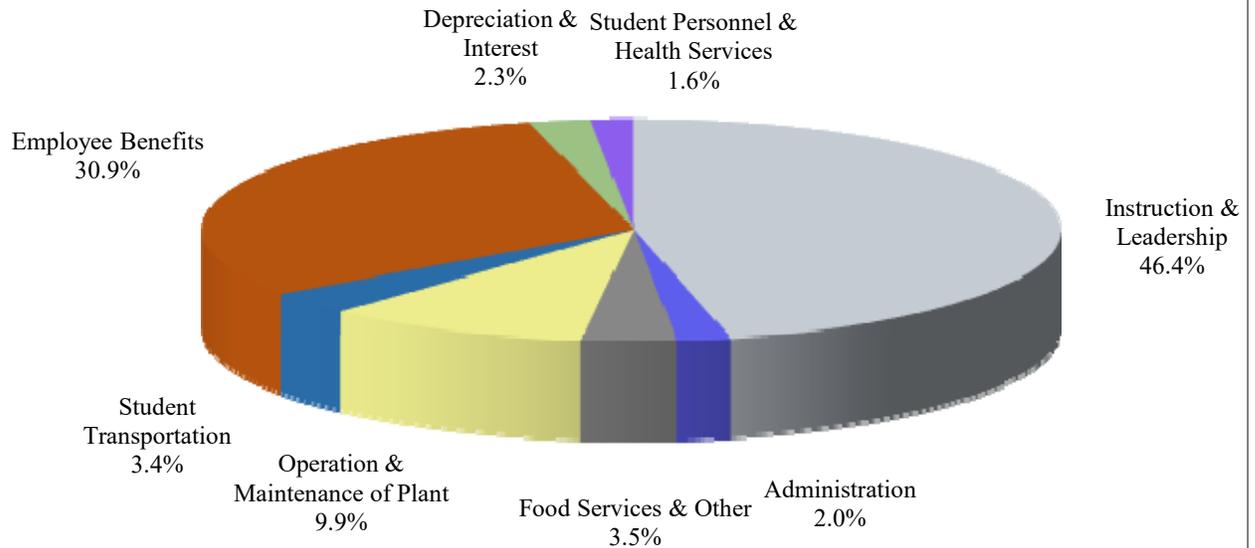


Figure 6: Expenses for FY2017



WASHINGTON COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis

Governmental Activities

General revenues for the governmental activities decreased 3.2% to \$250.2 million, while total expenses, net of charges for services and grants, decreased 1.5% to \$271.2 million. The decrease in net position for governmental activities was \$21.0 million and can be largely attributed to increases in the pension and other post-employment benefits obligations, 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.

Figure 7: Net Cost of Governmental Activities (in millions of dollars)

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction & instructional leadership	160.0	163.4	\$ 138.2	\$ 142.9
Student personnel & health services	5.5	5.3	5.5	5.3
Administration	7.0	7.4	6.7	6.8
Operation & maintenance of plant	34.1	33.5	33.0	32.6
Student transportation	11.6	11.2	4.2	3.9
Employee benefits	106.6	106.5	75.8	76.0
Food services and other	-	0.1	(0.2)	-
Depreciation & interest	8.0	7.9	8.0	7.9
Total	\$ 332.8	\$ 335.3	\$ 271.2	\$ 275.4

The cost of all governmental activities this year was \$332.8 million. Charges for services amounted to \$10.9 million, which were primarily amounts received from employees and retirees for health insurance premiums. Additionally, certain programs were subsidized to the extent of \$48.4 million by the federal (\$14.4 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 (\$271.2 million). Total local funding amounted to \$95.6 million, while the state contributed \$187.5 million and federal funding amounted to \$14.4 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

Business-Type Activities

School Food Service is the only business-type activity in the School System. Revenues of this business-type activity were \$12.6 million and expenses were \$12.2 million for fiscal year 2017 (See Figure 4). School Food Service's revenues exceeded expenses by \$441 thousand. Without depreciation expense, pension adjustments under GASB#68, and other adjustments to conform to generally accepted accounting principles, the business-type activities would have shown a \$315 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

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 \$19.5 million. This is down from last year's ending fund balance of \$22.1 million, resulting from an excess of expenses over revenues in the general fund due to the complete payoff in the amount of \$5.7 million of the Barbara Ingram School for the Arts capital lease debt.

Current Expense Fund (Governmental)

The current expense (general) funds had \$2.6 million less revenues than expenditures in fiscal year 2017. The resulting fund balance represents just 6.4% or a little more than three weeks' worth of annual expenditures. This \$2.6 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 essentially broke even with regard to revenues and 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 positive change in net position of \$441 thousand. This is due to higher sales and grants while at the same time controlling costs of food and labor.

WASHINGTON COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis

Self-Insurance Fund (Proprietary-Internal Service)

The self-insurance fund began the year with a fund balance of \$724.2 thousand. Excess expenses over revenues totaled \$4.9 million, due to a premium increase that was insufficient to cover claims and expenses. However, the loss was less than the \$6.1 million loss experienced in fiscal year 2016. The current loss resulted in a \$4.1 million deficit at year-end. Claims and other expenses were up 4.1% and revenue was up 7.7% due to an increase in premiums and enrollment. A substantial premium increase in fiscal year 2018 was implemented to reduce the deficit.

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 textbooks and supplies were slightly over budget due to intentional replacement of small computer devices to newer technology as part of the digital learning plan. Other instructional costs were over budget due to staff development and higher billing on students in state institutions. Student personnel services was slightly higher than expected due to social workers' salaries. Maintenance of plant was overspent due to redirected spending priorities and reduced county funding for maintenance projects.

The School System anticipates approval for a final budget adjustment from the funding authority for shifts between revenue and expense categories in October 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2017, the School System had invested \$231.9 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 \$1.4 million or 0.6% 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 \$12.3 million, while buildings, improvements and additions to equipment and furniture amounted to approximately \$1.4 million, net of a decrease in construction in progress of \$18.3 million.

The School System's enrollment increased 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 2018 capital budget forecasts that due to a lack of funding, the School System will spend only \$4.6 million for capital projects, as follows:

- Initial design costs for a replacement of Sharpsburg Elementary School in the southernmost part of the County,
- Design and construction costs related to the downtown Hagerstown Urban Education Campus up to \$4 million.

WASHINGTON COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis

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.

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 \$28.6 million in the statement of net position at June 30, 2017 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

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 \$16.3 million for this benefit in fiscal year 2017, 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.

WASHINGTON COUNTY BOARD OF EDUCATION

Management's Discussion and Analysis

CONTACTING THE SCHOOL SYSTEM'S FINANCIAL MANAGEMENT

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) 766-2831.

WASHINGTON COUNTY BOARD OF EDUCATION
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 16,484,893	\$ 129,209	\$ 16,614,102
Investments	18,448,603	-	18,448,603
Due from other governments	4,756,800	133,561	4,890,361
Internal balances	(936,627)	936,627	-
Accounts receivable	204,029	34,242	238,271
Inventory, at cost	96,891	244,932	341,823
Prepaid items	1,773,671	-	1,773,671
Capital Assets			
Land	8,657,807	-	8,657,807
Buildings and improvements	346,833,169	-	346,833,169
Furniture and equipment	48,974,852	5,218,682	54,193,534
Buildings and equipment under capital lease	5,543,835	-	5,543,835
Construction in process	127,650	-	127,650
Accumulated depreciation	<u>(177,059,057)</u>	<u>(3,573,839)</u>	<u>(180,632,896)</u>
Total Assets	<u>273,906,516</u>	<u>3,123,414</u>	<u>277,029,930</u>
Deferred outflows of resources	<u>4,673,572</u>	<u>977,665</u>	<u>5,651,237</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 278,580,088</u>	<u>\$ 4,101,079</u>	<u>\$ 282,681,167</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 6,568,984	\$ 82,426	\$ 6,651,410
Due to other funds	30,361	-	30,361
Accrued liabilities	15,968,615	35,994	16,004,609
Unearned revenue	2,192,436	168,998	2,361,434
Long-term liabilities			
Due Within One Year			
Compensated absences	656,355	-	656,355
Capital leases payable	710,845	-	710,845
Due After One Year			
Compensated absences	6,213,832	198,279	6,412,111
Capital leases payable	2,160,079	-	2,160,079
Other post-employment benefits	28,585,061	-	28,585,061
Net pension liability	<u>16,546,184</u>	<u>3,461,299</u>	<u>20,007,483</u>
Total Liabilities	<u>79,632,752</u>	<u>3,946,996</u>	<u>83,579,748</u>
Deferred inflows of resources	<u>1,264,400</u>	<u>264,500</u>	<u>1,528,900</u>
Net Position			
Net investment in capital assets	230,207,332	1,644,843	231,852,175
Unrestricted	<u>(32,524,396)</u>	<u>(1,755,260)</u>	<u>(34,279,656)</u>
Total Net Position	<u>197,682,936</u>	<u>(110,417)</u>	<u>197,572,519</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 278,580,088</u>	<u>\$ 4,101,079</u>	<u>\$ 282,681,167</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Statement of Activities
Year Ended June 30, 2017

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
GOVERNMENTAL ACTIVITIES							
Administration	\$ 6,960,922	\$ -	\$ 280,445	\$ -	\$ (6,680,477)	\$ -	\$ (6,680,477)
Mid-level administration	18,076,071	-	1,024,874	-	(17,051,197)	-	(17,051,197)
Instructional salaries	102,649,539	-	4,491,300	-	(98,158,239)	-	(98,158,239)
Instructional textbooks and supplies	7,558,501	203,030	481,840	-	(6,873,631)	-	(6,873,631)
Other instructional costs	4,677,949	-	469,443	2,247,136	(1,961,370)	-	(1,961,370)
Special education	27,007,814	-	12,856,714	-	(14,151,100)	-	(14,151,100)
Student personnel services	1,626,032	-	24,357	-	(1,601,675)	-	(1,601,675)
Student health services	3,871,950	-	1,961	-	(3,869,989)	-	(3,869,989)
Student transportation services	11,586,772	-	7,438,671	-	(4,148,101)	-	(4,148,101)
Operation of plant	19,959,624	-	371,096	-	(19,588,528)	-	(19,588,528)
Maintenance of plant	14,122,261	-	663,259	-	(13,459,002)	-	(13,459,002)
Fixed charges	106,653,231	10,704,765	20,106,922	-	(75,841,544)	-	(75,841,544)
Food services	-	-	161,325	-	161,325	-	161,325
Community services	53,821	-	53,821	-	-	-	-
Interest on long-term obligations	231,145	-	-	-	(231,145)	-	(231,145)
Depreciation - unallocated	7,777,072	-	-	-	(7,777,072)	-	(7,777,072)
Total Governmental Activities	<u>332,812,704</u>	<u>10,907,795</u>	<u>48,426,028</u>	<u>2,247,136</u>	<u>(271,231,745)</u>	<u>-</u>	<u>(271,231,745)</u>
BUSINESS-TYPE ACTIVITIES							
Food services	12,160,918	3,274,385	9,157,243	-	-	270,710	270,710
Total Business-Type Activities	<u>12,160,918</u>	<u>3,274,385</u>	<u>9,157,243</u>	<u>-</u>	<u>-</u>	<u>270,710</u>	<u>270,710</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 344,973,622</u>	<u>\$ 14,182,180</u>	<u>\$ 57,583,271</u>	<u>\$ 2,247,136</u>	<u>\$ (271,231,745)</u>	<u>\$ 270,710</u>	<u>\$ (270,961,035)</u>
General Revenues and Transfers							
Unrestricted Grants and Contributions							
Local	\$ 95,637,203	\$ -	\$ 95,637,203				
State	153,931,243	-	153,931,243				
Federal	25,728	-	25,728				
Investment earnings	228,779	24	228,803				
Other	558,722	(4,594)	554,128				
Transfers	(175,109)	175,109	-				
Total General Revenues and Transfers	<u>250,206,566</u>	<u>170,539</u>	<u>250,377,105</u>				
Change in Net Position					(21,025,179)	441,249	(20,583,930)
Net Position							
Beginning of year					<u>218,708,115</u>	<u>(551,666)</u>	<u>218,156,449</u>
End of year					<u>\$ 197,682,936</u>	<u>\$ (110,417)</u>	<u>\$ 197,572,519</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Balance Sheet – Governmental Funds
June 30, 2017

	General Fund (Current Expense)	Capital Projects Fund (School Construction)	Total Governmental Funds
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 16,484,893	\$ -	\$ 16,484,893
Investments	18,448,603	-	18,448,603
Due from other governments	2,705,729	2,051,071	4,756,800
Due from other funds	1,779,238	962,405	2,741,643
Accounts receivable	187,593	-	187,593
Inventory, at cost	96,891	-	96,891
Prepaid items	115,939	-	115,939
	<u>39,818,886</u>	<u>3,013,476</u>	<u>42,832,362</u>
TOTAL ASSETS	\$ 39,818,886	\$ 3,013,476	\$ 42,832,362
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 3,292,973	\$ 2,244,504	\$ 5,537,477
Accrued liabilities	13,621,185	-	13,621,185
Due to other funds	1,929,393	-	1,929,393
Unearned revenue	2,042,436	150,000	2,192,436
	<u>20,885,987</u>	<u>2,394,504</u>	<u>23,280,491</u>
Total Liabilities	20,885,987	2,394,504	23,280,491
Fund Balances			
Nonspendable	212,830	-	212,830
Committed	4,959,015	-	4,959,015
Assigned	8,173,927	-	8,173,927
Unassigned	5,587,127	618,972	6,206,099
	<u>18,932,899</u>	<u>618,972</u>	<u>19,551,871</u>
Total Fund Balances	18,932,899	618,972	19,551,871
TOTAL LIABILITIES AND FUND BALANCES	\$ 39,818,886	\$ 3,013,476	\$ 42,832,362

WASHINGTON COUNTY BOARD OF EDUCATION
Reconciliation of the Governmental Funds Balance Sheet to the Statement of
Net Position
June 30, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 19,551,871

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	\$ 410,137,314	
Accumulated depreciation	<u>(177,059,057)</u>	233,078,257

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. (4,140,362)

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	\$ 6,213,832	
Capital leases payable	2,870,925	
Other post-employment benefits	<u>28,585,061</u>	(37,669,818)

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	(16,546,184)	
Deferred outflows of resources	4,673,572	
Deferred inflows of resources	<u>(1,264,400)</u>	<u>(13,137,012)</u>

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 197,682,936

WASHINGTON COUNTY BOARD OF EDUCATION
Statement of Revenues, Expenditures and Changes In Fund Balance
Governmental Funds
Year Ended June 30, 2017

	General Fund (Current Expense)	Capital Projects Fund (School Construction)	Total Governmental Funds
REVENUES			
Local	\$ 94,844,030	\$ 793,173	\$ 95,637,203
State of Maryland	184,351,955	3,121,998	187,473,953
Federal government	14,409,419	-	14,409,419
Tuition	69,377	-	69,377
Investment income	222,461	-	222,461
Other	1,212,919	-	1,212,919
	<u>295,110,161</u>	<u>3,915,171</u>	<u>299,025,332</u>
EXPENDITURES			
Current			
Administration	6,969,544	-	6,969,544
Mid-level administration	18,251,830	-	18,251,830
Instructional salaries	102,649,539	-	102,649,539
Instructional textbooks and supplies	7,558,501	-	7,558,501
Other instructional costs	2,936,335	-	2,936,335
Special education	27,082,108	-	27,082,108
Student personnel services	1,626,032	-	1,626,032
Student health services	3,877,415	-	3,877,415
Student transportation services	11,754,204	-	11,754,204
Operation of plant	20,403,473	-	20,403,473
Maintenance of plant	8,998,806	3,405,259	12,404,065
Community services	53,821	-	53,821
Fixed charges	76,219,092	-	76,219,092
Capital outlay - buildings and improvements	1,123,488	554,185	1,677,673
Capital Lease Payments			
Principal	7,756,121	-	7,756,121
Interest	231,145	-	231,145
	<u>297,491,454</u>	<u>3,959,444</u>	<u>301,450,898</u>
Excess (Deficit) of Revenues Over Expenditures	(2,381,293)	(44,273)	(2,425,566)
OTHER FINANCING SOURCES (USES)			
Interfund transfers - food service	(173,690)	-	(173,690)
Excess (Deficit) of Revenues and Other Financing Sources (Uses) Over Expenditures	(2,554,983)	(44,273)	(2,599,256)
FUND BALANCE - BEGINNING OF YEAR	<u>21,487,882</u>	<u>663,245</u>	<u>22,151,127</u>
FUND BALANCE - END OF YEAR	<u>\$ 18,932,899</u>	<u>\$ 618,972</u>	<u>\$ 19,551,871</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balance to the Statement of Activities
Year Ended June 30, 2017

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (2,599,256)

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 depreciation expense exceeds capital outlays in the period.

Capital outlays	\$ 5,953,827	
Depreciation	<u>(12,071,732)</u>	(6,117,905)

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. (388,610)

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. 7,756,121

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 used exceeded the amounts earned.

Amounts earned	\$ (2,967,005)	
Amounts used	3,191,739	
Decrease in accrued balances	<u>281,095</u>	505,829

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. (15,140,417)

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. (4,864,518)

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. (176,423)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (21,025,179)

WASHINGTON COUNTY BOARD OF EDUCATION
Statement of Net Position – Proprietary Funds
June 30, 2017

	Enterprise Fund (Food Services)	Internal Service Fund (Self-Insurance)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 129,209	\$ -
Due from other governments	133,561	-
Due from other funds	936,627	-
Accounts receivable	34,242	16,436
Inventory, at cost	244,932	-
Prepaid items	-	1,657,732
Total Current Assets	<u>1,478,571</u>	<u>1,674,168</u>
Noncurrent Assets		
Food service equipment	5,218,682	-
Accumulated depreciation	<u>(3,573,839)</u>	<u>-</u>
Total Noncurrent Assets	<u>1,644,843</u>	<u>-</u>
Total Assets	<u>3,123,414</u>	<u>1,674,168</u>
Deferred outflows of resources	<u>977,665</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 4,101,079</u></u>	<u><u>\$ 1,674,168</u></u>
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 82,426	\$ 1,031,507
Accrued liabilities	35,994	3,003,785
Due to other funds	-	1,779,238
Unearned revenue	<u>168,998</u>	<u>-</u>
Total Current Liabilities	<u>287,418</u>	<u>5,814,530</u>
Noncurrent Liabilities		
Compensated absences	198,279	-
Net pension liability	<u>3,461,299</u>	<u>-</u>
Total Noncurrent Liabilities	<u>3,659,578</u>	<u>-</u>
Total Liabilities	<u>3,946,996</u>	<u>5,814,530</u>
Deferred inflows of resources	<u>264,500</u>	<u>-</u>
Net Position		
Net investment in capital assets	1,644,843	-
Unrestricted	<u>(1,755,260)</u>	<u>(4,140,362)</u>
Total Net Position	<u>(110,417)</u>	<u>(4,140,362)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 4,101,079</u></u>	<u><u>\$ 1,674,168</u></u>

WASHINGTON COUNTY BOARD OF EDUCATION
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds
Year Ended June 30, 2017

	Enterprise Fund (Food Services)	Internal Service Fund (Self-Insurance)
OPERATING REVENUES		
Food service sales	\$ 3,008,553	\$ -
Medicare Part D subsidy	-	1,027,563
Charges to other funds	-	33,598,869
Charges to employees and retirees	-	10,970,597
	<hr/>	<hr/>
Total Operating Revenues	3,008,553	45,597,029
OPERATING EXPENSES		
Payroll costs	5,668,073	80,603
Professional and contract services	-	2,886,152
Supplies and materials	5,290,790	-
Depreciation	254,318	-
Other post-employment benefits contribution	-	1,027,563
Insurance claims	-	46,473,547
Other operating costs	681,905	-
	<hr/>	<hr/>
Total Operating Expenses	11,895,086	50,467,865
	<hr/>	<hr/>
Operating (Loss)	(8,886,533)	(4,870,836)
NONOPERATING REVENUES (EXPENSES)		
Interest income	24	6,318
State matching and other	424,564	-
Federal grants and commodities	8,699,765	-
Other grants	32,914	-
Gain on disposition of equipment	(4,594)	-
	<hr/>	<hr/>
Total Nonoperating Revenues (Expenses)	9,152,673	6,318
	<hr/>	<hr/>
Net (Loss) Before Contributions and Transfers	266,140	(4,864,518)
CAPITAL CONTRIBUTIONS		
	1,420	-
INTERFUND TRANSFERS - CURRENT EXPENSE		
	173,689	-
	<hr/>	<hr/>
Change In Net Position	441,249	(4,864,518)
	<hr/>	<hr/>
NET POSITION - BEGINNING OF YEAR	(551,666)	724,156
	<hr/>	<hr/>
NET POSITION - END OF YEAR	<u>\$ (110,417)</u>	<u>\$ (4,140,362)</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2017

	Enterprise Fund (Food Services)	Internal Service Fund (Self-Insurance)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges and other funds	\$ 2,821,162	\$ -
Cash received from assessments made to other funds	-	38,497,746
Cash received from assessments made to employees and retirees	-	10,970,597
Cash received from Medicare Part D	-	1,027,563
Payments for other post-employment contributions	-	(1,027,563)
Insurance claims paid	-	(46,595,783)
Payments to employees for services	(5,758,723)	(82,961)
Payments to suppliers for goods and services	(4,788,755)	(2,803,825)
Payments for other operating expenses	(681,905)	-
	<u>(8,408,221)</u>	<u>(14,226)</u>
Net Cash (Used In) Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants received	8,731,791	-
Interfund transfers - current expense	173,689	-
	<u>8,905,480</u>	<u>-</u>
Net Cash Provided by Noncapital Financing Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisitions of capital assets	(368,593)	-
Proceeds from sale of capital assets	(4,594)	-
	<u>(373,187)</u>	<u>-</u>
Net Cash (Used In) Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	24	14,226
	<u>24</u>	<u>14,226</u>
Net Cash Provided by Investing Activities		
Net Increase in Cash and Cash Equivalents	124,096	-
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>5,113</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 129,209</u>	<u>\$ -</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Statement of Cash Flows – Proprietary Funds (Continued)
Year Ended June 30, 2017

	Enterprise Fund (Food Services)	Internal Service Fund (Self-Insurance)
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN		
OPERATING ACTIVITIES:		
Operating income (loss)	\$ (8,886,533)	\$ (4,870,836)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	254,318	-
Commodities used	619,114	-
Changes in assets and liabilities		
Receivables	(275,695)	4,898,877
Inventory	(108,188)	-
Prepays	-	49
Accounts payable	(8,891)	82,278
Accrued liabilities	(79,637)	(124,594)
Unearned revenue	87,797	-
Compensated absences	(54,124)	-
Net pension liability	43,618	-
	<u>43,618</u>	<u>-</u>
NET CASH (USED IN) OPERATING ACTIVITIES	<u>\$ (8,408,221)</u>	<u>\$ (14,226)</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Food commodities received from the U.S. Department of Agriculture	<u>\$ 619,114</u>	<u>\$ -</u>
Capital Contributions	<u>\$ 1,420</u>	<u>\$ -</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Statement of Net Position – Fiduciary Funds
June 30, 2017

	Private-Purpose Trust Fund (Scholarship)	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 65,091	\$ 3,450,590
Investments	66,765	-
Due from other funds	<u>30,360</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 162,216</u>	<u>\$ 3,450,590</u>
LIABILITIES		
Accounts payable	\$ -	\$ 90,501
Due to student groups	<u>-</u>	<u>3,360,089</u>
Total Liabilities	<u>-</u>	<u>3,450,590</u>
NET POSITION		
Held in trust for scholarships	<u>162,216</u>	<u>-</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 162,216</u>	<u>\$ 3,450,590</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Statement of Changes in Net Position - Fiduciary Fund (Private-Purpose Trust Fund)
Year Ended June 30, 2017

ADDITIONS	
Gifts and contributions	\$ 60,200
Investment income	<u>6,345</u>
Total Additions	<u>66,545</u>
DEDUCTIONS	
Scholarships awarded	<u>32,045</u>
Change in Net Position	34,500
NET POSITION - BEGINNING OF YEAR	<u>127,716</u>
NET POSITION - END OF YEAR	<u><u>\$ 162,216</u></u>

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
June 30, 2017

NOTE 1 OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 the 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, 2017

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

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 used to initially constrain the funds.

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
June 30, 2017

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, 2017, 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, 2017

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, 2017

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

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, 2017

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

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, 2017, 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, 2017

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

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, 2017 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, 2017 consists of the following:

	Governmental Activities	Business-Type Activities
<hr/>		
Government-Wide Activities		
Capital assets, net of accumulated depreciation	\$ 233,078,257	\$ 1,644,843
Capital leases payable	(2,870,924)	-
	<u>\$ 230,207,333</u>	<u>\$ 1,644,843</u>
	Enterprise Fund (Food Services)	
<hr/>		
Proprietary Funds		
Capital assets, net of accumulated depreciation	\$ 1,644,843	
Capital leases payable	-	
	<u>\$ 1,644,843</u>	

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
June 30, 2017

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

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 15 years of service or 55 years of age. Total unpaid vacation and sick leave accrued at June 30, 2017 amounted to \$7,068,466. Total employee related costs associated and accrued with these compensated absences amounted to \$502,311 at June 30, 2017. For governmental funds, \$656,355 at June 30, 2017 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, 2017. 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, 2017

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

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 of the standard plan, based on the points earned. There were 1,929 eligible retirees and their dependents at June 30, 2017. Total claims paid on behalf of retirees amounted to \$12,725,487 of which \$3,618,467 was reimbursed through contributions received from retirees for the year ended June 30, 2017.

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

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, 2017

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

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.

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, 2017

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)

Budget Compliance

At June 30, 2017, the School System had exceeded the amended expenditure budget for the following functions: instructional textbooks and supplies, other instructional costs, student personnel services and maintenance of plant. The School System anticipates approval from the County Commissioners for budget category transfers to cover these deficits in October 2017.

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, 2017. Compliance is summarized as follows:

	Governmental Activities	Business-Type Activities	Fiduciary Responsibilities	Total
Carrying amount of cash deposits	\$ 16,484,893	\$ 129,209	\$ 3,515,681	\$ 20,129,783
Bank balance of cash deposits	17,717,251	128,759	3,541,663	21,387,673
Amount covered by FDIC	249,183	94,294	3,436,136	3,779,613
Amount collateralized with securities held by an agent of the pledging financial institution in the School System's name	17,468,068	34,465	105,527	17,608,060

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, 2017

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. Agency bonds such as at the Federal Farm Credit bank, Federal National Mortgage Association and the Federal Home Loan Bank are issued by the Government Sponsored Enterprises (GSEs) and are not backed by the full faith and credit of the United States Government.

As of June 30, 2017, 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	\$ 5,499,373	\$ -	\$ -	\$ 5,499,373
Federal National Mortgage Association - 1% matures January 25, 2018	4,006,572	-	-	4,006,572
Federal National Mortgage Association - 1.250% matures January 30, 2019	4,000,000	-	-	4,000,000
Federal National Mortgage Association - 1.125% matures June 28, 2019	3,500,219	-	-	3,500,219
Federal Home Loan Bank - 1.370% matures October 24, 2019	442,285	-	-	442,285
Federal Home Loan Bank - 1.390% matures December 26, 2019	1,000,154	-	-	1,000,154
Income Fund of America	-	-	66,765	66,765
	<u>\$ 18,448,603</u>	<u>\$ -</u>	<u>\$ 66,765</u>	<u>\$ 18,515,368</u>

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Agencies	\$ 18,448,603	\$ -	\$ 18,448,603	\$ -	\$ -
Income Fund	66,765	66,765	-	-	-
	<u>\$ 18,515,368</u>	<u>\$ 66,765</u>	<u>\$ 18,448,603</u>	<u>\$ -</u>	<u>\$ -</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
June 30, 2017

NOTE 4 RECEIVABLES AND PAYABLES

Receivables and payables at June 30, 2017, consist of the following:

	Governmental Activities			Business	Total
	General	Capital Projects	Internal Service	Type Activities	
Due From Other Governments					
County	\$ -	\$ -	\$ -	\$ -	\$ -
State	1,107,306	2,051,071	-	4,951	3,163,328
Federal	1,528,100	-	-	128,610	1,656,710
Other MD school systems	70,324	-	-	-	70,324
	<u>\$ 2,705,730</u>	<u>\$ 2,051,071</u>	<u>\$ -</u>	<u>\$ 133,561</u>	<u>\$ 4,890,362</u>
Other Receivables					
Account	\$ 127,452	\$ -	\$ 16,436	\$ 34,242	\$ 178,130
School loans	6,000	-	-	-	6,000
Employees	2,000	-	-	-	2,000
Interest	52,141	-	-	-	52,141
	<u>\$ 187,593</u>	<u>\$ -</u>	<u>\$ 16,436</u>	<u>\$ 34,242</u>	<u>\$ 238,271</u>
Accounts Payable					
Vendors	\$ 3,007,835	\$ 2,032,559	\$ 1,031,507	\$ 82,426	\$ 6,154,327
Contractor retainages	285,138	211,945	-	-	497,083
	<u>\$ 3,292,973</u>	<u>\$ 2,244,504</u>	<u>\$ 1,031,507</u>	<u>\$ 82,426</u>	<u>\$ 6,651,410</u>
Accrued Liabilities					
Payroll and payroll taxes	\$ 13,621,185	\$ -	\$ 2,104	\$ 35,994	\$ 13,659,283
Pending insurance claims	-	-	3,001,681	-	3,001,681
Current portion of compensated absences reclassified in statement of net position	(656,355)	-	-	-	(656,355)
	<u>\$ 12,964,830</u>	<u>\$ -</u>	<u>\$ 3,003,785</u>	<u>\$ 35,994</u>	<u>\$ 16,004,609</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
June 30, 2017

NOTE 5 CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2017 is as follows:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 8,692,987	\$ -	\$ (35,180)	\$ 8,657,807
Facilities under construction	18,390,191	107,650	(18,370,191)	127,650
	<u>27,083,178</u>	<u>107,650</u>	<u>(18,405,371)</u>	<u>8,785,457</u>
Capital Assets Being Depreciated				
Buildings and improvements	320,780,827	28,450,574	(2,398,232)	346,833,169
Furniture and equipment	47,168,849	4,089,793	(2,283,790)	48,974,852
Buildings and equipment under capital leases	13,867,835	-	(8,324,000)	5,543,835
	<u>381,817,511</u>	<u>32,540,367</u>	<u>(13,006,022)</u>	<u>401,351,856</u>
Accumulated Depreciation				
Buildings and improvements	(137,270,666)	(7,485,383)	2,117,571	(142,638,478)
Furniture and equipment	(30,288,110)	(3,244,046)	771,664	(32,760,492)
Buildings and equipment under capital leases	(1,757,142)	(1,342,303)	1,439,358	(1,660,087)
	<u>(169,315,918)</u>	<u>(12,071,732)</u>	<u>4,328,593</u>	<u>(177,059,057)</u>
Governmental Activities Capital Assets, Net	<u>\$ 239,584,771</u>	<u>\$ 20,576,285</u>	<u>\$ (27,082,800)</u>	<u>\$ 233,078,256</u>
Business-Type Activities				
Capital Assets Being Depreciated				
Furniture and equipment	\$ 5,064,260	\$ 376,204	\$ (221,782)	\$ 5,218,682
Accumulated Depreciation				
Furniture and equipment	(3,535,112)	(254,318)	215,591	(3,573,839)
Business-Type Activities Capital Assets, Net	<u>\$ 1,529,148</u>	<u>\$ 121,886</u>	<u>\$ (6,191)</u>	<u>\$ 1,644,843</u>

Depreciation expense was charged in the statement of activities for the years ended June 30, 2017 as follows:

Governmental Activities	
Other instructional costs	\$ 2,719,886
Student transportation services	1,374,812
Operation of plant	207,980
Depreciation - unallocated	7,769,054
Total Governmental Activities Depreciation Expense	<u>\$ 12,071,732</u>
Business-Type Activities	
Food services	<u>\$ 254,318</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
June 30, 2017

NOTE 6 UNEARNED REVENUE

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

The composition of interfund balances as of June 30, 2017 is as follows:

Receivable Fund	Payable Fund	Amount
Current expense fund - restricted	Current expense fund - unrestricted	\$ 1,049,618
Capital projects fund	Current expense fund - unrestricted	\$ 962,405
Current expense fund - unrestricted	Self insurance fund	\$ 1,779,238
Food service fund	Current expense fund - unrestricted	\$ 936,627
Scholarship fund	Current expense fund - unrestricted	\$ 30,360

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 \$173,690 from the current expense fund to the food service fund for the year ended June 30, 2017, 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

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.

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
June 30, 2017

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 were payable monthly and included interest at a rate of 4.5% for a term of 20 years. 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 and the School System received title and interest in the land and constructed facility.

The following is a summary of changes in the School System's long-term liabilities for the year ended June 30, 2017.

	Balance June 30, 2016	Additions	Deductions/ Maturities	Balance June 30, 2017	Amounts Due Within One Year
Governmental Activities					
Capital Leases					
Barbara Ingram School	\$ 5,581,650	\$ -	\$ (5,581,650)	\$ -	\$ -
Copiers	908,304	-	(211,452)	696,852	230,114
Ipads	4,137,091	-	(1,963,019)	2,174,072	480,731
	<u>10,627,045</u>	<u>-</u>	<u>(7,756,121)</u>	<u>2,870,924</u>	<u>710,845</u>
Other Long-Term Liabilities					
Compensated absences	7,094,920	2,967,005	(3,191,739)	6,870,186	656,355
Governmental Activities					
Long-Term Liabilities	<u>\$ 17,721,965</u>	<u>\$ 2,967,005</u>	<u>\$ (10,947,860)</u>	<u>\$ 9,741,110</u>	<u>\$ 1,367,200</u>
Business-Type Activities					
Other Long-Term Liabilities					
Compensated Absences	<u>\$ 252,403</u>	<u>\$ 59,515</u>	<u>\$ (113,639)</u>	<u>\$ 198,279</u>	<u>\$ -</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, 2017:

Years Ended June 30,	Total	Principal	Interest
2018	\$ 796,781	\$ 710,845	\$ 85,936
2019	1,119,075	1,062,366	56,709
2020	1,118,565	1,097,713	20,852
	<u>\$ 3,034,421</u>	<u>\$ 2,870,924</u>	<u>\$ 163,497</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, 2017:

Cost	\$ 5,543,835
Less accumulated depreciation	<u>(1,660,088)</u>
	<u>\$ 3,883,747</u>

WASHINGTON COUNTY BOARD OF EDUCATION
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NOTE 9 GOVERNMENTAL FUND BALANCES

The detail of the fund balance classifications aggregated on the balance sheet as of June 30, 2017 are as follows:

	General Fund	Capital Projects Fund	Total Governmental Funds
Fund Balances			
Nonspendable			
Inventory	\$ 96,891	\$ -	\$ 96,891
Prepays	115,939	-	115,939
Total Nonspendable	<u>212,830</u>	<u>-</u>	<u>212,830</u>
Committed			
School loans	375,590	-	375,590
Facilities	4,583,425	-	4,583,425
Total Committed	<u>4,959,015</u>	<u>-</u>	<u>4,959,015</u>
Assigned			
Encumbrances	<u>8,173,927</u>	<u>618,972</u>	<u>8,792,899</u>
Unassigned			
	5,587,127	-	5,587,127
	<u>\$ 18,932,899</u>	<u>\$ 618,972</u>	<u>\$ 19,551,871</u>

WASHINGTON COUNTY BOARD OF EDUCATION
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NOTE 10 RISK MANAGEMENT

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 \$33,598,869 for the year ended June 30, 2017.

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
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NOTE 10 RISK MANAGEMENT (CONTINUED)

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, 2017. 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, 2017, was as follows:

Liability at Beginning of Year	\$ 3,123,917
Claims and changes in estimates during the year	46,473,547
Claims paid	<u>(46,595,783)</u>
Liability at End of Year	<u><u>\$ 3,001,681</u></u>

NOTE 11 PENSION PLANS

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 11 PENSION PLANS (CONTINUED)

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 11 PENSION PLANS (CONTINUED)

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.

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 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.

WASHINGTON COUNTY BOARD OF EDUCATION
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NOTE 11 PENSION PLANS (CONTINUED)

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, 2017 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 \$16,286,682. The contributions are recognized as revenues and expenditures in the Unrestricted Current Expense Fund as required by Governmental Accounting Standards. The normal cost of \$5,888,821 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 \$1,501,485.

WASHINGTON COUNTY BOARD OF EDUCATION
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NOTE 11 PENSION PLANS (CONTINUED)

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

At June 30, 2017, 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:

	Teachers' Retirement and Pension System	Employees' Retirement and Pension System
School System's proportionate share of net pension liability	\$ -	\$ 20,007,483
State's proportionate share of net pension liability associated with the School System	<u>197,254,642</u>	<u>-</u>
	<u>\$ 197,254,642</u>	<u>\$ 20,007,483</u>

The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2016, the School System's proportion was .0847989% 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, 2017, the School System recognized pension expense of \$22,357,476 related to governmental activities and \$38,067 related to business-type activities. As of June 30, 2017, the School System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ 2,165,151	\$ -
Net difference between projected and actual investment earnings	1,984,601	-
Difference between actual and expected experience	-	1,528,900
School System contributions subsequent to the measurement date	<u>1,501,485</u>	<u>-</u>
	<u>\$ 5,651,237</u>	<u>\$ 1,528,900</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
June 30, 2017

NOTE 11 PENSION PLANS (CONTINUED)

\$1,501,485 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$	566,944
2019	\$	566,944
2020	\$	566,944
2021	\$	566,944
2022	\$	353,076

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, 2016, 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-2014 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:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Public equity	37%	6.60%
Private equity	10%	7.40%
Rate sensitive	20%	1.30%
Credit opportunity	9%	4.20%
Real assets	15%	4.70%
Absolute return	9%	3.70%
Total	100%	

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Notes to Financial Statements
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NOTE 11 PENSION PLANS (CONTINUED)

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:

	1% Decrease to 6.55%	Current Discount Rate (7.55%)	1% Increase to 8.55%
School System's proportionate share of the net pension liability - EPS and ERS	\$ 27,482,013	\$ 20,007,483	\$ 13,788,242

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, 2016.

This can be found at www.sra.state.md.us/Agency/Downloads/CAFR/CAFR-2016.pdf.

WASHINGTON COUNTY BOARD OF EDUCATION
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NOTE 12 POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN

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, 2017 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 2017 estimated annual OPEB cost (expense) of \$29,025,000 was \$137,000 less 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, 2017 of \$17,503,050, resulting in an increase of the net OPEB payable of \$15,140,417. The balance of the net OPEB payable at June 30, 2017 is \$28,585,061.

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
June 30, 2017

NOTE 12 POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (CONTINUED)

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 four years is as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Benefit)
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
2017	\$ 29,025,000	60.30%	\$ 28,585,061

Funded Status and Funding Progress

The funded status of the plan as of July 1, 2016, was as follows:

Actuarial accrued liability (AAL)	\$ 335,016,000
Actuarial value of plan assets	44,204,912
Unfunded actuarial accrued liability (UAAL)	<u>\$ 290,811,088</u>

Funded ratio (actuarial value of plan assets/AAL) 13.19%

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 July 1, 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, 2017, was twenty years.

WASHINGTON COUNTY BOARD OF EDUCATION
Notes to Financial Statements
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NOTE 13 FAIR VALUE MEASUREMENTS

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, 2017 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)
Government Agency Securities	\$ 18,448,603	\$ -	\$ 18,448,603	\$ -
Mutual Fund - Income Fund	66,765	66,765	-	-
	<u>\$ 18,515,368</u>	<u>\$ 66,765</u>	<u>\$ 18,448,603</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
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NOTE 14 COMMITMENTS AND CONTINGENCIES

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, 2017, the School system had outstanding purchase orders of \$12,734,058. These amounts are partially included in assigned fund balance in the appropriate funds.

Current expense fund - unrestricted	\$ 8,028,549
Current expense fund - restricted	145,378
Capital projects fund	<u>4,560,131</u>
	<u>\$ 12,734,058</u>

School Construction and Major Repairs

As of June 30, 2017, the School system entered into various school construction commitments that will be funded by the State of Maryland or County sources, totaling approximately \$7,664,445, 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, 2018 are approximately \$103,244. Rent expense for these leases amounted to \$147,237 for the year ended June 30, 2017.

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, 2017

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Amended Budget Favorable (Unfavorable)
	Original	Amended		
REVENUES				
Local	\$ 94,844,030	\$ 94,844,030	\$ 94,844,030	\$ -
State of Maryland	166,955,422	166,433,805	166,549,232	115,427
Federal government	30,000	30,000	25,728	(4,272)
Tuition	93,500	93,500	69,377	(24,123)
Investment income	150,000	218,000	222,461	4,461
Other	551,965	663,965	722,209	58,244
Total Revenues	<u>262,624,917</u>	<u>262,283,300</u>	<u>262,433,037</u>	<u>149,737</u>
EXPENDITURES				
Administration	6,851,191	6,505,989	6,433,154	72,835
Mid-level administration	17,860,884	17,307,494	17,236,994	70,500
Instructional salaries	99,442,316	98,173,952	98,158,239	15,713
Instructional textbooks and supplies	6,942,077	6,681,562	6,800,480	(118,918)
Other instructional costs	3,819,797	4,342,648	4,380,952	(38,304)
Special education	22,388,233	23,038,233	22,686,856	351,377
Student personnel services	1,604,987	1,586,692	1,601,893	(15,201)
Student health services	4,015,507	3,841,997	3,754,513	87,484
Student transportation services	11,874,108	11,440,914	11,166,109	274,805
Operation of plant	21,257,284	20,586,414	20,123,120	463,294
Maintenance of plant	8,149,972	10,710,384	11,186,106	(475,722)
Fixed charges	57,342,502	57,115,652	56,112,160	1,003,492
Food service transfers	20,000	20,000	12,365	7,635
Capital outlay - buildings and improvements	1,056,059	478,189	476,944	1,245
Total Expenditures	<u>262,624,917</u>	<u>261,830,120</u>	<u>260,129,885</u>	<u>1,700,235</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ 453,180</u>	2,303,152	<u>\$ 1,849,972</u>
OTHER FINANCING SOURCES (USES)				
Adjustments to Conform with Generally Accepted Accounting Principles			890,813	
Payment of the Barbara Ingram School for the Arts lease			(5,700,000)	
Interfund transfers			(48,948)	
Total Other Financing Sources (Uses)			<u>(4,858,135)</u>	
(Deficit) of Revenues and Other Financing Sources Over Expenditures			(2,554,983)	
FUND BALANCE - BEGINNING OF YEAR			<u>21,487,882</u>	
FUND BALANCE - END OF YEAR			<u>\$ 18,932,899</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, 2017

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/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%
7/1/2016	\$ 44,204,912	\$ 335,016,000	\$ 290,811,088	13.19%

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)

	2015	2016	2017
School System's proportion of the net pension liability	0.0811%	0.0885%	0.0848%
School System's proportionate share of the net pension liability	\$ 14,395,785	\$ 18,386,392	\$ 20,007,483
State's proportionate share of the net pension liability associated with the School System	<u>-</u>	<u>-</u>	<u>-</u>
Total	\$ 14,395,785	\$ 18,386,292	\$ 18,386,292
School System's covered-employee payroll	\$ 19,299,035	\$ 19,748,847	\$ 19,393,397
Schools System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	74.59%	93.10%	103.17%
Plan fiduciary net position as a percentage of the total pension liability	71.87%	68.78%	65.79%

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)

	2015	2016	2017
School System's proportion of the net pension liability	0.0%	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>	<u>197,254,642</u>
Total	\$ 131,873,740	\$ 164,126,551	\$164,126,551
School System's covered-employee payroll	\$ 135,148,647	\$ 137,189,948	\$138,921,228
Schools System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	71.87%	68.78%	65.79%

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)

	2015	2016	2017
Contractually required contribution	\$ 1,864,791	\$ 1,651,954	\$ 1,501,485
Contributions in relation to the contractually required contribution	<u>1,864,791</u>	<u>1,651,954</u>	<u>1,501,485</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -
School System's covered-employee payroll	\$ 19,748,847	\$ 21,533,807	\$ 19,393,405
Contributions as a percentage of covered-employee payroll	9.44%	7.67%	7.74%

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, 2017

NOTE 1 RECONCILIATION OF BUDGETARY BASIS TO GAAP

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.

	Revenues and Other Financing Sources	Expenditures, Encumbrances, and Transfers	Current Year Effect on Fund Balance
Unrestricted Current Expense Fund			
Budgetary Basis	\$ 262,433,037	\$ 260,129,885	\$ 2,303,152
Budget to GAAP Reconciliation			
Prior year encumbrances expended during current year	-	7,177,769	(7,177,769)
Retirement contribution made by the State on behalf of the School System	16,286,682	16,286,682	-
Increase in reserve for school loans	40,033	-	40,033
Donations of fixed assets and materials received	2,247,136	2,247,136	-
Current year encumbrances outstanding, June 30, 2017	-	(8,028,549)	8,028,549
Revenues from restricted current expense fund	16,399,360	-	16,399,360
Expenditures from restricted current expense fund	-	16,399,360	(16,399,360)
Total Reconciling Items	34,973,211	34,082,398	890,813
Current Expense Fund - GAAP Basis	<u>\$ 297,406,248</u>	<u>\$ 294,212,283</u>	<u>\$ 3,193,965</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Combining Balance Sheet – General Fund
June 30, 2017

	Current Expense		Combined
	Unrestricted	Restricted	
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 16,484,893	\$ -	\$ 16,484,893
Investments	18,448,603	-	18,448,603
Due from other governments	851,306	1,854,423	2,705,729
Due from other funds	1,779,238	-	1,779,238
Accounts receivable	157,310	30,283	187,593
Inventory, at cost	96,891	-	96,891
Prepaid items	115,939	-	115,939
	<u>37,934,180</u>	<u>1,884,706</u>	<u>39,818,886</u>
TOTAL ASSETS	\$ 37,934,180	\$ 1,884,706	\$ 39,818,886
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 2,942,496	\$ 350,477	\$ 3,292,973
Accrued liabilities	13,079,774	541,411	13,621,185
Due to other funds	2,979,011	(1,049,618)	1,929,393
Unearned revenue	-	2,042,436	2,042,436
	<u>19,001,281</u>	<u>1,884,706</u>	<u>20,885,987</u>
Total Liabilities	19,001,281	1,884,706	20,885,987
Fund Balances			
Nonspendable	212,830	-	212,830
Committed	4,959,015	-	4,959,015
Assigned	8,028,549	-	8,028,549
Unassigned	5,732,505	-	5,732,505
	<u>18,932,899</u>	<u>-</u>	<u>18,932,899</u>
Total Fund Balances	18,932,899	-	18,932,899
TOTAL LIABILITIES AND FUND BALANCES	\$ 37,934,180	\$ 1,884,706	\$ 39,818,886

WASHINGTON COUNTY BOARD OF EDUCATION
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance -
General Fund
Year Ended June 30, 2017

	Current Expense		Combined
	Unrestricted	Restricted	
REVENUES			
Local	\$ 94,844,030	\$ -	\$ 94,844,030
State of Maryland	182,835,914	1,516,041	184,351,955
Federal government	25,728	14,383,691	14,409,419
Tuition	69,377	-	69,377
Investment income	222,461	-	222,461
Other	762,237	450,682	1,212,919
	<u>278,759,747</u>	<u>16,350,414</u>	<u>295,110,161</u>
EXPENDITURES			
Current			
Administration	6,689,099	280,445	6,969,544
Mid-level administration	17,226,956	1,024,874	18,251,830
Instructional salaries	98,158,239	4,491,300	102,649,539
Instructional textbooks and supplies	7,076,661	481,840	7,558,501
Other instructional costs	2,466,892	469,443	2,936,335
Special education	22,748,761	4,333,347	27,082,108
Student personnel services	1,601,675	24,357	1,626,032
Student health services	3,875,454	1,961	3,877,415
Student transportation services	11,532,152	222,052	11,754,204
Operation of plant	20,032,377	371,096	20,403,473
Maintenance of plant	8,994,653	4,153	8,998,806
Community services	-	53,821	53,821
Fixed charges	72,398,852	3,820,240	76,219,092
Capital outlay - buildings and improvements	464,382	659,106	1,123,488
Capital Lease Payments			
Principal	7,756,121	-	7,756,121
Interest	231,145	-	231,145
	<u>281,253,419</u>	<u>16,238,035</u>	<u>297,491,454</u>
Excess (Deficit) of Revenues Over Expenditures	(2,493,672)	112,379	(2,381,293)
OTHER FINANCING SOURCES (USES)			
Interfund transfers - food service	(12,365)	(161,325)	(173,690)
Interfund transfers	(48,946)	48,946	-
	<u>(61,311)</u>	<u>(112,379)</u>	<u>(173,690)</u>
Total Other Financing Sources (Uses)	(61,311)	(112,379)	(173,690)
(Deficit) of Revenues and Other Financing Sources Over Expenditures	(2,554,983)	-	(2,554,983)
FUND BALANCE - BEGINNING OF YEAR	<u>21,487,882</u>	<u>-</u>	<u>21,487,882</u>
FUND BALANCE - END OF YEAR	<u>\$ 18,932,899</u>	<u>\$ -</u>	<u>\$ 18,932,899</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance -
General Fund (Budgetary Basis)
Year Ended June 30, 2017

	Current Expense		Combined
	Unrestricted	Restricted	
REVENUES			
Local	\$ 94,844,030	\$ -	\$ 94,844,030
State of Maryland	166,549,232	1,198,489	167,747,721
Federal government	25,728	14,227,449	14,253,177
Tuition	69,377	-	69,377
Investment income	222,461	-	222,461
Other	722,209	455,674	1,177,883
	<u>262,433,037</u>	<u>15,881,612</u>	<u>278,314,649</u>
EXPENDITURES			
Current			
Administration	6,433,154	280,451	6,713,605
Mid-level administration	17,236,994	1,022,285	18,259,279
Instructional salaries	98,158,239	4,491,302	102,649,541
Instructional textbooks and supplies	6,800,480	438,331	7,238,811
Other instructional costs	4,380,952	429,665	4,810,617
Special education	22,686,856	4,319,694	27,006,550
Student personnel services	1,601,893	38,007	1,639,900
Student health services	3,754,513	1,961	3,756,474
Student transportation services	11,166,109	222,052	11,388,161
Operation of plant	20,123,120	364,201	20,487,321
Maintenance of plant	11,186,106	4,153	11,190,259
Community services	-	48,861	48,861
Fixed charges	56,112,160	3,820,240	59,932,400
Food service transfers	12,365	84,357	96,722
Capital outlay - buildings and improvements	476,944	365,000	841,944
	<u>260,129,885</u>	<u>15,930,560</u>	<u>276,060,445</u>
Excess (Deficit) of Revenues Over Expenditures	2,303,152	(48,948)	2,254,204
OTHER FINANCING SOURCES (USES)			
Adjustments to Conform with Generally Accepted Accounting Principles	890,813	-	890,813
Payment of the BISFA lease	(5,700,000)	-	(5,700,000)
Interfund transfers	(48,948)	48,948	-
	<u>(4,858,135)</u>	<u>48,948</u>	<u>(4,809,187)</u>
(Deficit) of Revenues and Other Financing Sources Over Expenditures	(2,554,983)	-	(2,554,983)
FUND BALANCE - BEGINNING OF YEAR	<u>21,487,882</u>	<u>-</u>	<u>21,487,882</u>
FUND BALANCE - END OF YEAR	<u>\$ 18,932,899</u>	<u>\$ -</u>	<u>\$ 18,932,899</u>

WASHINGTON COUNTY BOARD OF EDUCATION
Combining Statement of Net Position – Fiduciary Funds (Agency Funds)
June 30, 2017

	Fringe Benefits Fund	School Activity Fund	Combined
ASSETS			
Cash and cash equivalents	\$ 14,752	\$ 3,435,838	\$ 3,450,590
TOTAL ASSETS	<u>\$ 14,752</u>	<u>\$ 3,435,838</u>	<u>\$ 3,450,590</u>
LIABILITIES			
Accounts payable	\$ 14,752	\$ 75,749	\$ 90,501
Due to student groups	-	3,360,089	3,360,089
TOTAL LIABILITIES	<u>\$ 14,752</u>	<u>\$ 3,435,838</u>	<u>\$ 3,450,590</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, 2017, 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 21, 2017.

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. However, material weaknesses may exist that have not been identified.



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*.

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 21, 2017



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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2017.

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.

Hagerstown, Maryland
September 21, 2017

WASHINGTON COUNTY BOARD OF EDUCATION
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

PROGRAM	PROJECT NUMBER	GRANT NUMBER	FEDERAL CATALOGUE NUMBER	PROJECT PERIOD	TOTAL GRANT AMOUNT	Passed Through Subrecipients	FY-2016 REVENUE RECOGNIZED & EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE							
PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION							
CHILD NUTRITION CLUSTER:							
SCHOOL BREAKFAST	N/A	N/A	10.553	7/1/16-6/30/17	\$ 2,322,655	\$ -	\$ 2,322,655
TOTAL PROGRAM					2,322,655	-	2,322,655
USDA COMMODITIES USED	N/A	N/A	10.555	7/1/16-6/30/17	727,644	-	619,114.13
NATIONAL SCHOOL LUNCH	N/A	N/A	10.555	7/1/16-6/30/17	4,872,749	-	4,872,748.88
AFTER SCHOOL PROGRAM SNACKS	N/A	N/A	10.555	7/1/16-6/30/17	2,571	-	2,571.40
HEALTHY HUNGER FREE KIDS ACT ADDITIONAL SUBSIDY	N/A	N/A	10.555	7/1/16-6/30/17	124,607	-	124,606.74
TOTAL PROGRAM					5,727,571	-	5,619,041.15
AFTER SCHOOL SUPPERS	N/A	N/A	10.558	7/1/16-6/30/17	413,638	-	413,637.68
CASH IN LIEU OF COMMODITIES	N/A	N/A	10.558	7/1/16-6/30/17	30,107	-	30,106.54
TOTAL PROGRAM					443,744	-	443,744.22
SUMMER FOOD SERVICE PROGRAM	N/A	N/A	10.559	7/1/16-6/30/17	271,222	-	271,221.96
TOTAL PROGRAM					271,222	-	271,221.96
TOTAL NUTRITION CLUSTER					8,765,192	-	8,656,662
DIRECT FEDERAL AWARD							
HEALTHIER US SCHOOL CHILDREN (HUSSC)	15254	N/A	10.574	3/20/14-6/30/15	13,500	-	222
PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION							
TEAM NUTRITION WELLNESS LEADERS	16256	164171	10.574	7/1/15-8/31/16	20,000	-	1,353
TOTAL PROGRAM					33,500	-	1,575
2014 EQUIPMENT ASSISTANCE GRANT	15255	155487	10.579	7/1/14-9/30/16	17,960	-	17,960
2015 EQUIPMENT ASSISTANCE GRANT	16255	164825	10.579	10/1/15-9/30/17	63,395	-	57,655
2016 EQUIPMENT ASSISTANCE GRANT	17255	171200	10.579	5/1/17-9/30/17	64,970	-	64,970
CHILD NUTRITION DISCRETIONARY GRANTS	17259	171488	10.579	5/1/17-9/30/17	16,264	-	16,264
TOTAL PROGRAM					162,589	-	156,849
FRESH FRUIT AND VEGETABLE PROGRAM	N/A	N/A	10.582	7/1/16-6/30/17	43,100	-	43,100
TOTAL PROGRAM					43,100	-	43,100
TOTAL U.S. DEPARTMENT OF AGRICULTURE					9,004,382	-	8,858,187
U.S. DEPARTMENT OF COMMERCE							
PASSED THROUGH THE UNIVERSITY OF MARYLAND CENTER FOR ENVIRONMENTAL SCIENCE - APPALACHIAN LAB							
NOAA BWET SYSTEMIC MWEE IMPLEMENTATION GRANT	16181	VA14NMF457024	11.457	9/2/15-6/30/16	2,921	-	713
TOTAL U.S. DEPARTMENT OF COMMERCE					2,921	-	713
U.S. DEPARTMENT OF LABOR							
PASSED THROUGH THE WESTERN MARYLAND CONSORTIUM							
WESTERN MD CONSORTIUM-SUMMER STUDENT INTERVENTION PROGRAM FY1	15247	N/A	17.259	8/1/14-7/30/15	41,502	-	-
WESTERN MD CONSORTIUM-SUMMER STUDENT INTERVENTION PROGRAM FY1	16247	N/A	17.259	8/1/15-7/31/16	18,336	-	1,686
WESTERN MARYLAND CONSORTIUM - STUDENT INTERVENTION PROGRAM FY1	17247	N/A	17.259	8/1/16-7/31/17	19,380	-	7,159
TOTAL U.S. DEPARTMENT OF LABOR					79,218	-	8,845

WASHINGTON COUNTY BOARD OF EDUCATION
Schedule of Expenditures of Federal Awards - Continued
Year Ended June 30, 2017

PROGRAM	PROJECT NUMBER	GRANT NUMBER	FEDERAL CATALOGUE NUMBER	PROJECT PERIOD	TOTAL GRANT AMOUNT	Passed Through Subrecipients	FY-2016 REVENUE RECOGNIZED & EXPENDITURES
U.S. DEPARTMENT OF EDUCATION							
PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION							
TITLE I PART A FY15	15111	154371	84.010	7/1/14-6/30/16	5,962,298	-	1,646
TITLE I PART A FY16	16111	165109	84.010	7/1/15-6/30/17	5,710,325	-	868,758
TITLE I NEGLECTED & DELINQUENT FY16	16115	165418	84.010	7/1/15-9/30/16	191,874	-	69,431
TITLE I PART A SUPPLEMENTAL	16118	165608	84.010	7/1/14-9/30/16	3,244	-	2,305
TITLE I CONTINUING FOCUS GRANT FY16	16121	165150	84.010	7/1/15-10/31/16	55,000	-	15,923
TITLE I - PART A FY17	17111	170930	84.010	7/1/16-6/30/18	6,628,194	-	5,096,631
TITLE I NEGLECTED & DELINQUENT FY17	17115	171285	84.010	7/1/16-9/30/17	181,362	-	111,562
TOTAL PROGRAM					18,732,297	-	6,166,255
SPECIAL EDUCATION CLUSTER:							
INFANT/TODDLER - PART B FY16	16376	164739	84.027	7/1/15-9/30/16	68,682	-	10,206
INFANT/TODDLER - PART B FY17	17376	170118	84.027	7/1/16-9/30/17	70,277	-	61,760
ONE TIME SUPPLEMENTAL GRANT (3 TO 21)	16342	164692-01	84.027A	7/1/15-8/31/16	50,294	-	28,013
ONE TIME SUPPLEMENTAL GRANT (3 TO K)	16348	164692-02	84.027A	7/1/15-8/31/16	25,170	-	11,269
PASSTHROUGH FY16	16360	164694-01	84.027A	7/1/15-9/30/17	4,440,666	-	701,473
PASSTHROUGH-PPPSS FY16	16361	164694-02	84.027A	7/1/15-9/30/17	20,112	-	11,952
STATE DISCRETIONARY - SPECIAL ED ADVISORY CMTE FY16	16364	164694-03	84.027A	7/1/15-9/30/16	2,500	-	867
LOCAL PRIORITY FLEX - PARTNERS FOR SUCCESS FY16	16366	164694-04	84.027A	7/1/15-9/30/16	16,000	-	3,944
LOCAL PRIORITY FLEX - LOCALLY DETERMINED FY16	16367	164694-04	84.027A	7/1/15-9/30/16	88,678	-	12,433
LOCAL PRIORITY FLEX - SECONDARY TRANSITION FY16	16368	164694-04	84.027A	7/1/15-9/30/16	22,000	-	9,049
INFANT/TODDLER - PART C ONE-TIME SUPPLEMENTAL	16383	164741	84.027A	7/1/15-8/31/16	33,530	-	5,045
EARLY CHILDHOOD CONNECTIONS (3 TO K)	17349	170284-06	84.027A	7/1/16-9/30/17	34,832	-	18,272
PASSTHROUGH FY17	17360	170284-01	84.027A	7/1/16-9/30/18	4,640,581	-	3,717,317
PASSTHROUGH - PPPSS FY17	17361	170284-02	84.027A	7/1/16-9/30/18	8,365	-	3,457
STATE DISCRETIONARY - SPECIAL ED ADVISORY CMTE FY17	17364	170284-03	84.027A	7/1/16-9/30/17	2,500	-	700
LOCAL PRIORITY FLEX - FAMILY PARTNERSHIPS FY17	17366	170284-04	84.027A	7/1/16-9/30/17	16,000	-	12,218
LOCAL PRIORITY FLEX - LOCALLY DETERMINED FY17	17367	170284-04	84.027A	7/1/16-9/30/17	69,102	-	48,385
LOCAL PRIORITY FLEX - SECONDARY TRANSITION FY17	17368	170284-04	84.027A	7/1/16-9/30/17	22,000	-	12,691
PROFESSIONAL LEARNING INSTITUTE FY17	17369	170284-05	84.027A	7/1/16-9/30/17	600	-	-
TOTAL SPECIAL EDUCATION CLUSTER PROGRAM					9,631,889	-	4,669,051
DIRECT FEDERAL AWARD							
IMPACT AID	N/A	N/A	84.041	7/1/16-6/30/17	25,728	-	25,728
TOTAL PROGRAM					25,728	-	25,728
PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION							
PERKINS-TITLE I FY16	16400	165061	84.048	7/1/15-6/30/16	228,392	-	24,468
CTE RESERVE - ENVIRONMENTAL STUDIES	16405	165013	84.048	7/1/15-6/30/16	6,480	-	-
CTE RESERVE - CASE IMPLEMENTATION-HHS	16406	165013	84.048	7/1/15-6/30/16	15,383	-	-
CTE RESERVE - PRIORITY 4	16407	165013	84.048	7/1/15-6/30/16	6,304	-	-
PERKINS - TITLE I FY17	17400	170537	84.048	7/1/16-6/30/17	261,391	-	261,391
CTE RESERVE - ACADEMY OF HEALTH PROFESSIONS	17405	170720	84.048	7/1/16-6/30/17	4,949	-	4,935
CTE RESERVE - PRIORITY 4, PROFESSIONAL DEVELOPMENT	17407	170720	84.048	7/1/16-6/30/17	4,017	-	4,031
TOTAL PROGRAM					526,916	-	294,825
SPECIAL EDUCATION CLUSTER:							
PRESCHOOL PART B ONE-TIME DISCRETIONARY FUNDS	16334	164693-03	84.173A	7/1/15-9/30/17	5,000	-	4,260
PRESCHOOL PASSTHROUGH FY16	16362	164693-01	84.173A	7/1/15-9/30/17	81,745	-	19,619
PRESCHOOL PASSTHROUGH - PPPSS FY16	16363	164693-02	84.173A	7/1/15-9/30/17	313	-	255
INFANT/TODDLER - PART B(619) FY16	16377	164740-01	84.173A	7/1/15-9/30/16	7,000	-	1,193
INFANT/TODDLER - PART B(619) PRESCHOOL FY16	16382	164740-02	84.173A	7/1/15-9/30/16	5,596	-	5,596
PRESCHOOL PASSTHROUGH FY17	17362	170283-01	84.173A	7/1/16-9/30/18	81,760	-	78,492
PRESCHOOL PASSTHROUGH - PPPSS FY17	17363	170283-02	84.173A	7/1/16-9/30/18	298	-	-
INFANT/TODDLER - PART B(619) EXT OPTION FY17	17377	170203-02	84.173A	7/1/16-9/30/17	5,726	-	5,027
INFANT/TODDLER - PART B(619) PRESCHOOL FY17	17382	170203-01	84.173A	7/1/16-9/30/17	7,000	-	7,000
TOTAL SPECIAL EDUCATION CLUSTER					194,438	-	121,441

WASHINGTON COUNTY BOARD OF EDUCATION
Schedule of Expenditures of Federal Awards - Continued
Year Ended June 30, 2017

PROGRAM	PROJECT NUMBER	GRANT NUMBER	FEDERAL CATALOGUE NUMBER	PROJECT PERIOD	TOTAL GRANT AMOUNT	Passed Through Subrecipients	FY-2016 REVENUE RECOGNIZED & EXPENDITURES
INFANT/TODDLER PART C ONE-TIME DISCRETIONARY FUNDS	16331	164738-02	84.181A	7/1/15-9/30/17	10,000	-	4,278
INFANT/TODDLER - PART C FY16	16375	164738-01	84.181A	7/1/15-9/30/16	144,412	-	29,467
INFANT/TODDLER - PART C FY17	17375	170243-02	84.181A	7/1/16-9/30/17	155,832	-	121,294
TOTAL PROGRAM					310,244	-	155,038
EDUCATING HOMELESS CHILDREN AND YOUTH PROGRAMS	15106	155378	84.196A	7/1/14-9/30/15	56,156	-	-
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	16106	165561	84.196A	7/1/15-9/30/16	47,345	-	31,141
EDUCATION FOR HOMELESS CHILDREN AND YOUTH	17106	171075	84.196A	7/1/16-9/30/17	58,110	-	21,565
TOTAL PROGRAM					161,611	-	52,707
AP/IB TEST WAIVER FY17	17177	170940	84.330B	8/1/14-10/31/16	1,568	-	1,568
TOTAL PROGRAM					1,568	-	1,568
TITLE III - ENGLISH LANGUAGE ACQUISITION FY15	15113	154441	84.365A	7/1/14-9/30/16	61,779	-	-
TITLE III - ENGLISH LANGUAGE ACQUISITION - LEP FY16	16113	164310-01	84.365A	7/1/16-9/30/17	63,993	-	56,415
TITLE III - ENGLISH LANGUAGE ACQUISITION - IMMIGRANTS FY16	16114	164310-02	84.365A	7/1/15-9/30/17	4,996	-	2,522
TITLE III SUMMER COMPETITIVE GRANT	16123	165711	84.365A	5/10/16-9/30/16	2,894	-	2,156
TITLE III - ENGLISH LANGUAGE ACQUISITION - LEP FY17	17113	170664-01	84.365A	7/1/16-9/30/18	58,789	-	3,164
TITLE III - ENGLISH LANGUAGE ACQUISITION - IMMIGRANTS FY17	17114	170664-02	84.365A	7/1/16-9/30/18	5,115	-	380
TITLE III - UNACCOMPANIED MINORS	16117	164264	84.365B	7/1/15-9/30/16	28,337	-	1,769
TOTAL PROGRAM					225,903	-	66,406
PASSED THROUGH THE WORCESTER COUNTY PUBLIC SCHOOLS							
MATH/SCIENCE PARTNERSHIP-MATH IN CHEMISTRY/BIOLOGY-WORCESTER	15147	155284	84.366B	1/1/15-6/30/16	54,942	-	(32,030)
MATH/SCIENCE PARTNERSHIP-MATH IN CHEMISTRY/BIOLOGY-MTLS-WORC	15148	155284	84.366B	1/1/15-6/30/16	3,000	-	2,689
TOTAL PROGRAM					57,942	-	(29,361)
PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION							
TITLE II - PART A FY15	15112	154949	84.367	7/1/14-6/30/16	766,440	-	2,669
TITLE II - PART A FY16	16112	165270	84.367	7/1/15-6/30/17	754,348	-	409,201
TITLE II - A RESTORED FUNDS	16119	164758	84.367	7/1/15-6/30/16	356	-	-
TITLE II - PART A FY17	17112	171223	84.367	7/1/16-6/30/18	745,391	-	395,309
TOTAL PROGRAM					2,266,535	-	807,180
RTTT-PREKINDERGARTEN PROFESSIONAL DEVELOPMENT FY16	16161	164807	84.419B	7/1/15-6/30/16	440,640	-	10,818
PREKINDERGARTEN EXPANSION - FEDERAL FY17	17161	170681	84.419B	7/1/16-9/30/17	658,332	-	640,675
TOTAL PROGRAM					1,098,972	-	651,492
TOTAL U.S. DEPARTMENT OF EDUCATION					33,234,044	-	12,982,330
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ 42,320,564	\$ -	\$ 21,850,075

WASHINGTON COUNTY BOARD OF EDUCATION
Schedule of Expenditures of Federal Awards - Continued
Year Ended June 30, 2017

NOTE 1 SINGLE AUDIT OVERVIEW

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

Single audit testing procedures were performed for transactions occurring during the fiscal year ended June 30, 2017.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2017, the indirect cost rate was 2.05%.

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

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, 2017

NOTE 4 PROGRAM EXCLUSIONS (CONTINUED)

Total Expenditures of Federal Awards	\$ 21,850,075
Add:	
Medical Assistance - 93.778	1,259,106
Less:	
U.S. Department of Agriculture/Food Service Subsidies	(8,699,762)
Impact Aid - 84.041	<u>(25,728)</u>
Restricted Federal Government revenues per Combining Statement of Revenues, Expenditures and changes in Fund Balance - General Funds	<u>\$ 14,383,691</u>

NOTE 5 PROGRAM CLUSTERS

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, 2017

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

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? Yes X 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:

CFDA	Name of Federal Program or Cluster
84.010	Title I
84.027 & 84.027A	Special Education Cluster
84.173A	Special Education Cluster

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

Auditee qualified as low-risk auditee? Yes X No

WASHINGTON COUNTY BOARD OF EDUCATION
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

II. FINANCIAL STATEMENT FINDINGS

No financial statement findings reported for the fiscal year ended June 30, 2017.

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No federal award findings and questioned costs reported for fiscal year ending June 30, 2017.

IV. FY 2016 FINDINGS STATUS

Finding 16-001 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.

Status: Corrected.