

**WASHINGTON BOARD OF EDUCATION**  
**FINANCIAL STATEMENTS AND SINGLE AUDIT REPORT**  
**YEAR ENDED JUNE 30, 2019**

WASHINGTON COUNTY BOARD OF EDUCATION

YEAR ENDED JUNE 30, 2019

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# *Zelenkofske Axelrod 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 (the "School System"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School System's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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



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## **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 School System, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Adoption of Governmental Accounting Standards Board Principles**

As described in Note 1 to the financial statements, in 2019 the School System adopted the provisions of Governmental Accounting Standards Board's Statement No. 83, "*Certain Asset Retirement Obligations*" and Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*". Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the total OPEB liability and related ratios, the schedule of the School System's OPEB contributions, the schedule of the School System's investment returns for the OPEB Plan, the schedule of the School System proportionate share of the net pension liability – Maryland State Retirement System, and the schedule of the School System's pension contributions – employee retirement and pension system on pages 4-14 and 64-70 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 School System's basic financial statements. The combining fund financial statements on pages 72-75 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal award is presented for purposes of additional analysis as required by the Uniform Guidance and is 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



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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 our report dated September 25, 2019 on our consideration of the School Systems internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School System's internal control over financial reporting and compliance.

*Zelenkofske Axlerod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
September 25, 2019

## 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, 2019. Please read it in conjunction with the basic financial statements that follow this section.

### Financial Highlights

- The School System's net financial position, as represented in the financial statements, increased \$2.3 million from last year, but still remains in a deficit position to the extent of \$20.9 million due to liabilities for pension and other post-employment benefits.
- Overall revenues were \$353.3 million, \$2.3 million more than expenses.
- The total cost of educational programs was \$338.6 million, an increase of 3.8% from the prior year. After related charges, fees, operating and capital grants and contributions, the net cost that required general revenue funding increased by 2.5% to \$271.0 million.
- The net position of our business-type activities, i.e., School Food Service, improved this year by \$672 thousand, but still remains in a deficit position to the extent of \$4.6 million due to liabilities for pension and other post-employment benefits. Expenses were \$12.4 million while revenues were \$13.0 million.
- Investment income was \$204 thousand higher due to rising interest rates and higher short-term investing.
- Capital Projects Fund expenditures of \$13.0 million included work on a replacement for Sharpsburg Elementary School, initial construction of additional classroom space for Barbara Ingram School for the Arts, two roof replacements, and various systemic maintenance projects.
- The School System made a contribution of \$4.2 million to a trust fund established exclusively for the purpose of non-pension post-employment benefits and paid, net of contributions from retirees, \$10.5 million of retiree health care expenses.

### 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:
  - q 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.
  - q *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.
  - q *Fiduciary funds statements* that provide information about the financial relationships in which the School System acts solely as a *trustee* or *agent* for the benefit of others.

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

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

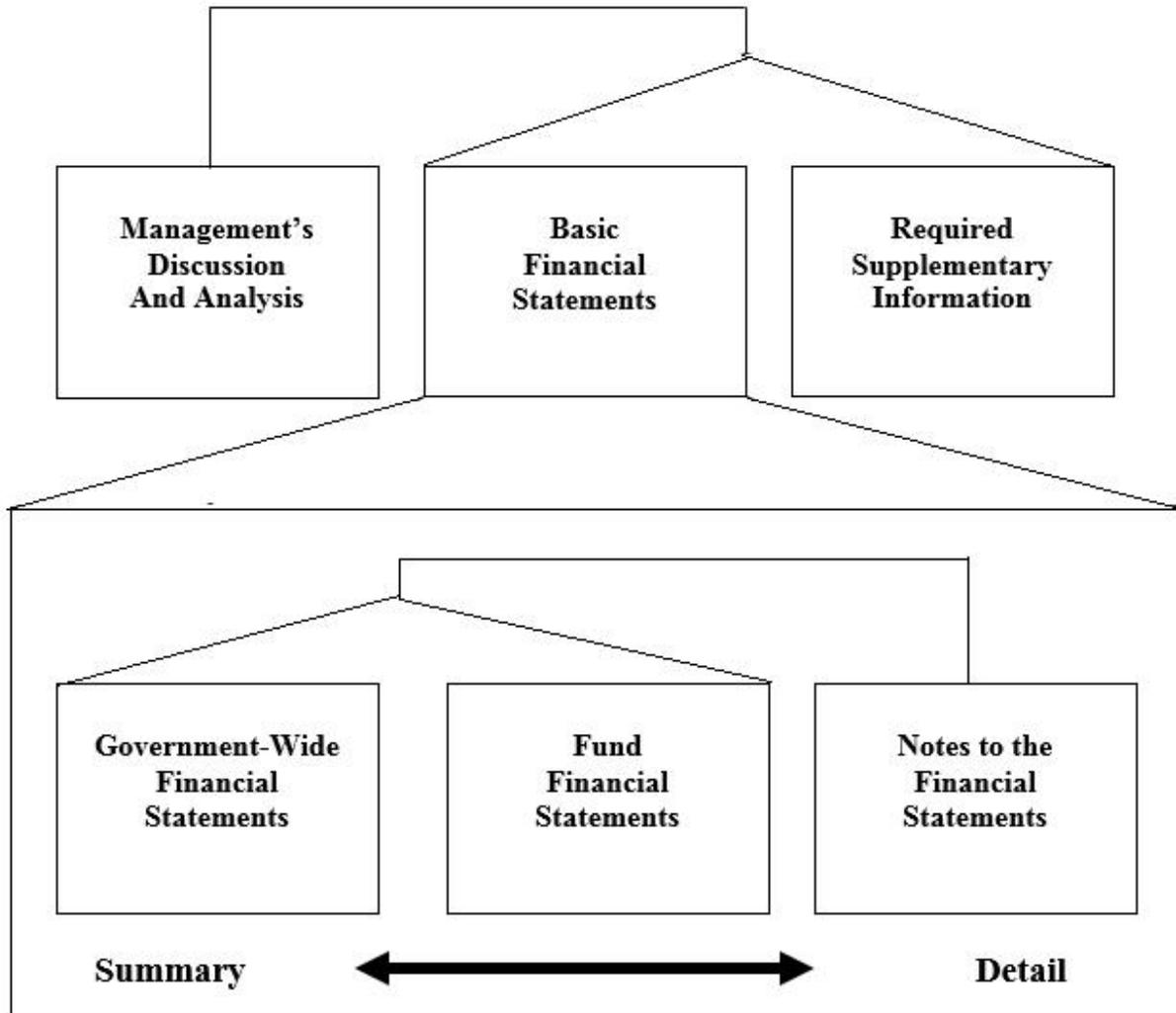


Figure 2 summarizes the major features of the School System's financial statements, including the portion of the activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each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

**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"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of revenues, expenses, and changes in fund net position</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset, deferred outflows of resources, liability, and deferred inflows of resources information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, 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, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, 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

## Government-Wide Financial 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, deferred outflows of resources, liabilities, and deferred inflows of resources. 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, deferred outflows of resources, liabilities, and deferred inflows of resources, 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 funding and spending on particular programs:

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

The School System has three kinds of funds:

- *Governmental funds:* Most of the School System's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending, subject to various levels of constraints. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School System's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided in a reconciliation of the governmental funds balance sheet to the statement of net position and a separate reconciliation of the governmental funds statement of revenues, expenditures, and changes in fund balances (deficit) to the statement of activities.
- *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 higher on June 30, 2019, than it was on the previous year's financial statements, increasing by \$2.3 million. Amounts shown below for 2018 reflect the restatement of \$1.6M in additional deferred outflows and inflows of resources for pensions for the changes in the School System's proportionate share of the net pension liability. (See Figure 3).

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

	Governmental Activities		Business-Type Activities		Total School System	
	2019	2018	2019	2018	2019	2018
Current assets	\$ 50.6	\$ 46.6	\$ 2.5	\$ 1.9	\$ 53.1	\$ 48.5
Capital assets	228.3	225.3	1.6	1.5	229.9	226.8
Deferred outflows of resources	22.0	21.2	1.3	1.3	23.3	22.5
<b>Total Assets and Deferred Outflows of Resources</b>	<b>300.9</b>	<b>293.1</b>	<b>5.4</b>	<b>4.7</b>	<b>306.3</b>	<b>297.8</b>
Current liabilities	31.3	28.8	0.2	0.3	31.5	29.1
Noncurrent liabilities	258.6	253.6	8.4	8.4	267.0	262.0
Deferred inflows of resources	27.3	28.6	1.4	1.3	28.7	29.9
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>317.2</b>	<b>311.0</b>	<b>10.0</b>	<b>10.0</b>	<b>327.2</b>	<b>321.0</b>
Net position						
Net investment in capital assets	227.2	223.1	1.6	1.5	228.8	224.6
Unrestricted	(243.5)	(241.0)	(6.2)	(6.8)	(249.7)	(247.8)
<b>Total Net Position</b>	<b>\$ (16.3)</b>	<b>\$ (17.9)</b>	<b>\$ (4.6)</b>	<b>\$ (5.3)</b>	<b>\$ (20.9)</b>	<b>\$ (23.2)</b>

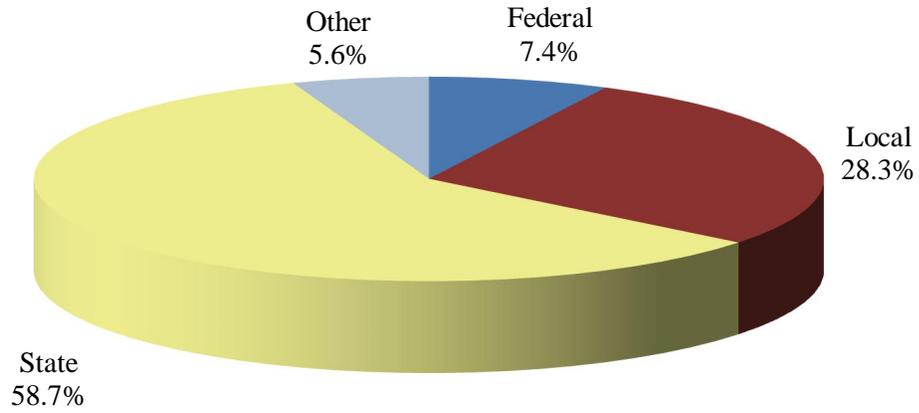
**Change in Net Position:** The School System's total revenues were \$353.3 million (See Figure 4). Local funding amounted to 28.3%. State and federal funding amounted to 58.7% and 7.4%, respectively. The remaining 5.6% came from fees charged for services and other miscellaneous sources (See Figure 5). Amounts shown in Figure 4 for 2018 reflect the restatement of \$1.6M in additional expenses related to employee pension liabilities.

The total cost of all programs and services was 3.6% higher than last year at \$351.0 million. The School System's expenses, as shown graphically in Figure 6, are predominately related to instructing, caring for and transporting students (57.9%). Administrative and business activities accounted for 1.9%, while employee benefits, the majority of which are related to personnel who provide direct student services, represented 27.1% of the total cost. Another 10.8% 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 2019 included instruction, student health services, and operation of plant.

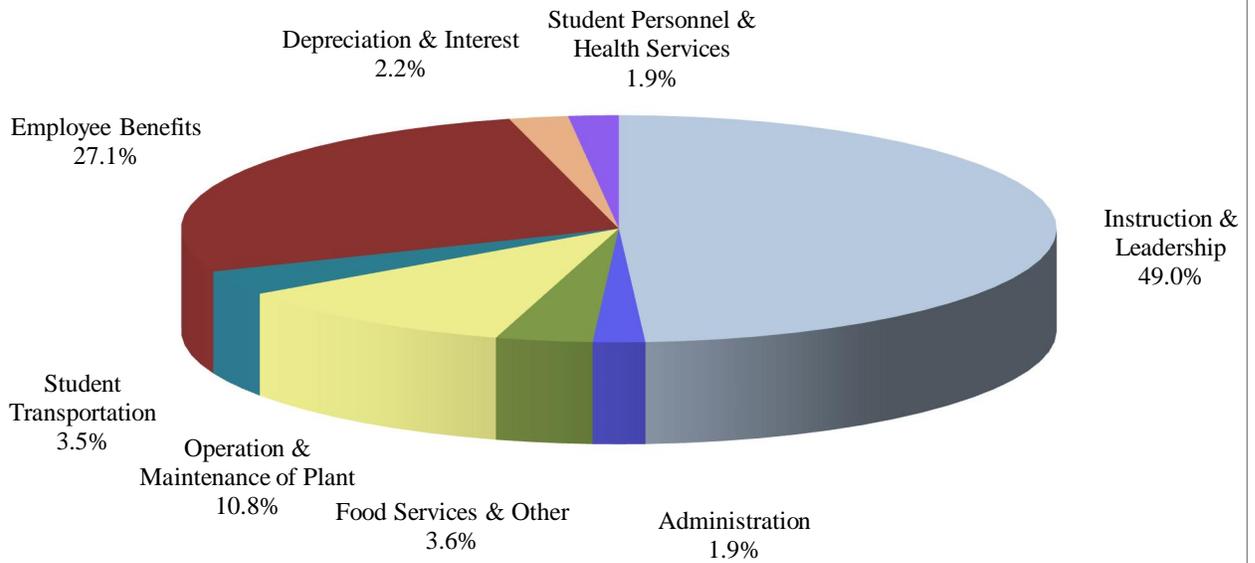
**Figure 4: Changes in Net Position from Operating Results (in millions of dollars)**

	Governmental Activities		Business-Type Activities		Total School System	
	2019	2018	2019	2018	2019	2018
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 13.1	\$ 12.7	\$ 3.3	\$ 3.3	\$ 16.4	\$ 16.0
Operating grants & contributions	54.1	49.0	9.6	9.4	63.7	58.4
Capital grants & contributions	0.4	0.1	0.0	0.0	0.4	0.1
General revenues						
Local appropriation	99.8	98.1	-	-	99.8	98.1
State aid	172.0	159.7	-	-	172.0	159.7
Other	0.9	1.1	0.1	0.1	1.0	1.2
<b>Total Revenues</b>	<b>340.3</b>	<b>320.7</b>	<b>13.0</b>	<b>12.8</b>	<b>353.3</b>	<b>333.5</b>
<b>Expenses</b>						
Instruction & leadership	172.1	165.1	-	-	172.1	165.1
Student personnel & health services	6.5	5.5	-	-	6.5	5.5
Administration	6.7	6.6	-	-	6.7	6.6
Operation & maintenance of plant	37.8	35.6	-	-	37.8	35.6
Student transportation	12.4	11.9	-	-	12.4	11.9
Fixed charges (employee benefits)	95.3	93.2	-	-	95.3	93.2
Food services & other	0.2	-	12.4	12.9	12.6	12.9
Depreciation & interest	7.6	7.8	-	-	7.6	7.8
<b>Total Expenses</b>	<b>338.6</b>	<b>325.7</b>	<b>12.4</b>	<b>12.9</b>	<b>351.0</b>	<b>338.6</b>
<b>Increase (Decrease) in Net Position</b>	<b>\$ 1.7</b>	<b>\$ (5.0)</b>	<b>\$ 0.6</b>	<b>\$ (0.1)</b>	<b>\$ 2.3</b>	<b>\$(5.1)</b>

**Figure 5: Sources of Revenues for FY2019**



**Figure 6: Expenses for FY2019**



## Governmental Activities

General revenues for the governmental activities increased 5.3% to \$272.7 million, while total expenses, net of charges for services and grants, increased 2.5% to \$271.0 million. The increase in net position for governmental activities was \$1.7 million and can be largely attributed to higher state revenue and an excess of revenue over expenses in the internal service fund, offset by higher costs of instruction, student health services, and operation of plant.

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. Amounts shown below for 2018 reflect the restatement of \$0.5M in reduced expenses related to employee pension liabilities.

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Instruction & instructional leadership	172.1	165.1	\$ 148.9	\$ 144.7
Student personnel & health services	6.5	5.5	5.9	5.5
Administration	6.7	6.6	6.2	6.3
Operation & maintenance of plant	37.8	35.6	35.9	35.4
Student transportation	12.4	11.9	4.8	4.3
Employee benefits	95.3	93.2	61.7	60.0
Food services and other	0.2	-	-	-
Depreciation & interest	7.6	7.8	7.6	7.8
<b>Total</b>	<b>\$ 338.6</b>	<b>\$ 325.7</b>	<b>\$ 271.0</b>	<b>\$ 264.0</b>

The cost of all governmental activities this year was \$338.6 million. Charges for services amounted to \$13.0 million, which were primarily amounts received from employees and retirees for health insurance premiums. Additionally, certain programs were subsidized to the extent of \$54.6 million by the federal (\$17.2 million), state (\$34.8 million), and local (\$0.2 million) governments, as well as other organizations (\$2.4 million). However, general revenues and the reduction in net position financed the majority of the costs of governmental activities (\$271.0 million). Total local funding amounted to \$99.9 million, while the state contributed \$206.9 million and federal funding amounted to \$17.2 million. Investment earnings, charges for services, and other miscellaneous sources funded the balance of the governmental activities.

## Business-Type Activities

School Food Service is the only business-type activity in the School System. Revenues of this business-type activity were \$13.0 million and expenses were \$12.4 million for fiscal year 2019 (See Figure 4). School Food Service's revenues exceeded expenses by \$672 thousand. Without depreciation expense, pension adjustments under GASB#68, other post-employment benefit adjustments under GASB#75, and other adjustments to conform to generally accepted accounting principles, the business-type activities would have shown a \$696 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, almost 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 \$12.4 million. This is down from last year's ending fund balance of \$18.1 million, resulting primarily from an excess of expenditures over revenues in the general fund due to expenditures related to prior year encumbrances and transfers from previously committed fund balance.

Current Expense Fund (Governmental): The current expense (general) funds had \$5.5 million less revenues than expenditures in fiscal year 2019. The resulting fund balance represents just 3.9% or a little more than two weeks' worth of annual expenditures. This \$5.5 million deficit is calculated on the modified accrual basis and is significantly different from the \$587 thousand budgetary basis surplus. This difference is due to the treatment of prior and current year encumbrances and the expenditure of previously committed fund balance.

Capital Projects Fund (Governmental): The Capital Projects Fund experienced an excess of expenditures over revenues of \$234 thousand. This is primarily the result of increased retainages payable on construction in progress for which revenue is not currently recognized. 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 construction in progress.

Food Service Fund (Proprietary-Enterprise): As previously noted, Food Service experienced a positive change in net position of \$672 thousand.

Self-Insurance Fund (Proprietary-Internal Service): The self-insurance fund began the year with a fund balance of \$684 thousand. Excess revenues over expenses totaled \$7.4 million, due to a premium increase and lower claims compared to the prior year. This resulted in an \$8.1 million fund balance at year-end. Claims and administrative expenses were down 0.9% and revenue was up 3.9% due to an increase in premiums partially offset by changes in enrollment.

### **General Fund Budgetary Highlights**

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

Most expense areas of the budget experienced costs lower than revised estimates. Mid-level administration was higher due to costs incurred for communications. Other instructional costs were slightly over budget due to equipment purchases near year-end. Student health services were a bit over budget due to replacement medical supplies and nursing services. Operation of plant was over budget due to utilities being higher than estimated. Maintenance was over budget due to a number of needed projects. Food services was slightly over budget due to losses on student accounts.

The School System received approval for a final budget adjustment from the funding authority for shifts between revenue and expense categories in September, 2019.

## Capital Assets and Debt Administration

### Capital Assets

By the end of fiscal year 2019, the School System had invested \$228.8 million (net of depreciation and related debt) in a broad range of capital assets including school buildings, athletic facilities, computers and audio-visual equipment, transportation equipment, custodial and maintenance equipment, food service equipment, and miscellaneous instructional assets. This amount represents a net increase of \$4.2 million or 1.9% 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 \$15.6 million, including an increase in construction in progress of \$9.1 million.

The School System's enrollment increased very 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 2020 capital budget forecasts the School System will spend \$1.5 million less than the prior year due to reduced funding. Budgeted expenditures of \$18.2 million for capital projects include the following:

- Continuation of construction of a replacement of Sharpsburg Elementary School in the southernmost part of the County,
- Continuation of construction related to the downtown Hagerstown Urban Education Campus.
- Various systemic maintenance projects in several aging schools.

### 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, as well as pension and other post-employment benefits. See Notes 8, 11 and 12 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 net other post-employment liability and related deferred outflows/inflows is detailed in Note 12 to the financial statements. The long-term net liability of \$241.6 million in the statement of net position is a result of the application of GASB#75. 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 Enrollment Trends: In recent years, the County Commissioners have provided only maintenance of effort level funding established by State law, with the exception of a small increase for fiscal year 2019. 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. Future local revenue may be largely dependent upon changes in enrollment, which is trending flat to negative. State revenue is also affected by our enrollment, as well as poverty levels, and County wealth and how those factors compare to changes experienced by the State as a whole. In addition, several years ago the State of Maryland shifted a portion of the employer share of costs related to the combined Teachers Retirement and Pension Systems (the Plan) to the School System. As disclosed in Note 10 to the financial statements, the State contributed \$16.1 million for this benefit in fiscal year 2019, 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 the local 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.

- Changing Student Population Demographics: While the total student enrollment remains about the same, the number of students with special needs is increasing. Special education student count increased 4% last year and students with limited English skills increased 14% from a year earlier. Serving students with these needs means additional staffing and other costs. In addition, poverty levels remain high in Washington County with the number of students qualified for free and reduced priced meals at 47%. Additional resources and specialized techniques are required to help students discussed in this paragraph achieve academically. As we struggle to recruit and retain teachers in these high need areas, the limited funding increases will hamper efforts to increase salaries.
- Legislative Changes: The Maryland Safe to Learn Act created a Safe Schools Fund to provide grants to local school system. But it also increased responsibilities on school systems to provide higher levels of safety through initiatives such as increased numbers of school resource officers, safety vestibules at building entrances, staff training, a mental health coordinator, identification of behaviors of concern and providing wrap-around services. These programs will compete with resources needed to provide regular educational services.
- Potential State Revenue Increases: In the 2019 General Assembly, legislation entitled The Blueprint for Maryland's Future was passed that began the implementation of recommendations of the Kirwan Commission. For fiscal year 2020, \$9.5 million in additional revenue was made available to Washington County Public Schools to provide a substantial teacher salary increase for beginning teachers, provide pre-kindergarten classrooms, provide increased funding for special education, provide assistance for struggling learners in early elementary grades, and other initiatives of the legislation. Additional increases in funding recommended by the Kirwan Commission are uncertain but will be the subject of the 2020 General Assembly. Part of the funding will come from the legislation enacted in 2018 to create an education "lock-box" for net revenue generated by gaming operations throughout the State. This will be phased-in over several years and much of it may be restricted, as we have seen initially in the recent legislation.

### **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, 2019

	Governmental Activities	Business-Type Activities	Total
<u>ASSETS</u>			
Current Assets			
Cash and Cash Equivalents	\$ 16,098,097	\$ 31,818	\$ 16,129,915
Investments	25,448,482	-	25,448,482
Due from Other Governments	8,679,591	386,789	9,066,380
Internal Balances	(1,928,835)	1,928,835	-
Due from Fiduciary Fund	15,345	-	15,345
Accounts Receivable	540,695	30,856	571,551
Inventories	81,331	135,530	216,861
Prepaid items	1,702,221	-	1,702,221
Total Current Assets	<u>50,636,927</u>	<u>2,513,828</u>	<u>53,150,755</u>
Noncurrent Assets			
Capital Assets, not being depreciated	19,284,849	-	19,284,849
Capital Assets, net of accumulated depreciation	209,023,507	1,629,246	210,652,753
Total Noncurrent Assets	<u>228,308,356</u>	<u>1,629,246</u>	<u>229,937,602</u>
TOTAL ASSETS	<u>278,945,283</u>	<u>4,143,074</u>	<u>283,088,357</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Other Postemployment Benefits (OPEB)	17,073,214	376,664	17,449,878
Pensions	4,948,686	942,607	5,891,293
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>22,021,900</u>	<u>1,319,271</u>	<u>23,341,171</u>
<u>LIABILITIES</u>			
Current Liabilities			
Accounts Payable	7,638,904	98,224	7,737,128
Accrued Liabilities	19,440,635	38,334	19,478,969
Unearned Revenues	2,618,963	122,220	2,741,183
Long-term Liabilities			
Due within one year			
Compensated Absences	482,174	1,693	483,867
Capital Leases Payable	1,097,714	-	1,097,714
Total Current Liabilities	<u>31,278,390</u>	<u>260,471</u>	<u>31,538,861</u>
Noncurrent Liabilities			
Compensated Absences	6,922,355	164,506	7,086,861
Net OPEB Liability	236,280,371	5,315,100	241,595,471
Net Pension Liability	15,423,214	2,937,755	18,360,969
Total Noncurrent Liabilities	<u>258,625,940</u>	<u>8,417,361</u>	<u>267,043,301</u>
TOTAL LIABILITIES	<u>289,904,330</u>	<u>8,677,832</u>	<u>298,582,162</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Other Postemployment Benefits (OPEB)	24,559,103	881,228	25,440,331
Pensions	2,785,165	530,508	3,315,673
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>27,344,268</u>	<u>1,411,736</u>	<u>28,756,004</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	227,210,642	1,629,246	228,839,888
Unrestricted	(243,492,057)	(6,256,469)	(249,748,526)
TOTAL NET POSITION	<u>\$ (16,281,415)</u>	<u>\$ (4,627,223)</u>	<u>\$ (20,908,638)</u>

The notes to the financial statement are an integral part of this statement.

WASHINGTON COUNTY BOARD OF EDUCATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Program Revenue				Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Administration	\$ 6,735,174	\$ -	\$ 558,840	\$ -	\$ (6,176,334)	\$ -	\$ (6,176,334)
Mid-level Administration	18,884,966	-	1,515,558	-	(17,369,408)	-	(17,369,408)
Instructional Salaries	108,830,406	-	5,249,002	-	(103,581,404)	-	(103,581,404)
Instructional Textbooks and Supplies	9,578,804	253,829	1,040,797	-	(8,284,178)	-	(8,284,178)
Other Instructional Costs	6,614,950	-	836,402	232,897	(5,545,651)	-	(5,545,651)
Special Education	28,217,946	-	14,125,467	-	(14,092,479)	-	(14,092,479)
Student Personnel Services	1,771,798	-	50,588	-	(1,721,210)	-	(1,721,210)
Student Health Services	4,748,977	-	563,309	-	(4,185,668)	-	(4,185,668)
Student Transportation Services	12,412,327	-	7,633,569	-	(4,778,758)	-	(4,778,758)
Operation of Plant	23,189,668	-	1,232,524	-	(21,957,144)	-	(21,957,144)
Maintenance of Plant	14,556,561	-	389,758	133,567	(14,033,236)	-	(14,033,236)
Fixed Charges	95,269,164	12,795,925	20,768,793	-	(61,704,446)	-	(61,704,446)
Food Services	-	-	-	55,894	55,894	-	55,894
Community Services	173,960	-	173,960	-	-	-	-
Interest on Long-Term Obligations	56,710	-	-	-	(56,710)	-	(56,710)
Depreciation - Unallocated	7,584,891	-	-	-	(7,584,891)	-	(7,584,891)
<b>Total Governmental Activities</b>	<b>338,626,302</b>	<b>13,049,754</b>	<b>54,138,567</b>	<b>422,358</b>	<b>(271,015,623)</b>	<b>-</b>	<b>(271,015,623)</b>
Business-Type Activities:							
Food Services	12,389,297	3,322,859	9,603,767	-	-	537,329	537,329
<b>Total Primary Government</b>	<b>\$ 351,015,599</b>	<b>\$ 16,372,613</b>	<b>\$ 63,742,334</b>	<b>\$ 422,358</b>	<b>(271,015,623)</b>	<b>537,329</b>	<b>(270,478,294)</b>
General Revenues:							
Unrestricted Grants and Contributions							
Local					99,771,803	-	99,771,803
State					172,056,069	-	172,056,069
Federal					34,983	-	34,983
Investment Earnings					487,494	518	488,012
Other					493,004	-	493,004
Gain (Loss) on Disposal of Assets					(32,113)	(6,257)	(38,370)
Transfers					(140,190)	140,190	-
<b>Total General Revenues and Transfers</b>					<b>272,671,050</b>	<b>134,451</b>	<b>272,805,501</b>
Changes in Net Position					1,655,427	671,780	2,327,207
Net position - beginning of year as restated (Note 13)					(17,936,842)	(5,299,003)	(23,235,845)
Net position - end of year					<b>\$ (16,281,415)</b>	<b>\$ (4,627,223)</b>	<b>\$ (20,908,638)</b>

The notes to the financial statement are an integral part of this statement.

WASHINGTON COUNTY BOARD OF EDUCATION  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2019

	<u>General Fund</u>		Total Governmental Funds
	Current Expense Fund	Capital Project Fund	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 16,098,097	\$ -	\$ 16,098,097
Investments	18,943,347	-	18,943,347
Due From Other Governments	4,013,432	4,666,159	8,679,591
Accounts Receivable	469,523	-	469,523
Inventories	81,331	-	81,331
Prepaid items	273,621	-	273,621
<b>TOTAL ASSETS</b>	<b>\$ 39,879,351</b>	<b>\$ 4,666,159</b>	<b>\$ 44,545,510</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 3,412,462	\$ 3,298,193	\$ 6,710,655
Accrued Liabilities	17,558,555	-	17,558,555
Due to Other Funds	4,507,410	777,358	5,284,768
Unearned Revenue	1,936,073	682,890	2,618,963
<b>TOTAL LIABILITIES</b>	<b>27,414,500</b>	<b>4,758,441</b>	<b>32,172,941</b>
<b>FUND BALANCES</b>			
Nonspendable	354,952	-	354,952
Committed	4,734,189	-	4,734,189
Assigned	3,245,385	-	3,245,385
Unassigned	4,130,325	(92,282)	4,038,043
<b>TOTAL FUND BALANCES</b>	<b>12,464,851</b>	<b>(92,282)</b>	<b>12,372,569</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 39,879,351</b>	<b>\$ 4,666,159</b>	<b>\$ 44,545,510</b>

The notes to the financial statement are an integral part of this statement.

WASHINGTON COUNTY BOARD OF EDUCATION  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 FOR THE YEAR ENDED JUNE 30, 2019

Total fund balance - governmental funds \$ 12,372,569

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. Those assets consist of:

Cost of capital assets	\$ 425,657,341	
Accumulated depreciation	(197,348,985)	
Total Capital Assets		228,308,356

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. 8,083,681

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	\$ (6,922,354)	
Capital lease payable	(1,097,714)	
		(8,020,068)

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 other post-employment benefits liability for the school system is not payable with current financial resources and is not reported in the general funds. The activity associated with the school system's share of the net pension liability and the other post-employment benefits liability consist of:

Net Pension Liability	(15,423,214)	
Deferred Outflows of Resources - Pensions	4,948,686	
Deferred Inflows of Resources - Pensions	(2,785,165)	
Net Other Post-Employment Benefits Liability (OPEB)	(236,280,371)	
Deferred Outflows of Resources - OPEB	17,073,214	
Deferred Inflows of Resources - OPEB	(24,559,103)	
		(257,025,953)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		\$ (16,281,415)

WASHINGTON COUNTY BOARD OF EDUCATION  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	<u>General Fund</u>		Total Governmental Funds
	Current Expense Fund	Capital Project Fund	
<b>REVENUES</b>			
Local	\$ 98,699,209	\$ 1,241,043	\$ 99,940,252
State Maryland	195,378,572	11,510,348	206,888,920
Federal Government	17,186,938	-	17,186,938
Tuition	156,488	-	156,488
Investment Income	418,297	-	418,297
Other	2,980,904	17,111	2,998,015
	<hr/>	<hr/>	<hr/>
Total Revenues	314,820,408	12,768,502	327,588,910
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES</b>			
Current			
Administration	6,760,713	-	6,760,713
Mid-level Administration	18,884,966	-	18,884,966
Instructional Salaries	108,323,531	-	108,323,531
Instructional Textbooks and Supplies	9,578,804	-	9,578,804
Other Instructional Costs	5,292,655	-	5,292,655
Special Education	28,260,210	-	28,260,210
Student Personnel Services	1,771,798	-	1,771,798
Student Health Services	4,756,733	-	4,756,733
Student Transportation Services	12,796,743	-	12,796,743
Operation of Plant	24,450,831	-	24,450,831
Maintenance of Plant	11,194,013	3,675,791	14,869,804
Community Services	173,960	-	173,960
Fixed Charges	86,235,895	-	86,235,895
Capital Outlay	740,825	9,327,207	10,068,032
Capital Lease Payments			
Principal	1,062,365	-	1,062,365
Interest	56,710	-	56,710
	<hr/>	<hr/>	<hr/>
Total Expenditures	320,340,752	13,002,998	333,343,750
	<hr/>	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,520,344)	(234,496)	(5,754,840)
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers Out	(140,190)	-	(140,190)
Proceeds from Sale of Assets	132,860	-	132,860
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources	(7,330)	-	(7,330)
	<hr/>	<hr/>	<hr/>
Net Changes in Fund Balance	(5,527,674)	(234,496)	(5,762,170)
	<hr/>	<hr/>	<hr/>
Fund Balances - Beginning of Year	17,992,525	142,214	18,134,739
	<hr/>	<hr/>	<hr/>
Fund Balances - End of Year	\$ 12,464,851	\$ (92,282)	\$ 12,372,569
	<hr/>	<hr/>	<hr/>

The notes to the financial statement are an integral part of this statement.

WASHINGTON COUNTY BOARD OF EDUCATION  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2019

Net changes in fund balances - total governmental funds \$ (5,762,170)

Amounts reported for governmental activities in the statement of activities is 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 and reported as depreciation expense. The amount by which depreciation exceeds capital outlays in the period is as follows:

Depreciation expense	\$ (12,038,083)	
Capital outlays	<u>15,233,310</u>	3,195,227

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.

(164,973)

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.

1,062,365

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

Increase in compensated absences		(506,875)
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The expense incurred 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.

(2,980,498)

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.

7,399,909

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.

(587,558)

Change in net position of governmental activities

\$ 1,655,427

WASHINGTON COUNTY BOARD OF EDUCATION  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2019

	<u>Enterprise Fund</u> <u>Food Service</u>	<u>Internal Service Fund</u> <u>Self-Insurance</u>
<b><u>ASSETS</u></b>		
Current Assets		
Cash and Cash Equivalents	\$ 31,818	\$ -
Investments	-	6,505,135
Due from Other Governments	386,789	-
Accounts Receivable	30,856	71,172
Inventories	135,530	-
Due from Other Funds	1,928,835	3,371,278
Prepaid Expenses	-	1,428,600
Total Current Assets	<u>2,513,828</u>	<u>11,376,185</u>
Noncurrent Assets		
Capital Assets, net of accumulated depreciation	<u>1,629,246</u>	-
Total Noncurrent Assets	<u>1,629,246</u>	-
TOTAL ASSETS	<u>4,143,074</u>	<u>11,376,185</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Other Postemployment Benefits (OPEB)	376,664	-
Pensions	<u>942,607</u>	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,319,271</u>	-
<b><u>LIABILITIES</u></b>		
Current Liabilities		
Accounts Payable	98,224	928,249
Accrued Liabilities	38,334	2,364,254
Unearned Revenue	122,220	-
Long-term Liabilities		
Due within one year		
Compensated Absences	<u>1,693</u>	-
Total Current Liabilities	<u>260,471</u>	<u>3,292,503</u>
Noncurrent Liabilities		
Compensated Absences Payable	164,506	-
Net Pension Liability	2,937,755	-
Net OPEB Liability	<u>5,315,100</u>	-
Total Noncurrent Liabilities	<u>8,417,361</u>	-
TOTAL LIABILITIES	<u>8,677,832</u>	<u>3,292,503</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Other Postemployment Benefits (OPEB)	881,228	-
Pensions	<u>530,508</u>	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,411,736</u>	-
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	1,629,246	-
Unrestricted	<u>(6,256,469)</u>	<u>8,083,682</u>
TOTAL NET POSITION	<u>\$ (4,627,223)</u>	<u>8,083,682</u>

The notes to the financial statement are an integral part of this statement.

WASHINGTON COUNTY BOARD OF EDUCATION  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	Enterprise Fund <u>Food Service</u>	Internal Service Fund <u>Self-Insurance</u>
Operating Revenues		
Food Service Sales	\$ 3,040,074	\$ -
Medicare Part D Subsidy	-	722,242
Charges to Other Funds	-	42,768,820
Charges to Employees and Retirees	-	13,078,710
Total Operating Revenues	<u>3,040,074</u>	<u>56,569,772</u>
Operating Expenses		
Payroll Costs	5,946,963	77,905
Professional and Contract Services	-	2,799,010
Supplies and Materials	5,510,808	-
Depreciation	288,327	-
Other Post-Employment Benefits Contribution	-	722,242
Insurance Claims	-	45,639,904
Other Operating Costs	360,414	-
Total Operating Expenses	<u>12,106,512</u>	<u>49,239,061</u>
Operating Income (Loss)	<u>(9,066,438)</u>	<u>7,330,711</u>
Nonoperating Revenues (Expenses)		
Interest Income	518	69,197
State Matching and Other	367,754	-
Federal Grants and Commodities	9,152,451	-
Other Grants	83,562	-
Loss on Disposition of Equipment	(6,257)	-
Total Nonoperating Revenues (Expenses)	<u>9,598,028</u>	<u>69,197</u>
Interfund Transfers		
Interfund Transfer in	<u>140,190</u>	<u>-</u>
Change in Net Position	671,780	7,399,908
Net Position - Beginning of year as restated (Note 13)	<u>(5,299,003)</u>	<u>683,774</u>
Net Position - End of Year	<u>\$ (4,627,223)</u>	<u>\$ 8,083,682</u>

The notes to the financial statement are an integral part of this statement.

WASHINGTON COUNTY BOARD OF EDUCATION  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	Enterprise Fund Food Service	Internal Service Fund Self-Insurance
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from User Charges and Other Funds	\$ 2,966,575	\$ -
Cash Received from Assessments Made to Other Funds	-	43,104,222
Cash Received from assessments Made to Employees and Retirees	-	13,078,710
Cash Received from Medicare Part D	-	722,242
Payments for Other Post-Employment Contributions	-	(722,242)
Insurance Claims Paid	-	(46,798,907)
Payments to Employees for Services	(5,841,868)	(77,905)
Payments to Suppliers for Goods and Services	(4,615,745)	(2,799,010)
Payments for Other Operating Expenses	(1,192,000)	-
Net Cash Provided by (Used In) Operating Activities	<u>(8,683,038)</u>	<u>6,507,110</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Nonoperating Grants Received	8,942,908	-
Interfund Transfers	140,190	-
Net Cash Provided by Noncapital Financing Activities	<u>9,083,098</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Acquisition of Capital Asset	(392,033)	-
Proceeds from Sale of Capital Assets	13,878	-
Net Cash Used in Capital Financing Activities	<u>(378,155)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Received	518	-
Purchase of Investments	-	(6,507,110)
Net Cash Provided by (Used In) Investing Activities	<u>518</u>	<u>(6,507,110)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Cash and Cash Equivalents - Beginning of Year	9,395	-
Cash and Cash Equivalents - End of Year	<u>\$ 31,818</u>	<u>\$ -</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:</b>		
Donated Commodities	<u>\$ 773,364</u>	<u>\$ -</u>
Loss on disposal of capital asset	<u>\$ 20,135</u>	<u>\$ -</u>
<b>RECONCILIATION OF OPERATING (LOSS)/INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (9,066,438)	\$ 7,330,711
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:		
Depreciation	288,327	-
Commodities Used	773,364	-
Changes in Assets and Liabilities		
Receivables	4,350	-
Due from Other Funds	(831,586)	335,402
Inventory	69,134	-
Deferred Outflows of Resources	(813,187)	-
Accounts Payable	52,565	(647,850)
Accrued Liabilities	(4,866)	(511,153)
Unearned Revenue	(77,849)	-
Compensated Absences	(26,980)	-
Other Post-Employment Benefits	(285,494)	-
Net Pension Liability	468,776	-
Deferred Inflows of Resources	766,846	-
Total Adjustments	<u>383,400</u>	<u>(823,601)</u>
Net Cash Provided by (Used In) Operating Activities	<u>\$ (8,683,038)</u>	<u>\$ 6,507,110</u>

The notes to the financial statement are an integral part of this statement.

WASHINGTON COUNTY BOARD OF EDUCATION  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2019

	Private Purpose Trust Fund (Scholarship)	Agency Funds	Retiree Health Plan Trust
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 7,225	\$ 3,666,092	\$ -
Investments Held in MABE Trust	-	-	72,807,076
Investments	130,327	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 137,552</u></b>	<b><u>\$ 3,666,092</u></b>	<b><u>\$ 72,807,076</u></b>
<b>LIABILITIES</b>			
Accounts Payable	\$ -	\$ 121,700	\$ -
Due to Student Groups	-	3,544,392	-
Due to Primary Government	15,345	-	-
<b>TOTAL LIABILITIES</b>	<b><u>15,345</u></b>	<b><u>3,666,092</u></b>	<b><u>-</u></b>
<b>NET POSITION</b>			
Restricted for Retiree Health Plan Benefits	-	-	72,807,076
Restricted for Scholarships	122,207	-	-
<b>TOTAL NET POSITION</b>	<b><u>122,207</u></b>	<b><u>-</u></b>	<b><u>72,807,076</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 137,552</u></b>	<b><u>\$ 3,666,092</u></b>	<b><u>\$ 72,807,076</u></b>

The notes to the financial statement are an integral part of this statement.

WASHINGTON COUNTY BOARD OF EDUCATION  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019

	Private Purpose Trust Fund (Scholarship)	Retiree Health Plan Trust
	<u>                    </u>	<u>                    </u>
<b>ADDITIONS</b>		
Gifts and Contributions	\$ 16,200	\$ 14,716,200
Investment Income	2,934	4,724,786
	<u>                    </u>	<u>                    </u>
Total Additions	<u>19,134</u>	<u>19,440,986</u>
<b>DEDUCTIONS</b>		
Scholarships Awarded	60,935	-
Benefits Paid	-	10,493,958
	<u>                    </u>	<u>                    </u>
Total Deductions	<u>60,935</u>	<u>10,493,958</u>
Change in Net Position	(41,801)	8,947,028
Net Position - Beginning of Year	<u>164,008</u>	<u>63,860,048</u>
Net Position - End of Year	<u>\$ 122,207</u>	<u>\$ 72,807,076</u>

The notes to the financial statements are an integral part of this statement.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Nature of Operations

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 (the "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.

Governmental Accounting Standards Board ("GASB") Statement No. 61, "*The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*" established the criteria used by the School System to evaluate the possible inclusion of related entities within its reporting entity based upon financial accountability and the nature and significance of the relationship. Based on the foregoing criteria, the School System has no component units that are required to be included in the School System's financial statements.

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 accounting policies of the School System are described below.

B. Measurement Focus, Basis of Accounting

The basic financial statements of the School System are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

1. Government-wide Financial Statements

Government-wide financial statements (i.e. the statement of net position and the statement of activities) report on all the nonfiduciary activities of the School System. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which are supported by local contributions and intergovernmental revenues are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

B. Measurement Focus, Basis of Accounting (Continued)

1. Government-wide Financial Statements (Continued)

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements which incorporates noncurrent assets as well as long-term debt and obligations. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 food commodities are recorded as revenue and expense when they are consumed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Unrestricted grants and contributions and other items not properly included among program revenues are reported instead as general revenues. The School System does not allocate indirect costs.

Amounts expended to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure.

2. Fund Financial Statements

The operations of the School System are organized and are recorded in individual funds. Each fund is a separate accounting entity, with self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures or expenses, as appropriate.

Governmental Funds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected 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 of the end of the current fiscal period.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

B. Measurement Focus and Basis of Accounting (Continued)

Governmental Funds (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Operating and capital grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Under the current financial resources measurement focus, only current assets and current liabilities are generally included on the balance sheet. The reported fund balance is considered to be a measure of "available spendable resources". Governmental funds operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets.

Proprietary Funds

The School System's Food Service Fund and Internal Service Fund are proprietary funds. In the fund financial statements, the proprietary fund is presented using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, the proprietary funds are presented using the economic resources measurement focus. This means that all assets, deferred outflow of resources, liabilities, and deferred inflow of resources (whether current or noncurrent) associated with their activity are included on their balance sheets. The proprietary fund type operating statement presents increases (revenues) and decreases (expenses) in total net position.

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 Food Service Fund consist 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 Food Service Fund consist of employee salaries and benefits, supplies

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

B. Measurement Focus and Basis of Accounting (Continued)

Proprietary Funds (Continued)

material, 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.

Amounts paid to acquire capital assets are capitalized as assets in the fund financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the fund financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness are reported as a reduction of the related liabilities, rather than an expense.

Fiduciary Funds

The School System's Fiduciary Funds are presented in the fund financial statements as a Private Purpose Trust Fund, a Retiree Health Plan Trust, and Agency Funds. Since, by definition, the assets of these funds are held for the benefit of a third party (individuals, private organizations, and/or other governments) and cannot be used to satisfy obligations of the School System, these funds are not incorporated into the government-wide financial statements. The School System's fiduciary funds are presented on the accrual basis of accounting.

C. Basis of Presentation

The School System reports the following funds:

Governmental Fund Types:

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

Proprietary Fund Types:

- The Food Service Fund accounts for all financial resources associated with the operations of the School System's cafeterias.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 (CONTINUED)

C. Basis of Presentation (Continued)

Proprietary Fund Types: (Continued)

- 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

Additionally, the School System reports the following fiduciary funds:

- 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 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.
- The Retiree Health Plan Trust accounts for the assets held in the Maryland Association of Boards of Education Pooled OPEB Investment Trust established exclusively for the purpose of non-pension post-employment benefits.

D. Assets, Liabilities, Net Position or Fund Balances

1. 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.

2. Investments

Governmental Activities investments are carried at amortized cost, which is not materially different than fair value. All other investments are valued at fair market value.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 (CONTINUED)

D. Assets, Liabilities, Net Position or Fund Balances (Continued)

3. Inventories

Inventory is valued at the lower of average cost or market. Inventory in the General Fund consists of instructional material and custodial supplies. The cost of governmental fund inventory is recorded as expenditures when used or delivered to the schools. Inventory in the Food Service Fund consists of expendable food and supplies held for consumption. The cost of the Food Service 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.

4. 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 acquisition 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 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

5. Receivables and Payables

· Interfund Receivables and Payables

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 costs 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.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D. Assets, Liabilities, Net Position or Fund Balances (Continued)

6. 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. 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.

7. 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, 2019 amounted to \$7,570,728. At June 30, 2019 \$483,867 is considered payable with current resources and is included in accrued liabilities in the governmental fund level financial statements. This amount represents the pending payouts of unused leave owed to employees separated from active service as of the year ended June 30, 2019. 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.

8. Unearned Revenues

Revenues that are received but not yet earned are recorded as unearned revenue in the School System's financial statements. In the School System's governmental funds, unearned revenues arise when potential revenue does not meet both the "measureable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the School System has a legal claim to the resources, the liability for unearned revenue is removed from the governmental funds balance sheet and revenue is recognized.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
 (CONTINUED)

D. Assets, Liabilities, Net Position or Fund Balances (Continued)

9. Net Position/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 Fund Balance* – Amounts that are not in a spendable form (such as Inventory) or are required to be maintained intact.
- *Restricted Fund Balance* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed Fund Balance* – This classification includes amounts that can 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.
- *Assigned Fund Balance* – 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 Fund Balance* – Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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, 2019, the specific stop loss level was \$300,000.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D. Assets, Liabilities, Net Position or Fund Balances (Continued)

9. Net Position/Fund Balances (Continued)

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- 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 that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This category represents net position of the School System, not restricted for any project or other purpose.

When an expense is incurred for purposes for which restricted and unrestricted net position is available, the School System is to apply restricted net position first.

10. Accounting Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts may differ from those estimates.

11. Deferred Outflows / Inflows of Resources

The Statement of Net Position reports separate sections for deferred outflows and deferred inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/revenue) until then. The School System has two items that qualify for reporting in these categories: deferred outflows and inflows related to pensions and deferred outflows and inflows related to other postemployment benefits.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

D. Assets, Liabilities, Net Position or Fund Balances (Continued)

11. Deferred Outflows / Inflows of Resources (Continued)

Deferred outflows and inflows of resources related to pensions are described further in Note 11 and deferred outflows and inflows of resources related to other postemployment benefits are described further in Note 12. The components of deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual investment earnings on investments, are amortized into pension/OPEB expense over a closed period, which reflects the weighted average remaining service life of all MSRPS/OPEB members beginning the year in which the deferred amount occurs (current year). The annual difference between the projected and actual earnings on investments is amortized over a five-year closed period beginning the year in which the difference occurs (current year).

12. 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.

13. Post-employment Health Care and Life Insurance Benefits

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 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.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 1: NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

E. Adoption of Governmental Accounting Standards Board Statements

The School System adopted the provisions for GASB Statement No. 83, "*Certain Asset Retirement Obligations*".

The School System adopted the provisions for GASB Statement No. 88, "*Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*".

The adoption of these statements had no effect on previously reported amounts.

F. Pending Changes in Accounting Principles

In January 2017, the GASB issued Statement No. 84, "*Fiduciary Activities*". The School System is required to adopt the provisions of statement No. 84 for its fiscal year 2020 financial statements. This statement may change the financial statement classification of some of the School System's Fiduciary funds.

In June 2017, the GASB issued Statement No. 87, "*Leases*". The School System is required to adopt the provisions of Statement No. 87 for its fiscal year 2021 financial statements.

In June 2018, the GASB issued Statement No. 89, "*Accounting for Interest Cost Incurred before the End of a Construction Period*". The School System is required to adopt the provisions of Statement No. 89 for its fiscal year 2021 financial statements.

In August 2018, the GASB issued Statement No. 90, "*Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*". The School System is required to adopt the provisions of Statement No. 90 for its fiscal year 2020 financial statements.

In May 2019, the GASB issued Statement No. 91, "*Conduit Debt Obligations*". The School System is required to adopt the provisions of Statement No. 91 for its fiscal year 2022 financial statements.

The School System has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 2: BUDGETS AND BUDGETARY ACCOUNTING

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. Budget meetings with program and department management are held to review the current budget annually, seeking input on changes for the upcoming year. 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 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.
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) the 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.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 2: BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

*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.

*Budget Compliance*

At June 30, 2019, the School System had exceeded the amended expenditure budget for the following functions: mid-level administration, other instructional costs, student health services, operation of plant, and maintenance of plant. The School System received approval from the County Commissioners for budget category transfers to cover these deficits in September 2019.

NOTE 3: DEPOSIT AND INVESTMENT RISK

*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. The FDIC coverage limits are applied to total noninterest-bearing accounts separately from interest-bearing accounts.

Compliance is summarized as follows:

	Governmental and Business-Type Activities	Fiduciary Responsibilities	Total
Carrying amount of cash deposits	\$ 16,129,915	\$ 3,673,317	\$ 19,803,232
Bank balance of cash deposits	18,615,832	3,849,247	22,465,079
Amount covered by FDIC	271,340	1,400,809	1,672,149
Amount collateralized with securities held by an agent of the pledging financial institution in the School System's name	18,344,492	2,448,438	20,792,930

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

NOTE 3: DEPOSIT AND INVESTMENT RISK (CONTINUED)

*Investments*

Credit Risk

Maryland statutes authorize the School System to invest in obligations of the United States government or agency obligations. As of June 30, 2019, the School System's operating investments in U.S Government Agencies were rated AAA by Standard & Poor's. The School System's fiduciary investments in fixed income mutual funds and corporate bonds were not rated and rate A+, respectively, as of June 30, 2019.

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.

Foreign Currency Risk

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

Retiree Health Plan Trust Investments

The investments of the MABE Trust are stated at fair value, are deposited with Fidelity, and are managed by GYL Financial Synergies, LLC. The MABE Trust categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 are significant unobservable inputs. Although all investments of the MABE Trust are considered Level 1 and Level 2, the School System's membership in the MABE Trust is considered Level 2. As of June 30, 2019, the pooled net position of the MABE Trust was \$397,278,841 in total, of which the School System's allocated investment balance was \$72,807,076. The School System's allocated investments consist of the following:

	Balance at June 30, 2019
Cash and Cash Equivalents	\$ 6,437,615
Interest Receivable	107,776
Corporate Bonds	6,584,785
Fixed Income Mutual Funds	6,479,952
Equity Securities	15,565,708
Mutual Funds	25,991,958
U.S. Government Agency	11,639,282
	<u>\$ 72,807,076</u>

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

## NOTE 3: DEPOSIT AND INVESTMENT RISK (CONTINUED)

*Investments* (CONTINUED)Retiree Health Plan Trust Investments (Continued)

The School System may terminate its membership in the MABE Trust and withdraw its allocated investment balance by providing written notification six months prior to the intended date of withdrawal.

Concentration of Credit Risk

The School System does not have a formal policy that places a limit on the amount or percent that may be invested in any one issuer. More than 5% of the School System's Governmental Activities and General Fund investments is an investment in the Federal Home Loan Bank. This investment is 49% and 66% of the School System's Governmental Activities and General Fund investments.

Market Risk

The School System's investments are exposed to various risks, such as interest rate, market, currency, and credit risk. 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 on the financial statements. Agency bonds are not backed by the full faith and credit of the United States Government.

As of June 30, 2019, the School System had the following investments and maturities:

	Governmental Activities	Business-Type Activities	Fiduciary Responsibilities	Total
United States Treasury Note - 2.000% matures January 31, 2020	\$ 6,466,738	\$ -	\$ -	\$ 6,466,738
United States Treasury Note - 2.625% matures July 31, 2020	6,507,109	-	-	6,507,109
Federal Home Loan Bank - 1.370% matures October 24, 2019	441,176	-	-	441,176
Federal Home Loan Bank - 1.390% matures December 26, 2019	999,000	-	-	999,000
Federal Home Loan Bank - 2.875% matures September 11, 2020	6,038,847	-	-	6,038,847
Federal Home Loan Bank - 2.250% matures January 29, 2021	1,197,832	-	-	1,197,832
Federal Home Loan Bank - 2.250% matures January 29, 2021	3,797,780	-	-	3,797,780
Income Fund of America	-	-	68,654	68,654
Certificates of Deposit	-	-	61,673	61,673
Retiree Health Plan Trust	-	-	72,807,076	72,807,076
	<u>\$ 25,448,482</u>	<u>\$ -</u>	<u>\$ 72,937,403</u>	<u>\$ 98,385,885</u>

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

## NOTE 3: DEPOSIT AND INVESTMENT RISK (CONTINUED)

*Investments* (CONTINUED)

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	More than 10
U.S. Agencies	\$ 25,448,482	\$ 7,906,914	\$ 17,541,568	\$ -	\$ -
Certificates of Deposit	61,673	61,673	-	-	-
Income Fund of America	68,654	68,654	-	-	-
Retiree Health Plan Trust	24,704,019	6,479,952	6,584,785	-	11,639,282
	<u>\$ 50,282,828</u>	<u>\$ 14,517,193</u>	<u>\$ 24,126,353</u>	<u>\$ -</u>	<u>\$ 11,639,282</u>

*Investments and Fair Value* – Investments are measured at fair value on a recurring basis in accordance with the framework established by GASB Statement No. 72, “*Fair Value Measurement and Application*”. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as below:

Level 1 – inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the School System has the ability to access.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets or inactive markets; inputs other than quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Fair value of assets measured on a recurring basis at June 30, 2019 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	\$ 25,448,482	\$ -	\$ 25,448,482	\$ -
Certificates of Deposit	61,673	61,673	-	-
Mutual Fund - Income Fund	68,654	68,654	-	-
	<u>\$ 25,578,809</u>	<u>\$ 130,327</u>	<u>\$ 25,448,482</u>	<u>\$ -</u>

Certificates of Deposit and mutual funds are valued using prices quoted in active markets for those securities. U.S. government agency securities are valued using quoted market prices for similar securities.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

## NOTE 4: RECEIVABLES AND PAYABLES

Receivables and payables at June 30, 2019 consist of the following:

	Governmental Activities			Business-Type Activities	Total
	General	Capital Projects	Internal Service		
<u>Due From Other Governments</u>					
County	\$ -	\$ 175,419	\$ -	\$ -	\$ 175,419
State	1,432,125	4,490,740	-	18,557	5,941,422
Federal	2,537,344	-	-	368,232	2,905,576
Other MD School Systems	43,963	-	-	-	43,963
	<u>\$ 4,013,432</u>	<u>\$ 4,666,159</u>	<u>\$ -</u>	<u>\$ 386,789</u>	<u>\$ 9,066,380</u>
<u>Other Receivables</u>					
Account	\$ 309,770	\$ -	\$ -	\$ 30,856	\$ 340,626
School Loans	4,000	-	-	-	4,000
Interest	155,753	-	71,172	-	226,925
	<u>\$ 469,523</u>	<u>\$ -</u>	<u>\$ 71,172</u>	<u>\$ 30,856</u>	<u>\$ 571,551</u>
<u>Accounts Payable</u>					
Vendor	\$ 3,341,125	\$ 2,810,455	\$ 928,249	\$ 98,224	\$ 7,178,053
Contractor Retainages	71,337	487,738	-	-	559,075
	<u>\$ 3,412,462</u>	<u>\$ 3,298,193</u>	<u>\$ 928,249</u>	<u>\$ 98,224</u>	<u>\$ 7,737,128</u>
<u>Accrued Liabilities</u>					
Payroll and Payroll Taxes	\$ 17,558,555	\$ -	\$ 2,254	\$ 38,334	\$ 17,599,143
Pending Insurance Claims	-	-	2,362,000	-	2,362,000
Current portion of Compensated Absences reclassified in Statement of Net Position	(482,174)	-	-	-	(482,174)
	<u>\$ 17,076,381</u>	<u>\$ -</u>	<u>\$ 2,364,254</u>	<u>\$ 38,334</u>	<u>\$ 19,478,969</u>

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

## NOTE 5: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 is as follows:

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
<b><u>GOVERNMENTAL ACTIVITIES</u></b>				
Capital Assets not Being Depreciated (cost):				
Land	\$ 8,657,807	\$ 155,500	\$ -	\$ 8,813,307
Facilities under Construction	<u>1,397,815</u>	<u>9,075,067</u>	<u>(1,340)</u>	<u>10,471,542</u>
Total Capital Assets not Being Depreciated	<u>10,055,622</u>	<u>9,230,567</u>	<u>(1,340)</u>	<u>19,284,849</u>
Capital Assets Being Depreciated:				
Building and Building Improvements	346,825,006	-	-	346,825,006
Furniture and Equipment	50,395,192	6,002,743	(2,394,284)	54,003,651
Buildings and Equipment under Capital Lease	<u>5,543,835</u>	<u>-</u>	<u>-</u>	<u>5,543,835</u>
Total Capital Assets Being Depreciated	<u>402,764,033</u>	<u>6,002,743</u>	<u>(2,394,284)</u>	<u>406,372,492</u>
Less Accumulated Depreciation for:				
Building and Building Improvements	(151,281,209)	(7,302,877)	-	(158,584,086)
Furniture and Equipment	(33,257,954)	(3,426,620)	2,230,651	(34,453,923)
Buildings and Equipment under Capital Lease	<u>(3,002,390)</u>	<u>(1,308,586)</u>	<u>-</u>	<u>(4,310,976)</u>
Total Accumulated Depreciation	<u>(187,541,553)</u>	<u>(12,038,083)</u>	<u>2,230,651</u>	<u>(197,348,985)</u>
Capital Assets Being Depreciated, Net	<u>215,222,480</u>	<u>(6,035,340)</u>	<u>(163,633)</u>	<u>209,023,507</u>
Governmental Activities, Capital Assets, Net	<u>\$ 225,278,102</u>	<u>\$ 3,195,227</u>	<u>\$ (164,973)</u>	<u>\$ 228,308,356</u>
<b><u>BUSINESS-TYPE ACTIVITIES</u></b>				
Capital Assets Being Depreciated:				
Furniture and Equipment	<u>\$ 5,276,719</u>	<u>\$ 392,033</u>	<u>\$ (292,974)</u>	<u>\$ 5,375,778</u>
Less Accumulated Depreciation for:				
Furniture and Equipment	<u>(3,731,044)</u>	<u>(288,327)</u>	<u>272,839</u>	<u>(3,746,532)</u>
Business-Type Activities, Capital Assets, Net	<u>\$ 1,545,675</u>	<u>\$ 103,706</u>	<u>\$ (20,135)</u>	<u>\$ 1,629,246</u>

Depreciation Expense was charged to governmental activities as follows:

Other Instructional Costs	\$ 2,890,835
Student Transportation Services	1,370,878
Operation of Plant	191,479
Depreciation - Unallocated	<u>7,584,891</u>
	<u>\$ 12,038,083</u>

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

## NOTE 6: UNEARNED REVENUE

*General Fund*

Unearned revenue consists of revenues received under restricted programs in excess of the expenditures under those programs.

*Enterprise Fund*

Unearned revenue includes commodities donated by the Federal Government and included in inventory. Unearned revenues 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, 2019 are as follows:

	<u>Interfund Payable</u>	<u>Interfund Receivable</u>
Governmental Activities		
General Fund - Unrestricted	\$ 4,037,280	\$ -
General Fund - Restricted	470,130	-
Capital Projects Fund	777,358	-
Total Governmental Activities	<u>5,284,768</u>	<u>-</u>
Business-Type Activities		
Food Service Fund	-	1,928,835
Self Insurance Fund	-	3,371,278
Total Business-Type Activities	<u>-</u>	<u>5,300,113</u>
Fiduciary Funds		
Scholarship Fund	15,345	-
Total Fiduciary Funds	<u>15,345</u>	<u>-</u>
Total Interfund Balances	<u>\$ 5,300,113</u>	<u>\$ 5,300,113</u>

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 \$140,190 from the current expense fund to the food service fund for the year ended June 30, 2019, to pay for summer school meals, certain outdoor school meals and adjustments to delinquent school accounts.

## NOTE 8: LONG-TERM LIABILITIES

General long-term liabilities consists of capital lease obligations, accumulated compensated absences payable, net pension liability, and the net OPEB liability. 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 under lease.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

## NOTE 8: LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of changes in the School System's long-term liabilities for the year ended June 30, 2019:

	Balance June 30, 2018 (as restated)	Additions	Deductions/ Maturities	Balance June 30, 2019	Amounts Due Within One Year
<u>Governmental Activities</u>					
Capital Leases					
Copiers	\$ 466,738	\$ -	\$ (246,184)	\$ 220,554	\$ 220,554
iPads	1,693,341	-	(816,181)	877,160	877,160
	<u>2,160,079</u>	<u>-</u>	<u>(1,062,365)</u>	<u>1,097,714</u>	<u>1,097,714</u>
<u>Other Long-Term Liabilities</u>					
Compensated Absences	6,692,666	3,027,401	(2,315,538)	7,404,529	482,174
Net Pension Liability	13,399,637	3,489,388	(1,465,811)	15,423,214	-
Other Post Employment Benefits	232,722,546	17,221,606	(13,663,781)	236,280,371	-
	<u>252,814,849</u>	<u>23,738,395</u>	<u>(17,445,130)</u>	<u>259,108,114</u>	<u>482,174</u>
Governmental Activities Long-Term Liabilities	<u>\$ 254,974,928</u>	<u>\$ 23,738,395</u>	<u>\$ (18,507,495)</u>	<u>\$ 260,205,828</u>	<u>\$ 1,579,888</u>
<u>Business-Type Activities</u>					
Other Long-Term Liabilities					
Compensated Absences	\$ 193,179	\$ 57,132	\$ (84,112)	\$ 166,199	\$ 1,693
Net Pension Liability	2,552,312	664,645	(279,202)	2,937,755	-
Other Post Employment Benefits	5,600,594	21,871	(307,365)	5,315,100	-
	<u>\$ 8,346,085</u>	<u>\$ 743,648</u>	<u>\$ (670,679)</u>	<u>\$ 8,419,054</u>	<u>\$ 1,693</u>

Compensated absences and the net pension liability are paid from the General Fund and the Food Service Fund. The net OPEB liability is paid from the General Fund, Food Service Fund, and the Internal Service Fund.

Following is a schedule of future minimum lease payments under capital leases as of June 30, 2019:

Fiscal Year Ending June 30	Governmental Activities
2020	<u>\$ 1,118,566</u>
Total Minimum Lease Payments	1,118,566
Less: Amount Representing Interest	<u>(20,852)</u>
Total Present Value of Net Minimum Lease Payments	<u>\$ 1,097,714</u>

See Note 5 for an analysis of the buildings and equipment acquired through capital lease, which is included in capital assets in the Statement of Net Position.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

## NOTE 9: FUND BALANCES / NET POSITION

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

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Nonspendable</b>			
Inventory	\$ 81,331	\$ -	\$ 81,331
Prepays	273,621	-	273,621
Total Nonspendable	<u>354,952</u>	<u>-</u>	<u>354,952</u>
<b>Committed</b>			
School loans	385,815	-	385,815
Pre-Kindergarten	4,047	-	4,047
Facilities maintenance	74,466	-	74,466
Facilities	4,269,861	-	4,269,861
Total Committed	<u>4,734,189</u>	<u>-</u>	<u>4,734,189</u>
<b>Assigned</b>			
Encumbrances	<u>3,245,385</u>	<u>-</u>	<u>3,245,385</u>
<b>Unassigned</b>			
	<u>4,130,325</u>	<u>(92,282)</u>	<u>4,038,043</u>
	<u>\$ 12,464,851</u>	<u>\$ (92,282)</u>	<u>\$ 12,372,569</u>
		Governmental Activities	Business-Type Activities/Food Service Fund
<b>Government-Wide Activities</b>			
Capital Assets, net of Accumulated Depreciation		\$ 228,308,356	\$ 1,629,246
Capital Leases Payable		<u>(1,097,714)</u>	<u>-</u>
		<u>\$ 227,210,642</u>	<u>\$ 1,629,246</u>

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 10: RISK MANAGEMENT

The School System is exposed to various risks of loss 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 School System 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 worker's compensation indemnity and medical benefits coverage for participating school boards. The Fund is operated under regulations promulgated by the State's Worker's 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 \$42,768,820 for the year ended June 30, 2019.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

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, 2019. 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, 2019, was as follows:

Liability at Beginning of Year	\$ 2,875,407
Claims and changes in estimates during the year	45,639,904
Claims paid	<u>(46,153,311)</u>
Liability at End of Year	<u>\$ 2,362,000</u>

NOTE 11: PENSION PLAN

Plan Description

The employees of the Board are covered by the Maryland State Retirement and Pension System (the System), which is a multiple-employer cost sharing employer defined benefit public employee retirement system. While there are five retirement and pension systems under the System, employees of the Board are a member of either the Teachers' Retirement and Pension Systems or the Employees' Retirement and Pension Systems. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. The Plans are administered by the State Retirement Agency. Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System issues a publicly available financial report that can be obtained at <http://www.sra.state.md.us>. The System provides retirement allowances and other benefits to State teachers and employees of participating governmental units, among others.

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). Eligible professional and clerical personnel are covered under TRS or TPS. Eligible maintenance, custodial, and food service personnel are covered under ERS or EPS.

Benefits Provided

*Maryland Teacher's Retirement System (TRS)*

Under TRS, the members are eligible for full service retirement allowances upon attaining age 60 or upon accumulating 30 years of eligible service regardless of age. The retirement allowance is 1/55<sup>th</sup> of average final compensation for the three highest years as a member for each year of creditable service. Creditable service is based on a full normal working time for teachers – ten months equals one year. TRS members are eligible for early service retirement allowances upon accumulating at least 25 years prior to attaining age 60. The service retirement allowance is reduced by 0.005 for each month that date of retirement precedes the earlier of age 60 or the date the member would have completed 30 years of eligibility service. The maximum reduction is 30%.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 11: PENSION PLAN (CONTINUED)

Benefits Provided (CONTINUED)

*Maryland Teacher's Retirement System (TRS) (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. The ordinary disability benefit is 1/55<sup>th</sup> of average final compensation for the three highest years as a member for each of creditable service. The minimum benefit is 25% of average final compensation; the maximum benefit can be not greater than 1/55<sup>th</sup> of average final compensation for each year of creditable service the member would have accrued if employment continued to age 60. 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 66 2/3% 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 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 Teacher's Pension System (TPS)*

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 qualify for normal retirement benefits upon (a) completing 30 years of eligible service, (b) reaching 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 service, or (e) reaching age 65 or older with 2 years of eligible service. ACPS members are eligible for early retirement benefits after attainment of the age 55 with at least 15 years of eligible service. RCPB members qualify for normal retirement benefits when they attain a combined age and eligibility service of 90 years or after reaching age 65 with 10 years of eligible service. RCPB members are eligible for early retirement after attaining the age of 60 with at least 15 years of eligible service. Benefits are generally equal to 0.8%-1.5% 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.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 11: PENSION PLAN (CONTINUED)

Benefits Provided (CONTINUED)

*Maryland Teacher's Pension System (TPS) (CONTINUED)*

The accidental disability benefits is equal to 66 2/3% 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 TPS plan, members must have either accumulated at least one year of eligible service prior to 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 Employee's Retirement System (ERS)*

Under ERS, the members are eligible for full service retirement allowances upon attaining age 60 or upon accumulating 30 years of eligible service regardless of age. The retirement allowance is 1/55th of average final compensation for the three highest years as a member for each year of creditable service. ERS members are eligible for early service retirement allowances upon accumulating at least 25 years prior to attaining age 60. The service retirement allowance is reduced by 0.005 for each month that date of retirement proceeds the earlier of age 60 or the date the member would have completed 30 years of eligibility service. The maximum reduction is 30%.

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. The ordinary disability benefit is 1/55th of average final compensation for the three highest years as a member for each of creditable service. The minimum benefit is 25% of average final compensation; the maximum benefit can be not greater than 1/55th of average final compensation for each year of creditable service the member would have accrued if employment continued to age 60. 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 66 2/3% 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 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. If the member dies prior to accruing one year of service, payment is only the return of accumulated member contributions.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 11: PENSION PLAN (CONTINUED)

Benefits Provided (CONTINUED)

*Maryland Employee's Pension System (EPS)*

Under the EPS plan, members are eligible for full service pension allowance upon accumulating 30 years of eligible service regardless of age. Absent 30 years of eligible service, members must meet one of the following conditions to be eligible for full service pension allowance: (a) age 62 with 5 years of eligible service, (b) age 63 with 4 years of eligible service, (c) age 64 with 3 years of eligible service, or (d) age 65 or older with 2 years of eligible service. Members are eligible for early service pension liability upon attaining age 55 with at least 15 years of service or attaining age 60 with 15 years of service, depending on plan. Allowances for both normal and early retirement are based on membership class.

They are also eligible for ordinary disability retirement allowance upon completing five years of eligible service and receiving certification from the Medical Board that they are permanently incapable of performing their necessary job function. The benefit is the service retirement allowance computed on the basis that service continues until age 62 (age 65 for RCPB) without any change in the rate of earnable compensation. EPS 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 66 2/3% of the employee's average final compensation for the three highest consecutive years (five years for RCPB) 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 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

The Board and covered members are required by State statute to contribute to the System. Members of the Teachers' Pension System and the Teachers' Retirement System are required to contribute 7% annually. Members of the Employees' Pension System and Employees' Retirement System are required to contribute 2-7 % annually, depending on the retirement option selected. The contribution requirements of the System members, as well as the State and participating governmental employers are established and may be amended by the Board of Trustees for the System.

Beginning in FY2017, the Board pays the normal cost for their teachers in the Teachers Retirement and Pension System while the State contributes on behalf of the Board, the unfunded liability portion of the Board's annual required contribution to the Teachers' Retirement and Pension System, which for the year ended June 30, 2019 was \$6,203,704. The State's contributions on behalf of the Board for the year ended June 30, 2019 was \$16,125,791. The fiscal 2019 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the general fund in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances and are also included as revenues and expenses in the Statement of Activities.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

## NOTE 11: PENSION PLAN (CONTINUED)

Contributions (CONTINUED)

The Board's contractually required contribution rate for the Employees' Retirement and Pension Systems for the year ended June 30, 2018, was 8.56% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Board made its share of the required contributions during the year ended June 30, 2019 of \$1,844,557.

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

At June 30, 2019, the School System reported a liability for its proportionate share of the 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	\$ -	\$ 18,360,969
State's proportionate share of net pension liability associated with the School System	172,486,537	-
Total	<u>\$ 172,486,537</u>	<u>\$ 18,360,969</u>

The net pension liability was measured as of June 30, 2018 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 Systems, Libraries and the State, actuarially determined. As of June 30, 2018, the School System's proportionate share was .0875099%, which is an increase of .0137392% from its proportion measured as of June 30, 2017.

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.

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

## NOTE 11: PENSION PLAN (CONTINUED)

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

For the year ended June 30, 2019, the School System recognized pension expense of \$2,444,487. As of June 30, 2019, 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
Net difference between projected and actual investment earnings	\$ 672,390	\$ -
Difference between expected and actual experience	-	1,485,903
Change in proportion	2,838,841	1,829,770
Change in assumptions	535,505	-
Contributions subsequent to the measurement date	1,844,557	-
	<b>\$ 5,891,293</b>	<b>\$ 3,315,673</b>
 <u>Split of Deferred Outflows / Inflows of Resources</u>		
Governmental Activities	\$ 4,948,686	\$ 2,785,165
Business-Type Activities	942,607	530,508
	<b>\$ 5,891,293</b>	<b>\$ 3,315,673</b>

\$1,844,557 is reported as deferred outflows of resources related to pensions resulting from the School System's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Governmental Activities	Business-Type Activities	Total
<b>Year ended June 30:</b>			
2020	\$ 608,426	\$ 115,891	\$ 724,317
2021	233,388	44,455	277,843
2022	(436,137)	(83,074)	(519,211)
2023	(49,775)	(9,481)	(59,256)
2024	258,191	49,179	307,370
	<b>\$ 614,093</b>	<b>\$ 116,970</b>	<b>\$ 731,063</b>

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, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.60% and wage increases are assumed to be 3.10%. The discount rate and long-term expected rate of return on pension plan investments used in the determination of the total pension liability is 7.45%. Mortality rates were based on various versions of the RP-2014 Mortality Tables with projected generational mortality improvements based on the MP-2014 fully generational mortality improvement scale.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

## NOTE 11: PENSION PLAN (CONTINUED)

Actuarial Methods and Assumptions (CONTINUED)

Actuarial assumptions were developed in connection with a study of 2010-2014 experience in the Experience Study dated May 2015, which includes the rationale for the assumptions. The assumptions were adopted by the Board in May 2015. New economic assumptions were adopted by the Board for the 2018 valuation in July 2017. Actuarial assumptions are based on a combination of future expectations and historical data.

Investments

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	37.0%	5.8%
Private Equity	13.0%	6.7%
Rate Sensitive	19.0%	1.1%
Credit Opportunity	9.0%	3.6%
Real Assets	14.0%	4.8%
Absolute Return	<u>8.0%</u>	3.2%
	<u><u>100.0%</u></u>	

Discount Rate

The single discount rate of 7.45% 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 7.45%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

## NOTE 11: PENSION PLAN (CONTINUED)

Sensitivity of the School System's proportionate share of the net pension liability to change 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 7.45% as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current rate:

	1% Decrease 6.45%	Current discount rate 7.45%	1% Increase 8.45%
School System's proportionate share of the net pension liability - EPS and ERS	\$ 26,446,096	\$ 18,360,969	\$ 11,650,895

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, 2018.

## NOTE 12: OTHER POST-EMPLOYMENT BENEFITS 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, and 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.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

Plan Description (CONTINUED)

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 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.

Contributions

The School System will contribute the higher of the budgeted pay-go amount or actual pay-go amount to the trust for fiscal year 2019. Because of the sponsor's funding policy, it is anticipated the sponsor's cash requirement will increase as time goes on. For the year ended June 30, 2019 and 2018, the School System's average contribution rate was 8.93% and 8.69%, respectively of covered payroll. Employees are not required to contribute to the plan. Total claims paid on behalf of retirees amounted to \$14,527,473 of which \$4,033,515 was reimbursed through contributions received from retirees for the year ended June 30, 2019. In addition, the School System contributed \$4,222,242 to the MABE Trust for the year ended June 30, 2019. Total claims paid on behalf of retirees amounted to \$13,675,684 of which \$3,866,248 was reimbursed through contributions received from retirees for the year ended June 30, 2018.

Employees Covered by Benefit Terms

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 2,216 active employees and 1,394 inactive employees or beneficiaries currently receiving benefit payments at June 30, 2019.

Investments

The MABE Trust's policy in regards to the allocation of invested assets is established and may be amended by the Trustees by a majority vote of its members. It is the policy of the Trust is pursue an investment strategy that emphasizes growth of principal while avoiding excess risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index. The MABE Trust's investment policy discourages the use of cash equivalents, except for liquidity purposes and aims to refrain from dramatically shifting asset class allocations over short time span. The following is the MABE Trust's adopted asset allocation policy as of June 30, 2019 and 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Equity	59.9%
Fixed Income	37.1%
Cash	3.0%
Total	<u>100.0%</u>

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

Rate of Return

For the year ended June 30, 2019 and 2018, the annual money-weighted rate of return on investments, net of investment expense, was 7.52% and 7.55%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Investment in External Investment Pool

The School System has funds designated for Other Post-employment Benefits (OPEB) that are held by the Maryland Association of Board of Education (MABE) in the MABE OPEB Trust (MABE Trust). The MABE Trust is administered by the MABE and is a wholly-owned instrumentality of its members. The ten members who are sole contributors to the MABE Trust consist of Allegany Fiduciary Fund and the boards of education of the following counties in Maryland: Allegany, Caroline, Cecil, Charles, Harford, Kent, Prince George's, St. Mary's, and Washington.

The MABE Trust is audited annually by an independent CPA firm. The audit report is usually issued by September 1<sup>st</sup> of each year, a copy of which can be obtained by sending a request to the following address: Administrator of the MABE Pooled Investment Trust, 621 Ridgely Road, Suite 300, Annapolis, MD 21401-1112.

Net OPEB Liability

The OPEB liabilities for the School System as of June 30, 2019 are calculated using a measurement date of June 30, 2018. Therefore plan information the year ended June 30, 2018 is utilized.

The net OPEB liability of the plan as of June 30, 2019 and 2018 for the plan was as follows:

**2019**

Total OPEB Liability	\$ 324,036,843
Plan Fiduciary Net Position	<u>72,807,076</u>
Net OPEB Liability	<u>\$ 251,229,767</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	22.47%

**2018**

Total OPEB Liability	\$ 305,455,519
Plan Fiduciary Net Position	<u>63,860,048</u>
Net OPEB Liability	<u>\$ 241,595,471</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	20.91%

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

Actuarial Methods and Assumptions

The Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of July 1, 2017 and update procedures were used to roll forward the Total OPEB Liability to the June 30, 2018 measurement date and June 30, 2019 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

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.

The medical trend assumption was developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model (released in 2015). The following assumptions were used as input variables into this model:

Rate of inflation	2.3%
Rate of growth in real income/GDP per capita	0.7%
Extra trend due to technology and other factors	1.3%
Expected health share of the GDP in 2020	18.5%
Health share of GDP resistance point	25.0%
Year for limiting cost growth to GDP growth	2075

The SOA Long-Run Medical Cost Trend Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures and the judgements of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of an SOA Project Oversight Group. This model was updated to reflect the future Cadillac Tax. The medical trend assumption had an initial rate of 5.4% decreasing to an ultimate rate of 3.1% in 2075.

Mortality rates were based on the RP2014 employee white collar mortality tables, fully generational, rates projected using scale MP-2014 (projected from 2012 for males and 2016 for females in year 2014). Total payroll is assumed to increase 3% per year. 100% of eligible retirees are assumed to elect coverage. This assumption is used to determine the amortization factor. The discount rate changed from 5.5% to 5.58% for the June 30, 2018 measurement date. The actuarial assumptions used in the June 30, 2018 and 2019 valuations were based on historical results, as a recent experience study was not completed.

Best estimates of real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 (see the discussion of the MABE Trust's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Equity	5.73%
Fixed Income	2.48%
Cash	1.00%

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

## NOTE 12: OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

Actuarial Methods and Assumptions (Continued)

The discount rate used to determine the total OPEB liability was 5.42% and 5.58% for the year ended June 30, 2019 and 2018, respectively. The benefit payment stream for the Plan is discounted based on an index rate for 20-year tax exempt general obligation municipal bonds with an average rate of AA/Aa or higher for years when the projected benefit payouts are expected to be unfunded and 6.9% for years when the projected benefit payouts are expected to be funded.

Change in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a-b)
<b>Total OPEB Liability - Beginning of Year</b>	\$ 293,815,003	\$ 55,491,863	\$ 238,323,140
Changes for the year			
Service cost	8,379,863	-	8,379,863
Interest cost	16,370,275	-	16,370,275
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	-
Changes in assumptions or other inputs (Other changes, separately identified if significant)	(3,300,186)	-	(3,300,186)
Contributions - employer	-	13,971,146	(13,971,146)
Net investment income	-	4,206,475	(4,206,475)
Benefit payments	(9,809,436)	(9,809,436)	-
Administrative expense	-	-	-
Net change in total OPEB liability	<u>11,640,516</u>	<u>8,368,185</u>	<u>3,272,331</u>
<b>Total OPEB Liability - End of Year</b>	<u>\$ 305,455,519</u>	<u>\$ 63,860,048</u>	<u>\$ 241,595,471</u>

Sensitivity of the net OPEB liability to Changes in the Discount Rate

The following presents the net OPEB liability of the School System at June 30, 2018, as well as what the School System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.58%) or 1-percentage-point higher (6.58%) than the current discount rate:

	1% Decrease 4.58%	Current Discount Rate 5.58%	1% Increase 6.58%
Total OPEB Liability	<u>\$ 289,647,677</u>	<u>\$ 241,595,471</u>	<u>\$ 202,582,745</u>

The following represents the sensitivity of the net OPEB liability at June 30, 2019:

	1% Decrease 4.52%	Current Discount Rate 5.42%	1% Increase 6.42%
Total OPEB Liability	<u>\$ 301,424,000</u>	<u>\$ 251,229,767</u>	<u>\$ 210,820,000</u>

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

## NOTE 12: OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

Sensitivity of the net OPEB liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the School System at June 30, 2018, as well as what the School System's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower (4.40%) or 1-percentage-point higher (6.40%) than the current healthcare cost trend rate:

	1% Decrease 4.40%	Medical Trend Rate 5.40%	1% Increase 6.40%
Total OPEB Liability	<u>\$ 197,647,676</u>	<u>\$ 241,595,471</u>	<u>\$ 297,733,830</u>

The following represents the sensitivity of the net OPEB liability at June 30, 2019:

	1% Decrease 4.40%	Medical Trend Rate 5.40%	1% Increase 6.40%
Total OPEB Liability	<u>\$ 205,684,000</u>	<u>\$ 251,229,767</u>	<u>\$ 309,839,000</u>

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the School System recognized OPEB expense of \$21,112,282. As of June 30, 2019, the School System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	\$ -	\$ 2,629,391
Difference between expected and actual experience	2,404,904	-
Change in assumptions	-	22,482,166
Change in proportion	328,774	328,774
Contributions subsequent to the measurement date	14,716,200	-
Total	<u>\$ 17,449,878</u>	<u>\$ 25,440,331</u>

Split of Deferred Outflows / Inflows of Resources

Governmental Activities	\$ 17,073,214	\$ 24,559,103
Business-Type Activities	376,664	881,228
	<u>\$ 17,449,878</u>	<u>\$ 25,440,331</u>

\$14,716,200 is reported as deferred outflows of resources related to OPEB resulting from the School System contributions subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

WASHINGTON COUNTY BOARD OF EDUCATION  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2019

## NOTE 12: OTHER POST-EMPLOYMENT BENEFITS PLAN (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB  
(Continued)

Year ended June 30:	Governmental Activities	Business-Type Activities	Total
2020	\$ (3,516,728)	\$ (121,130)	\$ (3,637,858)
2021	(3,516,728)	(121,130)	(3,637,858)
2022	(3,516,728)	(121,130)	(3,637,858)
2023	(2,872,366)	(106,635)	(2,979,001)
2024	(2,712,751)	(103,045)	(2,815,796)
Thereafter	(5,743,031)	(255,251)	(5,998,282)
Total	<u>\$ (21,878,332)</u>	<u>\$ (828,321)</u>	<u>\$ (22,706,653)</u>

## NOTE 13: RESTATEMENT OF NET POSITION

Beginning governmental activities and business-type activities net position were restated for the change in the pension allocation between opinion units as well as the recording of additional deferred inflows of resources and deferred outflows of resources in relation to the School System's change in proportionate share.

	Governmental Activities	Business-Type Activities/Food Service Fund	Primary Government
Beginning Net Position, previously reported	\$(18,410,082)	\$ (3,180,967)	\$(21,591,049)
<u>Change in:</u>			
Net Pension Liability	2,201,369	(2,201,369)	-
Deferred Outflows of Resources	(122,833)	821,727	698,894
Deferred Inflows of Resources	(1,605,296)	(738,394)	(2,343,690)
Change in Net Position	<u>473,240</u>	<u>(2,118,036)</u>	<u>(1,644,796)</u>
Beginning Net Position, as restated	<u>\$(17,936,842)</u>	<u>\$ (5,299,003)</u>	<u>\$(23,235,845)</u>

## NOTE 14: COMMITMENTS AND CONTINGENCIES

Litigation

In the normal course of business, there are various claims and suits pending against the School System. Management is of the opinion that these matters will not have a material adverse effect on the School System's financial position at June 30, 2019.

School Construction and Major Repairs

As of June 30, 2019, the School System entered into various school construction commitments that will be funded by the State of Maryland or County sources, totaling approximately \$34,871,881 and are included in encumbrances.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2019

NOTE 14: COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 parking deck spaces does not have a set term. Total required minimum annual payments for the year ending June 30, 2020 are approximately \$124,800. Rent expense for these leases amounted to \$ 156,729 for the year ended June 30, 2019.

Encumbrances

As of June 30, 2019, the School System had outstanding purchase orders and contracts of \$36,144,589. These amounts are partially included in assigned fund balance in the appropriate funds.

Current expense fund – unrestricted	\$ 3,245,385
Current expense fund – restricted	156,477
Capital projects fund	32,738,680
Food services fund	4,047

Grants

The School System is party to various grants with Federal and State agencies, which are subject to program and compliance audits by the grantors or under the Single Audit Act Amendments of 1996. School System officials believe that any audit adjustments resulting from final settlements will be immaterial in relation to the School System's financial resources.

NOTE 15: SUBSEQUENT EVENTS

The School System has evaluated all subsequent events through the report issuance date of September 25, 2019. No events have taken place that affect the financial statements or require disclosure.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

WASHINGTON COUNTY BOARD OF EDUCATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
 UNRESTRICTED CURRENT EXPENSE FUND  
 FOR THE YEAR ENDED JUNE 30, 2019

REVENUES	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Local	\$ 98,530,760	\$ 98,530,760	\$ 98,530,760	\$ -
State Maryland	177,227,670	177,249,350	177,186,969	(62,381)
Federal Government	30,000	31,740	34,983	3,243
Tuition	93,500	137,500	156,488	18,988
Investment Income	150,000	380,000	418,297	38,297
Other	701,965	634,965	705,700	70,735
<b>Total Revenues</b>	<b>276,733,895</b>	<b>276,964,315</b>	<b>277,033,197</b>	<b>68,882</b>
<b>EXPENDITURES</b>				
Administration	6,842,942	6,440,152	6,341,874	98,278
Mid-level Administration	17,343,823	17,316,289	17,384,962	(68,673)
Instructional Salaries	103,085,026	103,221,436	103,074,529	146,907
Instructional Textbooks and Supplies	6,821,170	7,358,528	7,277,475	81,053
Other Instructional Costs	3,513,584	3,804,345	3,824,513	(20,168)
Special Education	23,244,602	23,357,522	23,331,515	26,007
Student Personnel Services	1,868,716	1,729,477	1,720,700	8,777
Student Health Services	4,215,290	4,125,535	4,177,131	(51,596)
Student Transportation Services	12,105,312	12,474,522	12,370,656	103,866
Operation of Plant	21,448,236	22,436,254	22,613,530	(177,276)
Maintenance of Plant	8,103,821	7,931,476	8,328,940	(397,464)
Fixed Charges	67,660,432	66,238,553	65,467,073	771,480
Capital Outlay	460,941	450,226	449,136	1,090
Food Service Transfers	20,000	80,000	84,296	(4,296)
<b>Total Expenditures</b>	<b>276,733,895</b>	<b>276,964,315</b>	<b>276,446,330</b>	<b>517,985</b>
Excess of Revenues Over (Under) Expenditures	-	-	586,867	586,867
<b>Net Changes in Fund Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 586,867</b>	<b>\$ 586,867</b>

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

WASHINGTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability			
Service cost	\$ 8,847,461	\$ 8,379,863	\$ 7,943,000
Interest	17,172,071	16,370,275	14,681,000
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	-	3,092,000
Changes of assumptions or other inputs	3,055,753	(3,300,186)	(25,134,000)
Benefit payments	<u>(10,493,958)</u>	<u>(9,809,436)</u>	<u>(9,107,020)</u>
Net change in total OPEB liability	18,581,327	11,640,516	(8,525,020)
Total OPEB liability - beginning	<u>305,455,516</u>	<u>293,815,000</u>	<u>302,340,000</u>
Total OPEB liability - ending	<u>\$ 324,036,843</u>	<u>\$ 305,455,516</u>	<u>\$ 293,814,980</u>
Plan Fiduciary Net Position			
Contributions-employer	\$ 14,716,200	\$ 13,971,146	\$ 13,884,583
Net Investment Income	4,724,786	4,206,475	6,509,385
Benefit Payments	<u>(10,493,958)</u>	<u>(9,809,436)</u>	<u>(9,107,020)</u>
Net Change in Plan Fiduciary Net Position	8,947,028	8,368,185	11,286,948
Plan Fiduciary Net Position - Beginning	<u>63,860,048</u>	<u>55,491,863</u>	<u>44,204,912</u>
Plan Fiduciary Net Position - Ending	<u>\$ 72,807,076</u>	<u>\$ 63,860,048</u>	<u>\$ 55,491,860</u>
School System's Net OPEB Liability - Ending	<u>\$ 251,229,767</u>	<u>\$ 241,595,468</u>	<u>\$ 238,323,120</u>
Plan Fiduciary Net Position as Percentage of the Total OPEB Liability	22.47%	20.91%	18.89%
Covered payroll	\$ 164,729,874	\$ 160,838,194	\$ 158,314,625
School System's net OPEB liability as a percentage of covered payroll	152.51%	150.21%	150.54%

\*The School System adopted GASB 75 on a prospective basis in 2017; therefore, only three years is presented in the above schedule.

**Notes to Schedule**

**Benefit changes:** none

**Changes of Assumptions:** Retirement, termination and disability assumptions were updated to the most recent tables by the State of Maryland Pension Plan

**Discount Rate:**

6/30/2017 - 5.50%

6/30/2018 - 5.58%

6/30/2019 - 5.42%

WASHINGTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF THE SCHOOL SYSTEM'S OPEB CONTRIBUTIONS

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Actuarially determined contribution	\$ 13,884,583	\$ 13,971,146	\$ 14,716,200
Contributions in relation to the actuarially determined contribution	13,884,583	13,971,146	14,716,200
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 158,314,625	\$ 160,838,194	\$ 164,729,874
Contributions as a percentage of covered payroll	8.77%	8.69%	8.93%

The School System adopted GASB 75 on a prospective basis in 2017; therefore, only three years are presented in the above schedule.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar
Remaining amortization period	28 years
Asset valuation method	Market value of assets
Inflation	2.3%
Salary increases	3.0%
Healthcare cost trend rates	5.4% initial decreasing to an ultimate rate of 3.1% by 2075
Investment rate of return	5.42%, net of OPEB plan investment expense, including inflation
Mortality	Mortality rates were based on the RP-2014 employee white collar mortality tables, fully generational, with rates projected using Scale MP-2014

WASHINGTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF THE SCHOOL SYSTEM'S INVESTMENT RETURNS FOR THE OPEB PLAN

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	7.52%	7.55%	3.32%

\*Information for fiscal year 2017 and earlier is not available.

WASHINGTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF THE SCHOOL SYSTEM'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

Employee Retirement and Pension System

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
School System's proportion of the net pension liability	0.0811%	0.0885%	0.0848%	0.0737%	0.0875%
School System's proportionate share of the net pension liability	\$ 14,395,785	\$ 18,386,392	\$ 20,007,483	\$ 15,951,949	\$ 18,360,969
School System's covered payroll	\$ 19,299,035	\$ 19,748,847	\$ 19,393,397	\$ 20,385,666	\$ 20,603,127
School System's proportionate share of the net pension liability as a percentage of its covered payroll	74.59%	93.10%	103.17%	78.25%	89.12%
Plan fiduciary net position as a percentage of the total pension liability	71.87%	68.78%	65.79%	69.38%	71.18%

Teacher's Retirement and Pension System

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
School System's proportion of the net pension liability	0.00%	0.00%	0.00%	0.00%	0.00%
State's proportionate share of the net pension liability	\$ 131,873,740	\$ 164,126,551	\$ 197,254,642	\$ 174,161,097	\$ 172,486,537
School System's covered payroll	\$ 135,148,647	\$ 137,189,948	\$ 138,921,228	\$ 140,452,528	\$ 140,868,952
School System's proportionate share of the net pension liability as a percentage of its covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	71.87%	68.78%	65.79%	69.38%	71.18%
School System's Contribution	\$ 5,017,296	\$ 5,768,524	\$ 5,888,821	\$ 6,278,228	\$ 6,203,704

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.

\*The School System adopted GASB 68 on a prospective basis in 2015; therefore, only five years are presented in the above schedule. 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 PENSION CONTRIBUTIONS  
 MARYLAND STATE RETIREMENT AND PENSION SYSTEM  
 EMPLOYEE RETIREMENT AND PENSION SYSTEM

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually required contribution	\$ 1,864,791	\$ 1,651,954	\$ 1,501,485	\$ 1,745,013	\$ 1,844,557
Contributions in relation to the contractually required contribution	<u>1,864,791</u>	<u>1,651,954</u>	<u>1,501,485</u>	<u>1,745,013</u>	<u>1,844,557</u>
Contribution deficiency (excess)	<u>\$ -</u>				
School System's covered payroll	19,748,847	21,533,807	19,393,405	20,385,666	20,603,127
Contributions as a percentage of covered payroll	9.44%	7.67%	7.74%	8.56%	8.56%

## 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.

\*The School System adopted GASB 68 on a prospective basis in 2015; therefore, only five years are presented in the above schedule. 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, 2019

**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 budgetary estimates. Under the budgetary basis, encumbrances are recorded as the equivalent of expenditures, as opposed to only an assignment of fund balance as on 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 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 budget basis.

	Revenues and Other Financing Sources	Expenditures, Encumbrances, and Transfers	Current Year Effect on Fund Balance
<hr/>			
Unrestricted Current Expense Fund			
Budgetary Basis	<u>\$ 277,033,197</u>	<u>\$ 276,446,330</u>	<u>\$ 586,867</u>
Budget to GAAP Reconciliation			
Prior year encumbrances expended during current year	-	7,699,828	(7,699,828)
Adjust for prior year encumbrances not spent		(189,524)	189,524
Retirement contribution made by the state on behalf of the School System	16,125,791	16,125,791	-
Increase in reserve for school loans	394	-	394
On-behalf contributions for student health services	540,591	540,591	-
Donations fixed assets and materials received	491,046	491,046	-
Proceeds from sale of capital assets	(132,860)	-	(132,860)
Transfers to food service fund	-	(84,296)	84,296
Current year encumbrances outstanding, June 30, 2019	-	(3,245,385)	3,245,385
Revenues from restricted current expense fund	20,762,249	-	20,762,249
Expenditures from restricted current expense fund	<u>-</u>	<u>22,556,371</u>	<u>(22,556,371)</u>
Total Reconciling Items	<u>37,787,211</u>	<u>43,894,422</u>	<u>(6,107,211)</u>
Current Expense Fund - GAAP Basis	<u>\$ 314,820,408</u>	<u>\$ 320,340,752</u>	<u>\$ (5,520,344)</u>

OTHER  
SUPPLEMENTARY  
INFORMATION

WASHINGTON COUNTY BOARD OF EDUCATION  
 COMBINING BALANCE SHEET - GENERAL FUND  
 JUNE 30, 2019

	Current Expense		Combined
	Unrestricted	Restricted	
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 16,098,097	\$ -	\$ 16,098,097
Investments	18,943,347	-	18,943,347
Due From Other Governments	567,204	3,446,228	4,013,432
Accounts Receivable	448,108	21,415	469,523
Inventories	81,331	-	81,331
Prepaid items	273,621	-	273,621
TOTAL ASSETS	\$ 36,411,708	\$ 3,467,643	\$ 39,879,351
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts Payable	\$ 3,168,523	\$ 243,939	\$ 3,412,462
Accrued Liabilities	16,741,054	817,501	17,558,555
Due to Other Funds	4,037,280	470,130	4,507,410
Unearned Revenue	-	1,936,073	1,936,073
TOTAL LIABILITIES	23,946,857	3,467,643	27,414,500
<b>FUND BALANCES</b>			
Nonspendable	354,952	-	354,952
Committed	4,734,189	-	4,734,189
Assigned	3,245,385	-	3,245,385
Unassigned	4,130,325	-	4,130,325
TOTAL FUND BALANCES	12,464,851	-	12,464,851
TOTAL LIABILITIES AND FUND BALANCES	\$ 36,411,708	\$ 3,467,643	\$ 39,879,351

WASHINGTON COUNTY BOARD OF EDUCATION  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
 GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2019

	Current Expense		Elimination	Combined
	Unrestricted	Restricted		
<b>REVENUES</b>				
Local	\$ 98,699,209	\$ -	\$ -	\$ 98,699,209
State Maryland	193,524,320	1,854,252	-	195,378,572
Federal Government	34,983	17,151,955	-	17,186,938
Tuition	156,488	-	-	156,488
Investment Income	418,297	-	-	418,297
Other	1,224,862	1,756,042	-	2,980,904
<b>Total Revenues</b>	<b>294,058,159</b>	<b>20,762,249</b>	<b>-</b>	<b>314,820,408</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
Administration	6,201,873	558,840	-	6,760,713
Mid-level Administration	17,369,408	1,515,558	-	18,884,966
Instructional Salaries	103,074,529	5,249,002	-	108,323,531
Instructional Textbooks and Supplies	8,325,008	1,253,796	-	9,578,804
Other Instructional Costs	4,456,253	836,402	-	5,292,655
Special Education	23,355,322	4,904,888	-	28,260,210
Student Personnel Services	1,721,210	50,588	-	1,771,798
Student Health Services	4,734,015	22,718	-	4,756,733
Student Transportation Services	12,583,843	212,900	-	12,796,743
Operation of Plant	22,936,659	1,514,172	-	24,450,831
Maintenance of Plant	9,864,841	1,329,172	-	11,194,013
Community Services	-	173,960	-	173,960
Fixed Charges	81,592,893	4,643,002	-	86,235,895
Capital Outlay	449,452	291,373	-	740,825
Capital Lease Payments				
Principal	1,062,365	-	-	1,062,365
Interest	56,710	-	-	56,710
<b>Total Expenditures</b>	<b>297,784,381</b>	<b>22,556,371</b>	<b>-</b>	<b>320,340,752</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,726,222)	(1,794,122)	-	(5,520,344)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	1,850,016	(1,850,016)	-
Transfers Out	(1,934,312)	(55,894)	1,850,016	(140,190)
Proceeds from Sale of Assets	132,860	-	-	132,860
<b>Total Other Financing Sources</b>	<b>(1,801,452)</b>	<b>1,794,122</b>	<b>-</b>	<b>(7,330)</b>
<b>Net Changes in Fund Balance</b>	<b>(5,527,674)</b>	<b>-</b>	<b>-</b>	<b>(5,527,674)</b>
Fund Balances - Beginning of Year	17,992,525	-	-	17,992,525
<b>Fund Balances - End of Year</b>	<b>\$ 12,464,851</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,464,851</b>

WASHINGTON COUNTY BOARD OF EDUCATION  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 GENERAL FUND - BUDGETARY BASIS  
 FOR THE YEAR ENDED JUNE 30, 2019

	Current Expense		Elimination	Combined
	Unrestricted	Restricted		
<b>REVENUES</b>				
Local	\$ 98,530,760	\$ -	\$ -	\$ 98,530,760
State Maryland	177,186,969	1,366,202	-	178,553,171
Federal Government	34,983	17,026,217	-	17,061,200
Tuition	156,488	-	-	156,488
Investment Income	418,297	-	-	418,297
Other	705,700	1,730,089	-	2,435,789
<b>Total Revenues</b>	<b>277,033,197</b>	<b>20,122,508</b>	<b>-</b>	<b>297,155,705</b>
<b>EXPENDITURES</b>				
Current				
Administration	6,341,874	558,840	-	6,900,714
Mid-level Administration	17,384,962	1,515,558	-	18,900,520
Instructional Salaries	103,074,529	5,249,002	-	108,323,531
Instructional Textbooks and Supplies	7,277,475	764,629	-	8,042,104
Other Instructional Costs	3,824,513	697,925	-	4,522,438
Special Education	23,331,515	4,909,707	-	28,241,222
Student Personnel Services	1,720,700	45,438	-	1,766,138
Student Health Services	4,177,131	25,984	-	4,203,115
Student Transportation Services	12,370,656	212,900	-	12,583,556
Operation of Plant	22,613,530	1,517,841	-	24,131,371
Maintenance of Plant	8,328,940	78,086	-	8,407,026
Community Services	-	173,960	-	173,960
Fixed Charges	65,467,073	4,643,002	-	70,110,075
Capital Outlay	449,136	(22,470)	-	426,666
<b>Total Expenditures</b>	<b>276,362,034</b>	<b>20,370,402</b>	<b>-</b>	<b>296,732,436</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	671,163	(247,894)	-	423,269
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	303,788	(303,788)	-
Transfers Out	(84,296)	(55,894)	303,788	163,598
<b>Total Other Financing Sources</b>	<b>(84,296)</b>	<b>247,894</b>	<b>-</b>	<b>163,598</b>
<b>Net Changes in Fund Balance</b>	<b>586,867</b>	<b>-</b>	<b>-</b>	<b>586,867</b>
Fund Balances - Beginning of Year	16,367,783	-	-	16,367,783
Fund Balances - End of Year	<b>\$ 16,954,650</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 16,954,650</b>

WASHINGTON COUNTY BOARD OF EDUCATION  
 COMBINING STATEMENT OF FIDUCIARY NET POSITION  
 AGENCY FUNDS  
 JUNE 30, 2019

	<u>Fringe Benefit Fund</u>	<u>School Activity Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 62,015	\$ 3,604,077	\$ 3,666,092
<b>TOTAL ASSETS</b>	<u>\$ 62,015</u>	<u>\$ 3,604,077</u>	<u>\$ 3,666,092</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 62,015	\$ 59,685	\$ 121,700
Due to Student Groups	<u>-</u>	<u>3,544,392</u>	<u>3,544,392</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 62,015</u>	<u>\$ 3,604,077</u>	<u>\$ 3,666,092</u>

# SINGLE AUDIT REPORT



# Zelenkofske Axlerod LLC

CERTIFIED PUBLIC ACCOUNTANTS

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

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

### INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the WASHINGTON COUNTY BOARD OF EDUCATION, as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the WASHINGTON COUNTY BOARD OF EDUCATION's basic financial statements and have issued our report thereon dated September 25, 2019.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the WASHINGTON COUNTY BOARD OF EDUCATION'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 WASHINGTON COUNTY BOARD OF EDUCATION's internal control. Accordingly, we do not express an opinion on the effectiveness of the WASHINGTON COUNTY BOARD OF EDUCATION's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs as Finding 2019-001 that we consider to be a significant deficiency.



# *Zelenkofske Axlerod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

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## **Compliance and Other Matters**

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

## **THE WASHINGTON COUNTY BOARD OF EDUCATION's Response to the Finding**

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

## **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.

*Zelenkofske Axlerod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
September 25, 2019



# Zelenkofske Axelrod LLC

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

## INDEPENDENT AUDITOR'S REPORT

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 compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have direct and material effect on each of the WASHINGTON COUNTY BOARD OF EDUCATION's major federal programs for the year ended June 30, 2019. The WASHINGTON COUNTY BOARD OF EDUCATION's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the 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 WASHINGTON COUNTY BOARD OF EDUCATION'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; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* ("CFR") 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 WASHINGTON COUNTY BOARD OF EDUCATION'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 of the WASHINGTON COUNTY BOARD OF EDUCATION's compliance.

### **Opinion on each Major Federal Program**

In our opinion, the WASHINGTON COUNTY BOARD OF EDUCATION 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, 2019.



# *Zelenkofske Axelrod LLC*

**CERTIFIED PUBLIC ACCOUNTANTS**

EXPERIENCE | EXPERTISE | ACCOUNTABILITY

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## **Report on Internal Control Over Compliance**

Management of the WASHINGTON COUNTY BOARD OF EDUCATION is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the WASHINGTON COUNTY BOARD OF EDUCATION's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 WASHINGTON COUNTY BOARD OF EDUCATION'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 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. However, material weaknesses may exist that have not been identified.

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.

*Zelenkofske Axelrod LLC*

ZELENKOFKSKE AXELROD LLC

Harrisburg, Pennsylvania  
September 25, 2019

WASHINGTON COUNTY BOARD OF EDUCATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2019

PROGRAM	GRANT NUMBER	FEDERAL CATALOGUE NUMBER	BEGINNING DATE	ENDING DATE	TOTAL GRANT AMOUNT	2019 FISCAL YEAR REVENUE RECOGNIZED & EXPENDITURES	SUBRECIPIENT EXPENDITURES
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION</b>							
<b>CHILD NUTRITION CLUSTER:</b>							
SCHOOL BREAKFAST	N/A	10.553	7/1/2018	6/30/2019	\$ 2,352,533	\$ 2,352,533	\$ -
<b>TOTAL PROGRAM</b>					<b>2,352,533</b>	<b>2,352,533</b>	<b>-</b>
USDA COMMODITIES USED	N/A	10.555	7/1/2018	6/30/2019	773,364	773,364	-
NATIONAL SCHOOL LUNCH	N/A	10.555	7/1/2018	6/30/2019	5,117,123	5,117,123	-
AFTER SCHOOL PROGRAM SNACKS	N/A	10.555	7/1/2018	6/30/2019	5,165	5,165	-
HEALTHY HUNGER FREE KIDS ACT ADDITIONAL SUBSIDY	N/A	10.555	7/1/2018	6/30/2019	125,569	125,569	-
<b>TOTAL PROGRAM</b>					<b>6,021,221</b>	<b>6,021,221</b>	<b>-</b>
SUMMER FOOD SERVICE PROGRAM	N/A	10.559	7/1/2018	6/30/2019	288,830	288,830	-
<b>TOTAL PROGRAM</b>					<b>288,830</b>	<b>288,830</b>	<b>-</b>
<b>TOTAL CHILD NUTRITION CLUSTER</b>					<b>8,662,584</b>	<b>8,662,584</b>	<b>-</b>
AFTER SCHOOL SUPPERS	N/A	10.558	7/1/2018	6/30/2019	453,890	453,890	-
CASH IN LIEU OF COMMODITIES	N/A	10.558	7/1/2018	6/30/2019	32,225	32,225	-
<b>TOTAL PROGRAM</b>					<b>486,115</b>	<b>486,115</b>	<b>-</b>
CHLD NUTR DISCR GRNT-EAE DISH MACH	181395	10.579	7/1/2017	9/30/2019	19,909	19,909	-
CHLD NUTR DISCR GRNT-SHHS OVEN	191454-01	10.579	7/1/2018	9/30/2020	28,000	24,508	-
<b>TOTAL PROGRAM</b>					<b>47,909</b>	<b>44,417</b>	<b>-</b>
FRESH FRUIT AND VEGETABLE PROGRAM	N/A	10.582	7/1/2018	6/30/2019	3,753	3,753	-
<b>TOTAL PROGRAM</b>					<b>3,753</b>	<b>3,753</b>	<b>-</b>
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>					<b>9,200,361</b>	<b>9,196,869</b>	<b>-</b>
<b>U.S. DEPARTMENT OF LABOR PASSED THROUGH THE WESTERN MARYLAND CONSORTIUM</b>							
<b>WIOA CLUSTER:</b>							
WMC - STUDENT INTERVENTN PROG FY18	N/A	17.259	09/05/2017	08/30/2018	19,441	19,441	-
WMC - STUDENT INTERVENTN PROG FY19	N/A	17.259	09/04/2018	08/30/2019	20,503	-	-
<b>TOTAL WIOA CLUSTER</b>					<b>39,944</b>	<b>19,441</b>	<b>-</b>
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>					<b>39,944</b>	<b>19,441</b>	<b>-</b>
<b>APPALACHIAN REGIONAL COMMISSION DIRECT FEDERAL AWARD</b>							
ARC - CREATING COMP THINKERS	MD-19488	23.001	03/01/2019	02/28/2020	160,000	-	-
<b>TOTAL PROGRAM</b>					<b>160,000</b>	<b>-</b>	<b>-</b>
<b>U.S. DEPARTMENT OF EDUCATION DIRECT FEDERAL AWARD</b>							
IMPACT AID PL 103-382	30-MD-0701	84.041	07/01/2018	06/30/2019	34,983	34,983	-
<b>TOTAL PROGRAM</b>					<b>34,983</b>	<b>34,983</b>	<b>-</b>

WASHINGTON COUNTY BOARD OF EDUCATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2019

PROGRAM	GRANT NUMBER	FEDERAL CATALOGUE NUMBER	BEGINNING DATE	ENDING DATE	TOTAL GRANT AMOUNT	2019 FISCAL YEAR REVENUE RECOGNIZED & EXPENDITURES	SUBRECIPIENT EXPENDITURES
<b>PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION</b>							
TITLE I - PART A FY18	180653-01	84.010	07/01/2017	06/30/2019	6,517,194	1,567,223	-
TITLE I - NEGLECTED & DELINQUENT FY18	181360-01	84.010	07/01/2017	12/31/2018	149,587	65,661	-
TITLE I - PART A FY19	190618-01	84.010	07/01/2018	09/30/2020	6,588,295	5,074,633	-
TITLE I - NEGLECTED & DELINQUENT FY19	191306-01	84.010	07/01/2018	12/31/2019	154,631	91,499	-
<b>TOTAL PROGRAM</b>					<b>13,409,707</b>	<b>6,799,016</b> *	-
<b>SPECIAL EDUCATION CLUSTER (IDEA):</b>							
FAMILY PARTNERSHIPS FY18	180335-06	84.027	07/01/2017	09/30/2018	16,000	1,786	-
FAMILY PARTNERSHIPS FY19	190289-04	84.027	07/01/2018	09/30/2019	16,000	16,000	-
INFANT/TODDLER-PART B FY18	180224-01	84.027	07/01/2017	09/30/2018	69,351	13,379	-
INFANT/TODDLER-PART B FY19	190142-01	84.027	07/01/2018	09/30/2019	69,477	55,469	-
LOCAL PRIORITY FLEXIBILITY FY18	180335-04	84.027	07/01/2017	09/30/2018	69,644	26,565	-
PASSTHROUGH - PPPSS FY18	180335-02	84.027	07/01/2017	09/30/2019	10,462	3,278	-
PASSTHROUGH - PPPSS FY19	190289-02	84.027	07/01/2018	09/30/2020	10,088	7,133	-
PASSTHROUGH FY18	180335-01	84.027	07/01/2017	09/30/2019	4,732,919	1,008,063	-
PASSTHROUGH FY19	190289-01	84.027	07/01/2018	09/30/2020	4,715,273	3,659,512	-
PROFESSIONAL LRNG INST FY18	180335-05	84.027	07/01/2017	09/30/2018	500	-	-
SECONDARY TRANSITION FY18	180335-07	84.027	07/01/2017	09/30/2018	35,365	13,852	-
SECONDARY TRANSITION FY19	190289-06	84.027	07/01/2018	09/30/2020	83,285	31,737	-
ST DISCR - SPEC ED ADVISORY CMT	190289-03	84.027	07/01/2018	09/30/2019	2,500	2,500	-
ST DISCR - ACCESS EQUITY PROG	190289-07	84.027	07/01/2018	09/30/2020	67,162	10,773	-
ST DISCR - EARLY CHILDHOOD LIG	190289-05	84.027	07/01/2018	09/30/2020	72,251	8,754	-
ST DISCR - SPEC ED ADVISORY CMTE FY18	180335-03	84.027	07/01/2017	09/30/2018	2,500	1,501	-
INSTR&ASSESS STUD W/COG DIS	181670	84-027	06/01/2018	05/31/2019	2,250	1,630	-
SECONDARY TRANSITION LIG	181499-01	84-027A	02/01/2018	09/30/2019	28,212	28,212	-
ST DISCR - ACCESS, EQUITY-LIP	181563-01	84.027A	04/01/2018	09/30/2019	43,651	35,502	-
ST DISCR - EARLY CHILDHOOD LIG	181278-01	84.027A	12/01/2017	09/30/2019	60,000	9,723	-
<b>TOTAL PROGRAM</b>					<b>10,106,890</b>	<b>4,935,369</b>	-
INF/TDLR-PART B(619) EXT OPTION'18	180179-02	84.173	07/01/2016	09/30/2018	5,650	3,843	-
INF/TDLR-PART B(619) EXT OPTION'19	190151-02	84.173	07/01/2018	09/30/2019	5,661	-	-
INFANT/TDLR-PT B(619) PRESCH FY18	180179-01	84.173	07/01/2017	09/30/2018	7,000	-	-
INFANT/TDLR-PT B(619) PRESCH FY19	190151-01	84.173	07/01/2018	09/30/2019	7,000	5,312	-
PRESCHOOL PASSTHROUGH FY19	190316-01	84.173	07/01/2018	09/30/2020	85,489	81,917	-
PRESCHOOL PASSTHROUGH PPPSS F	190316-02	84.173	07/01/2018	09/30/2020	498	158	-
PRESCHOOL PASSTHROUGH PPPSS FY18	180282-02	84.173	07/01/2017	09/30/2019	751	80	-
PRESCHOOL PASSTHROUGH FY18	180282-01	84.173A	07/01/2017	09/30/2019	81,307	7,903	-
<b>TOTAL PROGRAM</b>					<b>193,356</b>	<b>99,213</b>	-
<b>TOTAL SPECIAL EDUCATION CLUSTER</b>					<b>10,300,246</b>	<b>5,034,582</b>	-
CTE RESERVE FUND GRANT FY18	180869-01	84.048	07/01/2017	06/30/2018	30,000	-	-
IT NETWORKING ACAD PD GRANT	191619-01	84.048	04/23/2019	06/30/2019	1,914	1,914	-
PERKINS - TITLE I FY18	180773-01	84.048	07/01/2017	06/30/2018	240,700	123,577	-
PERKINS - TITLE I FY19	190656-01	84.048	07/01/2018	06/30/2019	276,393	276,393	-
<b>TOTAL PROGRAM</b>					<b>549,007</b>	<b>401,884</b>	-
NATIONAL VOCATIONAL EDUCATION RESEARCH - APPRENTICESHIP MARYLAND PROGRAM (AMP) GRANT	191441	84.051E	01/14/2019	06/30/2019	12,750	12,399	-
<b>TOTAL PROGRAM</b>					<b>12,750</b>	<b>12,399</b>	-
INFANT/TODDLER - PART C FY18	180181-01	84.181	07/01/2017	09/30/2018	153,779	11,752	-
INFANT/TODDLER - PART C FY19	190172-01	84.181	07/01/2018	09/30/2019	156,609	150,134	-
<b>TOTAL PROGRAM</b>					<b>310,388</b>	<b>161,886</b>	-

See accompanying notes to the schedule of expenditures of federal awards.

WASHINGTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2019

PROGRAM	GRANT NUMBER	FEDERAL CATALOGUE NUMBER	BEGINNING DATE	ENDING DATE	TOTAL GRANT AMOUNT	2019 FISCAL YEAR REVENUE RECOGNIZED & EXPENDITURES	SUBRECIPIENT EXPENDITURES
EDUCATION FOR HOMELESS FY18	181374-01	84.196A	07/01/2017	12/31/2018	59,393	40,037	-
EDUCATION FOR HOMELESS FY19	191471-01	84.196A	07/01/2018	09/30/2019	59,393	4,534	-
<b>TOTAL PROGRAM</b>					<b>118,786</b>	<b>44,571</b>	<b>-</b>
TITLE III - ENG LANG ACQ-IMMIGR	190313-02	84.365A	07/01/2018	09/30/2020	19,609	-	-
TITLE III - ENGL LANG AQUISION	190313-01	84.365A	07/01/2018	09/30/2020	57,340	4,683	-
TITLE III - ENGL LANG AQUISION-LEP	180408-01	84.365A	07/01/2017	09/30/2019	56,213	56,213	-
TITLE III - SUMMER COMPETITIVE GRANT	191642-01	84.365A	05/10/2019	09/30/2019	2,830	-	-
TITLE III - ENG LANG ACQ-IMMIGRANTS	170664-02	84.365A	07/01/2016	09/30/2018	5,115	-	-
TITLE III - ENG LANG ACQ-IMMIGRANTS	180408-02	84.365A	07/01/2017	09/30/2019	5,326	4,960	-
TITLE III - ENGL LANG ACQUISITION-LEP	170664-01	84.365A	07/01/2016	09/30/2018	58,789	-	-
<b>TOTAL PROGRAM</b>					<b>205,222</b>	<b>65,856</b>	<b>-</b>
TITLE II - A ADDITIONAL FUNDS	190716	84.367	07/01/2018	09/30/2018	22,030	22,030	-
TITLE II - PART A FY17	171223	84.367	07/01/2016	06/30/2018	745,391	108	-
TITLE IIA - SUMMER SYMPOSIA	181822	84.367	05/01/2018	10/31/2018	7,088	4,334	-
TITLE II - PART A FY18	181245	84.367	07/01/2017	06/30/2019	814,091	339,519	-
TITLE II - PART A FY19	191366	84.367	07/01/2018	06/30/2020	834,941	324,970	-
<b>TOTAL PROGRAM</b>					<b>2,423,541</b>	<b>690,961</b> *	<b>-</b>
STRIVING RDR COMP LIT	191434	84.371C	09/01/2018	06/30/2019	1,128	1,040	-
STRIVING READERS LITERACY GRANT '18	181762-01	84.371C	10/01/2017	09/30/2019	700,000	656,056	-
STRIVING READERS LITERACY YR2	191074-01	84.371C	10/01/2018	09/30/2019	650,000	60,238	-
STRIVING READERS LITERACY - PD	191038-01	84.371C	09/01/2018	10/31/2018	2,625	2,625	-
<b>TOTAL PROGRAM</b>					<b>1,353,753</b>	<b>719,959</b>	<b>-</b>
SLDS PEER COLLABORATIVE TRAINING	190755-01	84.372A	07/01/2018	06/30/2019	2,310	518	-
OPEN EDUCATIONAL RESOURCE GRANT	181459-01	84.372	07/01/2017	06/30/2018	2,628	-	-
<b>TOTAL PROGRAM</b>					<b>4,938</b>	<b>518</b>	<b>-</b>
PRESCHOOL EXPANSION-FEDERAL	180498-01	84.419B	07/01/2017	06/30/2018	734,400	16,453	-
PRESCHOOL EXPANSION-FEDERAL	190578-01	84.419B	07/01/2018	08/31/2019	954,720	909,814	-
<b>TOTAL PROGRAM</b>					<b>1,689,120</b>	<b>926,267</b> *	<b>-</b>
WORKED BASED LEARNING COLLABORATIVE	190898	84.421B	08/06/2018	06/30/2019	12,500	10,530	-
<b>TOTAL PROGRAM</b>					<b>12,500</b>	<b>10,530</b>	<b>-</b>
TITLE IV - A FY19	191300	84.424A	07/01/2018	06/30/2020	471,686	136,445	-
TITLE IV - PART A FY18	181110	84.424A	07/01/2017	06/30/2019	176,599	127,627	-
<b>TOTAL PROGRAM</b>					<b>648,285</b>	<b>264,072</b>	<b>-</b>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>					<b>31,073,226</b>	<b>15,167,484</b>	<b>-</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE MARYLAND STATE DEPARTMENT OF EDUCATION</b>							
SEXUAL HARRASSMENT/ASSLT PREV	191203-01	93.136	10/01/2018	01/31/2019	14,000	13,065	-
<b>TOTAL PROGRAM</b>					<b>14,000</b>	<b>13,065</b>	<b>-</b>
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>					<b>14,000</b>	<b>13,065</b>	<b>-</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>					<b>\$ 40,487,531</b>	<b>\$ 24,396,859</b>	<b>\$ -</b>

\* Denotes Program Tested as Major

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2019

NOTE 1: REPORTING ENTITY

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: BASIS OF ACCOUNTING

The accompanying Schedule of Expenditure 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, 2019, the indirect cost rate was 3.88%.

NOTE 3: 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: RISK-BASED AUDIT APPROACH

The 2019 threshold for determining Type A and Type B programs is \$750,000.

The following high-risk Type B Program was audited as major:

<u>CFDA</u>	<u>Program</u>
84.367	Title II

The following low-risk Type A Programs were not audited as major:

<u>CFDA</u>	<u>Program</u>
10.553/10.555/10.559	Child Nutrition Cluster
84.027/84.173	Special Education Cluster

The amount expended under programs audited as major federal programs for the year ended June 30, 2019, totaled \$8,416,244 or 34.50% of total federal awards expended.

WASHINGTON COUNTY BOARD OF EDUCATION  
 NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
 YEAR ENDED JUNE 30, 2019

## NOTE 4: CLUSTER PROGRAMS

The following CFDAs have been deemed a cluster program by the Office of Management and Budget, and therefore are treated as one program in determining major programs to be audited:

Child Nutrition Cluster		Special Education Cluster (IDEA)	
CFDA #	Expenditures	CFDA #	Expenditures
10.553	\$ 2,352,533	84.027	\$ 4,935,369
10.555	6,021,221	84.173	<u>99,213</u>
10.559	<u>288,830</u>		
Total	<u>\$ 8,662,584</u>	Total	<u>\$ 5,034,582</u>

## NOTE 5: PROGRAM EXCLUSIONS

Medical assistance received under CFDA #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.

Total Expenditures of Federal Awards	\$ 24,396,859
Add:	
Medical Assistance - CFDA #93.778	1,942,531
Less:	
U.S. Department of Agriculture / Food Service Subsidies	(9,152,452)
Impact Aid - CFDA #84.041	<u>(34,983)</u>
Restricted Federal Government Revenues per Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - General Fund	<u>\$ 17,151,955</u>

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

WASHINGTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2019

Section I - Summary of 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 Deficiency(s) identified that are not considered to be material weaknesses?  
X yes \_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_ yes X no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_ yes X no
- Significant Deficiency(s) 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 reported in accordance with 2 CFR 200.516(a)? \_\_\_ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.367	Title II
84.419B	Preschool Expansion

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

Auditee qualified as low-risk auditee? X yes \_\_\_ no

WASHINGTON COUNTY BOARD OF EDUCATION  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
 FOR THE YEAR ENDED JUNE 30, 2019

SECTION II – FINANCIAL STATEMENT FINDINGS

<u>Finding 2019-001</u>	<u>Accounting for the Net Pension Liability and Related Deferred Outflows/Inflows of Resources</u>
Criteria:	The accounts of the School System should include all significant transactions in the period of benefit.
Condition:	During the audit, certain audit adjustments were required to adjust beginning net position, the net pension liability, and related deferred outflows/inflows of resources for the Governmental Activities and the Business-Type Activities/Food Service Fund.
Cause:	The balances of the net pension liability and the related deferred outflows/inflows of resources were not allocated properly between the Governmental Activities and the Business-Type Activities/Food Service Fund. In addition, the School System did not record its deferred outflows/inflows of resources for its change in proportion.
Effect:	The financial records did not reflect the correct financial activity of a period.
Questioned Costs:	None.
Recommendation:	The School System should ensure that internal control procedures over financial reporting are sufficient to identify and record all material adjustments.
Views of Responsible Officials:	The School System is in the process of reviewing the internal control procedures over financial reporting in the areas where adjustments were noted and will revise them as necessary to ensure that the internal control procedures over financial reporting are sufficient to identify and record all adjustments.

WASHINGTON COUNTY BOARD OF EDUCATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2019

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings and questioned costs.

WASHINGTON COUNTY BOARD OF EDUCATION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2019

The summary which follows indicates the current year status of findings identified in the prior year Single Audit Report.

No financial statement or federal award findings and questioned costs were reported for fiscal year ended June 30, 2018.