BOARD OF EDUCATION
QUEEN ANNE'S COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
AND OTHER SUPPLEMENTARY INFORMATION

Year Ended June 30, 2018

C O N T E N T S

BSC GROUP, LLC
Certified Public Accountants
An Independently Owned and Operated CPA Firm

INDEPENDENT AUDITORS' REPORT

Board Members

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' 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, each major fund, and the aggregate remaining fund information of the Board of Education of Queen Anne's County, Maryland, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the financial statement, in the fiscal year ended June 30, 2018 the Board adopted new accounting guidance, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

The combining nonmajor fund financial statements, and schedules of school construction expenditures, food service fund operations, and school activities fund operations are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, and schedules of school construction expenditures, food service fund operations, and school activities fund accounts 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 28, 2018 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

BSC Group LLC

Easton, Maryland
September 28, 2018

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

Board Members

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Queen Anne's County, Maryland, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BSC Group LLC

Easton, Maryland
September 28, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Board of Education of Queen Anne's County financial performance provides an overview of the Board's financial activities for the fiscal year that ended on June 30, 2018. Please read it in conjunction with the Board's financial statements, which immediately follow this section.

The goal of Management's Discussion and Analysis (MD&A) is for the School District's financial managers to present an objective and easily readable analysis of the district's financial activities based on currently known facts, decisions, or conditions.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year ended June 30, 2018 include the following:

- The unrestricted General Fund actual revenues were $94,378 or ten one-hundredths of one percent (0.10%) under the approved budget. This variance was mainly attributable to the use of fund balance as a revenue source, offset by additional state revenue for reimbursable tuition costs for students in non-public placements.

- Actual expenditures in the unrestricted General Fund were $601,551 or 0.67% under the approved budget. This positive variance was due in part to attrition of staff both at the central office and the schools, a reduction in fuel costs for transportation, a reduction of heating fuel cost due to a mild winter, lower insurance costs, and lower than anticipated retirement costs.

- The restricted General Fund actual revenues and expenditures were under the approved budget by $375,804. The majority of this variance was due to grants such as 21st Century, Title I, and Title IIA, which had significantly less carryover than anticipated and budgeted.

- Additions to capital assets before depreciation are attributable to the Grasonville Elementary addition, vehicle purchases, technology infrastructure, and safety & security projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide perspective is designed to provide readers with a complete financial view of the entity known as the Board of Education of Queen Anne's County. The financial presentation of this perspective is similar to a private sector business.

OVERVIEW OF THE FINANCIAL STATEMENTS – continued

Government-wide Financial Statements – continued

The statement of net position presents information on all of the assets and liabilities of the Board with the difference between the two reported as net position. The statement of activities presents information showing how the Board's net position changed during the most recent fiscal year.

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

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

Fund Financial Statements

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

The measurement focus of these statements is current financial resources; therefore, the emphasis is placed on the cash flows of the organization within the reporting period or near future. Accordingly the modified accrual basis of accounting, that measures these cash flows, is used. In the case of the Board of Education of Queen Anne's County, open encumbrances are excluded from expenditures and the State of Maryland's contribution to the teacher's retirement system is added to revenue and expenditures.

Fund financial statements are also unrelated to the budget and, accordingly, budget comparisons are not provided in the presentation.

Budgetary Financial Statements

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

OVERVIEW OF THE FINANCIAL STATEMENTS – continued

Budgetary Financial Statements – continued

Since this is the legal basis upon which the budget is adopted, budget comparisons are provided in this presentation. GASB Statement No. 34 requires that we present the original adopted budget as well as the final budget and discuss the changes between them.

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

	District-wide Statements	Fund Statements	Budgetary Fund Statements
Measurement Focus	Economic resources	Current financial resources	Current financial resources
Basis of Accounting	Accrual	Modified accrual	Cash and commitments
Budget	No	No	Yes

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

	June 30,		Change	
	2018	2017	$	%
ASSETS				
Current and other assets	$ 16,306,024	$ 15,746,301	$ 559,723	3.55
Capital assets	164,874,996	166,314,492	(1,439,496)	(0.87)
TOTAL ASSETS	181,181,020	182,060,793	(879,773)	(0.48)
DEFERRED OUTFLOWS OF RESOURCES				
State pension plan	1,211,479	1,430,997	(219,518)	100.00
LIABILITIES				
Current and other liabilities	12,354,459	11,612,366	742,093	6.39
Long-term liabilities	179,132,382	65,677,007	113,455,375	172.75
TOTAL LIABILITIES	191,486,841	77,289,373	114,197,468	147.75
DEFERRED INFLOWS OF RESOURCES				
OPEB	23,170,628	-	23,170,628	100.00
State pension plan	586,217	325,666	260,551	100.00
TOTAL DEFERRED INFLOWS OF RESOURCES	23,756,845	325,666	23,431,179	100.00
NET POSITION				
Net investment in capital assets	162,791,940	163,885,592	(1,093,652)	(0.67)
Restricted assets	425,805	950,115	(524,310)	(55.18)
Unrestricted	(196,068,932)	(58,958,956)	(137,109,976)	232.55
TOTAL NET POSITION	$ (32,851,187)	$ 105,876,751	$ (138,727,938)	(131.03)

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE – continued

Net position represents the difference between assets and liabilities. The unrestricted deficit at June 30, 2018 is the result of recording the Board's unfunded other postemployment benefit obligation. Note 6 of the financial statements provides more detail regarding the Board's OPEB plan.

Changes in Net Position

The Board's government-wide changes in net assets for the years ended June 30, 2018 and 2017 are summarized below.

	June 30,		Change	
	2018	2017	$	%
REVENUES				
Program revenues				
Charges for services	$ 1,486,182	$ 1,473,605	$ 12,577	0.85
Federal, state and local grants	19,479,172	19,163,488	315,684	1.65
General revenue				
County appropriation	55,495,261	54,187,293	1,307,968	2.41
State of Maryland	28,038,819	27,746,682	292,137	1.05
Capital contributions	6,006,621	3,354,515	2,652,106	79.06
Other	216,370	203,911	12,459	6.11
TOTAL REVENUES	110,722,425	106,129,494	4,592,931	4.33
EXPENSES				
Instructional services and special education	51,838,552	51,428,724	409,828	0.80
Restricted programs	6,185,513	5,685,691	499,822	8.79
Administration	2,075,412	1,852,158	223,254	12.05
Operation & maintenance of plant	7,852,004	7,775,916	76,088	0.98
Other support services	12,955,629	13,483,521	(527,892)	(3.92)
Fixed charges	34,889,133	36,450,789	(1,561,656)	(4.28)
Depreciation - unallocated	5,039,503	4,450,779	588,724	13.23
TOTAL EXPENSES	120,835,746	121,127,578	(291,832)	(0.24)
CHANGE IN NET POSITION	$ (10,113,321)	$ (14,998,084)	$ 4,884,763	(32.57)

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE – continued

Changes in Net Position – continued

The majority of revenue received by the Board of Education of Queen Anne's County is from county sources. The Board of Education is required to submit to the County Commissioners a budget request in March. The county then reviews this request along with those from all other county agencies and determines a funding level. The County Commissioners usually finalize the county budget in June. The Board of Education then revises their budget allocations based on this funding level. The State of Maryland uses multiple formulas to calculate the allocation of aid to Maryland school systems. Grant revenues can be derived by formula or awarded on a competitive basis. Charges for services are principally meal revenue derived from food services. Currently, the Board contracts the food services operation with Sodexo Services, Inc. The current contract is for a one-year period with the possibility of four one-year extensions ending June 30, 2019. The food services program is designed to be self-funded.

ANALYSIS OF BUDGET AND ACTUAL COMPARISONS

General Fund – Unrestricted and Restricted

Below is an explanatory list of modifications made to the original budget, which were funded by a reduction and reallocation of funds between categories. These changes were made as part of the reorganization of administrative staff, to cover transportation costs primarily related to the bus contract, and to purchase software license renewals. The funds became available through savings associated with attrition of staff and heating fuels cost.

Reduction and reallocation of funds between categories

i.	Administration	$ 105,000
ii.	Mid-Level Administration	$ -
iii.	Instruction	$ (210,000)
iv.	Special Education	$ (150,000)
v.	Student Personnel Services	$ -
vi.	Health Service	$ 5,000
vii.	Transportation	$ 250,000
viii.	Operation of Plant	$ (80,000)
ix.	Maintenance of Plant	$ 80,000
x.	Fixed Charges	$ -

ANALYSIS OF BUDGET AND ACTUAL COMPARISONS – continued

General Fund – Unrestricted and Restricted – continued

A schedule of changes between the original and final budgets for the year ended June 30, 2018 support the list presented on the previous page.

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES				
County funds	$ 55,495,261	$ 55,495,261	$ 55,495,261	$ -
State of Maryland funds	34,019,114	34,019,114	34,054,408	35,294
Restricted federal, state and other	6,561,317	6,561,317	6,185,513	(375,804)
Other	704,413	704,413	574,741	(129,672)
TOTAL REVENUES	96,780,105	96,780,105	96,309,923	(470,182)
EXPENDITURES AND ENCUMBRANCES				
Administration	1,936,720	2,041,720	2,053,370	(11,650)
Mid-level administration	4,889,557	4,889,557	4,790,050	99,507
Instruction	38,832,243	38,622,243	38,435,664	186,579
Special education	8,350,945	8,200,945	8,106,762	94,183
Student personnel services	458,498	458,498	456,128	2,370
Student health services	777,034	782,034	778,641	3,393
Student transportation	6,723,115	6,973,115	6,956,418	16,697
Operation of plant	6,240,424	6,160,424	6,109,657	50,767
Maintenance of plant	1,765,904	1,845,904	1,835,449	10,455
Fixed charges	20,244,348	20,244,348	20,095,096	149,252
Restricted programs	6,561,317	6,561,317	6,185,513	375,804
TOTAL EXPENDITURES AND ENCUMBRANCES	96,780,105	96,780,105	95,802,748	977,357
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES	$ -	$ -	$ 507,175	$ 507,175

Please note that local and state revenues account for over 93% of the total General Fund revenues and over 99% of the unrestricted General Fund revenues.

Other revenues are budgeted very conservatively due to the unpredictable nature of the receipts. These receipts include, but are not limited to, facilities rental, bus rental, interest income, retiree prescription drug subsidy program, and tuition payments received. Tuition can be collected from other county boards of education under the informal kinship care arrangements and out of county living arrangements. For the kinship care arrangements, criteria established by the state legislature must be met in order for counties to be eligible to bill for these students. Since the inception of this program, only a few counties have met this criterion. Queen Anne's County did qualify in the current fiscal year. Because the determination is made on an annual basis, we do not budget this revenue.

This positive variance was due in part to attrition of staff both at the central office and the schools, a reduction in fuel costs for transportation, a reduction of heating fuel cost due to a mild winter, lower insurance costs, and lower than anticipated retirement costs. However, a significant portion of these savings were moved to transportation to cover bus contracts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the Board had approximately $239 million invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles and other equipment. Capital assets increased by approximately $4 million from the same time last year, excluding the effect of depreciation, as shown in the table below. This increase is attributable to the Grasonville Elementary addition, vehicle purchases, technology infrastructure, and safety & security projects.

	June 30,		
	2018	2017	Change
Construction in progress	$ 4,330,772	$ 553,519	$ 3,777,253
School properties	218,904,946	218,886,579	18,367
Furniture, fixtures and equipment	16,119,435	15,775,855	343,580
TOTAL CAPITAL ASSETS	$ 239,355,153	$ 235,215,953	$ 4,139,200

The Board has no long-term debt related to the construction of school properties. To the extent that such debt is required to make local capital contributions, it is issued by, and reported on the books of, Queen Anne's County Government.

Long-term Liabilities

The Board has $178,772,458 due or payable after one year. The amount consists of the following:

- $615,229 of accrued compensated absences
- $1,928,150 capital lease obligations
- $171,829,758 OPEB benefit obligation
- $4,399,321 of the Board's proportionate share of the state's net pension liability

FACTORS IMPACTING THE SCHOOL SYSTEM

Effective with fiscal year 2015, the Board was required to implement the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. As a result of this pronouncement, the Board must report its allocated share of the net pension liability, deferred financing inflows and outflows, and net pension expense from the Employees' Retirement and Pension System of the Maryland State Retirement and Pension System. The impact of this reporting requirement is discussed in note 5.

FACTORS IMPACTING THE SCHOOL SYSTEM – continued

Beginning with fiscal year 2018, the system was required to adhere to the standard issued by the Government Accounting Standards Board (GASB) for reporting other postemployment benefits (OPEB) known as GASB 75. GASB 75 stipulates standards for the measurement, recognition, and display of OPEB expenses and related liabilities and assets, note disclosures, and required supplementary information in the financial reports of state and local governmental employers. GASB 75 requires the measurement and disclosure of actuarial accrued liabilities and funding status. Under GASB 75, the Board is not only reporting OPEB expense, but the associated accrued financial obligations. Funding of the long-term obligation is optional. The Board is also required to disclose the funding status of the benefits as of the most recent valuation and to present as Required Supplementary Information (RSI) multi-year trend information about funding progress.

During a special session of the Maryland General Assembly – Teacher Pension Cost, it was determined the State and Local school boards will share the cost of teacher retirement by phasing in a requirement for school board payment of annual normal cost over a four year period in increments of 50%, 65%, 85%, and 100%. This action outlines the payment required of each school board for fiscal years 2013 through 2016, and the additional maintenance of effort payments required by each county in the same period.

CONTACTING THE BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY FINANCIAL MANAGEMENT

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the Board's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact John Pfister, Chief Financial Officer, (410) 758-2403 at the Board of Education of Queen Anne's County, 202 Chesterfield Avenue, Centreville, Maryland 21617.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF NET POSITION

June 30, 2018

	Governmental Activities
ASSETS	
Cash and equivalents	$ 13,475,576
Certificates of deposit	300,000
Due from other units of government	2,170,997
Accounts receivable	319,164
Inventory, at cost	40,287
Capital assets:	
Land and construction in progress, at cost	10,693,812
Other depreciable capital assets, at cost, less accumulated depreciation	154,181,184
TOTAL ASSETS	181,181,020
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - state pension plan	1,211,479
LIABILITIES	
Accounts payable	1,592,339
Employee salary deferrals	8,805,139
Employee and other withholdings	850,804
Unearned revenues	936,006
Due to other units of government	32,951
Due to agency fund	137,220
Noncurrent liabilities:	
Due within one year	359,924
Due in more than one year	178,772,458
TOTAL LIABILITIES	191,486,841
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - other postemployment benefits	23,170,628
Deferred inflows - state pension plan investment activity	586,217
TOTAL DEFERRED INFLOWS	23,756,845
NET POSITION	
Net investment in capital assets, net of related debt	162,791,940
Restricted for:	
Food service	65,921
Capital projects	359,884
Unrestricted deficit	(196,068,932)
TOTAL NET POSITION	$ (32,851,187)

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges For Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position
GOVERNMENTAL ACTIVITIES				
Administration	$ 2,075,412	$ -	$ -	$ (2,075,412)
Instructional services	43,713,872	94,506	572,408	(43,046,958)
Special education	8,124,680	-	2,166,430	(5,958,250)
Student personnel services	456,526	-	-	(456,526)
Health services	778,243	-	-	(778,243)
Student transportation	7,167,996	-	3,276,752	(3,891,244)
Operation of plant	5,973,671	-	-	(5,973,671)
Maintenance of plant	1,878,333	265,765	-	(1,612,568)
Fixed charges	34,889,133	-	5,940,289	(28,948,844)
Capital outlay	2,023,135	-	-	(2,023,135)
Food services	2,529,729	1,125,911	1,337,780	(66,038)
Federal, state and other restricted programs	6,185,513	-	6,185,513	-
Unallocated depreciation and loss on disposal of fixed assets	5,039,503	-	-	(5,039,503)
TOTAL GOVERNMENTAL ACTIVITIES	$ 120,835,746	$ 1,486,182	$ 19,479,172	$ (99,870,392)
General Revenues				
Local appropriations				55,495,261
State aid - unrestricted				28,038,819
Capital outlay/construction funding				6,006,621
Miscellaneous				172,950
Unrestricted investment earnings				43,420
TOTAL GENERAL REVENUES				89,757,071
CHANGE IN NET POSITION				(10,113,321)
NET POSITION AT JULY 1, 2017				
As previously reported				105,876,751
Prior period adjustment				(128,614,617)
As restated				(22,737,866)
NET POSITION AT JUNE 30, 2018				$ (32,851,187)

The accompanying Notes to Financial Statements are an integral part of this statement

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2018

	Major Fund General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 12,203,136	$ 1,272,440	$ 13,475,576
Certificates of deposit	300,000	-	300,000
Accounts receivable:			
Federal funds from state	769,571	76,718	846,289
State of Maryland	726,912	32,945	759,857
Other governmental funds	485,034	-	485,034
Queen Anne's County	-	564,851	564,851
Other	319,162	2	319,164
Inventory, at cost	40,287	-	40,287
TOTAL ASSETS	$ 14,844,102	$ 1,946,956	$ 16,791,058
LIABILITIES			
Accounts payable:			
Vendors	$ 612,388	$ 979,951	$ 1,592,339
State of Maryland	32,951	-	32,951
Other governmental funds	-	485,034	485,034
Agency funds	137,220	-	137,220
Employee salary deferrals	8,803,806	1,333	8,805,139
Employee and other withholdings	850,804	-	850,804
Accrued compensated absences	203,698	-	203,698
Unearned revenues	881,173	54,833	936,006
TOTAL LIABILITIES	11,522,040	1,521,151	13,043,191
FUND BALANCES			
Nonspendable	40,287	-	40,287
Spendable			
Restricted	-	425,805	425,805
Committed	534,000	-	534,000
Assigned	1,620,643	-	1,620,643
Unassigned	1,127,132	-	1,127,132
TOTAL FUND BALANCES	3,322,062	425,805	3,747,867
TOTAL LIABILITIES AND FUND BALANCES	$ 14,844,102	$ 1,946,956	$ 16,791,058

The accompanying Notes to Financial Statements are an integral part of this statement

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET

TO THE STATEMENT OF NET POSITION

June 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	$ 3,747,867
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds:	
Cost of assets	239,355,153
Less accumulated depreciation	(74,480,157)
Deferred financing outflow for change in assumptions in net pension liability	1,211,479
Deferred financing inflows for investment activity in net OPEB liability	(23,170,628)
Deferred financing inflows for investment activity in net pension liability	(586,217)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:	
Compensated absences	(615,229)
Retirement incentives	(1,320)
Capital leases	(2,083,056)
Net OPEB obligation	(171,829,758)
Net pension liability	(4,399,321)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	$ (32,851,187)

The accompanying Notes to Financial Statements are an integral part of this statement

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2018

	Major Fund General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
County funds	$ 55,495,261	$ 4,974,506	$ 60,469,767
State of Maryland funds	34,054,408	1,084,747	35,139,155
Restricted federal, state and other	6,185,513	-	6,185,513
Federal sources	-	1,284,568	1,284,568
Other sources	574,741	2,481	577,222
State of Maryland on-behalf pension payments	5,940,289	-	5,940,289
Charges for food services	-	1,125,911	1,125,911
TOTAL REVENUES	102,250,212	8,472,213	110,722,425
EXPENDITURES			
Administration	2,033,080	-	2,033,080
Mid-level administration	4,786,175	-	4,786,175
Instructional salaries & wages	37,000,846	-	37,000,846
Instructional textbooks & supplies	1,002,935	-	1,002,935
Other instructional costs	579,715	-	579,715
Special education	8,124,680	-	8,124,680
Student personnel services	456,526	-	456,526
Health services	778,243	-	778,243
Student transportation	6,956,830	-	6,956,830
Operation of plant	6,112,656	-	6,112,656
Maintenance of plant	1,839,239	-	1,839,239
Fixed charges	20,097,984	-	20,097,984
Food service	-	2,438,857	2,438,857
Restricted federal, state and other	6,185,513	-	6,185,513
Capital outlay	-	6,557,666	6,557,666
State of Maryland on-behalf pension payments	5,940,289	-	5,940,289
TOTAL EXPENDITURES	101,894,711	8,996,523	110,891,234
NET CHANGE IN FUND BALANCES	355,501	(524,310)	(168,809)
FUND BALANCES AT JULY 1, 2017	2,966,561	950,115	3,916,676
FUND BALANCES AT JUNE 30, 2018	$ 3,322,062	$ 425,805	$ 3,747,867

The accompanying Notes to Financial Statements are an integral part of this statement

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	$	(168,809)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. These consist of:		
Capital outlays		4,327,672
Depreciation expense and loss on disposal of capital assets		(5,767,168)
Decreases in the long-term portion of accrued compensated absences do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds		30,519
Decreases in accrued retirement incentives do not require the use of current financial resources, and, therefore, are not reported as expenditures in the governmental funds		1,895
Repayment of capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net positiion		345,844
Increases in deferred inflows of resources do not use current financial resources and, therefore, are not reported as expenditures in governmental funds.		(23,431,179)
Decreases in deferred outflows of resources do not create current financial resources and, therefore, are not reported as revenues in governmental funds.		(219,518)
Decreases in the net pension liability do not create current financial resources and, therefore, are not reported as expenditures in governmental funds.		740,739
OPEB costs reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds		14,026,684
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES	$	(10,113,321)

The accompanying Notes to Financial Statements are an integral part of this statement

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET POSITION – AGENCY FUNDS

June 30, 2018

	AGENCY FUNDS		
	Regional Education Funds	School Activities Fund	Total
ASSETS			
Cash	$ -	$ 704,556	$ 704,556
Due from general fund	137,220	-	137,220
TOTAL ASSETS	$ 137,220	$ 704,556	$ 841,776
LIABILITIES			
Accounts payable	$ 14,010	$ -	$ 14,010
Funds held for school activities	-	704,556	704,556
Unearned revenue	123,210	-	123,210
TOTAL LIABILITIES	$ 137,220	$ 704,556	$ 841,776

The accompanying Notes to Financial Statements are an integral part of this statement

(1) Summary of significant accounting policies

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

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

Government-wide and fund financial statements – The statement of net position and the statement of activities report information on all of the non-fiduciary activities of the Board as a whole. For the most part, the effect of interfund activity has been removed from these statements. The exceptions to this general rule are immaterial charges between the Board's food service and general funds for catering of special functions provided by the Board's food service management company. The activities of the General Fund (Current Expense Fund), Special Revenue Fund (Food Service Fund) and Capital Projects Fund (School Construction Fund) have been presented as governmental activities in the government-wide financial statements.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The individual major governmental funds and the non-major governmental funds are reported in separate columns in the fund financial statements.

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

-Continued-

(1) Summary of significant accounting policies – continued

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

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

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

The Board reports the following funds in the fund financial statements:

Governmental funds

Major funds

General Fund (Current Expense Fund) – The general fund is the general operating fund of the Board. It is used to account for all financial resources except those required to be accounted for in another fund. Special state and federal programs are included in the restricted portion of the fund.

Non-Major Fund

Capital Projects Fund (School Construction Fund) – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

-Continued-

(1) Summary of significant accounting policies – continued

Fiduciary funds

Agency Funds – Agency funds represent assets held by the Board on behalf of others. The Regional Education Funds are educational programs for which the Board acts as the processing agent for invoices. The School Activities Fund consists of transactions at the schools for student insurance, pictures, athletics, clubs, other student activities, and principals' miscellaneous expenses.

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

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

Capital assets – Capital assets, which include property, plant and equipment, are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than $1,000. Capital assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets that have been acquired with funds received through federal grants must be used in accordance with the terms of the grant. Federal regulations require, in some cases, that the Board must reimburse the federal government for any assets which the Board retains for its own use after the termination of the grant unless otherwise provided by the grantor.

-Continued-

(1) Summary of significant accounting policies – continued

Budgets and budgetary accounting – The Board follows these procedures in establishing the budgetary data reflected in the financial statements:

Operating Budget (General Fund) - The Board of Education of Queen Anne's County, Maryland operated within the following budget requirements for local educational agencies as specified by state law.

1. The Board of Education must submit an annual school budget in writing to the County Commissioners each year.

2. The County Commissioners must approve the budget ordinance by June 30 of each year.

3. The budget is prepared and approved by major categories as specified in the state law.

4. The Board of Education may transfer funds within the major categories without recourse to the County Commissioners, and a report of the transfer shall be submitted to the County Commissioners. Transfers between major categories can only be made with the approval of the County Commissioners. No action within 30 days after receipt of the written request constitutes an approval.

5. Unexpended appropriations of current expense funds lapse at the end of each fiscal year.

The expenditures under special state and federal programs may exceed budgeted amounts. The grants included in this category are not part of budget categories subject to the spending limitations of the operating budget. Expenditures under these programs are limited to the amounts of the respective grants.

Capital Budget – School Construction Fund (Capital Projects Fund) – Annual budgetary comparisons to actual expenditures are not presented in the financial statements for the capital projects fund. School construction is budgeted on a project basis with funds primarily provided by Queen Anne's County and State of Maryland. State funds are approved by the State's interagency committee.

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

The budgetary basis differs from GAAP and the fund financial statements in that encumbrances, which represent commitments to purchase goods and services, are treated as expenditures of the current period rather than as reservations of the fund balance. The statement of revenues, expenditures and encumbrances – budget and actual – general fund and restricted grants is presented using the budgetary basis of accounting.

-Continued-

(1) <u>Summary of significant accounting policies – continued</u>

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

Use of restricted funds – When both restricted and unrestricted resources are available for use, it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Bank deposits – The Board is authorized to invest in certificates of deposit and federal securities (i.e., U.S. Treasury and federal agency securities) as specified in Section 6-222 of the Maryland State Finance and Procurement Article.

Article 95, Section 22 of the Annotated Code of Maryland requires that deposits with financial institutions by local boards of education be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution. In addition, this section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code (i.e., direct obligations of the United States, or its agencies and/or obligations of states, counties, or municipalities).

Due to/from other funds – All transactions between funds represented by *"due to/from other board of education funds"* are caused by cash from one fund paying for expenditures or expenses of another. The Board did not incur transactions between funds that would represent lending/borrowing arrangements outstanding at the end of the fiscal year.

Interfund transfers – Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers.

Inventories and donated commodities – Food commodities donated by federal agencies are valued at market value and included in revenues and expenditures when received. Unused quantities on hand at year-end are not significant. The inventories of the current expense fund are valued at cost, primarily on the first-in, first-out method, and consist of paper products and various janitorial supplies.

Accrued compensated absences – The Board accrues a liability for compensated absences (vacation pay) employees have earned but have not yet been paid. The Board adopted the practice of paying for any unused vacation time, up to the maximum amounts employees can carry over from one year to the next, upon the termination of employment. The full amount of this obligation has been provided for in the accompanying Statement of Net Position.

-Continued-

(1) **Summary of significant accounting policies – continued**

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

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

Deferred outflows of resources – A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that future time.

Deferred inflows of resources – A deferred inflow of resources represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that future time.

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

Fund balances – As of June 30, 2018, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board of Education members. The Board of Education is the highest level of decision-making authority for the entity. Commitments may be established, modified, or rescinded only through formal actions approved by the Board members.

-Continued-

(1) Summary of significant accounting policies – continued

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. These amounts are designated by management.

Unassigned – all other spendable amounts.

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

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

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

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

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

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

(2) Deposits

At June 30, 2018, the Board had deposits of approximately $15.1 million with local banks. Of the total deposits, approximately $14.6 million was not covered by FDIC but was collateralized by securities held by the pledging financial institution's trust department or agent, but not in the Board's name. The value of the pledged securities exceeded the amount of deposits in excess of coverage by the FDIC. Custodial credit risk for deposits is the risk that in the event of failure of a depository financial institution, the Board would not be able to recover collateral securities that are in the possession of the financial institution or Federal Reserve.

The Board's deposits include certificates of deposit. These deposits are not cash equivalents as defined by generally accepted accounting principles.

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

Cash in bank	$ 14,178,620
Certificates of deposit	300,000
Cash on hand	1,512
Total cash and cash equivalents	14,480,132
Less:	
Temporary investments	300,000
School activities agency fund	704,556
TOTAL CASH AND CASH EQUIVALENTS (GOVERNMENT-WIDE)	$ 13,475,576

(3) Interfund receivable – payables

Outstanding balances resulting from transactions between funds as of June 30, 2018 consist of the following:

	Due from Other Funds	Due to Other Funds
General fund	$ 485,034	$ 137,220
Capital projects fund	-	107,893
Food service fund	-	377,141
Trust and Agency	137,220	-
TOTAL	$ 622,254	$ 622,254

(4) Capital assets

Capital asset balances and activity for the year ended June 30, 2018 were as follows:

	Balance July 1, 2017	Additions	Reclass/ Retirements	Balance June 30, 2018
CAPITAL ASSETS NOT BEING DEPRECIATED				
Cost				
Land	$ 6,363,040	$ -	$ -	$ 6,363,040
Construction in progress	553,519	3,777,253	-	4,330,772
TOTAL COST OF CAPITAL ASSETS NOT BEING DEPRECIATED	6,916,559	3,777,253	-	10,693,812
CAPITAL ASSETS BEING DEPRECIATED				
Cost				
Land improvements	5,402,721	-	(3,800)	5,398,921
Buildings	207,120,818	25,087	(2,920)	207,142,985
Furniture, fixtures and equipment	15,775,855	525,332	(181,752)	16,119,435
TOTAL COST OF CAPITAL ASSETS BEING DEPRECIATED	228,299,394	550,419	(188,472)	228,661,341
Accumulated depreciation				
Land improvements	4,330,779	151,118	(3,800)	4,478,097
Buildings	55,419,155	4,304,934	(1,254)	59,722,835
Furniture, fixtures and equipment	9,151,527	1,289,685	(161,987)	10,279,225
Total accumulated depreciation	68,901,461	5,745,737	(167,041)	74,480,157
NET CAPITAL ASSETS BEING DEPRECIATED	159,397,933	(5,195,318)	(21,431)	154,181,184
NET GOVERNMENTAL ACTIVITIES CAPITAL ASSETS	$ 166,314,492	$ (1,418,065)	$ (21,431)	$ 164,874,996

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

SUPPORT SERVICES	
Administration	$ 42,332
Instructional services	322,770
Student transportation	211,166
Maintenance of plant	39,094
Food services	90,872
Unallocated	5,039,503
TOTAL	$ 5,745,737

At June 30, 2018, the Board was contractually obligated under various construction related contracts totaling $4,673,618, of which $3,267,592 had been incurred. These projects are financed primarily by capital grants from Queen Anne's County and the State of Maryland. Contracts are not entered into with contractors until such funding is obtained.

(5) Pension plan

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

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

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

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

- Continued -

(5) Pension plan – continued

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

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

Teachers' and Employees' Retirement Systems

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

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

Any individual who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance. A member who terminates employment prior to attaining retirement age and before vesting receives a refund of all member contributions and interest.

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

- Continued -

(5) Pension plan – continued

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

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

Teachers' and Employees' Pension Systems

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

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

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

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

- Continued -

(5) Pension plan – continued

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

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

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

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

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

The State makes a substantial portion of the Board's annual required contributions to the Teachers system on behalf of the Board. The State's contributions on behalf of the Board to the Teachers system for the year ended June 30, 2018, amounted to $5,940,289. The fiscal 2018 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the general fund in the accompanying statement of activities and statement of revenues, expenditures, and changes in fund balances and are also included as revenue and expenses in the statement of activities. The Board makes the entire employer required annual contributions to the Employees systems as well as those that relate to positions in the Teachers systems funded through the federal and state restricted programs.

- Continued -

(5) Pension plan – continued

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

	2018	2017	2016
Total Payroll	$ 60,117,229	$ 58,787,614	$ 57,583,209
Payroll Covered under the Plans	$ 56,180,104	$ 55,042,032	$ 54,372,599
Contributions Paid In:			
Board Payments	$ 459,901	$ 414,089	$ 424,398
State On-Behalf Payments	$ 5,940,289	$ 6,225,567	$ 5,799,139

Teachers' and Employees' Retirement Systems

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

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

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

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

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

Teachers' and Employees' Pension Systems

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

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

(5) Pension plan – continued

Pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources – At June 30, 2018, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

Board's proportionate share of the net pension liability	$ 4,399,321
State's proportionate share of the net pension liability associated with the Board	67,996,368
Total	$ 72,395,689

The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the actual employer contributions billed to the Board for the year ending June 30, 2017 compared to the total billings to all participating government units. That percentage was then multiplied by the total net pension liability for the SRPS to calculate the liability related to the Board. At June 30, 2017 the Board's portion was .02034490%.

For the year ended June 30, 2018, the Board recognized pension expense of $199,231. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ 168,942	$ -
Net difference between projected and actual investment earnings	582,636	-
Net difference between projected and actual earnings on pension plan investments	-	273,440
Difference between actual and expected experience	-	312,777
Board contributions subsequent to the measurement date	459,901	-
Total	$ 1,211,479	$ 586,217

- Continued -

(5) Pension plan – continued

The $459,901 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2019	$	74,895
2020		159,663
2021		55,950
2022		(93,972)

Actuarial Assumptions – The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15% including inflation
Investment rate of return	7.50%

Mortality rates were based on the RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

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

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

- Continued -

(5) Pension plan – continued

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	36%	5.30%
Private Equity	11%	7.00%
Rate Sensitive	21%	1.20%
Credit Opportunity	9%	3.60%
Real Assets	15%	5.70%
Absolute Return	8%	3.10%
Total	100%	

Discount rate – A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Board's proportionate share of the net pension liability to changes in the discount rate – The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.55%, as well as what the Board's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.55%) or 1% higher (8.55%) than the current rate.

	Discount rate	District's proportionate share of the net pension liability
1% decrease	6.50%	$6,234,708
Current discount rate	7.50%	$4,399,321
1% increase	8.50%	$2,876,468

- Continued -

(5) Pension plan – continued

Plan fiduciary net position – Detailed information about the Schedule of Employer Allocations and the Schedule of Pension Amounts by employer is located at http://www.sra.maryland.gov/Employers/.

(6) Other Postemployment benefits

Plan description – The Queen Anne's County Public Schools Retiree Health Plan (QACPSRHP) is a single-employer defined benefit healthcare plan that is administered by the Board of Education and covers retired employees of the Board and their dependents. This plan does not include the pension benefits discussed in Note 5. The Plan does not issue a separate, publicly available report.

The Queen Anne's County Public Schools Retiree Life Insurance Plan (QACPSRLIP) is a single-employer defined benefit life insurance plan that is administered by the Board of Education and covers retired employees of the Board. This plan does not include the pension benefits discussed in Note 5. The Plan does not issue a separate, publicly available report.

Benefits provided – It is the Board's policy to contribute a portion of the cost of including its retired teachers and administrators in its group major medical insurance program. The Board's contribution can be applied to the coverage of the retiree, spouse, and dependents, but it is limited to the amounts below and it ceases upon the death of the retiree.

Teachers are required to provide at least ten years of service to the Board before becoming eligible for retiree healthcare benefits. Once ten years of service is reached, the Board covers 36 percent of the cost of the individual's EPO health plan. The percentage subsidized by the Board increases 3.6 percent per year for every year of service in excess of ten. At 25 years of service, the maximum subsidy of 90 percent is reached.

The plan for administrators is similar to that for teachers, with the following exceptions. Administrators are required to provide at least five years of service to the Board before becoming eligible for retiree healthcare benefits. Once five years of service is reached, the Board covers 35 percent of the cost of the individual's EPO health plan. The percentage subsidized by the Board increases 5.5 percent per year for every year of service in excess of five. At 15 years of service, the maximum subsidy of 90 percent is reached.

In addition, the Board is contractually obligated to pay the full cost of medical insurance for certain retired directors, superintendents, and their spouses.

The Board also pays the cost of providing term life insurance for its retirees in varying amounts depending upon length of service and date of retirement. The benefits payable upon death are $5,000 (fixed) for 5 to 25 years of service or $50,000 (maximum-based on annual salary at retirement) for over 25 years of service. There is a reduction of benefit of 25% at age 70 and a benefit reduction of 50% at age 75 and beyond.

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(6) Other Postemployment benefits – continued

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

Active plan members	958
Inactive employees or beneficiaries currently receiving benefit payments	353
	1311

Net OPEB Liability

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

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

Inflation	2.8%
Salary Increases	3.0%
Investment Rate of Return	3.58%
Healthcare Cost Trend Rates	6.0% initially, reduced by decrements to an ultimate rate of 3.7%

Mortality rates were based on the RP2014 White Collar with MP2014 for active healthy participants, and RP2014 Disabled Mortality (set forward 1 Year for Males) for inactive disabled participants.

The long-term expected rate of return on the OBEP plan investments was determined using the money market rate of return at Shore United Bank. The OPEB plan has invested 100% of the funds in a money market account earning an annual percent yield of .20%.

Discount rate – The discount rate used to measure the total OPEB liability was 3.58%. The projection of cash flows used to determine the discount rate assumed that Board contributions will be to fund current contribution levels. Based on those assumptions, the unfunded rate was used. The unfunded rate is determined by using the 20 year Tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Any increase in the discount rate due to the assets of the trust is not deemed material. Therefore, the discount rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

(6) Other Postemployment benefits– continued

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

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2016 for FYE 2017	$ 186,363,041	$ 506,599	$ 185,856,442
Changes for the Year:			
Service Cost	9,016,476	-	9,016,476
Interest	5,268,508	-	5,268,508
Experience Losses	(439,806)		(439,806)
ER Trust Contribution	-	2,566,424	(2,566,424)
Net Investment Income	-	917	(917)
Changes in Assumptions	(25,304,521)	-	(25,304,521)
Benefit Payments	(2,566,424)	(2,566,424)	-
Net changes	(14,025,767)	917	(14,026,684)
Balance as of June 30, 2017 for FYE 2018	$ 172,337,274	$ 507,516	$ 171,829,758

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

	1% Decrease	Discount Rate	1% Increase
Discount Rate	2.58%	3.58%	4.58%
Total OPEB Liability	$ 208,234,634	$ 172,337,274	$ 144,237,401
Net OPEB Liability (Asset)	$ 207,727,118	$ 171,829,758	$ 143,729,885

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates – The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower (4.7% decreasing to 2.7%) or 1% higher (6.7% decreasing to 4.7%) than the current healthcare cost trend rates:

	1% Decrease	Discount Rate	1% Increase
Ultimate Trend	2.70%	3.70%	4.70%
Total OPEB Liability	$ 140,681,015	$ 172,337,274	$ 215,009,750
Net OPEB Liability (Asset)	$ 140,173,499	$ 171,829,758	$ 214,502,234

-Continued-

(6) Other Postemployment benefits – continued

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB – For the year ended June 30, 2018, the Board recognized OPEB expense of $11,710,368. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 395,825
Changes of assumptions	-	22,774,069
Net difference between projected and actual earnings on OPEB plan investments	-	734
Total	$ -	$ 23,170,628

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

Year ended June 30:	
2019	$ (2,574,616)
2020	(2,574,616)
2021	(2,574,616)
2022	(2,574,618)
2023	(2,574,433)
Thereafter	(10,297,729)

(7) Risk management

General insurance – The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board is a member of the Maryland Association of Boards of Education Group Liability Insurance Pool and the Workmen's Compensation Self Insurance Fund (MABE).

These pools are self-insurance funds for the various member Maryland Boards of Education. The pools were organized for the purpose of minimizing the cost of insurance and related administrative expenses. Coverage is provided up to specified limits and the Board pays an annual premium for the coverage provided by those pools. In addition to general liability insurance, the Group Liability Insurance Pool also provides coverage for property liability and automobile liability. Coverage above these limits is provided by third party insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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(7) Risk management – continued

As of June 30, 2018, MABE had total fund equity of approximately $29.7 million. It is believed that there are no outstanding claims in excess of the equity.

MABE publishes its own audited financial report based on a June 30 year-end. This report may be obtained from the Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 301, Annapolis, Maryland 21401.

Health insurance – Effective with the 1996 fiscal year, the Board joined together with the Eastern Shore of Maryland Boards of Education to form the Eastern Shore of Maryland Education Consortium Health Insurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for health insurance coverage. Currently, only five counties are participating in the alliance for their health insurance coverage. CareFirst BlueCross/BlueShield of Maryland administers the program.

The agreement for formation of the alliance provides that the pool will be self-sustaining through member premiums. In addition to the annual premiums, the pooling agreement provides for additional assessments, if needed. For fiscal year 2018, no additional assessments were required. As of the date of this report, it is believed there are no outstanding claims in excess of the trust.

(8) Unearned revenues

Unearned revenues consist of federal and state grants and other refundable advances that have not been expended by June 30, 2018 and consist of the following:

Restricted federal, Maryland and other grant programs	$ 845,896
Advanced meal payments	54,833
Other sources	35,277
TOTAL	$ 936,006

(9) Long-term liabilities

The following is a summary of the long-term liabilities transactions and balances for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
GOVERNMENTAL ACTIVITIES					
Compensated absences	$ 863,007	$ -	$ 44,080	$ 818,927	$ 203,698
Retirement incentives	3,215	-	1,895	1,320	1,320
Capital leases	2,428,900	-	345,844	2,083,056	154,906
OPEB benefit obligation (restated)	185,856,442	-	14,026,684	171,829,758	-
Net pension liability	5,140,060	-	740,739	4,399,321	-
TOTAL	$ 194,291,624	$ -	$ 15,159,242	$ 179,132,382	$ 359,924

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

Interest expense of approximately $62,286 has been included in the direct expenses of individual functions on the government-wide statement of activities.

(10) Leases

Operating leases – At June 30, 2018, the Board was obligated under various operating leases for photocopying, maintenance, and other equipment for which future lease payments aggregated $491,756. Total rent expense under these leases for fiscal 2018 was $383,826. Future lease payments are as follows:

Year ended June 30,	Amount
2019	$ 385,116
2020	51,583
2021	32,692
2022	13,327
2023	9,038
TOTAL LEASE COMMITMENTS	$ 491,756

(10) Leases – continued

Capital leases – At June 30, 2018, the Board has entered into various lease agreements as lessee to finance performance contracting equipment that will expire in January 2028. The assets acquired and capitalized as fixed assets under capital leases are as follows:

	Governmental Activities
Equipment at cost	$ 3,246,662
Less accumulated depreciation	(1,396,714)
TOTAL	$ 1,849,948

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

Year ended June 30,	Amount
2019	$ 210,664
2020	223,001
2021	229,691
2022	236,582
2023	243,679
2024-2028	1,253,598
Total minimum lease payments	2,397,215
Less amount representing interest	(314,159)
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	$ 2,083,056

(11) Fund balances

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

	Major Fund General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Inventories	$ 40,287	$ -	$ 40,287
Restricted:			
By County Commissioners for capital projects	-	359,884	359,884
By Federal law to nonprofit food service fund	-	65,921	65,921
	-	425,805	425,805
Committed:			
OPEB Liability	200,000	-	200,000
Safety & Security	100,000	-	100,000
Current Expense Budget	234,000	-	234,000
	534,000	-	534,000
Assigned:			
Future insurance costs	806,010	-	806,010
Long-term accrued annual leave	615,229	-	615,229
Retirement incentives	1,320	-	1,320
Encumbrances	198,084	-	198,084
	1,620,643	-	1,620,643
Unassigned			
Prior years	182,920	-	182,920
Current	944,212	-	944,212
	1,127,132	-	1,127,132
Total fund balances	$ 3,322,062	$ 425,805	$ 3,747,867

(12) Termination benefits

The Board established a temporary retirement incentive program, offered December 1, 2010 until June 10, 2011, for the purpose of encouraging eligible employees considering a retirement decision to accelerate their retirement plans. Eligible employees included those age 55 with 15 years of service or age 62 and older. Forty employees elected to voluntarily retire from Board employment no later than July 1, 2011. Additionally, two employees elected to voluntarily retire from Board employment no later than January 1, 2012. As material inducement, the Board agreed to an incentive payout equal to 10% of scheduled fiscal year 2012 salary. The employees were able to select from four different payout options as follows:

Option 1 – payout of the incentive in one lump sum as of the first pay date in July 2011.

Option 2 – payout of the incentive in four equal installments over the four pay dates occurring in July and August 2011.

Option 3 – total incentive applied to the retirees' health insurance premiums until completely utilized.

Option 4 – any specified combination of the above three options.

These amounts are in addition to any accrued sick leave otherwise payable upon retirement.

At June 30, 2018, the liability in the government-wide financial statements was $1,320, which represents actual future payments to be made. In the governmental fund financial statements, liability and expense are not recognized until employees actually terminate employment; therefore, an expenditure of $1,895 was recognized in the statement of revenues, expenditures and changes in fund balances – governmental funds for fiscal year 2018 for this program. The Board has assigned fund balance of $1,320 in the general fund to cover the future payments.

(13) Budget reconciliation

The accompanying Schedule of Revenues, Expenditures and Encumbrances – Budget and Actual has been prepared on a legally prescribed budgetary basis of accounting, which differs from generally accepted accounting principles (GAAP). The purpose of the budgetary basis of accounting is to demonstrate compliance with the legal requirements of Queen Anne's County and the State of Maryland.

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(13) Budget reconciliation – continued

Adjustments necessary to convert the results of operations and fund balances at the end of the year on the modified accrual basis to the budgetary basis are as follows:

	GENERAL FUND		
	Total Revenues	Total Expenditures	Fund Balance
Modified accrual basis	$ 102,250,212	$ 101,894,711	$ 3,322,062
Encumbrances, June 30, 2017	-	(349,758)	-
Encumbrances, June 30, 2018	-	198,084	(198,084)
Less state on-behalf payments	(5,940,289)	(5,940,289)	-
BUDGETARY BASIS	$ 96,309,923	$ 95,802,748	$ 3,123,978

(14) Restatement

The Board adopted GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the beginning net position balance for governmental activities of $105,876,751 has been decreased by $128,614,617 to a deficit of $22,737,866. See Note 6 for further information.

(15) Subsequent events

Subsequent events were evaluated through September 28, 2018, which is the date of the financial statement.

In July 2018, the Board entered into a four year lease agreement to provide for the purchase of 2,800 tablets. The lease purchase totals $1,044,400, is payable in annual installments of $277,946, with interest at 2.549%.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES – BUDGET AND ACTUAL – GENERAL FUND

Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES				
County funds	$ 55,495,261	$ 55,495,261	$ 55,495,261	$ -
State of Maryland funds	34,019,114	34,019,114	34,054,408	35,294
Restricted federal, state and other	6,561,317	6,561,317	6,185,513	(375,804)
Other	704,413	704,413	574,741	(129,672)
TOTAL REVENUES	96,780,105	96,780,105	96,309,923	(470,182)
EXPENDITURES AND ENCUMBRANCES				
Administration	1,936,720	2,041,720	2,053,370	(11,650)
Mid-level administration	4,889,557	4,889,557	4,790,050	99,507
Instruction	38,832,243	38,622,243	38,435,664	186,579
Special education	8,350,945	8,200,945	8,106,762	94,183
Student personnel services	458,498	458,498	456,128	2,370
Student health services	777,034	782,034	778,641	3,393
Student transportation	6,723,115	6,973,115	6,956,418	16,697
Operation of plant	6,240,424	6,160,424	6,109,657	50,767
Maintenance of plant	1,765,904	1,845,904	1,835,449	10,455
Fixed charges	20,244,348	20,244,348	20,095,096	149,252
Restricted programs	6,561,317	6,561,317	6,185,513	375,804
TOTAL EXPENDITURES AND ENCUMBRANCES	96,780,105	96,780,105	95,802,748	977,357
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES	$ -	$ -	$ 507,175	$ 507,175

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHEDULE OF CHANGES IN THE BOARD'S NET OPEB LIABILITY AND RELATED RATIOS

Year Ended June 30, 2018

As of June 30 of Measurement Year	2017
Total OPEB liability	
Service cost	$ 9,016,476
Interest	5,268,508
Differences between expected and actual experience	(439,806)
Changes of assumptions	(25,304,521)
Benefit payments	(2,566,424)
Net change in total OPEB liability	(14,025,767)
Total OPEB liability - beginning	186,363,041
Total OPEB liability - ending (a)	$ 172,337,274
Plan fiduciary net position	
Contributions - employer	$ 2,566,424
Net investment income	917
Benefit payments	(2,566,424)
Administrative expense	-
Net change in fiduciary net position	917
Plan fiduciary net position - beginning	506,599
Plan fiduciary net position - ending (b)	$ 507,516
Board's net OPEB liability - ending (a) - (b)	$ 171,829,758
Plan fiduciary net position as a percentage of the total OPEB liability	0.29%
Notes to Schedule:	
Benefit changes:	None
Changes in assumptions:	None
Discount Rate:	
6/30/2016 Valuation	2.85%
6/30/2017 Valuation	3.58%

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHEDULE OF BOARD CONTRIBUTIONS

As of June 30 of Measurement Year

	2017
Contractually required contribution	$ 2,566,424
Contributions in relation to the Contractually required contribution	(2,566,424)
Contribution deficiency (excess)	$ -

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE

OF THE NET PENSION LIABILITY

Employees' Pension Plan

	2018	2017	2016	2015
Board's proportion of the net pension liability	0.0203449%	0.0217854%	0.0218792%	0.0201135%
Board's proportionate share of the net pension liability	$ 4,399,321	$ 5,140,060	$ 4,546,868	$ 3,569,488
State's proportionate share of the net pension liability associated with the Board	67,996,368	80,415,579	61,362,581	46,484,733
Total	$ 72,395,689	$ 85,555,639	$ 65,909,449	$ 50,054,221
Board's covered employee payroll	$ 56,180,104	$ 55,042,032	$ 54,372,599	$ 53,333,397
Board's proportionate share of the net pension liability as a percentage of its covered employee payroll	7.830746%	9.338427%	8.362425%	6.692782%
Plan fiduciary net position as a percentage of the total pension liability	69.38%	65.79%	68.78%	71.87%

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHEDULE OF BOARD CONTRIBUTIONS

Employees' Pension Plan

	2018	2017	2016	2015
Contractually required contributions	$ 459,901	$ 414,089	$ 424,398	$ 461,154
Contributions in relation to the contractually required contribution	(459,901)	(414,089)	(424,398)	(461,154)
Contributions deficiency (excess)	$ -	$ -	$ -	$ -
Board's covered employee payroll	$ 56,180,104	$ 55,042,032	$ 54,372,599	$ 53,333,397
Contributions as a percentage of covered employee payroll	0.818619%	0.752314%	0.780537%	0.864663%

Changes of assumptions – Amounts reported in 2018 reflect an adjustment to the inflation assumption of 2.70% to 2.65%.

OTHER SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2018

	Capital Projects	Food Services	Total Nonmajor Governmental Funds
ASSETS			
Cash and equivalents	$ 692,910	$ 579,530	$ 1,272,440
Accounts receivable:			
Federal funds from state	-	76,718	76,718
State of Maryland	27,952	4,993	32,945
Other		2	2
Queen Anne's County	564,851	-	564,851
TOTAL ASSETS	$ 1,285,713	$ 661,243	$ 1,946,956
LIABILITIES AND FUND BALANCES			
Accounts payable:			
Vendors	$ 817,936	$ 162,015	$ 979,951
Other governmental funds	107,893	377,141	485,034
Accrued expenses	-	1,333	1,333
Unearned revenues	-	54,833	54,833
TOTAL LIABILITIES	925,829	595,322	1,521,151
Fund balances:			
Spendable			
Restricted	359,884	65,921	425,805
TOTAL FUND BALANCES	359,884	65,921	425,805
TOTAL LIABILITIES AND FUND BALANCES	$ 1,285,713	$ 661,243	$ 1,946,956

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2018

	Capital Projects	Food Services	Total Nonmajor Governmental Funds
REVENUES			
County funds	$ 4,974,506	$ -	$ 4,974,506
State of Maryland funds	1,031,535	53,212	1,084,747
Federal sources	-	1,284,568	1,284,568
Other sources	1,926	555	2,481
Charges for food services	-	1,125,911	1,125,911
TOTAL REVENUES	6,007,967	2,464,246	8,472,213
EXPENDITURES			
Food service	-	2,438,857	2,438,857
Capital outlay	6,557,666	-	6,557,666
TOTAL EXPENDITURES	6,557,666	2,438,857	8,996,523
CHANGE IN FUND BALANCES	(549,699)	25,389	(524,310)
FUND BALANCES, JULY 1, 2017	909,583	40,532	950,115
FUND BALANCES, JUNE 30, 2018	$ 359,884	$ 65,921	$ 425,805

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHOOL CONSTRUCTION EXPENDITURES

Year Ended June 30, 2018

Aging Schools program	$ 44,744
General Improvements	551,654
Grasonville Elementary School - addition	3,777,253
Grasonville Elementary School - fire	72,324
Relocatable classrooms	22,178
School bus	32,695
Security upgrades	144,246
Stevensville Middle School - renovation	(1,736)
Sudlersville Elementary School - doors	7,746
Sudlersville Elementary Elementary School - roof	2,375
Technology	1,261,190
Textbooks	642,997
TOTAL SCHOOL CONSTRUCTION EXPENDITURES	$ 6,557,666

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

FOOD SERVICE FUND OPERATIONS

Year Ended June 30, 2018

REVENUES	
Federal through state funds	$ 1,122,291
USDA donated commodities	162,277
State of Maryland funds	53,212
Other sources - principally sale of meals	1,126,466
TOTAL REVENUES	2,464,246
EXPENDITURES	
Salaries and wages	27,522
Contracted services	2,201,669
Equipment	15,165
Other charges	13,146
Supplies - principally USDA donated commodities	181,355
TOTAL EXPENDITURES	2,438,857
EXCESS OF EXPENDITURES OVER REVENUES	$ 25,389

BOARD OF EDUCATION OF QUEEN ANNE'S COUNTY, MARYLAND

SCHOOL ACTIVITIES FUND ACCOUNTS

Year Ended June 30, 2018

	BALANCE JULY 1, 2017	RECEIPTS	DISBURSEMENTS	BALANCE JUNE 30, 2018
ELEMENTARY				
Bayside	$ 6,628	$ 40,909	$ 37,155	$ 10,382
Centreville	6,503	70,695	48,494	28,704
Church Hill	10,419	20,902	23,476	7,845
Grasonville	8,194	51,653	52,533	7,314
Kennard	9,192	61,023	64,586	5,629
Kent Island	10,139	43,173	35,892	17,420
Matapeake	16,086	47,226	49,551	13,761
Sudlersville	5,125	23,118	19,232	9,011
TOTAL ELEMENTARY	72,286	358,699	330,919	100,066
MIDDLE				
Centreville	15,966	83,470	86,894	12,542
Matapeake	5,229	88,161	71,217	22,173
Stevensville	17,346	112,656	108,296	21,706
Sudlersville	24,547	93,571	107,124	10,994
TOTAL MIDDLE	63,088	377,858	373,531	67,415
HIGH				
Queen Anne's County	163,718	317,136	291,528	189,326
Kent Island	279,197	520,907	452,355	347,749
TOTAL HIGH	442,915	838,043	743,883	537,075
TOTAL	$ 578,289	$ 1,574,600	$ 1,448,333	$ 704,556