

**BOARD OF EDUCATION OF
CHARLES COUNTY, MARYLAND**

ANNUAL FINANCIAL REPORT

JUNE 30, 2017

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INDEPENDENT AUDITORS' REPORT

Members of the Board
Board of Education of Charles County, Maryland
La Plata, 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 Charles County, Maryland (the Board), a component unit of the County Commissioners of Charles County, Maryland, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 19, and the required supplementary information on pages 63 - 73 as listed in the table of contents, 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 other supplementary information on pages 74 - 83 as listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Members of the Board
Board of Education of Charles County, Maryland

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2017, 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 result 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.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Baltimore, Maryland
September 29, 2017

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

Members of the Board
Board of Education of Charles County, Maryland
La Plata, 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 Board of Education of Charles County, Maryland (the Board), a component unit of the County Commissioners of Charles County, Maryland, as of and for the year ended June 30, 2017, 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 29, 2017.

Internal Control over Financial Reporting

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

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

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

Members of the Board
Board of Education Charles County, Maryland

Compliance and Other Matters

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

Purpose of this Report.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Baltimore, Maryland
September 29, 2017

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

As Management of the Board of Education of Charles County (the Board) we offer readers of the Board's financial statements this discussion and analysis of the Board's financial performance during the fiscal year ended June 30, 2017. This section should be read in conjunction with the financial statements, which immediately follow this discussion.

Overview of the Financial Statements

The Board's basic financial statements consist of three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements include two kinds of statements that present different views of the Board's financial performance. The report also contains required supplementary information.

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the Board's overall financial strength.
- The next two statements are *fund financial statements* that focus on individual parts of the Board, and provide more detail on individual areas of revenues and expenditures.
- It also contains required supplementary information in addition to the basic financial statements themselves, such as a budgetary basis presentation of financial operations in the short-term for the budgetary general fund, measuring regulatory and budgetary compliance.

The financial statements also include notes that explain some of the information in the statements and, in some cases, provide even greater levels of detail.

Government-Wide Financial Statements

The Board's *Government-wide Financial Statements* provide a broad view of the Board's operations in a manner similar to a private sector business enterprise. The statements provide both short-term and long-term information about the Board's financial position, which assists in assessing the Board's economic condition at year end. They are prepared using the economic resources focus and full accrual basis of accounting. These are methods similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if the cash has not been received. The Government-wide Financial Statements include two statements:

The *Statement of Net Position* presents all of the Board's assets, liabilities, and deferred inflows/outflows of resources with the difference between the two reported as "net position." The statement combines and consolidates all of the Board's current financial resources (short-term spendable resources) with capital assets (net of accumulated depreciation) and liabilities, distinguishing between governmental and business-type activities. The end result is net position segregated into three components: net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Government-Wide Financial Statements (Continued)

The *Statement of Activities* presents information showing how the Board's net position changed during the most recent fiscal year. All changes in net position are 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 not result in cash flows until future fiscal periods (such as earned, but unused, vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Board. The majority of the Board's revenue is general revenue, grants and contributions from other governments.

The governmental activities of the Board include Administration, Mid-level Administration, Instruction, Special Education, Student Personnel Services, Student Health Services, Student Transportation, Operation of Plant, Maintenance of Plant, Community Services, and Food Services. These activities are mostly supported by county and state appropriations mandated in accordance with state law, and state and federal grants.

Typically, the Entity-wide financial statements can reflect governmental activities and business-type activities. While the Board's food service operation charges fees, the fee structure is not designed to recover costs including depreciation. Therefore, this function is included as a governmental activity and no business-type activities are presented.

Fund Financial Statements

The fund financial statements focus on major funds and on individual parts of the Board's operations. All of the funds of the Board can be divided into two categories: governmental funds and fiduciary funds, each of which use different accounting approaches and should be interpreted differently. The two categories are as follows:

Governmental Funds Financial Statements – Most of the basic services provided by the Board are accounted for in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on balances of spendable resources at the end of the fiscal year. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

The Board has four governmental funds:

General Fund includes most of the Board's basic functions and generally follows the requirements of the Maryland State Department of Education.

Restricted Programs Fund consists of individual funds for state, local, and federal grants restricted for specific purposes.

Food Service Fund captures the financial activities of the cafeteria operations.

Capital Projects Fund, tracks larger construction projects. This fund reports revenue and expenditures on a yearly basis. It should be noted that due to the long-term nature of most projects, the budgetary basis of this fund crosses fiscal years.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

Fund Financial Statements (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and governmental funds in reconciliations found on pages 23 and 25.

Fiduciary Fund Financial Statements – The fiduciary funds are used to account for resources held for the benefit of parties outside the Board. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Board's own programs. Accordingly, there is no analysis of the Board's fiduciary funds included in this Management's Discussion and Analysis. The accounting used for fiduciary funds is the accrual basis of accounting.

The Board's fiduciary funds include the Agency Fund and *Other Post-Employment Benefits (OPEB)* Plan Trust. The Agency fund reflects liabilities due to student groups that are earmarked for specific student groups at individual schools. The OPEB Plan Trust accumulates resources for post-employment health benefits.

Budget and Actual Financial Statements

A Schedule of Revenues and Expenditures– Budget and Actual – Non-GAAP Budgetary Basis is presented for the General Fund, which has a legally adopted annual budget. This statement shows both original and final adopted budgets, along with actual revenues and expenditures compared to the final budget. In these statements, open encumbrances are treated as expenditures. The Schedule of Revenues and Expenditures– Budget and Actual – Non-GAAP Budgetary Basis can be found immediately following the basic governmental fund financial statements on page 72.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Financial Analysis of the Board as A Whole (Government-Wide)

The Board implemented GASB Statement No. 74, Financial Reporting for Post-Employment Benefit Plans other than Pension Plans. GASB 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governments OPEB plans for making decisions and assessing accountability. Our auditors' opinion was not modified with respect to this implementation.

The Board's combined Net Position as of June 30, 2017 totaled \$138.8 million, a decrease of \$15.9 million or 10.3%.

Condensed Statement of Net Position (in millions of dollars)

	Governmental Activities		Total Percent
	2016	2017	Change 2016-2017
Assets			
Current and other assets	\$ 71.0	\$ 68.9	(3.0)%
Capital assets	321.4	323.9	0.8%
Total assets	<u>\$ 392.4</u>	<u>\$ 392.8</u>	0.1%
Deferred Outflows of Resources	<u>9.9</u>	<u>4.1</u>	(58.6)%
Liabilities			
Long-term liabilities	\$ 202.2	\$ 211.4	4.5%
Other liabilities	41.9	40.4	(3.6)%
Total liabilities	<u>\$ 244.1</u>	<u>\$ 251.8</u>	3.2%
Deferred Inflows of Resources	<u>3.5</u>	<u>6.2</u>	77.1%
Net Position			
Investment in capital assets	\$ 318.1	\$ 322.4	1.4%
Restricted	\$ 1.5	\$ 0.6	(60.0)%
Unrestricted	<u>(164.9)</u>	<u>(184.2)</u>	11.7%
Total net position	<u>\$ 154.7</u>	<u>\$ 138.8</u>	(10.3)%

The major portion of the Board's net position reflects the investment in capital assets (land, land improvements, buildings, equipment and construction), \$322.4 million. These assets include school buildings, relocatable classrooms, land for athletic fields, playgrounds, and equipment in the school classrooms and other buildings.

Changes In Net Position: The Board's Net Position decreased by \$15.9 million in 2017 as opposed to a decrease of \$21.5 million in 2016.

- The Board's government-wide activities had an unrestricted net position of (\$184.2) million at June 30, 2017, a decrease of \$19.3 million. This is the result of an increase in the other postemployment benefits liability in fiscal year 2017 of \$18.0 million. At the end of the fiscal year, the Board's other postemployment benefits liability totaled \$197.5 million.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

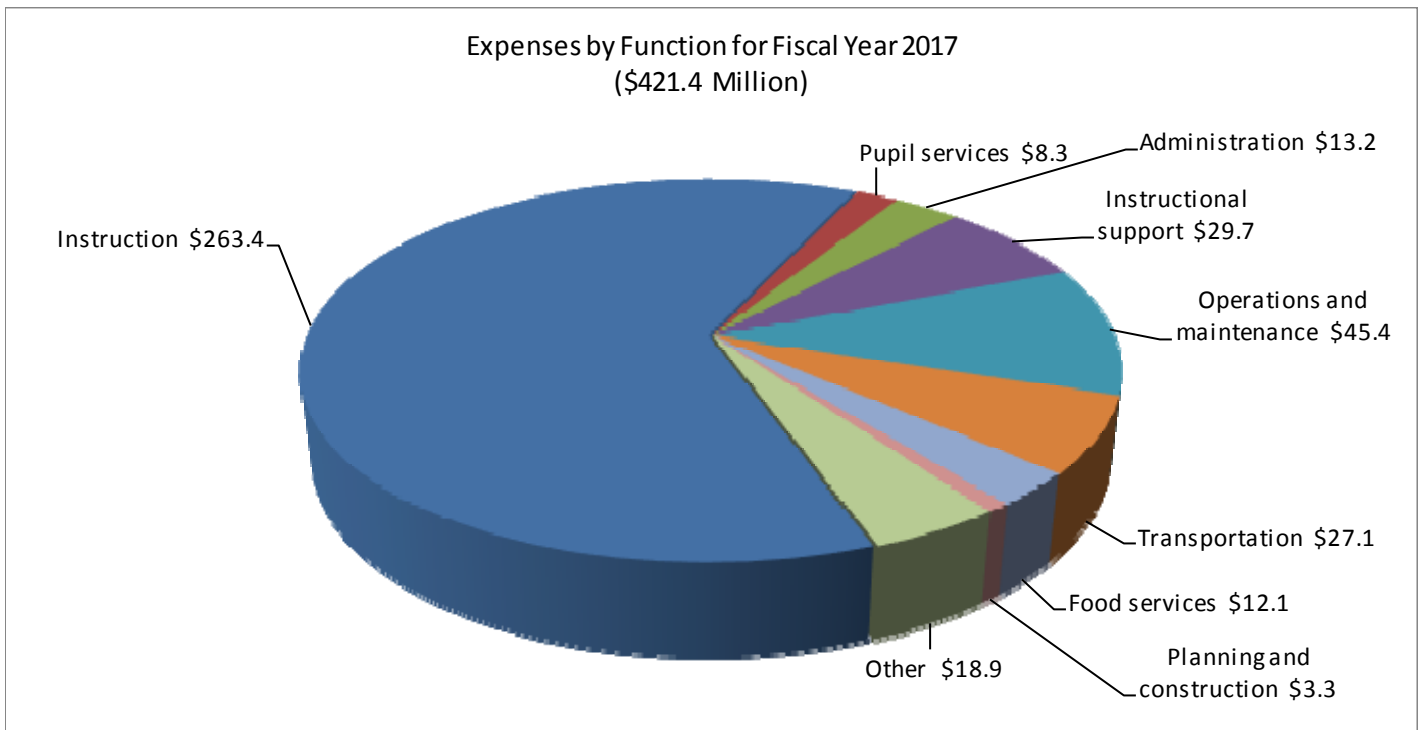
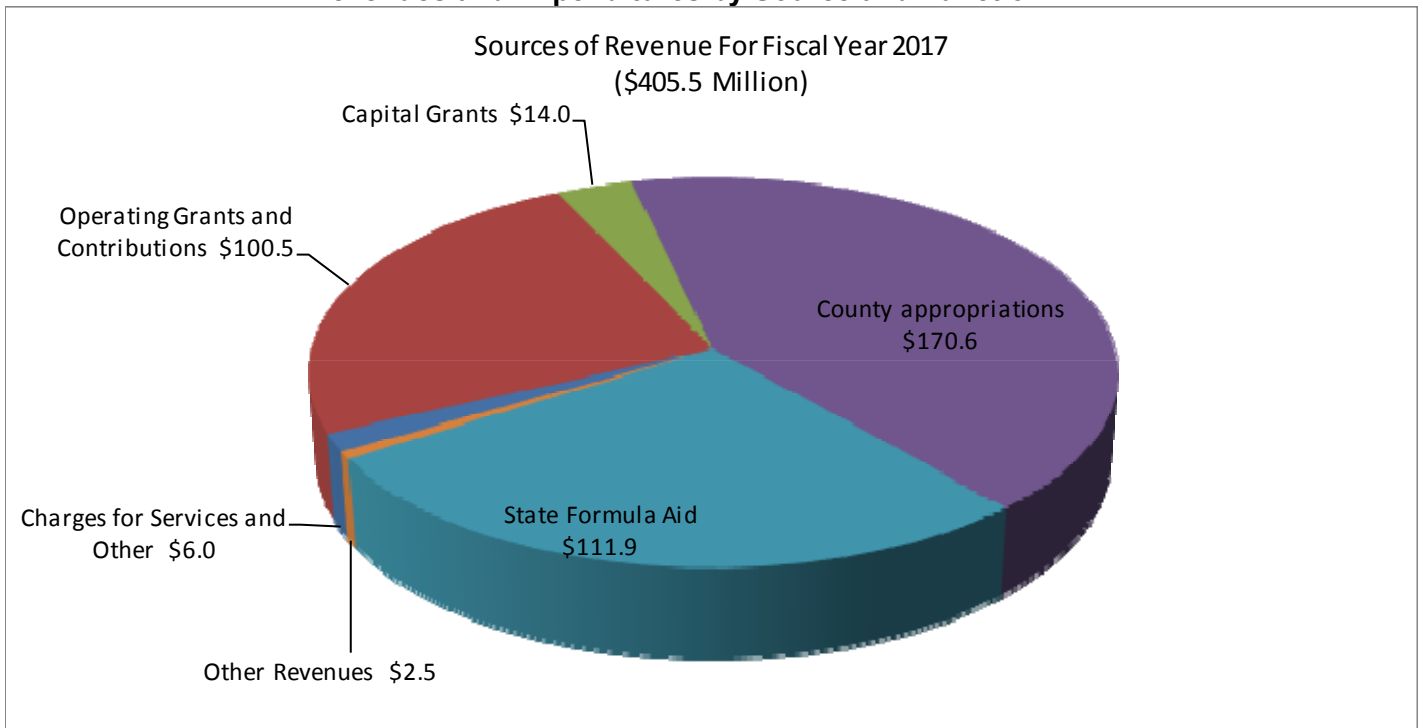
- The Board's revenues of \$405.5 million increased \$13.8 million 3.5% over last year. The overall increase of \$13.8 million is due to increases in County Appropriations (\$4.5 million), Operating Grants and Contributions (\$3.9 million) due to increases in State Compensatory Aid of \$2.0 million, Transportation Aid of \$.5 million, and School Lunch Services of \$.4 million and Special Education of \$.6 million. State Formula Aid (\$2.9 million) increased due to State Foundation increase of \$1.1 million, and an increase of \$1.8 million in Geographic Cost of Education Index (GCEI). Other revenues increased by \$2.2 million because of \$2.1 million insurance proceeds received for the Lifelong Learning Center fire.
- Expenses totaled \$421.4 million or \$8.2 million more than fiscal year 2016. The largest increase in expenditures in the Instructional category increased by \$2.3 million due to increases in Salaries & Wages (and associated fixed costs) in K-12, Pre-K, Fine Arts, Co-Curricular, ESOL, and Counseling Services. Transportation expenses increased (\$2.2 million) due to the bus contracts to fund replacement buses, maintenance, and the costs associated with additional bus routes.. Planning & Construction experienced an increase in spending of \$1.6 million attributable to construction of the Transition School.

Changes in Net Position (in millions of dollars)

	Governmental Activities		Change	% Change
	2016	2017		
Revenues				
Program revenues				
Charges for services	\$ 5.8	\$ 6.0	\$ 0.2	3.4%
Operating grants and contributions	96.6	100.5	3.9	4.0%
Capital grants and contributions	13.9	14.0	0.1	0.7%
General revenues				
County appropriations	166.1	170.6	4.5	2.7%
State formula aid	109.0	111.9	2.9	2.7%
Other	0.3	2.5	2.2	733.3%
Total revenues	<u>391.7</u>	<u>405.5</u>	<u>13.8</u>	<u>3.5%</u>
Expenses				
Instruction	261.1	263.4	2.3	0.9%
Support services				
Pupil services	8.2	8.3	0.1	1.2%
Administration	12.7	13.2	0.5	3.9%
Instructional support	28.5	29.7	1.2	4.2%
Operations and maintenance	46.7	45.4	(1.3)	(2.8)%
Transportation	24.9	27.1	2.2	8.8%
Food services	11.1	12.1	1.0	9.0%
Planning and construction	1.7	3.3	1.6	94.1%
Other	18.3	18.9	0.6	3.3%
Total expenditures	<u>413.2</u>	<u>421.4</u>	<u>8.2</u>	<u>1.9%</u>
(Decrease)/Increase in net position	<u>\$ (21.5)</u>	<u>\$ (15.9)</u>	<u>\$ (5.6)</u>	<u>26.0%</u>

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Revenues and Expenditures by Source and Function



**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Governmental Activities

The county appropriation for the operating budget in fiscal year 2017 was \$170.6 million or \$4.5 million more than in fiscal year 2016. Total cost of services increased 1.9% from 2016. Also, the net cost of services increased by \$3.9 million or 1.3%, in fiscal year 2016 the net cost increased by \$6.7 million or 2.3%.

Net Cost of Governmental Activities: The cost of the nine major Board activities (schedule shown below): Instruction, Instructional Support, Pupil Services, Administration, Transportation, Operation and Maintenance, Food Services, Planning and Construction and Other (Community Services, and unallocated depreciation) are reflected in the table below. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the impact on the Board by each of the activities. General revenues, including county appropriations and state aid, must support the net cost of the Board's activities.

Net Cost of Government Activities (in millions of dollars)

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2016	2017	Change	2016	2017	Change
			2016-2017			2016-2017
Instruction	\$ 261.1	\$ 263.4	0.9%	\$ 186.3	\$ 184.2	(1.1)%
Pupil services	8.2	8.3	1.2%	7.6	8.3	9.2%
Administration	12.7	13.2	3.9%	12.3	12.8	4.1%
Instructional support	28.5	29.7	4.2%	28.0	29.0	3.6%
Operations and maintenance	46.7	45.4	(2.8)%	46.1	45.3	(1.7)%
Transportation	24.9	27.1	8.8%	14.2	15.9	12.0%
Food services	11.1	12.1	(9.0)%	(2.2)	(1.5)	(31.8)%
Planning and construction	1.7	3.3	94.1%	(12.5)	(10.7)	(14.4)%
Other	18.3	18.9	3.3%	17.2	17.6	2.3%
Total	\$ 413.2	\$ 421.4	2.0%	\$ 297.0	\$ 300.9	1.3%

**Financial Highlights
Financial Analysis of the Board's Funds**

The general fund is the operating fund for the Board. On a GAAP basis the Board ended the fiscal year with a general fund balance of \$26.0 million. The fund balance consists of amounts assigned for purchase order encumbrances and subsequent year's expenditures.

The total governmental funds consist of the General, Restricted Programs (restricted by purpose and source of funds), Food Service, and Capital Projects. Capital Projects receive their funding on a reimbursement basis and the negative fund balance is due to the timing of the reimbursement. The Board reported a total governmental funds balance of \$29.7 million as compared to last year's combined ending balance of \$30.5 million or \$0.8 million less than last year.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Changes in Fund Balance - Governmental Funds - GAAP Basis

	General Fund	Restricted Programs Fund	Food Services Fund	Capital Projects	Total Governmental Funds
REVENUES					
State of Maryland	\$ 188,578,860	\$ 1,441,307	\$ 419,579	\$ 4,296,437	\$194,736,183
Federal government	778,873	12,201,202	7,533,902	-	20,513,977
Other sources	1,433,812	2,907,966	5,304,160	104	9,646,042
Local sources	170,604,500	300,740	-	9,703,015	180,608,255
Total revenues	<u>361,396,045</u>	<u>16,851,215</u>	<u>13,257,641</u>	<u>13,999,556</u>	<u>405,504,457</u>
EXPENDITURES					
Current:					
Administration	9,331,153	247,644	-	-	9,578,797
Mid-level administration	22,750,404	532,769	-	-	23,283,173
Instruction:					
Instructional salaries	127,074,969	3,560,673	-	-	130,635,642
Materials of instruction	4,762,266	1,251,855	-	-	6,014,121
Other costs of instruction	1,633,696	703,929	-	-	2,337,625
Special Education	33,250,677	4,425,970	-	-	37,676,647
Student personnel services	3,537,593	598,688	-	-	4,136,281
Health service	3,053,530	-	-	-	3,053,530
Transportation	26,069,439	438,434	-	-	26,507,873
Operations	25,003,989	727,342	-	-	25,731,331
Maintenance	7,598,929	49,560	-	-	7,648,489
Food service	-	16,100	11,769,208	-	11,785,308
Community Service	897,107	1,067,121	-	-	1,964,228
Fixed Charges	90,424,180	2,476,256	1,484,429	-	94,385,465
Capital outlay	5,859,011	1,686,983	-	13,999,452	21,545,446
Total expenditures	<u>361,246,943</u>	<u>17,783,324</u>	<u>13,253,637</u>	<u>13,999,452</u>	<u>406,283,956</u>
Excess (deficiency) of revenue over expenditures	149,102	(932,109)	4,004	104	(779,499)
FUND BALANCES, BEGINNING OF YEAR					
	<u>25,811,294</u>	<u>1,505,562</u>	<u>3,308,802</u>	<u>(156,121)</u>	<u>30,469,537</u>
FUND BALANCES, END OF YEAR					
	<u>\$ 25,960,396</u>	<u>\$ 573,453</u>	<u>\$ 3,312,806</u>	<u>\$ (156,017)</u>	<u>\$ 29,690,038</u>

Excess of revenues over expenditures resulted in increases or (decreases) in fund balances. Further analysis and explanation of Fund Balance classifications can be found in Note 15.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

General Fund Budgetary Highlights – Non-GAAP

The Board's final budget for General Fund requires total revenues to be equal to total expenditures.

Over the course of the year, the Board may revise the annual operating budget. These budget amendments fall into three categories:

- Intra-category transfers to align budgets within the expenditure category. These changes require county government notification and are generally done as needed throughout the year.
- Inter-category transfers to fund categories over budget. According to state law, no expenditure category can exceed approved budget amounts. Inter-category budget transfers require Board and county government approval, and are generally done once a year.
- Revenue budget changes require approval; when they provide a source of funding for expenditure categories, or a transfer from fund balance.

Budget Adjustments

Included in the budget for 2017 was an appropriation for the use of fund balance in the amount of \$5,201,086. Final results for the year was an excess of revenues over expenditures in the amount of \$1,879,981 on a Non-GAAP budgetary basis.

REVENUES

Total revenues were \$0.02 million less than the anticipated budgetary levels primarily due to Federal Impact Aid revenues not meeting budget. Actual revenues from the State of Maryland were more than budget due to reimbursements for special education students attending Non-Public institutions as well as reimbursements for "non-domiciled students". The total budgetary deficit in Federal revenues is related to Impact Aid revenues not reaching budgetary levels. Local revenues exceeded budgetary levels due to Interest Income and Facility Rental revenues.

EXPENDITURES

All revenue shortfalls were offset by total planned expenditure savings of \$1.9 million from unfilled positions, turnover (including associated employee benefits) and contracted services throughout the Board.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Fund Balance- Unassigned

At the Board's direction, the use of unassigned fund balance has been used to fund major projects for technology and deferred maintenance. Consequently, the unassigned fund balance changed for the General Fund as follows:

	<u>2016</u>	<u>2017</u>	<u>Change</u>
Health insurance reserve (self-insurance 7.5% of claims)	\$ 3,597,669	\$ 3,867,474	\$ 269,805
Contingency reserve (1% of annual operating budget)	3,327,764	3,442,174	114,410
Capital maintenance/ technology reserve	<u>3,248,146</u>	<u>5,793,758</u>	<u>2,545,612</u>
Total unassigned fund balance at June 30	<u>\$ 10,173,579</u>	<u>\$ 13,103,406</u>	<u>\$ 2,929,827</u>

Food Service Budget to Actual – Non-GAAP

Budget and actual – Non-GAAP Budgetary Basis statement can be found in the Other Supplementary Information section towards the end of this report.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

General Fund Budget and Actual - Non-GAAP Budgetary Basis

	2017			Variances Positive (Negative)	2016
	Original Budget	As amended Budget	Actual		Actual
REVENUES					
State of Maryland	\$ 166,022,734	\$ 166,022,734	\$ 166,182,317	\$ 159,583	\$ 160,311,004
Federal government	970,000	970,000	778,873	(191,127)	895,010
Other sources	1,419,080	1,419,080	1,433,812	14,732	1,223,548
Local sources	170,604,500	170,604,500	170,604,500	-	166,121,100
Total revenues	<u>339,016,314</u>	<u>339,016,314</u>	<u>338,999,502</u>	<u>(16,812)</u>	<u>328,550,662</u>
EXPENDITURES					
Administration	9,646,454	9,646,454	9,505,307	141,147	8,959,608
Mid-level administration	23,085,720	23,085,720	22,626,642	459,078	21,719,852
Instructional salaries	129,665,567	128,565,567	127,074,969	1,490,598	125,664,711
Materials of instruction	4,313,385	4,713,385	4,429,064	284,321	4,872,165
Other costs of instruction	2,580,219	2,180,219	1,633,696	546,523	1,889,021
Special education	32,165,070	33,265,070	33,177,567	87,503	30,936,875
Student personnel services	3,658,578	3,658,578	3,538,925	119,653	4,137,153
Health service	3,309,000	3,309,000	2,958,858	350,142	3,134,974
Transportation	25,980,749	25,980,749	25,920,895	59,854	24,410,753
Operations	25,377,158	25,377,158	25,248,369	128,789	24,224,606
Maintenance	8,289,352	8,089,352	8,012,454	76,898	8,683,437
Community service	916,687	916,687	866,428	50,259	953,489
Capital outlay	3,999,877	4,199,877	4,098,110	101,767	6,548,582
Fixed charges	71,229,584	71,229,584	68,028,237	3,201,347	66,641,322
Total expenditures	<u>344,217,400</u>	<u>344,217,400</u>	<u>337,119,521</u>	<u>7,097,879</u>	<u>332,776,548</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
	<u>(5,201,086)</u>	<u>(5,201,086)</u>	<u>1,879,981</u>	<u>7,081,067</u>	<u>(4,225,886)</u>
OTHER FINANCING SOURCES					
Use of prior year fund balance	5,201,086	5,201,086	-	(5,201,086)	4,225,886
Total other financing sources	<u>5,201,086</u>	<u>5,201,086</u>	<u>-</u>	<u>(5,201,086)</u>	<u>4,225,886</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES					
	<u>\$ -</u>	<u>\$ -</u>	<u>1,879,981</u>	<u>\$ 1,879,981</u>	<u>\$ -</u>
Use of budgetary fund balance			-		
FUND BALANCE AT JUNE 30, 2016			<u>15,549,367</u>		
FUND BALANCE AT JUNE 30, 2017			<u>\$ 17,429,348</u>		

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Capital Asset and Long-Term Debt

Capital Assets

During the year, the Board completed several building projects. The projects were:

	<u>Cost (in millions)</u>
Additions to building (ventilators, underground fuel tank, storefront entry, security upgrades, restroom modification, PA system replacement, portable improvements, shed, walk-in refrigerator replacement, HVAC modifications and replacements, lighting upgrades, additional construction costs and building alterations).	\$ 3.6
Boiler/ Roof Replacements	\$ 4.5
Full Day Kindergarten Renovation	\$ 6.6
Transition School (kitchen addition, site utilities, bathroom remodel & gym column wraps)	1.3
Total	\$ 16.0

During fiscal year 2017, capital assets increased \$ 2.5 million, which was an increase of 0.78% from fiscal year 2016. Some of the changes were as follows:

- Land improvements increased due to asphalt replacement, artificial turf replacement, playground improvements, and fencing.
- Construction in progress consists primarily of lighting projects (\$810,000), Full Day Kindergarten Projects (\$675,000), Billingsley Elementary school (\$2,637,000), Mudd Renovation (\$1,267,000), Thomas Stone High school parking and site improvements (\$675,000), and Relocatable Classrooms (\$1,356,000).
- Equipment and furniture increased due to the purchase of vehicles, buses, and computer equipment (servers, Smart panels, and switches).

Capital Assets (in millions of dollars)

	Governmental Activities		Change
	2016	2017	2016-2017
Land	\$ 17.8	\$ 17.8	\$ -
Construction in progress	7.4	7.6	0.2
Land improvements	14.6	17.1	2.5
Buildings	538.3	554.0	15.7
Equipment and furniture	31.6	32.4	0.8
Accumulated depreciation	(288.3)	(305.0)	(16.7)
Total	\$ 321.4	\$ 323.9	\$ 2.5

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Capital Assets (Continued)

Over the next five years, the Board anticipates opening a new elementary school, completing four full day kindergarten additions, an open space enclosure project, site improvements for two elementary schools, renovations and additions at Dr. Mudd Elementary, Eva Turner Elementary and Benjamin Stoddert Middle, and safety/security upgrades and improvements at McDonough High, La Plata High and T.C. Martin Elementary.

The Board's fiscal year 2018 capital improvement program budget includes spending another \$52.7 million for capital projects, as follows:

- \$7 million for full day kindergarten additions at Berry and Craik Elementary.
- \$1.3 million for site improvements and asphalt replacement.
- \$.9 million for various maintenance projects, portable classrooms, and playground replacement.
- \$16.5 million for Billingsley Elementary school.
- \$18.1 million for Dr. Mudd Elementary renovation.
- \$5.9 million for Renovation and Moderation Studies.
- \$3.0 million for land for the new elementary site.

Long-Term Debt

At year-end, the Board had \$212.5 million in long-term liabilities. Compensated absences including accumulated vacation and sick leave for the Board's employees available upon termination accounted for \$8.3 million. The Board also has an obligation of \$197.5 million for post-employment benefits other than pensions (OPEB). The Technology loan 2 accounted of \$1.1 million of the debt. The Board has an obligation of \$5.6 million for its pension liability. More detailed information about the Board's long-term liabilities is presented in Note 10 of the financial statements.

Factors Expected To Have an Effect on Future Operations

Enrollment in the county has slightly increased after a four-year period of declining enrollments and will most likely lead to future increases in State funding. Free and reduced student population has been increasing that provides some financial relief in the form of an increase in State Compensatory Education funding. The system remains two steps behind in employee salary scale progression, and our ability to fund three steps in any given year is extremely problematic. Funding other post-retirement benefits (OPEB) in accordance with GASB 75 remains a concern, but a low budget priority. The tradeoff between funding OPEB or staff salaries in the future will be complicated and a part of union negotiations. Healthcare costs are expected to increase due to the Affordable Care Act. The national teacher shortage has resulted in a very competitive market both in terms of salary and affordable housing.

Additional funds will be needed to fund operating costs for the new Billingsley Elementary School, scheduled to open in the Fall of 2019. Future initiatives to replace older mainframe software for student information, human resources, and payroll systems will be extremely expensive. While fund balance has been used to fund many maintenance projects, a major backlog of projects still exists.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017**

Charles County Public Schools continues to do an excellent job managing and allocating resources. Careful forecasting and management of funds produced no budget deficits or over expenditures in any category. At Board direction, the fund balance will be used over time to support the general fund and capital maintenance projects. Moving forward, there needs to be a concerted effort by management to reduce the reliance on fund balance reserves to pay for recurring costs in the operating budget. The general expectation is that new enrollments along with a more robust economic recovery will bring additional funding for education in the future.

Contacting the Board's Financial Management

This financial report is designed to provide the Board's citizens, taxpayers, customers, investors and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Assistant Superintendent of Fiscal Services, Charles County Public Schools, and P.O. Box 2770, La Plata, Maryland 20646.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 63,134,968
Accounts receivable	
Federal	2,297,703
State of Maryland	997,880
Other sources	2,148,331
Inventories	323,006
Capital assets	
Land and construction in progress	25,359,939
Other capital assets, net of depreciation	<u>298,510,083</u>
Total Assets	<u>392,771,910</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Changes in pension plan assumptions	1,553,651
Difference between projected and actual earnings on pension plan investments	<u>2,522,463</u>
Total deferred outflows of resources	<u>4,076,114</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 396,848,024</u>
 LIABILITIES	
Accounts payable	\$ 7,469,841
Accrued salaries and fringe benefits	25,451,627
Payroll taxes and withholding payable	52,536
Other liabilities	136,332
Payable for health insurance	2,270,000
Unearned revenue	3,831,514
Noncurrent liabilities:	
Due within one year	1,172,445
Due in more than one year	<u>211,358,767</u>
Total Liabilities	<u>251,743,062</u>
 DEFERRED INFLOWS OF RESOURCES	
Differences between expected and actual experience	4,955,789
Changes in pension plan assumptions	<u>1,282,091</u>
Total deferred inflows of resources	<u>6,237,880</u>
 TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	 <u>257,980,942</u>
 NET POSITION	
Net investment in capital assets	322,448,567
Restricted for:	
Grants	573,453
Unrestricted	<u>(184,154,938)</u>
Total Net Position	<u>\$ 138,867,082</u>

See accompanying Notes to Financial Statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

	Program Revenues			Net Revenue (Expenses) and Changes in Net Position	
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
GOVERNMENTAL ACTIVITIES					
INSTRUCTION					
Regular education	\$ 216,079,587	\$ 579,353	\$ 63,227,504	\$ -	\$ (152,272,730)
Special Education	47,352,684	141,177	15,281,204	-	(31,930,303)
Total instruction	<u>263,432,271</u>	<u>720,530</u>	<u>78,508,708</u>	<u>-</u>	<u>(184,203,033)</u>
SUPPORT SERVICES					
Pupil services	8,296,671	-	-	-	(8,296,671)
Administration	13,184,168	-	392,114	-	(12,792,054)
Instructional support	29,703,580	-	697,255	-	(29,006,325)
Operation and maintenance	45,415,677	67,779	64,812	-	(45,283,086)
Transportation	27,079,553	-	11,187,027	-	(15,892,526)
Community services	3,684,341	250,389	983,272	-	(2,450,680)
School lunch services	12,096,538	4,928,988	8,646,294	-	1,478,744
Planning and construction	3,261,836	-	4,111	13,999,452	10,741,727
Unallocated depreciation expense	15,195,638	-	-	-	(15,195,638)
Total support services	<u>157,918,003</u>	<u>5,247,156</u>	<u>21,974,885</u>	<u>13,999,452</u>	<u>(116,696,510)</u>
Total Governmental Activities	<u>\$ 421,350,274</u>	<u>\$ 5,967,686</u>	<u>\$ 100,483,593</u>	<u>\$ 13,999,452</u>	<u>(300,899,543)</u>
GENERAL REVENUES					
County appropriations					170,604,500
State aid not restricted to specific purposes					111,938,279
Earnings on investment					181,633
Miscellaneous					<u>2,329,314</u>
					<u>285,053,726</u>
CHANGE IN NET POSITION					<u>(15,845,817)</u>
NET POSITION, BEGINNING OF YEAR					<u>154,712,899</u>
NET POSITION, END OF YEAR					<u>\$ 138,867,082</u>

See accompanying Notes to Financial Statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Restricted Programs Fund	Food Service Fund	Capital Projects	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 59,995,641	\$ -	\$ 3,118,061	\$ 21,266	\$ 63,134,968
Accounts receivable:					
Federal	61,616	1,530,733	226,364	478,990	2,297,703
State of Maryland	757,186	235,496	5,198	-	997,880
Other sources	1,087,353	105,935	52,250	902,793	2,148,331
Due from other funds	-	3,454,961	749,056	-	4,204,017
Inventories	122,218	-	200,788	-	323,006
Total Assets	<u>\$ 62,024,014</u>	<u>\$ 5,327,125</u>	<u>\$ 4,351,717</u>	<u>\$ 1,403,049</u>	<u>\$ 73,105,905</u>
LIABILITIES					
Accounts payable	\$ 6,922,941	\$ 208,880	\$ 65,481	\$ 272,539	\$ 7,469,841
Accrued salaries and fringe benefits	23,774,532	873,782	803,313	-	25,451,627
Payroll taxes and withholding payable	52,536	-	-	-	52,536
Due to other governments	-	112,663	-	-	112,663
Due to other funds	2,917,490	-	-	1,286,527	4,204,017
Due to fiduciary funds	23,669	-	-	-	23,669
Payable for health insurance	2,270,000	-	-	-	2,270,000
Unearned revenue	103,050	3,558,347	170,117	-	3,831,514
Total liabilities	<u>36,064,218</u>	<u>4,753,672</u>	<u>1,038,911</u>	<u>1,559,066</u>	<u>43,415,867</u>
FUND BALANCE (DEFICIT)					
Nonspendable - inventory	122,218	-	200,788	-	323,006
Restricted	-	573,453	-	-	573,453
Assigned	12,734,172	-	3,112,018	-	15,846,190
Unassigned	13,103,406	-	-	(156,017)	12,947,389
Total fund balance (deficit)	<u>25,959,796</u>	<u>573,453</u>	<u>3,312,806</u>	<u>(156,017)</u>	<u>29,690,038</u>
TOTAL LIABILITIES AND FUND BALANCE					
	<u>\$ 62,024,014</u>	<u>\$ 5,327,125</u>	<u>\$ 4,351,717</u>	<u>\$ 1,403,049</u>	<u>\$ 73,105,905</u>

See accompanying Notes to Financial Statements.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balances - Governmental Funds		\$ 29,690,038
 Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported assets in governmental funds:		
The cost of capital assets	628,866,048	
Accumulated depreciation	<u>(304,996,026)</u>	
		323,870,022
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds. Deferred outflows and inflows at year-end consisted of:		
Deferred outflows of resources related to pensions includes		
\$1,553,651 related to changes in pension plan assumptions, and \$2,522,463 related to difference between projected and actual earnings on pension plan investments	4,076,114	
Deferred inflows of resources related to pensions includes		
\$4,955,789 related to differences between expected and actual experiences, and \$1,282,091 related to changes in pension plan assumptions	<u>(6,237,880)</u>	
		(2,161,766)
Long-term liabilities, including notes payable, net other postemployment obligations and compensated absences, are not due and payable in the current period, and therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consisted of:		
Net Pension Liability	(5,552,246)	
Net OPEB obligation	(197,524,993)	
Note payable	(1,148,916)	
Compensated absences	<u>(8,305,057)</u>	
		<u>(212,531,212)</u>
Total Net Position - Governmental Activities		\$ <u><u>138,867,082</u></u>

See accompanying Notes to Financial Statements.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	General Fund	Restricted Programs Fund	Food Service Fund	Capital Projects	Total Governmental Funds
REVENUES					
State of Maryland	\$ 188,578,860	\$ 1,441,307	\$ 419,579	\$ 4,296,437	\$194,736,183
Federal government	778,873	12,201,202	7,533,902	-	20,513,977
Other sources	1,433,812	2,907,966	5,304,160	104	9,646,042
Local sources	<u>170,604,500</u>	<u>300,740</u>	<u>-</u>	<u>9,703,015</u>	<u>180,608,255</u>
Total revenues	<u>361,396,045</u>	<u>16,851,215</u>	<u>13,257,641</u>	<u>13,999,556</u>	<u>405,504,457</u>
EXPENDITURES					
Current:					
Administration	9,331,153	247,644	-	-	9,578,797
Mid-level administration	22,750,404	532,769	-	-	23,283,173
Instruction:					
Instructional salaries	127,074,969	3,560,673	-	-	130,635,642
Materials of instruction	4,762,266	1,251,855	-	-	6,014,121
Other costs of instruction	1,633,696	703,929	-	-	2,337,625
Special Education	33,250,677	4,425,970	-	-	37,676,647
Student personnel services	3,537,593	598,688	-	-	4,136,281
Health service	3,053,530	-	-	-	3,053,530
Transportation	26,069,439	438,434	-	-	26,507,873
Operations	25,003,989	727,342	-	-	25,731,331
Maintenance	7,598,929	49,560	-	-	7,648,489
Food service	-	16,100	11,769,208	-	11,785,308
Community Service	897,107	1,067,121	-	-	1,964,228
Fixed Charges	90,424,780	2,476,256	1,484,429	-	94,385,465
Capital outlay	<u>5,859,011</u>	<u>1,686,983</u>	<u>-</u>	<u>13,999,452</u>	<u>21,545,446</u>
Total expenditures	<u>361,247,543</u>	<u>17,783,324</u>	<u>13,253,637</u>	<u>13,999,452</u>	<u>406,283,956</u>
Excess (deficiency) of revenues					
Over expenditures	148,502	(932,109)	4,004	104	(779,499)
FUND BALANCES,					
BEGINNING OF YEAR	<u>25,811,294</u>	<u>1,505,562</u>	<u>3,308,802</u>	<u>(156,121)</u>	<u>30,469,537</u>
FUND BALANCES, END OF YEAR	<u>\$ 25,959,796</u>	<u>\$ 573,453</u>	<u>\$ 3,312,806</u>	<u>\$ (156,017)</u>	<u>\$ 29,690,038</u>

See accompanying Notes to Financial Statements.

**BOARD OF EDUCATION OF CHARLES 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, 2017**

Total Net Change in Fund Balances - Governmental Funds	\$ (779,499)
 Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.	
Assets capitalized during the year	20,599,951
Depreciation expense for the year	(17,988,976)
Net book value of assets disposed of during the year.	(112,727)
	2,498,248
Governmental funds report Board pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employer contributions is reported as pension expense.	
	(217,682)
OPEB costs reported in the Statement of Activities do not require the use of current financial resources and, are not reported as expenditures in governmental funds.	
	(18,012,077)
The issuance of long-term debt (e.g. notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources to governmental funds. Neither transaction however has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt.	
	574,457
In the Statement of Activities, certain operating expenses, such as compensated absences, are measured by the amounts accrued during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources expended.	
	90,736
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (15,845,817)

See accompanying Notes to Financial Statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	<u>Pension and Retiree Health Trust Funds</u>	<u>Agency Fund</u>
ASSETS		
Cash and cash equivalents	\$ 7,631,259	\$ 2,679,751
Investments	140,191,750	-
Contribution receivable	2,800,000	-
Due from Board of Education	23,669	-
Total assets	<u>150,646,678</u>	<u>\$ 2,679,751</u>
LIABILITIES		
Due to student groups	-	2,679,751
Total liabilities	<u>-</u>	<u>\$ 2,679,751</u>
NET POSITION		
Held in trust for retiree health/pension benefits	<u>\$ 150,646,678</u>	

See accompanying Notes to Financial Statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2017

	<u>Pension and Retiree Health Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 17,718,561
Plan members	<u>3,288,729</u>
Total contributions	<u>21,007,290</u>
Investment earnings:	
Interest and dividends	3,243,348
Net increase in fair value of investments	<u>11,292,341</u>
Total investment earnings	14,535,689
Less investment expense	<u>229,162</u>
Net investment gain	<u>14,306,527</u>
Total additions	<u>35,313,817</u>
DEDUCTIONS	
Benefits paid to members	16,178,583
Administrative expenses	<u>29,703</u>
Total deductions	<u>16,208,286</u>
CHANGE IN NET POSITION	19,105,531
NET POSITION, BEGINNING OF YEAR	<u>131,541,147</u>
NET POSITION, END OF YEAR	<u><u>\$ 150,646,678</u></u>

See accompanying Notes to Financial Statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board of Education of Charles County, Maryland (the Board) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Board of Education of Charles County, Maryland is a component unit of the County Commissioners of Charles County, Maryland (the County). The Board's financial statements are an integral part of the financial statements of The County Commissioners of Charles County, Maryland. This conclusion has been reached based on the following criteria: (1) The County Commissioners are responsible for approving the Board's budget and establishing spending limitations; (2) The County Commissioners are responsible for levying taxes and collecting and distributing the funds to the Board; (3) The Board cannot issue bonded debt, but the County can and does issue bonds to finance Board capital projects.

All amounts appearing in the basic financial statements and the tabular presentations within the notes to the financial statements are stated in U.S. dollars.

The following is a summary of the more significant accounting policies of the Board.

Reporting Entity

The main criterion used in determining the entity for financial reporting purposes is whether the Board is financially accountable for any governmental department, agency, institution, commission, public authority, or other organization. As part of that criterion, the following factors were considered:

- Financial benefit or burden
- Appoints a voting majority of the component unit board
- Designation of management
- Ability to impose its will
- Fiscally dependent

Based on these factors, no other organizations exist that should have been included in these financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Board.

The Statement of Activities demonstrates the degree to which the direct expense of a given program is offset by program revenues. Direct *expenses* are those that are clearly identifiable with a specific program. *Program revenues* include: 1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Revenues and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as 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*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues are recognized in the year for which they are earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus, but use accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are both "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Federal and State reimbursement-type grant revenues are considered to be measurable and available as revenue when reimbursements for related eligible expenditures are collected within a year of the date the expenditure was incurred. The Board considers all non-reimbursement type revenues available if they are collectible within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for certain compensated absences and workers' compensation. Liabilities for compensated absences and workers compensation are recognized as fund liabilities and expenditures when amounts are due and payable. State aid is recorded at the time of receipt or earlier, if the "susceptible to accrual" criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Special revenue (food services) fund revenue includes the value of commodities donated by the United States Department of Agriculture which were received during the fiscal year. Expenditures include the value of commodities consumed during the fiscal year.

The Board reports the following funds:

- **General Fund** - The General Fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in another fund.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted for specific purposes. The Board has the following Special Revenue Fund: the Restricted Programs Fund which consists of individual funds for state, local, and federal grants restricted for specific purposes and the Food Service Fund.

- **Capital Projects Funds** - The Capital Improvement Program Fund and the School Construction Fund are used to account for the acquisition or construction of major capital facilities, significant repairs and maintenance, and the acquisition of equipment. These funds are considered to be sub-funds established for capital projects and are considered as one major fund for purposes of presentation in the fund financial statements.
- **Fiduciary Fund** – This represents trust and agency funds which are used to account for assets held by the Board in a trust or agency capacity. These include:
 - a. Pension Trust Fund – The Pension Trust Fund is used to account for activities of the Board's administered retirement system.
 - b. Retiree Health Trust Fund – This fund was established to record other postemployment benefits (OPEB) that the Board provides to retirees and their dependents of Charles County Public Schools.
 - c. Agency Funds – Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. As a result, Agency Funds report only assets and liabilities. This type of fund is used to account for the transactions of the student activities funds which are the direct responsibility of the principal of each respective school.

Budgets and Budgetary Accounting

The following procedures are used by the Board in establishing the budgetary data reflected in the financial statements:

1. Subsequent to March, the Board submits to Charles County Commissioners a proposed operating budget for the fiscal year starting the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The approved budget is returned to the Board by the County Commissioners prior to June 30.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

3. Legal budgetary control is employed for the General Fund only. The Capital Projects budget and the Special Revenue - Restricted Program are prepared on a project length basis and program basis, respectively, and, accordingly, annual budgetary comparisons are not presented in the financial statements. The Special Revenue – Food Service Fund budget is adopted by the Board for management purposes only, and is not subject to and under the control of the Charles County Commissioners. Accordingly, budgetary comparisons are not presented as required supplementary information, but are shown as other supplementary information.
4. Budgets are prepared and adopted on a budgetary basis which differs from GAAP due to the inclusion of encumbrances as expenditures and the usage of budget surplus as a revenue source to balance the budget.
5. The Board may transfer funds between major categories with approval by the County Commissioners. The Board has the authority to transfer funds between objects (i.e., salaries and wages, contracted services, supplies and materials) within the major categories, but must notify the County of such action. In accordance with Education Article 5-105 of the Annotated Code of Maryland, the Board may not exceed the appropriation by category without transfer and approval by the County.
6. 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 Funds, and Capital Projects Funds.

The budgeted amounts reflected in the accompanying financial statements recognized budget transfers made within budget categories during the year, all of which were properly reported and/or approved, as applicable.

Inventories

Inventories are valued at the lower of cost or market. Cost for supplies inventory is determined using the weighted average method, while cost for food service inventory is determined using the first-in, first-out method. Inventory in the General and Special Revenue Funds consists of expendable supplies held for consumption and certain school equipment not placed in service as of year-end. The cost is recorded as an expenditure item at the time the individual inventory items are used rather than when purchased (consumption method). In the fund financial statements, these inventories are classified as non-spendable which indicates that they do not constitute available expendable resources.

Due To/From Other Funds

Interfund balances result from transactions that constitute reimbursements to a fund, typically the General Fund, for expenditures initially made from it that are applicable to another fund. These amounts are eliminated in the Government Wide Statement of Net Position.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absence

Employees earn annual leave at the rate of 16 - 25 days per year, depending upon the length of service and the position held by the employee. There is no requirement that annual leave be taken, but the maximum permissible accumulation is 76 days. Upon retirement, classified employees are paid for any accumulated annual leave not to exceed 50 days at the employee's current wage rate. Upon termination for any reason other than retirement, classified employees are paid for any accumulated annual leave not to exceed 30 days at the employee's current wage rate. Upon termination, professional employees, other than ten and eleven month employees such as teachers, librarians, counselors, and speech therapists, are paid for all accrued, but unused annual leave.

Employees earn sick leave at the rate of one day per month of employment, for ten and eleven month professional employees. There is no limit on the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave unless they retire with 10 years of service in Charles County. The rate of sick leave reimbursement is a maximum of \$100 per day, for no more than 100 days of sick leave for certificated and \$100 per day, for no more than 100 days of sick leave for noncertificated employees.

The entire compensated absence liability is reported on the government-wide financial statements. For the governmental fund financial statements, the amount of accumulated vacation and sick leave is only recorded if the amounts are payable due to resignations or retirements.

Unearned Revenue

Revenues received before being earned are recorded as unearned revenue. The unearned revenue in the General Fund consists of tuition payments received in advance of summer school. The unearned revenues recorded in the Special Revenue Funds represent funds and commodities received in excess of expenditures incurred in connection with the federal financial assistance programs.

Fund Balance

Governmental fund balance amounts are reported within one of the fund balance categories listed below.

Nonspendable – Includes fund balance amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact such as a permanent fund. Not in spendable form includes items that are not expected to be converted to cash, such as inventories and prepaid expenses.

Restricted – Includes amounts that are restricted to specific purposes when constraints are placed on the use of resources by constitution, external resource providers, or through enabling legislation.

Committed – Includes fund balance amounts that can be used only for the specific purposes determined by formal action (Board resolution) of the Board of Education Directors (the Board's highest level of decision-making authority). Similar action of the Board is required to modify or rescind such commitments.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

Assigned – Includes fund balance amounts that are intended to be used by the Board for specific purposes as determined by the Assistant Superintendent of Finance. The authority to assign funds has been granted to the Assistant Superintendent of Finance by the Board of Education Directors. Constraints imposed on the use of assigned amounts do not rise to the level required to be classified as either restricted or committed.

Unassigned – Represents the residual classification for the Board's general fund and includes all spendable amounts not contained in the four classifications described above.

Order of Fund Balance Spending Policy

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

Deposits and Investments

The Board's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition, including investments in the Maryland Local Government Investment Pool (MLGIP).

Investments are reported at fair value with the exception of MLGIP. Changes in the fair value of investments are recorded in investment income. The MLGIP's value is reported at amortized cost.

Capital Assets

Capital assets, which include land, land improvements, building, and furniture and equipment, are reported in the government-wide financial statements. The Board defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost 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.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Buildings and improvements, land improvements, and furniture and equipment of the Board are depreciated using the straight-line method over the following estimated lives:

Assets	Years
Buildings and improvements	30
Land improvements	10
Furniture and equipment	5-10

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures) until the future period. The Board recognizes deferred outflows for the difference between the projected and actual investment earning related to pensions. The Board also recognizes deferred outflows for the changes in actuarial assumptions.

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the future period. The Board recognizes a deferred inflow for the difference between expected and actual actuarial experience.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable Statement of Net Position. The Board's long-term obligations include compensated absences, other post-employment benefits obligation, capital lease payable, and notes payable.

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 fiduciary net position of the Charles County Board of Education's Defined Benefit Plan and additions to/ deductions from the Plan's fiduciary net pension have been determined on the same basis as they are reported in the Board's financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments reported at fair value.

Use of Estimates in Preparing Financial Statements

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 financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Accounting Standards Board (GASB) Pronouncements

The Board implemented GASB Statement No. 74, Financial Reporting for Post-Employment Benefit Plans other than Pension Plans. GASB 74 is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governments OPEB plans for making decisions and assessing accountability. Our auditors' opinion was not modified with respect to this implementation.

NOTE 2 CASH AND INVESTMENTS

Various cash accounts and short-term investments are held by the Board. The Board has engaged an independent third party as custodian for securities collateralizing repurchase agreements.

Deposits

At year-end, the carrying amount of the Board's combined deposits was \$32,400,211 and the bank balance was \$35,524,768. The bank balance was covered by either Federal depository insurance or by collateral held in either the pledging bank's trust department or by the pledging bank's agent in the Board's name.

Statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Investments

The Board of Education is required to comply with the investment policy of Charles County Government. This policy authorizes the Board to invest in short-term United States Government securities, repurchase agreements, the Maryland Local Government Investment Pool, and certificate of deposits.

The Pension and Retiree Health Trust Funds are authorized to invest in repurchase agreements, domestic and foreign equities, obligations of the United States and its agencies, securities issued or guaranteed by a foreign government or corporation, marketable corporate bonds, collateralized obligations, commercial paper, bankers' acceptances, certificates of deposit, commercial paper, money market funds, mutual funds, guaranteed insurance contracts, limited partnerships, venture-capital investments, and real estate investments.

The Retiree Health Trust investments are invested in the Maryland Association of Board of Education Pooled OPEB Trust (MABE Trust). The MABE Trust is administered by the Maryland Association of Board of Education, and is a wholly-owned instrumentality of its members. The nine members who are the sole contributors to the MABE Trust are the boards of education of the following counties in Maryland: Allegany, Carroll, Cecil, Charles, Harford, Kent, Prince George's, St. Mary's, and Washington.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

The assets of the MABE Trust are managed by Wells Fargo Advisors and consist of money market funds, U.S. government securities, fixed income securities, mortgage-backed securities, equity securities, mutual funds, and certificates of deposits. At June 30, 2017, the pooled assets of the MABE Trust were valued at \$292,703,802 in total, of which the Board's share was \$42,516,528.

The Board is a participant in the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP as part of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by PNC Institutional Investments. The pool is a 2a7 like pool, which is not registered with the Securities & Exchange Commission (SEC), but generally operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 (Rule 2a7). The pool has an AAAM rating from Standards and Poors and maintains a \$1.00 per share value. The pool is designed to give local government units of the State an investment vehicle for short-term investments of funds. An MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The amortized cost of the pool is the same as the value of the pool shares.

Investments (Continued)

A summary of cash and investments at June 30, 2017 is as follows:

	Total Governmental Funds	Total Fiduciary Funds	Total	Weighted Average Maturity in Years
Cash on hand	\$ 4,203	\$ 1,391,678	\$ 1,395,881	N/A
Deposits	29,720,460	2,679,751	32,400,211	N/A
Money market mutual funds	8,512,480	6,239,581	14,752,061	N/A
MLGIP	24,897,825	-	24,897,825	N/A
MABE Trust	-	42,516,525	42,516,525	8.11%
U.S. Government & agencies	-	9,185,892	9,185,892	7.68%
Municipal Bonds	-	58,782	58,782	24.70%
Corporate bonds	-	9,635,153	9,635,153	11.74%
Equity mutual funds	-	49,103,503	49,103,503	N/A
Fixed income mutual funds	-	10,244,269	10,244,269	N/A
Common stocks	-	6,784,590	6,784,590	N/A
Fixed income non-profit	-	128,183	128,183	7.33%
Partnerships	-	1,937,447	1,937,447	N/A
Foreign bonds	-	639,894	639,894	8.81%
Mortgage-backed securities	-	9,957,512	9,957,512	19.14%
Total	<u>\$ 63,134,968</u>	<u>\$ 150,502,760</u>	<u>\$ 213,637,728</u>	

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

The following tables summarize the ratings and maturity for fixed income investments held at June 30, 2017:

	S&P Ratings										
	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	Unrated
US Government & Agencies	-	9,011,697	-	-	-	-	-	-	-	-	174,195
Corporate Bonds	156,053	202,336	297,681	383,725	285,838	1,536,798	1,110,169	1,616,649	2,280,074	1,711,275	54,555
Fixed Income - Non-Profit	-	-	-	-	-	93,811	-	34,372	-	-	-
Foreign bonds	-	-	-	20,230	-	19,735	45,701	52,108	220,868	281,252	-
Mortgage Backed Securities	1,296,082	9,971	55,789	30,441	-	68,997	-	-	-	-	8,496,232
Municipal Bonds	46,455	-	12,327	-	-	-	-	-	-	-	-
Grand total	<u>\$ 1,498,590</u>	<u>\$9,224,004</u>	<u>\$ 365,797</u>	<u>\$434,396</u>	<u>\$ 285,838</u>	<u>\$ 1,719,341</u>	<u>\$ 1,155,870</u>	<u>\$ 1,703,129</u>	<u>\$ 2,500,942</u>	<u>\$ 1,992,527</u>	<u>\$ 8,724,982</u>

	FMV	Less than 1	1-5 Years	6-10 Years	11-15 Years	16-20 Years	20+ Years
US Government & Agencies	9,185,892	-	5,166,777	2,572,011	-	163,477	1,283,627
Corporate Bonds	9,635,153	-	2,275,357	4,468,583	674,245	54,285	2,162,683
Fixed Income - Non-Profit	128,183	-	-	103,952	24,231	-	-
Foreign bonds	639,894	-	373,295	203,084	25,623	-	37,892
Mortgage Backed Securities	9,957,512	1,877,178	389,833	83,943	723,444	6,883,114	-
Municipal Bonds	58,782	-	-	12,327	-	-	46,455
Grand total	<u>\$ 29,605,416</u>	<u>\$ 1,877,178</u>	<u>\$ 8,205,262</u>	<u>\$ 7,443,900</u>	<u>\$ 1,447,543</u>	<u>\$ 7,100,876</u>	<u>\$ 3,530,657</u>

Interest Rate Risk

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. To limit the Board's exposure to fair value losses arising from increasing interest rates, the Board's investment policy limits the term of investment maturities, other than the Fiduciary Funds' investments, to overnight repurchase agreements and requires that collateral securities underlying the repurchase agreements have a market value equal to the cost of the agreement.

Interest income is reported as general revenue in the Statement of Activities.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counter party, the Board will not be able to recover all or a portion of its investments or collateral securities that are in the possession of an outside party. In this regard, the Board limits its investments, other than Fiduciary Funds' investments, to overnight deposits that are insured or collateralized with securities held by a custodial in the Board's name and investments in the MLGIP. Statutes require that deposits be in Maryland banks and that uninsured deposits be fully collateralized and authorize the Board to invest in obligations of the United States government, federal agency obligations and repurchase agreements secured by direct government or agency obligations. For fiduciary funds, investment policy requires that all assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently, with minimal impact on market price.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Concentrations of Credit Risk

The investment policy of the Pension Plan limits the exposure of debt securities of any one private corporation to no more than 5% of the cost value of assets within the portfolio.

Foreign Credit Risk

The Board, the Board of Education of Charles County Defined Benefit Pension Plan, and the Retiree Health Trust (The Plans)'s investment policies do not allow for investments denominated in foreign currencies. The Board and the Plans do not hold such investments.

Investments and Valuation

The Board, the Board of Education of Charles County Defined Benefit Pension Plan, and the Retiree Health Trust (The Plans) categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below

- Level 1 – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 – Valuations based on quoted prices for similar assets or liabilities in active markets or identical assets or liabilities in less active markets, such as dealer or broker markets; and
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

Transactions are recorded on the trade date. Realized gains and losses are determined using the identified cost method. Any change in net unrealized gain or loss from the preceding period is reported in the statement of revenues, expenses and changes in net position. Dividends are recorded on the ex-dividend date. Interest is recorded on the accrual basis. Following is a description of the valuation methodologies used for assets measured at fair value.

Interest in MABE Trust- the MABE Trust is a Common trust fund which is comprised of shares or units in a commingled fund that is not publicly traded. Underlying assets in these funds include money market funds, U.S. government securities, fixed income securities, asset backed securities, equity securities, mutual funds and exchange traded fund and are valued at fair value based on quoted prices for similar assets in active markets. The Board may terminate its membership in the Trust and withdrawal its allocated investment balance by providing written notification to the Trust six months prior to the intended withdrawal date.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 CASH AND INVESTMENTS (CONTINUED)

Investments and Valuation (Continued)

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The Board and the Plan had the following recurring fair value measurements as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance June 30, 2016</u>
Investments by fair value level:				
Debt Securities:				
Corporate Bonds	\$ -	\$ 9,635,153	\$ -	\$ 9,635,153
Mortgage Backed Obligations	-	9,957,512	-	9,957,512
Municipal Bonds	-	58,782	-	58,782
Foreign Bonds	-	639,894	-	639,894
U.S. Government & Agencies	-	9,185,892	-	9,185,892
Total Debt Securities:	-	29,477,233	-	29,477,233
Equity Securities:				
Common stocks	6,784,590	-	-	6,784,590
Fixed Mutual Funds	10,244,269	-	-	10,244,269
Fixed Income- Non Profit	128,183	-	-	128,183
Partnerships	1,937,447	-	-	1,937,447
Equity Mutual Funds	49,103,503	-	-	49,103,503
Total Equity Securities:	68,197,992	-	-	68,197,992
MABE OPEB Trust	\$ -	\$ 42,516,525	\$ -	42,516,525
Total	<u>\$68,197,992</u>	<u>\$71,993,758</u>	<u>\$ -</u>	<u>140,191,750</u>
Cash and Investments carried at NAV or amortized cost:				
Cash on hand				1,395,881
Deposits				32,400,211
Money Market Mutual Funds				14,752,061
MLGIP				24,897,825
Total Cash and Investments at amortized cost:				<u>73,445,978</u>
Total Cash and Investments				<u>\$ 213,637,728</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 CAPITAL ASSETS

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

Governmental Activities	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
Capital assets not being depreciated				
Land	\$ 17,805,499	\$ -	\$ -	\$ 17,805,499
Construction-in-progress	7,400,318	13,042,480	(12,888,358)	7,554,440
Total capital assets, not being depreciated	<u>25,205,817</u>	<u>13,042,480</u>	<u>(12,888,358)</u>	<u>25,359,939</u>
Capital assets being depreciated				
Buildings and improvements	538,311,445	15,999,403	(316,603)	553,994,245
Land improvements	14,618,663	2,519,529	(5,220)	17,132,972
Furniture and equipment	31,551,209	1,926,897	(1,099,214)	32,378,892
Total capital assets being depreciated	<u>584,481,317</u>	<u>20,445,829</u>	<u>(1,421,037)</u>	<u>603,506,109</u>
Less - accumulated depreciation				
Buildings and improvements	(254,008,236)	(15,068,424)	213,529	(268,863,131)
Land improvements	(9,298,528)	(1,021,395)	5,144	(10,314,779)
Furniture and equipment	(25,008,596)	(1,899,157)	1,089,637	(25,818,116)
Total accumulated depreciation	<u>(288,315,360)</u>	<u>(17,988,976)</u>	<u>1,308,310</u>	<u>(304,996,026)</u>
Total capital assets, being depreciated, net	<u>296,165,957</u>	<u>2,456,853</u>	<u>(112,727)</u>	<u>298,510,083</u>
Capital assets, net	<u>\$ 321,371,774</u>	<u>\$ 15,499,333</u>	<u>\$ (13,001,085)</u>	<u>\$ 323,870,022</u>

Depreciation expense was charged to functions of the Board as follows:

Governmental activities	
Regular education	\$ 434,385
Special education	1,621
Supporting services:	
Pupil services	92,909
Health services	1,006
Administration	58,132
Instructional support	87,925
Operation and maintenance of facilities	1,177,720
Transportation	113,668
Community services	2,778
School lunch services	18,416
Planning and construction	804,779
Unallocated	<u>15,195,637</u>
Total depreciation expense - governmental activities	<u>\$ 17,988,976</u>

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 CAPITAL ASSETS (CONTINUED)

The Board has active school construction projects at June 30, 2017, as follows:

	Spent to Date	Remaining Commitment
Full Day Kindergarten Addition/ Renovation	\$ 674,491	\$ 10,000
New Elementary School	2,637,301	43,013
Total	\$ 3,311,792	\$ 53,013

NOTE 4 RETIREMENT SYSTEM – STATE OF MARYLAND DESCRIPTION

Plan Description

Certain Board employees are covered by the Teachers Retirement System of the State of Maryland, the Teachers Pension System of the State of Maryland. This systems are part of the Maryland State Retirement and Pension System (the State System), and is a cost-sharing multiple-employer public employee retirement system. The State System provides pension, death and disability benefits to plan members and beneficiaries. The State of Maryland pays a substantial portion of employer contributions on behalf of the Board. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the State System is vested in a 15-member Board of Trustees. The State System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202, or by calling 410-625-5555. The System also issues a publically available financial report that can be obtained at <http://www.sra.state.md.us>.

Benefits provided

The System provides retirement allowances and other benefits to State teachers and employees of participating governmental units, among others. For individuals who become members of the Teachers' Retirement and Pension Systems on or before June 30, 2011, retirement/pension allowances are computed using both the highest three years Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For individuals who become members of the Teachers' Pension System on or after July 1, 2011, pension allowances are computed using both the highest five years AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retirees' benefits allowance will be computed. Some of these options require actuarial reductions based on the retirees' and/or designated beneficiary's attained age and similar actuarial factors.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 RETIREMENT SYSTEM – STATE OF MARYLAND DESCRIPTION (CONTINUED)

Benefits provided (Continued)

A member of the Teachers' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's average final compensation (AFC) multiplied by the number of years of accumulated creditable service.

A member of the Teachers' Pension System 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 of the Teachers' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the members' 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.

For most individuals who retired from the Teachers' Pension System on or before June 30, 2006, the annual pension allowance equals 1.2% of the members AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998, plus 1.4% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. With certain exceptions, for individuals who are members of the Teachers' Pension System on or after July 1, 2006, the annual pension allowance equals 1.2% of the member's AFC, multiplied by the number of years of credible service accumulated prior to July 1, 1998 plus 1.8% of the members AFC, multiplied by the number of years of credible service accumulated subsequent to June 30, 1998. Beginning in July 1, 2011, any new member of the Teachers' Pension System shall earn an annual pension allowance equal to 1.5% of the member's AFC multiplied by the number of years of creditable service accumulated as a member of the Teachers' Pension System.

Contributions

The Board and covered members are required by State statute to contribute to the System. Members of the Teachers' Pension System are required to contribute 7% annually. Members of the Teachers' Retirement System are required to contribute 5-7 % annually, depending on the retirement option selected. The contribution requirements of the System members, as well as the State and participating governmental employers are established and may be amended by the Board of Trustees for the System.

The State makes a substantial portion of the Board's annual required contribution to the Teachers' Retirement and Pension Systems on behalf of the Board. The State's contributions on behalf of the Board for the year ended June 30, 2017, was \$22,396,543. The fiscal 2017 contribution made by the State on behalf of the Board has been included as both revenues and expenditures in the General Fund in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances and are also included as revenues and expenses in the Statement of Activities.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 RETIREMENT SYSTEM – STATE OF MARYLAND DESCRIPTION (CONTINUED)

Contributions (Continued)

Beginning in FY 2013, the State of Maryland General Assembly passed a bill that required the Boards of Education in Maryland to begin paying the normal cost for their teachers into the Teachers' Retirement and Pension Systems. The legislation structured this as a four year phase in to the full normal cost so that 50% was paid in FY 2013. Full normal cost was paid in FY 2017 and will be paid each year thereafter. The Board's required contribution to the Teachers' Retirement and Pension Systems for the year ended June 30, 2017 was \$7,410,150.

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

At June 30, 2017, the Board did not report a liability related to the Teachers' Retirement and Pension Systems due to a special funding situation. The State of Maryland pays the unfunded liability for the Board, therefore, the Board is not required to record its share of the unfunded pension liability but instead, that liability is recorded by the State of Maryland. 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:

State's proportionate share of the net pension liability	\$ 346,805,829
Board's proportionate share of the net pension liability	-
Total	<u>\$ 346,805,829</u>

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2017, the Board recognized pension expense of \$29,806,693 and revenue of \$22,396,543 for support provided by the State. Due to the special funding situation noted above related to the Teachers' Retirement and Pension Systems, the Board did not report deferred outflows of resources and deferred inflows of resources related to the Teachers' Retirement and Pension Systems.

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.90% general, 3.2% wage
Salary increases	3.20% to 9.20%
Investment rate of return	7.55%

Mortality rates were based on RP-2014 Mortality Tabled with projected generational mortality improvements based on the MP 2014 2- dimensional mortality improvement scale.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 RETIREMENT SYSTEM – STATE OF MARYLAND DESCRIPTION (CONTINUED)

Actuarial Assumptions (Continued)

The economic and demographic actuarial assumptions used in the June 30, 2016 valuation were adopted by the System’s Board of Trustees based upon review of the System’s experience study for the period 2010-2014, which was completed during FY 2014. Assumptions from the experience study including investment return, inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates and rates of salary increase were adopted by the Board for the first use in the actuarial valuation as of June 30, 2016. As a result, an investment return assumptions of 7.55% and an inflation assumption of 2.90% were used in the June 30, 2016 valuation.

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-range expected rate of return by weighing the expected future real rates by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System’s investment consultant(s) and actuary(s). For each major asset class that is included in the System’s target asset allocation, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Public Equity	37%	6.60%
Credit Opportunity	9%	4.20%
Real Assets	15%	4.70%
Absolute Return	9%	3.70%
Private Equity	10%	7.40%
Real Sensitive	<u>20%</u>	1.30%
Total	<u>100%</u>	

The above was the System’s Board of Trustees adopted asset allocation policy and best estimate of geometric real rates for each major asset class as of June 30, 2016.

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 1.10%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 RETIREMENT SYSTEM – STATE OF MARYLAND DESCRIPTION (CONTINUED)

Discount Rate

The single discount rate used to measure the total pension liability was 7.55%. 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 plans 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.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System's financial report.

NOTE 5 BOARD OF EDUCATION OF CHARLES COUNTY PENSION PLAN – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

The Board of Education of Charles County Defined Benefit Pension Plan (the Plan) is a single employer public employee retirement system which was established for the benefit of employees not covered by the Teachers' Retirement System or the Teachers' Pension System of the State of Maryland (the Systems). The Plan was created under authorization of the Board effective July 1, 1969. The Plan provides pension income based on average pay and years of service.

The Statement of Plan Assets and Statement of Changes in Plan Net Position are prepared on the accrual basis of accounting, with contributions recognized when due. Benefits and expenses are recognized when due and payable. Investments are reported at fair value.

Securities traded on a national or international exchange are valued at the latest reported sales price at current exchange rates.

The Plan is administered by Reliance. Investments are managed by various market fund managers and an internal investment committee which includes an outside investment consultant.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 BOARD OF EDUCATION OF CHARLES COUNTY PENSION PLAN – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Plan Administration

Management of the Plan is overseen by a Pension Committee under Section XI of the Plan Document. Per the Plan Document, The Pension Committee is composed of not less than three individuals appointed by the Superintendent of Schools to serve for such time as determined by the Superintendent. The Pension Committee has the discretion and authority to interpret the Plan and to determine the eligibility and benefits of Participants and beneficiaries pursuant to the provisions of the Plan. On all such matters, the decision of a majority of the then members of the Pension Committee shall govern and be binding upon the Employer, Participants, and beneficiaries. The Pension Committee need not call or hold any meeting for the purpose of rendering decisions but such decisions may be evidenced by a written document signed by the members.

Investment Policy

The Pension Committee is responsible for administering the investment policies of the Plan and providing oversight for the management of the Plan’s assets. The investment strategy of the Plan is to emphasize total return (defined as the aggregate return from capital appreciation and dividend and interest income). The investment policy requires that all Plan assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Plan, with minimal impact on market price. The following was the Plan’s adopted asset allocation policy as of June 30, 2017:

Asset Class	Minimum	Maximum	Target
Equities	30%	70%	56%
Fixed Income	30%	80%	41%
Cash and Equivalents	0%	15%	3%

Concentrations

The Pension plan held the following investments as of June 30, 2017 that exceeded 5 percent of the pension plan’s fiduciary net position:

Investment	% of Pension Fiduciary Net Position	Fair Market Value
IShares Core S&P 500	16.64%	\$ 17,527,711
IShares MSCI EAFE	11.50%	12,106,662
Vanguard Mid Cap	6.89%	7,252,937

Rate of Return on Investments

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, for FY 2017 was 10.93%. The money-weighted rate of return expresses investment performance, net of expenses, adjusted for the changing amounts actually invested.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 5 BOARD OF EDUCATION OF CHARLES COUNTY PENSION PLAN – DEFINED
BENEFIT PENSION PLAN (CONTINUED)**

Benefits Provided

All employees not covered by the State System who work at least four hours per day and at least 10 months per year must join the Plan as a condition of employment. Participants are required to contribute 5% of their gross earnings to the Plan. Participants are eligible for full benefits upon retirement at age 60, the normal retirement date or age 55, the early retirement date. Full benefits in the Plan are defined as 1.5% of the Average Monthly Earnings multiplied by the years of continuous service through July 1, 1998, plus 2.0% of the Average Monthly Earnings multiplied by the years of continuous service after July 1, 1998 prior to the normal retirement date.

Employees Covered by Benefit Terms

At July 1, 2016, the date of the latest actuarial valuation, the following employees were covered by the benefit terms:

Retirees and beneficiaries receiving benefits	311
Terminated plan members entitled to but not yet receiving benefits	301
Active plan members	<u>522</u>
Total	<u><u>1,134</u></u>

Contributions

Per Section VII of the plan agreement, the Board establishes contribution amounts based on an actuarially determined amount recommended by an independent actuary. The actuarially determined amount is the estimated amount necessary to pay all of the Plan cost (in excess of Participant contributions) that the actuary determines to be necessary to maintain the Plan as a qualified plan under the Internal Revenue Code and Regulations. For the year ended June 30, 2017, the average active employee contribution rate was 5.0 percent of annual pay. For fiscal year 2017, the Board contributed \$3,833,580 to the Plan while participants contributed \$1,087,858. These contributions amounted to approximately 18.9% of covered payroll.

Net Pension Liability

The net pension liability of the plan was measured as of June 30, 2017, and the net pension liability was determined by an actuarial valuation as of that date.

Total pension liability	\$ 110,858,730
Plan fiduciary net position	<u>(105,306,484)</u>
Net pension liability	<u><u>\$ 5,552,246</u></u>

Plan fiduciary net position as a percentage of the total pension liability	94.99%
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**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 5 BOARD OF EDUCATION OF CHARLES COUNTY PENSION PLAN – DEFINED
BENEFIT PENSION PLAN (CONTINUED)**

Actuarial Assumptions

Method and assumptions used to determine Net Pension Liability were as follows:

Valuation Date	July 1, 2016*
Actuarial Cost Method	Entry Age Normal
Amortization Period	20 Years
Asset Valuation Method	Market value of Assets
Investment Rate of Return	6.75% per year compounded annually, net of investment expenses
Projected salary increases	Years of service based 0.50-7.00%
Cost of living adjustments	2.00% limited to 150% of original benefit
General inflation	2.75% per year
Retirement	Experience-based table of rates
Mortality rate	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016
Experience Studies	The actuarial assumptions used in the valuation were based on standard tables modified for certain plan features such as full eligibility for full and early retirement where applicable and input from the plan sponsor. A full actuarial experience study has not been completed.

*To calculate the plan's Total Pension Liability (TPL), the July 1, 2016 Valuation was used to estimate the TPL as of June 30, 2017. The July 1, 2016 TPL was increased by service cost and interest and decreased by benefit payments. If a change in Plan was implemented, that amount was also reflected.

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 arithmetic real rate of return for each major asset class included in the pension plan's target asset allocation of June 30, 2017.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

**NOTE 5 BOARD OF EDUCATION OF CHARLES COUNTY PENSION PLAN – DEFINED
BENEFIT PENSION PLAN (CONTINUED)**

Actuarial Assumptions (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US Large Cap	17.00%	6.50%
US Mid/ Small Cap	14.00%	7.90%
International Equities (unhedged)	12.00%	6.50%
Emerging International Equities	4.00%	9.30%
Core Bonds	32.00%	0.80%
High-Yield Bonds	4.00%	4.50%
Emerging Market Debt (Local Currency)	2.00%	4.50%
Real Estate (Core)	4.00%	6.30%
Hedge Funds Mod Vol	4.00%	3.30%
Commodities	4.00%	3.00%
Cash	1.00%	0.00%
Master Limited Partnerships	2.00%	6.50%

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flow to determine the discount rate assumed the contributions from plan members will be made at the current contribution rate and that contributions from the Board will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payment of current plan members. Therefore, the long-term expected rate of return on the pension plan investment was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances as of June 30, 2016	\$ 108,873,643	\$ 94,951,245	\$ 13,922,398
Changes for the year:			
Service cost	3,146,977	-	3,146,977
Interest	7,673,388	-	7,673,388
Differences between expected and actual experience	(3,768,285)	-	(3,768,285)
Changes of assumptions	(182,819)	-	(182,819)
Contributions - employer	-	3,833,580	(3,833,580)
Contributions - member	-	1,087,858	(1,087,858)
Net investment income	-	10,317,975	(10,317,975)
Benefit payments, including refunds of members contributions	(4,884,174)	(4,884,174)	-
Net changes	1,985,087	10,355,239	(8,370,152)
Balances at June 30, 2017	<u>\$ 110,858,730</u>	<u>\$ 105,306,484</u>	<u>\$ 5,552,246</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

**NOTE 5 BOARD OF EDUCATION OF CHARLES COUNTY PENSION PLAN – DEFINED
BENEFIT PENSION PLAN (CONTINUED)**

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Board calculated using the discount rate of 6.75%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%), or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability	\$ 19,440,789	\$ 5,552,246	\$ (6,044,978)

Pension Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to Pensions

For the year ended June 30, 2017, the Board recognized pension expense of \$4,051,262. As of June 30, 2017, 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
Differences between expected and actual experience	\$ -	\$ 4,955,789
Changes in assumptions	1,553,651	1,282,091
Net difference between projected and actual earnings on pension plan investments	2,522,463	-
Total	\$ 4,076,114	\$ 6,237,880

Amounts reported as deferred outflows of resources and deferred inflows of resources relates to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2018	\$ 966,624
2019	966,625
2020	(517,578)
2021	(1,157,768)
2022	(306,287)
Thereafter	(2,113,382)

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Board provides medical, dental and life insurance benefits to eligible employees who retire from employment with the Charles County Public Board. The employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon the annual approval of the operating budget. Details of the postemployment benefits provided are as follows:

Plan Administration

Charles County Public Schools administers the Charles County Public Schools Post-Employment Medical and Life Insurance Benefits Plan a single- employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for retirees with at least 10 years of service with Charles County Public Schools.

The School System administers the Charles County Public Schools Post-Employment Medical and Life Insurance Benefits Plan (the Plan), a single-employer defined benefit health care plan. In May 2008, the School System created the Retiree Benefit Trust of the Board of Education of Charles County (the "Trust Fund") in order to arrange for the establishment of a reserve to pay health and welfare benefits for future retirees. Management of the Trust is vested in the School System Board. The "Trust Fund" was amended in July 2016.

Plan Membership

At June 30, 2017, the Plan membership consisted of the following:

Enrolled in medical/drug coverage	
Inactive plan members or beneficiaries currently receiving benefit payments	735
Inactive plan members entitled to but not yet receiving benefit payments	244
Active plan member	2401
	3380
Enrolled in life coverage	
Inactive plan members or beneficiaries currently receiving benefit payments	821
Inactive plan members entitled to but not yet receiving benefit payments	241
Active plan member	1898
	2960

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Benefits Provided

The Plan provides health and welfare coverage for retirees who have satisfied certain age, service and other requirements set forth in the Plan. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the plan. The Plan grants the Board the authority to establish and amend the benefit terms.

Funding Policy and Contribution

The contribution requirements of plan members and the School System are established and may be amended by the School System. The required contribution is based on projected pay-as-you-go (PAYGO) financing requirements, with an additional amount to prefund benefits as determined annually by the School System. For fiscal year 2017, the School System contributed \$4.8 million to the OPEB Trust Fund. In addition, it paid \$9.1 million towards retiree health care costs, including administrative costs. Retirees contributed an additional \$2.2 million.

Medical and Dental Benefits - Retirees are eligible for continued membership in one of the Board's group medical and dental plans provided that they have at least 10 years of service with the Charles County Public Schools. The Board pays 75% of the premiums for these plans.

Life Insurance Benefits - The Board pays 75% of the life insurance premiums for retirees with at least 10 years of service. The amount of insurance coverage is based on the employees' annual salary upon retirement.

Investment Policy

The Trust does not have a formal investment policy.

Concentration

The entire portfolio of investments of the Trust are invested in the MABE Pooled OPEB Trust.

Rate of Return

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 11.29 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Actuarial Valuation

Bolton Partners of Baltimore, Maryland, has conducted all actuarial valuations of the School System's post-retirement benefit plans. The most recent report, dated September 17, 2017 documents the Plan's 2017 and 2018 fiscal year obligations and accruals based on GASB Statement No. 45. It also provides information useful in future planning of the postretirement benefit plans. The valuation was conducted in accordance with generally accepted actuarial principles and practices, including the applicable actuarial standards of practice as issued by the Actuarial Standards Board. Future actuarial measurements may differ significantly from the current measurement presented in the September 2017 report due to factors such as: a) plan experience differing from that anticipated by the economic or demographic assumptions; b) changes in economic or demographic assumptions; c) increases or decreases expected as part of the natural operation of the methodology used by Bolton Partners; and e) changes in plan provisions or applicable law.

Annual OPEB Cost and Net OPEB Obligation

The Board's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Board's net OPEB obligation:

Annual required contribution	\$ 35,392,421
Interest on net OPEB obligation	10,321,993
Adjustment to annual required contribution	<u>(11,616,485)</u>
Annual OPEB cost	34,097,929
Contributions made	<u>(16,085,852)</u>
Increase in net OPEB obligations	18,012,077
Net OPEB obligations - beginning of year	<u>179,512,916</u>
Net OPEB obligations - end of year	<u><u>\$ 197,524,993</u></u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2017 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligations
June 30, 2015	\$ 36,035,000	49.0%	\$ 157,117,475
June 30, 2016	39,615,000	43.5%	179,512,916
June 30, 2017	34,097,929	52.8%	197,524,993

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the Plan was 8.51% funded. The actuarial accrued liability for benefits was \$359,233,496, and the actuarial value of assets was \$30,566,233, resulting in an unfunded actuarial accrued liability (UAAL) of \$328,667,183. The covered payroll (annual payroll of active employees covered by the Plan) was \$195,000,000 and the ratio of the UAAL to the covered payroll was 220%.

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

Actuarial Methods and Assumptions

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

In the July 1, 2016, actuarial valuation, the projected unit credit method, with linear proration to assumed benefit commencement method was used. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the Plan at the valuation date, and an annual healthcare cost trend rate of 4.7% initially, reduced by decrements to an ultimate rate of 3.9% and is attained in 2077. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 21 years.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2016
Actuarial Cost Method	Projected unit credit method
Amortization Method	Closed, level of percent of payroll
Asset Valuation Method	Market value of Assets
Inflation	2.4%
Actuarial Assumptions:	
Investment Rate of Return	7.5% per year compounded annually
Payroll Growth Rate	3.0% per year
Healthcare Cost Trend Rates:	
Medical	4.7% initial / 3.9% ultimate (not applicable to life insurance)
Dental	5.0% per year

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period covering July 1, 2010 through June 30, 2014.

GASB 74 INFORMATION

Actuarial Methods and Assumptions

The total OPEB liability is based on July 1, 2016 valuation data rolled forward to June 30, 2017. The methods, assumptions, and participant data used are detailed above as they are also used in the GASB 45 assumptions except for the actuarial cost method. These calculations are based on the Entry Age Normal cost method as required by GASB 74. The calculation of the Actuarially Determined Contribution for the fiscal year ended June 30, 2017 is contained in the July 1, 2016 actuarial valuation report.

Net OPEB Liability of the Plan

The components of the net OPEB liability of the Plan at June 30, 2017, was as follows:

Total OPEB liability	\$ 558,729,049
Plan Fiduciary net position	<u>(45,340,194)</u>
Entity's net OPEB liability	<u>\$ 513,388,855</u>
Plan Fiduciary net position as a percentage of the total OPEB liability	8.11%

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the total OPEB liability was 4.07 percent. This calculation assumes that the members and the Schools will contribute pay-go rather than the required actuarially determined contributions. Based on that assumption, the plan's fiduciary net position is expected to run out of assets in the year 2041, therefore having insufficient assets available to make all future benefit payments of current plan members. A blended discount rate is determined based on the fully funded rate of 7.50% when assets are available prior to 2041, and the unfunded rate of 3.58% for 2041 and beyond. The long-term nominal expected rate of return on OPEB plan investments was determined using a building-block method where return expectations are established for each asset class.

The building-block approach uses the current underlying fundamentals, not historical returns. For example, spread and the risk-free rate are used for fixed income; and dividends, earnings growth and valuation are used for equity. These return expectations are weighted based on asset/target amounts. The projection of cash flows used to determine the discount rate assumed that School System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.07 percent) or 1-percentage-point higher (5.07 percent) than the current discount rate:

	1% Decrease (3.07%)	Discount Rate (4.07%)	1% Increase (5.07%)
Net OPEB liability (asset)	\$ 630,032,154	\$ 513,388,855	\$ 422,947,594

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Plan, as well as what the Plan's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.5 percent decreasing to 4.5 percent) or 1-percentage-point higher (10.5 percent decreasing to 6.5 percent) than the current healthcare cost trend rates:

	1% Decrease (8.5% decreasing to 4.5%)	Healthcare Cost Trend Rates (9.5% decreasing to 5.5%)	1% Increase (10.5% decreasing to 6.5%)
Net OPEB liability (asset)	\$ 415,573,218	\$ 513,388,855	\$ 645,923,701

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 TRUST FUNDS

The condensed financial statements of the Board's trust funds are as follows:

Condensed Statement of Net Position			
	Retiree Health Trust Fund	Pension Trust Fund	Total
Assets			
Investments, including cash and cash equivalents	\$ 42,516,525	\$ 105,306,484	\$ 147,823,009
Other assets	2,823,669	-	2,823,669
Total assets	45,340,194	105,306,484	150,646,678
Liabilities			
	-	-	-
Net position - Held in trust for retiree health/pension benefits	\$ 45,340,194	\$ 105,306,484	\$ 150,646,678
Additions			
Contributions	\$ 16,085,852	\$ 4,921,438	\$ 21,007,290
Net investment gain/(loss)	3,950,292	10,356,235	14,306,527
Total additions	20,036,144	15,277,673	35,313,817
Deductions			
Benefits paid	11,285,852	4,892,731	16,178,583
Administrative expenses	-	29,703	29,703
Total deductions	11,285,852	4,922,434	16,208,286
Change in net position	8,750,292	10,355,239	19,105,531
Net position - beginning of year	36,589,902	94,951,245	131,541,147
Net position - end of year	\$ 45,340,194	\$ 105,306,484	\$ 150,646,678

NOTE 8 DEBT SERVICE

School Construction Debt

The Board is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the county and state governments. Accordingly, the Board does not record school construction debt service revenues, expenditures or outstanding school construction debt in statements prepared in accordance with GAAP.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 INTERFUND ACCOUNTS

At June 30, 2017, the amounts due to and from other funds were as follows:

	Due From Other Funds	Due To Other Funds
General fund	\$ -	\$ 2,941,159
Special revenue - food service	749,056	-
Special revenue - restricted program	3,454,961	-
Fidiciary fund- other post employment benefits	23,669	-
Capital projects - total	-	1,286,527
Total	\$ 4,227,686	\$ 4,227,686

NOTE 10 LONG-TERM LIABILITIES

The following is an analysis of the changes in long-term liabilities for the year ended June 30, 2017:

	Beginning Balance	Net Increase (Decrease)*	Ending Balance	Amount Due Within One Year
Compensated absences	\$ 8,395,793	\$ (90,736)	\$ 8,305,057	\$ 597,988
Net OPEB obligation	179,512,916	18,012,077	197,524,993	-
Technology Loan 2	1,723,373	(574,457)	1,148,916	574,457
Net pension liability	13,922,398	(8,370,152)	5,552,246	-
Total long-term liabilities	\$ 203,554,480	\$ 8,976,732	\$ 212,531,212	\$ 1,172,445

The technology loan 2 requires yearly payments of principal in the amount of \$574,457 through August 1, 2018. Interest rate on the loan is 0.00%. For fiscal year 2017, the total payment for technology loan 2 was \$574,457, which was a payment of principal only.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 LONG-TERM LIABILITIES (CONTINUED)

The future annual payments due under the technology loan 2 as of June 30, 2017 are:

Year Ended June 30,	Principal	Interest	Total
2018	\$ 574,457	\$ -	\$ 574,457
2019	574,459	-	574,459
Total minimum loan payments	<u>\$ 1,148,916</u>	<u>\$ -</u>	<u>\$ 1,148,916</u>

For the governmental activities, compensated absences, net pension obligations, and net other post-employment benefits obligations are generally liquidated by the General Fund, and technology loan 2 is liquidated through the Capital Projects Fund.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Board is committed under various leases for the use of equipment. The leases cover annual and multi-year periods with various expiration dates through June 2018. These leases are considered to be operating leases for accounting purposes.

The future annual minimum lease payments due under these operating leases as of June 30, 2017 are:

Year Ended June 30,	Principal
2018	\$ 558,206
2019	326,089
2020	19,529
Total minimum lease payments	<u>\$ 903,824</u>

Rental expenditures for the year ended June 30, 2017 amounted to approximately \$720,195.

Litigation

Various claims and lawsuits are pending against the Board. The Board's attorneys estimate that potential claims against the Board not covered by insurance resulting from such litigation would not materially affect the financial statements of the Board.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Health Insurance

The Board entered into an agreement with BlueCross BlueShield of Maryland for health insurance under a claims made policy. The Board underwrites 75% of the cost of health insurance based on an estimate and the employees contribute 25%. Actual contribution rates by the Board may vary based on actual claims. The policy arrangement includes a stop-loss provision for claims in excess of \$300,000. A liability in the amount of \$2,270,000 has been recorded for the estimated claims incurred but not reported at the end of the year.

The liability for claims and judgments is reported in the General Fund. Changes in the balances of claims liabilities are as follows:

	2017	2016
Accrued health claims:		
Unpaid claims at beginning of year	\$ 2,989,170	\$ 2,380,000
Incurred claims (including IBNR)	34,718,494	26,976,946
Claim payments	(35,437,664)	(26,367,776)
Unpaid claims at end of year	\$ 2,270,000	\$ 2,989,170

NOTE 12 FUND BALANCE DEFICIT

The Capital Projects Fund reflects a deficit unassigned fund balance for June 30, 2017 because revenues, provided by the State and County needed to liquidate encumbrances outstanding, are not received and recognized until invoices for goods and services rendered are received and approved by the Board. The deficit will be eliminated through future funding provided by local and state sources.

NOTE 13 RISK MANAGEMENT

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.

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 Charles County Board of Education 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.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 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 budgetary integration in the General Fund and Restricted Programs Fund and encumbrances outstanding at year-end are reported as restrictions and assignments of fund balances since they do not constitute expenditures or liabilities.

Encumbrances at June 30, 2017 are for the following uses:

	<u>General Fund</u>	<u>Restricted Programs Fund</u>
Encumbrances:		
Administration	\$ 622,020	\$ -
Mid-Level Administrative	238,488	-
Instruction	1,447,044	152,900
Special Education	23,802	33,379
Student Personnel Services	78,132	-
Student Health Services	61,197	-
Student Transportation	51,992	-
Operation & Maintenance of Plant	3,933,360	81,657
Food Service	-	-
Community Service	-	6,219
Capital Outlay	2,077,051	299,298
Total encumbrances	<u>\$ 8,533,086</u>	<u>\$ 573,453</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 FUND BALANCE

Fund balance at June 30, 2017 consists of the following:

	General Fund	Restricted Programs Fund	Food Service Fund	Capital Projects
Nonspendable - Inventory	\$ 122,218	\$ -	\$ 200,788	\$ -
Restricted for:				
Administration	-	-	-	-
Mid-Level Administration	-	-	-	-
Instruction	-	152,900	-	-
Special Education	-	33,379	-	-
Student Personnel Services	-	-	-	-
Operation & Maintenance of Plant	-	81,657	-	-
Food Service	-	-	-	-
Community Service	-	6,219	-	-
Capital Outlay	-	299,298	-	-
Total restricted for	<u>-</u>	<u>573,453</u>	<u>-</u>	<u>-</u>
Assigned for:				
Administration	622,020	-	-	-
Mid-Level Administration	238,488	-	-	-
Instruction	1,447,044	-	-	-
Special Education	23,802	-	-	-
Student Personnel Services	78,132	-	-	-
Student Health Services	61,197	-	-	-
Student Transportation	51,992	-	-	-
Operation & Maintenance of Plant	3,933,360	-	-	-
Food Service	-	-	3,112,018	-
Community Service	-	-	-	-
Capital Outlay	2,077,051	-	-	-
Subsequent year expenditures	4,201,086	-	-	-
Total assigned for	<u>12,734,172</u>	<u>-</u>	<u>3,112,018</u>	<u>-</u>
Unassigned	13,103,406	-	-	(156,017)
Total fund balance	<u>\$ 25,959,796</u>	<u>\$ 573,453</u>	<u>\$ 3,312,806</u>	<u>\$ (156,017)</u>

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Teachers' Retirement and Pension Systems:			
Board's proportionation of the net pension liability	0.0%	0.0%	0.0%
Board's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability of the Board	<u>346,805,829</u>	<u>277,781,307</u>	<u>203,938,312</u>
Total	<u>\$ 346,805,829</u>	<u>\$ 277,781,307</u>	<u>\$ 203,938,312</u>
Board's covered employee payroll	\$ 171,333,118	\$ 166,442,075	\$ 166,561,146
Board's proportionate share of the net pension liability as a percentage of its covered employee payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	65.79%	68.78%	69.53%

The amounts presented for fiscal year 2015 were determined as of July 1 of two years prior, using membership data as of that day, projected forward to June 30 of the previous year. Additionally, the Board implemented GASB 68 during fiscal year 2015. As such, only three years of information are available.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

MARYLAND STATE RETIREMENT AND PENSION SYSTEM (CONTINUED)

Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012*	2011*	2010*	2009*	2008*
Teachers Retirement and Pension System										
Contractually required contribution	\$ 7,410,150	\$ 7,339,061	\$ 6,383,304	\$ 4,989,645	\$ 3,936,516	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	(7,410,150)	(7,339,061)	(6,383,304)	(4,989,645)	(3,936,516)	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Board's covered-employee payroll	\$ 174,077,168	\$ 171,333,118	\$ 166,442,075	\$ 166,561,146	\$ 165,631,397	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered employee payroll	4.26%	4.28%	3.84%	3.00%	2.38%	0.00%	0.00%	0.00%	0.00%	0.00%

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

MARYLAND STATE RETIREMENT AND PENSION SYSTEM (CONTINUED)

NOTE 1 CHANGES IN BENEFIT TERMS

There were no benefit changes during the year.

NOTE 2 CHANGES IN ASSUMPTIONS

Adjustments to the roll-forward liabilities were made to reflect the following assumptions in the 2016 valuation:

- Inflation assumption changed from 2.90% to 2.70%

NOTE 3 METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Actuarial	Entry Age Normal
Amortization Method	Level percent closed
Remaining Amortization Period	25-year closed schedule ending June 30, 2039, 21 years remaining
Asset Valuation Method	5-year smoothed market
Inflation	3.00% general, 3.5% wage
Salary Increases	3.50%-10.75%
Investment Rate of Return	7.65%
Retirement Age	Experienced based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to the 2015 Experience Study of the period July 1, 2010 to June 30, 2014
Mortality	RP-2014 Mortality Tabled with projected generational mortality improvements based on the MP 2014 2- dimensional mortality improvement scale.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

**BOARD OF EDUCATION OF CHARLES COUNTY PENSION PLAN- DEFINED BENEFIT
PENSION PLAN**

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios*

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 3,146,977	\$ 3,005,742	\$ 2,890,137	\$ 2,140,866
Interest	7,673,388	7,478,300	6,954,089	6,585,023
Benefit changes	-	-	-	-
Different between actual & expected if any	(3,768,285)	(1,244,586)	(1,733,314)	-
Assumption changes	(182,819)	(1,809,348)	3,773,150	-
Benefit payments	(4,884,174)	(4,687,877)	(4,413,285)	(3,925,897)
Net change in total pension liability	1,985,087	2,742,231	7,470,777	4,799,992
Total pension liability- beginning	108,873,643	106,131,412	98,660,635	93,860,643
Total pension liability- ending (a)	<u>\$ 110,858,730</u>	<u>\$ 108,873,643</u>	<u>\$ 106,131,412</u>	<u>\$ 98,660,635</u>
Plan fiduciary net position				
Contribution- employer	\$ 3,833,580	\$ 4,090,857	\$ 5,085,000	\$ 5,251,554
Contribution- member	1,087,858	1,031,619	984,727	966,598
Net investment income	10,317,975	1,197,164	797,427	9,567,475
Benefit payments	(4,884,174)	(4,687,877)	(4,413,285)	(3,925,897)
Administrative expense	-	-	-	-
Other	-	-	-	-
Net change in plan fiduciary net position	10,355,239	1,631,763	2,453,869	11,859,730
Plan fiduciary net position- beginning	94,951,245	93,319,482	90,865,613	79,005,883
Plan fiduciary net position- ending (b)	<u>\$ 105,306,484</u>	<u>\$ 94,951,245</u>	<u>\$ 93,319,482</u>	<u>\$ 90,865,613</u>
Net pension on liability (a-b)	<u>\$ 5,552,246</u>	<u>\$ 13,922,398</u>	<u>\$ 12,811,930</u>	<u>\$ 7,795,022</u>
Plan fiduciary net position as a percentage of total liability	94.99%	87.21%	87.93%	92.10%
Covered employee payroll	\$ 20,273,361	\$ 20,393,483	\$ 19,095,035	\$ 20,059,710
Net pension liability as a percentage of covered employee payroll	27.39%	68.27%	67.10%	38.86%

Notes to Schedule:

Changes of assumptions: Mortality table: RP-2014 Mortality table, with no collar adjustment projected to valuation date with Scale MP-2014 to RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2015.

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

**BOARD OF EDUCATION OF CHARLES COUNTY PENSION PLAN- DEFINED BENEFIT
PENSION PLAN (CONTINUED)**

Schedule of Employer Contributions

FY Ending 30-Jun	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency Excess	Covered Payroll	Actual Contribution as a % of Covered Payroll
2008	\$ 3,042,434	\$ 3,953,528	\$ 911,094	\$ 16,042,718	24.64%
2009	3,414,781	4,177,712	762,931	18,241,021	22.90%
2010	3,815,722	6,032,806	2,217,084	19,864,036	30.37%
2011	4,153,768	5,523,768	1,370,000	19,808,871	27.89%
2012	4,332,303	5,249,987	917,684	19,594,555	26.79%
2013	3,572,997	4,395,188	822,191	19,791,615	22.21%
2014	3,493,190	5,251,554	1,758,364	20,059,710	26.18%
2015	3,517,634	5,085,000	1,567,366	19,095,035	26.63%
2016	3,179,849	4,090,857	911,008	20,393,483	20.06%
2017	2,833,580	3,833,580	1,000,000	20,273,361	18.91%

Schedule of Investment Returns*

Year Ended June 30:	Actual Money Weighted Rate of Return, Net of Investment Expense
2014	12.12%
2015	0.88%
2016	1.28%
2017	10.93%

Schedule of the Employer's Net Pension Liability*

FY Ending 30-Jun	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2014	\$ 98,660,635	\$ 90,865,613	\$ 7,795,022	92.10%	\$ 20,059,710	38.86%
2015	106,131,412	93,319,482	12,811,930	87.93%	19,095,035	67.10%
2016	108,873,643	94,951,245	13,922,398	87.21%	20,393,483	68.27%
2017	110,858,730	105,306,484	5,552,246	94.99%	20,273,361	27.39%

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

**BOARD OF EDUCATION OF CHARLES COUNTY PENSION PLAN- DEFINED BENEFIT
PENSION PLAN (CONTINUED)**

NOTE 1 CHANGES IN BENEFIT TERMS

There were no benefit changes during the year.

NOTE 2 CHANGES IN ASSUMPTIONS

There were no significant plan changes since the last published valuation.

**NOTE 3 METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY
DETERMINED CONTRIBUTIONS**

Valuation Date	July 1, 2016
Actuarial Cost Method	Project unit credit method
Amortization Period	20 Years
Asset Valuation Method	Market value of assets
Investment Rate of Return	6.75% per year compounded annually, net of investment expenses
Projected Salary Increases	Years of service based 0.50 - 7.00%
Cost of Living Adjustments	2.50% limited to 150% of original benefit
General Inflation	2.75% per year
Retirement	Experience- based table of rates
Mortality Rate	RP-2014 Adjusted to 2006 Total Dataset Mortality Table projected to valuation date with Scale MP-2016
Experience Studies	The actuarial assumptions used in the valuation were based on standard tables modified for certain plan features such as full eligibility for full and early retirement where applicable and input from the plan sponsor. A full actuarial experience study has not been completed.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

RETIREE HEALTH PLAN TRUST

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a/c)
June 30, 2013	11,279,902	340,742,000	\$ 329,462,098	3.31%	187,000,000	176%
June 30, 2014	17,286,000	364,325,000	347,039,000	4.74%	187,000,000	186%
June 30, 2015	19,576,001	392,715,000	373,138,999	4.98%	187,000,000	200%
June 30, 2016	25,194,000	437,499,000	412,305,000	5.76%	187,000,000	220%
June 30, 2017	30,566,233	359,233,416	328,667,183	8.51%	195,000,000	169%

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percentage Contributed	Net OPEB Obligations
June 30, 2013	32,465,000	13,352,117	41.1%	118,702,349
June 30, 2014	34,614,000	14,086,623	40.7%	138,742,727
June 30, 2015	36,861,000	17,660,252	47.91%	157,117,475
June 30, 2016	41,059,000	17,219,559	41.94%	179,512,916
June 30, 2017	35,392,421	16,085,852	45.45%	197,524,993

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

Schedule of Changes in Employer's Net OPEB Liability and Related Ratios*

	2017
Total OPEB liability	
Service Cost	\$ 21,900,915
Interest Cost	21,179,314
Changes in Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	(81,547,251)
Benefit Payments	(9,454,874)
Net Change in Total OPEB Liability	(47,921,896)
Total OPEB liability - Beginning of Year	606,650,945
Total OPEB Liability - End of Year	\$ 558,729,049
 Plan Fiduciary Net Position	
Contributions - Employer	\$ 16,085,852
Net Investment Income	3,950,292
Benefit Payments	(11,285,852)
Administrative Expense	-
Net Change in Fiduciary Net Position	8,750,292
 Fiduciary Net Position - Beginning of Year	36,589,902
Fiduciary Net Position - End of Year	45,340,194
 Net OPEB Liability	513,388,855
Fiduciary Net Position as a % of Total OPEB Liability	8.11%
 Covered-Employee Payroll	\$ 195,000,000
Net OPEB Liability as a % of Payroll	2.63%

Notes to Schedule:

Benefit changes: None.

Changes of assumptions: None.

Discount rate:

6/30/2016 3.31%

6/30/2017 4.07%

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

Schedule of Employer Contributions*

	2017
Actuarially determined contribution	\$ 27,279,132
Contributions in relation to the actuarially determined contribution	16,085,852
Contribution deficiency (excess)	\$ 11,193,280
 Covered-employee payroll	 \$ 195,000,000
 Contributions as a percentage of covered employee payroll	 8.25%

Notes to Schedule

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected unit credit method
Amortization method	Closed, level of percent of payroll
Amortization period	21 years
Asset valuation method	Market value of assets
Inflation	2.4%
Healthcare cost trend rates	4.7% initial/ 3.9% ultimate (not applicable to life insurance)
Salary increases	3.3% per year
Investment rate of return	7.5% per year compounded annually
Retirement age	In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience
Mortality	In the 2017 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2014 Healthy Annuitant Mortality table.

*Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Original Budget	As Amended Budget	Actual	Variances Positive (Negative)
REVENUES				
State of Maryland	\$ 166,022,734	\$ 166,022,734	\$ 166,182,317	\$ 159,583
Federal government	970,000	970,000	778,873	(191,127)
Other sources	1,419,080	1,419,080	1,433,812	14,732
Local sources	<u>170,604,500</u>	<u>170,604,500</u>	<u>170,604,500</u>	<u>-</u>
Total revenues	<u>339,016,314</u>	<u>339,016,314</u>	<u>338,999,502</u>	<u>(16,812)</u>
EXPENDITURES				
Administration	9,646,454	9,646,454	9,505,307	141,147
Mid-level administration	23,085,720	23,085,720	22,626,642	459,078
Instructional salaries	129,665,567	128,565,567	127,074,969	1,490,598
Materials of instruction	4,313,385	4,713,385	4,429,064	284,321
Other costs of instruction	2,580,219	2,180,219	1,633,696	546,523
Special Education	32,165,070	33,265,070	33,177,567	87,503
Student personnel services	3,658,578	3,658,578	3,538,925	119,653
Health service	3,309,000	3,309,000	2,958,858	350,142
Transportation	25,980,749	25,980,749	25,920,895	59,854
Operations	25,377,158	25,377,158	25,248,369	128,789
Maintenance	8,289,352	8,089,352	8,012,454	76,898
Community Service	916,687	916,687	866,428	50,259
Capital Outlay	3,999,877	4,199,877	4,098,110	101,767
Fixed Charges	<u>71,229,584</u>	<u>71,229,584</u>	<u>68,028,237</u>	<u>3,201,347</u>
Total expenditures	<u>344,217,400</u>	<u>344,217,400</u>	<u>337,119,521</u>	<u>7,097,879</u>
Excess (deficiency) of revenues over expenditures	<u>(5,201,086)</u>	<u>(5,201,086)</u>	<u>1,879,981</u>	<u>7,081,067</u>
OTHER FINANCING SOURCES				
Use of prior year fund balance	<u>5,201,086</u>	<u>5,201,086</u>	-	<u>(5,201,086)</u>
Total other financing sources	<u>5,201,086</u>	<u>5,201,086</u>	-	<u>(5,201,086)</u>
Excess of revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	1,879,981	<u>\$ 1,879,981</u>
Use of budgetary fund balance			-	
FUND BALANCE AT JUNE 30, 2016			<u>15,549,367</u>	
FUND BALANCE AT JUNE 30, 2017			<u>\$ 17,429,348</u>	

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

General Fund - Reconciliation of Revenues and Expenditures

Actual revenues (non-GAAP budgetary basis)	\$ 338,999,502
Pension contribution by the State of Maryland on behalf of the Board	<u>22,396,543</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 361,396,045</u>
Actual expenditures (non-GAAP budgetary basis)	\$ 337,119,521
Encumbrance adjustment, net	1,731,479
Pension contribution by the State of Maryland on behalf of the Board	<u>22,396,543</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 361,247,543</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
GENERAL FUND
YEAR ENDED JUNE 30, 2017

	Original Budget	As Amended Budget	Actual	Variances Positive (Negative)
State of Maryland				
State - Foundation	\$ 106,590,225	\$ 106,590,225	\$ 106,585,888	\$ (4,337)
Compensatory aid	31,967,559	31,967,559	31,967,559	-
Transportation	10,781,197	10,781,197	10,781,197	-
Handicapped children	7,508,017	7,312,017	7,312,017	-
Tuition - handicapped	1,188,000	1,188,000	1,292,656	104,656
Other (LEP grant)	1,726,345	1,726,345	1,726,345	-
Out of county living	-	-	59,264	59,264
Guaranteed tax base	220,322	220,322	220,322	-
CGEI	3,547,566	3,547,566	3,547,566	-
High Road	-	-	-	-
Medicaid revenues	909,000	1,105,000	1,105,000	-
Net Taxable Income	1,584,503	1,584,503	1,584,503	-
	<u>166,022,734</u>	<u>166,022,734</u>	<u>166,182,317</u>	<u>159,583</u>
Federal Government				
Impact aid	476,000	476,000	307,311	(168,689)
ROTC	430,000	430,000	427,243	(2,757)
Impact aid special education	64,000	64,000	44,319	(19,681)
	<u>970,000</u>	<u>970,000</u>	<u>778,873</u>	<u>(191,127)</u>
Other sources				
Tuition - summer school	127,000	109,150	108,959	(191)
Tuition - nonresident	663,000	414,500	413,431	(1,069)
Tuition - Novel	30,000	350	350	-
Tuition - parents payments	74,100	97,900	97,790	(110)
Summer youth camp	26,000	26,200	26,074	(126)
Rent from school facilities	210,100	212,100	224,315	12,215
Sale of property	10,000	55,000	51,625	(3,375)
Interest income	74,880	161,020	181,633	20,613
Restitution	-	45,000	43,626	(1,374)
Vending commissions	69,000	100,000	100,000	-
Payroll transfers	100,000	83,000	82,016	(984)
Other	35,000	47,000	36,214	(10,786)
Rebates	-	67,860	67,779	(81)
Unclaimed estates	-	-	-	-
	<u>1,419,080</u>	<u>1,419,080</u>	<u>1,433,812</u>	<u>14,732</u>
Local sources				
Operational budget	170,604,500	170,604,500	170,604,500	-
Total Revenues	<u>\$ 339,016,314</u>	<u>\$ 339,016,314</u>	<u>\$ 338,999,502</u>	<u>\$ (16,812)</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
GENERAL FUND
YEAR ENDED JUNE 30, 2017
(CONTINUED)

	Original Budget	As Amended Budget	Actual	Variances Positive (Negative)
Administration				
Salaries and wages	\$ 7,187,362	\$ 6,984,362	\$ 6,910,689	\$ 73,673
Contracted services	1,550,906	1,921,948	1,887,911	34,037
Supplies and materials	708,775	610,873	588,488	22,385
Other charges	292,902	299,529	287,628	11,901
Equipment	46,215	73,448	73,344	104
Transfers in	(139,706)	(243,706)	(242,753)	(953)
	<u>9,646,454</u>	<u>9,646,454</u>	<u>9,505,307</u>	<u>141,147</u>
Mid-level administration				
Salaries and wages	21,642,750	21,072,100	20,724,221	347,879
Contracted services	301,530	487,770	462,907	24,863
Supplies and materials	857,778	1,228,057	1,199,787	28,270
Other charges	283,662	297,793	239,727	58,066
Equipment	-	-	-	-
	<u>23,085,720</u>	<u>23,085,720</u>	<u>22,626,642</u>	<u>459,078</u>
Instruction salaries				
Salaries and wages	<u>129,665,567</u>	<u>128,565,567</u>	<u>127,074,969</u>	<u>1,490,598</u>
Materials of instruction				
Supplies and materials	<u>4,313,385</u>	<u>4,713,385</u>	<u>4,429,064</u>	<u>284,321</u>
Other costs of instruction				
Contracted services	1,778,730	1,634,140	1,267,787	366,353
Other charges	506,830	413,550	249,560	163,990
Equipment	194,659	32,529	26,753	5,776
Outgoing transfers	100,000	100,000	89,596	10,404
	<u>2,580,219</u>	<u>2,180,219</u>	<u>1,633,696</u>	<u>546,523</u>
Special Education				
Salaries and wages	26,973,758	27,285,758	27,245,270	40,488
Contracted services	1,786,972	2,116,972	2,088,343	28,629
Supplies and materials	86,010	101,010	92,724	8,286
Other charges	68,330	86,330	85,026	1,304
Outgoing transfers	3,250,000	3,675,000	3,666,204	8,796
	<u>32,165,070</u>	<u>33,265,070</u>	<u>33,177,567</u>	<u>87,503</u>
Student personnel services				
Salaries and wages	3,406,528	3,406,528	3,351,916	54,612
Contracted services	234,542	233,042	169,125	63,917
Supplies and materials	10,908	12,408	12,376	32
Other charges	6,600	6,600	5,508	1,092
Equipment	-	-	-	-
	<u>3,658,578</u>	<u>3,658,578</u>	<u>3,538,925</u>	<u>119,653</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
GENERAL FUND
YEAR ENDED JUNE 30, 2017
(CONTINUED)

	Original Budget	As Amended Budget	Actual	Variances Positive (Negative)
Health Service				
Contracted services	\$ 3,281,300	\$ 3,262,163	\$ 2,924,592	\$ 337,571
Supplies and materials	27,700	46,837	34,266	12,571
	<u>3,309,000</u>	<u>3,309,000</u>	<u>2,958,858</u>	<u>350,142</u>
Transportation				
Salaries and wages	1,088,958	1,127,444	1,075,387	52,057
Contracted services	24,782,976	24,803,709	24,799,239	4,470
Supplies and materials	27,575	32,024	28,969	3,055
Other charges	6,240	11,240	10,968	272
Equipment	75,000	6,332	6,332	-
	<u>25,980,749</u>	<u>25,980,749</u>	<u>25,920,895</u>	<u>59,854</u>
Operations				
Salaries and wages	10,944,881	11,066,852	11,057,875	8,977
Contracted services	2,634,206	2,037,706	2,008,833	28,873
Supplies and materials	1,425,509	3,418,889	3,399,147	19,742
Other charges	10,177,262	8,305,382	8,241,398	63,984
Equipment	195,300	548,329	541,116	7,213
	<u>25,377,158</u>	<u>25,377,158</u>	<u>25,248,369</u>	<u>128,789</u>
Maintenance				
Salaries and wages	3,923,128	3,736,128	3,714,704	21,424
Contracted services	3,146,882	1,356,882	1,340,802	16,080
Supplies and materials	1,200,904	1,630,904	1,597,832	33,072
Other charges	1,720	6,720	3,808	2,912
Equipment	16,718	1,358,718	1,355,308	3,410
	<u>8,289,352</u>	<u>8,089,352</u>	<u>8,012,454</u>	<u>76,898</u>
Community Service				
Salaries and wages	50,500	160,500	158,508	1,992
Contracted services	859,597	751,397	703,554	47,843
Supplies and materials	6,540	4,790	4,366	424
Other charges	50	-	-	-
	<u>916,687</u>	<u>916,687</u>	<u>866,428</u>	<u>50,259</u>
Capital outlay				
Salaries and wages	512,577	512,577	466,596	45,981
Contracted services	1,862,320	368,990	323,229	45,761
Supplies and materials	3,430	93,430	92,350	1,080
Other charges	2,550	5,880	5,055	825
Equipment	1,619,000	3,219,000	3,210,880	8,120
	<u>3,999,877</u>	<u>4,199,877</u>	<u>4,098,110</u>	<u>101,767</u>
Fixed Charges				
Other charges	71,229,584	71,229,584	68,028,237	3,201,347
Total Expenditures	<u>\$ 344,217,400</u>	<u>\$ 344,217,400</u>	<u>\$ 337,119,521</u>	<u>\$ 7,097,879</u>

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS SUB-FUNDS
 JUNE 30, 2017**

	Capital Improvement Programs	School Construction	Total
ASSETS			
Cash and short-term investments	\$ -	\$ 21,266	\$ 21,266
Accounts receivable			
Federal	-	478,990	478,990
Other sources	902,793	-	902,793
Total Assest	\$ 902,793	\$ 500,256	\$ 1,403,049
 LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 85,674	\$ 186,865	\$ 272,539
Due to other funds	999,951	286,576	1,286,527
Total liabilities	1,085,625	473,441	1,559,066
 FUND BALANCES (DEFICIT)			
Unassigned	(182,832)	26,815	(156,017)
Total fund balance (deficit)	(182,832)	26,815	(156,017)
 Total Liabilities and Fund Balances	 \$ 902,793	 \$ 500,256	 \$ 1,403,049

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS SUB-FUNDS
 YEAR ENDED JUNE 30, 2017**

	<u>Capital Improvement Programs</u>	<u>School Construction</u>	<u>Total</u>
REVENUES			
State of Maryland	\$ -	\$ 4,296,437	\$ 4,296,437
Local sources	9,703,015	-	9,703,015
Other sources	<u>-</u>	<u>104</u>	<u>104</u>
Total revenues	<u>9,703,015</u>	<u>4,296,541</u>	<u>13,999,556</u>
EXPENDITURES			
Capital outlay:			
Contracted services	8,871,638	4,172,628	13,044,266
Materials	239,085	-	239,085
Computers and equipment	<u>716,101</u>	<u>-</u>	<u>716,101</u>
Total expenditures	<u>9,826,824</u>	<u>4,172,628</u>	<u>13,999,452</u>
Excess (deficiency) of revenues			
Over expenditures	(123,809)	123,913	104
OTHER FINANCING SOURCES			
Transfers in (out)	<u>123,809</u>	<u>(123,809)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	104	104
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>(182,832)</u>	<u>26,711</u>	<u>(156,121)</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (182,832)</u>	<u>\$ 26,815</u>	<u>\$ (156,017)</u>

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES –
NON-GAAP BASIS
SPECIAL REVENUE – RESTRICTED PROGRAMS FUND
YEAR ENDED JUNE 30, 2017**

	<u>Restricted Programs Fund</u>
REVENUES	
State of Maryland	\$ 1,441,307
Federal government	12,201,202
Other sources	2,907,966
Local government	<u>300,740</u>
Total revenues	<u>16,851,215</u>
EXPENDITURES	
Administration	247,644
Mid-level administration	532,769
Instructional salaries	3,560,673
Materials of instruction	1,259,552
Other costs of instruction	703,929
Special education	4,320,692
Student personnel service	-
Health service	-
Transportation	438,434
Operations	344,693
Maintenance	-
Food service	16,100
Community service	1,066,888
Capital outlay	1,883,585
Fixed charges	<u>2,476,256</u>
Total expenditures	<u>16,851,215</u>
Excess of Revenues Over Expenditures	<u>\$ -</u>

Note: For Fiscal year 2017 there were no reconciling items between the GAAP and Non-GAAP basis.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
SPECIAL REVENUE – FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	Original Budget	As Amended Budget	Actual	Variances Positive (Negative)
REVENUES				
State of Maryland	\$ 390,000	\$ 390,000	\$ 419,579	\$ 29,579
Federal government	6,902,230	6,902,230	7,533,902	631,672
Local sources	6,052,469	6,052,469	5,304,160	(748,309)
Total revenues	<u>13,344,699</u>	<u>13,344,699</u>	<u>13,257,641</u>	<u>(87,058)</u>
EXPENDITURES				
Food service				
Salaries and wages	4,367,302	4,462,302	4,447,400	14,902
Contracted services	154,000	334,000	328,302	5,698
Supplies and materials	6,718,898	6,433,898	6,853,005	(419,107)
Other charges	55,299	55,299	36,894	18,405
Equipment	95,000	105,000	103,607	1,393
Transfers out	-	-	-	-
Total food service	<u>11,390,499</u>	<u>11,390,499</u>	<u>11,769,208</u>	<u>(378,709)</u>
Fixed Charges	<u>1,954,200</u>	<u>1,954,200</u>	<u>1,484,429</u>	<u>469,771</u>
Total expenditures	<u>13,344,699</u>	<u>13,344,699</u>	<u>13,253,637</u>	<u>91,062</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,004</u>	<u>\$ 4,004</u>

Note: For Fiscal year 2017 there were no reconciling items between the GAAP and Non-GAAP basis.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF CHANGES IN NET POSITION
STUDENT ACTIVITIES FUND – AGENCY FUND
YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions/ Receipts	Reductions/ Distributions	Balance June 30, 2017
Cash by schools				
Elementary Schools				
C. Paul Barnhart	\$ 30,143	44,761	46,308	\$ 28,596
Berry	37,425	121,470	111,901	46,994
Dr. Gustavus Brown	7,201	31,928	28,031	11,098
Dr. Samuel A. Mudd	12,113	42,462	38,683	15,892
J.C. Parks	26,766	73,504	80,418	19,852
J.P. Ryon	11,778	41,707	42,272	11,213
Eva Turner	15,233	43,004	41,685	16,552
Dr. Thomas L. Higdon	32,046	77,057	74,238	34,865
Daniel of St. Thomas Jenifer	11,757	61,817	63,871	9,703
Dr. James Craik	51,597	80,652	92,042	40,207
Gale-Bailey	14,476	55,004	55,869	13,611
Indian Head	34,563	28,953	29,727	33,789
Malcolm	26,360	57,757	61,451	22,666
T.C. Martin	35,295	111,958	126,662	20,591
Arthur H. Middleton	35,507	53,355	54,332	34,530
Walter J. Mitchell	29,791	119,807	91,680	57,918
Mt. Hope/Nanjemoy	27,520	59,138	61,620	25,038
William B. Wade	46,996	112,415	130,685	28,726
Mary H. Matula	61,716	75,750	84,094	53,372
William Diggs	10,850	100,057	93,075	17,832
Mary B. Neal	23,113	89,615	84,010	28,718
Middle Schools				
John Hanson	35,350	113,974	114,474	34,850
Matthew Henson	83,522	145,146	147,275	81,393
Piccowaxen	69,971	101,918	102,130	69,759
General Smallwood	43,130	77,440	89,831	30,739
Milton Somers	31,426	132,294	130,080	33,640
Benjamin Stoddert	48,601	100,676	102,119	47,158
Mattawoman	107,305	152,992	141,212	119,085
Theodore G. Davis	36,845	114,278	119,081	32,042
High Schools				
La Plata	212,731	592,163	597,622	207,272
Lackey	224,211	356,647	333,631	247,227
Maurice J. McDonough	184,217	420,846	384,677	220,386
Thomas Stone	221,273	318,613	374,757	165,129
Westlake	126,217	493,434	479,510	140,141
North Point	378,304	1,124,700	1,053,683	449,321
St. Charles	149,617	507,508	482,291	174,834
Centers				
F.B. Gwynn	23,043	5,051	7,017	21,077
Robert Stethem Education Center	41,871	32,712	40,648	33,935
Due to Student Groups	<u>\$ 2,599,880</u>	<u>\$ 6,272,563</u>	<u>\$ 6,192,692</u>	<u>\$ 2,679,751</u>

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
 COMBINING SCHEDULE OF FIDUCIARY NET POSITION –
 RETIREE HEALTH AND PENSION TRUST FUNDS
 YEAR ENDED JUNE 30, 2017**

	Retiree Health Trust Fund	Pension Trust Fund	Total
ASSETS			
Cash and cash equivalents	\$ -	7,631,259	\$ 7,631,259
Investments	42,516,525	97,675,225	140,191,750
Contribution receivable	2,800,000	-	2,800,000
Due from other funds	23,669	-	23,669
Total assets	<u>\$ 45,340,194</u>	<u>105,306,484</u>	<u>\$ 150,646,678</u>
NET POSITION			
Held in trust for retiree health/pension benefits	<u>\$ 45,340,194</u>	<u>105,306,484</u>	<u>\$ 150,646,678</u>

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION –
RETIREE HEALTH AND PENSION TRUST FUNDS
YEAR ENDED JUNE 30, 2017**

	Retiree Health Trust Fund	Pension Trust Fund	Total
ADDITIONS			
Contributions:			
Employer	\$ 13,884,981	3,833,580	\$ 17,718,561
Plan members	2,200,871	1,087,858	3,288,729
Total contributions	<u>16,085,852</u>	<u>4,921,438</u>	<u>21,007,290</u>
Investment earnings:			
Interest and dividends	-	3,243,348	3,243,348
Net (decrease) increase in fair value of investments	3,950,292	7,342,049	11,292,341
Investment (loss)/gain	3,950,292	10,585,397	14,535,689
Less investment expense	-	229,162	229,162
Net investment (loss)/gain	3,950,292	10,356,235	14,306,527
Total additions	<u>20,036,144</u>	<u>15,277,673</u>	<u>35,313,817</u>
DEDUCTIONS			
Benefits paid to members	11,285,852	4,892,731	16,178,583
Administrative expenses	-	29,703	29,703
Total deductions	<u>11,285,852</u>	<u>4,922,434</u>	<u>16,208,286</u>
CHANGE IN NET POSITION	8,750,292	10,355,239	19,105,531
NET POSITION, BEGINNING OF YEAR	<u>36,589,902</u>	<u>94,951,245</u>	<u>131,541,147</u>
NET POSITION, END OF YEAR	<u>\$ 45,340,194</u>	<u>105,306,484</u>	<u>\$ 150,646,678</u>