

BOARD OF EDUCATION OF CARROLL COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS,
FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION**

JUNE 30, 2016

**BOARD OF EDUCATION OF CARROLL COUNTY
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2016**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
GOVERNMENT WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	11
STATEMENT OF ACTIVITIES	12
FUND FINANCIAL STATEMENTS	
BALANCE SHEET - GOVERNMENTAL FUNDS	13
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	14
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS	15
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	16
STATEMENT OF FIDUCIARY NET POSITION	17
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	18
NOTES TO FINANCIAL STATEMENTS	19
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE (NON – GAAP BUDGETARY BASIS) – GENERAL FUND	42
RECONCILIATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP BASIS REVENUES AND EXPENDITURES – GENERAL FUND	43
POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS	44
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – MARYLAND STATE RETIREMENT AND PENSION SYSTEM – LAST TEN FISCAL YEARS	45
SCHEDULE OF BOARD CONTRIBUTIONS – MARYLAND STATE RETIREMENT AND PENSION SYSTEM – LAST TEN FISCAL YEARS	46
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	47



CliftonLarsonAllen

INDEPENDENT AUDITORS' REPORT

Members of the Board of
Education of Carroll County
Westminster, 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 Carroll County (the Board), a component unit of Carroll County, Maryland as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Board'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 Board'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 Board'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 component unit governmental activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 - 10, the budgetary comparison information on pages 42 and 43, the schedules of funding progress and employer contributions on page 44, and the schedule of the Board's proportionate share of the net pension liability, schedule of Board contributions and notes to the required supplementary information on pages 45 - 47 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016, 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 Board's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
September 13, 2016

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

As Management of the Board of Education of Carroll 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, 2016. 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 for the 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 three 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, restricted, and unrestricted net position. 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.

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.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Government-Wide Financial Statements (Continued)

The governmental activities of the Board include Administration, Mid-level Administration, Regular Education, 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 Board's system-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 three governmental funds:

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

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

Capital Project 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.

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 14 and 16.

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.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Fund Financial Statements (Continued)

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

The Budgetary Comparison Schedule 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 Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) can be found immediately following the basic governmental fund financial statements on page 42.

Financial Analysis of the Board as a Whole

As noted above, all activities are identified as governmental activities. Current and other assets totaled \$55.8 million, most of which appears as accounts receivable due from primary governments. This is primarily due from the County Commissioners of Carroll County. Noncurrent assets are composed of capital assets and account for approximately 88% of the Board's total assets. Current liabilities total \$43.0 million, of which approximately \$19.0 million is accrued salaries and fringe. It should be noted that this balance reflects payments made to 10-month staff members (such as teachers) who prefer to continue semi-monthly payrolls during July and August. Since these staff members have fulfilled their contractual obligation as of June 30th, the unpaid wages are reflected in this accrual. The accrued fringe portion of this balance is also primarily associated with the payments that will be made for 10-month staff members during July and August. Noncurrent liabilities are \$126.8 million and are predominantly tied to compensated absences for employees, post-employment benefits and net pension liability.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Financial Analysis of the Board as a Whole (Continued)

Condensed Statement of Net Position

	Governmental Activities	
	June 30, 2016	June 30, 2015
	(In Millions)	
Current and other assets	\$ 55.8	\$ 51.7
Capital assets	411.3	422.0
Total assets	467.1	473.7
 Deferred outflows of resources	4.2	2.4
 Current liabilities	43.0	43.3
Noncurrent liabilities	126.8	107.2
Total liabilities	169.8	150.5
 Deferred inflows of resources	0.3	1.6
 Net position:		
Net investment in capital assets	408.4	418.6
Restricted	0.8	0.4
Unrestricted	(108.0)	(95.0)
Total net position	\$ 301.2	\$ 324.0

For budgetary purposes, acquisitions of equipment and capital improvements are considered expenditures. However in accordance with Generally Accepted Accounting Principles (GAAP) and subject to the Board's Capitalization Policy, equipment and capital improvements for the current year totaled \$7.6 million, of which a net of \$(3.4) million was to construction in progress and \$11.0 million to capital assets subject to depreciation. Of the \$11.0 million subject to depreciation, \$9.0 million was transferred from construction in progress during the year.

The associated debt to finance the increase in capital outlay resides on the County Government and State of Maryland financial statements, as it is not a burden of Carroll County Public Schools.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Financial Analysis of the Board as a Whole (Continued)

Changes in Net Position from Operating Results

	Governmental Activities	
	June 30, 2016	June 30, 2015
	(In Millions)	
Revenues		
Program revenues:		
Charge for services	\$ 3.9	\$ 3.8
Operating grants and contributions	45.9	48.8
Capital grants and contributions	6.1	9.3
General revenues:		
County government	178.0	172.9
State (unrestricted)	99.5	100.7
State pension aid	19.9	21.3
Other	3.6	1.3
Total revenues	356.9	358.1
Expenses		
Instruction (regular and special education)	263.8	271.4
Administration (central and school)	41.8	40.5
Maintenance and operations	39.7	38.8
Transportation	20.9	21.0
Student personnel, health and community services	7.4	7.4
Food services	6.0	6.0
Total expenses	379.6	385.1
Decrease in net position	\$ (22.7)	\$ (27.0)

All costs identified in the Statement of Activities include the cost of salaries, wages, supplies, contracted services, and depreciation by function. In the case of regular instruction, depreciation expense on the school buildings and equipment in those schools account for \$16.0 million. Fringe benefits and depreciation can be tracked by individual or asset, respectively, and therefore can be tied to a function. Review of the revenues identifies some fee for services circumstances, including use of facilities and tuition. Operating Grant revenues primarily include State and Federal Grants and reflect restricted sources. As detailed in the Statement of Activities, the general revenues include State and County revenue, as well as interest income, none of which meets the criteria for classification as program revenues.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Financial Analysis of the Board as a Whole (Continued)

More specifically:

- The cost of all governmental services this year was \$379.6 million.
- \$3.9 million of the costs were financed by users of the school district's programs through fees for service.
- The State and Federal governments subsidized the operations of certain programs with grants and contributions totaling almost \$45.9 million.
- The majority of the district's costs were financed by Carroll County and the State of Maryland taxpayers. Specifically, \$178.0 million was associated with Carroll County appropriations.
- \$6.1 million of additions to capital projects was financed by capital contributions from the State and County governments.

Financial Analysis of the Board's Funds

In the General Fund, revenues increased by .51% to \$344.5 million. The General Fund increase is attributable to a 2.9% increase in the appropriation from the County government, a 4.3% decrease in Federal revenue and a 2.8% decrease in unrestricted State revenue. The Board receives a per student allocation from the Maryland State Department of Education. Consequently, a reduction in student enrollment by 342 students caused a decline in unrestricted state revenue.

The Food Service Operation reflected a net change in fund balance of \$438,658 for the year ended June 30, 2016 versus a net change in fund balance of \$228,788 for the prior year. The increase in fund balance resulted from a 180 student to sell days, as well as a reduction in overhead.

The Capital Projects Fund reflected a net change in fund balance of \$(46,251) for the year ended June 30, 2016, versus a net change in fund balance of \$(1,223,988) for the prior year. The change in Fund Balance resulted from the completion of certain HVAC, paving, relocatable classrooms and roofing projects. The remaining fund balance at year end represents amounts of funding for technology improvements at June 30, 2016.

Limitations affecting the availability of resources in the General Fund include nonspendable resources of \$695,153 restricted resources of \$194,283, assigned resources of \$2,621,461, and unassigned resources of \$11,526,056.

Budgetary Highlights

Over the course of each fiscal year, the Board revises the annual current operating budget. Generally, the budgets fluctuate for one of two reasons. First, when grants are awarded during the year, an amendment is made to adjust the budget as a whole. In addition, the system is required by law to maintain budgets by category or function. Therefore, the Board makes transfers between budgeted categorical amounts to more accurately reflect changing conditions. These transfers do not impact the budget total as a whole. As reflected in the Budgetary Comparison Schedule (Non-GAAP Budgetary Basis), none of the Board's categories were overspent at year-end.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Budgetary Highlights (Continued)

The Board ended the fiscal year with an excess of revenues over expenditures (Non-GAAP Budgetary Basis) of \$5,926,371. Beginning fiscal year 2008 and thereafter, the Board of Carroll County Commissioners and the Board agreed to create a fund balance reserve account to guard against unanticipated revenue shortfalls and minimize the impact on operations of the Board when unexpected, one-time expenses occur.

The budgetary process is designed to reflect revenues equal to expenditures. However, actual expenditures and actual revenues, non-GAAP basis, were both lower than budgeted. In fiscal year 2016, current operating fund actual revenues fell short of the final budget by approximately \$3.2 million. \$1,241,508 of the difference was State Aid (Geographic Cost of Education Index adjustment) that the Governor chose not to release. The majority of the remaining shortfall was within the restricted portion, as a result of less grants that crossed into fiscal year 2016 (\$1,585,927 less than budgeted for in a pool for that purpose), and fewer new unbudgeted grants received than budgeted for in a pool budgeted for that purpose (\$760,541).

Specific categories of expenditures exceeded the original budget. Budget transfers between categories were approved to more closely align with actual expenditures, so that at year-end all categories were in compliance. In fiscal year 2016, current operating fund actual expenses were less than the final budget by approximately \$11.1 million. The majority of the decrease was within the operation of plant, instructional salaries, fixed charges, special education and other instructional costs categories, as fewer expenditures were incurred relating to these categories than originally budgeted.

Capital Asset Administration

By the end of fiscal year 2016, the Board had invested over \$411.3 million in capital assets net of depreciation, predominantly buildings. Total depreciation expense for the year approximated \$18.3 million, increasing accumulated depreciation on assets to \$250.5 million. Included in the Construction in Progress balance is the work in progress on the Manchester Elementary, Westminster Elementary, South Carroll High and Westminster High Roof Replacement projects. The County government issues the debt associated with these capital projects; therefore, the Board financial statements do not reflect outstanding debt associated with these capital assets.

Factors Bearing on the Board's Future

At the time that these financial statements were prepared and audited, the Board was aware of a few existing circumstances that could affect its financial health in the future:

1. State aid is calculated based on a number of factors, most significantly being enrollment. Carroll County Public Schools have seen a decrease in enrollment in recent years, as measured by full-time equivalent student counts, and this is projected to continue in the next several years. The decrease in enrollment could have a negative impact on the amount of future state aid received.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Factors Bearing on the Board's Future (Continued)

2. In fiscal year 2016, the Board of Education reached agreement with all five bargaining units on new three-year contracts that expire at the end of fiscal year 2019. The salary agreements call for the equivalent of a step increase and 2% cost of living adjustment in each of the three years of the agreement. Salaries and salary based benefits are a significant portion of our operating budget. If additional revenue is not available to fully cover the cost of the increased salaries, other expenditures would need to be reduced to cover any shortfall.
3. School Boards are required to pay the normal cost of retirement for teachers and the full cost of retirement for non-teacher employees. Specifically of concern is that future increases in pension costs will outpace future increases in revenues.
4. While we continue to experience favorable rates and claims, healthcare costs are increasing as a percentage of the budget overall. Continued increases in healthcare costs that outpace increases in revenue would have to be covered by reductions to other mission critical expenditures.
5. Considerable downturns in the economy or other factors further reducing revenue generated by the county or state government could limit their ability to provide legally mandated levels of funding to Carroll County Public Schools.

Contacting the Board's Financial Management

This financial report is designed to provide the Board's citizens, taxpayers, customers, stakeholders and creditors with a general overview of the system'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 Chief Financial Officer, Carroll County Public Schools, 125 North Court Street, Westminster, Maryland 21157.

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2016

		Governmental Activities
ASSETS		
Current Assets		
Cash and cash equivalents	\$	11,400,763
Accounts receivable		199,997
Due from primary government		36,561,619
Due from other units of government		6,719,853
Inventory		661,146
Prepaid expenses		300,774
Total current assets		55,844,152
Noncurrent Assets		
Capital assets :		
Nondepreciable assets		15,278,014
Depreciable assets, net		396,051,659
Total noncurrent assets		411,329,673
Total assets		467,173,825
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pension		4,193,097
Total deferred outflows of resources		4,193,097
LIABILITIES		
Current Liabilities		
Accounts payable		3,669,524
Accrued salaries and fringes		18,981,206
Accrued health claims		8,250,000
Accrued expenses		5,679,607
Accrued interest		48,288
Due to student groups		2,307,792
Due to primary government		12,744
Due to other governments		110,649
Unearned revenue		664,960
Current portion of capital lease obligations		870,718
Current portion of compensated absences payable		2,400,000
Total current liabilities		42,995,488
Noncurrent Liabilities		
Long-term portion of capital lease obligations		1,745,128
Long-term portion of compensated absences payable		13,378,411
Other postemployment benefits		93,788,726
Net pension liability		17,874,365
Total noncurrent liabilities		126,786,630
Total liabilities		169,782,118
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pension		366,052
Total deferred inflows of resources		366,052
NET POSITION		
Net investment in capital assets		408,416,941
Restricted for:		
Grants		194,283
Food services		272,437
Unrestricted		(107,664,909)
Total net position	\$	301,218,752

See accompanying Notes to Financial Statements.

**BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

	Program Revenues			Net (Expenses) Revenue and Changes in Net Position	
Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	
FUNCTIONS/PROGRAMS					
GOVERNMENTAL ACTIVITIES					
INSTRUCTION					
Regular education	\$ 208,584,441	\$ 692,549	\$ 24,389,341	\$ 6,089,055	\$ (177,413,496)
Special education	55,240,666	-	17,345,924	-	(37,894,742)
Total instruction	263,825,107	692,549	41,735,265	6,089,055	(215,308,238)
SUPPORT SERVICES					
Administration	7,424,338	-	208,963	-	(7,215,375)
Mid-level administration	34,425,052	-	205,739	-	(34,219,313)
Student personnel services	2,182,226	-	1,902	-	(2,180,324)
Student health services	4,897,363	-	11,806	-	(4,885,557)
Student transportation services	20,877,117	-	35,187	-	(20,841,930)
Operation of plant	29,804,971	-	82,777	-	(29,722,194)
Maintenance of plant	9,945,027	-	255,029	-	(9,689,998)
Community services	326,442	213,681	28,522	-	(84,239)
Food services	5,976,827	3,000,909	3,368,377	-	392,459
Total support services	115,859,363	3,214,590	4,198,302	-	(108,446,471)
Total governmental activities	\$ 379,684,470	\$ 3,907,139	\$ 45,933,567	\$ 6,089,055	(323,754,709)
GENERAL REVENUES					
Local appropriations					178,028,873
State aid					119,392,916
Miscellaneous					3,585,259
Total general revenues					301,007,048
CHANGE IN NET POSITION					(22,747,661)
NET POSITION, BEGINNING OF YEAR					323,966,413
NET POSITION, END OF YEAR					\$ 301,218,752

See accompanying Notes to Financial Statements.

BOARD OF EDUCATION OF CARROLL COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General Fund	Food Services Fund	Capital Projects Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 11,398,900	\$ 1,863	\$ -	\$ 11,400,763
Accounts receivable	199,819	178	-	199,997
Due from other funds	-	371,946	448,106	820,052
Due from fiduciary fund	-	524,791	-	524,791
Due from primary government	36,198,867	-	362,752	36,561,619
Due from other units of government	4,899,460	218,468	1,601,925	6,719,853
Inventory	394,379	266,767	-	661,146
Prepaid expenses	300,774	-	-	300,774
Total assets	<u>\$ 53,392,199</u>	<u>\$ 1,384,013</u>	<u>\$ 2,412,783</u>	<u>\$ 57,188,995</u>
LIABILITIES				
Accounts payable	\$ 1,622,884	\$ 32,434	\$ 2,014,206	\$ 3,669,524
Accrued salaries and fringes	18,616,936	364,270	-	18,981,206
Accrued health claims	8,250,000	-	-	8,250,000
Accrued expenses	5,679,607	-	-	5,679,607
Due to other funds	818,932	-	1,120	820,052
Due to fiduciary fund	2,745,959	-	86,624	2,832,583
Due to primary government	12,744	-	-	12,744
Due to other governments	110,649	-	-	110,649
Unearned revenue	497,535	167,425	-	664,960
Total liabilities	<u>38,355,246</u>	<u>564,129</u>	<u>2,101,950</u>	<u>41,021,325</u>
FUND BALANCES				
Non-spendable	695,153	266,767	-	961,920
Restricted	194,283	5,670	-	199,953
Committed	-	-	310,833	310,833
Assigned	2,621,461	547,447	-	3,168,908
Unassigned	11,526,056	-	-	11,526,056
Total fund balances	<u>15,036,953</u>	<u>819,884</u>	<u>310,833</u>	<u>16,167,670</u>
Total liabilities and fund balance	<u>\$ 53,392,199</u>	<u>\$ 1,384,013</u>	<u>\$ 2,412,783</u>	<u>\$ 57,188,995</u>

See accompanying Notes to Financial Statements.

**BOARD OF EDUCATION OF CARROLL COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

Total fund balances - governmental funds (page 13)	\$	16,167,670
 AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$661,842,587, and the accumulated depreciation is \$250,512,914.		411,329,673
Long-term liabilities 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 consist of capital lease obligations \$2,615,846, compensated absences payable \$15,778,411, and net other post-employment obligations \$93,788,726.		(112,182,983)
Accrued interest is reported when due and payable in the funds and is reported when incurred on governmental activities.		(48,288)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.		(17,874,365)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not presented in the funds.		
Deferred outflows of resources related to pensions.		4,193,097
Deferred inflows of resources related to pensions.		<u>(366,052)</u>
TOTAL NET POSITION, GOVERNMENTAL ACTIVITIES (page 12)	\$	<u>301,218,752</u>

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	Food Services Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Local sources	\$ 178,019,775	\$ -	\$ 3,718,837	\$ 181,738,612
State sources	151,449,519	104,600	2,370,218	153,924,337
Federal sources	10,517,685	3,136,682	-	13,654,367
Charges for services	906,230	3,000,909	-	3,907,139
Miscellaneous revenues	<u>3,585,259</u>	<u>127,095</u>	<u>-</u>	<u>3,712,354</u>
Total revenues	<u>344,478,468</u>	<u>6,369,286</u>	<u>6,089,055</u>	<u>356,936,809</u>
EXPENDITURES				
Administration	5,545,975	-	-	5,545,975
Instruction	138,228,012	-	-	138,228,012
Student personnel services	1,664,087	-	-	1,664,087
Student health services	3,713,795	-	-	3,713,795
Student transportation services	20,599,055	-	-	20,599,055
Operation of plant	23,263,719	-	-	23,263,719
Maintenance of plant	6,853,218	-	-	6,853,218
Fixed charges	69,961,032	-	-	69,961,032
Mid-level administration	25,749,398	-	-	25,749,398
Community services	296,470	-	-	296,470
Special education	42,459,700	-	-	42,459,700
Costs of operation - food services	-	6,003,316	-	6,003,316
Capital outlay	711,544	-	6,135,306	6,846,850
Debt service -				
Principal	813,850	-	-	813,850
Interest	<u>121,434</u>	<u>-</u>	<u>-</u>	<u>121,434</u>
Total expenditures	<u>339,981,289</u>	<u>6,003,316</u>	<u>6,135,306</u>	<u>352,119,911</u>
Excess (deficiency) of revenues over expenditures	<u>4,497,179</u>	<u>365,970</u>	<u>(46,251)</u>	<u>4,816,898</u>
OTHER FINANCING SOURCES				
Transfers in (out)	<u>(72,688)</u>	<u>72,688</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	4,424,491	438,658	(46,251)	4,816,898
FUND BALANCES, BEGINNING OF YEAR	<u>10,612,462</u>	<u>381,226</u>	<u>357,084</u>	<u>11,350,772</u>
FUND BALANCES, END OF YEAR	<u>\$ 15,036,953</u>	<u>\$ 819,884</u>	<u>\$ 310,833</u>	<u>\$ 16,167,670</u>

See accompanying Notes to Financial Statements.

**BOARD OF EDUCATION OF CARROLL COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

Total net changes in fund balances - governmental funds (page 15) \$ 4,816,898

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:**

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay, which is capitalized \$7,645,690, exceed depreciation expenses, \$18,344,904, in the period. (10,699,214)

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid within one year). This is the amount that vacation and sick leave used exceeded the amounts earned. 1,472,935

The execution of a capital lease agreement provides current financial resources to governmental funds, while the repayment of the lease principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount of principal payments on the capital lease obligation for this year. 813,850

In the Statement of Activities, only the gain or loss on sale of the capital assets is reported. In the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed. (3,846)

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. (18,646,295)

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. (501,989)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (page 12) \$ (22,747,661)

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	OPEB Plan Trust	Agency Fund
ASSETS		
Cash and cash equivalents	\$ -	\$ 315,359
Investments	16,134,871	-
Accounts receivable	-	426
Due from other funds	-	2,832,583
Prepaid expenses	-	45,060
Total assets	\$ 16,134,871	\$ 3,193,428
LIABILITIES		
Accounts payable	\$ -	\$ 130,628
Due to student groups	-	2,537,717
Due to primary government	-	292
Due to other funds	-	524,791
Total liabilities	-	\$ 3,193,428
NET POSITION		
Net position held in trust for benefits	\$ 16,134,871	

See accompanying Notes to Financial Statements.

**BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016**

	<u>OPEB Plan Trust</u>
ADDITIONS	
Contributions:	
Employer	\$ 4,888,705
Employee	<u>4,401,014</u>
Total contributions	<u>9,289,719</u>
 Investment earnings:	
Net appreciation in fair value of investments	<u>318,671</u>
Total additions	9,608,390
 DEDUCTIONS	
Benefits paid to plan members	<u>9,039,719</u>
 CHANGE IN NET POSITION	 568,671
 NET POSITION, BEGINNING OF YEAR	 <u>15,566,200</u>
 NET POSITION, END OF YEAR	 <u>\$ 16,134,871</u>

See accompanying Notes to Financial Statements.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Board of Education of Carroll County (the Board) as currently constituted was established under Title 3, Subtitle 103, Education, of the Annotated Code of Maryland. The Board is a five-member elected body responsible for the operation of Carroll County Public Schools.

The Board of Education of Carroll County is a component unit of Carroll County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. The Board does not have any component units, as it does not have any entities that it is considered to be financially accountable for in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 and as amended by GASB Statement No. 39 and GASB Statement No. 61.

The financial statements of the Board are prepared in conformity with generally accepted accounting principles (GAAP) applicable to governments in the United States of America.

Government-Wide and Fund Financial Statements

The Board follows GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by Statement No. 41, insofar as the reporting of budgetary data. The statement makes annual reports easier to understand and more useful to those who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis many private sector entities provide in their annual reports.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable), but also capital assets and long-term liabilities. Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. Fiduciary funds are not included in government-wide financial statements.

The basic financial statements include both government-wide (based on the Board as a whole) and fund financial statements. The Board does not engage in business-type activities and, as such, issues single column government-wide financial statements. In the Government-Wide Statement of Net Position, both the governmental activities' assets, liabilities and deferred inflows/outflows of resources (a) are presented on a consolidated basis and (b) are reflected on a full accrual, economic resource basis, which incorporates noncurrent assets and receivables as well as long-term obligations.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government. The Board reports all capital assets in the government-wide Statement of Net Position and reports depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The Net Position of the Board is broken down into three categories – 1) net investment in capital assets, 2) restricted; and 3) unrestricted.

Statement of Activities - The Government-Wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each Board function. The expenses of individual functions are compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants). These directly matched revenues are called program revenues. This format enables the Government-Wide Statement of Activities to reflect both the gross and net cost per functional category (regular instruction, special instruction, pupil transportation, etc.) that are otherwise being supported by general government revenues.

Program revenues must be directly associated with a function and are restricted to meeting the operational or capital requirements of a particular function or activity. Multi-purpose grants and other items not properly included among program revenues are reported as general revenues. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Direct expenses are considered those that are clearly identifiable with a specific function or segment. The Board does not allocate indirect expenses.

Fund Financial Statements - Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the Board are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Budgetary Comparison Schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. The Board and many other governments revise their original budgets over the course of the year for a variety of reasons. A budgetary comparison schedule of the Board's original budget to the final budget and actual results is presented as required supplementary information.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and certain fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Employee and employer contributions to the other employee benefit trust fund are recognized as revenue in the period the contributions are due.

Nonexchange transactions are where the Board either gives or receives value without directly receiving or giving equal value in exchange including, for example, grants and contributions. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This focus is on the determination of, and changes in financial position, and generally only current assets, current liabilities, and deferred inflows/outflows of resources are included on the Balance Sheet. Revenues are recorded as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within a current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major revenue sources subject to the availability criterion are the local, state, and federal revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Expenditures related to compensated absences are recorded when payment is due or when payable resulting from resignations or retirements.

Program revenues include several types of transactions. Tuition paid directly by students and parents and sales associated with the Food Service Operation are identified as charges for services. State and federal support for Food Service Operation is identified as operating grants and contributions. Grant-related revenue that is specifically restricted for use by a particular function is separated in the Statement of Activities.

The Board reports the following major governmental funds:

General Fund – The General Fund is the operating fund of the Board and is used to account for the revenues and expenditures necessary for the day-to-day operation of the Board. This fund is used to account for all financial resources except those required to be accounted for in another fund.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Food Service Fund – The Food Service Fund is used to account for the operations of the cafeteria program throughout the Board.

Capital Project Fund – The Capital Project Fund is used to account for the financial resources to be used for the acquisition, construction, or improvement of the Board’s major capital facilities.

Additionally, the Board reports the following fiduciary funds:

Agency Fund – The Agency Fund is a fiduciary fund used to account for the funds held by the Board in a trustee capacity. The school funds account for the funds of other persons or organizations which are the direct responsibility of the principals of the respective schools. This is an agency fund with no measurement focus as only assets and liabilities are reported on the accrual basis.

OPEB Plan Trust – The OPEB Plan Trust is used to account for the collection of medical premiums and the payments of medical claims for the Board’s retirees.

As a general rule, the effect of interfund and internal activity has been eliminated from the government-wide financial statements including the Statement of Activities. Interfund balances are not included in the Government-Wide Statement of Net Position. The Board distinguishes overhead costs, which are eliminated in the preparation of the Statement of Activities from interfund services provided and used between functions which are not eliminated in the Statement of Activities in the financial statement closing process. The Board does not allocate indirect expenses to functions in the fund financial statements.

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity

Investments

Investments, including OPEB Plan Trust investments consisting of money market and mutual funds are stated at fair value.

Receivables and Payables

All interfund receivables and payables are displayed in the fund statements as “due to/due from other funds.” These amounts offset each other and are eliminated from the Government-Wide Statement of Net Position, so as to not overstate the Board’s assets and liabilities. All trade receivables are deemed fully collectible by management.

Inventory

Inventory consists of expendable supplies and food held for consumption and is valued at cost (first-in, first-out). Inventory is reflected in the financial statements by the consumption method. Under this method, the expenditure is recognized when inventory is used. In the fund financial statements, these inventories are considered nonspendable which indicates that they do not constitute available expendable resources, even though they are a component of assets.

**BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity
(Continued)**

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are considered nonspendable in the fund financial statements since they do not constitute available expendable resources.

Capital Assets

Capital assets, which include land and improvements, buildings and improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government 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 the donation.

There is no depreciation recorded for land. Construction in progress is depreciated when it is put in use.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

ASSETS	Years
Buildings	50
Improvements	20
Equipment	3 – 10

Deferred Outflows 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 (expenditure) until the future period.

Unearned Revenues

Unearned revenues represent amounts received from grantors in advance of incurrence of eligible expenditures for grants and unused commodities at June 30, 2016, since title does not pass to the Board until the commodities are used.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity (Continued)

Compensated Absences Payable

Compensated absences consist primarily of sick and vacation time earned but not taken. Employees hired prior to July 1, 1997 meeting specified service requirements are eligible to accumulate sick time and upon retirement, are entitled to payment for unused sick time at 50% of their accrued sick leave balance at their previous three year average daily rate. Employees hired prior to July 1, 1997 may accumulate unused sick time and will be paid for a maximum of 250 days or their accumulated balance at June 30, 2003, whichever is greater. Employees hired July 1, 1997 and later are eligible for accumulated unlimited sick time but are not entitled to payment for unused sick time upon retirement. The Board pays out accumulated sick time over a five year period upon retirement. There is a maximum accrual of 40 paid vacation days for those employees eligible to earn and accumulate vacation time, which is paid out immediately upon retirement. Vested absences are accrued when incurred in the government-wide financial statements.

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 government. Accordingly, the Board does not record school construction debt service revenues, expenditures, or outstanding school construction debt. The authorization for annual expenditures related to debt service emanate from the Carroll County Operating Budget Ordinance.

Deferred Inflows of Resources

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.

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

Net Position/Fund Equity

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

Net investment in capital assets - This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity (Continued)

Net Position/Fund Equity (Continued)

Restricted net position - This category presents net position with external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

Unrestricted net position - This category presents the net position of the Board, not restricted for any purpose.

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

Nonspendable

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

Restricted

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

Committed

Amounts that can be used only for specific purposes as determined by a formal action of the Board of Education, which is the highest level of decision-making authority for the Board. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned

Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Board's adopted policy, the Superintendent, Assistant Superintendent, or Supervisor of Purchasing may assign amounts for specific purposes.

Unassigned

All other spendable amounts.

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.

In-kind Contributions

In-kind contributions represent non-cash transactions for costs of services provided by Carroll County, Maryland, which are primarily for use of facilities (including rent, utilities, insurance and maintenance costs). The fair value of these services was \$1,826,873 for the year ended June 30, 2016. These services are included as in-kind contributions in county revenue and a corresponding amount in the operating expenses of the Board.

**BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 BUDGETS AND BUDGETARY ACCOUNTING POLICIES

Legal budgetary control is employed for the General Fund only. Capital Projects are budgeted on a project basis only. Management employs budgetary control over the Food Service Fund for operational purposes only.

The Board follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to December, the staff accumulates and summarizes data for a proposed operating budget (General Fund).
2. During January, the Superintendent of Schools submits a proposed operating budget to the Board.
3. Public hearings are held to obtain citizens' comments.
4. During February, the Board adopts the proposed budget.
5. On March 1, the budget is submitted to the Carroll County Commissioners for approval.
6. During May, the County Commissioners hold final hearings and adopt the budget which becomes effective July 1.
7. The General Fund budget is adopted on a basis consistent with GAAP except for the inclusion of encumbrances as expenditures and the exclusion of pension payments made by the State on behalf of the Board. Budget comparisons presented in this report are on a non-GAAP budgetary basis. The required supplementary information budgetary comparison schedule reflects the budget as amended.
8. Request for adjustments to major categories must be submitted to the County Commissioners for approval or denial. No action within thirty (30) days of submission constitutes approval.
9. Requests for transfers between major categories must be submitted to the County Commissioners for approval or denial. No action within thirty (30) days of submission constitutes approval.
10. Expenditures may not legally exceed appropriations at the major category level. In addition, all appropriations lapse at year-end.

During the year, the Board of Education did not require and supplemental appropriations. The original operating budget approved by the County Commissioners is presented below:

Original operating budget approved by the County Commissioners	\$ 329,797,520
Approved supplemental appropriations	-
Amended operating budget for fiscal year 2016	\$ 329,797,520

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3 CASH AND CASH EQUIVALENTS

The Board of Education maintains pooled and various separate cash accounts for its funds. The cash balances of the Agency Fund (see Statement of Fiduciary Net Position) consist of individual demand accounts maintained by the schools. The Board considers any instrument with a maturity of three months or less when purchased to be cash equivalents.

Deposits

At year-end, the carrying value of the Board's combined deposits was \$11,712,564 and cash on hand was \$3,558. The bank balance of deposits was \$15,879,384. The bank balance was covered either by federal depository insurance or collateral held by the financial institution's trust department in the Board's name. Statutes authorize secured time deposits in Maryland banks and requires uninsured deposits to be fully collateralized. Therefore, under the reporting requirements of GASB Statement No.40, the Board's deposits are not subject to custodial or credit risk at year-end. Because of the short-term maturity and type of the investments there is limited interest rate risk.

Investments

Statutes authorize the Board to invest in obligations of the U.S. Government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligations.

OPEB Plan Trust (the Trust) investments of \$16,134,871 are invested in the Carroll County Master Retiree Benefit Trust, which consists of money market and mutual funds. The Trust investments are reported at fair value. The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles, as follows:

- *Level 1* – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.

- *Level 2* – Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation of other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- *Level 3* – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)

Investments (Continued)

The following is a description of the valuation methodology used for assets measured at fair value:

Carroll County Master Retiree Benefit Trust (Trust): The underlying investments of the Trust are reported at fair value based on quoted prices for similar assets in active markets.

The Trust is valued using Level 2 measurements at June 30, 2016.

The Carroll County Master Retiree Benefit Trust is not rated by the rating agencies.

Investment 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 to overnight repurchase agreements and requires that collateral securities underlying the repurchase agreements have a market value equal to the cost of the agreement.

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 investments in the OPEB Plan Trust to overnight deposits that are insured or collateralized with securities held by a custodian in the Board's name. 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.

NOTE 4 INVENTORY

Inventory consists of the following for the General Fund and Food Services Funds:

General Fund

Custodial supplies	\$ 197,366
Equipment, repair and maintenance supplies	<u>197,013</u>
	<u>394,379</u>

Food Services Fund

Supplies	25,935
Food	<u>240,832</u>
	<u>266,767</u>
Total inventories	<u>\$ 661,146</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

Governmental Activities	Balance at June 30, 2015	Increases	Decreases	Balance at June 30, 2016
Capital assets not being depreciated				
Land and improvements	\$ 15,049,603	\$ 2,700	\$ -	\$ 15,052,303
Construction in progress	<u>3,618,441</u>	<u>5,590,237</u>	<u>(8,982,967)</u>	<u>225,711</u>
Total capital assets, not being depreciated	<u>18,668,044</u>	<u>5,592,937</u>	<u>(8,982,967)</u>	<u>15,278,014</u>
Capital assets being depreciated				
Equipment	42,746,102	2,036,299	(701,282)	44,081,119
Building and improvements	<u>593,484,033</u>	<u>8,999,421</u>	<u>-</u>	<u>602,483,454</u>
Total capital assets, being depreciated	<u>636,230,135</u>	<u>11,035,720</u>	<u>(701,282)</u>	<u>646,564,573</u>
Less - accumulated depreciation				
Equipment	32,000,699	3,073,831	(697,436)	34,377,094
Building and improvements	<u>200,864,747</u>	<u>15,271,073</u>	<u>-</u>	<u>216,135,820</u>
Total accumulated depreciation	<u>232,865,446</u>	<u>18,344,904</u>	<u>(697,436)</u>	<u>250,512,914</u>
Total capital assets being depreciated, net	<u>403,364,689</u>	<u>(7,309,184)</u>	<u>(3,846)</u>	<u>396,051,659</u>
Capital assets, net	<u>\$ 422,032,733</u>	<u>\$ (1,716,247)</u>	<u>\$ (8,986,813)</u>	<u>\$ 411,329,673</u>

Depreciation expense for the year was charged to functions as follows:

Regular education	\$ 15,969,119
Special education	153,377
Administration	12,050
Mid level administration	76,347
Student personnel services	7,200
Student health services	286
Student transportation services	58,763
Operation of plant	1,131,845
Maintenance of plant	878,420
Food services	<u>57,497</u>
Total depreciation expense - governmental activities	<u>\$ 18,344,904</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 CAPITAL ASSETS (CONTINUED)

At June 30, 2016, the Board has construction commitments consisting of the following:

	Future Amounts to be Expended	Future Funding to be Provided
Manchester Elementary Roof	\$ 836,305	\$ 836,305
Westminster Elementary Roof	903,128	903,128
South Carroll High School Roof	2,784,148	2,784,148
Westminster High School Roof	2,017,995	2,017,995
Francis Scott Key High School	3,557,000	3,557,000
Friendship Valley Elementary School	1,526,100	1,526,100
Piney Ridge Elementary School	1,074,200	1,074,200
Total	<u>\$ 12,698,876</u>	<u>\$ 12,698,876</u>

NOTE 6 INTERFUND BALANCES

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

	Due From	Due To
General Fund		
Food Service	\$ -	\$ 370,826
Capital Projects	-	448,106
Agency	-	2,745,959
Total general fund	<u>-</u>	<u>3,564,891</u>
Food Service Fund		
General	370,826	-
Capital Projects	1,120	-
Agency	524,791	-
Total food service fund	<u>896,737</u>	<u>-</u>
Capital Projects Fund		
General	448,106	-
Food Service	-	1,120
Agency	-	86,624
Total capital projects fund	<u>448,106</u>	<u>87,744</u>
Agency Fund		
General	2,745,959	-
Food Service	-	524,791
Capital Projects	86,624	-
Total agency fund	<u>2,832,583</u>	<u>524,791</u>
Total Interfund Balances	<u>\$ 4,177,426</u>	<u>\$ 4,177,426</u>

The interfund balances resulted from the time lag between the dates that payments of expenses and cash collections by one fund on behalf of another are made.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 LONG-TERM DEBT

Long-term debt at June 30, 2016 consisted of amounts due under capital leases and compensated absences payable as further discussed in Note 1.

In October of 2004, the Board entered into a ten-year energy management plan to provide air conditioning to three elementary schools. Additionally, the plan upgraded water and lighting fixtures. During the fiscal year ended June 30, 2016, no new capital leases were entered into by the Board.

The Board leases energy management equipment pursuant to capital lease agreements entered into in prior years. Payments made on capital leases are recorded in the General Fund. Future minimum lease obligations are as follows:

Year Ending June 30	Energy Management Equipment
2017	\$ 963,343
2018	992,243
2019	844,235
Total future payments	2,799,821
Less interest	(183,975)
Present value of future minimum lease payments	\$ 2,615,846

Interest expense related to capital leases was \$121,435 for the year ended June 30, 2016. This amount was allocated to the maintenance of plant function.

Changes in capital lease obligations for the year ended June 30, 2016 were as follows:

Balance, at June 30, 2015	\$ 3,429,696
Additions	-
Reductions	(813,850)
Balance at June 30, 2016	2,615,846
Amounts due within one year	870,718
Capital lease obligations non-current	\$ 1,745,128

Changes in compensated absences payable for the year ended June 30, 2016 were as follows:

Balance at June 30, 2015	\$ 17,251,346
Additions	867,059
Reductions	(2,339,994)
Balance at June 30, 2016	15,778,411
Amounts due within one year	2,400,000
Compensated absence non-current portion	\$ 13,378,411

Capital lease and compensated absence liabilities are generally liquidated by the General Fund.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 PENSION PLANS

General Information about the Plan

Plan description. The employees of the Board are covered by the Maryland State Retirement and Pension System (the System), which is a cost sharing employer public employee retirement system. While there are five retirement and pension systems under the System, employees of the Board are a member of either the Teachers' Retirement and Pension Systems or the Employees' Retirement and Pension Systems. The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators, and employees of participating governmental units. The Plans are administered by the State Retirement Agency. Responsibility for the System's administration and operation is vested in a 15-member Board of Trustees. The System issues a 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 and the Employees' 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 and Employees' 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 retiree's benefits allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.

A member of either the Teachers' or Employees' 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 either the Teachers' or Employees' 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 either the Teachers' or Employees' 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 either the Teachers' or Employees' 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' or Employees' Pension System on or after July 1, 2006, the annual pension

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 PENSION PLANS (CONTINUED)

General Information about the Plan (Continued)

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' or Employees' 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' or Employees' Pension System.

Contributions. The Board and covered members are required by State statute to contribute to the System. Members of the Teachers' Pension System and Employees' Pension System are required to contribute 7% annually. Members of the Teachers' Retirement System and Employees' 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, 2016, was \$19,932,553. The fiscal 2016 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the General Fund in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances and are also included as revenues and expenses in the Statement of Activities.

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 will be paid in FY 2017 and each year thereafter. The Board's required contribution to the Teachers' Retirement and Pension Systems for the year ended June 30, 2016 was \$7,468,196.

The Board's contractually required contribution rate for the Employees' Retirement and Pension Systems for the year ended June 30, 2016, was 6.72% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Board made its share of the required contributions during the year ended June 30, 2016 of \$1,578,985.

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

Employees Retirement and Pension Systems

At June 30, 2016, the Board reported a liability of \$17,874,365 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 PENSION PLANS (CONTINUED)

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

Employees Retirement and Pension Systems (Continued)

by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on actual employer contributions billed to participating government units for the year ending June 30, 2015. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the State of Maryland. As of June 30, 2015, the Board's proportionate share was 0.08601%.

For the year ended June 30, 2016, the Board recognized pension expense of \$2,080,973. At June 30, 2016, 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	\$ -	\$ 366,052
Changes in assumptions	1,050,756	-
Change in proportion	707,912	-
Net difference between projected and actual earnings on pension plan investments	393,946	-
Changes in proportionate share of contributions	461,498	-
Board contributions subsequent to the measurement date	1,578,985	-
Total	\$ 4,193,097	\$ 366,052

\$1,578,985 reported as deferred outflows of resources related to pensions resulting from Board contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$ 437,938
2018	437,938
2019	437,938
2020	682,712
2021	251,534

Teachers Retirement and Pension Systems

At June 30, 2016, 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 and the Board pays the normal cost related to the Boards members in the Teachers Retirement and Pension Systems; 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:

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 PENSION PLANS (CONTINUED)

State's proportionate share of the net pension liability	\$ 273,808,237
Board's proportionate share of the net pension liability	-
Total	<u>\$ 273,808,237</u>

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

For the year ended June 30, 2016, the Board recognized pension expense of \$27,400,749 and revenue of \$19,932,553 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, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on RP-2014 Mortality Table with generational mortality projections using scale MP-2014, calibrated to the System's experience.

The economic and demographic actuarial assumptions used in the June 30, 2015 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, 2015. As a result, an investment return assumptions of 7.55% and an inflation assumption of 2.70% were used in the June 30, 2015 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:

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8 PENSION PLANS (CONTINUED)

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Public Equity	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	<u>1%</u>	0.00%
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, 2015.

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of the pension plan expense was 2.71%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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.

Sensitivity of the Net Pension Liability. Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the Board's net pension liability, calculated using a single discount rate of 7.55%, as well as what the Board's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher for the Employees Retirement and Pension Systems:

	1% Decrease (6.55%)	Current Discount Rate (7.55%)	1% Increase (8.55%)
Board's proportionate share of the net pension liability	\$ 25,262,683	\$ 17,874,365	\$ 11,747,989

Due to the special funding situation noted above related to the Teachers Retirement and Pension Systems, the Board did not record a net pension liability related to the Teachers Retirement and Pension Systems.

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.

**BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description and Funding Policy

The Board provides medical benefits to eligible employees who retire from employment with the Carroll County Public School System. The employer's contributions are financed on a pay-as-you-go basis and any amounts budgeted to be contributed towards meeting the annual required contribution per the actuarial valuation. The future payment of these benefits is contingent upon the annual approval of the operating budget.

The Board provides medical benefits to retirees pursuant to two medical benefit plans for retired employees based on negotiated agreements with various bargaining groups. For retirees over the age of 65 who retired prior to September 1, 1988, the percentage of the stipend paid by the Board was dependent upon the retiree's years of service and ranged from 10% to 100%. For retirees who retired after September 1, 1988, the percentage of the stipend paid by the Board is dependent upon the retiree's years of service and ranges from 0% to 100%. These percentages are applied to stipends established annually by the Board for individual, husband/wife, parent/child, and family coverages. Only Carroll County Board of Education years of service are considered. As of June 30, 2016, 1,273 eligible participants were receiving benefits.

Annual OPEB Cost and Net OPEB Obligation

The Board's annual OPEB cost (expense) is calculated based on the actuarially determined *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	\$ 24,020,000
Interest on OPEB obligation	3,006,000
Adjustment to annual required contribution	<u>(3,491,000)</u>
Annual OPEB cost	23,535,000
Contributions made	<u>(4,888,705)</u>
Increase in net OPEB obligation	18,646,295
Net OPEB obligation - beginning of year	<u>75,142,431</u>
Net OPEB obligation - end of year	<u><u>\$ 93,788,726</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 fiscal year 2016 and the two preceding fiscal years are as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 19,602,000	19.95%	\$ 58,881,226
June 30, 2015	20,904,000	22.22%	75,142,431
June 30, 2016	23,535,000	20.77%	93,788,726

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 9 POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the Plan was 5.4% funded. The actuarial accrued liability for benefits was \$285,881,000 and the actuarial value of assets was \$15,566,200, resulting in an unfunded actuarial accrued liability (UAAL) of \$270,314,800. The covered payroll (annual payroll of active employees covered by the plan) was \$193,498,864, and the ratio of the UAAL to the covered payroll was 139.70%.

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, 2015, actuarial valuation, the projected unit credit method, with linear pro-rata to assumed benefit commencement method was used. The actuarial assumptions included a 4.00% investment rate of return, which assumes that benefits will be funded on a pay-as-you-go basis and that General Fund investments earn 4.00% over the long-term. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2016 was 24 years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2015
Actuarial Cost Method	Projected unit method
Amortization Method	Level percentage of projected payroll over a 30-year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	4%
Payroll Growth Rate	3%
Healthcare Cost Trend Rates:	
Pre-65 Medical	7.0% initial / 5.1% ultimate (not applicable to Life)
Post-65 Medical	7.0% initial / 4.8% ultimate (not applicable to Life)

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 10 FUND BALANCE

Fund balance at June 30, 2016 consists of the following:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Capital Projects Fund</u>
Fund Balances			
Nonspendable for:			
Inventory	\$ 394,379	\$ 266,767	\$ -
Prepaid expenses	300,774	-	-
Total nonspendable	<u>695,153</u>	<u>266,767</u>	<u>-</u>
Restricted for:			
Regular instruction	7,508	-	-
Operation of plant	10,379	-	-
Maintenance of plant	115,416	-	-
Cost of operation - food service	-	5,670	-
Special education	60,980	-	-
Total restricted	<u>194,283</u>	<u>5,670</u>	<u>-</u>
Committed for:			
Capital outlay	-	-	310,833
Assigned to:			
Administration	120,393	-	-
Regular instruction	647,805	-	-
Student health services	32,354	-	-
Student transportation services	54,540	-	-
Operation of plant	368,411	-	-
Maintenance of plant	746,270	-	-
Fixed charges	2,500	-	-
Mid-level administration	14,546	-	-
Special education	632,523	-	-
Cost of operation - food service	-	547,447	-
Capital outlay	2,119	-	-
Total assigned	<u>2,621,461</u>	<u>547,447</u>	<u>-</u>
Unassigned	<u>11,526,056</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>\$ 15,036,953</u>	<u>\$ 819,884</u>	<u>\$ 310,833</u>

NOTE 11 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 Food Service Fund, and encumbrances outstanding at year-end are reported as commitments or assignments of fund balances since they do not constitute expenditures or liabilities.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 ENCUMBRANCES (CONTINUED)

Encumbrances at June 30, 2016 are for the following uses:

	General Fund	Food Service Fund
Administration	\$ 120,393	\$ -
Regular instruction	655,313	-
Student health services	32,354	-
Student transportation services	54,540	-
Operation of plant	378,790	-
Maintenance of plant	861,686	-
Fixed charges	2,500	-
Mid-level administration	14,546	-
Special education	693,503	-
Cost of operation - food service	-	5,670
Capital outlay	2,119	-
Total encumbrances	\$ 2,815,744	\$ 5,670

NOTE 12 LITIGATION AND CONTINGENCIES

Several lawsuits have been filed arising from personnel grievances, personal injury, and other matters. It is anticipated by the Board that an adverse decision in excess of insurance coverage on any or all of these lawsuits would not have a material adverse affect on these financial statements.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. Amounts, if any, of expenditures that may be disallowed by grantors cannot be determined at this time, although the Board expects such amounts, if any, to be immaterial.

The Board leases equipment under agreements reported as operating leases. The annual lease payments are recorded as expenses in the Government-Wide Statement of Activities and expenditures in the General Fund. Operating lease terms extend through the year ending June 30, 2019.

Future minimum payments on operating leases with an initial or remaining noncancellable term in excess of one year are as follows:

Year Ending June 30	Minimum Annual Lease Payments
2017	\$ 466,968
2018	151,807
2019	20,203
Total	\$ 638,978

Operating lease expenditures/expenses for the year ended June 30, 2016 were \$538,339.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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; and natural disasters for which the Board participates in the Maryland Association of Boards of Education Group Insurance Pool (MABE). MABE is a public entity risk pool currently operating as a common risk management and insurance program for fourteen member counties to reduce the amount of claims expenditures incurred. The Board pays an annual premium to MABE for its general insurance coverage. The Formation Agreement of MABE provides that MABE will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of established loss limits which range from \$2,500 to \$5 million for each insured event depending on the type of loss. Settled claims have not exceeded coverage in any of the past three years.

Commercial insurance policies are purchased to provide coverage including workers' compensation coverage. Settled claims did not exceed coverage in any of the past three years.

The Board has also established limited risk management programs for healthcare insurance. The Board, with Aetna U.S. Healthcare, has an arrangement for providing coverage for future medical claims and employees contribute 15% towards this coverage. Deposits are made by the Board into a bank account used only for payments resulting from health insurance claims.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At June 30, 2016, liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated by an actuary based on the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The estimate of the claims liability also includes amounts for non-incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example, from salvage or subrogation are another component of the claims liability estimate.

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

	2016	2015
Accrued health claims:		
Unpaid claims at beginning of year	\$ 8,241,100	\$ 4,590,000
Incurred claims (including IBNR)	46,890,152	50,984,357
Claim payments	(46,881,252)	(47,333,257)
Unpaid claims at end of year	\$ 8,250,000	\$ 8,241,100

BOARD OF EDUCATION OF CARROLL COUNTY
BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS)
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Non-GAAP Actual	Variances Positive (Negative) Final Budget To Actual
REVENUES				
Local sources	\$ 178,180,900	\$ 178,180,900	\$ 178,028,873	\$ (152,027)
State sources	133,232,264	133,232,264	131,576,375	(1,655,889)
Federal sources	13,353,668	13,353,668	10,537,373	(2,816,295)
Other revenues	<u>3,053,376</u>	<u>3,053,376</u>	<u>4,491,489</u>	<u>1,438,113</u>
Total revenues	<u>327,820,208</u>	<u>327,820,208</u>	<u>324,634,110</u>	<u>(3,186,098)</u>
EXPENDITURES				
Administration	5,201,159	5,426,159	5,065,534	360,625
Instructional salaries	116,692,983	116,692,984	114,940,090	1,752,894
Student personnel services	1,599,532	1,599,532	1,488,891	110,641
Student health services	3,439,350	3,439,350	3,328,981	110,369
Student transportation services	21,174,590	20,824,590	20,335,411	489,179
Operation of plant	24,324,416	23,874,416	23,303,442	570,974
Maintenance of plant	7,212,517	7,712,517	7,552,803	159,714
Fixed charges	76,632,161	75,682,160	70,064,066	5,618,094
Community services	330,000	330,000	296,470	33,530
Capital outlay	686,311	686,311	625,789	60,522
Mid-level administration	23,112,579	23,387,579	23,054,185	333,394
Special education	38,754,162	39,454,162	39,278,226	175,936
Instructional textbooks/supplies	7,966,785	7,966,785	7,327,159	639,626
Other instructional costs	<u>2,670,975</u>	<u>2,670,975</u>	<u>1,974,004</u>	<u>696,971</u>
Total expenditures	<u>329,797,520</u>	<u>329,747,520</u>	<u>318,635,051</u>	<u>11,112,469</u>
Excess (deficiency) of revenues over expenditures	<u>(1,977,312)</u>	<u>(1,927,312)</u>	<u>5,999,059</u>	<u>7,926,371</u>
OTHER FINANCING SOURCES				
Use of prior year fund balance	2,000,000	2,000,000	-	(2,000,000)
Transfers out	<u>(22,688)</u>	<u>(72,688)</u>	<u>(72,688)</u>	<u>-</u>
Total other financing sources	<u>1,977,312</u>	<u>1,927,312</u>	<u>(72,688)</u>	<u>(2,000,000)</u>
Excess of revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>5,926,371</u>	<u>\$ 5,926,371</u>
FUND BALANCE AT JUNE 30, 2015			<u>6,316,000</u>	
FUND BALANCE AT JUNE 30, 2016			<u>\$ 12,242,371</u>	

**BOARD OF EDUCATION OF CARROLL COUNTY
RECONCILIATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND
OUTFLOWS AND GAAP BASIS REVENUES AND EXPENDITURES
GENERAL FUND
JUNE 30, 2016**

Under the budgetary basis of accounting, revenues are recognized when cash is received and expenditures are recognized upon the commitment of an encumbrance. Pension payments made by the State on behalf of the Board are not considered revenues and expenditures on the budgetary basis of accounting.

A reconciliation of the revenues and expenditures for the funds which are affected by the adjustments necessary to present the Statement of Revenues and Expenditures and Changes in Fund Balance on a GAAP basis follows:

BUDGETARY GENERAL FUND

Revenues (non-GAAP budgetary basis)	\$ 324,634,110
Decrease in fiscal year revenues generated by fiscal year changes in encumbrances of expenditure driven grants	(88,195)
State pension payments	<u>19,932,553</u>
Revenues and other financing sources (GAAP basis)	<u>\$ 344,478,468</u>
Expenditures (non-GAAP budgetary basis)	\$ 318,635,051
Encumbrance adjustment, net	1,413,686
State pension payments	<u>19,932,553</u>
Total expenditures (GAAP basis)	<u>\$ 339,981,290</u>

**BOARD OF EDUCATION OF CARROLL COUNTY
POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
JUNE 30, 2016**

Schedule of Funding Progress

Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2009	\$ 1,500,000	\$ 116,797,000	\$ 115,297,000	1.3%	\$ 204,209,308	56.5%
July 1, 2010	3,722,000	110,803,000	107,081,000	3.4%	200,942,793	53.3%
July 1, 2011	7,369,200	181,428,000	174,058,800	4.1%	187,912,812	92.6%
July 1, 2012	9,277,000	192,349,000	183,072,000	4.8%	198,512,177	92.2%
July 1, 2013	12,385,000	231,734,000	219,349,000	5.3%	199,323,185	110.0%
July 1, 2014	13,252,000	245,811,000	232,559,000	5.4%	199,079,448	116.8%
July 1, 2015	15,566,200	285,881,000	270,314,800	5.4%	193,498,864	139.7%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contributions	Percentage Contributed	Net OPEB Obligation
2010	\$ 10,211,000	41.65%	\$ 16,785,610
2011	9,725,000	53.53%	21,373,441
2012	15,475,000	32.03%	31,956,508
2013	16,499,000	32.14%	43,190,699
2014	19,744,000	19.95%	58,881,226
2015	21,182,000	22.22%	75,142,431
2016	24,020,000	20.77%	93,788,726

**BOARD OF EDUCATION OF CARROLL COUNTY
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST TEN FISCAL YEARS**

	2016	2015
Employers' Retirement and Pension System:		
Board's proportion of the net pension liability	0.0860101000%	0.0810238861%
Board's proportionate share of the net pension liability	\$ 17,874,365	\$ 14,379,091
Board's covered employee payroll	\$ 18,450,534	\$ 18,578,684
Board's proportionate share of the net pension liability as a percentage of its covered employee payroll	96.88%	77.40%
Plan fiduciary net position as a percentage of the total pension liability	66.26%	73.65%
 Teachers' Retirement and Pension System:		
Board's proportion of the net pension liability	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>273,808,237</u>	<u>201,622,624</u>
Total	\$ 273,808,237	\$ 201,622,624
Board's covered employee payroll	\$ 157,648,906	\$ 158,300,988
Board's proportionate share of the net pension liability as a percentage of its covered employee payroll	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	70.76%	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 date projected forward to June 30 of the previous year. Additionally, the Board implemented GASB 68 during fiscal year 2015. As such, only two years of information is available.

**BOARD OF EDUCATION OF CARROLL COUNTY
SCHEDULE OF BOARD CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST TEN FISCAL YEARS**

Employees' Retirement and Pension System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 1,578,985	\$ 1,812,859	\$ 1,888,149	\$ 1,700,004	\$ 2,138,012	\$ 2,195,960	\$ 1,540,379	\$ 1,468,332	\$ 1,613,411	\$ 1,373,580
Contributions in relation to the contractually required contribution	(1,578,985)	(1,812,859)	(1,888,149)	(1,700,004)	(2,138,012)	(2,195,960)	(1,540,379)	(1,468,332)	(1,613,411)	(1,373,580)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered-employee payroll	\$ 18,450,534	\$ 18,578,684	\$ 18,923,349	\$ 19,401,668	\$ 19,437,320	\$ 20,169,913	\$ 20,137,996	\$ 19,727,705	\$ 18,181,542	\$ 17,020,818
Contributions as a percentage of covered-employee payroll	8.6%	9.8%	10.0%	8.8%	11.0%	10.9%	7.6%	7.4%	8.9%	8.1%

Teachers' Retirement and Pension System

	2016	2015	2014	2013	2012*	2011*	2010*	2009*	2008*	2007*
Contractually required contribution	\$ 7,468,196	\$ 6,495,621	\$ 5,077,441	\$ 4,005,782	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	(7,468,196)	(6,495,621)	(5,077,441)	(4,005,782)	-	-	-	-	-	-
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Board's covered-employee payroll	\$ 157,648,906	\$ 158,300,988	\$ 161,727,709	\$ 164,766,880	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	4.7%	4.1%	3.1%	2.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

* The Board was not contractually required to contribute to the Teachers' Retirement and Pension System prior to fiscal year 2013.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

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 2015 valuation:

- Investment return assumption changed from 7.65% to 7.55%
- 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 Percentage of Payroll, Closed
Remaining Amortization Period	23 years for State system
Asset Valuation Method	5-year smoothed market
Inflation	2.90% general, 3.20% wage
Salary Increases	3.20% to 9.20% including inflation
Investment Rate of Return	7.55%
Retirement Age	Experienced based table of rates that are specific to the type of eligibility condition. Last updated for 2015 valuation pursuant to an experience study of the period 2010-2014
Mortality	RP-2014 Mortality Table with projected generational mortality improvements based on the MP-2014 2-dimensional mortality improvement scale.