

**THE BOARD OF EDUCATION OF
WORCESTER COUNTY**

AUDITED FINANCIAL STATEMENTS

For the year ended June 30, 2022

CONTENTS

	<u>Page(s)</u>
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	2 - 4
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	5 - 6
MANAGEMENT'S DISCUSSION AND ANALYSIS	7 - 22
 FINANCIAL STATEMENTS	
Statement of Net Position	24
Statement of Activities	25
Balance Sheet - Governmental Funds	26
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	27
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	28
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	29
Statement of Net Position - Proprietary Funds	30
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	31
Statement of Cash Flows - Proprietary Funds	32
Statement of Fiduciary Net Position - Fiduciary Funds	33
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	34
 NOTES TO FINANCIAL STATEMENTS	 35 - 58
 REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues and Expenditures - Budget and Actual - General Fund	60
Schedule of the Proportionate Share of the Net Pension Liability	61
Schedule of Board Contributions - Pension Plans	62
Schedule of Changes in Net OPEB Liability and Related Ratios	63
Schedule of Investment Returns	64
Notes to Required Supplementary Information	65 - 67
 ADDITIONAL SUPPLEMENTARY INFORMATION	
Unrestricted General Fund Revenues and Other Financing Sources - Budgetary Basis	69
Schedule of Appropriations and Expenditures - General Fund - Budgetary Basis	70 - 71
School Activities Fund Operations	72
Schedule of Revenues and Expenditures - Budget and Actual - Food Service Fund - Budgetary Basis	73
Schedule of Revenues and Expenditures - Budgetary Basis - Combined Restricted and Unrestricted	74
Notes to Additional Supplementary Information	75

INDEPENDENT AUDITOR'S REPORT

The Board of Education of Worcester County
Newark, Maryland

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of Worcester County, a component unit of Worcester County, Maryland ("the Board"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of Worcester County, Maryland, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board of Education of Worcester County, Maryland and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 10 to the financial statements, during the year ended June 30, 2022, the Board adopted new accounting guidance from the Government Accounting Standards Board (GASB) Statement No. 87, "Leases". Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board of Education of Worcester County, Maryland's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 of Education of Worcester County, Maryland's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board of Education of Worcester County, Maryland's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of Worcester County's basic financial statements. The additional supplementary information, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2022, on our consideration of the Board of Education of Worcester County, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board of Education of Worcester County, Maryland's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of Worcester County's internal control over financial reporting and compliance.

The logo for UHY LLP, featuring the letters 'UHY' in a large, stylized, handwritten font, with 'LLP' in a smaller, simpler font to the right.

Salisbury, Maryland
September 30, 2022

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

The Board of Education of Worcester County
Newark, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Worcester County, Maryland (the "Board"), a component unit of Worcester County, Maryland, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 30, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

UHY LLP

Salisbury, Maryland
September 30, 2022

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management’s Discussion and Analysis Year Ended June 30, 2022

This section of the Board of Education of Worcester County’s annual financial report presents our discussion and analysis of the district’s financial performance during the fiscal year that ended on June 30, 2022 and a comparison with the results of the fiscal year ended June 30, 2021. Please read this section in conjunction with the District’s financial statements, notes to the financial statements, and supplemental information, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year (FY) ended June 30, 2022 include the following:

- Net position is (\$170,742,695), an increase of \$17,488,357 or 9.2% over the prior year.
- Total General Fund balance equals \$3,643,126, a decrease of \$460,200 from the prior year.
- Unassigned General Fund balance equals \$567,011, a decrease of \$101,795 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

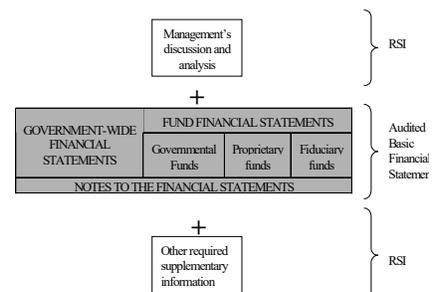
The financial section of the annual report consists of four parts; (1) Independent Auditor’s Report, (2) required supplementary information which includes the management’s discussion and analysis (this section), (3) the basic financial statements, and (4) supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-and long-term* financial information about the activities the district operates like *businesses*.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

As an example Figure 1 shows how the various parts of this annual report are arranged and related to one another. Figure 2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure 1 –
Organization of Board of
Education’s Annual Financial Report



THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2022

Figure 2 Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as instruction, special education and building maintenance, and community education	Activities the district operates similar to private businesses: Food Service Operation	Instances in which the district administers resources on behalf of someone else, such as scholarships and Student Activities Fund
Required financial statements	* Statement of net position * Statement of activities	* Balance sheet * Statement of revenue, expenditures and changes in fund balances	* Statement of net position * Statement of revenue, expenses, and changes in fund net position * Statement of cash flows	* Statement of Fiduciary net position * Statement of changes in fiduciary net position
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management’s Discussion and Analysis
Year Ended June 30, 2022

Figure 2 (Continued)				
Major Features of the District-Wide and Fund Financial Statements				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Type of asset/liability information	All assets and liabilities, both financial and capital, short term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions and dedications during the year, regardless of when cash is received or paid.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two district-wide statements report the District’s *net position* and any changes. Net position, which is the difference between the District’s assets and liabilities, is one way to measure the District’s financial health or *position*. District-wide statements provide a means to analyze the district’s financial activities as follows:

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the condition of school buildings and other facilities. In the district-wide financial statements the District’s activities are shown in one category.
- *Governmental activities* - Most of the District’s basic services are included here, such as regular and special education, transportation, maintenance and operation of plant, administration, and student services. County and state aid funds most of these activities.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2022

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds* - focusing on its most significant or major funds - not the District as a whole. Fund accounting is a method the District uses to keep track of specific sources of funding and spending on particular programs:

- State law requires some funds.
- The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (e.g., federal grants).

The District has three kinds of funds:

1. *Governmental funds* - Most of the district's basic services are included in governmental funds, which generally focus on (1) *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
2. *Proprietary funds* - The Food Service operation is the only fund accounted for as proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
3. *Fiduciary funds* - The District is the trustee, or agent, for assets that belong to others, which include several scholarship funds to assist students in continuing their education past high school. The Student Activities Fund and the OPEB Trust Fund are also accounted for as fiduciary funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's *combined* net position was (\$170,742,695) on June 30, 2022. This represents an increase of 9.2 percent from the prior year. (See Table 1.)

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2022

Table 1

THE BOARD OF EDUCATION OF WORCESTER COUNTY STATEMENT OF NET POSITION JUNE 30, 2022							
<u>ASSETS</u>	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		TOTAL		
	2022	2021	2022	2021	2022	2021	
Current and Other Assets	\$ 15,760,092	\$ 15,021,816	\$ 1,231,078	\$ 390,608	\$ 16,991,170	\$ 15,412,424	
Capital Assets	205,889,394	202,750,249	12,651	17,894	205,902,045	202,768,143	
TOTAL ASSETS	221,649,486	217,772,065	1,243,729	408,502	222,893,215	218,180,567	
Deferred outflows	64,429,373	65,246,893	-	-	64,429,373	65,246,893	
 <u>LIABILITIES</u>							
Current Liabilities	12,465,109	10,353,362	21,128	1,128	12,486,237	10,354,490	
Long-Term Liabilities	161,063,647	436,283,459	-	-	161,063,647	436,283,459	
TOTAL LIABILITIES	173,528,756	446,636,821	21,128	1,128	173,549,884	446,637,949	
Deferred inflows	284,515,399	25,001,688	-	-	284,515,399	25,001,688	
 <u>NET POSITION</u>							
Investment in Capital Assets, Net of Related Debt	199,107,778	202,750,249	12,651	17,894	199,120,429	202,768,143	
Restricted	1,539,920	1,420,906	1,209,950	389,480	2,749,870	1,810,386	
Unrestricted	(372,612,994)	(392,790,706)	-	-	(372,612,994)	(392,790,706)	
TOTAL NET POSITION	\$ (171,965,296)	\$ (188,619,551)	\$ 1,222,601	\$ 407,374	\$ (170,742,695)	\$ (188,212,177)	

Changes in net position. The District's total revenues and other financing sources were \$160,092,441 for the year ended June 30, 2022. (See Table 2.) The county appropriations of \$96,341,968 accounted for approximately 60.1 percent of total revenue for the year. Another 24.5 percent came from federal, state and local grant program revenues of \$39,267,449. This includes contributions to Other Post-Employment Benefits (OPEB) that totaled \$2,868,146. General state aid was \$15,256,174 or 9.5 percent of total funding. Capital contributions of \$6,623,601 represented 4.1 percent of total revenue. The remainder came from charges for services, and investment earnings. The total cost of all programs and services was \$142,604,084. Approximately 73.9 percent of the District's expenses were related to providing direct educational services to students. Administrative activities of the District accounted for approximately 1.7 percent of total expenses. Total revenues exceeded total expenditures, increasing net position by \$17,488,357 from last year.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2022

Table 2

THE BOARD OF EDUCATION OF WORCESTER COUNTY CHANGES IN NET POSITION JUNE 30, 2022

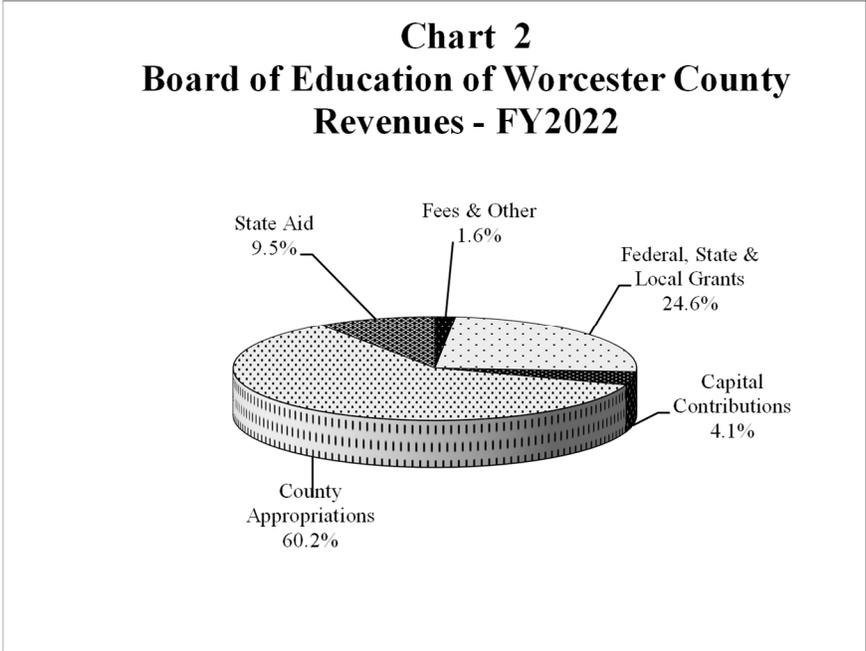
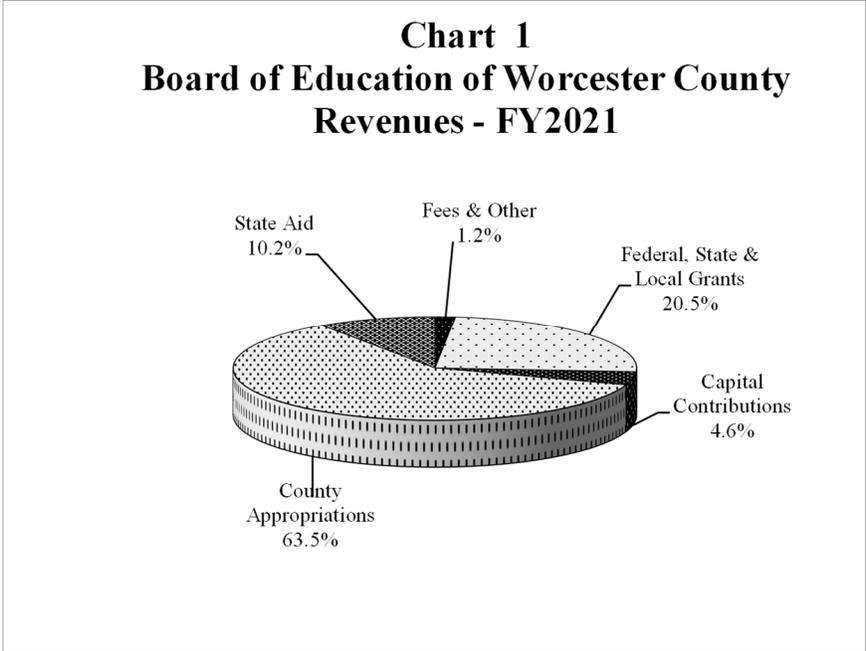
	GOVERNMENTAL ACTIVITIES		BUSINESS-TYPE ACTIVITIES		BOARD OF EDUCATION TOTAL		PERCENT OF CHANGE
	2022	2021	2022	2021	2022	2021	
REVENUES							
Program Revenues:							
Charges for Services	\$ 2,429,782	\$ 1,407,866	\$ 25,398	\$ 3,328	\$ 2,455,180	\$ 1,411,194	74.0%
Federal and State Grants	30,091,722	25,166,580	3,943,908	2,150,188	34,035,630	27,316,768	24.6%
OPEB Contributions	5,231,819	2,968,744	-	-	5,231,819	2,968,744	76.2%
Capital Contributions	6,623,601	6,874,176	-	-	6,623,601	6,874,176	-3.6%
General Revenues:							
County Appropriation	96,341,968	93,992,139	-	-	96,341,968	93,992,139	2.5%
State Formula Aid	15,256,174	15,049,161	-	-	15,256,174	15,049,161	1.4%
Other	126,951	(91,840)	21,118	414,616	148,069	322,776	-54.1%
TOTAL REVENUES	156,102,017	145,366,826	3,990,424	2,568,132	160,092,441	147,934,958	8.2%
EXPENSES							
Instruction and Special							
Education	105,369,703	132,710,677	-	-	105,369,703	132,710,677	-20.6%
Administration	2,464,919	3,029,548	-	-	2,464,919	3,029,548	-18.6%
Support Services	31,594,265	29,716,143	3,175,197	2,187,878	34,769,462	31,904,021	9.0%
TOTAL EXPENSES	139,428,887	165,456,368	3,175,197	2,187,878	142,604,084	167,644,246	-14.9%
OTHER FINANCING SOURCES	-	-	-	-	-	-	
INCREASE (DECREASE) IN NET POSITION*	\$ 16,673,130	\$ (20,089,542)	\$ 815,227	\$ 380,254	\$ 17,488,357	\$ (19,709,288)	

Governmental Activities

The increase in net position for governmental activities was \$16,673,130 in 2022. Charts 1 and 2 present a breakdown of the District's revenues for 2021 and 2022. Charts 3 and 4 present a breakdown of the District's expenses for 2021 and 2022.

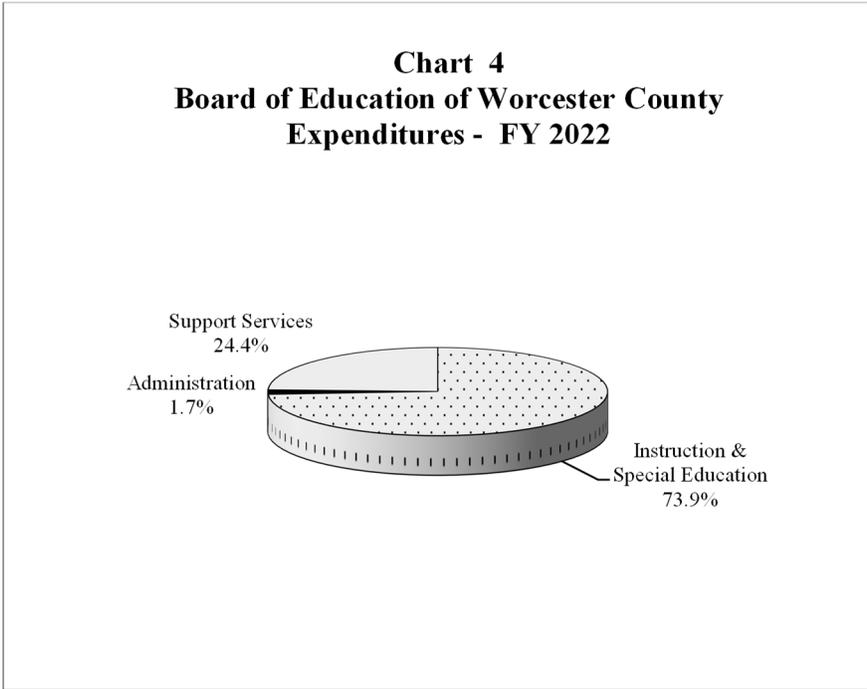
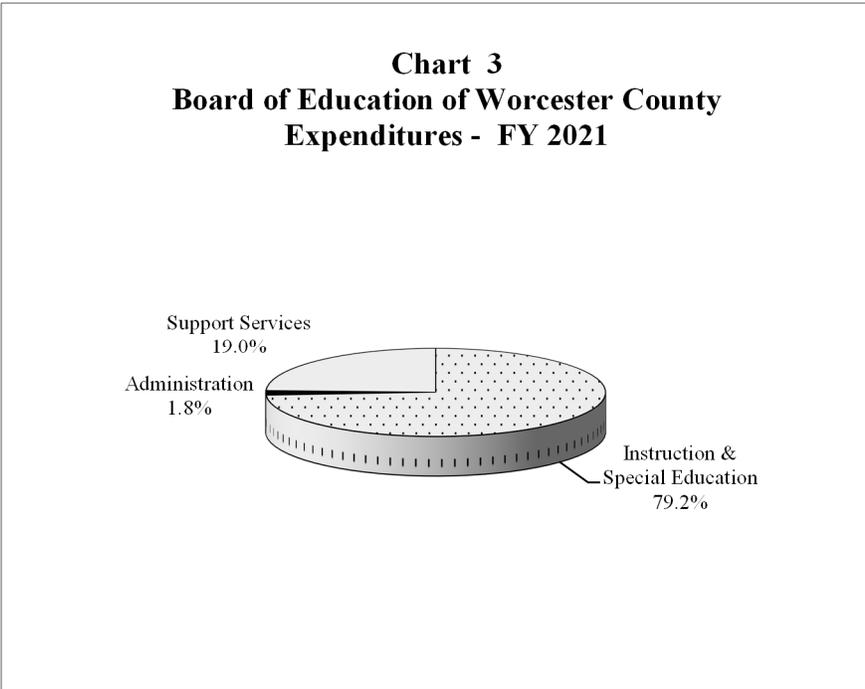
THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2022



THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2022



THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management’s Discussion and Analysis
Year Ended June 30, 2022

Business-type Activities

Revenues of the District’s only business-type activity, the food service operation, increased by \$1,422,292 to \$3,990,424 and expenses increased by \$987,319 to \$3,175,197. (Refer to Table 2.). This resulted in an operating profit of \$815,227. The profit realized in our food service operations in FY22 was the result of several factors. These factors included higher student participation rates in our meal programs due to the Federal waiver resulting in all students eating free in FY22 and higher Federal reimbursement rates. The State also included additional grants totaling \$275,018 related to COVID relief and supply chain assistance issues. The Board left meal prices unchanged in FY23. (Table 3). The Board will continue to monitor the operations of our food service fund and evaluate the need for any meal price adjustments in FY24.

<u>TABLE 3</u>	School Year 2021-2022 MEAL PRICES		School Year 2022-2023 MEAL PRICES	
	Elementary	Secondary	Elementary	Secondary
Paid Breakfast	\$ 1.40	\$ 1.40	\$1.40	\$ 1.40
Paid Lunch	2.45	2.85	2.45	2.85
Paid Milk	.55	.55	.55	.55

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

As the District completed the year, its governmental funds reported a *combined* fund balance of \$5,236,539, a decrease of \$287,693 over last year’s ending fund balance. Revenues for the District’s governmental funds were \$148,001,992 an increase of \$7,931,949 over last year. Total expenditures were \$152,986,746 for the year, an increase of \$15,605,565 over the prior year. Other financing sources totaling \$4,697,061 were also included in FY22 related to the new lease agreements with Apple.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12 including pupil transportation activities and maintenance and operations of all school facilities. See Table 4 for a summary of General Fund revenues and expenditures. The school system continues to efficiently manage the funds provided from various funding agencies, predominately our local government (the Worcester County Commissioners) and the State of Maryland.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2022

General fund revenues were up \$7,165,276. Revenue increases include a \$2,404,298 increase in local appropriations to support our FY22 employee salary increase and increases for bus contractors. Restricted program revenues increased by \$4,426,032 as a result of the additional Federal grants related to addressing the effects of COVID-19 and the impact on student learning. The increases in the majority of the expenditures were the result of the FY22 salary increase. Higher expenditures in Mid-Level Administration were also driven by increased software costs and additional expenditures related to holding our high school graduation ceremonies outside in our stadiums. Increases in Textbooks and Supplies were higher due to having all students back in our classrooms after experiencing limited in-person instruction in FY21 due to Covid-19 restrictions. The additional increases in Student Transportation expenditures were related to the fuel supplement paid to our contractors as a result of escalating diesel fuel prices. The large increase in Operation of Plant was a direct result of the new lease agreements with Apple for the iPad refresh and the new MacBooks for teachers. Capital Outlay expenditures were higher due to the utilization of our FY21 fund balance to complete the replacement of the athletic turf field at Pocomoke High School. Restricted Program expenditures were higher due to the additional COVID-19 related grants.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2022

Table 4

GENERAL FUND REVENUES

REVENUES	Fiscal Year	Fiscal Year	Increase	%
	2022	2021	(Decrease)	Incr. (Decr.)
Worcester County Appropriations	\$ 94,049,017	\$ 91,644,719	\$ 2,404,298	2.6%
Worcester County Retirement & Pension Contribution	2,941,893	2,971,459	(29,566)	-1.0%
State of Maryland	20,319,463	20,134,975	184,488	0.9%
State of Maryland Share of Retirement & Pension Contribution	7,043,656	6,815,130	228,526	3.4%
Restricted Federal, State, & Other Programs	14,467,629	10,041,597	4,426,032	44.1%
Other Sources	232,205	280,707	(48,502)	-17.3%
TOTAL REVENUES	\$ 139,053,863	\$ 131,888,587	\$ 7,165,276	5.4%

GENERAL FUND EXPENDITURES

Administration	\$ 1,805,971	\$ 1,771,529	\$ 34,442	1.9%
Mid-Level Administration	8,446,093	8,019,146	426,947	5.3%
Instructional Salaries	46,210,418	44,927,284	1,283,134	2.9%
Textbooks and Classroom Supplies	2,909,324	2,507,416	401,908	16.0%
Other Instructional Costs	919,766	711,266	208,500	29.3%
Special Education	11,386,602	10,997,187	389,415	3.5%
Pupil Personnel Services	371,921	365,837	6,084	1.7%
Health Services	1,020,613	999,946	20,667	2.1%
Pupil Transportation	7,602,254	6,756,257	845,997	12.5%
Operation of Plant	13,672,049	8,188,969	5,483,080	67.0%
Maintenance of Plant	1,348,732	1,027,944	320,788	31.2%
Fixed Charges	22,955,512	22,977,799	(22,287)	-0.1%
Capital Outlay	1,108,691	341,755	766,936	224.4%
Restricted Programs	14,467,629	10,041,597	4,426,032	44.1%
Worcester County Retirement & Pension Contribution	2,941,893	2,971,459	(29,566)	-1.0%
State of Maryland Share of Retirement & Pension Contribution	7,043,656	6,815,130	228,526	3.4%
TOTAL EXPENDITURES	\$ 144,211,124	\$ 129,420,521	\$ 14,790,603	11.4%
DEFICIENCY OF REVENUES OVER EXPENDITURES	(5,157,261)	2,468,066	(7,625,327)	-309.0%
OTHER FINANCING SOURCES				
Proceeds from financed purchases	4,651,150	-	4,651,150	-
Proceeds from long-term right-of-use leases	45,911	-	45,911	-
TOTAL OTHER FINANCING SOURCES	4,697,061	-	4,697,061	-
EXCESS (DEFICIENCY) OF REVENUES (USES) OVER EXPENDITURES	\$ (460,200)	\$ 2,468,066	\$ (2,928,266)	-118.6%

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2022

Capital Projects Fund

All funds for school construction come from either the Worcester County Commissioners or the State of Maryland. Both levels of government either allocate general tax revenue proceeds or provide bond proceeds for specific school construction projects. The Board has no legal authority to borrow funds. During FY 2022, the Board received county funding of \$3,092,763. These funds were used to pay costs related to the construction of the Stephen Decatur Middle School addition project, the Pocomoke Middle School roof replacement, the new Showell Elementary School, a replacement chiller and replacement of the visitor bleachers at Stephen Decatur High School, new playground equipment at Pocomoke Middle School, fire alarm replacements at Pocomoke and Snow Hill Middle School and a fuel tank replacement at the Central Office facility. The school system also received \$3,530,388 in State school construction funding to fund the State share of the Stephen Decatur Middle School addition project and other safety related projects.

Fiduciary Fund

The following funds are accounted for as Fiduciary Funds:

- (1) Private Purpose Trust Funds: Funds held in trust for specific purposes such as student scholarships and awards total \$350,266 as of June 30, 2022.
- (2) Retiree Benefit Trust Fund (OPEB Trust Fund) – Funds held in trust to fund health care cost of retirees. Total assets of \$25,833,970 as of June 30, 2022.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2022

GENERAL FUND BUDGETARY HIGHLIGHTS

Six categories of our FY22 budget had actual expenditures that exceeded the original budget. The category of Instructional Support had higher than planned expenditures due to several factors including higher than planned expenditures in the area of software and increased costs for our high school graduations. The category of Textbooks & Classroom Supplies had higher than planned expenditures due to the increasing cost of instructional supplies including copy paper. Expenditures in the category of Other Instructional Costs were higher than planned as a result of the need to increase our broadband capacity and tuition costs for students relocated by other agencies. Costs in the Student Transportation category were higher due to the fuel supplement paid to our bus contractors and additional time paid to our bus contractors for cleaning required by our COVID protocols. Expenses in the budget categories of both Maintenance of Plant and Operation of Plant were higher due to increased utility costs and the increased costs of the supplies needed to maintain our buildings. The inter-category and intra-category budget transfers were approved by our Board at the August meeting. The inter-category budget transfers were approved by our County Commissioners at their September 6, 2022 meeting. The Board ended the FY22 year with a budget surplus of \$1,238,127. The County Commissioners approved utilizing \$391,000 of these funds to replace the running tracks at Pocomoke and Stephen Decatur High Schools. They also approved \$280,116 of this balance to be applied to the OPEB liability. The remaining \$567,011 will be unassigned and will be available to be utilized as revenue in our FY24 operating budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2022, the District has invested over \$294 million in a broad range of capital assets, including land, school buildings, athletic facilities, furniture and equipment. (More detailed information about capital assets can be found in Note 2 to the financial statements.) Total depreciation expense for the year totaled \$6.28 million.

Construction - Next Five Years

Annually, the Board of Education prepares and submits to the State Interagency Commission on School Construction (IAC) and our local government a 5-Year Capital Improvement Program (CIP). The State approved \$4.8 million in State funding for a 25,000 square foot addition to Stephen Decatur Middle School in our FY22 CIP. The construction bids were approved by our Board of Education in September 2021 and by the Worcester County Commissioners in October 2021. Construction for the \$15.2 million project began in November 2021. A 900 square foot Band Storage Room and a new Security Vestibule were completed in September 2022. The 16-classroom addition is scheduled to be complete in December 2022, with students and staff occupying the new spaces in early January 2023.

The FY2024 CIP includes a request for State design funding for the Buckingham Elementary School project. A Feasibility Study for the school began in July 2022 and is scheduled to be complete in December 2022. The Study will provide options for the Board of Education including a full renovation and addition to the existing school or the construction of a replacement school. The FY24 CIP also includes a request for State design funding for the Snow Hill Middle School/Cedar Chapel Special School roof replacement project which is currently scheduled to begin in summer 2024. Future projects in the FY24 CIP include the

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2022

Buckingham Elementary project, roof replacement projects at Pocomoke Elementary School and Worcester Technical High School and a renovation/addition or replacement school for Snow Hill Elementary School.

Long-Term Liabilities

At year-end, the District had \$161,063,647 for amounts due or payable after one year. This amount consists of the following:

- \$812,928 of accrued compensated absences which is an obligation resulting primarily from accrued annual leave which is due and payable to employees upon termination, \$4,248,653 in net pension liability, \$4,405,066 in financed purchases, \$434,994 in right-to-use leases and \$151,162,006 for other post-employment benefits.

FACTORS BEARING ON THE DISTRICTS' FUTURE

- (1) The current global pandemic Coronavirus (COVID-19) has impacted every part of our society including our State and Local economies. A major concern to our school system is the potential impact that school closures and on-line learning may have had on student achievement. The Federal government has issued major funding awards to help with student learning recovery. Worcester is using a significant amount of the federal funding to purchase resources that will aid in assessing our students progress and making sure that we have the resources in place to help our students and we do not experience an achievement gap. Other uses of these funds include upgrading our computer and network infrastructure and security and improving indoor air quality in our school buildings.
- (2) Worcester County Public Schools (WCPS) provides post-employment health insurance benefits to their retirees. Implementation of GASB Statement No. 75 resulted in a Net OPEB liability on our district-wide financial statements of \$151,162,006 as of June 30, 2022. Our local government has historically funded the cost of health insurance for all school system employees including retirees. As part of this partnership, the Worcester County Government established and funded a trust to pay the costs of retiree health insurance. In support of continuing to address this issue, our County Commissioners voted to increase the County income tax rate in FY20 and to apply the resulting increase in revenue to funding the both the County and WCPS OPEB liability. This resulted in an additional \$2,500,000 in OPEB funding that is now included in our operating budgets. This continued partnership will be crucial as we work to ensure adequate resources are available to continue to meet our obligations to current and future retirees.
- (3) The Board of Education has a growing list of capital projects. The list includes:
 - Addition to Stephen Decatur Middle School – The schematic design for the Stephen Decatur Middle School Addition was approved by the Board of Education in June 2020. The State Interagency Commission on School Construction (IAC) approved planning for the project in the FY21 Capital Improvement Program (CIP) and approved State funding for the project in the FY22 CIP. The Worcester County Commissioners approved funding for the project design

THE BOARD OF EDUCATION OF WORCESTER COUNTY

Management's Discussion and Analysis Year Ended June 30, 2022

development and construction documents in the FY21 local budget. The Board of Education approved construction bids at the September 21, 2021 meeting and the County Commissioners approved the bids on October 5, 2021. Construction on the \$15.2 million addition project began in November 2021 and is scheduled to be complete in December 2022.

- Buckingham Elementary School Project – A Feasibility Study for Buckingham Elementary School began in July 2022. The Study, which will provide the Board of Education construction options to address building and instructional space deficiencies, is scheduled to be complete in December 2022. Educational Specifications and Schematic Design for the project will begin in spring 2023.
- Roof Replacement project at Snow Hill Middle School/Cedar Chapel Special School.
- Roof Replacement project at Pocomoke Elementary School.
- Roof Replacement project at Worcester Technical High School.
- A future renovation/addition or replacement school project for Snow Hill Elementary School.

As more buildings age, delays in funding projects will compound the costs and logistics of the Capital Improvement Program.

- (4) The State of Maryland created the Kirwan Commission in FY18 to study current needs and current funding formulas for public schools in Maryland. This commission met for two years and submitted a preliminary report to the State Legislature in the spring of 2019 with recommendations on how to improve public education in our State. The recommendations include a move to all day universal pre-kindergarten, teacher salary increases, additional funding for students with disabilities, and more resources for supplemental instruction. Estimates to fully implement the recommendations included in this report total almost \$4 billion over the next ten years. The Blueprint for Maryland's Future bill, including the items recommended by the Kirwan Commission passed in the State Legislature and is now law. Our school system feels that many of the recommendations included in the approved Blueprint bill will be beneficial to both students and staff. Our Board is concerned on how it will be funded and that based on current state funding formulas a majority of the funding liability necessary to implement requirements included in the approved legislation will be placed on our local government. Our Board will continue to follow implementation of the Blueprint bill and the impact on our school system.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office, at the Board of Education of Worcester County, 6270 Worcester Highway, Newark, Maryland 21841.

AUDITED FINANCIAL STATEMENTS

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF NET POSITION

June 30, 2022

	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 10,152,651	\$ 497,761	\$ 10,650,412
Investments	1,776,927	-	1,776,927
Accounts receivable:			
Federal, state and other restricted funds	3,056,519	1,392,892	4,449,411
Miscellaneous	114,420	-	114,420
Internal balances	659,575	(659,575)	-
Non depreciable capital assets	3,246,058	-	3,246,058
Depreciable capital assets, net	202,643,336	12,651	202,655,987
TOTAL ASSETS	221,649,486	1,243,729	222,893,215
DEFERRED OUTFLOWS OF RESOURCES			
Pensions (see Note 4)	1,925,437	-	1,925,437
Other post employment benefits (OPEB) (see Note 7)	62,503,936	-	62,503,936
TOTAL DEFERRED OUTFLOWS OF RESOURCES	64,429,373	-	64,429,373
LIABILITIES			
Accounts payable:			
Vendors	1,391,328	-	1,391,328
Others	751,278	1,128	752,406
Payroll deductions and withholdings	4,828,399	-	4,828,399
Payable to external parties	350,266	-	350,266
Unearned revenue	3,153,488	20,000	3,173,488
Long-term liabilities:			
Portion due or payable within one year:			
Accrued compensated absences	48,794	-	48,794
Financed purchases	1,636,419	-	1,636,419
Right-to-use leases	305,137	-	305,137
Portion due or payable after one year:			
Other post employment benefits	151,162,006	-	151,162,006
Pensions	4,248,653	-	4,248,653
Accrued compensated absences	812,928	-	812,928
Financed purchases	4,405,066	-	4,405,066
Right-to-use leases	434,994	-	434,994
TOTAL LIABILITIES	173,528,756	21,128	173,549,884
DEFERRED INFLOWS OF RESOURCES			
Pensions (see Note 4)	2,356,982	-	2,356,982
Other post employment benefits (OPEB) (see Note 7)	282,158,417	-	282,158,417
TOTAL DEFERRED INFLOWS OF RESOURCES	284,515,399	-	284,515,399
NET POSITION			
Net investment in capital assets	199,107,778	12,651	199,120,429
Restricted for:			
Other purposes (school activity funds)	1,539,920	-	1,539,920
Food service activities	-	1,209,950	1,209,950
Capital projects	53,493	-	53,493
Unrestricted	(372,666,487)	-	(372,666,487)
TOTAL NET POSITION	\$ (171,965,296)	\$ 1,222,601	\$ (170,742,695)

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Current:				
Administration	\$ 2,035,855	\$ -	\$ 164,102	\$ -
Mid-Level Administration	8,678,160	-	232,067	-
Instructional services	64,633,587	105,254	8,344,760	-
Special education	13,716,444	-	4,000,863	-
Student personnel services	371,921	-	-	-
Health services	1,247,107	-	226,494	-
Student transportation	7,992,102	-	3,782,116	-
Operation of plant and equipment	10,722,362	-	1,484,245	-
Maintenance of plant	1,351,692	-	2,960	-
Fixed charges	16,577,534	-	9,346,156	-
Community services	47,180	-	47,180	-
Capital outlay	2,210,323	-	-	6,623,601
Food services	-	-	-	-
School activities	2,152,022	2,324,528	-	-
State of Maryland and county share of retirement and pension contribution	7,692,598	-	7,692,598	-
Total Governmental Activities	139,428,887	2,429,782	35,323,541	6,623,601
Business-Type Activities				
Food Services	3,175,197	25,398	3,943,908	20,000
Totals	\$ 142,604,084	\$ 2,455,180	\$ 39,267,449	\$ 6,643,601

General Revenues

State of Maryland
Worcester County appropriation
Unrestricted investment earnings and other revenues

Total General Revenues

Change in Net Position

Net Position Beginning of Year, as restated

Net Position End of Year

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

Net (Expenses) Revenue
and changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (1,871,753)	\$ -	\$ (1,871,753)
(8,446,093)	-	(8,446,093)
(56,183,573)	-	(56,183,573)
(9,715,581)	-	(9,715,581)
(371,921)	-	(371,921)
(1,020,613)	-	(1,020,613)
(4,209,986)	-	(4,209,986)
(9,238,117)	-	(9,238,117)
(1,348,732)	-	(1,348,732)
(7,231,378)	-	(7,231,378)
-	-	-
4,413,278	-	4,413,278
-	-	-
172,506	-	172,506
-	-	-
(95,051,963)	-	(95,051,963)
-	814,109	814,109
(95,051,963)	814,109	(94,237,854)
15,256,174	-	15,256,174
96,341,968	-	96,341,968
126,951	1,118	128,069
111,725,093	1,118	111,726,211
16,673,130	815,227	17,488,357
(188,638,426)	407,374	(188,231,052)
\$ (171,965,296)	\$ 1,222,601	\$ (170,742,695)

THE BOARD OF EDUCATION OF WORCESTER COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2022

	General	Capital Projects	School Activities	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 8,612,731	\$ -	\$ 1,539,920	\$ 10,152,651
Investments	1,776,927	-	-	1,776,927
Accounts receivable:				
Federal, state and other restricted funds	2,151,285	905,234	-	3,056,519
Other	114,397	23	-	114,420
Due from other funds	1,523,493	12,154	-	1,535,647
TOTAL ASSETS	\$ 14,178,833	\$ 917,411	\$ 1,539,920	\$ 16,636,164
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable:				
Vendors	\$ 1,391,328	\$ -	\$ -	\$ 1,391,328
Others	751,278	-	-	751,278
Payroll deductions and withholdings	4,877,193	-	-	4,877,193
Due to other funds	362,420	863,918	-	1,226,338
Deferred revenue - Federal, state and other restricted funds	3,153,488	-	-	3,153,488
TOTAL LIABILITIES	10,535,707	863,918	-	11,399,625
COMMITMENTS AND CONTINGENCIES				
FUND BALANCES				
Fund Balance:				
Restricted for fund purposes	-	53,493	-	53,493
Assigned to:				
School activities	-	-	1,539,920	1,539,920
Insurance reserve	22,024	-	-	22,024
Subsequent year's expenditures	567,011	-	-	567,011
Encumbrances- various purposes	864,194	-	-	864,194
Capital and technology projects	393,616	-	-	393,616
Track replacements	391,000	-	-	391,000
HVAC projects	558,154	-	-	558,154
Other post-employment benefits	280,116	-	-	280,116
Unassigned	567,011	-	-	567,011
TOTAL FUND BALANCES	3,643,126	53,493	1,539,920	5,236,539
TOTAL LIABILITIES AND FUND BALANCES	\$ 14,178,833	\$ 917,411	\$ 1,539,920	\$ 16,636,164

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION**

June 30, 2022

Total fund balances, governmental funds \$ 5,236,539

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 are
therefore not reported in the fund financial statements, but are reported in the
governmental activities of the Statement of Net Position. 205,889,394

Deferred outflow of resources - pensions (see Note 4) 1,925,437
Deferred outflow of resources - OPEB (see Note 7) 62,503,936

Some liabilities are not due and payable in the current period and therefore are
not reported in the fund financial statements, but are reported in the governmental
activities of the Statement of Net Position.

Accrued compensated absences	(812,928)
Financed purchases	(6,041,485)
Right-to-use leases	(740,131)
Net pension liability	(4,248,653)
Other post retirement employment benefits	<u>(151,162,006)</u>

Total long-term liabilities (163,005,203)

Deferred inflow of resources - pensions (see Note 4) (2,356,982)
Deferred inflow of resources - OPEB (see Note 7) (282,158,417)

Net assets of governmental activities in the Statement of Net Position \$ (171,965,296)

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year Ended June 30, 2022

	General	Restricted Grants	Capital Projects	School Activities	Total Governmental Funds
REVENUES					
Worcester County Appropriations	\$ 96,341,968	\$ -	\$ 3,092,763	\$ -	\$ 99,434,731
State of Maryland	20,319,463	-	3,530,838	-	23,850,301
On behalf State of Maryland	7,043,656	-	-	-	7,043,656
On behalf County - retirement and pension contribution	648,942	-	-	-	648,942
Restricted Federal, state and other local funds	-	14,467,629	-	-	14,467,629
Other sources	232,205	-	-	-	232,205
School activity revenues	-	-	-	2,324,528	2,324,528
TOTAL REVENUES	124,586,234	14,467,629	6,623,601	2,324,528	148,001,992
EXPENDITURES					
Current:					
Administration	1,805,971	164,102	-	-	1,970,073
Mid-level administration	8,446,093	232,067	-	-	8,678,160
Instructional salaries and wages	46,210,418	3,534,378	-	-	49,744,796
Textbooks and instructional supplies	2,909,324	3,033,576	-	-	5,942,900
Other instructional costs	919,766	1,776,806	-	-	2,696,572
Student personnel services	371,921	-	-	-	371,921
Health services	1,020,613	226,494	-	-	1,247,107
Student transportation	7,602,254	389,848	-	-	7,992,102
Operation of plant and equipment	13,672,049	1,484,245	-	-	15,156,294
Maintenance of plant	1,348,732	2,960	-	-	1,351,692
Fixed charges	25,248,463	1,246,131	-	-	26,494,594
School activity expenditures	-	-	-	2,152,022	2,152,022
Special education	11,386,602	2,329,842	-	-	13,716,444
Food services	-	-	-	-	-
Community services	-	47,180	-	-	47,180
On behalf County - retirement and pension contribution	648,942	-	-	-	648,942
On behalf State of Maryland - retirement and pension contribution	7,043,656	-	-	-	7,043,656
Capital outlay	1,108,691	-	6,623,600	-	7,732,291
TOTAL EXPENDITURES	129,743,495	14,467,629	6,623,600	2,152,022	152,986,746
EXCESS REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	(5,157,261)	-	1	172,506	(4,984,754)
OTHER FINANCING SOURCES (USES)					
Proceeds from financed purchases	4,651,150	-	-	-	4,651,150
Proceeds from long-term right-of-use leases	45,911	-	-	-	45,911
Net Change in fund balances	(460,200)	-	1	172,506	(287,693)
Fund balances, beginning	4,103,326	-	53,492	1,367,414	5,524,232
Fund balances, ending	\$ 3,643,126	\$ -	\$ 53,493	\$ 1,539,920	\$ 5,236,539

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2022**

Net change in fund balances, governmental funds \$ (287,693)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:

Capital asset additions	8,751,955	
Depreciation expense	<u>(6,578,230)</u>	
Total		2,173,725

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Increase in compensated absences	53,494	
Decrease in pension expense due to deferred financing outflow	834,417	
Decrease in pension expense due to net pension liability	1,597,412	
Increase in pension expense due to deferred financing inflows	(2,018,886)	
Increase in post-employment benefits expense due to deferred financing outflow	(1,651,937)	
Decrease in post-employment benefits expense due to net OPEB liability	276,697,410	
Increase in post-employment benefits expense due to deferred financing inflow	<u>(257,494,825)</u>	
		18,017,085

Lease proceeds provide current financial resources to governmental funds but increase long-term liabilities in the statement of net position. Repayment of lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, the net effect of lease borrowings and repayments was:

(3,229,987)

Change in net position of governmental activities \$ 16,673,130

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS**

June 30, 2022

	<u>Enterprise Fund Food Services</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 497,761
Due from other governments	<u>1,392,892</u>
Total current assets	<u>1,890,653</u>
Noncurrent assets:	
Furniture and equipment	263,141
Less: accumulated depreciation	<u>(250,490)</u>
Total noncurrent assets	<u>12,651</u>
TOTAL ASSETS	<u>1,903,304</u>
LIABILITIES	
Current liabilities:	
Due to general fund	659,575
Accounts payable	1,128
Unearned revenue	<u>20,000</u>
Total current liabilities	<u>680,703</u>
COMMITMENTS AND CONTINGENCIES	
NET POSITION	
Invested in capital assets	12,651
Unrestricted	<u>1,209,950</u>
TOTAL NET POSITION	<u>\$ 1,222,601</u>

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION
BUSINESS-TYPE ACTIVITIES
Year Ended June 30, 2022**

	<u>Enterprise Fund Food Services</u>
OPERATING REVENUES	
Food service sales	<u>\$ 25,398</u>
OPERATING EXPENSES	
Salaries and wages	973,649
Fringe benefits	301,041
Contracted services	8,207
Food and food related supplies	1,549,106
Nonfood supplies	54,970
Other charges	1,650
Value of USDA commodities donated	262,140
Commodity processing	19,191
Depreciation	<u>5,243</u>
TOTAL OPERATING EXPENSES	<u>3,175,197</u>
OPERATING LOSS	<u>(3,149,799)</u>
NONOPERATING REVENUES	
Interest income	1,118
Grant and local revenue	20,000
State of Maryland:	
Reimbursement of food costs	114,662
Federal through state:	
Reimbursement of food costs	3,567,106
Donation of food commodities	<u>262,140</u>
Total Federal through state	<u>3,829,246</u>
TOTAL NONOPERATING REVENUES	<u>3,965,026</u>
Change in net position	815,227
Net position beginning of year	<u>407,374</u>
Net position end of year	<u><u>\$ 1,222,601</u></u>

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2022

	<u>Enterprise Fund Food Services</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from user charges	\$ 25,398
Cash payments to employees for services	(973,649)
Cash payments for health and other insurances	(301,041)
Cash payments to suppliers for goods and services	(1,624,917)
Cash payments for facility use and maintenance	(8,207)
Net cash used in operating activities	<u>(2,882,416)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Non operating grants received	2,538,184
Net loans (repayments) to other funds	370,435
Net cash provided by noncapital financing activities	<u>2,908,619</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	<u>1,118</u>
Net change in cash	27,321
Cash and cash equivalents, beginning of year	<u>470,440</u>
Cash and cash equivalents, end of year	<u>\$ 497,761</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (3,149,799)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	5,243
Donated commodities used	<u>262,140</u>
Net cash used in operating activities	<u>\$ (2,882,416)</u>
NONCASH NONCAPITAL FINANCING ACTIVITIES	
During the year the board received food commodities from the U.S. Department of Agriculture	<u>\$ 262,140</u>

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

June 30, 2022

	Private Purpose Trust Fund	Retiree Benefit Trust Fund
ASSETS		
Cash	\$ -	\$ 439,991
Trust investments:		
Money market funds	-	4,101,796
Fixed income securities	-	7,708,303
Equities securities	-	13,583,880
Due from other funds	350,266	-
	<hr/>	<hr/>
TOTAL ASSETS	350,266	25,833,970
LIABILITIES		
Due to school activities funds	-	-
	<hr/>	<hr/>
TOTAL LIABILITIES	-	-
NET POSITION		
Held in trust for:		
Other postemployment benefits	-	25,833,970
Scholarships, etc.	350,266	-
	<hr/>	<hr/>
TOTAL NET POSITION	\$ 350,266	\$ 25,833,970

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

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

Year Ended June 30, 2022

	Private Purpose Trust Fund	Retiree Benefit Trust Fund
ADDITIONS		
Contributions:		
Donations and fees	\$ 37,949	\$ -
Worcester County contributions and other credits	-	8,100,025
Plan member contributions	-	630,556
Total contributions	<u>37,949</u>	<u>8,730,581</u>
Investment earnings:		
Interest	36	526
Decrease in fair value of investments	-	(3,760,257)
Total investment earnings	<u>36</u>	<u>(3,759,731)</u>
 Total additions	 <u>37,985</u>	 <u>4,970,850</u>
DEDUCTIONS		
Plan benefit payments	-	5,680,206
Professional fees	-	1,500
Scholarships, etc.	67,770	-
 Total deductions	 <u>67,770</u>	 <u>5,681,706</u>
 Change in net position	 (29,785)	 (710,856)
 Net position held in trust, beginning	 <u>380,051</u>	 <u>26,544,826</u>
 Net position held in trust, ending	 <u>\$ 350,266</u>	 <u>\$ 25,833,970</u>

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

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Board of Education of Worcester County, Maryland is a component unit of Worcester County, Maryland. These separate financial statements are also included within the basic financial statements of Worcester County.

The Board of Education receives substantial appropriations from and is subject to the indirect control of Worcester County, although the Board has its own separate governing board.

B. Government-Wide and Fund Financial Statements

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

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues-Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursable basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: interest, tuition, grants, fees and rentals.

Unearned revenue – Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants received before the eligibility requirements are met are also recorded as unearned revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as unearned revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

The government reports the following major governmental funds:

General and Restricted Funds

All financial resources appropriated for current operating expenditures, including restricted grant funds, are accounted for in the General and Restricted Funds.

Capital Projects Fund

This fund accounts for financial resources that are restricted to construction of new buildings, additions and alterations and acquisition of equipment. Revenue is recognized from bond issues in the year that funds are either transferred or receivable from Worcester County.

School Activity Fund

The School Activity Fund is used to account for revenues and expenditures at the schools for, among other things, student insurance and pictures, athletics, clubs and other student activities, and principals' miscellaneous expenditures.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The Board reports the following major proprietary fund:

Food Service Fund

This fund accounts for the activity of the Board's Food Service operation which operates cafeterias in the Board's schools.

The Board also reports the following fund types:

Private Purpose Trust Fund

These funds are held by the Board for scholarships and other student awards.

Retiree Benefit Trust Fund

These funds are held in trust by Worcester County, Maryland, on behalf of the Board, for the benefits of retirees.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Board are charges for lunch, breakfast and catered meals. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Position

Cash and Investments

The Board is authorized to invest any monies in any fund or account over which it has custody or control. The types of investments are specified in accordance with Section 6-222 of the Maryland State Finance and Procurement Article.

Cash in the General Fund and Food Service Funds are pooled into one account in order to maximize investment opportunities. Each fund whose monies are deposited in the account has an equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at month end. An individual fund's pooled cash and cash investments are available upon demand and are considered to be "cash equivalents" when preparing these financial statements.

Accounts Receivable

The Board has amounts due from governmental agencies of \$4,449,411 at June 30, 2022. These receivables are due primarily from the Maryland State Department of Education and from Worcester County.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation.

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.

Property, plant and equipment of the Board is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Improvements	20 - 25
Buildings	50
Vehicles	8
Furniture, Fixtures & Equipment	5 - 15

Compensated Absences

Compensated absences are reported as accrued in the government wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in-full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

Net Position

In the government-wide financial statements, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

The Board applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that period. The Board has two items that qualify for reporting in this category. The Board recognizes a deferred outflow of resources related to its pension obligation (Note 4) and OPEB liability (Note 7) for changes in assumptions and the net difference between projected and actual investment earnings on plan investments. These amounts are deferred and recognized as an outflow from resources in the period that the amounts become available.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two items that qualify for reporting in this category. The Board recognizes a deferred inflow of resources related to its pension obligation (Note 4) and OPEB liability (Note 7) for the net difference between projected and actual investment earnings on pension plan investments, changes in assumptions, and differences between expected and actual experience. This item is deferred and recognized as an inflow from resources in the period that the amounts become available.

The deferred outflows and inflows of resources represent reconciling items between the governmental fund financial statements and the government-wide financial statements.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as due to/from other funds. Transfers are fund balance amounts reserved and/or assigned in the prior year that received County approval to be spent on capital projects.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Position (continued)

Fund Balance

Fund balances are reported separately within classifications based on a hierarchy of the constraints placed on the use of those resources. The classifications are based on the relative strength of the constraints that control how the specific amounts can be spent. The classifications are nonspendable (i.e. inventory or long term receivables), restricted (by external parties or legislation), committed (by resolution of the Board of Education), assigned (by management approval for specific purposes) and unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the Board. Assigned fund balances is a limitation imposed by a designee of the Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Proprietary fund equity is classified the same as in the government-wide statements.

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are reported as assigned fund balance in the governmental fund financial statements. Encumbrances outstanding at June 30, 2022 that were provided for in the current year's budget for the budgetary basis of accounting but will be accounted for under generally accepted accounting principles in the subsequent year totaled \$864,194.

E. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The budget is prepared on the budgetary basis of accounting. The budget establishes a limit on the amounts that the Board may appropriate and sets annual limits as to the amount of expenditures at a level of control selected by the Board. The legal level of control has been established by the Board at the category level within each fund.

The budget may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original budget was adopted. The amounts reported in the final budgeted amounts reflect amendments approved by the County government during the year between categories and those approved by the Board within categories.

Note 2. Detailed Notes on All Funds

A. Deposits and Investments

Custodial Risk

The Annotated Code of Maryland (Article 95, Section 22) requires that deposits with financial institutions by local boards of education be collateralized. Collateral for repurchase agreements must be at least 102% of market value of principal and accrued interest. The Board's collateral is held by a custodian in accordance with Section 6-209(c) of the State Finance and Procurement Article of the Annotated Code of Maryland and acceptable collateral is as specified under Section 6-202 of the same document.

These collateralization requirements are established to reduce custodial risk which is the risk that in the event of a bank failure, the Board's deposits may not be returned to it.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

At June 30, 2022, the Board's funds were invested as follows:

	CARRYING VALUE
Cash and cash equivalents	\$ 10,650,412
Invested in Maryland Local Government Investment Pool	\$ 1,776,927

Investments of \$1,776,927 reported in the governmental funds consist of U.S. Government Securities made through the State of Maryland Local Government Investment Pool which provide local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 94 22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Safe Deposit and Trust Company, which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a quarterly basis and provide suggestions to enhance the pool. The MLGIP is rated AAA by Standard and Poors. The fair value of the pool is the same as the value of the pool shares. Investments are recorded at cost, which approximates market value. Statutes authorize the Board to invest in obligations of the U.S. Treasury and U.S. Agencies, municipal securities and repurchase agreements, collateralized certificates of deposit, bankers acceptance or money market funds.

The Board's exposure to interest rate and credit risk is minimal, as all investments are in cash and MLGIP and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by attempting to have all investments fully collateralized by securities. Cash is invested pursuant to the Annotated Code of Maryland and County Code.

The bank balances were exposed to custodial credit risk as follows:

	Governmental Activities	Business-Type Activities
Insured	\$ 250,000	\$ 250,000
Uninsured and Collateral Held by Pledging Bank's Trust Department in the Board's Name	11,044,656	191,591
Uninsured and Undercollateralized	-	-
TOTAL	\$ 11,294,656	\$ 441,591

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

Investment – Retiree Benefit Trust Fund

Investments of \$25,833,968 in the Retiree Benefit Trust Fund by type and maturity at June 30, 2022 were as follows:

	<u>1 Year</u>	<u>1-5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>	<u>Rate</u>
M&T Investments:					
Cash	\$ 439,991	\$ -	\$ -	\$ 439,991	
Money Market	4,101,796	-	-	4,101,796	
Fixed Income:					
U.S. Treasury	-	720,094	785,667	1,505,761	0.625 - 3.625%
U.S. Government Agency	-	145,198	1,282,315	1,427,513	0.36 - 5%
Other Fixed Income	20,000	649,337	4,105,692	4,775,029	0.4 - 6.2%
Equities	13,583,880	-	-	13,583,880	N/A
Totals	<u>\$ 18,145,667</u>	<u>\$ 1,514,629</u>	<u>\$ 6,173,674</u>	<u>\$ 25,833,970</u>	

Investments at Fair Value

Government Accounting Standards Board Statement (GASB) No. 72, *Fair Value Measurements and Application*, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 – that are observable for the asset or liability, either directly or indirectly (for example, quoted prices in active markets for similar assets or liabilities)
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a combination of prevailing market prices and interest payments that are discounted at prevailing interest rates for similar instruments. The Board has no Level 3 investments.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Detailed Notes on All Funds (continued)

A. Deposits and Investments (continued)

As of June 30, 2022, the Board had the following recurring fair value measurements:

	Level 1	Level 2	Level 3	Total
Debt Securities:				
Corporate and foreign bonds	\$ -	\$ 1,215,456	\$ -	\$ 1,215,456
Fixed income funds	3,559,573	-	-	3,559,573
	<u>3,559,573</u>	<u>1,215,456</u>	<u>-</u>	<u>4,775,029</u>
Equity Securities:				
Mutual funds	13,583,880	-	-	13,583,880
Other investments:				
Money market	4,101,796	-	-	4,101,796
U.S. Treasury	1,505,761	-	-	1,505,761
U.S. Government Agency	1,427,513	-	-	1,427,513
	<u>7,035,070</u>	<u>-</u>	<u>-</u>	<u>7,035,070</u>
Total investment by fair value level	\$24,178,523	\$ 1,215,456	\$ -	\$25,393,979

B. Interfund Receivables - Payables

At June 30, 2022, the interfund account balances are as follows:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
GOVERNMENTAL ACTIVITIES:		
GENERAL FUND		
Due from/to Food Service Fund	\$ 659,575	\$ -
Due from/to Capital Projects Fund	863,918	12,154
Due to School Activities Fund	-	-
Due to Trust Fund	-	350,266
Sub-Total	<u>1,523,493</u>	<u>362,420</u>
CAPITAL PROJECTS FUND		
Due from/to General Fund	12,154	863,918
BUSINESS-TYPE ACTIVITIES:		
ENTERPRISE FUND		
Due from/to General Fund	-	659,575
FIDUCIARY NET POSITION		
Due from General Fund	<u>350,266</u>	<u>-</u>
TOTAL ALL FUNDS	\$ 1,885,913	\$ 1,885,913

Due to/from other funds represent advances of cash for operating needs.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Detailed Notes on All Funds (continued)

C. Capital Assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	Beginning Balance	Increases	Decreases/ Transfers	Ending Balance
GOVERNMENTAL ACTIVITIES				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,886,779	\$ -	\$ -	\$ 1,886,779
Construction in Progress	733,211	2,265,046	(1,638,978)	1,359,279
Total Capital Assets, not Being Depreciated	<u>2,619,990</u>	<u>2,265,046</u>	<u>(1,638,978)</u>	<u>3,246,058</u>
Capital Assets, Being Depreciated:				
Buildings and Improvements	275,052,232	1,344,911	1,638,978	278,036,121
Furniture, Fixtures, Equipment and Vehicles	<u>7,675,668</u>	<u>5,096,087</u>	<u>(7,785)</u>	<u>12,763,970</u>
Total Capital Assets, being Depreciated	<u>282,727,900</u>	<u>6,440,998</u>	<u>1,631,193</u>	<u>290,800,091</u>
Less Accumulated Depreciation for:				
Buildings	(78,318,147)	(5,176,518)	-	(83,494,665)
Furniture, Fixtures, Equipment and Vehicles	<u>(4,279,494)</u>	<u>(1,107,202)</u>	<u>7,785</u>	<u>(5,378,911)</u>
Total Accumulated Depreciation	<u>(82,597,641)</u>	<u>(6,283,720)</u>	<u>7,785</u>	<u>(88,873,576)</u>
Total Capital Assets, being Depreciated, Net	<u>200,130,259</u>	<u>157,278</u>	<u>1,638,978</u>	<u>201,926,515</u>
Intangible right-to-use assets:				
Leased equipment and vehicles	1,461,070	45,911	-	1,506,981
Less accumulated amortization	<u>(495,650)</u>	<u>(294,510)</u>	<u>-</u>	<u>(790,160)</u>
Total intangible right-to-use assets, net	<u>965,420</u>	<u>(248,599)</u>	<u>-</u>	<u>716,821</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET, AS RESTATED	<u>\$ 203,715,669</u>	<u>\$ 2,173,725</u>	<u>\$ -</u>	<u>\$ 205,889,394</u>
BUSINESS-TYPE ACTIVITIES				
Capital Assets, Being Depreciated:				
Machinery, Equipment and Vehicles	\$ 263,141	\$ -	\$ -	\$ 263,141
Less Accumulated Depreciation for:				
Machinery, Equipment and Vehicles	<u>(245,247)</u>	<u>(5,243)</u>	<u>-</u>	<u>(250,490)</u>
BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 17,894</u>	<u>\$ (5,243)</u>	<u>\$ -</u>	<u>\$ 12,651</u>

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 2. Detailed Notes on All Funds (continued)

C. Capital Assets (continued)

Depreciation for governmental activities is allocated as follows:

Administration	\$ 65,782
Instruction Services	6,249,319
Operation of Plant	<u>263,129</u>
TOTAL	<u>\$ 6,578,230</u>

D. Changes In Long-Term Debt

During the year ended June 30, 2022, the following changes occurred in long-term liabilities:

Note 2D

	Balance at July 1, 2021	Additions	Reductions	Balance at June 30, 2022	Due in One Year
Net OPEB liability	\$ 427,859,416	\$ -	\$ 276,697,410	\$ 151,162,006	\$ -
Net pension liability	5,846,065	-	1,597,412	4,248,653	-
Financed purchases	2,567,334	4,651,150	1,176,999	6,041,485	1,636,419
Intangible right-to-use leases	984,295	45,911	290,075	740,131	305,137
Long-Term portion of accrued compensated absences	913,519	-	51,797	861,722	48,794
	<u>\$ 438,170,629</u>	<u>\$ 4,697,061</u>	<u>\$ 279,813,693</u>	<u>\$ 163,053,997</u>	<u>\$ 1,990,350</u>

E. Fiduciary Fund Types

The fund equity at June 30, 2022 consists of the following:

John Postley Fund	\$ 79,827
Old Home Prize Fund	17,642
Gladys C. Burbage Scholarship Fund	210,165
John Coleman Scholarship Fund	2,342
Mark Pilchard Scholarship Fund	1,589
Stephen Decatur - Class of 1955 Fund	1,707
Worcester Board of Education - Employees Fund	3,217
Other	21,757
Stephen Decatur - JROTC	12,020
TOTAL	<u>\$ 350,266</u>

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 3. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board has joined the Maryland Association of Boards of Education Workers' Compensation Group Insurance Fund (the Fund), a public entity risk pool currently providing workers compensation coverage for participating boards of education in the State of Maryland. The Board pays an annual premium to the Fund calculated based on projected payroll. The agreement for the Fund provides that it will be self-sustaining through member premiums and will reinsure through commercial companies for claims which exceed coverage limits as specified in the agreement. Should the Fund encounter deficits in its casualty and/or property funds, this deficit may be made up from additional assessments of boards participating in the deficit Fund. The Board continues to carry commercial insurance for all other risks of loss, including general liability, employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in the last three years.

Note 4. Pension Plans

The State Retirement Agency is the administrator of the Maryland State Retirement and Pension System (the System). The System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits. The System is comprised of the Teachers' Retirement and Pension Systems, Employees' Retirement and Pension Systems, State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System. Responsibility for the System's administration and operation is vested in a 15 member Board of Trustees. The State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Suite 1660, Baltimore, Maryland 21202-1600 or on-line at www.sra.maryland.gov.

The System's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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 benefit terms. Investments are reported at fair value.

Generally, all regular employees of the Board participate in the Employees' Retirement and Pension Systems (Employee's Systems). Teachers employed by the Board generally participate in the Teachers' Retirement and Pensions Systems (Teachers' Systems). Both the Employees' Systems and the Teachers' Systems (collectively the Systems) are cost sharing multiple-employer defined benefit pension plans.

Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems

General Plan Policies

The Teachers' Retirement System of the State of Maryland was established on August 1, 1927 and is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland for the purpose of providing retirement allowances and other benefits to teachers in the State. In addition, on January 1, 1980, the Teachers' Pension System of the State of Maryland was established. In this regard, teachers hired on or after January 1, 1980 become members of the Teachers' Pension System, unless they elect to join an optional retirement program. Until December 31, 2004, existing members of the Teachers' Retirement System had the option of remaining in the Teachers' Retirement System or transferring to the Teachers' Pension System.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 4. Pension Plans (continued)

Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems (continued)

On October 1, 1941, the Employees' Retirement System was established to provide retirement allowances and other benefits to State employees, elected and appointed officials and the employees of participating governmental units. Effective January 1, 1980, the Employees' Retirement System was essentially closed to new members and the Employees' Pension system was established. Until December 31, 2004, existing members of the Employees' Retirement System had the option of remaining in the Employees' Retirement System or transferring to the Employees' Pension System.

Significant Plan Benefits and Policies

The following is a general description of the significant plan benefits and related contribution requirements for the Teachers' and Employees' Retirement Systems and the Teachers' and Employees' Pension Systems:

Teachers' and Employees' Retirement Systems

Retirement Benefits:

A member may retire with full benefits after attaining the age of 60, or after completing 30 years of creditable service regardless of age. The annual retirement allowance is equal to 1/55 of a member's average final compensation (i.e. average of the member's three highest years of annual earnable compensation) multiplied by the number of years and months of accumulated creditable service. A member may retire with reduced benefits after completing 25 years of creditable service regardless of age. Retirement allowances are adjusted each year based on the Consumer Price Index. Cost-of-living adjustments (COLAs) are applied to all allowances payable for the year, however, the method by which the COLA is computed depends upon elections made by members and is tied to member contributions.

Vested Allowance:

A member terminating employment before attaining retirement age but after completing 5 years of creditable service becomes eligible for a vested retirement allowance, provided the member lives to the age of 60 and does not withdraw his or her accumulated contributions. Members terminating employment before attaining retirement age and before completing 5 years of creditable service are refunded their accumulated contributions plus earned interest.

Employee and Employer Contributions:

Members of the Teachers' and Employees' Retirement System are required to contribute to the systems a fixed percentage of their regular salaries and wages (e.g. 7% or 5%, depending on the COLA option selected). The contributions are deducted from each member's salary and wage payment and are remitted to the systems on a regular, periodic basis.

Teachers' and Employees' Pension System

Pension Benefits:

A member may retire with full benefits after completing 30 years of eligibility service regardless of age, or at age 62 or older with specified years of eligibility service. On retirement from service, a member shall receive an annual service pension allowance. The annual pension allowance is equal to 1.2% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued prior to July 1,

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 4. Pension Plans (continued)

Teachers' and Employees' Pension System (continued)

1998 and 1.8% of average compensation for the three highest consecutive years as an employee for years of creditable service accrued on or after July 1, 1998. Members are eligible for early service pension allowances upon attaining age 55 with at least 15 years of eligibility service.

Vested Allowance:

A member terminating employment before attaining retirement age, but after completing 5 years of eligibility service, becomes eligible for a vested pension allowance provided the member lives to age 62. Members terminating employment before attaining retirement age and before completing 5 years of eligibility service are refunded their accumulated contributions plus earned interest.

Employee Contributions:

Effective July 1, 2011, members of the Teachers' and Employees' Pension Systems are required to contribute to the systems 7% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2022. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

For members enrolled on and after July 1, 2011, the employee contribution is 7%; vesting requires ten years of eligible service; service retirement is at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement is age 60 with 15 years of eligibility service; average final compensation is a five year average; and the benefit multiplier per year is 1.5%.

Teachers' and Employees' Retirement Systems and Teachers' and Employees' Pension Systems

Employer Contributions:

For the year ended June 30, 2022 the Board's total payroll for all employees was \$80,034,130. Total covered payroll was \$72,709,627. Covered payroll refers to all compensation paid by the Board to active employees covered by either the Teachers' Systems or Employees' Systems.

In accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board is required to pay 100% of the normal cost portion of the total pension cost for teachers. The normal cost is the portion of the total retirement benefit cost that is allocated to the current year of the employee's service. The related payment for fiscal year ending 2022 was \$2,687,370. In addition, the State of Maryland contributed \$7,043,656 on behalf of the Board. The Board has recognized the State on-behalf payments as both a revenue and expense.

During fiscal year 2022, the Board reported expense of \$648,942 related to the Employees' Systems in the fund financial statements. This amount was paid directly by the County and the Board has recognized the County on-behalf payments as both a revenue and expense.

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

Because the State of Maryland pays the unfunded liability for the Teachers' Systems and the Board pays the normal cost for the Teachers' Systems, the Board is not required to record its' share of the unfunded pension liability for the Teachers' Systems, the State of Maryland is required to record that liability. The Board is required to record a liability for the Employees' Systems.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 4. Pension Plans (continued)

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

At June 30, 2022, the Board reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the Board. The amount recognized by the Board as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Board were as follows:

	2022
Board's proportionate share of the net pension liability (Employees' Systems)	\$ 4,248,653
Board's proportionate share of the net pension liability (Teachers' Systems)	<u>46,399,612</u>
Total	<u>\$ 50,648,265</u>

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Boards proportion of the net pension liability was calculated as follows by the System(s):

1. Net pension liability for the entire System was calculated. For purposes of funding the System, all calculations are determined on an actuarial basis and are completed through the development of rates based on two separate asset pools, one for employees of the State of Maryland and one for primary government employees.
2. Determined the total contributions to the System by the State and by the primary governments, inclusive of any underfunding of contributions.
3. Based on the number of participants at each Board of Education, calculate the difference between what each Board would have contributed if they funded at the rate of all other participating governments and what the Board actually contributed. The difference between what the Board contributed and what they would have contributed if they funded at the rate of the other participating governments, is then added to the total contribution to the System, to calculate the System's adjusted contribution.
4. Calculated for each participating government, their percentage of the adjusted System contribution by dividing the total adjusted System contribution into each primary government contribution. At June 30, 2021, the Board's proportion was approximately .02832005%, which was substantially the same as its proportion measured as of June 30, 2020. Due to the proportion remaining substantially the same, the pension expense related to the change in proportion from June 30, 2020 to June 30, 2021 for the net pension liability, deferred financing outflows and inflows is recognized as pension expense in the government-wide financial statements.

For the year ended June 30, 2022, the Board recognized pension expense for the employees system of \$2,923,369 in the government wide financial statements and \$3,336,312 in the fund financial statements. At June 30, 2022, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 822,364	\$ (91,063)
Net difference between projected and actual investment earnings on pension plan investments	-	(1,940,283)
Difference between actual and expected experience	-	(325,636)
Change in proportion and share of contributions	454,131	-
Board contributions subsequent to measurement date	<u>648,942</u>	<u>-</u>
Total	<u>\$ 1,925,437</u>	<u>\$ (2,356,982)</u>

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 4. Pension Plans (continued)

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

In addition, there is \$648,942 of deferred outflows of resources resulting from the Board's contributions to the Employees' Systems subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life ranging from 5.50 to 5.78 years. The net difference in investment earnings is being amortized over a closed five year period. The following table shows the amortization of these balances:

	<u>Year End</u> <u>June 30,</u>	
2023	\$	(330,564)
2024		(265,088)
2025		(261,856)
2026		(346,862)
2027		<u>123,883</u>
Total	<u>\$</u>	<u>(1,080,487)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Inflation	2.25% general, 2.75% wage
Salary increases	projected range from 0.00% to 8.50% per year
Discount rate	6.80%
Investment rate of return	6.80%
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 4. Pension Plans (continued)

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

Investments

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	4.7%
Private Equity	13%	6.5%
Rate Sensitive	19%	-0.4%
Credit Opportunity	9%	2.6%
Real Assets	14%	4.2%
Absolute Return	8%	2.0%
Total	<u>100%</u>	

Discount rate

A single discount rate of 6.80% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 6.80%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Boards Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the System's proportionate share of the net pension liability calculated using the discount rate of 6.80%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>Discount Rate</u>	<u>Board's Net Pension Liability</u>
1% decrease	5.80%	\$ 7,236,051
Current discount rate	6.80%	\$ 4,248,653
1% increase	7.80%	\$ 1,770,626

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 5. Budget Calendar

The following calendar reflects the sequence of events for the preparation and adoption of the operating budget of The Board of Education of Worcester County:

APPROXIMATE DATE	PROCEDURE PERFORMED
September - November	Budget request forms and questionnaires prepared by schools and various departments and then returned to the central office.
December	Public input session is held to assist in preparation of the budget.
December - February	Budget formulation and Superintendent's review.
February - March	Board reviews budget and a second public session is held. The Board then adopts the proposed operating budget.
March	Budget due to County Administrator.
May	In early May, the Board of Education presents the proposed budget to the Worcester County Commissioners. In mid May, the County Commissioners hold a public budget hearing. By the last Tuesday in May, the budget is approved by the County Commissioners.
June	The Board of Education adopts the approved operating budget at the regular monthly Board meeting.

Note 6. Commitments and Contingencies

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. The Board has signed contracts for the Stephen Decatur Middle School addition in the amount of \$15,252,239. At June 30, 2022, \$4,973,953 had been expended related to these contracts.

The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the board.

The Board is a defendant in various lawsuits. After considering all relevant facts and the opinion of legal counsel, it is management's opinion that such litigation will not have a material adverse effect on the financial position of the Board.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Other Post-Employment Benefits

Plan Description and benefits provided

The Worcester County Public Schools Post-Retirement Medical Benefits Plan (the “Plan”) is an agent multiple employer defined benefit healthcare plan administered by the Board. The Plan provides medical and prescription drug benefits to eligible retirees, their spouses and eligible dependents. All classes of employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teachers’ pension system described below:

For members hired before July 1, 2011, the earliest retirement eligibility is the earlier of:

- Age 55 with 15 years of service,
- Age 62 with 5 years of service,
- Age 63 with 4 years of service,
- Age 64 with 3 years of service,
- Age 65 with 2 years of service, or
- 30 years of service, regardless of age.

For members hired after July 1, 2011, the earliest retirement eligibility is the earlier of

- Rule of 90 (age plus service is at least 90),
- Age 65 with 10 years of service,
- Age 60 with 15 years of service

In addition, eligible spouses and dependents desiring coverage through the eligible retiree’s plan must be enrolled in the Plan immediately prior to the retiree’s effective date of retirement.

As of July 1, 2021, the date of the last actuarial valuation, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	931
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	938
	1,869

Funding Policy

The Board provides basic major medical insurance (medicare supplemental program for those over 65) and a prescription drug plan for its retired employees. It is the Board’s policy to pay 90% of the cost of such benefits for eligible retirees, dependents and spouses hired prior to July 1, 2015 and 80% for employees hired after July 1, 2015. The Board’s OPEB Trust currently pays for the cost of these benefits on a pay as you go basis. For the year ended June 30, 2022, the OPEB Trust paid for coverage of approximately 931 retirees at a total cost of approximately \$5,000,000. For the year ended June 30, 2022, Worcester County Commissioners funded the trust in the amount of \$5,231,879 to fund future benefits and the Board funded the trust in the amount of \$2,868,146 to fund future benefits.

On behalf of the Board, the Worcester County Commissioners created the Retiree Benefit Trust of the Board of Education of Worcester County (the “Trust”) in order to arrange for the establishment of a reserve to pay promised future health and drug benefits for employee services that have already occurred. The Board intends the contributions to the Trust will qualify as “contributions in relation to the actuarially determined contribution” within the meaning of GASB Statement Number 75 and that the Trust will qualify as a “trust or equivalent arrangement” within the meaning of GASB Statement 75.

Contributions by the Board are solely dependent on the governmental entities that provide funding for the Board. Employee and retiree contributions are not permitted. The trustees of the Trust consist of a five member board who have final authority in all matters pertaining to the Trust.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Other Post-Employment Benefits (continued)

The Trust prohibits any part of the Trust to be used for or diverted to purposes other than providing benefits to participants and beneficiaries under the Plan. The Trust provides that in no event will the assets of the Trust be transferred to an entity that is not a state, a political subdivision, or an entity the income of which is excluded from taxation under Section 115 of the IRS Code.

Net OPEB Liability

The Board's net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022.

Actuarial Assumptions

The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary increases	4.00%, average, including inflation
Discount rate	4.646%
Healthcare cost trend rates	5.50% for fiscal year 2022, decreasing .0667% per year to an ultimate rate of 4.50% for fiscal year 2037 and later years
Mortality	PubT.H-2010 Mortality Table-Teachers with Mortality Improvement using Scale MP-2020
Retirement Age	Based on results of actuarial experience study with a Census date of June 2020

Investments

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and cash equivalents	1%	0.2%
Fixed income investments	34%	5.3%
Equities	65%	8.0%
Total	<u>100%</u>	

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Other Post-Employment Benefits (continued)

Discount rate

The discount rate used to measure the total OPEB liability was 4.646% for Fiscal Year 2022. This rate was changed from 2.235% used in Fiscal Year 2021. This is the single equivalent discount rate which represents a blended interest rate based on a long-term rate of return for those payments prior to the Crossover date and a 20-year high grade municipal bond index for all remaining payments after such a crossover date. The rates used are a long-term rate of return of 7.00% and the S & P Municipal Bond 20-year High-Grade rate index as of June 30, 2022 of 4.09%. The projection of cash flows used to determine the discount rate assumed that the Board's contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The periods of projected benefit payments were fiscal years 2022 through 2037.

The annual OPEB expense under GASB Statement No. 75 is equal to the change in the unfunded actuarial accrued liability from the prior year's measurement date to the current year measurement date, with some of the liability changes being deferred to future years. Changes in the actuarial accrued liability due to experience gains or losses or changes in assumptions are recognized over the expected future working lifetime of all plan participants, including retirees.

The Board's net OPEB liability is an amount actuarially determined in accordance with the parameters of GASB Statement No. 75. The following table shows the components of the Board's net OPEB liability, fiduciary net position, and the resulting net OPEB liability as of June 30, 2022:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balance at 6/30/2021	\$ 454,404,242	\$ 26,544,826	\$ 427,859,416
Changes for the year:			
Service cost	17,026,529	-	17,026,529
Interest cost	10,084,799	-	10,084,799
Differences between expected and actual experience	(228,081,935)	(5,592,988)	-
Changes of assumptions and other inputs	(70,161,344)	-	(70,161,344)
Contributions - County	-	5,231,879	(5,231,879)
Contributions - Board	-	2,868,146	(2,868,146)
Net investment income	-	(3,759,730)	3,759,730
Implicit rate subsidy	-	-	-
Benefit payments (net)	(6,276,315)	(5,049,651)	(1,226,664)
Administrative expense	-	(1,500)	1,500
Other changes	-	5,592,988	(5,592,988)
Net changes	(277,408,266)	(710,856)	(276,697,410)
Balances at 6/30/2022	\$ 176,995,976	\$ 25,833,970	\$ 151,162,006

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 7. Other Post-Employment Benefits (continued)

Funding Status and Funding Progress

As of July 1, 2021, the most recent actuarial valuation date, the total OPEB liability for benefits was \$176,995,976, with \$25,833,970 in plan Fiduciary net position, resulting in an unfunded OPEB liability of \$151,162,006. The covered employee payroll was \$59,155,287, and the ratio of the net OPEB liability to the covered payroll was 255.53%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability 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 net OPEB liability, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the net OPEB liability is increasing or decreasing over time relative to the total OPEB liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

- *Measurement date* – The Board selected a June 30, 2022 measurement date for fiscal year-end 2022. The measurement date can be any date between the last day of the prior fiscal year and the last day of the current fiscal year.
- *Cost method* – This valuation uses the Entry Age Normal Funding Method calculated on an individual basis with level percentage of payroll.

Sensitivity of the Total and Net OPEB Liability

The following table presents the Board’s total and net OPEB liability using the discount rate of 4.646%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<u>Discount Rate</u>	<u>Board's Net OPEB Liability</u>
1% decrease	3.646%	\$179,938,825
Current discount Rate	4.646%	\$151,162,006
1% increase	5.646%	\$128,198,590

The following table presents the Board’s net OPEB liability using the health care trend rate of 5.5%, decreasing to 4.5%, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% point lower or 1% point higher than the current rate:

	<u>Health Care Cost Trend Rate</u>	<u>Board's Net OPEB Liability</u>
1% decrease	4.5% decreasing to 3.5%	\$124,799,961
Current discount Rate	5.5% decreasing to 4.5%	\$151,162,006
1% increase	6.5% decreasing to 5.5%	\$185,230,406

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 8. Financed Purchases (continued)

The computer equipment contracts are secured by the equipment financed under the related agreement. In the event of nonappropriation of funds in a given year, the lease would be deemed terminated.

Future minimum lease payments under the financed purchase obligations, which will be funded from the General fund and partially from an appropriation from Worcester County, are as follows:

2023	\$	1,801,691
2024		2,272,236
2025		1,356,601
2026		1,000,571
		<u>6,431,099</u>
Less amounts representing interest		(389,614)
Present value of net minimum lease payments	\$	<u>6,041,485</u>

Interest expense on the above financed purchases was approximately \$104,000 for the year ended June 30, 2022.

The cost of items acquired under capital lease arrangements, as included in capital assets, totaled \$8,074,262, and the related accumulated depreciation was \$1,626,220 at June 30, 2022.

Note 9. Intangible Right-to-Use Assets

The Board implemented the guidance of GASB No. 87, *Leases*, at July 1, 2021 for accounting and reporting leases that had previously been reported as operating leases and recognized the value of vehicles and copiers leased under long-term contracts along with a related liability (see also Note 10).

As of July 1, 2021, the Board had a variety of lease agreements in place for vehicles. Payments under the vehicle leases total approximately \$32,000 per year. The lease agreements in place for these vehicles began during fiscal years 2021 and 2022 and will expire during fiscal years 2026 and 2027. For purposes of discounting future payments on these leases the Board used the imputed interest rate in the lease agreement, ranging from 4.50% to 8.90%.

As of July 1, 2021, the Board had a variety of lease agreements in place for copiers. Payments under the copier leases total approximately \$293,000 in fiscal year 2023, then decreasing to approximately \$206,000, \$119,000, and \$30,000 in fiscal years 2024, 2025, and 2026, respectively. The lease agreements in place for these copiers began during fiscal years 2019 and 2021 and will expire during fiscal years 2024 and 2026. For purposes of discounting future payments on these leases the Board used its incremental borrowing rate in place at the time of lease inception, 2.65%.

Leased vehicles and equipment and accumulated amortization of the right-to-use assets are outlined in Note 2.

Lease payments over the next five years are as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 305,137	\$ 20,310	\$ 325,447
2024	226,727	11,438	238,165
2025	145,140	5,741	150,881
2026	55,565	1,314	56,879
2027	7,562	142	7,704
	<u>\$ 740,131</u>	<u>\$ 38,945</u>	<u>\$ 779,076</u>

Interest expense on the above intangible right-to-use assets was approximately \$28,000 for the year ended June 30, 2022.

The Board of Education of Worcester County
NOTES TO FINANCIAL STATEMENTS
For the year ended June 30, 2022

Note 10. GASB Statement No. 87 Implementation

During the year ended June 30, 2022, the Board adopted new accounting guidance by implementing the provisions of GASB Statement No. 87, *Leases*. This statement's objective is to better meet the information needs of financial statements users by improving accounting and financial reporting for leases. The Statement increases the usefulness of the financial statements by requiring the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases.

The following tables are a summary of the effects of this change on the statement of net position and the statement of activities at June 30, 2021.

Statement of Net Position			
	As Previously Reported	GASB 87 Adjustment	As Restated
Non depreciable capital assets	\$ 2,619,990	\$ -	\$ 2,619,990
Depreciable capital assets, net	200,130,259	965,420	201,095,679
Total	202,750,249	965,420	203,715,669
Long-term liabilities			
Due within one year	(902,875)	(288,015)	(1,190,890)
Due in more than one year	(436,283,459)	(696,280)	(436,979,739)
Total	(437,186,334)	(984,295)	(438,170,629)
Net position			
Net investment in capital assets	202,768,143	(18,875)	202,749,268
Restricted for school activities	1,367,414	-	1,367,414
Restricted for food service operations	389,480	-	389,480
Restricted for capital projects	53,492	-	53,492
Unrestricted	(392,790,706)	-	(392,790,706)
Total	\$ (188,212,177)	\$ (18,875)	\$ (188,231,052)

Statement of Activities			
	As Previously Reported	GASB 87 Adjustment	As Restated
Net position	\$ (188,212,177)	\$ (18,875)	\$ (188,231,052)

REQUIRED SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
GENERAL FUND - BUDGETARY BASIS
YEAR ENDED JUNE 30, 2022**

	UNRESTRICTED			
	BUDGET		ACTUAL	VARIANCE
	ORIGINAL	FINAL		
UNRESTRICTED REVENUES				
County Appropriation	\$ 96,341,968	\$ 96,341,968	\$ 96,341,968	\$ -
State of Maryland and Federal	20,302,704	20,302,704	20,319,463	16,759
Other Sources	225,452	225,452	232,205	6,753
TOTAL UNRESTRICTED REVENUES	116,870,124	116,870,124	116,893,636	23,512
UNRESTRICTED EXPENDITURES				
Administration	1,814,096	1,814,096	1,813,936	160
Instructional Support Services	8,215,705	8,473,393	8,473,390	3
Instructional Salaries	47,136,764	46,610,422	46,210,418	400,004
Textbooks and Instructional Supplies	2,759,439	2,909,324	2,909,324	-
Other Instruction Costs	965,917	1,084,686	1,084,684	2
Student Personnel Services	373,764	373,764	371,921	1,843
Health Services	1,021,007	1,021,007	1,020,613	394
Student Transportation	7,012,371	7,424,471	7,424,468	3
Operation of Plant and Equipment	8,549,069	8,750,843	8,750,841	2
Maintenance of Plant	1,129,851	1,277,449	1,277,446	3
Fixed Charges	26,702,964	25,941,492	25,248,463	693,029
Capital Outlay	226,199	968,045	968,045	-
Special Education	11,529,989	11,529,989	11,410,817	119,172
TOTAL UNRESTRICTED EXPENDITURES	117,437,135	118,178,981	116,964,366	1,214,615
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES	(567,011)	(1,308,857)	(70,730)	1,238,127
OTHER FINANCING SOURCES (USES)				
Appropriation from Fund Balance - capital projects	-	741,846	741,846	-
Appropriation to FY23 Fund balance - track replacement and OPEB	-	-	(671,116)	(671,116)
Appropriation from Fund Balance	567,011	567,011	567,011	-
TOTAL OTHER FINANCING SOURCES	567,011	1,308,857	637,741	(671,116)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	\$ -	\$ -	\$ 567,011	\$ 567,011

See Accompanying Notes To Financial Statements.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

Fiscal Year	Measurement Date	Board's Proportion (Percentage) of the NPL A	Board's Proportionate Share of the NPL B	State's Proportionate Share of the NPL C	Total (B+C)	Board's Covered Payroll D	Board's Proportionate Share as a Percentage of Covered Payroll (B / D)	Plan's Total Fiduciary Net Position E	Plan's Total Pension Liability F	Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (E / F)
2015	June 30, 2014	0.0215328%	\$ 3,821,376	\$ 51,503,242	\$ 55,324,618	\$ 59,107,236	6.47%	\$ 45,339,988,000	\$ 63,086,719,000	71.87%
2016	June 30, 2015	0.0236638%	\$ 4,917,743	\$ 64,079,160	\$ 68,996,903	\$ 60,120,207	8.18%	\$ 45,789,840,000	\$ 66,571,552,000	68.78%
2017	June 30, 2016	0.0237966%	\$ 5,614,576	\$ 78,792,130	\$ 84,406,706	\$ 60,937,473	9.21%	\$ 45,365,927,000	\$ 68,959,954,000	65.79%
2018	June 30, 2017	0.0215827%	\$ 4,666,979	\$ 73,617,121	\$ 78,284,100	\$ 62,892,100	7.42%	\$ 48,987,184,000	\$ 70,610,885,000	69.38%
2019	June 30, 2018	0.0241899%	\$ 5,075,428	\$ 70,212,964	\$ 75,288,392	\$ 65,337,722	7.77%	\$ 51,827,233,000	\$ 72,808,833,000	71.18%
2020	June 30, 2019	0.0258513%	\$ 5,331,996	\$ 66,384,113	\$ 71,716,109	\$ 68,088,033	7.83%	\$ 53,943,420,000	\$ 74,569,030,000	72.34%
2021	June 30, 2020	0.0258660%	\$ 5,846,065	\$ 73,218,401	\$ 79,064,466	\$ 70,502,097	8.29%	\$ 54,586,037,000	\$ 77,187,399,000	70.72%
2022	June 30, 2021	0.0283201%	\$ 4,248,653	\$ 46,399,612	\$ 50,648,265	\$ 72,709,627	5.84%	\$ 67,604,500,000	\$ 82,606,805,000	81.84%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF BOARD CONTRIBUTIONS - PENSION PLANS**

Fiscal Year	Measurement Date	Contractually Required Contribution A	Actual Contribution B	Contribution Deficiency (Excess) (A - B)	Employer's Covered Payroll C	Actual Contribution as a Percentage of Covered Payroll (B / C)
2015	June 30, 2014	\$ 2,554,208	\$ 2,554,208	\$ -	\$ 59,107,236	4.32%
2016	June 30, 2015	\$ 2,834,217	\$ 2,834,217	\$ -	\$ 60,120,207	4.71%
2017	June 30, 2016	\$ 2,790,974	\$ 2,790,974	\$ -	\$ 60,937,473	4.58%
2018	June 30, 2017	\$ 3,037,678	\$ 3,037,678	\$ -	\$ 62,892,100	4.83%
2019	June 30, 2018	\$ 3,073,056	\$ 3,073,056	\$ -	\$ 65,337,722	4.70%
2020	June 30, 2019	\$ 3,266,454	\$ 3,266,454	\$ -	\$ 68,088,033	4.80%
2021	June 30, 2020	\$ 3,299,496	\$ 3,299,496	\$ -	\$ 70,502,097	4.68%
2022	June 30, 2021	\$ 3,336,310	\$ 3,336,310	\$ -	\$ 72,709,627	4.59%

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

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

	2018	2019	2020	2021	2022
Total OPEB liability					
Service cost	\$ 14,629,936	\$ 15,559,700	\$ 14,909,548	\$ 14,945,774	\$ 17,026,529
Interest cost	9,394,241	9,957,831	10,329,992	12,070,470	10,084,799
Differences between expected and actual experience	(15,957,568)	-	(11,166,696)	-	(228,081,935)
Changes of assumptions and other inputs	199,538	10,366,756	17,070,585	43,196,911	(70,161,344)
Implicit rate subsidy	-	-	(2,256,713)	(3,235,179)	-
Benefit payments	(5,974,464)	(6,457,472)	(6,577,082)	(6,074,638)	(6,276,315)
Other changes	(559,286)	344,814	4,255,039	-	-
Net change in total OPEB liability	\$ 1,732,397	\$ 29,771,629	\$ 26,564,673	\$ 60,903,338	\$ (277,408,266)
Total OPEB liability, beginning of year	335,432,205	337,164,602	366,936,231	393,500,904	454,404,242
Total OPEB liability, end of year (a)	\$ 337,164,602	\$ 366,936,231	\$ 393,500,904	\$ 454,404,242	\$ 176,995,976
Plan fiduciary net position					
Differences between expected and actual experience	\$ 28,645	\$ (221,355)	\$ (929,393)	\$ (3,414,377)	\$ (5,592,988)
Contributions	2,500,000	5,385,500	8,724,143	5,568,744	8,100,025
Net investment income	1,582,921	1,075,295	736,994	5,111,494	(3,759,730)
Benefit payments	(5,974,464)	(6,457,472)	(6,577,082)	(6,074,638)	(5,049,651)
Administrative expense	(1,150)	(3,400)	(1,000)	(5,000)	(1,500)
Other changes	(28,645)	221,355	928,393	3,414,377	5,592,988
Net change in fiduciary net position	\$ (1,892,693)	\$ (77)	\$ 2,883,055	\$ 4,600,600	\$ (710,856)
Fiduciary net position, beginning of year	20,953,941	19,061,248	19,061,171	21,944,226	26,544,826
Fiduciary net position, end of year (b)	\$ 19,061,248	\$ 19,061,171	\$ 21,944,226	\$ 26,544,826	\$ 25,833,970
Net OPEB Liability (a-b)	\$ 318,103,354	\$ 347,875,060	\$ 371,556,678	\$ 427,859,416	\$ 151,162,006
Fiduciary net position as a % of total OPEB liability	5.65%	5.19%	5.58%	5.84%	14.60%
Covered employee payroll	\$ 62,892,100	\$ 65,337,722	\$ 68,088,033	\$ 70,502,097	\$ 59,155,287
Net OPEB liability as of % of payroll	505.79%	532.43%	545.70%	606.87%	255.53%
Expected average remaining service in years	6.69	6.38	6.02	6.02	6.998

Schedule is intended to provide 10-year trend information. Additional years will be displayed as available.
GASB No. 75 was implemented in fiscal year 2018.

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS**

	2018	2019	2020	2021	2022
Annual money-weighted rate of return, net of investment					
Cash and Cash Equivalents	0.50%	0.50%	0.20%	0.20%	0.20%
Fixed Income and Equities	5.7% - 8.1%	5.7% - 8.1%	5.3% - 8.0%	5.3% - 8.0%	5.3% - 8.0%

*Schedule is intended to provide 10-year trend information. Additional years will be displayed as available.
GASB No. 75 was implemented in fiscal year 2018.*

The Board of Education of Worcester County
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2022

Note 1. Budget

The original budget, subsequent supplements and major transfers are approved by the Worcester County Council. Appropriations are for one year and lapse at year end.

A legally adopted budget is prepared for the General Fund only. Amendments to the budget can be made with approval from Worcester County and the Board for intercategory transfers, and by approval of the Board for intracategory transfers. By law, actual expenditures for each category and for each account within categories may not exceed budgeted expenditures.

The Board of Education prepares its budget and accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP basis). Thus, there are two statements of revenues and expenditures in these financial statements for the general fund; the first is prepared in accordance with generally accepted accounting principles and the second is prepared on the budgetary basis in order to compare revenues and expenditures with the budget. One of the differences between the two statements is that increases (decreases) in asset account balances for prepaid expenditures and inventories are accounted for as expenditure reductions or sources (increases or uses) on the GAAP basis financial statements, but not on the budgetary financial statements. In addition, the appropriation from prior year fund balance is accounted for as additional sources for budgetary purposes. Encumbrances are recorded as expenditures for budgetary purposes but as an assignment of fund balance in the GAAP basis financial statements. Finally, the State's share of the pension and retirement fund contribution is recorded as a revenue and expenditure on the GAAP basis financial statements, but is not included on the budgetary financial statements.

Adjustments necessary to convert revenues, expenditures and other financing uses at the end of the year on the GAAP basis to the budgetary basis are as follows:

	Revenues	Expenditures	Balances
	General	General	General
	June 30, 2021	June 30, 2021	June 30, 2021
GAAP Basis	\$ 124,586,234	\$ 129,743,495	\$ 3,643,126
Increase (Decrease):			
State Share of Retirement and Pension Contribution	(7,043,656)	(7,043,656)	-
County Share of Retirement and Pension Contribution	(648,942)	(648,942)	-
Proceeds from financed purchases	-	(4,651,150)	-
Proceeds from right-to-use assets	-	(45,911)	-
Net Effect of Utilization of Encumbrances:			
Reversal of June 30, 2021 Balances	-	(1,253,664)	-
Recording of Balances at June 30, 2022	-	864,194	(864,194)
Insurance Reserve and other	-	-	(22,024)
Budgetary basis	<u>\$ 116,893,636</u>	<u>\$ 116,964,366</u>	<u>\$ 2,756,908</u>

The Board of Education of Worcester County
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2022

Note 2. Pensions

Change in Benefit Terms

There were no significant benefit changes during the year.

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2021 valuation:

- Inflation assumption changed from 2.60% to 2.25% for general and from 3.10% to 2.75% for wage

Method and Assumptions used in Calculations of Actuarially Determined Contributions

Actuarial	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	17 years for State system
Asset valuation method	5-year smoothed market; 40% recognized in 2021; 15% equally over next four valuations
Inflation	2.25% general, 2.75% wage
Salary increases	Projected range from 0.00% to 8.50% per year
Investment rate of return	6.80%
Retirement age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for 2019 valuation pursuant to the 2018 experience study for the period July 1, 2014 to July 30, 2018.
Mortality	Various versions of the Pub-2010 Mortality Tables for males and females with projected generational mortality improvements based on the MP-2018 fully generational mortality improvements scale for males and females.

The Board of Education of Worcester County
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2022

Note 3. Other Post Employment Benefits

Change in Benefit Terms

There were no significant benefit changes during the year.

Changes in Assumptions

Adjustments to the roll-forward liabilities were made to reflect the following assumption changes in the 2021 valuation:

- Discount rate changed from 2.235% to 4.704%

The Board of Education of Worcester County
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the year ended June 30, 2022

Note 3. Other Post Employment Benefits (continued)

Methods and assumptions used to determine contribution rates:

Valuation date	July 1, 2021
Actuarial cost method	Entry Age Normal
Amortization method	Level dollar, closed period
Amortization period	6.998 years
Inflation	3.00%
Healthcare cost trend rates	5.50% for fiscal year 2022, decreasing .0667% per year to an ultimate rate of 4.50% for fiscal year 2037 and later years
Salary increases	4.00%, average, including inflation
Discount rate- 2022	4.646%
Discount rate- 2021	2.235%
Mortality	PubT.H-2010 Mortality Table-Teachers with Mortality Improvement using Scale MP-2020

Retirement rates

<u>Age</u>	<u>BOE</u>
55 - 59	15%
60 - 61	20%
62 -64	35%
65	25%
66 - 69	35%
70+	100%

Withdrawal rates

Table T-1 from the Pension Acutary's Handbook

<u>Age</u>	<u>BOE</u>
20	5.47%
25	4.77%
30	3.54%
35	2.24%
40	1.14%
45	0.57%
50	0.72%
55	1.13%
60	1.69%

Retiree contributions

	<u>Pre-Medicare</u>		<u>Medicare Eligible</u>	
	<u>Retiree</u>	<u>Spouse</u>	<u>Retiree</u>	<u>Spouse</u>
Pre 7/1/15 hires	\$ 735	\$ 1,286	\$ 508	\$ 508
7/1/15 & Subsequent hires	1,470	2,573	1,017	1,017
Spouse pay-all		12,864		5,085

ADDITIONAL SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**UNRESTRICTED GENERAL FUND REVENUES AND
OTHER FINANCING SOURCES - BUDGETARY BASIS
Year Ended June 30, 2022**

	Original Budget	Final Budget	Actual	Variance With Final Budget Favorable (Unfavorable)
UNRESTRICTED LOCAL FUNDS				
County appropriation	\$ 96,341,968	\$ 96,341,968	\$ 96,341,968	\$ -
STATE OF MARYLAND FUNDS				
Current expense	7,019,022	7,019,022	7,019,022	-
Transportation	3,392,268	3,392,268	3,392,268	-
Handicapped children	1,651,336	1,651,336	1,671,021	19,685
Compensatory education	7,827,456	7,827,456	7,827,456	-
Limited english proficiency	412,622	412,622	409,696	(2,926)
TOTAL STATE OF MARYLAND FUNDS	20,302,704	20,302,704	20,319,463	16,759
OTHER FUNDS				
Tuition	70,000	70,000	105,254	35,254
Interest and other	80,000	80,000	101,322	21,322
Reimbursement from restricted Programs	75,452	75,452	25,629	(49,823)
TOTAL OTHER FUNDS	225,452	225,452	232,205	6,753
TOTAL UNRESTRICTED REVENUES	116,870,124	116,870,124	116,893,636	23,512
OTHER FINANCING SOURCES				
Appropriation from Fund balance - capital projects	-	741,846	741,846	-
Appropriation to FY23 Fund balance - track replacement and OPEB	-	-	(671,116)	(671,116)
Appropriation from Fund balance	567,011	567,011	567,011	-
TOTAL OTHER FINANCING SOURCES	567,011	1,308,857	637,741	(671,116)
TOTAL UNRESTRICTED REVENUES AND OTHER FINANCING SOURCES	\$ 117,437,135	\$ 118,178,981	\$ 117,531,377	\$ (647,604)

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF APPROPRIATIONS AND EXPENDITURES

GENERAL FUND - BUDGETARY BASIS

Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget
ADMINISTRATION				
Salaries and wages	\$ 1,559,660	\$ 1,495,904	\$ 1,495,746	\$ 158
Contracted services	177,242	161,971	161,971	-
Supplies and materials	30,382	79,912	79,912	-
Other charges	45,710	70,976	70,975	1
Land, buildings and equipment	1,102	5,333	5,332	1
TOTAL ADMINISTRATION	1,814,096	1,814,096	1,813,936	160
INSTRUCTIONAL SUPPORT SERVICES				
Salaries and wages	7,758,406	7,775,156	7,775,156	-
Contracted services	85,263	124,619	124,618	1
Supplies and materials	303,597	444,168	444,167	1
Other charges	61,200	124,503	124,502	1
Land, buildings and equipment	7,239	4,947	4,947	-
TOTAL INSTRUCTIONAL SUPPORT SERVICES	8,215,705	8,473,393	8,473,390	3
INSTRUCTIONAL SALARIES AND WAGES	47,136,764	46,610,422	46,210,418	400,004
TEXTBOOKS AND CLASSROOM SUPPLIES AND MATERIALS	2,759,439	2,909,324	2,909,324	-
OTHER INSTRUCTIONAL COSTS				
Contracted services	523,647	421,997	421,996	1
Other charges	306,875	451,805	451,805	-
Land, buildings and equipment	85,395	90,816	90,815	1
Outgoing transfers	50,000	120,068	120,068	-
TOTAL OTHER INSTRUCTIONAL COSTS	965,917	1,084,686	1,084,684	2
STUDENT PERSONNEL SERVICES				
Salaries and wages	370,841	364,346	362,505	1,841
Contracted services	750	4,945	4,945	-
Supplies and materials	1,890	4,020	4,019	1
Other charges	283	453	452	1
TOTAL STUDENT PERSONNEL SERVICES	373,764	373,764	371,921	1,843
HEALTH SERVICES				
Salaries and wages	1,010,887	994,613	994,272	341
Contracted services	252	3,769	3,768	1
Supplies and materials	8,118	21,385	21,384	1
Other charges	750	1,190	1,189	1
Land, buildings and equipment	1,000	50	-	50
TOTAL HEALTH SERVICES	\$ 1,021,007	\$ 1,021,007	\$ 1,020,613	\$ 394

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF APPROPRIATIONS AND EXPENDITURES - CONTINUED

GENERAL FUND - BUDGETARY BASIS

Year Ended June 30, 2022

	Original Budget	Final Budget	Actual	Variance With Final Budget
STUDENT TRANSPORTATION				
Salaries and Wages	\$ 356,634	\$ 380,191	\$ 380,190	\$ 1
Contracted Services	6,553,017	6,908,127	6,908,127	-
Supplies and Materials	9,636	3,440	3,440	-
Other Charges	93,084	129,039	129,038	1
Land, Buildings and Equipment	-	3,674	3,673	1
TOTAL STUDENT TRANSPORTATION	7,012,371	7,424,471	7,424,468	3
OPERATION OF PLANT				
Salaries and Wages	3,867,661	3,871,835	3,871,835	-
Contracted Services	322,270	653,559	653,559	-
Supplies and Materials	301,120	832,953	832,952	1
Other Charges	4,015,718	3,190,359	3,190,358	1
Land, Buildings and Equipment	42,300	202,137	202,137	-
TOTAL OPERATION OF PLANT	8,549,069	8,750,843	8,750,841	2
MAINTENANCE OF PLANT				
Salaries and Wages	768,358	647,059	647,058	1
Contracted Services	93,738	302,815	302,814	1
Supplies and Materials	229,360	325,500	325,500	-
Other Charges	650	1,350	1,349	1
Land, Buildings and Equipment	37,745	725	725	-
TOTAL MAINTENANCE OF PLANT	1,129,851	1,277,449	1,277,446	3
FIXED CHARGES				
Insurance and Employee Benefits	26,702,964	25,941,492	25,248,463	693,029
CAPITAL OUTLAY				
Salaries and Wages	123,891	118,314	118,314	-
Contracted Services	450	48,410	48,410	-
Supplies and Materials	1,552	70	70	-
Other Charges	306	-	-	-
Land, Buildings and Equipment	100,000	801,251	801,251	-
TOTAL CAPITAL OUTLAY	226,199	968,045	968,045	-
SPECIAL EDUCATION				
Salaries and Wages	10,751,978	10,751,978	10,666,179	85,799
Contracted Services	403,000	319,960	293,299	26,661
Supplies and Materials	185,000	336,154	336,154	-
Other Charges	40,011	71,897	71,896	1
Land, Buildings and Equipment	22,000	22,000	18,819	3,181
Outgoing Transfers	128,000	28,000	24,470	3,530
TOTAL SPECIAL EDUCATION	11,529,989	11,529,989	11,410,817	119,172
TOTAL UNRESTRICTED APPROPRIATIONS AND EXPENDITURES	\$ 117,437,135	\$ 118,178,981	\$ 116,964,366	\$ 1,214,615

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHOOL ACTIVITIES FUND OPERATIONS

Year Ended June 30, 2022

	Balance June 30, 2021	Receipts	Disbursements	Balance June 30, 2022
ELEMENTARY				
Buckingham	\$ 41,152	\$ 95,053	\$ 80,170	\$ 56,035
Ocean City	44,377	89,657	83,583	50,451
Pocomoke	48,737	53,724	49,899	52,562
Showell	50,534	81,183	83,504	48,213
Snow Hill	45,712	95,312	99,284	41,740
TOTAL ELEMENTARY	230,512	414,929	396,440	249,001
MIDDLE SCHOOL				
Berlin	89,017	133,387	101,701	120,703
Pocomoke	38,829	108,337	95,455	51,711
Snow Hill	62,272	99,925	91,558	70,639
Stephen Decatur	120,717	85,036	72,472	133,281
TOTAL MIDDLE SCHOOL	310,835	426,685	361,186	376,334
HIGH SCHOOL				
Pocomoke	151,864	207,703	196,560	163,007
Snow Hill	148,845	248,754	209,389	188,210
Stephen Decatur	348,042	637,174	615,259	369,957
TOTAL HIGH SCHOOL	648,751	1,093,631	1,021,208	721,174
SPECIALIZED SCHOOL				
Cedar Chapel	10,900	33,722	22,529	22,093
Vocational	166,416	355,561	350,659	171,318
TOTAL SPECIALIZED SCHOOL	177,316	389,283	373,188	193,411
TOTAL SCHOOL ACTIVITY FUND OPERATION	\$ 1,367,414	\$ 2,324,528	\$ 2,152,022	\$ 1,539,920
EXCESS OF RECEIPTS OVER DISBURSEMENTS		\$ 172,506		

THE BOARD OF EDUCATION OF WORCESTER COUNTY

SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL

FOOD SERVICE FUND - BUDGETARY BASIS

Year Ended June 30, 2022

	Budget	Actual	Variance With Budget Favorable (Unfavorable)
REVENUES			
Federal and State:			
Reimbursement for food	\$ 2,157,965	\$ 3,943,908	\$ 1,785,943
Other Revenues:			
Grant and donation revenues	20,000	20,000	-
Catering income	3,150	-	(3,150)
Lunches sold	620,400	25,398	(595,002)
Interest income and other	1,350	1,118	(232)
Rebates - food	4,500	-	(4,500)
Total Other Revenues	<u>649,400</u>	<u>46,516</u>	<u>(602,884)</u>
TOTAL REVENUES	<u>2,807,365</u>	<u>3,990,424</u>	<u>1,183,059</u>
EXPENDITURES			
Food and food related supplies	1,279,917	1,811,246	(531,329)
Commodity processing and storage	12,600	19,191	(6,591)
Nonfood supplies and other expense	54,700	53,891	809
Salaries and wages	1,034,635	973,649	60,986
Fringe benefits	417,613	301,041	116,572
Contracted services	2,900	8,207	(5,307)
Other charges	5,000	1,650	3,350
Additional equipment	-	1,079	(1,079)
TOTAL EXPENDITURES	<u>2,807,365</u>	<u>3,169,954</u>	<u>(362,589)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ 820,470</u>	<u>\$ 820,470</u>

THE BOARD OF EDUCATION OF WORCESTER COUNTY

**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGETARY BASIS -
COMBINED RESTRICTED AND UNRESTRICTED
Year Ended June 30, 2022**

REVENUES

County Appropriation	\$ 96,341,968	
State of Maryland	23,280,374	
Restricted Federal Funds	10,582,924	
Other Sources	<u>642,775</u>	130,848,041
TOTAL REVENUES		

OTHER FINANCING SOURCES

Appropriation from Fund Balance	<u>637,741</u>
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TOTAL REVENUES AND OTHER FINANCING SOURCES \$ 131,485,782

EXPENDITURES

Administration	1,978,038
Mid-Level Administration	8,705,457
Instructional Salaries and Wages	49,744,796
Textbooks and Classroom Supplies	5,942,900
Other Instructional Costs	2,177,744
Pupil Personnel Services	371,921
Health Services	1,247,107
Pupil Transportation	7,814,316
Operation of Plant	10,361,444
Maintenance of Plant	1,277,446
Fixed Charges	26,494,594
Special Education	13,787,783
Food Services	-
Community Services	47,180
Capital Planning	<u>968,045</u>

TOTAL EXPENDITURES 130,918,771

EXCESS OF REVENUES AND OTHER
FINANCING SOURCES OVER EXPENDITURES

\$ 567,011

The Board of Education of Worcester County
NOTES TO ADDITIONAL SUPPLEMENTARY INFORMATION
For the year ended June 30, 2022

Note 1. Budget

A budget is adopted for the Food Service Fund for internal purposes only.

	Revenues	Expenditures	Change in Fund Balances
	Proprietary	Proprietary	Proprietary
	June 30, 2021	June 30, 2021	June 30, 2021
GAAP basis	\$ 3,990,424	\$ 3,175,197	\$ 815,227
Capital outlay	-	-	-
Depreciation	-	(5,243)	5,243
Budgetary basis	<u>\$ 3,990,424</u>	<u>\$ 3,169,954</u>	<u>\$ 820,470</u>