

HOWARD COUNTY PUBLIC SCHOOL SYSTEM

FINANCIAL STATEMENTS

JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
of The Howard County Public School System
Ellicott City, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Howard County Public School System (HCPSS), a component unit of Howard County, Maryland, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the HCPSS's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to HCPSS's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Members of the Board of Education
of The Howard County Public School System

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of HCPSS as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 4 through 20, the budgetary comparison information on pages 59 and 60, and the schedule of the Board's proportionate share of the net pension liability, schedule of Board contributions and notes to the required supplementary information on pages 61 through 62 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the HCPSS's basic financial statements. The detailed budgetary comparison schedules and combining fund financial statements (collectively, the other supplementary information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information as listed in the table of contents are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Members of the Board of Education
of The Howard County Public School System

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2016, on our consideration of HCPSS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HCPSS's internal control over financial reporting and compliance.

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

CliftonLarsonAllen LLP

Baltimore, Maryland
September 30, 2016

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016**

Introduction

As Management of the Howard County Public School System (HCPSS, School System, Board), we have prepared the following discussion and analysis to inform readers of HCPSS's annual financial report about the financial information that the enclosed statements present for the year ended June 30, 2016 with selected comparative data for the year ended June 30, 2015. We encourage readers to consider the discussion and analysis along with the other information in this report, including the summary of significant accounting policies and notes to the basic financial statements. In this section we have provided an overview of the basic financial statements, selected condensed data and highlights, and analysis of HCPSS's financial position and changes in financial position.

Financial Highlights for FY 2016

GOVERNMENT-WIDE FINANCIAL STATEMENTS

- The School System's financial status as of June 30, 2016 and as reflected in total net position, increased by \$29.3 million to \$1,127.5 million from \$1,098.2 million. The increase in total net position reflects increases in capital assets of \$46.7 million, and increase in deferred outflows of resources of \$8.5 million as well as decreases in current and other assets of \$25.8 million, and an increase in liabilities of \$100 thousand. The investment made in capital assets was used for new school construction, renovations and additions as well as technology improvements.
- General revenues accounted for \$744.2 million, including \$544.1 million in local appropriations and \$197.8 million in aid from the State of Maryland. Program revenues, in the form of charges for services, operating grants and contributions, and capital grants and contributions, accounted for \$244.4 million. The total revenue from all sources was \$988.6 million.
- The School System had \$959.2 million in expenses related to programs, an increase of \$29.6 million from the prior year. The increase in expenses is primarily due to an increases in salaries and benefit costs.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

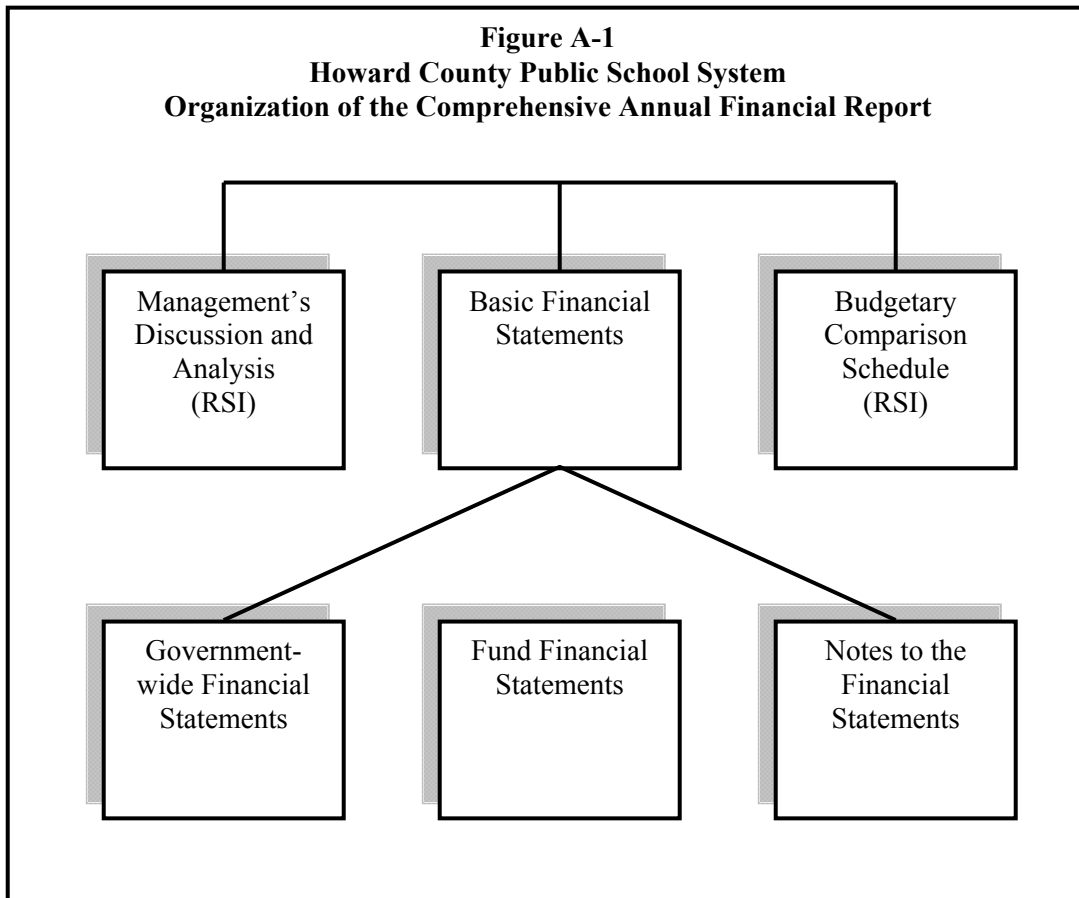
- The overall fund balance of the General Fund, the primary operating fund, increased by \$2.4 million to \$17.9 million from \$15.5 million. The General Fund balance is comprised of \$1.0 million in nonspendable fund balance related to prepaid items and inventories, \$13.9 million assigned for encumbrances and subsequent year's budgeted appropriation of fund balance, and fund balance and \$3.0 million in unassigned fund balance.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2016**

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the School System’s basic financial statements as reflected in Figure A-1. The School System’s basic financial statements are comprised of three parts:

1. Government-wide Financial Statements include the Statement of Position and the Statement of Activities which provide a broad, long-term overview of the School System’s overall financial condition;
2. Fund Financial Statements include governmental, proprietary, and fiduciary funds. These statements provide a greater level of detail of revenues and expenditures and focus on individual parts of the School System, while also indicating how well the School System has performed in the short term, in the most significant funds; and,
3. Notes to the Basic Financial Statements are disclosures to ensure that a complete picture is presented in the financial statements.



**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2016**

Government-wide Financial Statements

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

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

The *Statement of Activities* presents information showing how the School System’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows, in future fiscal periods (such as earned, but unused, vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the School System. The majority of the School System’s revenue is general revenue, grants and contributions from other governments.

Both of the above statements include separate sections to distinguish between those that are supported primarily by intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant part of their costs through fees and charges (business-type activities).

In the government-wide financial statements, the activities are divided into two categories, governmental activities and business-type activities.

- Governmental activities include HCPSS basic services which are administration, instruction, student and health services, student transportation services, operation and maintenance of plant, capital outlay, special education, community services, food services, and mid-level administration. County appropriations, state and federal aid finance most of these activities.
- Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. HCPSS reports the activities of the Jim Rouse Theatre as a business-type activity.

The government-wide financial statements can be found on pages 22-23 of this report.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The HCPSS uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide more detailed information about HCPSS funds, focusing on the most significant or “major” funds - not HCPSS as a whole. HCPSS fund financial statements provide detailed information about its most significant funds.

All of the funds of HCPSS can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. These reconciliations are presented on pages 25 and 27 of this report, respectively.

The governmental fund financial statements can be found on pages 24 and 26 of this report.

Proprietary Funds

Proprietary funds are used to show activities that operate more like those of commercial enterprises.

These type of funds charge fees for services that are provided to outside customers. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the full accrual basis of accounting and the economic resources measurement focus. Therefore, no reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Proprietary Funds (continued)

Proprietary funds include an enterprise fund and internal service funds. The HCPSS has one (1) enterprise fund and four (4) internal service funds. The enterprise fund captures the activity of the Jim Rouse Theatre. The internal service funds are: Print Services, Technology Services, Health and Dental Self-Insurance Fund, and Workers' Compensation Self-Insurance.

The proprietary fund financial statements can be found on pages 28 - 30 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the HCPSS. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support HCPSS own programs. The accrual basis of accounting is used for fiduciary funds.

The School System's only fiduciary fund is the School Activities Fund. The school activities funds are primarily raised by students, for their benefit, and are held in an agency capacity by the School System.

The fiduciary fund financial statement can be found on page 31 of this report.

Summary of Significant Accounting Policies and the Notes to Financial Statements

The Summary of Significant Accounting Policies and Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The summary and notes can be found on pages 32-57 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the HCPSS' budget process. HCPSS adopts an annual expenditure budget for all governmental funds. The School System's General Fund has a legally adopted budget. Management also prepares budgets for the other governmental funds for internal monitoring purposes only. The budget to actual comparison for the General Fund is presented as required supplementary information for the School System's basic financial statements. The required supplementary information can be found on pages 58 - 63 of this report.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Financial Highlights and Analysis

The School System is a component unit of Howard County, Maryland, and is fiscally dependent on the Howard County Government and the State of Maryland to appropriate funding for the School System. The School System receives approximately 70% of its governmental activities funding from the County, and approximately 29% from the State. Additionally, the School System receives federal entitlement grants and competitive grants from the state and federal governments. Essentially all of the School System's funding for governmental activities is derived from these sources. The School System has no authority to levy taxes or issue bonded debt. Accordingly, the financial condition of the School System is directly related to the financial condition of the funding authorities - the county and state. Any appropriated funds that are unspent at the end of a fiscal year must be re-appropriated by the county government in a subsequent fiscal year before they can be spent.

Government-wide Financial Analysis

Net Position

As noted earlier, net position over time may serve as a useful indicator of a government's financial position. In the case of the School System, governmental activities assets exceeded liabilities by \$1,127.5 million at the close of the most recent fiscal year.

The most significant portion of the School System's net position (103.5%) reflects its net investment in capital assets (land, buildings, vehicles, and equipment). The School System uses these assets to provide an education to the students of Howard County. Consequently, these assets are not liquid, nor available for future spending or liquidation of any liabilities. Any school buildings that are no longer used by the School System are returned to the county government, since the county is the primary funding source for school buildings. Because the School System has no authority to issue bonded debt, the only debt outstanding related to capital assets are capital leases for energy performance, and the purchase of equipment, including technology equipment and software. The county and/or state government may issue debt to finance school construction; however, it is not debt of the School System, and is not reported in these financial statements. Consequently, school buildings and construction in progress related to school buildings appear in the School System's Statement of Net Position, while any related outstanding debt issued by the county or state government does not.

HCPSS's financial position is the net result of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

To assess the overall financial position of HCPSS, additional non-financial factors, such as changes in the Howard County property tax base and the condition of school buildings and other facilities, should be considered.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Net Position (continued)

Table 1 provides a summary of HCPSS's Net Position as of June 30, 2016 and 2015.

**Table 1
Net Position
June 30, 2016 and 2015
(In Thousands)**

	Governmental Activities		Business-Type Activities		Total Activities	
	2016	2015	2016	2015	2016	2015
Assets						
Current and other assets	\$ 111,847	\$ 137,714	\$ 261	\$ 233	\$ 112,108	\$ 137,947
Capital assets (net)	1,177,710	1,131,015	46	30	1,177,756	1,131,045
Total assets	1,289,557	1,268,729	307	263	1,289,864	1,268,992
Deferred outflows of resources	14,395	5,879	-	-	14,395	5,879
Liabilities						
Long-term liabilities	61,085	49,924	-	-	61,085	49,924
Other liabilities	111,907	122,940	5	5	111,912	122,945
Total liabilities	172,992	172,864	5	5	172,997	172,869
Deferred inflows of resources	3,716	3,753	-	-	3,716	3,753
Net Position						
Net investment in capital assets	1,166,847	1,120,105	46	30	1,166,893	1,120,135
Restricted for GWWTP	1,222	1,220	-	-	1,222	1,220
Restricted for food services	234	216	-	-	234	216
Unrestricted	(41,059)	(23,550)	256	228	(40,803)	(23,322)
Total net position	\$ 1,127,244	\$ 1,097,991	\$ 302	\$ 258	\$ 1,127,546	\$ 1,098,249

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Change in Net Position

The School System's net position increased \$29.3 million. This is primarily because the School System receives intergovernmental capital grants and contributions (revenue) for school construction projects, yet has no corresponding liabilities. Additionally, most of the capital grants and contributions are capitalized. Accordingly, there is little current expense (i.e., depreciation) associated with this revenue. Also, since the School System is fiscally dependent on the county, state, and federal governments, expenses closely match revenues, with the exception of timing differences in relation to when an expense is recognized. The funding government(s) appropriate funds to the School System, which it spends to accomplish its goal of providing education to the children of Howard County. Any unspent funds are re-appropriated in subsequent fiscal years from fund balance by the county.

Table 2 shows the changes in net position for the years ended June 30, 2016 and 2015. Key elements of this increase are as follows:

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

**Table 2
Change in Net Position
(In Thousands)**

	Governmental		Business-Type		Total	
	Activities		Activities		Activities	
	2016	2015	2016	2015	2016	2015
Revenues						
Charges for services	\$ 17,812	\$ 15,113	\$ 134	\$ 148	\$ 17,946	\$ 15,261
Operating grants and contributions	146,211	145,645	-	-	146,211	145,645
Capital gains and contributions	80,150	78,090	-	-	80,150	78,090
General revenues						
County appropriations	544,145	530,440	-	-	544,145	530,440
State aid	197,822	192,480	-	-	197,822	192,480
Federal aid	160	163	-	-	160	163
Interest and investment earnings	101	33	-	-	101	33
Miscellaneous	1,962	1,900	-	-	1,962	1,900
Total revenues	988,363	963,864	134	148	988,497	964,012
Expenses						
Instruction						
Regular instruction	536,486	525,124	-	-	536,486	525,124
Special instruction	153,791	146,833	-	-	153,791	146,833
Support services						
Administration	19,105	18,166	-	-	19,105	18,166
Mid-level administration	92,335	88,165	-	-	92,335	88,165
Student services	4,852	4,371	-	-	4,852	4,371
Health services	11,397	10,329	-	-	11,397	10,329
Student transportation	38,035	37,528	-	-	38,035	37,528
Operations of plant	49,707	49,682	-	-	49,707	49,682
Maintenance of plant	30,755	28,372	-	-	30,755	28,372
Community services	8,741	7,437	-	-	8,741	7,437
Food services	13,845	13,465	-	-	13,845	13,465
Interest on long-term debt	61	63	-	-	61	63
Enterprise funds	-	-	90	111	90	111
Total expenses	959,110	929,535	90	111	959,200	929,646
Increase (decrease) in net position	29,253	34,329	44	37	29,297	34,366
Beginning Net Position	1,097,991	1,063,662	258	221	1,098,249	1,063,883
Ending Net Position	\$ 1,127,244	\$ 1,097,991	\$ 302	\$ 258	\$ 1,127,546	\$ 1,098,249

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

CHART 1: SOURCE OF REVENUES – FYE 2016

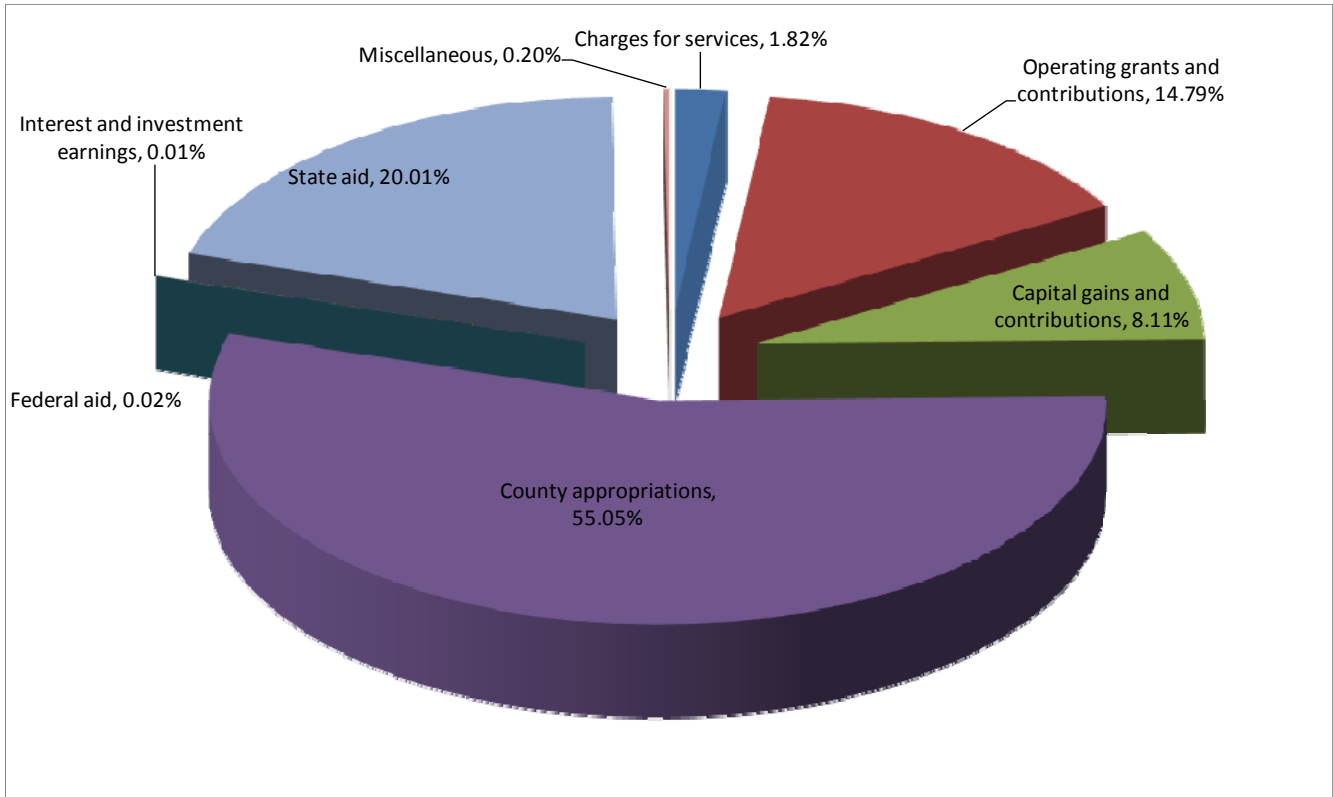
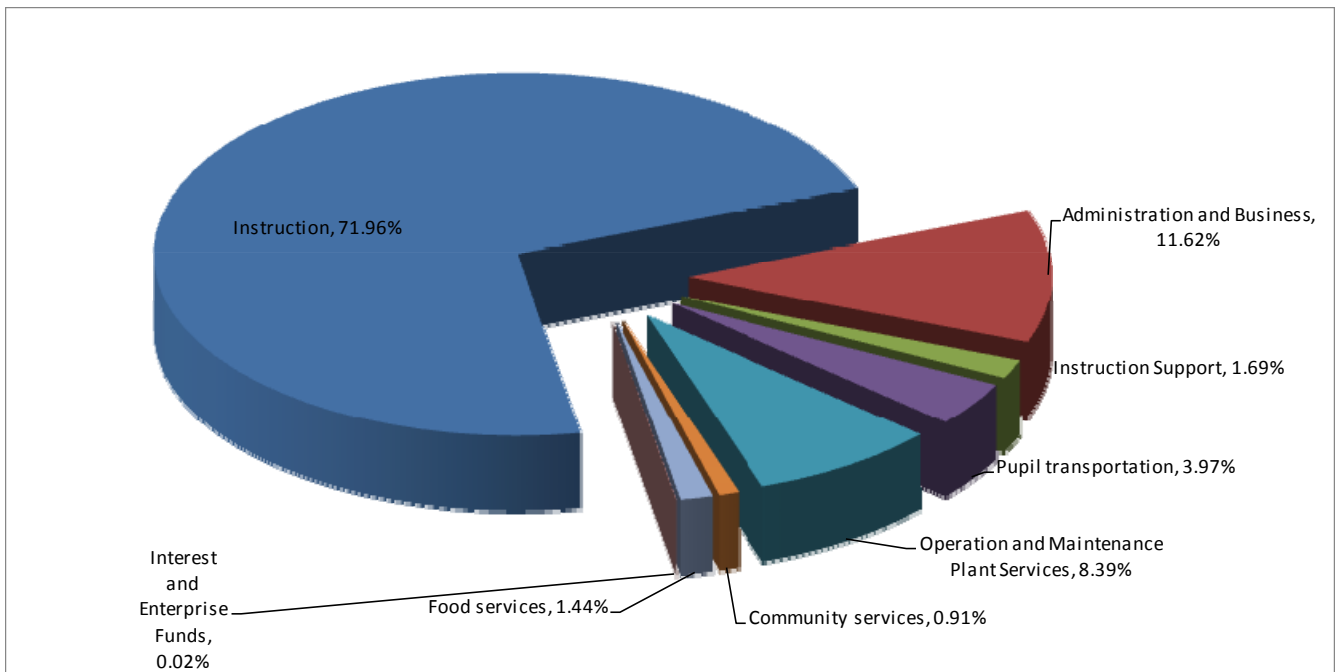


CHART 2: EXPENSES BY CATEGORY - FYE 2016



**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Government-wide Revenues and Expenses

Charts 1 and 2 display government-wide revenues and expenses, respectively, for the current year. Revenues for HCPSS combined activities (which include program revenues and general revenues) increased to \$988.6 million. County appropriations and State formula aid accounted for most of HCPSS revenue. Funds from these two sources contributed approximately 75 cents of every dollar needed. The remaining 25 cents came from federal aid for specific programs, fees charged for services and other miscellaneous revenues. Total revenues surpassed expenditures, increasing net position by \$29.3 million over last year. The revenue increase was primarily attributable to an increase in county funding.

The total cost of all programs and services rose to \$959.2 million. Most of HCPSS expenses are related to instruction (including special education), instructional support and student transportation services. Expenses in these areas comprised approximately 77.62% of all school system expenditures. The business and administration activities, food services, and community services accounted for 11.6%, 1.4% and 0.9% of total costs, respectively. Maintenance and operation expenses represented approximately 8.4%. Generally, increases in expenses closely paralleled inflation and growth in the demand for services. Educational programs like the class size reduction and bilingual education continue to receive the funding priority because these programs are integral to promoting student achievement.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Governmental Activities

Table 3 presents the cost of the ten categories of HCPSS: instruction – regular and special education, administration, mid-level administration, student and health services, student transportation services, operation of plant, maintenance of plant, community services, and special education services, and food services. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided by specific programs).

**Table 3
Cost of Governmental Activities
Year Ended June 30, 2016
(In Thousands)**

	<u>Total Cost of Services</u>	<u>Less Program Revenues</u>	<u>Net Cost of Services</u>
Instruction			
Regular instruction	\$ 536,486	\$ 142,073	\$ (394,413)
Special instruction	153,791	38,088	(115,703)
Support services			
Administration	19,105	1,525	(17,580)
Mid-level administration	92,335	15,774	(76,561)
Student services	4,852	663	(4,189)
Health services	11,397	1,185	(10,212)
Student transportation	38,035	15,458	(22,577)
Operations of plant	49,707	12,697	(37,010)
Maintenance of plant	30,755	1,882	(28,873)
Community services	8,741	611	(8,130)
Food Services	13,845	14,218	373
Interest on long-term debt	61	-	(61)
Total expenses	<u>\$ 959,110</u>	<u>\$ 244,174</u>	<u>\$ (714,936)</u>

Business-type Activities

HCPSS has one business-type activity: The Jim Rouse Theatre. Operating revenues for the business-type activity totaled \$134 thousand for 2016. Operating expenses totaled \$90 thousand for a net operating gain of \$44 thousand primarily due to an increase in charges for services. Details of the business-type activity can be found on pages 28-30 of this report.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Financial Analysis of the Governmental Funds

The focus of the School System's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School System's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the School System governmental funds reported combined ending fund balances of \$17.6 million, a increase of \$3.9 million. This includes nonspendable fund balance which is comprised of \$1.1 million in inventories and \$224 thousand in prepaid expenses. Funds restricted for the Glenelg Waste Water Treatment Plant totals \$1.2 million. Assigned fund balance includes \$8.9 million for encumbrances and \$5.1 million for subsequent year's budgeted appropriation of fund balance and \$861 thousand for food service operations. The unassigned fund balance is \$274 thousand.

It is important to note that the School System is fiscally dependent on grants and contributions from the county, state, and federal governments for its operating resources, as the School System has no authority to levy taxes or issue bonded debt.

During the fiscal year, the fund balance of the School System's general fund increased by \$2.4 million. Any change in the School System's fund balance is a result of timing of expenditures. The School System's revenues and expenditures are fixed depending upon funding adopted by the county and state governments.

The fund balance of the Food Service Fund, a special revenue fund, increased during the current fiscal year by \$375 thousand due to increased sales. The Glenelg Waste Water Treatment Plant fund finished with a fund balance of \$1.2 million.

Revenues for HCPSS's governmental funds increased 2.3% while total expenses increased 1.4%. County revenue increased by 4.8% or \$28.1 million over the previous year. While the general fund revenues from the county increased by 2.5% or \$13.7 million, the County revenues for the Capital Projects fund increased by 31.8% or \$14.8 million. The Capital Projects Fund recognizes county revenues when project expenditures are incurred. Significant projects completed were Deep Run Elementary, and Glenwood Middle HVAC replacement. State funding decreased by 3.0% or \$9.5 million from the previous year.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

General Fund Budgetary Highlights

The General (Current Expense) Fund operates under a legally adopted annual budget. The budget is subdivided into State mandated categories of expenditures including administration, mid-level administration, instructional salaries, textbooks and instructional supplies, other instructional costs, special education, student personnel services and student health services, student transportation services, operation of plant, maintenance of plant, fixed charges and community services. The legal level of budgetary control is at the category level. HCPSS may approve amendments to the budget recommended by Management by transferring funds within categories, but transfers between categories must be requested and approved by the County Council.

The General (Current Expense) Fund budget is prepared using the encumbrance method of accounting. Under this method, commitments such as purchase orders and contracts are recorded as budgetary expenditures in addition to those made or accrued. When the actual expenditures take place, the accounts are adjusted for the difference between the actual expenditure and the commitment previously recorded. At the end of the fiscal year, open encumbrances are reported as commitments or assignments of fund balances since they do not constitute expenditures or liabilities. All unexpended and unencumbered appropriations terminate at the end of the fiscal year and are no longer available for use in subsequent periods.

During FY 2016, General Fund Budgeted Revenues met budget with a small excess of \$793 thousand due primarily to lower State source income than budgeted which offset other revenues. Management continued cost cutting and efficiency efforts which allowed for strategic expenditures at year end and \$1.2 million in unspent budgeted appropriations. The net positive budget variance of \$2.0 million in the General Fund will be available for the County to appropriate in future budgets.

Capital Assets

HCPSS had \$1,177.7 million invested in land, construction in progress, buildings and improvements, and furniture and equipment at June 30, 2016.

Table 4 shows governmental activities capital asset balances, net of accumulated depreciation, at June 30, 2016 and 2015. During FY 2016, capital assets increased by a net of \$46.7 million from the prior year. Depreciation expense on these assets was approximately \$30.3 million in FY 2016. More detailed information about capital assets can be found on pages 42 - 44 of this report.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Capital Assets (continued)

**Table 4
Capital Assets – Governmental Activities
June 30, 2016 and 2015**

	2016	2015
Land	\$ 31,903,533	\$ 31,903,533
Construction in progress	223,847,417	204,704,814
Buildings and improvements	1,338,244,595	1,285,800,025
Furniture and equipment	41,210,742	36,096,365
(Less accumulated depreciation)	(457,495,956)	(427,489,716)
Total Capital Assets	\$ 1,177,710,331	\$ 1,131,015,021

Major governmental activities capital asset events during the current fiscal year included the following:

- Completed construction for renovation/addition at Deep Run Elementary
- Continued construction for Wilde Lake Middle replacement
- Continued construction for renovations at Patuxent Valley Middle
- Completed Glenwood Middle HVAC replacement
- Began planning for the New Elementary School #42
- Continued planning for renovation/addition at Swansfield Elementary
- Continued renovation/additions at Waverly Elementary
- Other major projects include technology projects

HCPSS FY 2017 capital budget proposes spending \$11.0 million for systemic renovations, \$14.3 million for the Wilde Lake MS replacement school, \$9.9 million for the Patuxent Valley MS renovation, \$10.7 million for the Swansfield ES renovation/addition, \$9.68 million for the Waverly ES renovation/Phase II Addition and \$14.5 million for the New Elementary School #42.

HCPSS proposed capital spending totaling \$541.4 million over the FY 2018-2022 period which has been submitted to the Howard County Council for its approval. This will fully fund all of the capital projects requested by HCPSS. Cost estimates will need to be monitored closely to ensure the request is sufficient with regards to changes in the economy and materials pricing.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Long-Term Obligations

School systems in Maryland have no authority to incur bonded debt. The only long-term obligations of HCPSS consist of capital lease obligations and compensated absences resulting from annual leave earned but not taken by employees. The capital lease obligations were incurred for financing accounting and computer system upgrades.

Annual leave is earned on a monthly basis. At the end of the fiscal year, annual leave that has not been used can be carried over into the following year. At the end of any fiscal year, an employee may not carry over more than two times what the individual has earned in that year. Accrued leave in excess of the carryover maximum will be lost. Compensated absences totaled approximately \$9.5 million at June 30, 2016. Net pension liability totaled approximately \$44.0 million. Total long term obligations totaled approximately \$67.8 million at June 30, 2016. For an increase of approximately \$11.4 million over the balance of \$56.4 million at June 30, 2015.

Additional information on the School System's long-term obligation can be found on pages 45 - 46 of this report.

Factors Influencing Future Budgets

The School System must consider a multitude of factors as it prepares future budgets. Notable factors influencing future budgets are:

- Higher costs for state retirement due to the shift of a portion of the pension responsibility from the state to the school system;
- Projected increases in student enrollments over the next decade;
- Increasing numbers of homeless students; those newly immigrated to this country, and growing socioeconomically eligible population require greater services;
- The uncertain state of the federal budget affecting funding decisions at the state and local levels;
- Future capital budgets with funding for renovations and additions to existing schools including major systemic renovations to many of the older school facilities as well as the construction of new schools;
- Salary increases in accordance with negotiated agreements with employee bargaining units for FY 2017;
- Increases in the cost of employee health and dental benefits.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

Economic Factors

Since the recession, Howard County has experienced a year of healthier recovery than its counterparts in other areas of the state and country. Higher tax revenues (over 3% up from prior year), stronger new homes market, and a positive overall economic climate have contributed to its better performance. Even with these favorable conditions, the economy has yet to reach the heights of pre-recession levels. The recovery has continued to show signs of fragility which has created a volatile future for the American economy and uncertainty for future budgets. Concurrently, the State of Maryland has recently disclosed in its two year forecast that gains on jobs are weak tempering growth prospects for income and housing.

At the time these financial statements were prepared and audited, HCPSS was aware of other factors that could significantly affect its financial condition in the future:

- A growing segment of our student population carry heavy burdens to school, including poverty, homelessness, and language barriers.
- The County provides approximately 70% of HCPSS operating budget funding needs.
- The residential real estate market has seen strong growth in Howard County.
- Howard County continues to have the lowest unemployment rate in Maryland. The year to date average in June 2016 was 3.5% compared to the state average of 4.5%.
- The State of Maryland has projected shortfalls over the next year, which could mean cuts to the state funding.

These factors were considered in preparing HCPSS budget for the FY 2017.

Contacting HCPSS Financial Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of HCPSS finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

Howard County Public School System
Finance Department
10910 Clarksville Pike, Ellicott City, MD 21402-6198
Phone: 410-313-1530
Email: beverly_davis@hcpss.org

BASIC FINANCIAL STATEMENTS

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
STATEMENT OF NET POSITION
June 30, 2016

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 46,488,320	\$ -	\$ 46,488,320
Investments	50,555,448	-	50,555,448
Accounts receivable	1,941,646	21,863	1,963,509
Internal balances	(239,116)	239,116	-
Due from other units of government	11,098,119	-	11,098,119
Prepaid items	769,460	-	769,460
Inventory	1,232,781	-	1,232,781
Capital assets:			
Land	31,903,533	-	31,903,533
Construction in progress	223,847,417	-	223,847,417
Building and improvements	1,338,244,595	-	1,338,244,595
Furniture and equipment	41,210,742	191,209	41,401,951
Less: accumulated depreciation	(457,495,956)	(145,396)	(457,641,352)
Total capital assets, net of depreciation	<u>1,177,710,331</u>	<u>45,813</u>	<u>1,177,756,144</u>
 Total assets	 <u>1,289,556,989</u>	 <u>306,792</u>	 <u>1,289,863,781</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>14,394,900</u>	 <u>-</u>	 <u>14,394,900</u>
LIABILITIES			
Accounts payable	5,967,782	269	5,968,051
Accrued liabilities	87,158,536	700	87,159,236
Unearned revenue	12,023,055	3,750	12,026,805
Long-term liabilities:			
Current portion	6,757,487	-	6,757,487
Long-term portion	61,084,777	-	61,084,777
 Total liabilities	 <u>172,991,637</u>	 <u>4,719</u>	 <u>172,996,356</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>3,715,587</u>	 <u>-</u>	 <u>3,715,587</u>
NET POSITION			
Net investment in capital assets	1,166,846,788	45,813	1,166,892,601
Restricted for:			
Wastewater treatment plant	1,222,898	-	1,222,898
Food service	234,114	-	234,114
Unrestricted	(41,059,135)	256,260	(40,802,875)
 TOTAL NET POSITION	 <u><u>\$ 1,127,244,665</u></u>	 <u><u>\$ 302,073</u></u>	 <u><u>\$ 1,127,546,738</u></u>

See accompanying Notes to Financial Statements.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	Program Revenues			Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental activities:							
Instruction:							
Regular education	\$ 536,486,464	\$ 2,472,749	\$ 59,450,158	\$ 80,149,902	\$ (394,413,655)	\$ -	\$ (394,413,655)
Special education	<u>153,790,657</u>	<u>-</u>	<u>38,088,366</u>	<u>-</u>	<u>(115,702,291)</u>	<u>-</u>	<u>(115,702,291)</u>
Total instruction	<u>690,277,121</u>	<u>2,472,749</u>	<u>97,538,524</u>	<u>80,149,902</u>	<u>(510,115,946)</u>	<u>-</u>	<u>(510,115,946)</u>
Support services:							
Administration	19,104,949	-	1,524,795	-	(17,580,154)	-	(17,580,154)
Mid-level administration	92,335,462	-	15,773,821	-	(76,561,641)	-	(76,561,641)
Student personnel services	4,851,728	-	662,838	-	(4,188,890)	-	(4,188,890)
Health services	11,397,279	-	1,185,111	-	(10,212,168)	-	(10,212,168)
Student transportation services	38,035,103	-	15,458,065	-	(22,577,038)	-	(22,577,038)
Operation of plant	49,707,449	9,361,730	3,335,019	-	(37,010,700)	-	(37,010,700)
Maintenance of plant and equipment	30,754,516	-	1,881,695	-	(28,872,821)	-	(28,872,821)
Community services	8,741,191	-	610,547	-	(8,130,644)	-	(8,130,644)
Food services	13,844,644	5,977,624	8,240,234	-	373,214	-	373,214
Interest on long-term debt	<u>60,702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60,702)</u>	<u>-</u>	<u>(60,702)</u>
Total support services	<u>268,833,023</u>	<u>15,339,354</u>	<u>48,672,125</u>	<u>-</u>	<u>(204,821,544)</u>	<u>-</u>	<u>(204,821,544)</u>
Total governmental activities	959,110,144	17,812,103	146,210,649	80,149,902	(714,937,490)	-	(714,937,490)
Business-type activities:							
Jim Rouse Theatre	<u>89,983</u>	<u>134,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,079</u>	<u>44,079</u>
	<u>89,983</u>	<u>134,062</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,079</u>	<u>44,079</u>
TOTAL SCHOOL SYSTEM	<u>\$ 959,200,127</u>	<u>\$ 17,946,165</u>	<u>\$ 146,210,649</u>	<u>\$ 80,149,902</u>	<u>(714,937,490)</u>	<u>44,079</u>	<u>(714,893,411)</u>
General revenues - unrestricted:							
Local appropriations					544,144,628	-	544,144,628
State Aid					197,822,480	-	197,822,480
Federal Aid					160,255	-	160,255
Interest and investment earnings					101,460	-	101,460
Miscellaneous					<u>1,962,362</u>	<u>-</u>	<u>1,962,362</u>
Total general revenues					<u>744,191,185</u>	<u>-</u>	<u>744,191,185</u>
CHANGES IN NET POSITION					29,253,695	44,079	29,297,774
NET POSITION, BEGINNING OF YEAR					<u>1,097,990,970</u>	<u>257,994</u>	<u>1,098,248,964</u>
NET POSITION, END OF YEAR					<u>\$ 1,127,244,665</u>	<u>\$ 302,073</u>	<u>\$ 1,127,546,738</u>

See accompanying Notes to Financial Statements.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General Fund	Food Services Fund	Glenc Wastewater Treatment Plant Fund	Restricted Programs Fund	Capital Projects Fund	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 44,935,615	\$ 1,552,705	\$ -	\$ -	\$ -	\$ 46,488,320
Investments	28,177,178	461,634	1,242,392	-	-	29,881,204
Accounts receivable	730,377	543,161	162,323	250,467	-	1,686,328
Prepaid items	224,014	-	-	-	-	224,014
Due from other funds	21,584,294	-	-	-	-	21,584,294
Due from other units of government	-	-	-	5,693,871	5,404,248	11,098,119
Inventory	823,017	234,114	-	-	-	1,057,131
TOTAL ASSETS	\$ 96,474,495	\$ 2,791,614	\$ 1,404,715	\$ 5,944,338	\$ 5,404,248	\$ 112,019,410
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 3,708,301	\$ 282,448	\$ 14,705	\$ 1,060,967	\$ 132,926	\$ 5,199,347
Accrued liabilities	73,105,137	-	-	64,787	763,283	73,933,207
Due to other funds	987,048	917,302	167,112	3,741,417	1,665,672	7,478,551
Unearned revenue	748,066	430,451	-	1,077,167	5,541,505	7,797,189
Compensated absences payable	10,000	-	-	-	-	10,000
Total liabilities	78,558,552	1,630,201	181,817	5,944,338	8,103,386	94,418,294
FUND BALANCES						
Nonspendable:						
Prepaid items	224,014	-	-	-	-	224,014
Inventories	823,017	234,114	-	-	-	1,057,131
Restricted	-	-	1,222,898	-	-	1,222,898
Assigned	13,895,734	927,299	-	-	-	14,823,033
Unassigned	2,973,178	-	-	-	(2,699,138)	274,040
Total fund balances (deficiency)	17,915,943	1,161,413	1,222,898	-	(2,699,138)	17,601,116
TOTAL LIABILITIES AND FUND BALANCES (DEFICIENCY)	\$ 96,474,495	\$ 2,791,614	\$ 1,404,715	\$ 5,944,338	\$ 5,404,248	\$ 112,019,410

See accompanying Notes to Financial Statements.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2016**

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (page 24)	\$ 17,601,116
 Amounts reported for governmental activities in the Statement of Net Position is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$1,619,507,600 and the accumulated depreciation is \$453,058,018.	1,166,449,582
Internal service funds are used by the Board to account for printing and duplicating services, data processing services, workers compensation self-insurance activities, and health and dental self-insurance activities. The assets and liabilities of these internal service funds are included with governmental activities.	(11,066,450)
Deferred outflows of resources related to pensions include \$10,174,732 deferred outflows of resources pension expense and \$4,220,168 deferred outflow of employer contributions made after the measurement date; these amounts are not reported at the fund level.	14,394,900
Deferred inflows of resources related to pensions for the net difference between projected and actual earnings or pension plan investments; this amount is not reported at the fund level.	(3,715,587)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in governmental funds. Long-term liabilities at year-end consist of \$2,919,008 of capital leases, \$9,519,987 of compensated absences payable, and \$43,979,901 of net pension liability.	<u>(56,418,896)</u>
 TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (page 22)	 <u><u>\$ 1,127,244,665</u></u>

See accompanying Notes to Financial Statements.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	General Fund	Food Services Fund	Glenelg Wastewater Treatment Plant Fund	Restricted Programs Fund	Capital Projects Fund	Total Governmental Funds
REVENUES						
Intergovernmental revenues:						
Local sources	\$ 550,745,328	\$ -	\$ -	\$ 826,723	\$ 61,231,721	\$ 612,803,772
State sources	278,052,991	561,693	-	7,117,698	18,910,471	304,642,853
Federal sources	371,209	7,678,541	-	19,934,220	-	27,983,970
Earnings on investments	57,717	2,109	2,709	-	7,710	70,245
Charges for services	5,683,885	5,977,624	223,086	-	-	11,884,595
Miscellaneous revenues	1,824,642	-	-	-	-	1,824,642
Total revenues	836,735,772	14,219,967	225,795	27,878,641	80,149,902	959,210,077
EXPENDITURES						
Current:						
Administration	11,968,592	-	-	462,487	-	12,431,079
Mid level administration	58,073,737	-	-	3,399,585	-	61,473,322
Instruction:						
Instructional salaries	315,348,885	-	-	2,167,189	-	317,516,074
Textbooks and classroom supplies	11,062,598	-	-	1,496,653	-	12,559,251
Other instructional costs	3,024,525	-	-	2,560,113	-	5,584,638
Special education	93,887,208	-	-	14,441,851	-	108,329,059
Student personnel services	3,202,292	-	-	122,209	-	3,324,501
Health services	7,608,208	-	-	-	-	7,608,208
Student transportation	37,488,794	-	-	15,020	-	37,503,814
Operation of plant	39,202,433	-	-	-	-	39,202,433
Maintenance of plant and equipment	24,346,719	-	223,086	-	-	24,569,805
Fixed charges	221,475,201	-	-	3,199,917	-	224,675,118
Community services	6,751,110	-	-	13,617	-	6,764,727
Costs of operation - food service	-	13,844,644	-	-	-	13,844,644
Capital outlay	855,813	-	-	-	79,065,718	79,921,531
Total expenditures	834,296,115	13,844,644	223,086	27,878,641	79,065,718	955,308,204
EXCESS OF REVENUES OVER EXPENDITURES	2,439,657	375,323	2,709	-	1,084,184	3,901,873
FUND BALANCE (DEFICIENCY), BEGINNING OF YEAR	15,476,286	786,090	1,220,189	-	(3,783,322)	13,699,243
FUND BALANCE (DEFICIENCY), END OF YEAR	\$ 17,915,943	\$ 1,161,413	\$ 1,222,898	\$ -	\$ (2,699,138)	\$ 17,601,116

See accompanying Notes to Financial Statements.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016**

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS (page 26)	\$ 3,901,873
 Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay, \$73,647,610 exceeds depreciation expense, \$28,171,645 in the period.	45,475,965
Upon disposal, the difference between the cost basis of assets and the accumulated depreciation is recorded as a loss in the Statement of Activities. For governmental funds, all capital assets are initially recorded as expenditures and therefore no loss is recognized upon disposal. The amount by which the cost basis of disposed assets, \$309,021, exceeded the accumulated depreciation, \$281,100, is reported as a loss in the Statement of Activities.	(27,921)
The issuance of capital lease obligations provides current financial resources to governmental funds, while the repayment of the principal of capital lease obligations consumes the current financial resources of governmental funds. Neither, however, has any effect on net position.	(140,056)
In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid within one year). This year, vacation and sick leave used were less than the amounts earned by:	(884,975)
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of the pension benefits earned net of employer contributions is reported as pension expense.	(1,136,666)
Internal service funds are used by the Board to account for printing and duplicating services, data processing services, workers' compensation self-insurance activities, and health and dental self-insurance activities. The change in net position of the service fund is reported with governmental activities.	<u>(17,934,525)</u>
CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES (page 23)	<u>\$ 29,253,695</u>

See accompanying Notes to Financial Statements.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

	Enterprise Fund	Governmental Activities Internal Service Funds
ASSETS		
CURRENT ASSETS		
Investments	\$ -	\$ 20,674,244
Accounts receivable	21,863	255,318
Due from other funds	239,116	747,932
Inventory	-	175,650
Prepaid expenses	-	545,446
Total current assets	260,979	22,398,590
NONCURRENT ASSETS		
Capital assets:		
Furniture, fixtures and equipment	191,209	15,698,687
Less accumulated depreciation	(145,396)	(4,437,938)
Total capital assets, net	45,813	11,260,749
Total assets	306,792	33,659,339
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	269	768,435
Capital leases	-	3,160,805
Due to other funds	-	15,092,791
Accrued liabilities	700	2,638,749
Claims payable	-	12,586,580
Unearned revenue	3,750	4,225,866
Total current liabilities	4,719	38,473,226
LONG-TERM LIABILITIES		
Capital leases	-	4,783,730
Claims payable, net of current portion	-	1,468,833
Total long-term liabilities	-	6,252,563
Total liabilities	4,719	44,725,789
NET POSITION		
Net investment in capital assets	45,813	3,316,214
Unrestricted	256,260	(14,382,664)
TOTAL NET POSITION	\$ 302,073	\$ (11,066,450)

See accompanying Notes to Financial Statements.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2016**

	Enterprise Fund	Governmental Activities Internal Service Funds
OPERATING REVENUES		
Charges for services - internal	\$ -	\$ 106,327,424
Charges for services - other	131,562	-
Loss on disposal of asset	-	(28,096)
Miscellaneous revenue	2,500	137,715
Contributions from employees and retirees	-	23,303,756
	134,062	129,740,799
OPERATING EXPENSES		
Operating expenses	84,245	-
Administrative expenses	-	23,642,249
Claims and related expenses	-	121,941,600
Depreciation expense	5,738	2,140,317
	89,983	147,724,166
Total operating expenses	89,983	147,724,166
Operating income (loss)	44,079	(17,983,367)
NON-OPERATING REVENUES		
Interest income	-	48,842
	-	48,842
Non-operating income	-	48,842
CHANGES IN NET POSITION	44,079	(17,934,525)
TOTAL NET POSITION, BEGINNING OF YEAR	257,994	6,868,075
TOTAL NET POSITION, END OF YEAR	\$ 302,073	\$ (11,066,450)

See accompanying Notes to Financial Statements.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2016**

	Enterprise Fund	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 131,467	\$ -
Cash received (paid) from other funds	(25,516)	112,243,661
Cash received from employees and retirees	-	23,303,756
Payments to employees	-	(5,580,393)
Payments to suppliers	(84,542)	(137,639,712)
	<u>21,409</u>	<u>(7,672,688)</u>
Net cash provided by (used by) operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchases of equipment	(21,409)	(327,506)
Principal paid on capital lease	-	(3,274,806)
	<u>(21,409)</u>	<u>(3,602,312)</u>
Net cash used by capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	11,226,158
Interest received	-	48,842
	<u>-</u>	<u>11,275,000</u>
Net cash provided by investing activities		
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	<u>-</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		
	<u>\$ -</u>	<u>\$ -</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 44,079	\$ (17,983,367)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	5,738	2,140,317
Loss of disposal of asset	-	28,096
Effects of changes in operating assets and liabilities:		
Accounts receivable	(2,595)	(88,625)
Prepaid expenses	-	(340,061)
Due from other funds	(25,516)	1,485,608
Inventory	-	112,454
Accounts payable	(303)	(121,731)
Accrued liabilities	6	870,626
Unpaid claims	-	1,842,456
Due to other funds	-	4,341,748
Unearned revenue	-	39,791
	<u>21,409</u>	<u>(7,672,688)</u>
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES		
	<u>\$ 21,409</u>	<u>\$ (7,672,688)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Purchase of equipment through a capital lease	\$ -	\$ 3,088,177
	<u>-</u>	<u>3,088,177</u>

See accompanying Notes to Financial Statements.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
June 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 4,946,340
TOTAL ASSETS	<u>\$ 4,946,340</u>
LIABILITIES	
School activity funds payable	\$ 4,946,340
TOTAL LIABILITIES	<u>\$ 4,946,340</u>

See accompanying Notes to Financial Statements.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2016

FINANCIAL REPORTING ENTITY

Howard County Public School System (the School System) is a body politic and corporate established by the Public School Laws of Maryland. For financial reporting purposes, the School System (alternatively referred to herein as Howard County Public School System (HCPSS)) is a component unit of Howard County, Maryland (the County) by virtue of the County's responsibility for levying taxes and incurring debt for the benefit of the School System and its budgetary control over the School System. Accordingly, the financial statements of the School System are included in the financial statements of the County. The School System itself has no component units.

The accounting policies of Howard County Public School System conform to generally accepted accounting principles (GAAP) for governmental units. The following is a summary of the significant policies employed by the School System.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the School System as a whole. For the most part, the effect of interfund activity has been removed from these statements. The activities of the General Fund, Food Services Fund – a special revenue fund, Glenelg Wastewater Treatment Plant – a special revenue fund, Restricted Programs Fund – a special revenue fund, Capital Projects Fund and Internal Service Funds have been presented as governmental activities in the government-wide financial statements. The activities of the Enterprise Fund have been presented as business-type activities in those statements because a majority of these fund revenues come from charges for services.

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

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. All individual governmental funds are considered to be major funds and are reported as separate columns in the governmental fund financial statements.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2016

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School System considers revenues to be available if they are collectible within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to certain compensated absences and capital leases are recognized when the obligations are due and payable. Local appropriations and state and federal aid associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria have been met. Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met.

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting used in the government-wide financial statements.

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

The School System reports the following major funds in the fund financial statements:

Governmental Funds

General Fund – The general fund is the general operating fund of the School System. It is used to account for all financial resources except those required to be accounted for in another fund.

Food Service Fund (Special Revenue Fund) – The food service fund is used to account for the operations of cafeterias and the production facility, which provides for the preparation and sale of meals primarily to students. The primary source of funding is from sales of meals. As a special revenue fund, the proceeds of specific revenue sources (other than major capital projects) are legally restricted to expenditures for specified purposes.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2016

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)**

Glenelg Wastewater Treatment Plant (Special Revenue Fund) – The wastewater treatment fund is used to account for the operations of the shared wastewater treatment facility at Glenelg High School, which provides wastewater treatment services to Glenelg High School and the Musgrove Farm community of 30 homesites located on the adjoining property. Assessment fees provide the source of funding. The proceeds of specific revenue sources (other than major capital projects) are legally restricted to expenditures for specified purposes.

Restricted Programs Fund (Special Revenue Fund) – The restricted programs fund is used to account for restricted grants issued primarily by county, state, and federal governmental agencies.

Capital Projects Fund – The capital projects fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Proprietary Funds

Enterprise Fund – The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Jim Rouse Theater Fund is reported as an enterprise fund.

Internal Service Funds – Internal service funds are used to account for the costs of maintaining the School System’s self-insured programs for health, dental and workers’ compensation benefits for its employees and to account for the costs of print services, and technology services.

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 operation. The principal operating revenues for the internal service funds are premium contributions to the health and dental self-insurance fund, the workers’ compensation fund, the print services fund and the technology services fund. Operating revenues for the enterprise fund, Jim Rouse Theater, are received primarily from ticket sales. Operating expenses for the internal service funds as well as the enterprise fund cover the cost of providing these services, including administrative, claim and related payments and depreciation. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds

Agency Funds – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The school funds account for the funds of other persons or organizations which are the direct responsibility of the principals of the respective schools.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2016

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT
PRESENTATION (CONTINUED)**

In the process of aggregating data for the Statement of Net Position and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated and reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities.

Assets and liabilities of internal service funds are included in governmental activities in the Statement of Net Position. The effect of interfund services provided and used between functions have been eliminated in the Statement of Activities, so that only the net amount is included in the governmental activities column.

**ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF
RESOURCES AND NET POSITION/FUND BALANCE**

Deposits and Investments

The School System maintains pooled and various separate cash accounts for its funds. The cash balances of the School Fund (see the Statement of Net Position – Fiduciary Funds) consist of individual demand accounts maintained by the schools. Investments are stated at amortized cost, which approximates fair value due to the short-term nature of those investments. The School System considers any instrument with a maturity of three months or less when purchased, as cash equivalents.

Due from Other Units of Government and Other Receivables

Accounts receivable in all funds represent amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts. Governmental fund type receivables consist primarily of amounts due from county, state, or federal governments and from other Maryland Public School Systems. These intergovernmental receivables are generally collected within 90 days of the end of the fiscal year. Certain intergovernmental receivables may extend up to one year from the end of the fiscal year. Uncollectible amounts as of June 30, 2016 are expected to be minimal based upon collection experience and review of the status of existing receivables.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2016

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (CONTINUED)

Inventory and Prepaid Items

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund consists of parts and supplies maintained in the warehouse. Inventory in the Food Services Fund consists of expendable food and supplies held for consumption. The cost is recorded as an asset at the time individual inventory items are purchased. As inventory is consumed, the cost is charged to expenditures.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid expenses in the general fund and workers' compensation insurance internal service fund consist of insurance premiums and other administrative expenditures that relate to fiscal year 2016. Prepaid expenses are accounted for in accordance with the consumption method.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the governmental activities and business-type activities columns in the government-wide financial statements. Capital assets are defined by the School System as assets with an initial, individual cost of more than \$5,000 and a useful life of at least five years. Capital assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated using the straight-line method over estimated useful lives of 20 - 45 years for buildings, improvements and infrastructure, and 5 - 15 years for furniture and equipment.

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

Unearned Revenue

For the General Fund, unearned revenue consists of summer school tuition which is collected in advance and unearned since the corresponding services have not been provided and the earnings process is not completed until the following fiscal year.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2016

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (CONTINUED)

Unearned Revenue (Continued)

For the Restricted Programs Fund and Capital Projects Fund, unearned revenue consists of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2016.

For the Glenelg Wastewater Treatment Plant Fund, unearned revenue consists of assessment fees collected in advance and unearned since the corresponding services have not been provided and the earnings process is not completed until the following fiscal year.

For the Internal Service Funds, unearned revenue consists of payroll withholdings from employees for health and dental insurance collected in advance as of June 30, 2016 for the first three months of fiscal year 2017.

Deferred Outflows/Inflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. The Board recognizes deferred outflows for changes in actuarial assumptions that are being amortized over a five-year period and contributions made subsequent to the measurement date related to pensions.

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

Pensions

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

Compensated Absences

It is the School System's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, as a result of employee resignations and retirements.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2016

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (CONTINUED)

Net Position / Fund Balance

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation and capital lease liability. Under state law, the School System is prohibited from incurring debt to finance the acquisition of capital assets, except for those capital assets purchased under capital leases. Major capital projects are financed through local and state aid with applicable debt recorded by Howard County and the State of Maryland. Net position is reported as restricted when there are limitations placed on their use through external restrictions imposed by grantors or laws or regulations of other governments.

The School System reports fund balance of governmental funds within one of the fund balance categories listed below:

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

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

Committed – Amounts that can be used only for specific purposes as determined by a formal action of the Board, the highest level of decision-making authority for the school system. Commitments may be established, modified, or rescinded only through formal actions consisting of resolutions approved by the Board.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. This intent can be expressed by the Board or through their delegating this responsibility to the Superintendent’s budgetary process.

Unassigned – All other spendable amounts. This is the residual classification for the General fund and other governmental funds. The General Fund is the only fund that reports a positive unassigned fund balance amount. If expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned for these purposes, it may be necessary to report a negative unassigned fund balance.

Policy 4070, Fund Balance, states in what order fund balance categories are spent: (1) *Nonspendable* balance first, and then (2) *restricted* fund balance, and then (3) *committed* fund balance, then (4) *assigned* fund balance, and (5) *unassigned* fund balance.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2016

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION/FUND BALANCE (CONTINUED)

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

BUDGETS AND BUDGETARY ACCOUNTING

Budgetary compliance is measured using the budgetary basis of accounting, the purpose of which is to demonstrate compliance with the legal requirements of Howard County and the State of Maryland. The budgetary basis differs from GAAP, which is used for the fund financial statements, in that encumbrances, which represent commitments to purchase goods and services, are treated as expenditures of the current period rather than as reservations of the fund balance. In addition, pension contributions made by the State of Maryland on behalf of the School System and OPEB contributions made by the Howard County Government on behalf of the School System are excluded from the budgetary basis. Another difference is that under the budgetary basis, designations of the prior year's fund balance are treated as revenue of the current period. The general fund budgetary basis schedules of revenues and expenditures and encumbrances, budget and actual, and a reconciliation to the fund financial statements are presented as required supplementary information to these financial statements. By State law, major categories of expenditures may not exceed budgeted amounts.

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

Operating Budget (General Fund)

- 1) A discussion guide for the following fiscal year's operating budget is published annually.
- 2) A public hearing is held in October to receive budget requests from individuals and community groups.
- 3) The proposed budget is made available to the public and the County Government in January.
- 4) Public hearings are held to obtain comments from the community.
- 5) The final proposed operating budget is submitted to the County Executive prior to March 16th.
- 6) After approval or adjustment by the County Council, the final operating budget is approved by the School System in June.
- 7) Budgets are adopted on a basis consistent with GAAP except for the inclusion of portions of the prior year's fund balance as revenues, the inclusion of encumbrances as expenditures, and the exclusion of pension contributions made on the School System's behalf by the State of Maryland as both revenues and expenditures. Budget comparisons presented are on a non-GAAP budgetary basis.
- 8) Transfers may be made within the major categories by the School System of Education without the approval of the County Council.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
June 30, 2016

BUDGETS AND BUDGETARY ACCOUNTING (CONTINUED)

- 9) Requests for transfers between major categories must be submitted to the County Council for approval or denial. No action within thirty (30) days of submission constitutes approval.
- 10) The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the State Category level.

Operating Budget (Restricted Programs Fund)

This budget is not legally adopted. The Restricted Fund accounts for revenue and expenditures under special state and federal programs. Management estimates expected revenues and expenditures but there is not a legally adopted budget and actual expenditures may exceed budgeted amounts. The grants included in this category are not part of budget categories subject to spending limitations of the operating budget. Expenditures under these programs are limited to the amounts of the respective grants. The comparison of the Restricted Programs Fund (a special revenue fund) operating budget to actual revenues and expenditures is not presented as required supplementary information because this budget is developed internally by the School System for management purposes only.

Operating Budget (Food Service Fund)

This budget is not legally adopted. The comparison of the Food Service Fund (a special revenue fund) operating budget to actual revenues and expenditures is not presented as required supplementary information because this budget is developed internally by the School System for management purposes only.

Operating Budget (Glenelg Wastewater Treatment Plant Fund)

This budget is not legally adopted. The comparison of the Glenelg Wastewater Treatment Plant Fund (a special revenue fund) operating budget to actual revenues and expenditures is not presented as required supplementary information because this budget is developed internally by the School System for management purposes only.

Operating Budget (Enterprise Fund)

This budget is not legally adopted. The Enterprise Fund accounts for revenue and expenditures relative to the Jim Rouse Theater Fund. The operating budget to actual revenues and expenditures is not presented as required supplementary information because this budget is developed internally by the School System for management purposes only.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

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

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 – CASH AND INVESTMENTS

Deposits

At year-end, the carrying amount of the School System's deposits was \$51,434,660 consisting of \$46,488,320 in the governmental activities and \$4,946,340 in the agency fund and the corresponding bank balances were \$52,947,986. Bank balances were covered by either Federal Depository Insurance or collateral held in the pledging bank's trust department in the School System's name. The School System has a contractual arrangement with a bank for funds to be transferred daily from overnight investments to cover checks as presented.

Investments

At June 30, 2016, the School System's investments totaling \$50,555,448 in governmental activities were entirely in the Maryland Local Government Investment Pool (MLGIP), which is under the administration of the State Treasurer. The MLGIP was established under the Annotated Code of Maryland and is rated AAAM by Standard and Poors, their highest rating for money market funds. MLGIP is a 2a7 like pool, which is not registered with the Securities and Exchange Commission, but generally operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940 (Rule 2a7). Unit value is computed using the amortized cost method and maintains a \$1 per share value.

Interest Rate Risk

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. To limit the School System's exposure to interest rate risk, the School System's investment policy limits the term of investment maturities other than the Fiduciary Funds to overnight repurchase agreements and MLGIP and requires that collateral securities underlying the repurchase agreements and MLGIP have a fair value equal to the cost of the agreement. Total net investment income per the Statement of Activities consists of interest income of \$101,460 for the year ended June 30, 2016.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counter party, the School System will not be able to recover all or a portion of its investments or collateral securities that are in the possession of an outside party. The School System's investment policy limits its investments to overnight deposits that are insured or collateralized with securities held by a custodian in the School System's name and investments in the MLGIP.

Statutes require that deposits be in Maryland banks and that uninsured deposits be fully collateralized and authorize the School System to invest in obligations of the United States government, federal agency obligations and repurchase agreements secured by direct government or agency obligations.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance July 1, 2015</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Balance June 30, 2016</u>
Non depreciable capital assets				
Land	\$ 31,903,533	\$ -	\$ -	\$ 31,903,533
Construction in progress	204,704,814	71,689,998	(52,547,395)	223,847,417
Total nondepreciable capital assets	<u>236,608,347</u>	<u>71,689,998</u>	<u>(52,547,395)</u>	<u>255,750,950</u>
Depreciable capital assets				
Land improvements	1,675,226	-	-	1,675,226
Buildings and improvements	1,284,124,799	52,444,570	-	1,336,569,369
Furniture and equipment	36,096,365	5,476,116	(361,739)	41,210,742
Total depreciable capital assets	<u>1,321,896,390</u>	<u>57,920,686</u>	<u>(361,739)</u>	<u>1,379,455,337</u>
Less accumulated depreciation for:				
Land improvements	(1,534,265)	(5,938)	(4)	(1,540,207)
Buildings and improvements	(403,163,246)	(26,622,473)	80,182	(429,705,537)
Furniture and equipment's	(22,792,205)	(3,683,551)	225,544	(26,250,212)
Total accumulated depreciation	<u>(427,489,716)</u>	<u>(30,311,962)</u>	<u>305,722</u>	<u>(457,495,956)</u>
Total depreciable capital assets, net	<u>894,406,674</u>	<u>27,608,724</u>	<u>(56,017)</u>	<u>921,959,381</u>
Capital assets, net	<u>\$ 1,131,015,021</u>	<u>\$ 99,298,722</u>	<u>\$ (52,603,412)</u>	<u>\$ 1,177,710,331</u>

Reclassifications

Reclassifications for capital assets were required for the comparability to the current year's financial statements and must be considered when comparing the financial statements of this report with those of prior reports.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – CAPITAL ASSETS (CONTINUED)

Depreciation expense for the year ended June 30, 2016 was charged to Governmental activities on the Statement of Activities as follows:

Instruction:		
Regular education	\$	26,105,309
Special education		139,966
Support services:		
Administration		118,951
Mid-level administration		2,986,482
Pupil transportation		74,265
Operation and maintenance of plant		753,103
Community services		133,886
Total	\$	30,311,962

<u>Business-type Activities</u>	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Balance</u> <u>June 30, 2016</u>
Furniture and equipment	\$ 169,800	\$ 21,409	\$ -	\$ 191,209
Less accumulated depreciation	(139,658)	(5,738)	-	(145,396)
Capital assets, net	\$ 30,142	\$ 15,671	\$ -	\$ 45,813

Depreciation expense charged to business-type activities for the year ended June 30, 2016 was \$5,738.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 2 – CAPITAL ASSETS (CONTINUED)

The School System has active school construction projects as of June 30, 2016 as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Project		
Systemic - Glenwood MS	\$ 3,892,257	\$ 5,267,750
Waverly ES Renovation/Addition	4,149,822	3,818,637
Roofing Projects	38,102,128	7,738,701
Atholton HS Renovation	59,674,714	1,037,905
Ducketts Lane ES	33,694,105	694,520
Technology	33,470,774	1,015,226
Deep Run ES Renovation/Addition	18,010,879	6,000,081
Wilde Lake MS Replacement	26,077,763	3,014,237
Patuxent Valley MS Renovation	15,938,756	2,206,244
Swansfield ES Renovation/Addition	3,054,289	8,718,712
Subtotal	<u>236,065,487</u>	<u>39,512,013</u>
Other Projects	<u>350,723,042</u>	<u>15,491,901</u>
Total	<u><u>\$ 586,788,529</u></u>	<u><u>\$ 55,003,914</u></u>

These projects were primarily funded through capital grants from Howard County and the State of Maryland, prior to commitments being made with contractors.

NOTE 3 – DUE TO/FROM OTHER FUNDS

The composition of inter-fund balances as of June 30, 2016 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Workers Compensation	General	Reimbursable expenditures	\$ 39,182
General	Capital Projects	Reimbursable expenditures	1,665,672
Technology Services	General	Reimbursable expenditures	185,230
General	Health and Dental	Reimbursable expenditures	15,092,791
Jim Rouse Theatre	General	Reimbursable expenditures	239,116
Print Services	General	Reimbursable expenditures	523,520
General	Glenelg WWTP	Treatment plant expenditures	167,112
General	Restricted Programs	Advances of pooled cash	3,741,417
General	Food Services	Food services expenditures	917,302
Total			<u><u>\$ 22,571,342</u></u>

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 3 – DUE TO/FROM OTHER FUNDS (CONTINUED)

These interfund balances are presented in the accompanying financial statements as follows:

	Due From	Due To
Balance Sheet - Governmental Funds (page 24)	\$ 7,478,551	\$ 21,584,294
Statement of Net Position - Proprietary Funds (page 28)	-	239,116
Statement of Net Position - Internal Service Funds (page 28)	15,092,791	747,932
	\$ 22,571,342	\$ 22,571,342

Activity between funds represents expenditures paid by the General Fund on behalf of another fund or amounts received by the General Fund on behalf of another fund. All operating cash is processed through the General Fund and accounted for on each fund as due to/from the General Fund.

The School System does not have any long-term advances of inter-fund loans, and all inter-fund activity is considered current activity. Inter-fund activity consists primarily of advances from the General Fund to other funds to cover temporary cash needs. These situations arise because many grants and capital projects are reimbursed to the School System by the granting government after the School System has incurred the expenditure.

NOTE 4 – LONG-TERM LIABILITIES

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year
Compensated absences	\$ 8,645,012	\$ 1,356,465	\$ (471,490)	\$ 9,529,987	\$ 750,000
Capital leases	10,910,120	4,063,632	(4,110,209)	10,863,543	4,007,487
Net pension liability	34,289,621	9,690,280 *	-	43,979,901	-
Workers compensation	2,547,792	2,042,542	(1,121,501)	3,468,833	2,000,000
Total governmental activities	\$ 56,392,545	\$ 17,152,919	\$ (5,703,200)	\$ 67,842,264	\$ 6,757,487

Compensated absences are generally liquidated by the General Fund.

The School System has entered into several lease agreements as lessee to finance the purchase of student information system, data warehouse, learning management system, and enterprise resources that expire at various times through fiscal year 2021. The assets acquired and capitalized as fixed assets under capital lease are as follows:

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

	Governmental Activities
Equipment at cost	\$ 22,214,835
Less accumulated depreciation	(12,226,482)
Total	\$ 9,988,353

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 were as follows:

Year Ending June 30, 2016	Governmental Activities
2017	\$ 4,149,245
2018	3,913,640
2019	3,926,640
2020	1,289,017
2021	407,964
Total minimum lease payments	13,686,506
Less amount not drawn	(2,501,137)
Less amount representing interest	(321,826)
Present value of minimum lease payments	\$ 10,863,543

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – PENSION PLANS

General Information about the Plan

Plan Description

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

Benefits Provided

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

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

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

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – PENSION PLANS (CONTINUED)

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

Contributions

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

The State makes a substantial portion of HCPSS's annual required contribution to the Teachers' Retirement and Pension Systems on behalf of HCPSS. The State's contributions on behalf of HCPSS for the year ended June 30, 2016, was \$55,880,481. The fiscal 2016 contributions made by the State on behalf of HCPSS have been included as both revenues and expenditures in the General Fund in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances and are also included as revenues and expenses in the Statement of Activities.

Beginning in FY 2013, the State of Maryland General Assembly passed a bill that required the Boards of Education in Maryland to begin paying the normal cost for their teachers into the Teachers' Retirement and Pension Systems. The legislation structured this as a four year phase in to the full normal cost so that 50% was paid in FY 2013. Full normal cost will be paid in FY 2017 and each year thereafter. HCPSS's required contribution to the Teachers' Retirement and Pension Systems for the year ended June 30, 2016 was \$18,309,945.

HCPSS's contractually required contribution rate for the Employees' Retirement and Pension Systems for the year ended June 30, 2016, was 6.72% of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. HCPSS made its share of the required contributions during the year ended June 30, 2016 of \$4,220,168.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – PENSION PLANS (CONTINUED)

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

Employees Retirement and Pension Systems

At June 30, 2016, HCPSS reported a liability of \$43,979,901 for its proportionate share of the net pension liability of the System. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. HCPSS's proportion of the net pension liability was based on actual employer contributions billed to participating government units for the year ending June 30, 2015. The contributions were increased to adjust for differences between actuarial determined contributions and actual contributions by the State of Maryland. As of June 30, 2015, HCPSS's proportionate share was 0.212%.

For the year ended June 30, 2016, HCPSS recognized pension expense of \$5,356,836. At June 30, 2016, HCPSS 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	\$ 2,573,562	\$ -
Changes in proportion	2,613,931	-
Differences between expected and actual experience	-	900,670
Net difference between projected and actual earnings on pension plan investments	3,873,713	2,814,917
Net difference between actual and proportionate share of contributions	1,113,526	-
HCPSS contributions subsequent to the measurement date	4,220,168	-
Total	\$ 14,394,900	\$ 3,715,587

\$4,220,168 reported as deferred outflows of resources related to pensions resulting from HCPSS contributions subsequent to the measurement date will be recognized as a reduction in net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – PENSION PLANS (CONTINUED)

Year Ending June 30, 2016		
2017	\$	1,275,182
2018		1,275,182
2019		1,275,182
2020		1,858,893
2021		774,706

Teachers Retirement and Pension Systems

At June 30, 2016, HCPSS did not report a liability related to the Teachers’ Retirement and Pension Systems due to a special funding situation. The State of Maryland pays the unfunded liability for HCPSS and HCPSS pays the normal cost related to HCPSS’s members in the Teachers Retirement and Pension Systems; therefore, HCPSS is not required to record its share of the unfunded pension liability but instead, that liability is recorded by the State of Maryland. The amount recognized by HCPSS 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 HCPSS were as follows:

State's proportionate share of the net pension liability	\$	710,782,005
HCPSS's proportionate share of the net pension liability		-
Total	\$	710,782,005

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

For the year ended June 30, 2016, HCPSS recognized pension expense of \$74,190,426 and revenue of \$55,880,481 for support provided by the State. Due to the special funding situation noted above related to the Teachers’ Retirement and Pension Systems, HCPSS did not report deferred outflows of resources and deferred inflows of resources related to the Teachers’ Retirement and Pension Systems.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – PENSION PLANS (CONTINUED)

Actuarial Assumptions

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

Inflation	2.70% general, 3.20% wage
Salary increases	3.20% to 9.2%, including inflation
Investment rate of return	7.55%

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

The economic and demographic actuarial assumptions used in the June 30, 2015 valuation were adopted by the System's Board of Trustees based upon review of the System's experience study for the period 2010-2014, which was completed during FY 2014. Certain assumptions from the experience study including mortality rates, retirement rates, withdrawal rates, disability rates and rates of salary increase were adopted by the System's Board for the first use in the actuarial valuation as of June 30, 2015. As a result, an investment return assumption of 7.55% and an inflation assumption of 2.70% were used for the June 30, 2015 valuation.

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

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 5 – PENSION PLANS (CONTINUED)

Actuarial Assumptions (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Return of Return</u>
Public Equity	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	1%	0.00%
Total	<u>100%</u>	

The above was the System’s Board of Trustees adopted asset allocation policy and best estimate of geometric real rates for each major asset class as of June 30, 2015.

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

Discount rate

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

Sensitivity of the Net Pension Liability

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

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016**

NOTE 5 – PENSION PLANS (CONTINUED)

	1% Decrease (6.55%)	Current Discount Rate (7.55%)	1% Increase (8.55%)
HCPSS's proportionate share of the net pension liability	\$ 62,158,845	\$ 43,979,901	\$ 28,905,933

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

Pension Plan Fiduciary Net Position

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

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description

The School System contributes to the Howard County, Maryland Post-Retirement Medical Plan (the Plan), a cost-sharing multiple-employer defined benefit post employment healthcare plan administered by the Howard County Government (the County). The Plan provides medical and life insurance benefits to retired employees of participating governmental entities. The County issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the Howard County Government, 3430 Courthouse Drive, Ellicott City, MD 21043, or by calling 410-313-2195.

Funding Policy

Contribution requirements of the plan members and the participating employers are established and may be amended by the Plan's Board of trustees. Retirees eligible for medical insurance benefits pay between 50 and 100 percent of the School System's full premium equivalent cost, based upon years of service. Retirees eligible for life insurance benefits pay between 10 and 50 percent of the School System's full premium equivalent cost, provided they have at least ten years of service with the School System and have retired from the School System.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Participating governmental entities are contractually required to contribute at a rate assessed each year by the Plan. The Plan’s Trustees set the employer contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the requirements of GASB Statement No. 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The School System’s contributions, which were equal to the required amounts, were \$16,244,929, \$12,811,709 and \$12,941,140, for the years ended June 30, 2016, 2015, and 2014, respectively. These contributions were paid by and on behalf of the School System by the County. In addition, the County contributed an additional \$6,600,700 on behalf of the School System in FY 2016.

NOTE 7 – FUND BALANCE / NET POSITION

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

	<u>General Fund</u>	<u>Food Services Fund</u>	<u>Glenelg Wastewater Treatment Plant Fund</u>	<u>Capital Projects Fund</u>
Nonspendable for:				
Prepaid expenses	\$ 224,014	\$ -	\$ -	\$ -
Inventories	823,017	234,114	-	-
Total nonspendable	<u>1,047,031</u>	<u>234,114</u>	<u>-</u>	<u>-</u>
Restricted For:				
Glenelg Wastewater Plant	-	-	1,222,898	-
Assigned To:				
Subsequent year's Budget appropriations	5,000,000	66,000	-	-
Encumbrances	8,895,734	-	-	-
Food Services operations	-	861,299	-	-
Total assigned	<u>13,895,734</u>	<u>927,299</u>	<u>-</u>	<u>-</u>
Unassigned	<u>2,973,178</u>	<u>-</u>	<u>-</u>	<u>(2,699,138)</u>
Total fund balances	<u>\$ 17,915,943</u>	<u>\$ 1,161,413</u>	<u>\$ 1,222,898</u>	<u>\$ (2,699,138)</u>

Deficit Fund Balance / Net Position

The Capital Projects Fund reflects a deficit unassigned fund balance at June 30, 2016 because of funding reversions by the State and County that occurred after the anticipated funds were spent. It is anticipated the deficit will be eliminated, over time, through the use of resources available to the Board.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 7 – FUND BALANCE / NET POSITION (CONTINUED)

The Health and Dental Fund reflects a deficit net position balance at June 30, 2016 because of the rapid rise in health costs that exceeded allotted funding. It is anticipated the deficit will be eliminated, over time, through the use of resources available to the Board.

NOTE 8 – ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of budgetary integration in the General Fund, and encumbrances outstanding at year-end are reported as assignments of fund balance since they do not constitute expenditures or liabilities.

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

	General Fund
Administration	\$ 430,393
Mid-Level Administration	945,844
Instructional	1,649,112
Special Education	84,940
Student Services	714
Health Services	184,550
Student Transportation	192,481
Operation of Plant	2,178,041
Maintenance of Plant	2,986,555
Fixed Charges	111,716
Community Services	131,301
Capital Outlay	87
Total	\$ 8,895,734

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The School System leases equipment under various non-cancelable operating leases that expire during fiscal year 2021. Total costs were \$657,609 for the leases for the year ended June 30, 2016. The future minimum lease payments for these leases are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2017	\$ 636,343
2018	630,737
2019	400,924
2020	123,715
Thereafter	<u>9,217</u>
Total	<u><u>\$ 1,800,936</u></u>

Litigation

The School System has been named as defendant in several lawsuits in the normal course of business, the outcomes of which are uncertain. It is anticipated by the School System that an adverse decision on any or all of these suits would not have a material adverse effect on the financial statements.

Grant Programs

The School System receives grant revenues from County, State, and Federal sources. Amounts received under such programs are restricted to use in accordance with terms of the respective grants. The use of such funds is subject to audit by the grantors. Consequently, the School System is contingently liable to refund amounts received in excess of allowable expenditures, if any. In the opinion of management, no material refunds will be required as the result of expenditures disallowed by the grantors.

NOTE 10 – RISK MANAGEMENT

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

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2016

NOTE 10 – RISK MANAGEMENT (CONTINUED)

The School System has also established limited risk management programs for workers’ compensation and health and dental insurance. Premiums are paid into these two internal service funds by other funds and are available to pay current and future claims and administrative costs of the programs. The “premium” charged by the self-insurance funds considers recent trends in actual claims experience of the School System as a whole and makes provision for catastrophic losses. As of June 30, 2016, the inter-fund premiums did not exceed reimbursable expenditures in the Health and Dental Self-Insurance Fund or the Workers’ Compensation Self-Insurance Fund. Settled claims did not exceed coverage in any of the past four years.

Liabilities are reported when it is probable that a loss will occur and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual health and dental claims in excess of \$500,000; and workers’ compensation claims has a retention of \$500,000 per occurrence. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liability for claims and judgments is reported in the respective self-insurance internal service funds.

Changes in the balances of claims payable for the years ended June 30 are as follows:

	2016		2015	
	Workers' Compensation	Health and Dental	Workers' Compensation	Health and Dental
Beginning payable, July 1	\$ 2,547,792	\$ 9,665,165	\$ 2,899,926	\$ 8,603,850
Incurred claims (including IBNR)	2,042,542	122,863,015	811,030	113,070,238
Claim payments	(1,121,501)	(121,941,600)	(1,163,164)	(112,008,923)
Ending payable, June 30	\$ 3,468,833	\$ 10,586,580	\$ 2,547,792	\$ 9,665,165

REQUIRED SUPPLEMENTARY INFORMATION

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Non-GAAP Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES				
Intergovernmental revenues:				
Local sources	\$ 544,144,625	\$ 544,144,625	\$ 544,144,625	\$ -
State sources	222,260,462	222,260,462	222,172,510	(87,952)
Federal sources	370,000	370,000	371,209	1,209
Earnings on investments	50,000	50,000	57,717	7,717
Charges for services	4,713,293	4,713,293	5,560,967	847,674
Miscellaneous revenues	1,800,000	1,800,000	1,824,645	24,645
Total revenues	<u>773,338,380</u>	<u>773,338,380</u>	<u>774,131,673</u>	<u>793,293</u>
EXPENDITURES				
Current:				
Administration	12,450,033	12,400,033	12,342,223	57,810
Instruction				
Instructional salaries	318,875,974	315,646,974	315,348,885	298,089
Textbook and classroom supplies	12,503,227	11,753,227	11,734,087	19,140
Other instructional costs	3,414,360	3,414,360	3,347,920	66,440
Student personnel services	3,139,291	3,229,291	3,201,863	27,428
Health services	7,642,556	7,817,556	7,728,496	89,060
Student transportation	38,294,625	37,582,625	37,557,887	24,738
Operation of plant	43,333,229	40,436,229	40,208,488	227,741
Maintenance of plant	24,164,656	25,295,656	25,285,204	10,452
Fixed charges	151,805,740	159,105,740	159,105,739	1
Mid level administration	59,017,689	58,609,689	58,497,662	112,027
Community services	6,716,238	6,626,238	6,568,390	57,848
Special education	94,081,283	93,591,283	93,423,761	167,522
Capital outlay	899,479	829,479	816,263	13,216
Total expenditures	<u>776,338,380</u>	<u>776,338,380</u>	<u>775,166,868</u>	<u>1,171,512</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ (3,000,000)</u>	<u>\$ (3,000,000)</u>	(1,035,195)	<u>\$ 1,964,805</u>
FUND BALANCE AT JUNE 30, 2015 - BUDGETARY BASIS			<u>10,055,404</u>	
FUND BALANCE AT JUNE 30, 2016 - BUDGETARY BASIS			9,020,209	
Encumbrances at June 30, 2016			<u>8,895,734</u>	
FUND BALANCE AT JUNE 30, 2016 - GAAP BASIS			<u>\$ 17,915,943</u>	

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
RECONCILIATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND
OUTFLOWS AND GAAP BASIS REVENUES AND EXPENDITURES
GENERAL FUND
Year Ended June 30, 2016**

REVENUES

Budgetary basis	\$ 774,131,673
Add - Pension contribution paid by State of Maryland	55,880,481
- OPEB contribution paid by Howard County Government	6,600,700
- Revenues from loaned staff program	122,918
	<u>122,918</u>
GAAP basis	<u>\$ 836,735,772</u>

EXPENDITURES

Budgetary basis	\$ 775,166,868
Add - Prior year's encumbrances expended this year	5,420,882
- Pension contribution paid by State of Maryland	55,880,481
- OPEB contribution paid by Howard County Government	6,600,700
- Expenditures from loaned staff	122,918
Less - Current year's encumbrances outstanding	(8,895,734)
	<u>(8,895,734)</u>
GAAP basis	<u>\$ 834,296,115</u>

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
Last Ten Fiscal Years

Employees' Retirement and Pension System:

	<u>2016</u>	<u>2015</u>
HCPSS's proportion of the net pension liability	0.21162790000000%	0.1932165489690930%
HCPSS's proportionate share of the net pension liability	\$ 43,979,901	\$ 34,289,621
HCPSS's covered employee payroll	\$ 48,409,886	\$ 46,836,572
HCPSS's proportionate share of the net pension liability as a percentage of its covered employee payroll	90.85%	73.21%
Plan fiduciary net position as a percentage of the total pension liability	66.26%	73.65%

Teacher's Retirement and Pension System:

HCPSS's proportion of the net pension liability	0.0%	0.0%
HCPSS's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability of HCPSS	<u>710,782,005</u>	<u>507,145,242</u>
Total	\$ 710,782,005	\$ 507,145,242
HCPSS's covered employee payroll	\$ 448,446,514	\$ 433,872,077
HCPSS's proportionate share of the net pension liability as a percentage of its covered employee payroll	63.09%	85.55%
Plan fiduciary net position as a percentage of the total pension liability	70.76%	69.53%

The amounts presented for fiscal year 2016 were determined as of July 1 of two years prior, using membership data as of that date projected forward to June 30 of the previous year. Additionally, the HCPSS implemented GASB 68 during fiscal year 2015. As such, only two years of information are available.

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SCHEDULE OF THE BOARD CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
Last Ten Fiscal Years**

Employees' Retirement and Pension System

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 4,220,168	\$ 4,460,545	\$ 4,502,643	\$ 3,915,358	\$ 4,753,913	\$ 4,664,615	\$ 3,350,776	\$ 3,056,419	\$ 3,282,616	\$ 2,800,975
Contributions in relation to the contractually required contribution	<u>(4,220,168)</u>	<u>(4,460,545)</u>	<u>(4,502,643)</u>	<u>(3,915,358)</u>	<u>(4,753,913)</u>	<u>(4,664,615)</u>	<u>(3,350,776)</u>	<u>(3,056,419)</u>	<u>(3,282,616)</u>	<u>(2,800,975)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HCPSS's covered-employee payroll	\$ 49,018,157	\$ 48,409,885	\$ 46,836,572	\$ 45,820,362	\$ 44,589,336	\$ 43,901,214	\$ 43,053,303	\$ 43,198,071	\$ 39,520,041	\$ 35,855,467
Contributions as a percentage of covered-employee payroll	9%	9%	10%	9%	11%	11%	8%	7%	8%	8%

Teachers' Retirement and Pension System

	2016	2015	2014	2013	2012*	2011*	2010*	2009*	2008*	2007*
Contractually required contribution	\$ 18,309,945	\$ 15,925,463	\$ 12,448,477	\$ 9,821,066	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>(18,309,945)</u>	<u>(15,925,463)</u>	<u>(12,448,477)</u>	<u>(9,821,066)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
HCPSS's covered-employee payroll	\$ 448,824,543	\$ 448,446,514	\$ 433,872,077	\$ 424,458,383	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	4%	4%	3%	2%	0%	0%	0%	0%	0%	0%

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

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

NOTE 1 – CHANGES IN BENEFIT TERMS

There were no benefit changes during the year.

NOTE 2 – CHANGES IN ASSUMPTIONS

Adjustments to the roll-forward liabilities were made to reflect the following assumptions in the 2015 valuation:

- Investment return assumptions changed from 7.65% to 7.55%
- Inflation assumptions changed from 2.90% to 2.70%

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

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	23 year for State system
Asset Valuation Method	5-year smoothed market; 20% collar
Inflation	2.70% general, 3.2% wage
Salary Increases	3.20% to 9.20%, including inflation
Investment Rate of Return	7.55%
Retirement Age	Experienced based table of rates that are specific to the type of eligibility condition. Last updated for 2015 valuation pursuant to the 2015 Experience study for the period July 1, 2010 to June 30, 2014
Mortality	RP-2014 Mortality Table with projected generational mortality improvement based on the MP-2014 2-dimensional mortality improvement scale.

OTHER SUPPLEMENTARY INFORMATION

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SCHEDULE OF REVENUES COMPARED TO BUDGET (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2016

	Original Budget	Final Budget	Non-GAAP Actual	Variance with Final Budget Positive (Negative)
Intergovernmental Revenues				
Local Sources				
Local appropriation	\$ 544,144,625	\$ 544,144,625	\$ 544,144,625	\$ -
State Sources				
State Foundation	159,177,174	159,177,174	159,177,174	-
Transportation	15,231,713	15,231,713	15,231,713	-
Special education	8,930,329	8,930,329	8,882,350	(47,979)
Compensatory education	27,734,155	27,734,155	27,734,155	-
Limited English proficient	6,902,343	6,902,343	6,902,343	-
Students with Disabilities	1,272,000	1,272,000	1,272,000	-
State geographic index	2,736,808	2,736,808	2,736,808	-
Other - LEA tuition	275,940	275,940	235,967	(39,973)
Total state sources	<u>222,260,462</u>	<u>222,260,462</u>	<u>222,172,510</u>	<u>(87,952)</u>
Federal Sources				
ROTC reimbursement	240,000	240,000	210,954	(29,046)
Impact Aid (PL 874)	130,000	130,000	160,255	30,255
Total federal sources	<u>370,000</u>	<u>370,000</u>	<u>371,209</u>	<u>1,209</u>
Earnings on investments	<u>50,000</u>	<u>50,000</u>	<u>57,717</u>	<u>7,717</u>
Charges for Services				
Tuition from patrons	809,000	809,000	970,371	161,371
Use of school buildings	1,100,000	1,100,000	1,174,653	74,653
Athletic program - gate receipts	350,000	350,000	344,261	(5,739)
Energy rebates	610,000	610,000	1,033,484	423,484
Administration and overhead fees	1,844,293	1,844,293	2,038,198	193,905
Total charges for services, etc.	<u>4,713,293</u>	<u>4,713,293</u>	<u>5,560,967</u>	<u>847,674</u>
Miscellaneous Revenues				
Other	<u>1,800,000</u>	<u>1,800,000</u>	<u>1,824,645</u>	<u>24,645</u>
TOTAL	<u>\$ 773,338,380</u>	<u>\$ 773,338,380</u>	<u>\$ 774,131,673</u>	<u>\$ 793,293</u>

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2016

	Original Budget	Final Budget	Non-GAAP Actual	Variance with Final Budget Positive (Negative)
Administration				
Salaries and wages	\$ 9,406,230	\$ 8,962,230	\$ 8,961,373	\$ 857
Contracted services	2,066,510	2,238,180	2,237,231	949
Supplies and materials	490,874	780,559	748,015	32,544
Other charges	486,419	419,064	395,604	23,460
Equipment	-	-	-	-
Total administration	<u>12,450,033</u>	<u>12,400,033</u>	<u>12,342,223</u>	<u>57,810</u>
Instructional salaries	<u>318,875,974</u>	<u>315,646,974</u>	<u>315,348,885</u>	<u>298,089</u>
Textbooks and classroom supplies	<u>12,503,227</u>	<u>11,753,227</u>	<u>11,734,087</u>	<u>19,140</u>
Other Instructional Costs				
Contracted services	2,449,340	2,391,140	2,373,590	17,550
Other charges	306,920	299,620	251,505	48,115
Equipment	78,100	140,600	140,285	315
Outgoing transfers	580,000	583,000	582,540	460
Total other instructional costs	<u>3,414,360</u>	<u>3,414,360</u>	<u>3,347,920</u>	<u>66,440</u>
Student Personnel Services				
Salaries and wages	2,735,300	2,826,468	2,807,230	19,238
Contracted services	331,605	329,905	329,654	251
Supplies and materials	28,994	32,826	30,107	2,719
Other charges	43,392	40,092	34,872	5,220
Total pupil personnel services	<u>3,139,291</u>	<u>3,229,291</u>	<u>3,201,863</u>	<u>27,428</u>
Health Services				
Salaries and wages	6,936,622	7,025,522	6,964,784	60,738
Contracted services	484,429	484,429	464,664	19,765
Supplies and materials	198,655	284,755	284,679	76
Other charges	22,850	22,850	14,369	8,481
Total health services	<u>7,642,556</u>	<u>7,817,556</u>	<u>7,728,496</u>	<u>89,060</u>
Student Transportation				
Salaries and wages	1,357,888	1,332,888	1,330,251	2,637
Contracted services	36,432,227	35,721,227	35,720,555	672
Supplies and materials	28,596	58,596	50,343	8,253
Other charges	475,914	469,914	456,738	13,176
Equipment	-	-	-	-
Total pupil transportation	<u>38,294,625</u>	<u>37,582,625</u>	<u>37,557,887</u>	<u>24,738</u>
Operation of Plant				
Salaries and wages	20,288,851	19,690,024	19,599,580	90,444
Contracted services	2,837,935	3,178,966	3,148,183	30,783
Supplies and materials	1,344,059	1,538,266	1,534,305	3,961
Other charges	18,862,384	15,953,973	15,851,881	102,092
Equipment	-	75,000	74,539	461
Total operation of plant	<u>43,333,229</u>	<u>40,436,229</u>	<u>40,208,488</u>	<u>227,741</u>

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
Year Ended June 30, 2015

	Original Budget	Final Budget	Non-GAAP Actual	Variance with Final Budget Positive (Negative)
Maintenance of Plant				
Salaries and wages	\$ 11,600,729	\$ 11,061,829	\$ 11,058,533	\$ 3,296
Contracted services	11,035,851	12,449,930	12,446,163	3,767
Supplies and materials	1,156,546	1,228,789	1,228,788	1
Other charges	97,730	31,169	31,129	40
Equipment	273,800	523,939	520,591	3,348
Total maintenance of plant	<u>24,164,656</u>	<u>25,295,656</u>	<u>25,285,204</u>	<u>10,452</u>
Other Fixed Charges	<u>151,805,740</u>	<u>159,105,740</u>	<u>159,105,739</u>	<u>1</u>
Mid-level Administration				
Salaries and wages	52,094,311	51,331,861	51,316,024	15,837
Contracted services	5,046,038	4,939,586	4,922,434	17,152
Supplies and materials	1,375,074	1,856,577	1,805,628	50,949
Other charges	502,266	464,605	436,516	28,089
Equipment	-	17,060	17,060	-
Total mid-level administration	<u>59,017,689</u>	<u>58,609,689</u>	<u>58,497,662</u>	<u>112,027</u>
Community Services				
Salaries and wages	3,727,925	3,535,925	3,521,015	14,910
Contracted services	1,541,865	1,567,865	1,567,439	426
Supplies and materials	391,508	432,508	431,598	910
Other charges	1,048,940	1,048,940	1,023,241	25,699
Equipment	6,000	41,000	25,097	15,903
Total community services	<u>6,716,238</u>	<u>6,626,238</u>	<u>6,568,390</u>	<u>57,848</u>
Special Education				
Salaries and wages	84,608,339	83,300,989	83,300,591	398
Contracted services	1,807,948	2,193,798	2,193,777	21
Supplies and materials	346,432	318,932	312,041	6,891
Other charges	327,564	292,064	292,060	4
Equipment	80,000	65,000	64,892	108
Outgoing transfers	6,911,000	7,420,500	7,260,400	160,100
Total special education	<u>94,081,283</u>	<u>93,591,283</u>	<u>93,423,761</u>	<u>167,522</u>
Capital Outlay				
Salaries and wages	855,819	788,398	783,956	4,442
Contracted services	7,000	5,500	3,326	2,174
Supplies and materials	14,000	9,457	6,839	2,618
Other charges	22,660	26,124	22,142	3,982
Total capital outlay	<u>899,479</u>	<u>829,479</u>	<u>816,263</u>	<u>13,216</u>
TOTAL EXPENDITURES	<u>\$ 776,338,380</u>	<u>\$ 776,338,380</u>	<u>\$ 775,166,868</u>	<u>\$ 1,171,512</u>

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
FOOD SERVICES FUND
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
Year Ended June 30, 2016**

	Budget (*)	Actual	Variance Positive (Negative)
REVENUES			
Intergovernmental Revenues:			
State	\$ 350,000	\$ 561,693	\$ 211,693
Federal:			
National School Lunch and Milk Programs	6,000,000	5,167,360	(832,640)
National School Breakfast	-	1,598,362	1,598,362
U.S.D.A. Commodity Program	-	912,819	912,819
Total intergovernmental revenues	6,000,000	7,678,541	1,678,541
Earnings on investments	2,000	2,109	109
Charges for Services:			
Food sales	5,920,000	5,977,624	57,624
Total revenues	12,272,000	14,219,967	1,947,967
EXPENDITURES			
Costs of operation - Food Service:			
Cost of food	4,410,000	5,093,240	(683,240)
U.S.D.A. Commodity Program	-	754,030	(754,030)
Salaries and wages	7,567,245	7,603,259	(36,014)
Equipment/Miscellaneous	683,000	394,115	288,885
Total expenditures	12,660,245	13,844,644	(1,184,399)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
	\$ (388,245)	375,323	\$ 763,568
FUND BALANCE AT JULY 1, 2015		786,090	
FUND BALANCE AT JUNE 30, 2016		\$ 1,161,413	

(*) There were no changes or amendments to the original budget.

HOWARD COUNTY PUBLIC SCHOOL SYSTEM
COMBINING SCHEDULE OF NET POSITION
INTERNAL SERVICE FUNDS
June 30, 2016

	Print Services Fund	Technology Services Fund	Workers' Compensation Fund	Health and Dental Fund	Total
ASSETS					
Current Assets					
Investments	\$ -	\$ -	\$ 4,553,783	\$ 16,120,461	\$ 20,674,244
Accounts receivable	-	2,632	-	252,686	255,318
Due from other funds	523,520	185,230	39,182	-	747,932
Inventory	174,945	705	-	-	175,650
Prepaid expenses	35,128	299,684	210,634	-	545,446
Total current assets	<u>733,593</u>	<u>488,251</u>	<u>4,803,599</u>	<u>16,373,147</u>	<u>22,398,590</u>
Non-Current Assets					
Capital assets:					
Furniture, fixtures and equipment	526,255	15,172,432	-	-	15,698,687
Less accumulated depreciation	(420,239)	(4,017,699)	-	-	(4,437,938)
Total capital assets, net of depreciation	<u>106,016</u>	<u>11,154,733</u>	<u>-</u>	<u>-</u>	<u>11,260,749</u>
Total assets	<u>839,609</u>	<u>11,642,984</u>	<u>4,803,599</u>	<u>16,373,147</u>	<u>33,659,339</u>
LIABILITIES					
Current Liabilities					
Accounts payable	52,809	43,617	220,902	451,107	768,435
Capital leases	-	3,160,805	-	-	3,160,805
Due to other funds	-	-	-	15,092,791	15,092,791
Accrued liabilities	-	135,660	17,418	2,485,671	2,638,749
Claims payable	-	-	2,000,000	10,586,580	12,586,580
Unearned revenue	-	-	-	4,225,866	4,225,866
Total current liabilities	<u>52,809</u>	<u>3,340,082</u>	<u>2,238,320</u>	<u>32,842,015</u>	<u>38,473,226</u>
Long-Term Liabilities					
Capital leases	-	4,783,730	-	-	4,783,730
Claims payable, net of current portion	-	-	1,468,833	-	1,468,833
Total long-term liabilities	<u>-</u>	<u>4,783,730</u>	<u>1,468,833</u>	<u>-</u>	<u>6,252,563</u>
Total liabilities	<u>52,809</u>	<u>8,123,812</u>	<u>3,707,153</u>	<u>32,842,015</u>	<u>44,725,789</u>
NET POSITION					
Net investment in capital assets	106,016	3,210,198	-	-	3,316,214
Unrestricted	680,784	308,974	1,096,446	(16,468,868)	(14,382,664)
TOTAL NET POSITION	<u>\$ 786,800</u>	<u>\$ 3,519,172</u>	<u>\$ 1,096,446</u>	<u>\$ (16,468,868)</u>	<u>\$ (11,066,450)</u>

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
COMBINING SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
Year Ended June 30, 2016**

	Print Services Fund	Technology Services Fund	Workers' Compensation Fund	Health and Dental Fund	Total
OPERATING REVENUES					
Charges for services - internal	\$ 1,127,230	\$ 10,877,501	\$ 2,272,980	\$ 92,049,713	\$ 106,327,424
Loss on disposal of asset	-	(28,096)	-	-	(28,096)
Miscellaneous revenue	-	-	-	137,715	137,715
Contributions from employees and retirees	-	-	-	23,303,756	23,303,756
Total operating revenues	1,127,230	10,849,405	2,272,980	115,491,184	129,740,799
OPERATING EXPENSES					
Administrative expenses	1,107,333	7,990,621	2,881,543	11,662,752	23,642,249
Claims and related expenses	-	-	-	121,941,600	121,941,600
Depreciation expense	15,758	2,124,559	-	-	2,140,317
Total operating expenses	1,123,091	10,115,180	2,881,543	133,604,352	147,724,166
Operating income (loss)	4,139	734,225	(608,563)	(18,113,168)	(17,983,367)
NON-OPERATING REVENUE					
Interest Income	-	-	9,917	38,925	48,842
Non-operating income	-	-	9,917	38,925	48,842
CHANGES IN NET POSITION	4,139	734,225	(598,646)	(18,074,243)	(17,934,525)
TOTAL NET POSITION, BEGINNING OF YEAR	782,661	2,784,947	1,695,092	1,605,375	6,868,075
TOTAL NET POSITION, END OF YEAR	\$ 786,800	\$ 3,519,172	\$ 1,096,446	\$ (16,468,868)	\$ (11,066,450)

**HOWARD COUNTY PUBLIC SCHOOL SYSTEM
COMBINING SCHEDULE OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended June 30, 2016**

	Print Services Fund	Technology Services Fund	Workers' Compensation Fund	Health and Dental Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from other funds	\$ 1,038,429	\$ 12,040,836	\$ 2,682,160	\$ 96,482,236	\$ 112,243,661
Cash received from employees and retirees	-	-	-	23,303,756	23,303,756
Payments to employees	(709,791)	(4,195,462)	(273,879)	(401,261)	(5,580,393)
Payments to suppliers	(328,638)	(4,243,062)	(1,683,281)	(131,384,731)	(137,639,712)
Net cash provided by (used by) operating activities	-	3,602,312	725,000	(12,000,000)	(7,672,688)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Purchases of equipment	-	(327,506)	-	-	(327,506)
Principal paid on capital lease	-	(3,274,806)	-	-	(3,274,806)
Net cash used by capital and related financing activities	-	(3,602,312)	-	-	(3,602,312)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale (purchase) of investments	-	-	(734,917)	11,961,075	11,226,158
Interest received	-	-	9,917	38,925	48,842
Net cash used by (provided by) investing activities	-	-	(725,000)	12,000,000	11,275,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	-	-	-	-
CASH AND CASH EQUIVALENTS, JULY 1, 2015	-	-	-	-	-
CASH AND CASH EQUIVALENTS, JUNE 30, 2016	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**RECONCILIATION OF OPERATING INCOME (LOSS)
TO NET CASH PROVIDED BY OPERATING ACTIVITIES**

Operating income (loss)	\$ 4,139	\$ 734,225	\$ (608,563)	\$ (18,113,168)	\$ (17,983,367)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	15,758	2,124,559	-	-	2,140,317
Loss of disposal of asset	-	28,096	-	-	28,096
Effects of changes in assets and liabilities:					
Accounts receivable	-	(1,894)	-	(86,731)	(88,625)
Prepaid expenses	(35,128)	(299,684)	(5,249)	-	(340,061)
Due from other funds	(88,801)	1,165,229	409,180	-	1,485,608
Inventory	112,345	109	-	-	112,454
Accounts payable	(5,090)	(282,178)	(8,827)	174,364	(121,731)
Accrued liabilities	(3,223)	133,850	17,418	722,581	870,626
Claims payable	-	-	921,041	921,415	1,842,456
Due to other funds	-	-	-	4,341,748	4,341,748
Deferred revenue	-	-	-	39,791	39,791
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ -</u>	<u>\$ 3,602,312</u>	<u>\$ 725,000</u>	<u>\$ (12,000,000)</u>	<u>\$ (7,672,688)</u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Purchase of equipment through a capital lease	<u>\$ -</u>	<u>\$ 3,088,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,088,177</u>

THE BOARD OF EDUCATION OF HOWARD COUNTY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2016

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Elementary Schools				
Atholton ES	\$ 11,867	\$ 53,610	\$ 48,612	\$ 16,865
Bellows Spring ES	59,223	98,879	114,021	44,081
Bollman Bridge ES	29,664	74,257	79,759	24,162
Bryant Woods ES	13,866	32,538	30,890	15,514
Bushy Park ES	28,032	53,311	52,314	29,029
Centennial Lane ES	13,786	56,629	50,317	20,098
Clarksville ES	34,525	51,013	58,200	27,338
Clemens Crossing ES	45,797	45,635	48,239	43,193
Cradlerock School	24,512	40,480	40,841	24,151
Dayton Oaks ES	39,472	106,660	100,449	45,683
Deep Run ES	26,836	74,008	61,389	39,455
Duckett's Lane ES	14,228	61,911	58,562	17,577
Elkridge ES	53,133	51,438	45,072	59,499
Forest Ridge ES	13,947	52,735	44,707	21,975
Fulton ES	20,486	115,289	104,551	31,224
Gorman Crossing ES	37,121	75,268	65,287	47,102
Guilford ES	48,333	30,028	38,953	39,408
Hammond ES	12,307	42,584	46,588	8,303
Hollifield Station ES	19,591	129,930	116,239	33,282
Ilchester ES	93,208	116,208	106,494	102,922
Jeffers Hill ES	30,417	39,415	37,497	32,335
Laurel Woods ES	13,247	34,107	32,430	14,924
Lisbon ES	18,845	45,922	51,794	12,973
Longfellow ES	24,223	59,525	66,445	17,303
Manor Woods ES	47,451	65,902	82,743	30,610
Northfield ES	25,370	74,314	77,123	22,561
Phelps Luck ES	33,593	32,862	32,751	33,704
Pointers Run ES	67,479	113,872	101,403	79,948
Rockburn ES	40,829	92,219	91,025	42,023
Running Brook ES	24,436	66,813	64,326	26,923
St. John's Lane ES	37,132	40,346	34,264	43,214
Steven's Forest ES	36,483	32,435	32,132	36,786
Swansfield ES	18,452	35,976	32,150	22,278
Talbott Springs ES	25,168	39,459	41,717	22,910
Thunder Hill ES	9,345	34,127	26,064	17,408
Triadelphia Ridge ES	36,130	65,005	60,614	40,521
Veterans ES	38,671	101,288	98,411	41,548
Waterloo ES	56,422	91,757	82,499	65,680
Waverly ES	15,777	88,401	74,208	29,970
West Friendship ES	22,291	35,278	35,152	22,417
Worthington ES	29,408	48,986	41,088	37,306
	<u>1,291,103</u>	<u>2,600,420</u>	<u>2,507,320</u>	<u>1,384,203</u>
Total - Elementary Schools				

THE BOARD OF EDUCATION OF HOWARD COUNTY
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
YEAR ENDED JUNE 30, 2016

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2016</u>
Middle Schools				
Bonnie Branch MS	\$ 80,392	\$ 145,648	\$ 151,546	\$ 74,494
Burleigh Manor MS	90,107	246,822	249,551	87,378
Clarksville MS	60,235	154,451	147,703	66,983
Dunloggin MS	43,825	83,636	88,473	38,988
Elkridge Landing MS	40,797	127,000	144,442	23,355
Ellicott Mills MS	51,123	169,255	178,185	42,193
Folly Quarter MS	35,298	140,406	138,830	36,874
Glenwood MS	38,720	138,976	141,997	35,699
Hammond MS	32,749	69,297	82,324	19,722
Harper's Choice MS	14,039	97,247	97,270	14,016
Lake Elkhorn MS	8,569	74,491	71,265	11,795
Lime Kiln MS	63,087	110,144	133,739	39,492
Mayfield Woods MS	35,153	108,538	110,915	32,776
Mount View MS	51,649	189,451	179,180	61,920
Murray Hill MS	28,607	64,048	76,946	15,709
Oakland Mills MS	14,824	85,565	88,645	11,744
Patapsco MS	38,074	116,026	115,006	39,094
Patuxent Valley MS	11,142	72,789	69,502	14,429
Thomas Viaduct MS	13,796	92,497	90,072	16,221
Wilde Lake MS	34,159	98,060	100,673	31,546
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Total - Middle Schools	786,345	2,384,347	2,456,264	714,428
High Schools				
Atholton HS	220,671	545,544	521,007	245,208
Centennial HS	349,087	857,446	839,449	367,084
Glenelg HS	272,482	752,273	745,719	279,036
Hammond HS	171,298	519,287	519,520	171,065
Howard HS	426,982	681,028	723,635	384,375
Long Reach HS	134,783	433,145	441,115	126,813
Marriotts Ridge HS	171,524	645,475	671,369	145,630
Mount Hebron HS	247,018	682,493	682,677	246,834
Oakland Mills HS	164,199	474,070	478,314	159,955
Reservoir HS	189,488	511,141	504,508	196,121
River Hill HS	214,798	778,810	740,803	252,805
Wilde Lake HS	159,707	404,744	380,773	183,678
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Total - High Schools	2,722,037	7,285,456	7,248,889	2,758,604
Special Schools				
Apps and Research Lab	18,601	23,805	24,831	17,575
Cedar Lane School	53,485	63,287	58,590	58,182
Homewood School.	12,564	15,814	15,030	13,348
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Total - Special Schools	84,650	102,906	98,451	89,105
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Total - All Schools	<u>\$ 4,884,135</u>	<u>\$ 12,373,129</u>	<u>\$ 12,310,924</u>	<u>\$ 4,946,340</u>