

BOARD OF EDUCATION OF ALLEGANY COUNTY
FINANCIAL REPORT
AS OF JUNE 30, 2006 AND FOR THE YEAR THEN ENDED

BOARD OF EDUCATION OF ALLEGANY COUNTY

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INDEPENDENT AUDITORS' REPORT

Board of Education of Allegany County
Cumberland, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Board of Education of Allegany County, Maryland, a component unit of Allegany County, Maryland, as of and for the year ended June 30, 2006, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of Education of Allegany County's management. 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the standards prescribed by the Maryland State Board of Education. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the Board of Education of Allegany County, Maryland as of June 30, 2006, and the respective changes in financial position and the cash flows of thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2007, on our consideration of the Board of Education of Allegany County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government*

Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages three (3) through fourteen (14) and forty-one (41) through forty-two (42), are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of Allegany County, Maryland's basic financial statements. The accompanying information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Holzer, Michaels & Company

Cumberland, Maryland
January 4, 2007

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2006

Our discussion and analysis of The Board of Education of Allegany County's financial performance provides an overview of the School System's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the basic financial statements that follow this section.

Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments that was implemented by The Board of Education of Allegany County for the fiscal year ended June 30, 2003 and all subsequent years.

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

Financial Highlights

On a system-wide basis the net assets of the School System increased by \$9,106,975 (15.20%) during the fiscal year ended June 30, 2006. This increase is mainly attributed to revenues from the State of Maryland and related to school construction as a result of the construction in process of building a new high school, Mountain Ridge.

Total Governmental Funds revenues for the fiscal year ended June 30, 2006, were \$119,404,052. This represents an increase of \$20,861,046 (21.17%) over the prior fiscal year. This was mainly due to an increase in state funding.

Total Governmental Funds expenses for the fiscal year ended June 30, 2006, were \$117,885,676. This represents an increase of \$19,917,649 (20.33%) over the prior fiscal year. This was mostly due to school construction costs for the new Mountain Ridge High School.

The Current Expense Fund total fund balance as of June 30, 2006, was \$3,739,521. This represents an increase of \$1,101,728 (41.77%) from the fund balance as of June 30, 2005.

The Current Expense Fund unrestricted fund balance as of June 30, 2006, was \$2,889,521. This represents an increase of \$1,624,728 (128.46%) from the unrestricted fund balance as of June 30, 2005.

Current Expense Fund revenues, net of on behalf of payments by the State of Maryland, came within \$226,738 (0.26%) of equaling the final budget.

Current Expense Fund expenses and transfers, net of on behalf of payments by the State of Maryland, were under budget by \$1,397,990 (1.61%). This shortfall was mainly due to grants

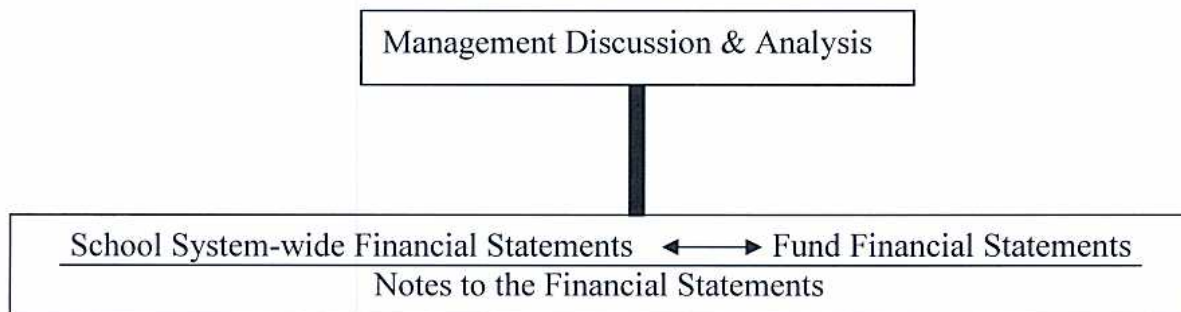
THE BOARD OF EDUCATION OF ALLEGANY COUNTY
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Management's Discussion and Analysis (MD&A)
June 30, 2006

being able to absorb additional salaries and benefits, as well as our medical costs being more favorable under our self insured plan for FY06.

The unrestricted General Fund budget increased by \$7,481,929 (9.41%) to \$86,994,338 compared to the budget for the period ended June 30, 2005.

Basic Financial Statements



The illustration above represents the minimum requirements for the general-purpose external financial statements.

School System-wide Financial Statements

In addition to the MD&A, the System-wide Financial Statements are the other primary addition to financial reporting under GASB Statement No. 34. The System-wide perspective is designed to provide readers with a complete financial view of the entity known as The Board of Education of Allegany County. The financial presentation of this perspective is similar to a private sector business.

The *Statement of Net Assets* presents information on all of the assets and liabilities of the School System with the difference between the two reported as *net assets*. The *Statement of Activities* presents information showing how the School System's net assets changed during the most recent fiscal year.

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

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June 30, 2006

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The Board of Education of Allegany County uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The School System's funds are in three categories: government funds, proprietary funds, and fiduciary funds. Government funds include the unrestricted General Fund, restricted General Fund, Food Service and School Construction Funds. Proprietary funds include the Information Technology Fund and the Allconet Fund. Fiduciary funds include School Activities and Retiree Insurance Benefit Plan.

The measurement focus of these statements is current financial resources; therefore, the emphasis is placed on the cash flows of the organization within the reporting period or in the near future. Accordingly, the modified accrual basis of accounting that measures these cash flows is used. In the case of The Board of Education of Allegany County, open encumbrances are excluded from expenditures in all funds, except for the restricted General Fund, and the State of Maryland's contribution to the Teacher's Retirement System is added to revenue and expenditures.

Budgetary presentation of individual fund financial information, utilizing the current financial resources measurement focus and the budgetary basis of accounting, is presented as part of the Fund Financial Statements as well. In these statements, available cash flows of the School System itself are measured, as well as the commitment to acquire goods or services with that cash.

This is the legal basis upon which the budget is adopted so budget comparisons are provided. GASB Statement Number 34 requires that we present the original adopted budget, as well as the final budget and discuss the changes between them.

	School System-wide Statements	Fund Statements	Budgetary Fund Statements
Measurement Focus	Economic Resources	Current Financial Resources	Current Financial Resources
Basis of Accounting	Accrual	Modified Accrual	Cash and Commitments
Budget	No	No	Yes

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

Fiduciary Responsibility - School Activity Fund and Retiree Insurance Benefit Plan

The School System is the trustee, or fiduciary, for two fiduciary funds: the School Activity Fund and the Retiree Insurance Benefit Plan Fund. These funds are reported as separate Agency

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Funds. We exclude these activities from The Board of Education of Allegany County's other financial statements because the assets cannot be used to finance the School System's activities. We are responsible for ensuring that the assets reported in the School Activity Fund and Retiree Insurance Benefit Plan Fund, are used for their intended purpose.

During the fiscal year ending June 30, 2006, the School System's net assets increased by \$9,106,975. The increase in net assets is mainly attributed to revenues from the State of Maryland and related to the construction in process of building a new high school.

The unrestricted portion of net assets at June 30, 2006, of \$1,998,311 is the result of combining the unreserved fund balances of the Governmental Funds with the unreserved fund balances of the Business-type Activities.

We are committed by employee agreements to pay most employees at retirement their earned, unused sick leave up to 140 days at \$30 per day. The long-term portion of unused sick leave is \$2,589,838 and is the amount we expect to pay beyond June 30, 2007. Historically, this liability was funded on a "pay as you go" basis from available current financial resources. This method is expected to continue.

	Total Cost of Services			Net Cost of Services		
	June 30, 2006	June 30, 2005	% Change	June 30, 2006	June 30, 2005	% Change
Administration	\$ 2,025,075	\$ 1,875,146	8.00%	\$ 1,891,426	\$ 1,803,433	4.88%
Mid-level administration	5,348,065	4,719,661	13.31%	5,177,991	4,538,555	14.09%
Instruction(regular and special education)	54,851,148	51,562,884	6.38%	46,244,680	42,592,287	8.58%
Student personnel and health services	1,110,986	981,622	13.18%	1,004,126	883,122	13.70%
Student transportation	5,063,369	4,838,322	4.65%	4,985,660	4,781,281	4.27%
Operation, maintenance and capital outlay	8,048,735	7,709,596	4.40%	(4,808,406)	6,279,366	-176.57%
Fixed charges	22,712,750	19,794,020	14.75%	16,236,258	13,609,716	19.30%
Food service	5,051,194	4,633,013	9.03%	638,166	292,402	118.25%
Depreciation & other	3,399,284	3,388,241	0.33%	3,399,284	3,388,241	0.33%
Total	\$ 107,610,606	\$ 99,502,505	8.15%	\$ 74,769,185	\$ 78,168,403	-4.35%

Results of operations for the School System as a whole are presented in the Statement of Activities. The cost of all governmental activities was \$107,610,606. Users of the School System's programs in the amount of \$1,994,553 financed some of this cost. Grants and contributions from Federal and State governments for certain programs were \$30,846,868. This left a net cost of services of \$74,769,185.

The School System is fiscally dependent on local and state aid to fund its daily operations. Over 70% of the School System's Governmental Activities comes from these sources. State aid is largely formula-driven based on student population and wealth. Local revenue, provided by the Allegany County Government, is dependent upon the economic condition of the County. Most of the operating and capital grant funding is from the State and County governments and Federal grants passing through the State. These operating and capital grants represent over 25% of the School System's funding.

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Maryland**

**Management's Discussion and Analysis (MD&A)
June 30, 2006**

Condensed Statement of Net Assets

	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2006	June 30, 2005	\$ Change	% Change	June 30, 2006	June 30, 2005	\$ Change	% Change	June 30, 2006	June 30, 2005	\$ Change	% Change
Current and other assets	\$ 23,836,744	\$ 17,740,100	\$ 6,096,644	34.37%	\$ 152,913	\$ 104,217	\$ 48,696	46.73%	\$ 23,989,657	\$ 17,844,317	\$ 6,145,340	34.44%
Capital assets	65,199,344	54,109,748	11,089,596	20.49%	153,476	3,048,585	(2,895,109)	-94.97%	65,352,820	57,158,333	8,194,487	14.34%
Total Assets	\$ 89,036,088	\$ 71,849,848	\$ 17,186,240	23.92%	\$ 306,389	\$ 3,152,802	\$ (2,846,413)	-90.28%	\$ 89,342,477	\$ 75,002,650	\$ 14,339,827	19.12%
Current and other liabilities	\$ 17,735,427	\$ 12,594,650	\$ 5,140,777	40.82%	\$ 13	\$ 669	\$ (656)	-98.06%	\$ 17,735,440	\$ 12,595,319	\$ 5,140,121	40.81%
Long-term liabilities	2,589,838	2,497,107	92,731	3.71%					2,589,838	2,497,107	92,731	3.71%
Total Liabilities	\$ 20,325,265	\$ 15,091,757	\$ 5,233,508	34.68%	\$ 13	\$ 669	\$ (656)	-98.06%	\$ 20,325,278	\$ 15,092,426	\$ 5,232,852	34.67%
Net assets:												
Invested in capital assets, net of related debt	\$ 65,199,344	\$ 54,109,748	\$ 11,089,596	20.49%	\$ 153,476	\$ 3,048,585	\$ (2,895,109)	-94.97%	\$ 65,352,820	\$ 57,158,333	\$ 8,194,487	14.34%
Restricted	1,666,068	1,943,792	(277,724)	-14.29%					1,666,068	1,943,792	(277,724)	-14.29%
Unrestricted	1,845,411	704,551	1,140,860	161.93%	152,900	103,548	49,352	47.66%	1,998,311	808,099	1,190,212	147.29%
Total Net Assets	\$ 68,710,823	\$ 56,758,091	\$ 11,952,732	21.06%	\$ 306,376	\$ 3,152,133	\$ (2,845,757)	-90.28%	\$ 69,017,199	\$ 59,910,224	\$ 9,106,975	15.20%

Changes in Net Assets from Operating Results

	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2006	June 30, 2005	\$ Change	% Change	June 30, 2006	June 30, 2005	\$ Change	% Change	June 30, 2006	June 30, 2005	\$ Change	% Change
Program revenues:												
Charges for services	\$ 1,994,553	\$ 1,878,133	\$ 116,420	6.20%	\$ 680,641	\$ 1,031,133	\$ (350,492)	-33.99%	\$ 2,675,194	\$ 2,909,266	\$ (234,072)	-8.05%
Operating grants and contributions	17,858,850	17,980,675	(121,825)	-0.68%					17,858,850	17,980,675	(121,825)	-0.68%
Capital grants and contributions	12,988,018	1,475,294	11,512,724	780.37%					12,988,018	1,475,294	11,512,724	780.37%
General revenues:												
County government	26,630,000	25,630,000	1,000,000	3.90%					26,630,000	25,630,000	1,000,000	3.90%
Grants and contributions(unrestricted)	59,326,500	50,326,963	8,999,537	17.88%					59,326,500	50,326,963	8,999,537	17.88%
Other	765,417	925,108	(159,691)	-17.26%	20,450	20,790	(340)	-1.64%	785,867	945,898	(160,031)	-16.92%
Total Revenues	\$ 119,663,338	\$ 98,216,173	\$ 21,347,165	21.73%	\$ 701,091	\$ 1,051,923	\$ (350,832)	-33.36%	\$ 120,264,429	\$ 99,268,096	\$ 20,996,333	21.15%
Administration	\$ 2,025,075	1,875,146	149,929	8.00%					2,025,075	1,875,146	149,929	8.00%
Mid-level administration	5,348,065	4,719,661	628,404	13.31%					5,348,065	4,719,661	628,404	13.31%
Instruction(regular and special education)	54,851,148	51,562,884	3,288,264	6.38%					54,851,148	51,562,884	3,288,264	6.38%
Student personnel and health services	1,110,986	981,622	129,364	13.18%					1,110,986	981,622	129,364	13.18%
Student transportation	5,063,369	4,838,322	225,047	4.65%					5,063,369	4,838,322	225,047	4.65%
Operation, maintenance and capital outlay	8,048,735	7,709,596	339,139	4.40%					8,048,735	7,709,596	339,139	4.40%
Fixed charges	22,712,750	19,794,020	2,918,730	14.75%					22,712,750	19,794,020	2,918,730	14.75%
Food service	5,051,194	4,633,013	418,181	9.03%					5,051,194	4,633,013	418,181	9.03%
Depreciation & other	3,399,284	3,388,241	11,043	0.33%	646,317	1,141,019	(494,702)	-43.36%	4,045,601	4,529,260	(483,659)	-10.68%
Total Expenses	\$ 107,610,806	\$ 99,502,505	\$ 8,108,101	8.15%	\$ 646,317	\$ 1,141,019	\$ (494,702)	-43.36%	\$ 108,256,923	\$ 100,643,524	\$ 7,613,399	7.56%
Increase(decrease) in Net Assets	\$ 11,952,732	\$ (1,286,332)	\$ 13,239,064	1029.21%	\$ 54,774	\$ (89,096)	\$ 143,870	161.48%	\$ 12,007,506	\$ (1,375,428)	\$ 13,382,934	973.00%

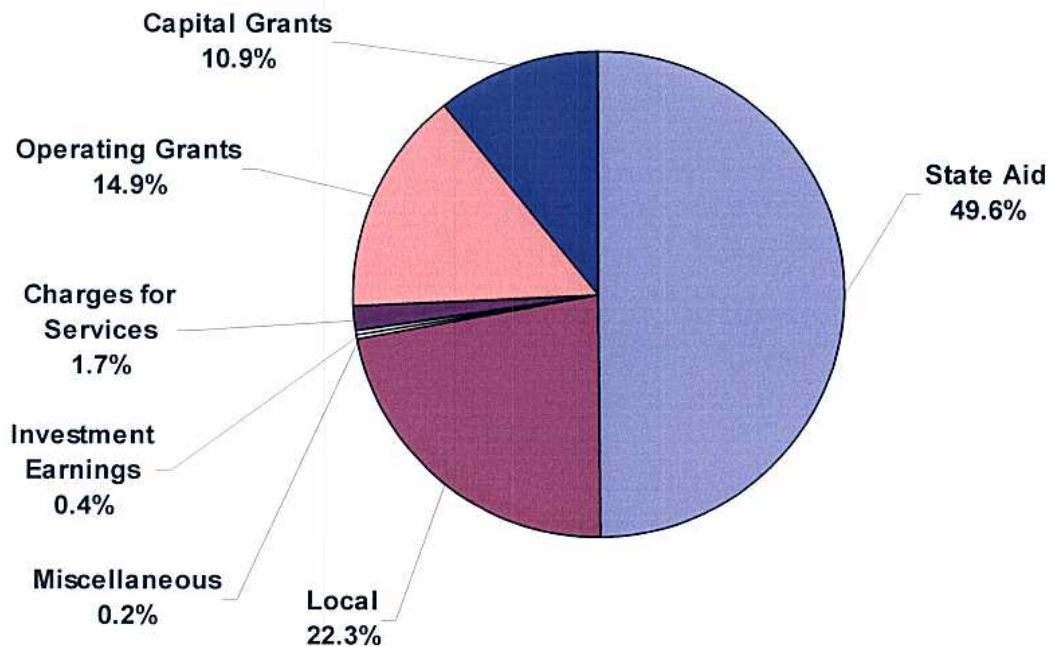
THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2006

General (Current Expense) Budgetary Highlights

The Current Expense Fund operates under a legally adopted annual budget. The budget is subdivided into State mandated categories of expenditures. The categories are Administration, Mid-level Administration, Instructional Salaries, Textbooks and Instructional Supplies, Other Instructional Costs, Special Education, Student Personnel Services, Student Health Services, Student Transportation, Operation of Plant, Maintenance of Plant, Fixed Charges, Community Services, Food Services, and Capital Outlay. The legal level of budgetary control is at the category level.

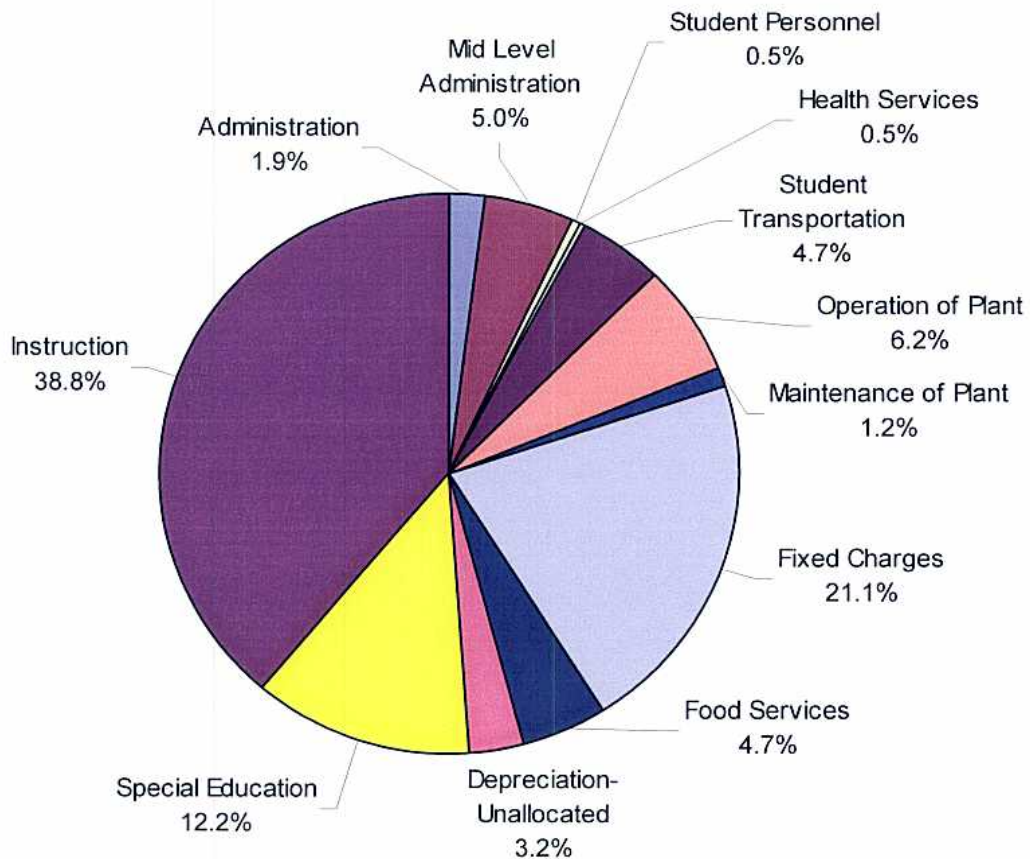
**Source of Revenues Governmental Funds
June 30, 2006**



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Governmental Fund Expenses
June 30, 2006



Fund Performance

Funds are self-balancing sets of accounts used by the School System to control and manage money for particular purposes. As pointed out earlier, fund information is presented in three ways to satisfy specific purposes.

General Fund - Unrestricted

A schedule of changes between the original and final budgets for the year ending June 30, 2006 support the list presented below. The net change resulted in a \$300,000 increase.

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	Original Budget	Final Budget	Additions	Reductions	Total Change
County Appropriation	\$ 26,630,000	\$ 26,630,000	\$	\$	\$
State	59,290,084	59,290,084			
Local	360,254	360,254			
Earnings on investments	190,000	190,000			
Other Sources	1,000	1,000			
Prior year's fund balance	223,000	523,000	300,000		300,000
Total Revenues	\$ 86,694,338	\$ 86,994,338	\$ 300,000	\$	\$ 300,000
Administration	\$ 1,881,531	\$ 1,880,031	\$	\$ 1,500	\$ (1,500)
Mid-Level Administration	5,275,103	5,249,273		25,830	(25,830)
Instructional Salaries	33,867,716	33,838,406	25,830	55,140	(29,310)
Textbooks	1,987,414	1,883,996	24,082	127,500	(103,418)
Other Instructional Costs	1,203,607	1,379,725	200,200	24,082	176,118
Special Educaiton	9,857,328	9,857,328			
Student Personnel Services	525,259	525,259			
Student Health Services	508,271	508,271			
Student Transportation	5,060,479	5,060,479			
Operation of Plant	7,126,582	7,126,582			
Maintenance of Plant	1,411,805	1,411,805			
Fixed Charges	17,004,901	16,988,841		16,060	(16,060)
Food Services	602,100	602,100			
Capital Outlay	382,242	682,242	300,000		300,000
Total Expenditures	\$ 86,694,338	\$ 86,994,338	\$ 550,112	\$ 250,112	\$ 300,000

It is critical for the reader to understand that local and state revenues account for over 99% of the total General Fund unrestricted revenue. Both are stable and highly predictable.

Revenues:

For the year ended June 30, 2006, total unrestricted general fund revenues were \$4,550,161 over budget. This is a positive variance.

The State of Maryland makes payments on behalf of the School System for retirement that are made directly to the State Retirement and Pension System of Maryland and are not budgeted by the School System because the amounts are unknown until the end of the fiscal year. Because the actual payments made by the State are reported in the financial statements, a material positive budget variance in the amount of \$4,323,423 resulted.

Special Education private placement revenue resulted in a positive variance in the amount of \$36,416. Investment interest rates continued to rise during FY06. This continued increase, coupled with a different mix of investment options resulted in a favorable interest income variance of \$282,469. Other revenues fell short of budget amounts creating an unfavorable variance in the amount of \$92,147.

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Expenditures and Inter-fund transfers:

For the year ended June 30, 2006, total unrestricted general fund expenditures and inter-fund transfers were \$2,925,433 over budget. This is a negative variance.

As discussed earlier, the State of Maryland makes payments on behalf of the School System for retirement that are made directly to the State Retirement and Pension System of Maryland and are not budgeted by the School System because the amounts are unknown until the end of the fiscal year. Because the actual payments made by the State are reported in the financial statements, a material negative budget variance in the amount of \$4,323,423 resulted. This negative budget variance offsets the corresponding identical, but positive, variance in the revenue section of the unrestricted general fund.

Lower health care costs and FICA expense gave rise to a positive variance in the amount of \$275,514. Restricted programs absorbed \$391,161 of locally budgeted costs creating a favorable variance. Savings from operations due to position realignment resulted in a favorable variance of \$311,063. Savings due to a staffing realignment resulted in a favorable variance of \$245,000. The continuation of increasing fuel costs resulted in an unfavorable utility cost variance of \$224,539. However, the system implemented an energy management program that has achieved over \$2 million in cost avoidance savings. This program has been successful with the volatility of energy prices. The system will continue to fund the energy manager position in order to achieve future savings in energy. Other expenditure accounts were under budget and gave rise to a favorable variance in the amount of \$399,791.

Below is a table listing positive and negative budget variances for the year ended June 30, 2006 as a supplement to the narrative discussion of budget variances.

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Unrestricted General Fund Budget to Actual Variances

Budget variance descriptions:	Positive (Negative)
Revenues:	
Direct payment by State for retirement costs	\$ 4,323,423
Increase of investment revenues	282,469
Special Education private placements	36,416
Other revenue variances	<u>(92,147)</u>
Total Revenue variances	\$ 4,550,161
Expenditures and Interfund transfers:	
Direct payment by state for retirement costs	\$ (4,323,423)
Favorable experience in health care costs	166,542
Property loss claims lower than normal	19,764
Savings in fixed charges (FICA)	108,972
Savings in building & liability insurance	59,498
Savings in legal fees, other Board of Ed expenses and postage	20,426
Salaries absorbed by grants and restricted carryover funds	60,157
Salaries savings due to staffing realignment	245,000
Savings due to grants absorbing more local salary costs	331,004
Other instructional contracted services less than budgeted	147,816
Savings on transportation costs	28,531
Savings from operations due to position realignment	311,063
Unfavorable experience in utility costs	(224,539)
Savings from maintenance staffing	41,008
Staff Development/Curriculum Revision savings	116,216
Additional costs of Special Education	(227,727)
Other expenditure variances	<u>194,259</u>
Total Expenditures and Interfund transfers variances	<u>(2,925,433)</u>
Total positive variance - unrestricted general fund	<u>\$ 1,624,728</u>

Capital Asset and Debt Administration

At June 30, 2006, the School System had \$134,937,966 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$11,371,440 from the same time last year net of disposals. The total net cost of assets after depreciation was \$65,352,820. Total depreciation expense for the year ended June 30, 2006 was \$3,778,993.

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Management's Discussion and Analysis (MD&A)
June 30, 2006

Declining enrollments lead the system to consolidate two high schools into one. In August 2007, Mt. Ridge High School will open and be the first newly constructed high school in over 50 years in Allegany County. The final cost of the facility is estimated to be in excess of \$40 million dollars.

The system has also embarked on a \$10 million fundraising effort to renovate and upgrade athletic fields at high school campuses. The system hopes to raise money with private donations and will offer naming rights of the facilities and parts of the facilities to encourage such donations.

School systems in Maryland are in the uncommon position of owning assets, but not the debt associated with those assets. We are fully fiscally dependent on the state and county governments to incur debt to fund capital projects. Accordingly, the School System carries no bond rating and has no debt policy.

Factors Impacting the School System

Beginning with FY 2003, the State government enacted the Bridge to Excellence in Public Schools Act (the Act). The Act provides increased funding to all public schools. Increases were received in FY 2003 through FY2006 under this Act with larger increases scheduled for FY2007 and FY2008 as the initiative reaches full funding levels. Beginning with FY 2004, the Act also unrestricted many of the funding components that were previously categorical restricted funds to provide flexibility in improving student performance. As long as Allegany County Schools has a declining enrollment, some of the additional state funds will be reduced due to declining enrollment.

The Master Plan for Allegany County Public Schools, required under the Act, provides a five-year action plan to guide the school system in preparing students to be contributing members of a democratic society. The plan directs the use of current and new State, Federal, and local funds to eliminate achievement gaps among subgroups of students and to challenge each student to higher academic levels. The plan organizes and aligns research-based practices, instructional services, professional development, and resource distribution to guide the Allegany County Public Schools. Budgets are now linked to Master Plan strategies.

The State's Bridge to Excellence in Public Schools and the Federal No Child Left Behind Acts established certain requirements for public school systems. These requirements include, but are not limited to: all students in core academic subjects are taught by "highly qualified" teachers by fiscal year 2005-2006, all students must reach proficiency levels on State assessments by 2014, all economically disadvantaged children must have access to a pre-kindergarten program by 2007-2008, new certification and assessment requirements for paraprofessionals, and extensive tracking and reporting requirements. All of these new requirements have significant potential cost impacts associated with them.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2006

The Board of Education has entered into a three year labor agreement with all bargaining units. The teachers' group will receive the largest increase which amounts to twenty percent over a three year period. The structure of the teachers' salary scales was substantially revised to reflect a more attractive beginning salary and to recognize the value to the school system of the teachers' holding master's degrees. Approximately one half of teachers in the system have a master's degree. This was done to retain and attract quality teachers. Allegany County ranks near the bottom in teacher salaries state wide because Allegany County is a rural county and higher salaries can be attained in the metropolitan Washington / Baltimore corridor. Nonetheless, we view teacher salaries as competitive for entering the profession as compared to other professions requiring a four year degree.

Contacting the Board of Education of Allegany County's Financial Management

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the School System's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Randall P. Bittinger, Director of Finance, (301) 759-2024, boardfinance@allconet.org, at The Board of Education of Allegany County, 108 Washington Street, Cumberland, Maryland 21502.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 8,017,581	\$ -	\$ 8,017,581
Investments	5,495,250		5,495,250
Accounts receivable	10,189,544		10,189,544
Accrued interest receivable	51,408		51,408
Inventory	235,874		235,874
Internal balances	(152,913)	152,913	-
Total Current Assets	<u>23,836,744</u>	<u>152,913</u>	<u>23,989,657</u>
Noncurrent Assets:			
Non-depreciable capital assets	16,194,264		16,194,264
Depreciable capital assets, net of depreciation	49,005,080	153,476	49,158,556
Total Noncurrent Assets	<u>65,199,344</u>	<u>153,476</u>	<u>65,352,820</u>
TOTAL ASSETS	<u>89,036,088</u>	<u>306,389</u>	<u>89,342,477</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	7,962,895	13	7,962,908
Salaries and benefits payable	670,498		670,498
Deferred revenues	1,247,050		1,247,050
Accrued hospital insurance	6,176,545		6,176,545
Current portion of long-term debt	110,488		110,488
Other current liabilities	1,567,951		1,567,951
Total Current Liabilities	<u>17,735,427</u>	<u>13</u>	<u>17,735,440</u>
Noncurrent Liabilities:			
Long-term portion of compensated absences	2,589,838		2,589,838
TOTAL LIABILITIES	<u>20,325,265</u>	<u>13</u>	<u>20,325,278</u>
NET ASSETS			
Invested in capital assets, net of related debt	65,199,344	153,476	65,352,820
Restricted for:			
Capital projects	1,430,194		1,430,194
Food inventories	235,874		235,874
Unrestricted (deficit)	1,845,411	152,900	1,998,311
TOTAL NET ASSETS	<u>68,710,823</u>	<u>306,376</u>	<u>69,017,199</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 89,036,088</u>	<u>\$ 306,389</u>	<u>\$ 89,342,477</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental activities:							
Administration	\$ 2,025,075	\$ -	\$ 124,831	\$ 8,818	\$ (1,891,426)	\$ -	\$ (1,891,426)
Mid-level administration	5,348,065		170,074		(5,177,991)		(5,177,991)
Instruction - salaries	37,176,290		3,821,157		(33,355,133)		(33,355,133)
Instruction - textbooks & instructional supplies	2,391,158		658,888		(1,732,270)		(1,732,270)
Instruction - other	2,137,356		1,023,773	37,694	(1,075,889)		(1,075,889)
Student personnel services	557,410		56,312		(501,098)		(501,098)
Health services	553,576		50,548		(503,028)		(503,028)
Student transportation	5,063,369		77,709		(4,985,660)		(4,985,660)
Operation of plant and equipment	6,718,471		2,054		(6,716,417)		(6,716,417)
Maintenance of plant	1,276,843				(1,276,843)		(1,276,843)
Fixed charges - direct	18,389,327		2,153,069		(16,236,258)		(16,236,258)
- on-behalf payments	4,323,423		4,323,423		-		-
Capital outlay	53,421		2,502	12,852,585	12,801,666		12,801,666
Special education	13,146,344		3,061,289	3,667	(10,081,388)		(10,081,388)
Food Service	5,051,194	1,994,553	2,333,221	85,254	(638,166)		(638,166)
Unallocated depreciation expense	3,399,284				(3,399,284)		(3,399,284)
Total Governmental Activities	107,610,606	1,994,553	17,858,850	12,988,018	(74,769,185)		(74,769,185)
Business-type activities:							
ALLCONET	62,602	47,244				(15,358)	(15,358)
Information Technology	583,715	633,397				49,682	49,682
Total Primary Government	\$ 108,256,923	\$ 2,675,194	\$ 17,858,850	\$ 12,988,018	(74,769,185)	34,324	(74,734,861)
General Revenues:							
County appropriation:							
Regular					26,630,000		26,630,000
Grants, subsidies, and contributions not restricted					59,326,500		59,326,500
Investment earnings					478,227		478,227
Miscellaneous income					293,792	20,450	314,242
Loss on disposal of fixed assets					(6,602)		(6,602)
Total General Revenues, Special Items, Extraordinary Items and Transfers					86,721,917	20,450	86,742,367
Change in Net Assets					11,952,732	54,774	12,007,506
Net Assets - July 1, 2005					56,758,091	3,152,133	59,910,224
Transfer of fixed assets to County						(2,900,531)	(2,900,531)
Net Assets - June 30, 2006					\$ 68,710,823	\$ 306,376	\$ 69,017,199

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 6,898,912	\$ -	\$ 593,192	\$ 525,477	\$ 8,017,581
Investments	5,495,250				5,495,250
Accounts receivable	4,576,414	1,007,873	135,030	4,470,227	10,189,544
Inventory - food			235,874		235,874
Internal receivables		455,569		643,678	1,099,247
TOTAL ASSETS	<u>16,970,576</u>	<u>1,463,442</u>	<u>964,096</u>	<u>5,639,382</u>	<u>25,037,496</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	930,409	143,337	80,186	3,889,865	5,043,797
Salaries and benefits payable	573,132	79,238	18,128		670,498
Internal payables	3,749,715		421,543		4,171,258
Deferred revenues	122,815	1,240,867	6,183		1,369,865
Accrued hospital insurance	6,176,545				6,176,545
Current portion of long-term debt	110,488				110,488
Other current liabilities	1,567,951				1,567,951
TOTAL LIABILITIES	<u>13,231,055</u>	<u>1,463,442</u>	<u>526,040</u>	<u>3,889,865</u>	<u>19,110,402</u>
FUND BALANCES					
Reserved for food inventories			235,874		235,874
Reserved for capital projects				1,430,194	1,430,194
Unreserved - designated for unemployment benefits	50,000				50,000
Unreserved - designated for Mountain Ridge High School	400,000				400,000
Unreserved - designated for year ended June 30, 2007	400,000				400,000
Unreserved - designated for equipment			75,000		75,000
Unreserved - undesignated					
General Fund	2,889,521				2,889,521
Special Revenue Fund - Food Service			127,182		127,182
Capital Projects Fund				319,323	319,323
TOTAL FUND BALANCES	<u>3,739,521</u>	<u>-</u>	<u>438,056</u>	<u>1,749,517</u>	<u>5,927,094</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 16,970,576</u>	<u>\$ 1,463,442</u>	<u>\$ 964,096</u>	<u>\$ 5,639,382</u>	<u>\$ 25,037,496</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2006

Total Fund Balances - Governmental Funds \$ 5,927,094

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

Accrued interest receivable is not reported in governmental funds. However, in the statement of financial position, interest income is accrued as earned through the financial position date. The amount of accrued interest receivable is \$51,408. 51,408

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$134,399,412 and the accumulated depreciation is \$69,200,068. 65,199,344

Accounts receivable from Medicare D revenue that do not provide current financial resources are reported as deferred revenue in the governmental funds 122,815

Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of compensated absences. (2,589,838)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 68,710,823

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
REVENUES					
County - regular appropriation - bond proceeds	\$ 26,630,000	\$ 9,036	\$ -	\$ 332,470 62,115	\$ 26,971,506 62,115
State - direct - on behalf, retirement	59,326,500 4,323,423	1,154,924	141,535	12,458,000	73,080,959 4,323,423
Federal - direct - received through State - received through Pass-Thru Agency		117,431 9,405,942 167,508	211,082 2,065,858		328,513 11,471,800 167,508
Other revenue	741,576	210,843	2,020,121	25,688	2,998,228
TOTAL REVENUES	<u>91,021,499</u>	<u>11,065,684</u>	<u>4,438,596</u>	<u>12,878,273</u>	<u>119,404,052</u>
EXPENDITURES					
Administration	1,931,194	58,649			1,989,843
Mid-level administration	5,181,897	170,074			5,351,971
Instruction - salaries	33,262,402	3,821,157			37,083,559
Instruction - textbooks & instructional supplies	1,732,270	658,888			2,391,158
Instruction - other	1,185,565	1,061,467			2,247,032
Student personnel services	501,098	56,312			557,410
Health services	503,028	50,548			553,576
Student transportation	5,031,946	77,709			5,109,655
Operation of plant and equipment	6,988,574	2,054			6,990,628
Maintenance of plant	1,256,911				1,256,911
Fixed charges - direct	15,633,304	2,030,254			17,663,558
- on-behalf payments	4,323,423				4,323,423
Capital outlay	216,347	2,502		13,872,648	14,091,497
Special education	10,085,055	3,064,956			13,150,011
Food Service			5,125,444		5,125,444
TOTAL EXPENDITURES	<u>87,833,014</u>	<u>11,054,570</u>	<u>5,125,444</u>	<u>13,872,648</u>	<u>117,885,676</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,188,485</u>	<u>11,114</u>	<u>(686,848)</u>	<u>(994,375)</u>	<u>1,518,376</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers	(2,086,757)	(75,000)	677,100	755,800	(728,857)
Intrafund transfers		63,886			63,886
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,086,757)</u>	<u>(11,114)</u>	<u>677,100</u>	<u>755,800</u>	<u>(664,971)</u>
NET CHANGE IN FUND BALANCES	1,101,728	-	(9,748)	(238,575)	853,405
FUND BALANCE - JULY 1, 2005	<u>2,637,793</u>		<u>447,804</u>	<u>1,988,092</u>	<u>5,073,689</u>
FUND BALANCE - JUNE 30, 2006	<u>\$ 3,739,521</u>	<u>\$ -</u>	<u>\$ 438,056</u>	<u>\$ 1,749,517</u>	<u>\$ 5,927,094</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

**RECONCILIATION OF THE GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Total Net Change in Fund Balance - Governmental Funds \$ 853,405

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

Accrued interest is not reported in governmental funds as income. However, in the statement of activities, the accrued interest income is reported as current income. The net amount of accrued interest receivable is an decrease of \$20,353. (20,353)

Long-term accrued compensated absences are not reported in governmental funds as a liability. However, in the statement of activities, the long-term absences are reported as current expense. The net amount of long term accrued compensated absences is a increase of \$92,731. (92,731)

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the period.

	Depreciation expense	3,740,708	
	Capital Outlays	<u>14,837,364</u>	
			11,096,656

Some revenues reported in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds. The net amount of difference is \$122,815. 122,815

Governmental funds report the proceeds from the sale of capital assets as income. However, in the statement of activities the sale of capital assets are reported net of the remaining book value of the assets as either a gain or loss. The remaining book value of assets disposed of during the year was \$7,060. (7,060)

TOTAL CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 11,952,732

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2006

	<u>Information Technology Fund</u>	<u>Allconet Fund</u>	<u>Total</u>
ASSETS			
Current Assets:			
Internal receivables	\$ 190,266	\$ -	\$ 190,266
Total Current Assets	<u>190,266</u>	<u>-</u>	<u>190,266</u>
Noncurrent Assets:			
Machinery and equipment, net of depreciation	80,603	72,873	153,476
Total Noncurrent Assets	<u>80,603</u>	<u>72,873</u>	<u>153,476</u>
TOTAL ASSETS	<u><u>270,869</u></u>	<u><u>72,873</u></u>	<u><u>343,742</u></u>
LIABILITIES			
Current Liabilities:			
Accounts payable	13		13
Due to other funds		37,353	37,353
Total Current Liabilities	<u>13</u>	<u>37,353</u>	<u>37,366</u>
TOTAL LIABILITIES	<u>13</u>	<u>37,353</u>	<u>37,366</u>
NET ASSETS			
Invested in capital assets, net of related debt	80,603	72,873	153,476
Unrestricted	190,253	(37,353)	152,900
TOTAL NET ASSETS	<u>270,856</u>	<u>35,520</u>	<u>306,376</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 270,869</u></u>	<u><u>\$ 72,873</u></u>	<u><u>\$ 343,742</u></u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Information Technology Fund</u>	<u>Allconet Fund</u>	<u>Total</u>
OPERATING REVENUES			
County - regular appropriation	\$ 294,847	\$ -	\$ 294,847
- special appropriation	43,703		43,703
Other sources		47,244	47,244
Total Operating Revenues	<u>338,550</u>	<u>47,244</u>	<u>385,794</u>
OPERATING EXPENSES			
Salaries and wages	387,666		387,666
Contracted services	49,426	32,932	82,358
Supplies and materials	8,125		8,125
Other charges	110,010		110,010
Equipment replacement	245	19,629	19,874
Depreciation	28,243	10,041	38,284
Total Operating Expenses	<u>583,715</u>	<u>62,602</u>	<u>646,317</u>
Operating Income (Loss)	(245,165)	(15,358)	(260,523)
NON-OPERATING REVENUE			
Transfers	294,847		294,847
Other revenue	20,450		20,450
Total Non-operating Revenues	<u>315,297</u>	<u>-</u>	<u>315,297</u>
Change in Net Assets	70,132	(15,358)	54,774
TOTAL NET ASSETS - JULY 1, 2005	200,724	2,951,409	3,152,133
Transfer of fixed assets to County		(2,900,531)	(2,900,531)
TOTAL NET ASSETS - JUNE 30, 2006	<u>\$ 270,856</u>	<u>\$ 35,520</u>	<u>\$ 306,376</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Information Technology Fund</u>	<u>Allconet Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 359,305	\$ 108,201
Cash received from quasi-external operation transactions with other funds	239,859	325,320
Cash paid to suppliers	(167,795)	(433,521)
Cash payments to employees	<u>(387,666)</u>	<u></u>
Net Cash Provided by Operating Activities	<u>43,703</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of equipment	<u>(43,703)</u>	<u></u>
Net Cash Used in Capital and Related Financing Activities	<u>(43,703)</u>	<u>-</u>
Net change in Cash	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 70,132	\$ (15,358)
Adjustments to reconcile change in nets assets to net cash provided by operations:		
Depreciation	28,243	10,041
Change in assets and liabilities		
Decrease (increase) in account receivable	305	60,957
Decrease in due from other funds	(54,990)	(54,972)
Increase (decrease) in accounts payable	13	(668)
Total Adjustments	<u>(26,429)</u>	<u>15,358</u>
Net Cash Provided by Operating Activities	<u>\$ 43,703</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2006

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Total Fiduciary Funds</u>
ASSETS			
Cash and cash equivalents	\$ 990,540	\$ -	\$ 990,540
Investments	625,342		625,342
Accounts receivable	10,542		10,542
Internal receivables		2,919,097	2,919,097
TOTAL ASSETS	<u>1,626,424</u>	<u>2,919,097</u>	<u>4,545,521</u>
LIABILITIES			
Accounts payable	43,151	361	43,512
NET ASSETS			
Designated for school activities	1,583,273		1,583,273
Designated for future retiree benefits		2,918,736	2,918,736
TOTAL NET ASSETS	<u>1,583,273</u>	<u>2,918,736</u>	<u>4,502,009</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,626,424</u>	<u>\$ 2,919,097</u>	<u>\$ 4,545,521</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Total Fiduciary Funds</u>
ADDITIONS			
Student activity revenues	\$ 2,878,796	\$ -	\$ 2,878,796
Transfers		728,857	728,857
Earnings on investment		102,618	102,618
DEDUCTIONS			
Student activity expenses	2,860,855		2,860,855
Retiree benefits		358,018	358,018
Other		1,041	1,041
	<u>17,941</u>	<u>472,416</u>	<u>490,357</u>
CHANGE IN NETS ASSETS			
NET ASSETS - JULY 1, 2005	<u>1,565,332</u>	<u>2,446,320</u>	<u>4,011,652</u>
NET ASSETS - JUNE 30, 2006	<u>\$ 1,583,273</u>	<u>\$ 2,918,736</u>	<u>\$ 4,502,009</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - REPORTING ENTITY

The Board of Education of Allegany County, Maryland ("Board") is an elected group constituting an on-going entity which has governance responsibilities over all activities related to public elementary and secondary school education within its jurisdiction, Allegany County, Maryland ("County"). The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. The Board is included as a component unit of Allegany County, Maryland as defined in Generally Accepted Accounting Principles (GAAP) since the Board is fiscally dependent on Allegany County, Maryland. In evaluating how to define the Board, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Board is able to exercise oversight responsibilities. Based upon the application of these criteria, no potential component units were identified for inclusion in the reporting entity.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board have been prepared in conformity with GAAP as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Basis of Presentation

The Board's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Board that are governmental (primarily supported by County appropriations and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges).

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

The statement of net assets presents the financial condition of the governmental and business-type activities of the Board at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Board's governmental activities and for the single business-type activity of the Board. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Board. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Board.

Fund Financial Statements During the year, the Board segregates transactions related to certain Board functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Board at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each enterprise and governmental fund was a major fund and is presented in a separate column. Fiduciary funds are reported by type.

B. Fund Accounting

The accounts of the Board are organized on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues and expenses or expenditures. The following funds and account groups are used by the Board:

Governmental Fund Types

Current Expense Fund - Unrestricted

The Current Expense Fund - Unrestricted is the general operating fund of the Board. All financial resources, except those required to be accounted for in another fund, are accounted for in this fund.

Current Expense Fund - Restricted and Food Service Fund

The Current Expense Fund - Restricted and Food Service Fund are special revenue funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. In the event an expenditure is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are used first.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

School Construction Fund

The School Construction Fund is a capital projects fund used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary funds.

Proprietary Fund Types

Information Technology Fund

The Information Technology Fund is an enterprise fund used to account for financing of services provided by the Information Technology Fund to other departments of the Board and to other governments within Allegany County.

Allconet Fund

The Allconet Fund is an enterprise fund used to account for financing of services provided by the Allconet Fund to departments of the Board, to other governments, and non-profits within Allegany County.

Fiduciary Fund Type

School Activities Fund

The School Activities Fund is an expendable trust fund used to account for assets held by the Board in a trustee capacity for various student groups.

Retiree Insurance Benefit Plan Fund

The Retiree Insurance Benefit Plan Fund is an expendable trust fund used to account for assets held by the Board in a trustee capacity for future retirees' medical expenses.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Board are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (e.g., revenues and other financing sources) and uses (e.g., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows provides information about how the Board finances and meets the cash flow needs of its enterprise fund.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

The modified accrual basis of accounting is used by all governmental fund types and the fiduciary fund type. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A six month availability period is used for revenue recognition for all governmental and fiduciary fund revenues. Expenditures are recorded when the related fund liability is incurred.

The proprietary fund is accounted for on a flow of economic resources measurement focus. The accrual basis of accounting is utilized by the proprietary fund type. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All GASB pronouncements are followed in the proprietary fund. FASB, APB Opinions and ARB's issued before November 30, 1989 are followed to the extent they do not contradict GASB. FASB pronouncements issued after November 30, 1989 that are developed for business entities are followed to the extent that they do not contradict GASB.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

The Board reports deferred revenue on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Board before it has a legal claim to them, as when grant monies are received prior to the incurring of qualifying expenditures. In subsequent periods, where both revenue recognition criteria are met or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

E. Budgets and Budgetary Accounting

Formal budgetary accounting is employed as a management control for all funds except the School Activities Fund. Annual operating budgets are adopted by the Board each fiscal year through passage of an annual budget and amended as required for all funds. Budget amendments requiring a change between categories requires approval by the Board and by the County. The budget is prepared using the same basis of accounting as is used to record actual revenues and expenditures/expenses, except in the Proprietary Fund Type and the Governmental Fund Type - School Construction Fund. The Proprietary Fund Type prepares its budget on the modified accrual basis but prepares its statements on the accrual basis. The Governmental Fund Type - School Construction Fund prepares its budget on the modified accrual basis but does not account for revenues from state committed funds for projects that have not begun. Budgetary control is exercised at the department level. Budgets presented in the financial statements reflect all amendments.

F. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the restricted governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

At June 30, 2006, \$ 1,430,194 of School Construction fund balance has been reserved to cover expected appropriations for specific construction projects. Expenditures in excess of total appropriations for a project are closed out against the unreserved portion of fund balance at the end of the project.

BOARD OF EDUCATION OF ALLEGANY COUNTY
NOTES TO FINANCIAL STATEMENTS

G. Post Retirement Health Care Benefits

The Board is reimbursed 100% by all retired employees that elect to continue coverage under their health care plan. In accordance with the Board of Education Policy Manual and the Health Care Insurance Contract, all employees covered at the time they retire can elect to continue their coverage at their own expense. The reimbursements the Board receives are netted with the premiums for the retirees. In 1992 and 2000, new policies were implemented to subsidize a portion of the retirees' health care costs. These policies are further described in Note 11.

H. Inventories

Materials, supplies, and textbooks purchased from Unrestricted and Restricted Current Expense Funds are not inventoried. Food Service Fund inventories consist of food and supplies located in the individual schools and in the central warehouse. Purchased food and supplies are valued at current cost. The value of donated food is determined from U.S. Department of Agriculture price lists. Inventory on hand at the end of the period is recorded as an asset and a corresponding reservation of the fund balance is made. The amount on hand as of June 30, 2006 is \$235,874.

I. Compensated Absences

Accumulated earned vacation time is accrued when incurred. At June 30, 2006, \$1,471,504 has been accrued and included in accrued expenditures and withholdings on the Fund Balance Sheet.

During the year ended June 30, 1994, the Board implemented the provisions of the Governmental Accounting Standards Board's Statement No. 16, Accounting for Compensated Absences. This statement requires the recording of accumulated unused sick leave if such amounts will be paid as termination benefits. At June 30, 2006, \$110,488 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,589,838 has been recorded in the government-wide statement of net assets. Total compensated absences increased in the current year by \$94,491 over the prior year total of \$2,605,835.

The Board only pays benefits to employees who terminate employment upon reaching the required retirement age or death. Benefits are not paid to employees who terminate prior to reaching their defined retirement age.

BOARD OF EDUCATIONS OF ALLEGANY COUNTY
NOTES TO FINANCIAL STATEMENTS

J. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

K. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances. Interfund balances have no set repayment schedule and are generally not expected to be repaid within one year.

L. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the enterprise fund are reported both in the business-type activities column of the government-wide statement of net assets and in the fund.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of three thousand dollars. The Board does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land	N/A	N/A
Buildings and Improvements	7-50 years	N/A
Furniture, Equipment, and Vehicles	5-20 years	5-20 years

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Board, these revenues are for services provided by the Information Technology and Allconet Funds to other entities within Allegany County. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

N. Statement of Cash Flows

For purposes of the statement of cash flows, the Information Technology and Allconet Funds consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

O. Credit Risk

As of June 30, 2006, the Board has recorded receivables from various governmental units. As these receivables are believed to be completely collectable, neither an allowance for doubtful accounts is not recorded, nor are the receivables collateralized.

P. Estimates

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

NOTE 3 - POSSIBLE FUTURE AUDIT ADJUSTMENTS OF REVENUE

Revenue is subject to periodic state or federal audits and possible future adjustments. Any adjustments resulting from such audits will be recorded in the year assessed.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance 6/30/05</u>	<u>Additions</u>	<u>Disposals and Transfers</u>	<u>Balance 6/30/06</u>
Governmental Activities				
Non-depreciable assets:				
Land	\$ 2,377,989	\$ 180,000	\$ -	\$ 2,557,989
Construction-in-progress	1,466,829	12,513,524	(344,078)	13,636,275
Total Non-depreciable assets	<u>3,844,818</u>	<u>12,693,524</u>	<u>(344,078)</u>	<u>16,194,264</u>
Depreciable assets:				
Land Improvements		33,125	43,886	77,011
Buildings and Improvements	108,596,572	1,553,978	(43,886)	110,106,664
Furniture, Equipment, and Vehicles	7,158,479	900,815	(37,821)	8,021,473
Total Depreciable assets	<u>115,755,051</u>	<u>2,487,918</u>	<u>(37,821)</u>	<u>118,205,148</u>
Less accumulated depreciation:				
Land Improvements		(3,102)	(1,594)	(4,696)
Buildings and Improvements	(60,384,819)	(3,269,266)	1,594	(63,652,491)
Furniture, Equipment, and Vehicles	(5,105,302)	(468,340)	30,761	(5,542,881)
Total accumulated depreciation	<u>(65,490,121)</u>	<u>(3,740,708)</u>	<u>30,761</u>	<u>(69,200,068)</u>
Total capital assets being depreciated	<u>50,264,930</u>	<u>(1,252,790)</u>	<u>(7,060)</u>	<u>49,005,080</u>
Governmental Activities Capital Assets, Net	<u>\$ 54,109,748</u>	<u>\$ 11,440,734</u>	<u>\$ (351,138)</u>	<u>\$ 65,199,344</u>
Business-Type Activities				
Furniture, Equipment, and Vehicles	\$ 3,966,657	\$ 43,703	\$ (3,471,806)	\$ 538,554
Less accumulated depreciation	(918,072)	(38,285)	571,279	(385,078)
Business-Type Activities Capital Assets, Net	<u>\$ 3,048,585</u>	<u>\$ 5,418</u>	<u>\$ (2,900,527)</u>	<u>\$ 153,476</u>

* Depreciation was charged to governmental functions as follows:

Administration	\$ 52,938
Student transportation	159,047
Operation of plant and equipment	9,774
Maintenance of plant	108,661
Food Service	11,004
Unallocated	3,399,284
Total Depreciation Expense	<u>\$ 3,740,708</u>

The insurance value of capital assets as of June 30, 2006 is \$311,571,741

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - FOOD SERVICE EXPENDITURES

Included in revenue and expenditures of the Food Service Fund is the value of USDA donated commodities used during the year of \$211,082. This amount includes the value of the donated commodities plus costs to process the commodities into useable form.

NOTE 6 - PENSION PLAN

Plan Description

The Board contributes to the State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland. SRPS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. That report may be obtained by writing to Maryland State Retirement and Pension System, 301 West Preston Street, Baltimore, Maryland 21502.

Funding Policy

Members of the retirement systems entering on or after July 1, 1973 are required to contribute 5% or 7%, based on personal election, of earnable compensation; members before that date contribute the lesser of 5% of earnable compensation or the percentage they were contributing prior to July 1, 1973.

Members of the contributory pension systems are required to make contributions of 2% of earnable compensation. The Board is required to contribute at an actuarially determined rate for individuals in the employee retirement system and the employee contributory pension system. The current rates are 12.22% and 7.22% respectively. The contribution requirements of plan members and the Board are established and may be amended by the SRPS Board of Trustees. The Board contributions to SRPS for the years ended June 30, 2006, 2005, 2004, 2003, and 2002 were \$758,376, \$792,988, \$641,390, \$746,408, and \$675,213, respectively, equal to the required contributions for each year.

During the year, the State of Maryland passed the Alternative Contributory Pension System (ACPS). The Board adopted the new plan effective July 1, 2006.

NOTE 7 - RELATED PARTIES

The Board is closely related to Allegany County and the State of Maryland, and is dependent on these two sources for the major portion of its current expense funding. The amounts received and receivable during the year are disclosed within the financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - CASH AND INVESTMENTS

Deposits

At June 30, 2006, the carrying amount of the Board's deposits was \$9,008,121 and the various bank balances were \$9,646,173. Of the bank balances, \$432,442 was covered by depository insurance and \$9,213,731 was covered by collateral held at various banks in the Board's name. Total market value of these pledged securities at June 30, 2006 was \$9,602,730.

Investments

The Board's investment practices are governed by the Annotated Code of the State of Maryland. The Annotated Code limits the Board's investment activity to certificates of deposit, money market funds, instruments of the U.S. Treasury, and repurchase agreements secured by U.S. Treasury and other federal securities.

All investment revenue is recorded in the fund that held the investments during the year.

Market values are not materially different from carrying values for these investments.

As of June 30, 2006, the Board's investments and maturities are as follows:

	Fair Value	Investment Maturity in Months			
		Less Than 1	1-6	6-12	More Than 12
U.S. Government Obligations	\$ 5,495,250	\$ -	\$2,495,250	\$1,000,000	\$2,000,000
Certificates of Deposit	625,342	-	169,486	124,786	331,070
Total	\$ 6,120,592	\$ -	\$2,664,736	\$1,124,786	\$2,331,070

Of the Board's investments in certificates of deposits, \$367,100 was covered by federal depository insurance and \$258,242 was uninsured but collateralized by securities held by the counterparty's trust department.

Interest Rate Risk - In accordance with its investment policy, the Board manages its exposure to declines in fair values arising from interest rates by limiting the maturity date of securities to no more than 2 years from the date of purchase, unless it is matched to a specific cash flow requirement.

Credit Risk - The Board's investment policy limits the investments of the portfolio to 5% of Bankers Acceptances, 5% to money market mutual funds, and 5% to commercial paper. The Board's investment policy complies with Maryland state law limits.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

Custodial Credit Risk – Deposits and investments are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-board's name. All of the Board's investments are covered by depository insurance and properly collateralized mitigating custodial credit risk.

NOTE 9 - ON-BEHALF PAYMENTS

The State of Maryland paid \$4,323,423 into the State Retirement and Pension System of Maryland on behalf of the Board. This amount has been recognized as revenue and expenditures in the statement of activities and the statement of revenues, expenditures and changes in fund balances.

In addition, the Board receives support in the form of "on-behalf spending" from the Allegany County Government. School nurses are provided to the Board through the Allegany County Health Department at a total cost of \$904,438 of which \$490,725 is paid by the Board and the remainder is funded by the Allegany County Government. The Board also received support from the Allegany County Government in the form of a sheriff's deputy at a cost to the County of \$33,510 for the DARE program which teaches drug awareness to students. The on-behalf spending by the County has not been recorded in these financial statements.

NOTE 10 - COMMITMENTS, CONTINGENCIES, RISKS, AND SUBSEQUENT EVENTS

The Board is exposed to risks of loss from lawsuits, medical and dental insurance claims, workers' compensation claims, and property damage claims. The Board manages its risks for these claims in various ways. Risks of loss arising from property damage and errors and omissions have been transferred to the Board's insurance carrier through the purchase of set premium insurance. The Board retains the risk of loss for medical and dental claims and has included \$6,176,545 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount increased by \$1,114,400 over the prior year amount of \$5,062,145, and was based on total claims paid of \$12,982,349 and \$11,965,375 for 2006 and 2005, respectively. The Board does not include any other incremental costs in its basis. The Board's insurance consultant had advised that the recorded liability is sufficient. The Board purchased stop-loss insurance, however, so that if an individual claim exceeds \$175,000, the insurance company will reimburse the Board for the excess. Effective July 1, 2006, this amount increased to \$200,000. The Board participates in the Maryland Association of Boards of Education's risk pool to manage the risks for workers' compensation claims. The Board pays an annual premium into the pool and may participate in refunds or be assessed additional

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

premiums based on the experience of the pool and the Board's individual experience. No additional amounts have been recorded in the financial statements for any additional assessments since it is unlikely that a material amount, if any, will be assessed.

The Board is exposed to a variety of threatened and pending litigations at June 30, 2006 including a civil rights suit filed by an employee in federal court. No liability has been recorded for any of these contingencies in the financial statements, as the Board does not believe it is likely that a liability will result from these claims, and, likewise, no amount is determinable.

Long-range facilities plan

A long-range facilities plan for the future operation of County schools has been approved by vote by the School Board. Although no formal action has taken place at the current time, future school consolidations and possible new school constructions may happen as both a short-term and long-term plan. Funding for the plan would come from State, County, and the Board of Education's funds.

During the year ended June 30, 2006 the Board continued construction of Mountain Ridge High School. As of June 30, 2006, \$12,403,192 has been expended toward the project and is included as construction-in-progress in Note 4. The construction contract for the project is expected to be \$38,964,000. Of the construction contract, \$1,900,000 is to be funded by the Board and the remainder by Allegany County and the State of Maryland.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Since 1992, a new policy was implemented to subsidize a portion of the retiree's health care premiums. For 2006, a maximum subsidy for all retirees of \$315,000 was approved by the Board. The total annual amount of the subsidy for the 2005-2006 fiscal year is as follows for 219 retirees:

<u>Years of Service at Retirement</u>	<u>Total Premium Subsidy Paid</u>	
	<u>Under Age 65</u>	<u>Over Age 65</u>
25 - 29 years	\$12,320	\$90,688
30 or more years	\$32,854	\$179,137

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

In 2000, a retiree insurance benefit plan was established to subsidize a portion of future retirees' health care costs. Eligible employees retiring after June 30, 2002 will be covered under this plan. Eligible employees who retired prior to July 1, 2002 will continue to receive supplements under the plan described in the previous paragraph. The Board has contractually committed to providing an annual contribution, effective July 1, 2002, of an amount equivalent to three fourths of one percent (.75%) of base salaries as of November 30, 2001 each year towards the new plan. The Board contributed \$728,857 toward the fund during the fiscal year ended June 30, 2006. Interest income is calculated and added to the fund balance. Annual benefits to be paid from the fund are to be determined by a plan oversight committee, consisting of five employee teacher union representatives and four representatives appointed by the Board. The plan is presented within the financial statements as a Fiduciary Fund.

NOTE 12 - LEASING ARRANGEMENTS

The Board leases photocopy equipment under operating leases expiring during the next five years. In most cases, the Board expects that in the normal course of business, the leases option to purchase will be exercised or the leases will be replaced by other leases. Most of the operating leases have a fair market value buy-out option at the end of the lease term.

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2006:

Year ending June 30:	
2007	\$ 180,709
2008	176,434
2009	154,032
2010	87,736
2011	<u>48,906</u>
Total minimum payments required	<u>\$ 647,817</u>

Rental expenditures for the year ended June 30, 2006 is \$167,739.

NOTE 13 - FUND BALANCE

A surplus fund balance of \$3,739,521 existed in the Current Expense Fund Type, Unrestricted fund, as of June 30, 2006. The surplus consisted of a \$50,000 designation for unemployment benefits, \$400,000 designation for Western Region High School, \$400,000 designated for fiscal year ended June 30, 2007, and an undesignated surplus of \$2,889,521.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 14 - ACCOUNTS RECEIVABLE

Total accounts receivable of Governmental Funds in the financial statements as of June 30, 2005 is \$10,189,544. This total consists of the following components:

County Government	\$ 765,408
State Government	9,098,670
Federal Government	138,897
Other Local Education Agencies	43,919
Other	<u>142,650</u>
Total	<u>\$ 10,189,544</u>

NOTE 15 - GREENWAY AVENUE STADIUM FUNDS

On August 13, 1996 the Board approved a \$1 surcharge on adult ticket sales for varsity football, varsity soccer, and varsity track sporting events held at Greenway Avenue Stadium. The \$1 surcharge is also assessed on student ticket sales for the varsity football homecoming game. The funds are to be used to maintain, renovate, and upgrade Greenway Avenue Stadium. These funds are collected by Fort Hill and Allegany High Schools and remitted to the central office. Once received by the central office, these funds become part of the Current Expense Restricted Fund under deferred revenues. The activity for the year ended June 30, 2006 is as follows:

Balance, beginning of year	\$ 60,292
Add: Ticket surcharge collections	20,423
Interest	2,707
Less: Expenditures	<u>(2,180)</u>
Balance, end of year	<u>\$ 81,242</u>

NOTE 16 - TRANSFER OF ASSETS TO COUNTY

On April 19, 2005 the Board and the County entered into an agreement to transfer all the assets of Allconet 2 to the County at their net book value effective on July 1, 2006. The total cost of the assets transferred was \$3,462,468 with \$561,937 of related accumulated depreciation. In exchange, the Board will continue to have the use of Allconet hardware, software, and technology, and all future service upgrades to the network without charge.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
			Basis	Positive (Negative)
REVENUES				
County - regular appropriation	\$ 26,630,000	\$ 26,630,000	\$ 26,630,000	\$ -
State - direct	59,290,084	59,290,084	59,326,500	36,416
- on behalf, retirement			4,323,423	4,323,423
Other revenue	551,254	551,254	741,576	190,322
TOTAL REVENUES	<u>86,471,338</u>	<u>86,471,338</u>	<u>91,021,499</u>	<u>4,550,161</u>
EXPENDITURES				
Administration	1,881,531	1,880,031	1,931,194	(51,163)
Mid-level administration	5,275,103	5,249,273	5,181,897	67,376
Instruction - salaries	33,867,716	33,838,406	33,262,402	576,004
Instruction - textbooks & instructional supplies	1,987,414	1,883,996	1,732,270	151,726
Instruction - other	1,203,607	1,379,725	1,185,565	194,160
Student personnel services	525,259	525,259	501,098	24,161
Health services	508,271	508,271	503,028	5,243
Student transportation	5,060,479	5,060,479	5,031,946	28,533
Operation of plant and equipment	7,126,582	7,126,582	6,988,574	138,008
Maintenance of plant	1,411,805	1,232,705	1,256,911	(24,206)
Fixed charges - direct	16,276,044	16,132,984	15,633,304	499,680
- on-behalf payments			4,323,423	(4,323,423)
Capital outlay	382,242	232,542	216,347	16,195
Special education	9,857,328	9,857,328	10,085,055	(227,727)
TOTAL EXPENDITURES	<u>85,363,381</u>	<u>84,907,581</u>	<u>87,833,014</u>	<u>(2,925,433)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>1,107,957</u>	<u>1,563,757</u>	<u>3,188,485</u>	<u>1,624,728</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers	(1,330,957)	(2,086,757)	(2,086,757)	-
NET CHANGE IN FUND BALANCES	<u>(223,000)</u>	<u>(523,000)</u>	<u>1,101,728</u>	<u>1,624,728</u>
FUND BALANCE - JULY 1, 2005	<u>1,143,814</u>	<u>1,143,814</u>	<u>2,637,793</u>	<u>-</u>
FUND BALANCE - JUNE 30, 2006	<u>\$ 920,814</u>	<u>\$ 620,814</u>	<u>\$ 3,739,521</u>	<u>\$ 1,624,728</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS - RESTRICTED (CURRENT EXPENSE) AND FOOD SERVICE
 FOR THE YEAR ENDED JUNE 30, 2006

	Restricted				Food Service			
	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
REVENUES								
County - regular appropriation	\$ -	\$ -	\$ 9,036	\$ 9,036	\$ -	\$ -	\$ -	\$ -
State - direct	9,655,568	9,655,568	1,154,924	(8,500,644)	145,000	145,000	141,535	(3,465)
Federal - direct			117,431	117,431	250,000	250,000	211,082	(38,918)
- received through State	796,012	796,012	9,573,450	8,777,438	1,998,045	1,998,045	2,065,858	67,813
Other revenue	109,524	109,524	210,843	101,319	2,563,100	2,563,100	2,020,121	(542,979)
TOTAL REVENUES	<u>10,561,104</u>	<u>10,561,104</u>	<u>11,065,684</u>	<u>504,580</u>	<u>4,956,145</u>	<u>4,956,145</u>	<u>4,438,596</u>	<u>(517,549)</u>
EXPENDITURES								
Administration	66,308	66,308	58,649	7,659				
Mid-level administration	143,092	143,092	170,074	(26,982)				
Instruction - salaries	3,730,414	3,730,414	3,821,157	(90,743)				
Instruction - textbooks & instructional supplies	431,746	431,746	658,888	(227,142)				
Instruction - other	814,319	814,319	1,061,467	(247,148)				
Student personnel services	840	840	56,312	(55,472)				
Health services	33,398	33,398	50,548	(17,150)				
Student transportation	153,451	153,451	77,709	75,742				
Operation of plant and equipment	10,438	10,438	2,054	8,384				
Fixed charges - direct	1,923,687	1,923,687	2,030,254	(106,567)				
Capital outlay	10,000	10,000	2,502	7,498				
Special education	3,243,411	3,243,411	3,064,956	178,455				
Food Service					4,956,145	4,956,145	5,125,444	(169,299)
TOTAL EXPENDITURES	<u>10,561,104</u>	<u>10,561,104</u>	<u>11,054,570</u>	<u>(493,466)</u>	<u>4,956,145</u>	<u>4,956,145</u>	<u>5,125,444</u>	<u>(169,299)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>11,114</u>	<u>11,114</u>	<u>-</u>	<u>-</u>	<u>(686,848)</u>	<u>(686,848)</u>
OTHER FINANCING SOURCES (USES)								
Interfund transfers			(75,000)	(75,000)			677,100	677,100
Intrafund transfers			63,886	63,886				
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,748)</u>	<u>(9,748)</u>
FUND BALANCE - JULY 1, 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>244,757</u>	<u>244,757</u>	<u>447,804</u>	<u>-</u>
FUND BALANCE - JUNE 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 244,757</u>	<u>\$ 244,757</u>	<u>\$ 438,056</u>	<u>\$ (9,748)</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 16 - BUDGET TO ACTUAL VARIANCES

General Fund

The General Fund for the year ended June 30, 2006 has an excess of expenditures over appropriations. Large offsetting variances exist in General Fund (Unrestricted Current Expense Fund) revenues and expenditures for "on behalf payments" as these amounts are not budgeted, and therefore create the expenditures over appropriations variance.

Special Revenue Fund - Restricted

The large variances between budget and actual in the Special Revenue Fund - Restricted (Current Expense Fund) are due principally to the fact that the budgeted amounts must be estimated and approved before all grants are awarded. Overall before interfund transfers, the fund had an excess of expenditures over appropriations of \$493,466.

The unfavorable variances in expenditures represent the expenditures related to these additional grants and are offset by a corresponding favorable variance in revenue.

Special Revenue Fund – Food Service

The Food Service Special Revenue Fund for the year ended June 30, 2006 has an excess of expenditures over appropriations of \$169,299.

BOARD OF EDUCATION OF ALLEGANY COUNTY

**SCHOOL ACTIVITIES FUND
REVENUE, EXPENDITURES AND FUND BALANCES BY SCHOOL
For Year Ended June 30, 2006**

	<u>Fund Balances June 30, 2005</u>	<u>Revenue and Transfers</u>	<u>Expenditures and Transfers</u>	<u>Fund Balances June 30, 2006</u>
HIGH SCHOOLS				
Allegany	\$ 127,857	\$ 496,342	\$ 470,258	\$ 153,941
Beall	137,912	326,756	320,829	143,839
Center for Career and Technical Education	82,359	132,338	151,273	63,424
Fort Hill	220,285	490,836	560,946	150,175
Westmar	65,837	218,493	207,375	76,955
Alternative	<u>1,624</u>	<u>5,201</u>	<u>5,106</u>	<u>1,719</u>
Total High Schools	<u>635,874</u>	<u>1,669,966</u>	<u>1,715,787</u>	<u>590,053</u>
MIDDLE SCHOOLS				
Braddock	27,087	104,321	101,515	29,893
Mount Savage	49,576	193,965	185,282	58,259
Washington	101,186	182,924	188,201	95,909
Westmar	<u>30,565</u>	<u>51,004</u>	<u>51,839</u>	<u>29,730</u>
Total Middle Schools	<u>208,414</u>	<u>532,214</u>	<u>526,837</u>	<u>213,791</u>
ELEMENTARY SCHOOLS				
Beall	33,272	85,643	76,437	42,478
Bel Air	4,584	35,647	26,466	13,765
Cash Valley	12,653	30,030	23,498	19,185
Cresaptown	45,696	64,855	66,816	43,735
Flintstone	458,117	59,878	56,144	461,851
Frost	21,960	40,514	37,164	25,310
Georges Creek	30,786	73,659	56,496	47,949
John Humbird	7,475	50,432	39,039	18,868
Northeast	17,608	46,298	48,922	14,984
Parkside	18,923	39,188	43,273	14,838
South Penn	6,036	57,613	56,201	7,448
West Side	33,212	50,991	51,802	32,401
Westernport	<u>30,722</u>	<u>41,868</u>	<u>35,973</u>	<u>36,617</u>
Total Elementary Schools	<u>721,044</u>	<u>676,616</u>	<u>618,231</u>	<u>779,429</u>
TOTAL SCHOOLS	<u><u>\$ 1,565,332</u></u>	<u><u>\$ 2,878,796</u></u>	<u><u>\$ 2,860,855</u></u>	<u><u>\$ 1,583,273</u></u>

**STATEMENT CONCERNING DEBT SERVICE FUND
FOR PUBLIC SCHOOL CONSTRUCTION**

Board of Education of Allegany County
Cumberland, Maryland

Our audit of the basic financial statements of the Board of Education of Allegany County as of June 30, 2006 and for the year then ended was intended for the purpose of formulating an opinion on the basic financial statements taken as a whole. The Board of Education of Allegany County has no jurisdiction, direct or indirect, over the Debt Service Fund for Public School Construction, and the fund is, consequently, outside the scope of our audit. Therefore, detailed information with respect to the Debt Service Fund is not included in this report.

Maryland law passed in 1971 provides for payment by the State of all costs, in excess of available federal funds, of all approved public school construction and capital improvements projects in its counties and Baltimore City. In addition, the law provides for payment of principal and interest on debt issued by any subdivision for public school construction, if the debt was outstanding or obligated as of June 30, 1967.

Additional legislation passed during 1973 provides that the State will assume public school costs for debt obligated after June 30, 1967 on construction contracts let prior to July 1, 1967.

Huber, Michaels + Company