

BOARD OF EDUCATION OF ALLEGANY COUNTY
FINANCIAL REPORT
AS OF JUNE 30, 2007 AND FOR THE YEAR THEN ENDED

BOARD OF EDUCATION OF ALLEGANY COUNTY

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) | 3-15 |
| BASIC FINANCIAL STATEMENTS | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 16 |
| Statement of Activities | 17 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 18 |
| Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets | 19 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 20 |
| Reconciliation of Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities | 21 |
| Statement of Net Assets – Proprietary Funds | 22 |
| Statement of Revenues, Expenditures and Changes in Net Assets – Proprietary Funds | 23 |
| Statement of Cash Flows – Proprietary Funds | 24 |
| Statement of Fiduciary Net Assets – Fiduciary Funds | 25 |
| Statement of Changes in Fiduciary Net Assets – Fiduciary Funds | 26 |
| NOTES TO FINANCIAL STATEMENTS | 27-41 |
| REQUIRED SUPPLEMENTAL INFORMATION | |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund | 42 |

| | |
|---|----|
| Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Funds – Restricted (Current Expense) and Food Service | 43 |
| NOTES TO REQUIRED SUPPLEMENTAL INFORMATION | 44 |
| SUPPLEMENTAL INFORMATION | |
| School Activities Fund Revenue, Expenditures and Fund Balances by School | 45 |
| Statement Concerning Debt Service Fund for Public School Construction | 46 |

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, 2007, 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, 2007, 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 November 12, 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 fifteen (15) and forty-two (42) through forty-three (43), 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.

Huber, Michaels + Company

Cumberland, Maryland
November 12, 2007

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007

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 years ended June 30, 2007 and 2006, respectively. Please read this in conjunction with the basic financial statements, notes to the basic financial statements, and the required supplemental information for a complete and detailed understanding.

The goal of Management's Discussion and Analysis (MD&A) is for the School System's financial managers to provide the reader an easy-to-understand overview and analysis of the school district's financial position and results of operations for the year based on currently known facts, decisions, and conditions.

FINANCIAL HIGHLIGHTS

On a system-wide basis the net assets of the School System increased by \$22,612,209 (32.76%) during the fiscal year ended June 30, 2007. 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, 2007, were \$139,582,665. This represents an increase of \$20,178,613 (16.90%) over the prior fiscal year. This was mainly due to an increase in state funding and also related to the construction of Mountain Ridge High School.

Total Governmental Funds expenses for the fiscal year ended June 30, 2007, were \$135,252,682. This represents an increase of \$17,367,006 (14.73%) over the prior fiscal year. This was mostly due to an increase in state funding and to school construction costs for the new Mountain Ridge High School.

The Current Expense Fund total fund balance as of June 30, 2007, was \$5,111,487. This represents an increase of \$1,371,966 (36.69%) from the fund balance as of June 30, 2006.

The Current Expense Fund undesignated fund balance as of June 30, 2007, was \$1,161,487. This represents a decrease of \$1,728,034 (59.80%) from the undesignated fund balance as of June 30, 2006. A total of \$3.5 million of fund balance was designated for contingencies. The System expects the rate of increase in state funding to slow and in response, designated fund balance so that resources would be available for the FY09 budget. The System has a three year labor agreement that expires in FY09.

Current Expense Fund revenues, net of on behalf of payments by the State of Maryland, exceeded the final budget by \$45,027 (0.05%).

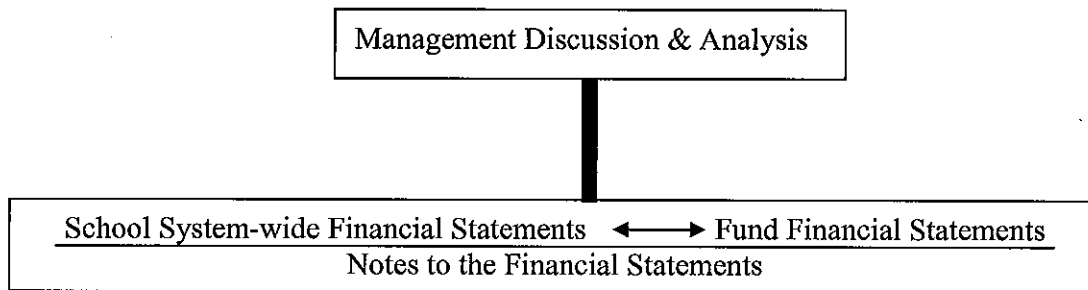
THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007

Current Expense Fund expenses and transfers, net of on behalf of payments by the State of Maryland, were under budget by \$1,726,939 (1.77%). This shortfall was mainly due to grants being able to absorb additional salaries and benefits, as well as our medical costs being more favorable under our self insured plan for FY07.

The unrestricted General Fund budget, net of on behalf payments, increased by \$10,661,455 (12.26%) to \$97,655,793 compared to the \$86,994,338 budget for the period ended June 30, 2006.

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. An analysis of the School System as a whole and as to whether it is better off as a result of the year's activities is reflected in the Statement of Net Assets and the Statement of Activities.

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*. Over time, increases or decreases in the System's net assets are one indicator as to whether the System's financial health is improving or deteriorating. Keep in mind to consider other non-financial factors to assess the overall health of the System. 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. All of the current year's revenues and expenses are taken into

**THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland**

**Management's Discussion and Analysis (MD&A)
June 30, 2007**

account regardless of when cash is actually received or paid. 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).

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 comprised of 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 Funds.

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 are measured, as well as the commitment to acquire goods or services with such cash flows.

This is the legal basis upon which the budget is adopted so budget comparisons are provided.

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

| | 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 BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007

Fiduciary Responsibility - School Activity Fund and Retiree Insurance Benefit Plan Fund

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 Funds. We exclude these activities from The Board of Education of Allegany County's other financial statements because their 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 ended June 30, 2007, the School System's net assets increased by \$22,612,209. 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, 2007, of \$3,245,431 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 \$2,568,943 and is the amount we expect to pay beyond June 30, 2008. 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, 2007 | June 30, 2006 | % Change | June 30, 2007 | June 30, 2006 | % Change |
| Administration | \$ 2,033,672 | \$ 2,025,075 | 0.42% | \$ 2,010,861 | \$ 1,891,426 | 6.31% |
| Mid-level administration | 6,256,241 | 5,348,065 | 16.98% | 6,042,078 | 5,177,991 | 16.69% |
| Instruction(regular and special education) | 58,535,117 | 54,851,148 | 6.72% | 50,495,120 | 46,244,680 | 9.19% |
| Student personnel and health services | 1,122,521 | 1,110,986 | 1.04% | 1,074,056 | 1,004,126 | 6.96% |
| Student transportation | 5,350,431 | 5,063,369 | 5.67% | 5,278,247 | 4,985,660 | 5.87% |
| Operation, maintenance and capital outlay | 9,135,317 | 8,048,735 | 13.50% | (13,233,022) | (4,808,406) | 175.21% |
| Fixed charges | 25,578,506 | 22,712,750 | 12.62% | 18,556,446 | 16,236,258 | 14.29% |
| Food service | 5,404,758 | 5,051,194 | 7.00% | 723,902 | 638,166 | 13.43% |
| Depreciation & other | 3,386,409 | 3,399,284 | -0.38% | 3,386,409 | 3,399,284 | -0.38% |
| Total | \$ 116,802,972 | \$ 107,610,606 | 8.54% | \$ 74,334,097 | \$ 74,769,185 | -0.58% |

Results of operations for the School System as a whole are presented in the Statement of Activities. The cost of all governmental activities is \$116,802,972, of which \$1,954,164 was financed by users of the School System's programs: Grants and contributions from Federal and State governments for certain programs were \$40,514,711. This left a net cost of services of \$74,334,097.

The School System is fiscally dependent on local and state aid to fund its daily operations. Over 68% 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 approximately 29% of the School System's funding.

**THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland**

**Management's Discussion and Analysis (MD&A)
June 30, 2007**

Condensed Statement of Net Assets

| | Governmental Activities | | | Business-type Activities | | | Total School System | | |
|---|-------------------------|----------------------|---------------|--------------------------|-------------------|------------------|-----------------------|----------------------|---------------|
| | June 30, 2007 | June 30, 2006 | % Change | June 30, 2007 | June 30, 2006 | % Change | June 30, 2007 | June 30, 2006 | % Change |
| Current and other assets | \$ 30,677,848 | \$ 23,856,744 | 28.70% | \$ 183,874 | \$ 152,913 | 20.25% | \$ 30,861,722 | \$ 23,989,657 | 28.65% |
| Capital assets | 89,095,804 | 65,199,344 | 30.52% | 138,366 | 153,476 | -9.85% | 85,234,170 | 65,352,820 | 30.42% |
| Total Assets | \$ 116,773,662 | \$ 89,056,088 | 30.03% | \$ 322,240 | \$ 306,389 | 5.17% | \$ 116,095,892 | \$ 89,342,477 | 29.94% |
| Current and other liabilities | \$ 21,894,895 | \$ 17,735,427 | 23.45% | \$ 2,606 | \$ 13 | 19948.15% | \$ 21,897,541 | \$ 17,735,440 | 23.47% |
| Long-term liabilities | 2,568,943 | 2,389,838 | -0.81% | | | | 2,568,943 | 2,589,838 | -0.81% |
| Total Liabilities | \$ 24,463,838 | \$ 20,325,265 | 20.36% | \$ 2,606 | \$ 13 | 19946.16% | \$ 24,466,484 | \$ 20,325,278 | 20.37% |
| Net assets: | | | | | | | | | |
| Invested in capital assets, net of related debt | \$ 85,095,804 | \$ 65,199,344 | 30.52% | \$ 138,366 | \$ 153,476 | -9.85% | \$ 85,234,170 | \$ 65,352,820 | 30.42% |
| Restricted | 3,149,807 | 1,666,068 | 89.06% | | | | 3,149,807 | 1,666,068 | 89.06% |
| Unrestricted | 3,054,163 | 1,845,411 | 66.04% | 181,268 | 152,900 | 18.55% | 3,245,431 | 1,998,311 | 62.41% |
| Total Net Assets | \$ 91,309,774 | \$ 68,710,823 | 32.89% | \$ 319,634 | \$ 306,376 | 4.33% | \$ 91,629,408 | \$ 69,017,199 | 32.76% |

Changes in Net Assets from Operating Results

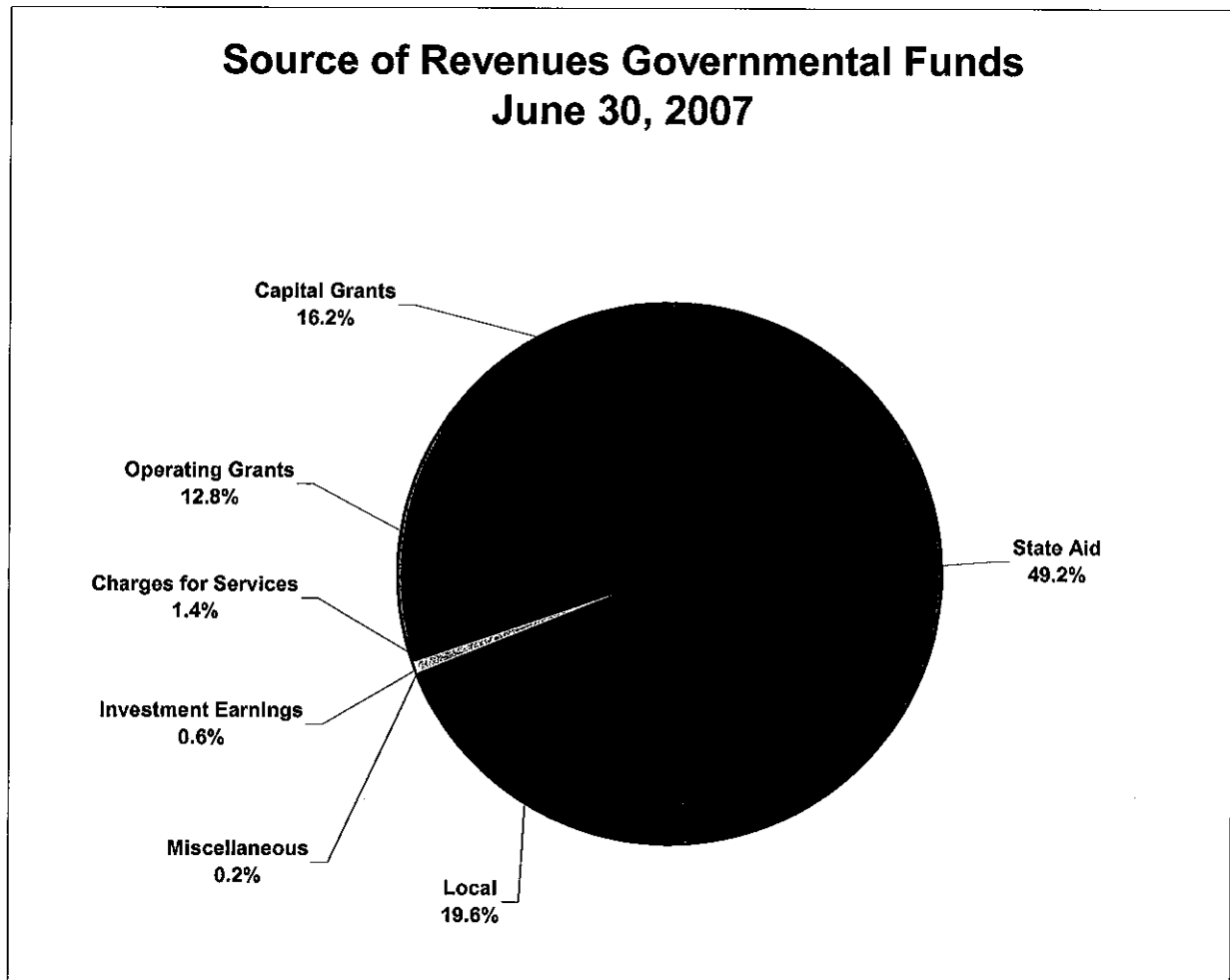
| | Governmental Activities | | | Business-type Activities | | | Total School System | | |
|---|-------------------------|-----------------------|---------------|--------------------------|-------------------|---------------|-----------------------|-----------------------|---------------|
| | June 30, 2007 | June 30, 2006 | % Change | June 30, 2007 | June 30, 2006 | % Change | June 30, 2007 | June 30, 2006 | % Change |
| Program revenues: | | | | | | | | | |
| Charges for services | \$ 1,954,164 | \$ 1,994,553 | -2.02% | \$ 674,000 | \$ 680,641 | -0.98% | \$ 2,628,164 | \$ 2,675,194 | -1.76% |
| Operating grants and contributions | 17,882,543 | 17,868,850 | 0.13% | | | | 17,882,543 | 17,868,850 | 0.13% |
| Capital grants and contributions | 22,632,168 | 12,988,018 | 74.25% | | | | 22,632,168 | 12,988,018 | 74.25% |
| General revenues: | | | | | | | | | |
| County government | 27,380,000 | 26,630,000 | 2.82% | | | | 27,380,000 | 26,630,000 | 2.82% |
| Grants and contributions (unrestricted) | 68,357,303 | 59,326,500 | 15.22% | | | | 68,357,303 | 59,326,500 | 15.22% |
| Other | 1,195,745 | 785,417 | 56.22% | 21,021 | 20,450 | 2.79% | 1,216,766 | 785,867 | 54.83% |
| Total Revenues | \$ 139,401,933 | \$ 119,263,358 | 16.89% | \$ 695,021 | \$ 701,091 | -0.87% | \$ 140,096,544 | \$ 120,264,429 | 16.49% |
| Administration | \$ 2,033,672 | \$ 2,025,075 | 0.42% | | | | 2,033,672 | 2,025,075 | 0.42% |
| Mid-level administration | 6,256,241 | 5,348,065 | 16.98% | | | | 6,256,241 | 5,348,065 | 16.98% |
| Instruction (regular and special education) | 56,535,117 | 54,851,148 | 6.72% | | | | 56,535,117 | 54,851,148 | 6.72% |
| Student personnel and health services | 1,122,521 | 1,110,986 | 1.04% | | | | 1,122,521 | 1,110,986 | 1.04% |
| Student transportation | 5,350,431 | 5,063,369 | 5.67% | | | | 5,350,431 | 5,063,369 | 5.67% |
| Operation, maintenance and capital outlay | 9,135,317 | 8,048,735 | 13.50% | | | | 9,135,317 | 8,048,735 | 13.50% |
| Fixed charges | 25,578,506 | 22,712,750 | 12.62% | | | | 25,578,506 | 22,712,750 | 12.62% |
| Food services | 5,404,758 | 5,051,194 | 7.00% | | | | 5,404,758 | 5,051,194 | 7.00% |
| Depreciation & other | 3,386,409 | 3,389,284 | -0.38% | | | | 4,068,172 | 4,045,601 | 0.56% |
| Total Expenses | \$ 116,802,972 | \$ 107,610,606 | 8.54% | \$ 681,763 | \$ 646,317 | 5.49% | \$ 117,484,736 | \$ 108,266,923 | 8.54% |
| Increase(decrease) in Net Assets | \$ 22,598,961 | \$ 11,952,752 | 89.07% | \$ 13,258 | \$ 54,774 | 76.80% | \$ 22,612,209 | \$ 12,007,606 | 88.32% |

**THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland**

**Management's Discussion and Analysis (MD&A)
June 30, 2007**

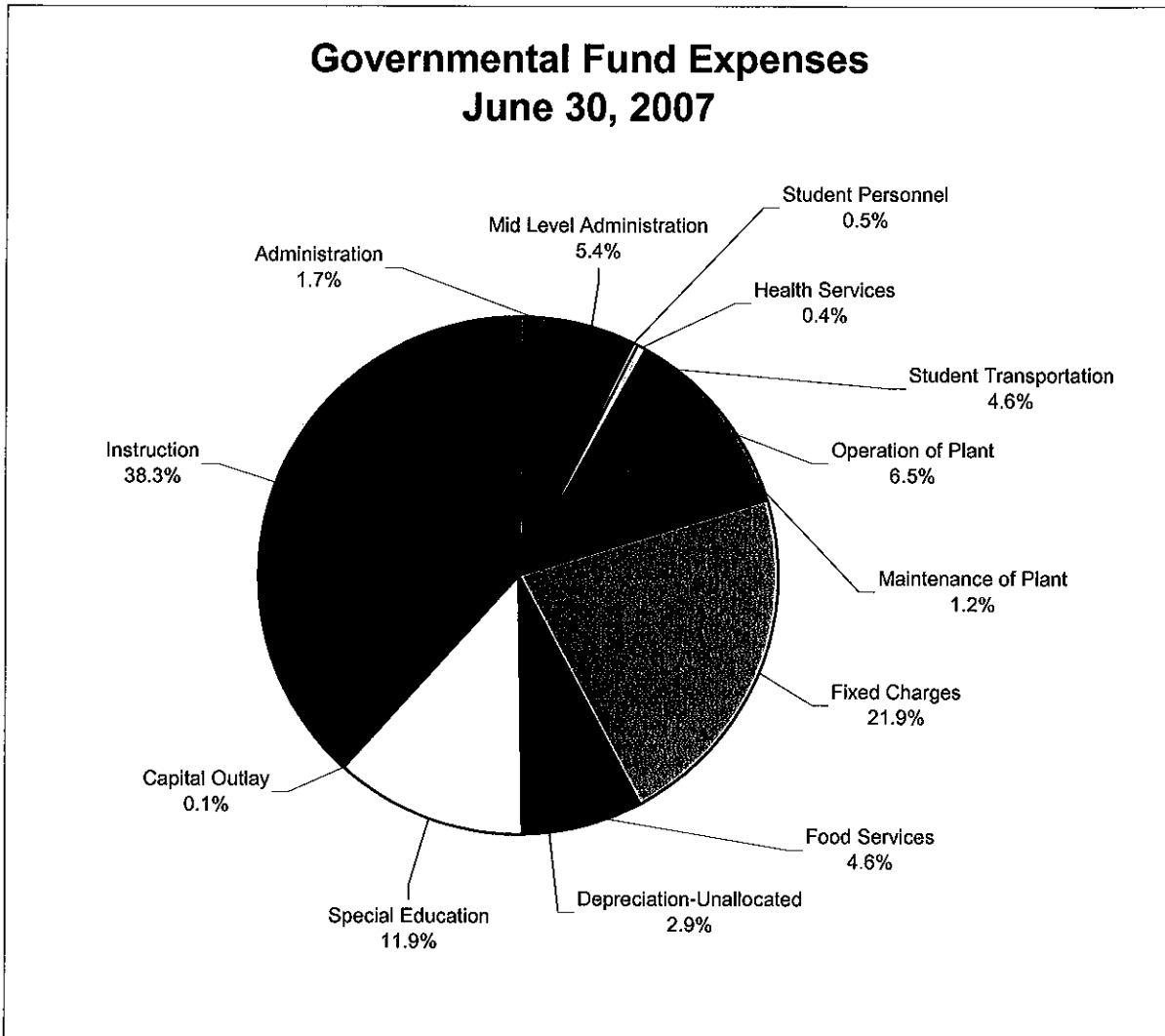
GENERAL FUND (CURRENT EXPENSE) BUDGETARY HIGHLIGHTS

The Current Expense Fund operates under a legally adopted annual budget. The budget is subdivided into State mandated categories of expenditures. These 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.



THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007



Fund Performance

Funds are self-balancing sets of accounts used by the School System to control and manage money for particular purposes.

General Fund – Unrestricted

A schedule of changes between the original and final budgets for the year ended June 30, 2007, is presented below. The net change resulted in a \$797,815 increase.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007

| | Original Budget | Final Budget | Additions | Reductions | Total Change |
|----------------------------|-----------------------|-----------------------|---------------------|-------------------|-------------------|
| County Appropriation | \$ 27,380,000 | \$ 27,380,000 | \$ | \$ | \$ |
| State | 73,227,619 | 73,227,619 | | | |
| Federal | | 122,815 | 122,815 | | 122,815 |
| Local | 306,265 | 306,265 | | | |
| Earnings on investments | 192,000 | 867,000 | 675,000 | | 675,000 |
| Other Sources | 2,094 | 2,094 | | | |
| Prior year's fund balance | 400,000 | 400,000 | | | |
| Total Revenues | \$ 101,507,978 | \$ 102,305,793 | \$ 797,815 | \$ | \$ 797,815 |
| | | | | | |
| Administration | \$ 1,995,526 | \$ 2,022,526 | \$ 27,000 | \$ | \$ 27,000 |
| Mid-Level Administration | 5,890,435 | 5,890,435 | | | |
| Instructional Salaries | 37,065,980 | 36,930,795 | | 135,185 | (135,185) |
| Textbooks | 2,014,722 | 1,891,372 | 14,000 | 137,350 | (123,350) |
| Other Instructional Costs | 1,387,688 | 1,718,038 | 330,350 | | 330,350 |
| Special Education | 11,354,176 | 11,354,176 | | | |
| Student Personnel Services | 535,861 | 535,861 | | | |
| Student Health Services | 526,515 | 526,515 | | | |
| Student Transportation | 5,336,068 | 5,336,068 | | | |
| Operation of Plant | 8,772,623 | 8,372,623 | | 400,000 | (400,000) |
| Maintenance of Plant | 1,553,058 | 1,553,058 | | | |
| Fixed Charges | 23,591,984 | 23,790,984 | 226,000 | 27,000 | 199,000 |
| Food Services | 714,100 | 714,100 | | | |
| Capital Outlay | 769,242 | 1,669,242 | 900,000 | | 900,000 |
| Total Expenditures | \$ 101,507,978 | \$ 102,305,793 | \$ 1,497,350 | \$ 699,535 | \$ 797,815 |

Local and state revenues account for over 98% of the total General Fund unrestricted revenue. Both are stable and highly predictable.

Revenues:

For the year ended June 30, 2007, total unrestricted general fund revenues resulted in a positive variance of \$218,834.

Direct payments by the State for retirement costs resulted in a positive budget variance of \$173,807. 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. In fiscal year 2007, we began budgeting for these payments based upon the prior year actual and the negotiated raise for teachers. No estimates were provided from the state. The actual payments made by the State are reported in the financial statements.

Medicare Part D revenues show a favorable variance of \$287,363. The system is self insured for health insurance purposes. As a result, the system qualifies for the Medicare Part D program that reimburses the system for a portion of prescription drug benefits provided to Medicare eligible

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007

retirees. The Government Accounting Standards Board (GASB) has issued a technical bulletin requiring recipients of Medicare Part D funds to show these proceeds as revenue. The system puts these funds back into its health insurance reserve. Medicare Part D was a new source of revenue for the Board of Education in fiscal year 2007. Being a new program and due to the uncertainty in amount, the budgeted estimate was slightly under.

Special education private placement revenue was less than anticipated and therefore resulted in a shortfall of \$223,734. The shortfall is mainly due to fewer students being served and the varying expenses and the split between the local board and the state with the students in the program. The budget for Special Education private placement is an estimate based on the anticipated state formula and number of students served.

Other revenues fell short of budgeted amounts creating a net unfavorable variance in the amount of approximately \$18,500.

Expenditures and Inter-fund transfers:

For the year ended June 30, 2007, total unrestricted general fund expenditures resulted in a positive variance of \$1,563,357.

As discussed in the revenue section above, 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. In fiscal year 2007, we began budgeting for these payments based upon the prior year actual and the negotiated raise for teachers. No estimates were provided from the state. The actual payments made by the State are reported in the financial statements and resulted in a negative budget variance in the amount of \$173,807. This negative budget variance offsets the corresponding identical, but positive, variance in the revenue section of the unrestricted general fund.

Mid-level administration shows an unfavorable budget variance of \$162,443. This is not a true variance. Coordinating teacher's and teacher administrative assistant's salaries were charged to Mid-level administration, but they were actually budgeted for under Instructional salaries. The reasoning for the charges being in Mid-level administration is that these employees are really aspiring administrators and were therefore, charged as such. A better matching of the budget and expenditures for these salaries has been noted.

Instruction resulted in a favorable budget variance of \$1,060,230. Of this variance, \$162,443 was charged to Mid-level administration as discussed in the paragraph above. Approximately \$412,000 of this variance was a result of restricted program grants being able to absorb more local salary costs. In addition, the number of retirees was greater than projected which also resulted in a salaries savings of approximately \$123,000. There was also approximately \$162,000 in savings in salaries due to staffing realignment. Lastly, non-wage instructional

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007

accounts were under budget by approximately \$200,000 due to additional grants coming into the System and being able to absorb costs budgeted as local.

Operation of plant and equipment had an overall favorable budget variance of \$153,452. The largest part of this positive variance, approximately \$222,000, resulted from salary savings through retirements and resignations. Supplies and materials exceeded budget by approximately \$27,000. This overage was due to a proactive response to minimize health concerns within the System. Other charges were also slightly over budget by approximately \$37,000. This overage is a result of the increasing fuel prices. Other miscellaneous variances resulted in an excess of approximately \$4,300.

Maintenance of plant shows a \$161,710 favorable budget variance. Approximately \$110,000 was savings due to contracted service being down. This is a result of less known and fewer anticipated problems. In addition, there was little time for smaller budgeted projects with the System's main focus being on readiness for the opening of the new high school in August 2007. There was also approximately \$91,500 of savings in salaries due to open positions that resulted through retirements and resignations. Lastly, Supplies and materials were over budget by approximately \$45,500. Supplies and materials are for a variety of small projects unknown at budget time. Of the projects serviced by the maintenance department, the supplies and materials needed to complete the projects were higher than budgeted. Other miscellaneous variances resulted in a positive variance of approximately \$5,400.

Fixed charges resulted in a favorable variance of \$297,175. Approximately \$175,000 of savings was due to grants being able to absorb more salaries and related benefits than anticipated. There was also a savings in building insurance of \$62,052. This was a result of bids being lower than projected premiums. The System budgeted for insurance based upon anticipated rates from an insurance advisor in January. When the insurance was bid in late spring, rates came in under budget due to lower claims in the insurance industry. Reserve for contingencies came in under budget by \$63,000 due to the lack of actual contingencies. Other miscellaneous variances resulted in a negative variance of approximately \$2,800.

Capital outlay reflects a \$105,798 favorable budget variance. Approximately \$45,000 of the savings is due to the main focus being on the work of the new high school in addition to open positions and resulting in less time for other budgeted projects. There was also a \$38,000 savings in ADA renovations. This is a result of fewer projects needing ADA compliance being completed than were budgeted for. Other miscellaneous variances resulted in a positive variance of approximately \$23,000.

Below is a table listing positive and negative budget variances for the year ended June 30, 2007 as a supplement to the narrative discussion of budget variances above.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007

Unrestricted General Fund Budget to Actual Variances

| Budget Variance Descriptions: | Positive (Negative) |
|---|--------------------------------|
| Revenues: | |
| Direct payment by State for retirement costs | \$ 173,807 |
| Medicare Part D | 287,363 |
| Special Education private placements | (223,734) |
| Other revenue variances | <u>(18,602)</u> |
| Total Revenue Variances | \$ 218,834 |
| Expenditures and Interfund Transfers: | |
| Direct Payment by State for Retirement Costs | (173,807) |
| Savings in Instructional salaries | 859,260 |
| Savings in Operation of plant and equipment | 153,452 |
| Savings in Maintenance of plant | 161,710 |
| Savings in Fixed charges | 297,175 |
| Savings in Capital outlay | 105,798 |
| Other expenditure variances | <u>159,769</u> |
| Total Expenditures and Interfund Transfers Variances | <u>1,563,357</u> |
| Total Positive Variance - Unrestricted General Fund | <u><u>\$ 1,782,191</u></u> |

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the School System had \$158,179,231 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$23,241,265 from the same time last year, net of disposals. The total net cost of assets after depreciation was \$85,234,170. Total depreciation expense for the year ended June 30, 2007 was \$3,827,986.

Declining enrollments lead the system to consolidate two high schools. In August 2007, Mountain Ridge High School was opened and is 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 is continuing in their \$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.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007

Debt

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 fiscal year 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 FY2003 through FY2007 under this Act with the largest increase scheduled for FY2008, as the initiative reaches full funding levels. Beginning with FY2004, 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 have a declining enrollment, some of the additional state funds will be reduced.

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, all students must reach proficiency levels on State assessments by 2014, all economically disadvantaged children must have access to a pre-kindergarten program, new certification and assessment requirements for paraprofessionals, and extensive tracking and reporting requirements. All of these requirements have significant potential cost impacts associated with them.

As a result of large funding increases from the State of Maryland, state revenues, as a percentage of the budget, have dramatically increased. Any changes in the state policies or procedures will significantly impact the system. The State of Maryland is currently facing a structural budget deficit. There are many proposals that are being discussed by the Governor and General Assembly that would limit Thornton funds which is where the system receives most of its funding, but fund the Geographical Cost of Education Index (GCEI). The system would not receive any funds under the GCEI component. This development could significantly impact future operations of the system and their ability to meet requirements in a timely manner.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2007

The Board of Education has entered into a three year labor agreement with all bargaining units. July 1, 2008 will be the last increase as part of this three year contract. 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.

The continuation of increasing fuel costs resulted in an overall unfavorable utility cost variance of approximately \$163,000, which is down from \$224,539 in fiscal year 2006. Since the 2003 implementation of an energy management program, the system has achieved over \$2.5 million in cost avoidance savings of which \$885,232 was saved in FY07. This program continues to be 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. The system also entered into a cooperative purchasing agreement for electricity in the last quarter of the fiscal year. As a result, additional cost savings for the remainder of the year were \$67,023.

Beginning with fiscal year 2009, the system is required to adhere to the new standard issued by the Government Accounting Standards Board (GASB) for reporting other post employment benefits known as GASB 45. GASB 45 stipulates standards for the measurement, recognition, and display of OPEB expenses and related liabilities and assets, note disclosures and required supplementary information in the financial reports of state and local governmental employers. GASB 45 requires the measurement and disclosure of actuarial accrued liabilities and funded status. Under GASB 45 the system will not only be reporting other post-retirement benefit (OPEB) expenses, but the associated accrued financial obligations. Funding of the obligation is optional. The system will also be required to disclose the funded status of the benefits as of the most recent valuation and to present as Required Supplementary Information (RSI) multi-year trend information about funding progress.

CONTACT 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, 2007

| | Primary Government | | |
|---|------------------------------------|-------------------------------------|-----------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 9,962,678 | \$ - | \$ 9,962,678 |
| Investments | 14,000,000 | | 14,000,000 |
| Accounts receivable | 6,599,048 | | 6,599,048 |
| Accrued interest receivable | 49,103 | | 49,103 |
| Inventory | 250,893 | | 250,893 |
| Internal balances | (183,874) | 183,874 | - |
| Total Current Assets | 30,677,848 | 183,874 | 30,861,722 |
| Noncurrent Assets: | | | |
| Non-depreciable capital assets | 37,635,635 | | 37,635,635 |
| Depreciable capital assets, net of depreciation | 47,460,169 | 138,366 | 47,598,535 |
| Total Noncurrent Assets | 85,095,804 | 138,366 | 85,234,170 |
| TOTAL ASSETS | 115,773,652 | 322,240 | 116,095,892 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 9,656,487 | 1,406 | 9,657,893 |
| Salaries and benefits payable | 875,476 | 1,200 | 876,676 |
| Deferred revenues | 2,135,182 | | 2,135,182 |
| Accrued hospital insurance | 7,406,090 | | 7,406,090 |
| Current portion of long-term debt | 112,765 | | 112,765 |
| Other current liabilities | 1,708,935 | | 1,708,935 |
| Total Current Liabilities | 21,894,935 | 2,606 | 21,897,541 |
| Noncurrent Liabilities: | | | |
| Long-term portion of compensated absences | 2,568,943 | | 2,568,943 |
| TOTAL LIABILITIES | 24,463,878 | 2,606 | 24,466,484 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 85,095,804 | 138,366 | 85,234,170 |
| Restricted for: | | | |
| Capital projects | 2,898,914 | | 2,898,914 |
| Food inventories | 250,893 | | 250,893 |
| Unrestricted | 3,064,163 | 181,268 | 3,245,431 |
| TOTAL NET ASSETS | 91,309,774 | 319,634 | 91,629,408 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 115,773,652 | \$ 322,240 | \$ 116,095,892 |

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, 2007

| Function/Programs | 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 | \$ 2,033,672 | \$ 15,015 | \$ 7,796 | \$ (2,010,861) | \$ - | \$ (2,010,861) |
| Mid-level administration | 6,256,241 | 214,163 | | (6,042,078) | | (6,042,078) |
| Instruction - salaries | 39,807,966 | 3,757,326 | | (36,050,640) | | (36,050,640) |
| Instruction - textbooks & instructional supplies | 2,453,744 | 661,298 | | (1,792,446) | | (1,792,446) |
| Instruction - other | 2,328,677 | 818,305 | 166,399 | (1,343,973) | | (1,343,973) |
| Student personnel services | 599,984 | 48,456 | | (551,528) | | (551,528) |
| Health services | 522,537 | 9 | | (522,528) | | (522,528) |
| Student transportation | 5,350,431 | 72,184 | | (5,278,247) | | (5,278,247) |
| Operation of plant and equipment | 7,636,783 | 5,934 | | (7,630,849) | | (7,630,849) |
| Maintenance of plant | 1,384,504 | | | (1,384,504) | | (1,384,504) |
| Fixed charges - direct | 20,754,699 | 2,198,253 | | (18,556,446) | | (18,556,446) |
| - on-behalf payments | 4,823,807 | 4,823,807 | | | | |
| Capital outlay | 114,030 | 268 | 22,362,137 | 22,248,375 | | 22,248,375 |
| Special education | 13,944,730 | 2,633,085 | 3,584 | (11,308,061) | | (11,308,061) |
| Food Service | 5,404,758 | 2,634,440 | 92,252 | (723,902) | | (723,902) |
| Unallocated depreciation expense | 3,386,409 | | | (3,386,409) | | (3,386,409) |
| Total Governmental Activities | 116,802,972 | 17,882,543 | 22,632,168 | (74,334,097) | | (74,334,097) |
| Business-type activities: | | | | | | |
| ALLCONET | 23,424 | 50,856 | | | 27,432 | 27,432 |
| Information Technology | 658,339 | 623,144 | | | (35,195) | (35,195) |
| Total Primary Government | \$ 117,484,735 | \$ 17,882,543 | \$ 22,632,168 | (74,334,097) | (7,763) | (74,341,860) |
| General Revenues: | | | | | | |
| County appropriation: | | | | | | |
| Regular | | | | 27,380,000 | | 27,380,000 |
| Grants, subsidies, and contributions not restricted | | | | 68,357,303 | | 68,357,303 |
| Investment earnings | | | | 867,883 | | 867,883 |
| Miscellaneous income | | | | 328,493 | 21,021 | 349,514 |
| Loss on disposal of fixed assets | | | | (631) | | (631) |
| Total General Revenues, Special Items, Extraordinary Items and Transfers | | | | 96,933,048 | 21,021 | 96,954,069 |
| Change in Net Assets | | | | 22,598,951 | 13,258 | 22,612,209 |
| Net Assets - July 1, 2006 | | | | 68,710,823 | 306,376 | 69,017,199 |
| Net Assets - June 30, 2007 | | | | \$ 91,309,774 | \$ 319,634 | \$ 91,629,408 |

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

| | General Fund (Current Expense) Unrestricted | (Current Expense) Restricted | Food Service | School Construction | Total Governmental Funds |
|--|---|---------------------------------|-------------------|------------------------|-----------------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 9,340,356 | \$ - | \$ 2,518 | \$ 619,804 | \$ 9,962,678 |
| Investments | 14,000,000 | | | | 14,000,000 |
| Accounts receivable | 166,034 | 1,412,174 | 234,348 | 4,786,492 | 6,599,048 |
| Inventory - food | | | 250,893 | | 250,893 |
| Internal receivables | | 1,051,395 | | 1,705,523 | 2,756,918 |
| TOTAL ASSETS | 23,506,390 | 2,463,569 | 487,759 | 7,111,819 | 33,569,537 |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | 1,400,762 | 209,900 | 47,253 | 3,875,620 | 5,533,535 |
| Salaries and benefits payable | 732,145 | 119,487 | 23,844 | | 875,476 |
| Internal payables | 7,033,206 | | 30,538 | | 7,063,744 |
| Deferred revenues | 1,000 | 2,134,182 | | | 2,135,182 |
| Accrued hospital insurance | 7,406,090 | | | | 7,406,090 |
| Current portion of long-term debt | 112,765 | | | | 112,765 |
| Other current liabilities | 1,708,935 | | | | 1,708,935 |
| TOTAL LIABILITIES | 18,394,903 | 2,463,569 | 101,635 | 3,875,620 | 24,835,727 |
| FUND BALANCES | | | | | |
| Reserved for food inventories | | | 250,893 | | 250,893 |
| Reserved for capital projects | | | | 2,898,914 | 2,898,914 |
| Unreserved - designated for unemployment benefits | 50,000 | | | | 50,000 |
| Unreserved - designated for contingencies | 3,500,000 | | | | 3,500,000 |
| Unreserved - designated for year ended June 30, 2008 | 400,000 | | | | 400,000 |
| Unreserved - undesignated | | | | | |
| General Fund | 1,161,487 | | | | 1,161,487 |
| Special Revenue Fund - Food Service | | | 135,231 | | 135,231 |
| Capital Projects Fund | | | | 337,285 | 337,285 |
| TOTAL FUND BALANCES | 5,111,487 | - | 386,124 | 3,236,199 | 8,733,810 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 23,506,390 | \$ 2,463,569 | \$ 487,759 | \$ 7,111,819 | \$ 33,569,537 |

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, 2007

Total Fund Balances - Governmental Funds \$ 8,733,810

**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 \$49,103. 49,103

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 \$157,611,864 and the accumulated depreciation is \$72,516,060. 85,095,804

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. (2,568,943)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 91,309,774

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, 2007

| | General Fund (Current Expense) Unrestricted | (Current Expense) Restricted | Food Service | School Construction | Total Governmental Funds |
|--|---|---------------------------------|-------------------|------------------------|-----------------------------|
| REVENUES | | | | | |
| County - regular appropriation | \$ 27,380,000 | \$ 9,000 | \$ - | \$ 96,721 | \$ 27,485,721 |
| - bond proceeds | | | | | |
| State - direct | 68,357,303 | 1,273,512 | 203,919 | 19,882,964 | 89,717,698 |
| - on behalf, retirement | 4,823,807 | | | | 4,823,807 |
| Federal - direct | 410,178 | 90,758 | 305,501 | | 806,437 |
| - received through State | | 8,199,776 | 2,217,272 | | 10,417,048 |
| - received through Pass-Thru Agency | | 651,437 | | 2,222,871 | 2,874,308 |
| Other revenue | 1,153,339 | 137,360 | 1,992,487 | 174,460 | 3,457,646 |
| TOTAL REVENUES | 102,124,627 | 10,361,843 | 4,719,179 | 22,377,016 | 139,582,665 |
| EXPENDITURES | | | | | |
| Administration | 1,965,624 | 22,811 | | | 1,988,435 |
| Mid-level administration | 6,052,878 | 214,163 | | | 6,267,041 |
| Instruction - salaries | 36,071,535 | 3,757,326 | | | 39,828,861 |
| Instruction - textbooks & instructional supplies | 1,792,446 | 661,298 | | | 2,453,744 |
| Instruction - other | 1,615,994 | 984,704 | | | 2,600,698 |
| Student personnel services | 551,528 | 48,456 | | | 599,984 |
| Health services | 522,528 | 9 | | | 522,537 |
| Student transportation | 5,301,384 | 72,184 | | | 5,373,568 |
| Operation of plant and equipment | 7,719,171 | 5,934 | | | 7,725,105 |
| Maintenance of plant | 1,391,348 | | | | 1,391,348 |
| Fixed charges - direct | 17,357,452 | 1,910,890 | | | 19,268,342 |
| - on-behalf payments | 4,823,807 | | | | 4,823,807 |
| Capital outlay | 175,104 | 10,489 | | 22,788,899 | 22,974,492 |
| Special education | 11,312,840 | 2,636,669 | | | 13,949,509 |
| Food Service | | | 5,485,211 | | 5,485,211 |
| TOTAL EXPENDITURES | 96,653,639 | 10,324,933 | 5,485,211 | 22,788,899 | 135,252,682 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 5,470,988 | 36,910 | (766,032) | (411,883) | 4,329,983 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Interfund transfers | (4,099,022) | | 714,100 | 1,898,565 | (1,486,357) |
| Intrafund transfers | | (36,910) | | | (36,910) |
| TOTAL OTHER FINANCING SOURCES (USES) | (4,099,022) | (36,910) | 714,100 | 1,898,565 | (1,523,267) |
| NET CHANGE IN FUND BALANCES | 1,371,966 | - | (51,932) | 1,486,682 | 2,806,716 |
| FUND BALANCE - JULY 1, 2006 | 3,739,521 | - | 438,056 | 1,749,517 | 5,927,094 |
| FUND BALANCE - JUNE 30, 2007 | \$ 5,111,487 | \$ - | \$ 386,124 | \$ 3,236,199 | \$ 8,733,810 |

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, 2007

Total Net Change in Fund Balance - Governmental Funds \$ 2,806,716

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 \$2,305. (2,305)

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 decrease of \$20,895. 20,895

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 | 3,784,063 | |
| | Capital Outlays | <u>23,699,236</u> | 19,915,173 |

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 \$18,713. (18,713)

TOTAL CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 22,598,951

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, 2007**

| | <u>Information Technology Fund</u> | <u>Allconet Fund</u> | <u>Total</u> |
|---|--|--------------------------|--------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Internal receivables | \$ 195,786 | \$ - | \$ 195,786 |
| Total Current Assets | <u>195,786</u> | <u>-</u> | <u>195,786</u> |
| Noncurrent Assets: | | | |
| Machinery and equipment, net of depreciation | <u>63,502</u> | <u>74,864</u> | <u>138,366</u> |
| Total Noncurrent Assets | <u>63,502</u> | <u>74,864</u> | <u>138,366</u> |
| TOTAL ASSETS | <u><u>259,288</u></u> | <u><u>74,864</u></u> | <u><u>334,152</u></u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | 1,406 | | 1,406 |
| Salaries and benefits payable | 1,200 | | 1,200 |
| Due to other funds | | <u>11,912</u> | <u>11,912</u> |
| Total Current Liabilities | <u>2,606</u> | <u>11,912</u> | <u>14,518</u> |
| TOTAL LIABILITIES | <u>2,606</u> | <u>11,912</u> | <u>14,518</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 63,502 | 74,864 | 138,366 |
| Unrestricted | <u>193,180</u> | <u>(11,912)</u> | <u>181,268</u> |
| TOTAL NET ASSETS | <u>256,682</u> | <u>62,952</u> | <u>319,634</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 259,288</u></u> | <u><u>\$ 74,864</u></u> | <u><u>\$ 334,152</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, 2007**

| | <u>Information Technology Fund</u> | <u>Allconet Fund</u> | <u>Total</u> |
|---|--|--------------------------|-------------------|
| OPERATING REVENUES | | | |
| County - regular appropriation | \$ 311,568 | \$ - | \$ 311,568 |
| - special appropriation | - | - | - |
| Other sources | <u> </u> | <u>50,856</u> | <u>50,856</u> |
| Total Operating Revenues | <u>311,568</u> | <u>50,856</u> | <u>362,424</u> |
| OPERATING EXPENSES | | | |
| Salaries and wages | 431,086 | | 431,086 |
| Contracted services | 66,967 | 5,137 | 72,104 |
| Supplies and materials | 13,669 | 100 | 13,769 |
| Other charges | 113,391 | | 113,391 |
| Equipment replacement | 933 | 6,556 | 7,489 |
| Depreciation | <u>32,293</u> | <u>11,631</u> | <u>43,924</u> |
| Total Operating Expenses | <u>658,339</u> | <u>23,424</u> | <u>681,763</u> |
| Operating Income (Loss) | (346,771) | 27,432 | (319,339) |
| NON-OPERATING REVENUE | | | |
| Transfers | 311,576 | | 311,576 |
| Other revenue | <u>21,021</u> | | <u>21,021</u> |
| Total Non-operating Revenues | <u>332,597</u> | <u>-</u> | <u>332,597</u> |
| Change in Net Assets | (14,174) | 27,432 | 13,258 |
| TOTAL NET ASSETS - JULY 1, 2006 | <u>270,856</u> | <u>35,520</u> | <u>306,376</u> |
| TOTAL NET ASSETS - JUNE 30, 2007 | <u>\$ 256,682</u> | <u>\$ 62,952</u> | <u>\$ 319,634</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, 2007**

| | <u>Information Technology Fund</u> | <u>Allconet Fund</u> |
|--|--|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers | \$ 332,589 | \$ 50,856 |
| Cash received from quasi-external operation transactions with other funds | 306,056 | 25,415 |
| Cash paid to suppliers | (193,568) | (50,856) |
| Cash payments to employees | <u>(429,886)</u> | <u>(11,793)</u> |
| Net Cash Provided by Operating Activities | <u>15,191</u> | <u>13,622</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of equipment | <u>(15,191)</u> | <u>(13,622)</u> |
| Net Cash Used in Capital and Related Financing Activities | <u>(15,191)</u> | <u>(13,622)</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 | \$ (14,174) | \$ 27,432 |
| Adjustments to reconcile change in nets assets to net cash provided by operations: | | |
| Depreciation | 32,293 | 11,631 |
| Change in assets and liabilities | | |
| Decrease (increase) in account receivable | - | - |
| Decrease in due from other funds | (5,520) | (25,441) |
| Increase (decrease) in accounts payable | 1,392 | - |
| Increase (decrease) salaries & benefits payable | <u>1,200</u> | <u>-</u> |
| Total Adjustments | <u>29,365</u> | <u>(13,810)</u> |
| Net Cash Provided by Operating Activities | <u>\$ 15,191</u> | <u>\$ 13,622</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, 2007**

| | <u>School Activities</u> | <u>Retiree Insurance Benefit Plan</u> | <u>Total Fiduciary Funds</u> |
|---|------------------------------|---|----------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,181,084 | \$ - | \$ 1,181,084 |
| Investments | 517,041 | | 517,041 |
| Accounts receivable | 18,951 | | 18,951 |
| Internal receivables | | 4,122,952 | 4,122,952 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL ASSETS | 1,717,076 | 4,122,952 | 5,840,028 |
| | <hr/> | <hr/> | <hr/> |
| LIABILITIES | | | |
| Accounts payable | 18,910 | - | 18,910 |
| | <hr/> | <hr/> | <hr/> |
| NET ASSETS | | | |
| Designated for school activities | 1,698,166 | | 1,698,166 |
| Designated for future retiree benefits | | 4,122,952 | 4,122,952 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL NET ASSETS | 1,698,166 | 4,122,952 | 5,821,118 |
| | <hr/> | <hr/> | <hr/> |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,717,076 | \$ 4,122,952 | \$ 5,840,028 |
| | <hr/> | <hr/> | <hr/> |

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, 2007

| | <u>School Activities</u> | <u>Retiree Insurance Benefit Plan</u> | <u>Total Fiduciary Funds</u> |
|-----------------------------------|------------------------------|---|----------------------------------|
| ADDITIONS | | | |
| Student activity revenues | \$ 3,373,312 | \$ - | \$ 3,373,312 |
| Transfers | | 1,486,357 | 1,486,357 |
| Earnings on investment | | 175,098 | 175,098 |
| DEDUCTIONS | | | |
| Student activity expenses | 3,258,419 | | 3,258,419 |
| Retiree benefits | | 455,613 | 455,613 |
| Other | | 1,626 | 1,626 |
| | <hr/> | <hr/> | <hr/> |
| CHANGE IN NETS ASSETS | 114,893 | 1,204,216 | 1,319,109 |
| NET ASSETS - JULY 1, 2006 | <hr/> | <hr/> | <hr/> |
| | 1,583,273 | 2,918,736 | 4,502,009 |
| NET ASSETS - JUNE 30, 2007 | <hr/> | <hr/> | <hr/> |
| | \$ 1,698,166 | \$ 4,122,952 | \$ 5,821,118 |

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, 2007, \$ 2,898,914 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, 2007 is \$250,893.

I. Compensated Absences

Accumulated earned vacation time is accrued when incurred. At June 30, 2007, \$1,592,227 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, 2007, \$112,765 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,568,943 has been recorded in the government-wide statement of net assets. Total compensated absences decreased in the current year by \$18,618 over the prior year total of \$2,700,326.

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, 2007, 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, 2007, was as follows:

| | <u>Balance 6/30/06</u> | <u>Additions</u> | <u>Disposals and Transfers</u> | <u>Balance 6/30/07</u> |
|--|------------------------|----------------------|------------------------------------|------------------------|
| Governmental Activities | | | | |
| Non-depreciable assets: | | | | |
| Land | \$ 2,557,989 | \$ - | \$ - | \$ 2,557,989 |
| Construction-in-progress | <u>13,636,275</u> | <u>21,538,982</u> | <u>(97,611)</u> | <u>35,077,646</u> |
| Total Non-depreciable assets | <u>16,194,264</u> | <u>21,538,982</u> | <u>(97,611)</u> | <u>37,635,635</u> |
| Depreciable assets: | | | | |
| Land Improvements | 77,011 | 622,507 | - | 699,518 |
| Buildings and Improvements | 110,106,664 | 608,148 | - | 110,714,812 |
| Furniture, Equipment, and Vehicles | <u>8,021,473</u> | <u>1,027,210</u> | <u>(486,784)</u> | <u>8,561,899</u> |
| Total Depreciable assets | <u>118,205,148</u> | <u>2,257,865</u> | <u>(486,784)</u> | <u>119,976,229</u> |
| Less accumulated depreciation: | | | | |
| Land Improvements | (4,696) | (20,969) | - | (25,665) |
| Buildings and Improvements | (63,652,491) | (3,231,869) | - | (66,884,360) |
| Furniture, Equipment, and Vehicles | <u>(5,542,881)</u> | <u>(531,225)</u> | <u>468,071</u> | <u>(5,606,035)</u> |
| Total accumulated depreciation | <u>(69,200,068)</u> | <u>(3,784,063)</u> | <u>468,071</u> | <u>(72,516,060)</u> |
| Total capital assets being depreciated | <u>49,005,080</u> | <u>(1,526,198)</u> | <u>(18,713)</u> | <u>47,460,169</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 65,199,344</u> | <u>\$ 20,012,784</u> | <u>\$ (116,324)</u> | <u>\$ 85,095,804</u> |
| Business-Type Activities | | | | |
| Furniture, Equipment, and Vehicles | \$ 538,554 | \$ 28,813 | \$ - | \$ 567,367 |
| Less accumulated depreciation | <u>(385,078)</u> | <u>(43,923)</u> | <u>-</u> | <u>(429,001)</u> |
| Business-Type Activities Capital Assets, Net | <u>\$ 153,476</u> | <u>\$ (15,110)</u> | <u>\$ -</u> | <u>\$ 138,366</u> |

* Depreciation was charged to governmental functions as follows:

| | |
|----------------------------------|---------------------|
| Administration | \$ 61,810 |
| Student transportation | 170,830 |
| Operation of plant and equipment | 25,025 |
| Maintenance of plant | 128,190 |
| Food Service | 11,799 |
| Unallocated | <u>3,386,409</u> |
| Total Depreciation Expense | <u>\$ 3,784,063</u> |

The insurance value of capital assets as of June 30, 2007 is \$322,715,175.

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 \$305,501. 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.

The board joined the Alternative Contributory Pension System (ACPS) on July 1, 2006. Members of the contributory pension systems are required to make contributions of 3% of earnable compensation. The system calls for contributions of 4% of earnable compensation for the year ending June 30, 2008 and 5% for the year ending June 30, 2009. 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 13.04% and 8.10% 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, 2007, 2006, 2005, 2004, and 2003 were \$866,800, \$758,376, \$792,988, \$641,390, and \$746,408, respectively, equal to the required contributions for each year.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

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.

NOTE 8 - CASH AND INVESTMENTS

Deposits

At June 30, 2007, the carrying amount of the Board's bank deposits was \$3,014,290 and the various bank balances were \$3,882,405. Of the bank balances, \$442,848 was covered by depository insurance and \$3,882,405 was covered by collateral held at various banks in the Board's name. Total market value of these pledged securities at June 30, 2007 was \$8,474,472. Included in cash and cash equivalents is \$8,129,472 of money market funds invested in U.S government obligations.

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, 2007, 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 | \$ 2,000,000 | \$ - | \$1,000,000 | \$1,000,000 | \$ - |
| Certificates of Deposit | 12,517,041 | 4,000,000 | 8,024,087 | 295,954 | 197,000 |
| Total | 14,517,041 | \$ 4,000,000 | \$9,024,087 | \$1,295,954 | \$ 197,000 |

Of the Board's investments in certificates of deposits, \$321,418 was covered by federal depository insurance and \$12,195,622 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

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.

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 \$4,823,807 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 \$974,791 of which \$502,465 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 \$45,419 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 \$7,406,090 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount increased by \$1,229,545 over the prior year amount of \$6,176,545, and was based on total claims paid of \$13,293,406 and \$12,982,349 for 2007 and 2006, 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 \$200,000, the insurance company will reimburse the Board for the excess. Effective July 1, 2007, this amount increased to \$250,000. The Board participates in the Maryland Association of Boards

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

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 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, 2007. In one instance a company has filed suit against the Board for violation of its first amendment rights. The case is ongoing. The Board's insurance would cover any damages that would be material to the financial statements in the event of an unfavorable outcome. In another instance an employee has filed a complaint with the Equal Employment Opportunity Commission but a case has not been filed. The Board is denying any wrong doing on its part and believes it will prevail in this matter. No liability has been recorded for contingencies in the financial statements, as the Board does not believe it is likely that a material liability will result from these claims that will not be covered by insurance, and 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, 2007 the Board continued construction of Mountain Ridge High School. As of June 30, 2007, \$34,631,699 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 \$39,717,928. Of the construction contract, \$1,900,000 is being 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 2007, a maximum subsidy for all retirees of \$335,000 was approved by the Board. The total annual amount of the subsidy for the 2006-2007 fiscal year is as follows for 208 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 | \$16,171 | \$98,248 |
| 30 or more years | \$30,802 | \$189,779 |

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 \$1,486,357 toward the fund during the fiscal year ended June 30, 2007. 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 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, 2007:

| | |
|---------------------------------|-------------------|
| Year ending June 30: | |
| 2008 | \$ 183,804 |
| 2009 | 174,512 |
| 2010 | 112,096 |
| 2011 | 73,266 |
| 2012 | <u>20,615</u> |
| Total minimum payments required | <u>\$ 564,293</u> |

Rental expenditures for the year ended June 30, 2007 is \$182,284.

NOTE 13 - FUND BALANCE

A surplus fund balance of \$5,111,487 existed in the Current Expense Fund Type, Unrestricted fund, as of June 30, 2007. The surplus consisted of a \$50,000 designation for unemployment benefits, \$400,000 designated for fiscal year ending June 30, 2008, \$3,500,000 designated for contingencies, and an undesignated surplus of \$1,161,487.

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, 2007 is \$6,599,048. This total consists of the following components:

| | |
|--------------------------------|---------------------|
| County Government | \$ 2,398,696 |
| State Government | 3,985,082 |
| Federal Government | 124,430 |
| Other Local Education Agencies | 13,016 |
| Other | <u>77,824</u> |
| Total | <u>\$ 6,599,048</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 School Construction Fund. The activity for the year ended June 30, 2007 is as follows:

| | |
|-----------------------------------|-------------------|
| Balance, beginning of year | \$ 81,242 |
| Add: Ticket surcharge collections | 24,309 |
| Interest | 5,020 |
| Tower rent | 10,065 |
| Less: Expenditures | <u>(0)</u> |
| Balance, end of year | <u>\$ 120,636</u> |

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, 2007**

| | Unrestricted | | | |
|--|-------------------------|---------------------|---------------------|----------------------------|
| | Budgeted Amounts | | Actual | Variance With |
| | Original | Final | Budgetary | Final Budget |
| | | | Basis | Positive (Negative) |
| REVENUES | | | | |
| County - regular appropriation | \$ 27,380,000 | \$ 27,380,000 | \$ 27,380,000 | \$ - |
| State - direct | 68,577,619 | 68,577,619 | 68,357,303 | (220,316) |
| - on behalf, retirement | 4,650,000 | 4,650,000 | 4,823,807 | 173,807 |
| Federal - direct | | 122,815 | 410,178 | 287,363 |
| Other revenue | 500,359 | 1,175,359 | 1,153,339 | (22,020) |
| TOTAL REVENUES | 101,107,978 | 101,905,793 | 102,124,627 | 218,834 |
| EXPENDITURES | | | | |
| Administration | 1,995,526 | 2,022,526 | 1,965,624 | 56,902 |
| Mid-level administration | 5,890,435 | 5,890,435 | 6,052,878 | (162,443) |
| Instruction - salaries | 37,065,980 | 36,930,795 | 36,071,535 | 859,260 |
| Instruction - textbooks & instructional supplies | 2,014,722 | 1,891,372 | 1,792,446 | 98,926 |
| Instruction - other | 1,387,688 | 1,718,038 | 1,615,994 | 102,044 |
| Student personnel services | 535,861 | 535,861 | 551,528 | (15,667) |
| Health services | 526,515 | 526,515 | 522,528 | 3,987 |
| Student transportation | 5,336,068 | 5,336,068 | 5,301,384 | 34,684 |
| Operation of plant and equipment | 8,772,623 | 7,872,623 | 7,719,171 | 153,452 |
| Maintenance of plant | 1,553,058 | 1,553,058 | 1,391,348 | 161,710 |
| Fixed charges - direct | 17,681,627 | 17,654,627 | 17,357,452 | 297,175 |
| - on-behalf payments | 4,650,000 | 4,650,000 | 4,823,807 | (173,807) |
| Capital outlay | 709,242 | 280,902 | 175,104 | 105,798 |
| Special education | 11,354,176 | 11,354,176 | 11,312,840 | 41,336 |
| TOTAL EXPENDITURES | 99,473,521 | 98,216,996 | 96,653,639 | 1,563,357 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 1,634,457 | 3,688,797 | 5,470,988 | 1,782,191 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Interfund transfers | (2,034,457) | (4,088,797) | (4,099,022) | (10,225) |
| NET CHANGE IN FUND BALANCES | (400,000) | (400,000) | 1,371,966 | 1,771,966 |
| FUND BALANCE - JULY 1, 2006 | 3,739,521 | 3,739,521 | 3,739,521 | - |
| FUND BALANCE - JUNE 30, 2007 | \$ 3,339,521 | \$ 3,339,521 | \$ 5,111,487 | \$ 1,771,966 |

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, 2007**

| | Restricted | | | | Food Service | | | | |
|--|------------------------------|------------------------------|--|------------------------------|------------------------------|--|---------------------------|------------------------------|--|
| | Budgeted Amounts Original | Actual Budgetary Basis | Variance With Final Budget Positive (Negative) | Budgeted Amounts Original | Actual Budgetary Basis | Variance With Final Budget Positive (Negative) | Budgeted Amounts Final | Actual Budgetary Basis | Variance With Final Budget Positive (Negative) |
| REVENUES | | | | | | | | | |
| County - regular appropriation | \$ - | \$ 9,000 | \$ 9,000 | \$ - | \$ - | \$ - | | | |
| State - direct | 902,623 | 1,273,512 | 370,889 | 154,413 | 203,919 | 49,506 | | | |
| Federal - direct - received through State | 8,979,976 | 8,851,213 | (128,763) | 250,000 | 305,501 | 55,501 | 2,119,065 | 2,217,272 | 98,207 |
| Other revenue | 92,492 | 137,360 | 44,868 | 1,791,418 | 1,992,487 | 201,069 | | | |
| TOTAL REVENUES | <u>9,975,091</u> | <u>10,361,843</u> | <u>386,752</u> | <u>4,314,896</u> | <u>4,719,179</u> | <u>404,283</u> | | | |
| EXPENDITURES | | | | | | | | | |
| Administration | 140,185 | 22,811 | 117,374 | | | | | | |
| Mid-level administration | 152,880 | 214,163 | (61,283) | | | | | | |
| Instruction - salaries | 3,396,394 | 3,757,326 | (360,932) | | | | | | |
| Instruction - textbooks & instructional supplies | 354,907 | 661,298 | (306,391) | | | | | | |
| Instruction - other | 606,261 | 984,704 | (378,443) | | | | | | |
| Student personnel services | | 48,456 | (48,456) | | | | | | |
| Health services | 27,000 | 26,991 | 9 | | | | | | |
| Student transportation | 88,058 | 72,184 | 15,874 | | | | | | |
| Operation of plant and equipment | 9,488 | 5,934 | 3,554 | | | | | | |
| Fixed charges - direct | 1,933,393 | 1,910,890 | 22,503 | | | | | | |
| Capital outlay | 10,000 | 10,489 | (489) | | | | | | |
| Special education | 3,256,525 | 2,636,669 | 619,856 | | | | | | |
| Food Service | | | | 5,028,996 | 5,485,211 | (456,215) | | | |
| TOTAL EXPENDITURES | <u>9,975,091</u> | <u>10,324,933</u> | <u>(349,842)</u> | <u>5,028,996</u> | <u>5,485,211</u> | <u>(456,215)</u> | | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | | | | | | | | | |
| | | 36,910 | 36,910 | (714,100) | (766,032) | (51,932) | | | |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | |
| Interfund transfers | | | | 714,100 | 714,100 | | | | |
| Intrafund transfers | | (36,910) | (36,910) | | | | | | |
| NET CHANGE IN FUND BALANCES | | | | | | | | | |
| | | | | | (51,932) | (51,932) | | | |
| FUND BALANCE - JULY 1, 2006 | | | | 244,757 | 438,056 | | | | |
| FUND BALANCE - JUNE 30, 2007 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 244,757</u> | <u>\$ 386,124</u> | <u>\$ (51,932)</u> | <u>\$ 244,757</u> | <u>\$ 386,124</u> | <u>\$ (51,932)</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

For the year ended June 30, 2007 the General Fund had an excess of revenues and shortfall of expenditures. A portion of these variances are due to offsetting variances that exist as a result of the "on behalf" retirement payments made by the state.

The unfavorable variance in Mid-level administration is a result of certain salaries being charged to Mid-level administration but were improperly budgeted for under instructional salaries.

Student personnel services' unfavorable budget variation is a result of an increase in the accrual of unused annual and sick leave.

Special Revenue Fund - Restricted

The Restricted Fund had an excess of revenues and expenditures over the budgeted amounts for the year ended June 30, 2007. One reason for the variance is from additional grant funding available to the Board. The expenditures relating to this increase in funding were charged to the three instruction categories within the budget. The reason for the variances among expenditure categories is from the budget being prepared prior to the grants being awarded.

Special Revenue Fund - Food Service

The Food Service Special Revenue Fund for the year ended June 30, 2007 has an excess of expenditures over appropriations due to the budget being adopted prior to a three year employment contract being finalized and an increase in cleaning supplies from more schools being in the warewash program.

BOARD OF EDUCATION OF ALLEGANY COUNTY

**SCHOOL ACTIVITIES FUND
REVENUE, EXPENDITURES AND FUND BALANCES BY SCHOOL
For Year Ended June 30, 2007**

| | <u>Fund Balances June 30, 2006</u> | <u>Revenue and Transfers</u> | <u>Expenditures and Transfers</u> | <u>Fund Balances June 30, 2007</u> |
|--|--|----------------------------------|---------------------------------------|--|
| HIGH SCHOOLS | | | | |
| Allegany | \$ 153,941 | \$ 578,631 | \$ 550,504 | \$ 182,068 |
| Beall | 143,839 | 339,851 | 337,593 | 146,097 |
| Center for Career and Technical Education | 63,424 | 146,096 | 138,845 | 70,675 |
| Fort Hill | 150,175 | 724,084 | 706,701 | 167,558 |
| Mountain Ridge | | 1,100 | 130 | 970 |
| Westmar | 76,955 | 223,703 | 238,947 | 61,711 |
| Alternative | <u>1,719</u> | <u>8,005</u> | <u>7,804</u> | <u>1,920</u> |
| Total High Schools | <u>590,053</u> | <u>2,021,470</u> | <u>1,980,524</u> | <u>630,999</u> |
| MIDDLE SCHOOLS | | | | |
| Braddock | 29,893 | 160,609 | 154,784 | 35,718 |
| Mount Savage | 58,259 | 136,382 | 143,364 | 51,277 |
| Washington | 95,909 | 138,281 | 139,503 | 94,687 |
| Westmar | <u>29,730</u> | <u>53,699</u> | <u>53,496</u> | <u>29,933</u> |
| Total Middle Schools | <u>213,791</u> | <u>488,971</u> | <u>491,147</u> | <u>211,615</u> |
| ELEMENTARY SCHOOLS | | | | |
| Beall | 42,478 | 64,248 | 64,318 | 42,408 |
| Bel Air | 13,765 | 36,399 | 32,171 | 17,993 |
| Cash Valley | 19,185 | 54,399 | 35,376 | 38,208 |
| Cresaptown | 43,735 | 70,641 | 65,372 | 49,004 |
| Flintstone-school | 61,863 | 53,340 | 40,524 | 74,679 |
| Flintstone-McLuckie | 399,988 | 14,475 | 17,198 | 397,265 |
| Frost | 25,310 | 37,488 | 33,162 | 29,636 |
| Georges Creek | 47,949 | 79,912 | 74,875 | 52,986 |
| John Humbird | 18,868 | 40,774 | 31,139 | 28,503 |
| Northeast | 14,984 | 54,573 | 45,482 | 24,075 |
| Parkside | 14,838 | 30,602 | 37,639 | 7,801 |
| South Penn | 7,448 | 61,448 | 49,914 | 18,982 |
| West Side | 32,401 | 58,644 | 48,001 | 43,044 |
| Westport | <u>36,617</u> | <u>34,426</u> | <u>40,071</u> | <u>30,972</u> |
| Total Elementary Schools | <u>779,429</u> | <u>691,369</u> | <u>615,242</u> | <u>855,556</u> |
| TOTAL SCHOOLS | <u>\$ 1,583,273</u> | <u>\$ 3,201,810</u> | <u>\$ 3,086,913</u> | <u>\$ 1,698,170</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, 2007 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