

BOARD OF EDUCATION OF ALLEGANY COUNTY
FINANCIAL REPORT
AS OF JUNE 30, 2010 AND FOR THE YEAR THEN ENDED

BOARD OF EDUCATION OF ALLEGANY COUNTY

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INDEPENDENT AUDITORS' REPORT

Board of Education of Allegany County
Cumberland, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, 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, 2010, 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 and 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Board of Education of Allegany County, Maryland as of June 30, 2010, and the respective changes in financial position and the cash flows, where applicable, 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 September 30, 2010, 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages three (3) through seventeen (17) and fifty (50) through fifty-three (53) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Huber, Michaels + Company

Cumberland, Maryland
September 30, 2010

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2010

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, 2010 and 2009, 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.

At the end of fiscal year 2008, the Board implemented GASB Statement Number 39; Determining Whether Certain Organizations are Component Units. This statement addresses the conditions under which institutions should include associated fundraising or research foundations as component units in their financial statements. Under the previous accounting standards, the Board had no component units. Under the new standards, two entities meet the criteria qualifying them as component units. The component units are the Allegany County Building Trades Education Foundation Inc. and the Allegany County Public Schools Foundation, Inc. The component units are included in the accompanying financial statements in a separate column. However, the following discussion and analysis does not include their financial condition and activities. Separately issued financial statements for the component units are available as discussed in Note 1 of the financial statements.

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 \$4,084,319 (3.82%) during the fiscal year ended June 30, 2010. This increase is mainly attributed to the construction and equipment in establishing a culinary arts program and costs associated with the renovation of Greenway Avenue stadium and the ongoing construction costs connected with the Mountain Ridge stadium and related sports facilities. The school system also completed school based projects related to parking lots, bus drop-offs, and public address systems.

Total Governmental Funds revenues for the fiscal year ended June 30, 2010, were \$131,825,590. This represents an increase of \$3,083 (0.0023%) over the prior fiscal year. While unrestricted state revenues decreased \$1,823,345, restricted revenues increased by \$1,805,215 due to the system receiving federal stimulus funds under the American Recovery and Reinvestment Act (ARRA).

Total Governmental Funds expenses for the fiscal year ended June 30, 2010, were \$126,538,051. This represents an increase of \$387,743 (0.31%) over the prior fiscal year. School construction expenses decreased by \$1,271,831 mainly related to the completion of Mountain Ridge High

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Management's Discussion and Analysis (MD&A)
June 30, 2010

School. Restricted Fund expenditures increased by \$1,679,622 due to funds received under the American Recovery and Reinvestment Act (ARRA).

The Current Expense Fund total fund balance as of June 30, 2010, was \$10,820,376. This represents an increase of \$2,352,908 (27.79%) from the fund balance as of June 30, 2009.

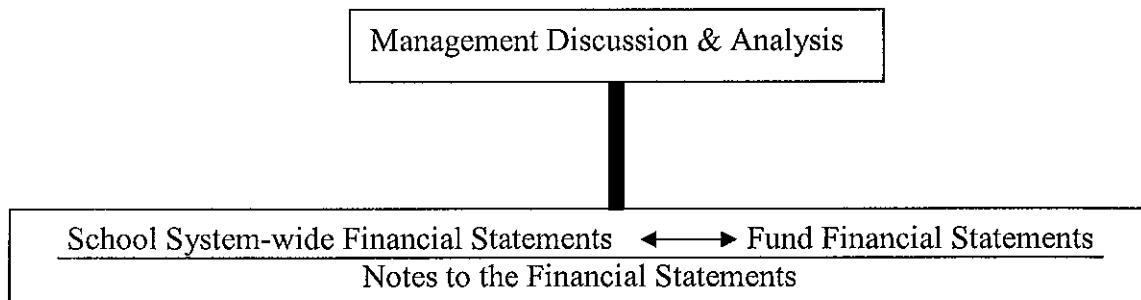
The Current Expense Fund undesignated fund balance as of June 30, 2010, was \$5,270,376. This represents an increase of \$2,352,908 (80.65%) from the undesignated fund balance as of June 30, 2009. A total of \$5.5 million of fund balance was designated for contingencies. The increase in fund balance is attributed mainly due to the success in controlling personnel and transportation expenditures discussed on pages 13 and 14.

Current Expense Fund revenues exceeded the final budget by \$205,119 (0.18%).

Current Expense Fund expenses and transfers were under budget by \$2,147,789 (2.00%). This shortfall was mainly due to staffing efficiencies in regular and special education instructional wages. The system also received a wavier of 5 student days due to inclement weather in February 2010 which saved the system in staff development costs, energy costs, and transportation costs.

The unrestricted General Fund budget decreased by \$2,214,433 (1.93%) to \$112,786,178 compared to the \$115,000,611 budget for the period ended June 30, 2009 due to a declining student population and receiving State Fiscal Stabilization Funds (SFSF) under the American Recovery Reinvestment Act (ARRA). SFSF funds are for expenses that were previously accounted for in the unrestricted General Fund and were moved to the restricted General Fund.

BASIC FINANCIAL STATEMENTS



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

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Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2010

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 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, Retiree Insurance Benefit Plan, and Retiree Health Plan Trust 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

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
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Management's Discussion and Analysis (MD&A)
June 30, 2010

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

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

The School System is the trustee, or fiduciary, for three fiduciary funds: the School Activity Fund, the Retiree Insurance Benefit Plan Fund, and Retiree Health Plan Trust 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, Retiree Insurance Benefit Plan Fund, and Retiree Health Plan Trust are used for their intended purpose.

The unrestricted portion of net assets at June 30, 2010, of \$10,620,520 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 \$2,361,796 and is the amount we expect to pay beyond June 30, 2011. Historically, this liability

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
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Management's Discussion and Analysis (MD&A)
June 30, 2010

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, 2010	June 30, 2009	% Change	June 30, 2010	June 30, 2009	% Change
Administration	\$ 2,590,400	\$ 2,766,346	-6.36%	\$ 2,524,803	\$ 2,697,077	-6.39%
Mid-level administration	7,481,267	7,231,366	3.46%	7,029,154	6,896,887	1.92%
Instruction (regular and special education)	68,349,222	66,727,725	2.43%	59,287,025	58,628,388	1.12%
Student personnel and health services	1,244,927	1,215,160	2.45%	761,073	1,149,689	-33.80%
Student transportation	5,958,108	5,901,804	0.95%	5,870,850	5,785,204	1.48%
Operation, maintenance and capital outlay	10,280,875	10,031,111	2.49%	9,090,085	9,251,669	-1.75%
Fixed charges	21,162,174	23,322,768	-9.26%	18,784,959	21,103,832	-10.99%
Food service	5,479,533	5,514,623	-0.64%	1,003,974	1,080,503	-7.08%
Depreciation & other	5,139,118	4,721,529	8.84%	5,139,118	4,721,529	8.84%
Total	\$ 127,685,624	\$ 127,432,432	0.20%	\$ 109,491,041	\$ 111,314,778	-1.64%

Results of operations for the School System as a whole are presented in the Statement of Activities. The cost of all governmental activities is \$127,685,624, of which \$1,499,090 was financed by users of the School System's programs. Grants and contributions from Federal and State governments for certain programs were \$16,695,493. This left a net cost of services of \$109,491,041.

The School System is fiscally dependent on local and state aid to fund its daily operations. Over 85% 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 13% of the School System's funding.

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

**Management's Discussion and Analysis (MD&A)
June 30, 2010**

Condensed Statement of Net Assets

	Governmental Activities			Business-type Activities			Total School System			
	June 30, 2010	June 30, 2009	% Change	June 30, 2010	June 30, 2009	% Change	June 30, 2010	June 30, 2009	% Change	
Current and other assets	\$ 46,041,482	\$ 37,714,305	22.08%	\$ 167,969	\$ 172,303	(4.33%)	\$ 46,209,451	\$ 37,886,608	8,322,843	21.97%
Capital assets	92,054,178	92,098,851	(0.05%)	192,432	233,262	(40.80%)	92,246,610	92,332,113	(85,503)	(0.09%)
Total Assets	\$ 138,095,660	\$ 129,813,156	6.38%	\$ 360,401	\$ 405,565	(11.44%)	\$ 138,456,061	\$ 130,218,721	\$ 8,237,340	6.33%
Current and other liabilities	\$ 25,034,946	\$ 20,836,726	20.15%	\$ 28,475	\$ 20,872	7.603	\$ 25,003,421	\$ 20,857,598	\$ 4,205,823	20.16%
Long-term liabilities	2,351,796	2,414,598	(2.19%)				2,351,796	2,414,598	(62,802)	(2.19%)
Total Liabilities	\$ 27,386,742	\$ 23,251,324	17.83%	\$ 28,475	\$ 20,872	7.603	\$ 27,425,217	\$ 23,272,196	\$ 4,153,021	17.85%
Net assets:										
Invested in capital assets, net of related debt	\$ 92,064,178	\$ 92,098,851	(0.05%)	\$ 192,432	\$ 233,262	(40.80%)	\$ 92,246,610	\$ 92,332,113	\$ (85,503)	(0.09%)
Restricted	8,163,714	6,846,890	19.23%				8,163,714	6,846,890	1,316,824	19.23%
Unrestricted	10,481,026	7,616,091	37.62%	139,494	151,431	(11.93%)	10,620,520	7,767,522	2,852,998	36.73%
Total Net Assets	\$ 110,698,918	\$ 106,561,832	3.88%	\$ 331,926	\$ 384,693	(13.72%)	\$ 111,030,844	\$ 106,946,525	\$ 4,084,319	3.82%

Changes in Net Assets from Operating Results

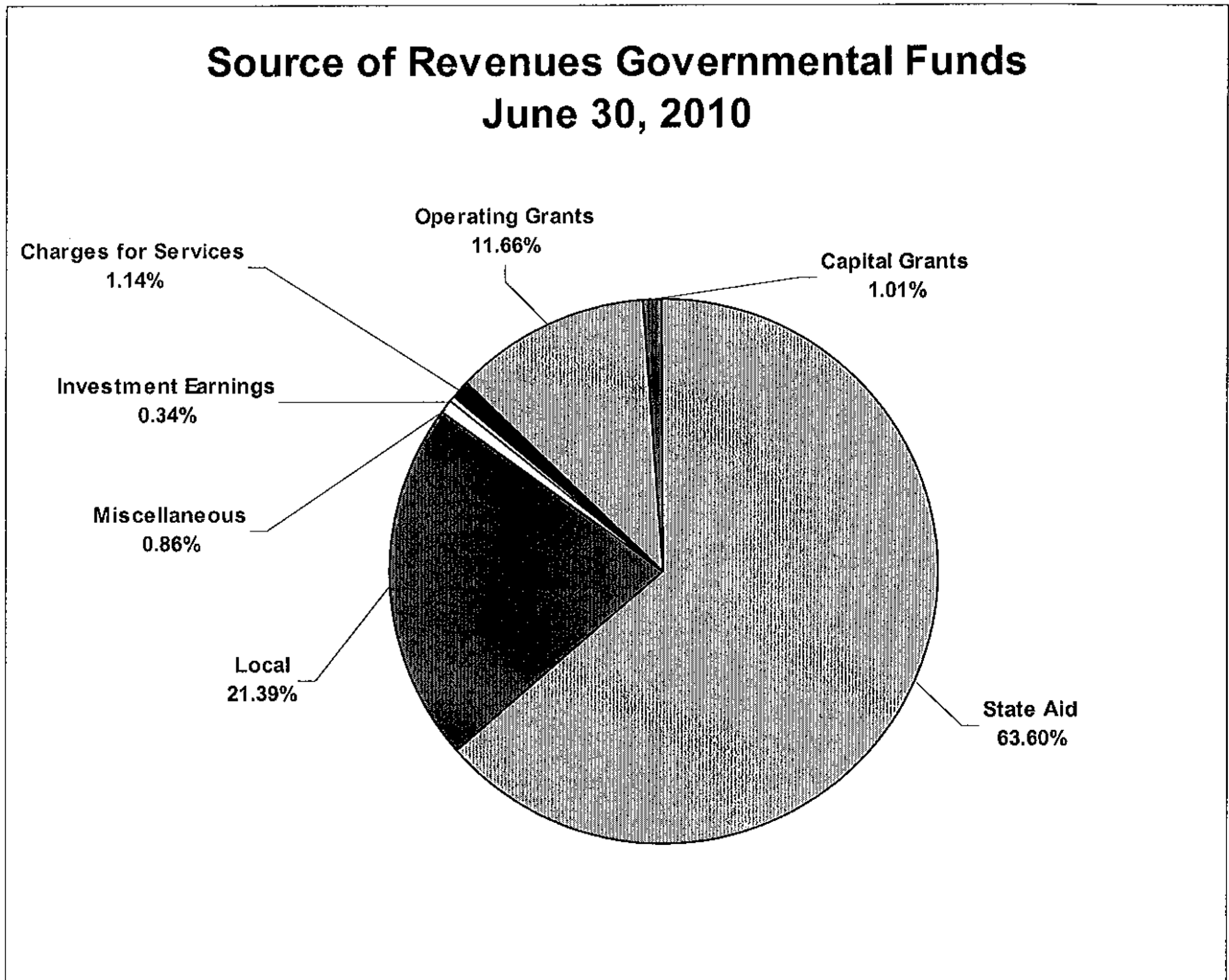
	Governmental Activities			Business-type Activities			Total School System			
	June 30, 2010	June 30, 2009	% Change	June 30, 2010	June 30, 2009	% Change	June 30, 2010	June 30, 2009	% Change	
Program revenues:										
Charges for services	\$ 1,499,090	\$ 1,563,757	(4.14%)	\$ 696,668	\$ 789,978	(83.31%)	\$ 2,195,758	\$ 2,353,735	\$ (157,977)	(6.71%)
Operating grants and contributions	15,367,351	13,477,196	14.03%				15,367,351	13,477,136	1,890,215	14.03%
Capital grants and contributions	1,328,142	1,076,761	23.35%				1,328,142	1,076,761	251,381	23.35%
General revenues:	28,200,000	28,450,000	(0.88%)				28,200,000	28,450,000	(250,000)	(0.88%)
County government	83,834,779	85,658,124	(2.13%)				83,834,779	85,658,124	(1,823,345)	(2.13%)
Grants and contributions (unrestricted)	1,593,348	1,718,152	(7.26%)	20,581	20,503	78	1,613,929	1,738,655	(124,726)	(7.17%)
Other										
Total Revenues	\$ 131,822,710	\$ 131,943,930	(0.09%)	\$ 717,249	\$ 810,481	(93.232)	\$ 132,539,959	\$ 132,754,411	\$ (214,452)	(0.16%)
Administration	2,590,400	2,766,346	(6.36%)				2,590,400	2,766,346	(175,946)	(6.36%)
Mid-level administration	7,481,267	7,231,366	3.46%				7,481,267	7,231,366	249,901	3.46%
Instruction (regular and special education)	66,349,222	66,721,497	2.43%				66,349,222	66,721,725	(372,503)	(0.56%)
Student personnel and health services	1,244,927	1,215,160	2.45%				1,244,927	1,215,160	29,767	2.45%
Student transportation	5,958,108	5,901,804	0.95%				5,958,108	5,901,804	56,304	0.95%
Operation, maintenance and capital outlay	10,280,875	10,031,111	2.49%				10,280,875	10,031,111	249,764	2.49%
Fixed charges	21,162,174	23,322,768	(9.26%)				21,162,174	23,322,768	(2,160,594)	(9.26%)
Food service	5,479,533	5,514,623	(0.64%)				5,479,533	5,514,623	(35,090)	(0.64%)
Depreciation & other	5,139,118	4,721,529	8.84%	770,016	760,013	10.003	5,909,134	5,481,542	427,592	7.80%
Total Expenses	\$ 127,685,624	\$ 127,432,432	0.20%	\$ 770,016	\$ 760,013	10.003	\$ 128,455,640	\$ 128,192,445	\$ 263,195	0.21%
Increase(decrease) in Net Assets	\$ 4,137,086	\$ 4,511,498	(8.30%)	\$ (62,767)	\$ 50,468	(103.235)	\$ 4,064,319	\$ 4,551,966	\$ (477,647)	(10.47%)

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

**Management's Discussion and Analysis (MD&A)
June 30, 2010**

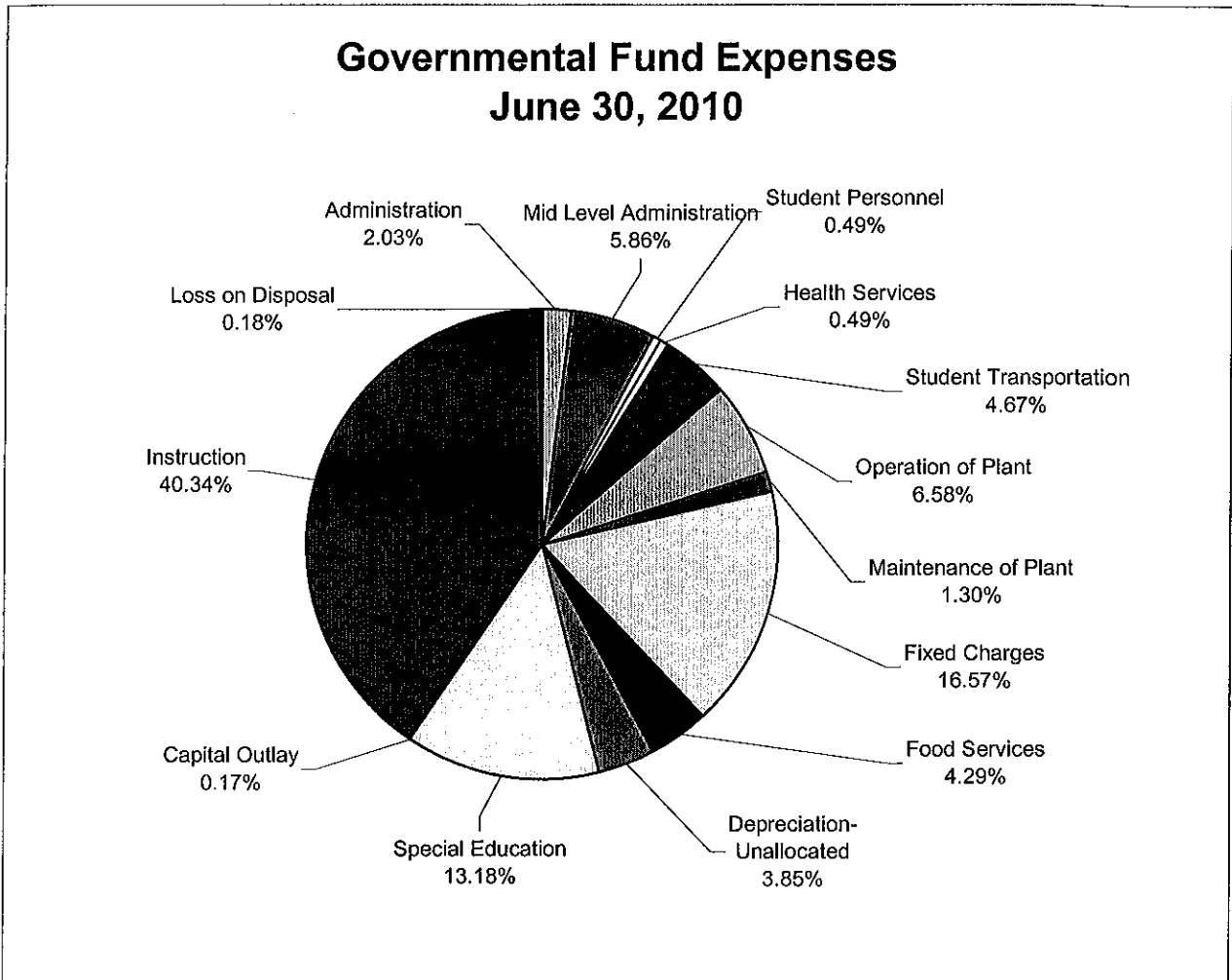
GENERAL FUND (CURRENT EXPENSE) BUDGETARY HIGHLIGHTS

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.



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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, 2010, is presented below. The net change resulted in a \$135,000 increase.

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

**Management's Discussion and Analysis (MD&A)
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	Original Budget	Final Budget	Additions	Reductions	Total Change
County Appropriation	\$ 28,165,000	\$ 28,200,000	\$ 285,000	\$ 250,000	\$ 35,000
State	83,702,764	83,702,764			
Federal	325,000	325,000			
Local	254,414	254,414			
Earnings on investments	202,000	202,000			
Other Sources	2,000	102,000	100,000		100,000
Total Revenues	\$ 112,651,178	\$ 112,786,178	\$ 385,000	\$ 250,000	\$ 135,000
Administration	\$ 2,567,292	\$ 2,355,892		\$ 211,400	\$ (211,400)
Mid-Level Administration	7,245,711	6,987,911		257,800	(257,800)
Instructional Salaries	43,161,565	42,518,065		643,500	(643,500)
Textbooks	3,023,138	3,488,948	505,510	39,700	465,810
Other Instructional Costs	2,604,839	2,658,729	53,890		53,890
Special Education	12,930,707	12,265,707		665,000	(665,000)
Student Personnel Services	590,201	590,201			
Student Health Services	228,893	202,893		26,000	(26,000)
Student Transportation	6,357,320	6,333,320		24,000	(24,000)
Operation of Plant	9,279,552	8,854,552	100,000	525,000	(425,000)
Maintenance of Plant	1,922,769	1,922,769			
Fixed Charges	20,013,749	19,711,749		302,000	(302,000)
Food Services	805,200	1,080,200	275,000		275,000
Capital Outlay	1,920,242	3,815,242	1,895,000		1,895,000
Total Expenditures	\$ 112,651,178	\$ 112,786,178	\$ 2,829,400	\$ 2,694,400	\$ 135,000

Local and state revenues account for over 99% of the total General Fund unrestricted revenue. Both are stable and highly predictable.

Budget Variances

Below is a table listing positive and negative budget variances for the year ended June 30, 2010 as a supplement to the narrative discussion below the chart.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
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Management's Discussion and Analysis (MD&A)
June 30, 2010

Unrestricted General Fund Budget to Actual Variances

Budget Variance Descriptions:	Positive (Negative)
Revenues:	
Medicare Part D	26,683
Special Education Private Placements	130,951
Interest Revenue	61,000
Other Revenue Variances	<u>(13,515)</u>
Total Revenue Variances	\$ 205,119
Expenditures and Interfund Transfers:	
Labor Savings & Efficiencies	794,381
Savings in FICA	228,585
Transportation Energy Savings	315,797
Instructional Contracted Services Payments	120,992
Administrative & Instructional Travel	121,453
Instructional Textbooks & Supplies	178,420
Instructional Equipment	42,804
Coursework Reimbursement	85,971
Private Placements	(184,706)
Insurance Savings	235,037
Retiree Insurance Savings	75,303
Special Education Occupational/Physical Therapy	122,012
Other expenditure variances	<u>11,740</u>
Total Expenditures and Interfund Transfers Variances	<u>2,147,789</u>
Total Positive Variance - Unrestricted General Fund	<u><u>\$ 2,352,908</u></u>

Revenues:

For the year ended June 30, 2010, total unrestricted general fund revenues resulted in a positive variance of \$205,119.

Medicare Part D revenues show a favorable variance of \$26,683. 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 retirees. The Government Accounting Standards Board (GASB) has issued a technical bulletin

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requiring recipients of Medicare Part D funds to show these proceeds as revenue. The system uses these funds for its GASB 45 contribution and to fund its retiree insurance programs.

Special education private placement revenue was up due to having more students qualifying for special placement. There was a positive budget variance of \$130,951. The increase is due to more students being served. The budget for Special Education private placement is an estimate based on the anticipated state formula and number of students served.

Interest revenue exceeds budget because the school system bids seeks competitive bids on its investments. Other revenues were under budgeted amounts creating a net unfavorable variance in the amount of \$13,515.

Expenditures and Inter-fund transfers:

For the year ended June 30, 2010, total unrestricted general fund expenditures resulted in a positive variance of \$2,147,789.

The school system manages closely its labor costs. Management evaluates positions that come open through attrition to determine if a replacement is necessary. That process resulted in 5.8 additional budgeted instructional positions being eliminated. The school system was able to secure grant funding for after school programs eliminating the need for \$66,000 of local contribution that was budgeted. A favorable labor variance was incurred due to lower than expected utilization of after school programs for middle school and high school students. Professional development savings resulted because grant funding was secured for many workshops. The school system sought and received a waiver of 5 student days due to the excessive amount of school missed for winter weather. Professional development took place during the 5 waiver days thereby eliminating end of year workshops that are paid in addition to regular faculty salaries. Further labor savings were realized for programs not needing as many hours as budgeted such as Garrett County Outdoor School, teacher mentoring, and summer school. Special education generated savings in labor compared to budget. Budgeting special education is particularly challenging due to the changes in the student population and the changing needs of the students. Grants in special education are sometimes able to absorb charges that are budgeted locally. Other labor savings in administration and transportation were generated due to efficiencies and timing in filing open positions. Overall, lower labor costs resulted in lower FICA expenditures.

The school system as part of the normal budgeting process, budgets transportation costs up to 18 months before incurring them. One of the factors in budgeting is estimated diesel fuel costs. Lower fuel costs overall were recognized as compared to budget resulting in a savings. The system owns buses that transport qualifying special education students. Lower gas and oil costs in operating these buses resulted in savings. The system also benefited by receiving a waiver of

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5 instructional days. This resulted in transporting students fewer days than budgeted. Contractors were offered professional development opportunities for the waiver days.

Another area contributing positive expenditure variances was contracted services for instructional programs. Because of rising costs, the school system changed an environmental education program for grade 6 students from Cecil County to a 2 day experience locally at Rocky Gap. Because of the number of school days missed for winter weather, a number of instructional departments did not take field trips that were budgeted resulting in a budgetary savings. This generated \$34,650 in transportation savings. Rental on facilities for the grade 5 environmental program in Garrett County came in under budget. The school system will reimburse individual schools for students that qualify for academic competition costs. This cost was under budget due to fewer students participating in academic competitions. Maintenance agreements for software programs used for instructional purposes came in under budget.

The system has a travel program where vehicles are rented rather than reimbursing at the IRS standard mileage rate as negotiated in employee contracts. This program has proved very beneficial and has decreased travel by almost 50% for trips to Baltimore and Annapolis where most state meetings are held. The school system has adopted conferencing calling technology and webinar technology to cut down on the amount of internal travel, and employees who travel out of county are requesting and using conference call and webinar technology when possible. A decrease in the IRS reimbursement rate also helped contribute to administrative and instructional travel being under budget.

Instructional textbooks and supplies came in under budget. Special education materials were under budget by \$45,456 due to the ability to charge materials to grants. The school system allocates \$730,500 to school principals for instructional supplies. A total of \$32,055 of what was allocated was not spent. Supplies for after school programs were under budget by \$23,422 due to the programs not being utilized as much as budgeted. The school system has a textbook replacement program and spent almost \$1.2 million for textbooks. Textbooks were under budget by \$17,601. Supplies for professional development purposes were under budget by \$16,998. The remaining variance in this category is spread among various instructional departments and programs.

Instructional equipment was under budget. The system approved a budget amendment for \$42,000 for a new printing press anticipating delivery by the end of the fiscal year. The vendor was unable to deliver the equipment by the end of the fiscal year and therefore the equipment was not purchased.

As part of the negotiated teacher contract in 2006, teachers were encouraged to work towards their master's degree and be reimbursed for the coursework. Teachers who held an advanced professional certificate but did not have a master's degree were able to be reimbursed for up to 30 graduate credit hours. The budget was increased for coursework when this enhanced benefit was negotiated. The system is hiring a greater number of new personnel with a master's degree

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and those that qualified for the enhanced coursework benefit have probably taken advantage of it resulting in a budgetary savings. The enhanced benefit for coursework reimbursement is set to expire June 30, 2011.

With the increase in revenue in special education non-public placements, an increase in cost associated with those students resulted in an unfavorable budget variance. The cost for these students is split between the local board and the state based upon a formula for students in the program.

Liability, vehicle, life, and long term disability insurances came in under budget due to a weak commercial insurance market that was impacted by the economic recession. Therefore prices for the annual coverage on policies was lower than budgeted. The system also competitively bids annually the required coverage for vehicles and buses.

The system is self insured for employee and retiree medical charges. Retirees are eligible for retiree benefits through a retiree subsidy program that ended June 30, 2002. In this program retirees receive an annual check. A newer program called the Retiree Insurance Fund was established July 1, 2002 in which retirees qualify for a benefit based upon years of experience. Participants are eligible to be reimbursed if they buy their insurance from another carrier and can show proof of purchase. The savings in retiree health benefits was the result of retirees not receiving as large of a benefit based upon lower reimbursable insurance costs.

The school system was able to use federal stimulus funds for a majority of the occupational and physical therapy costs that the system incurs for students qualifying for this type of service. Charging these costs to stimulus funding resulted in a favorable variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the School System had \$171,321,914 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$4,845,280 from the same time last year, net of disposals. The total net cost of assets after depreciation was \$92,246,610. Total depreciation expense for the year ended June 30, 2010 was \$5,676,176.

The system and the foundation are jointly continuing in their fundraising efforts to renovate and upgrade athletic fields at high school campuses. Work commenced in March 2010 at Greenway Avenue Stadium on home side bleachers and on the construction of a new field house. Athletic fields for baseball, soccer, and softball were completed for Mountain Ridge Stadium.

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Debt

School systems in Maryland are in the uncommon position of owning assets, but not the debt associated with those assets, as we have no borrowing power. 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

Legislation from federal and state governments has impacted public education in Maryland. 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, and 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.

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.

Beginning in fiscal year 2003, State government enacted the Bridge to Excellence in Public Schools Act (the Act). The Act provided increased funding to all public schools. In 2007 the Act was changed to reduce the rate of increase of state expenditures. Currently, the state budget has a structural deficit. State law requires a balanced budget each year for state government. The state currently pays the employer's share of teacher pensions on behalf of the school system. Several proposals have been offered to shift this cost either to the county government or to the local school system. Since a majority of the funding for the school system comes from the state government, factors impacting the state budget could eventually impact the local school system. The ability to secure additional funding from the county government is limited since Allegany County is the poorest jurisdiction in the state of Maryland as measured by wealth per pupil.

Allegany County continues to lose student population. One factor used in state funding formulas is the number of students in the school system. A reduction in the number of students will result in fewer state aid dollars. State aid accounts for approximately 75% of the unrestricted General

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Fund revenue. Student population is also a factor in the required minimum of funding from county government called maintenance of effort.

The school system completed a utilization study of the secondary schools in the city of Cumberland. A committee consisting of stakeholders recommended building and renovations to all five schools as part of a long range facility program. The school system is now undertaking a feasibility study so that planning approval will be granted from Interagency Committee on School Construction. Allegany County qualifies to have state government pay for 91% of the eligible construction costs. The remainder must be funded locally. The system was required to fund part of the construction of Mountain Ridge High School by county government for costs exceeding a stated dollar amount. All costs funded by the school system were not eligible for state funding.

The school system will be receiving funds from two new funding sources. The President of the United States authorized the creation of the Education Jobs Fund Program on August 10, 2010 that will allow the school system to pay for compensation and benefits for school-level educational and related services. The school system will receive an undetermined amount of funds which must be spent by September 30, 2012.

On August 24, 2010, the state of Maryland was named a winner in the federal Race to the Top grant program. Maryland will receive \$250 million. Money will be distributed to individual counties that have agreed to implement the requirements of the grant. Allegany County has agreed to implement the requirements and is scheduled to receive \$1.7 million.

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, CPA, Chief Business Officer, (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, 2010

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Allegany County Public Schools Foundation, Inc.	Allegany County Building Trades Education Foundation, Inc.
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 22,463,653	\$ -	\$ 22,463,653	\$ 177,728	\$ 193,485
Investments	20,000,000		20,000,000	15,019	
Accounts receivable	3,542,828	-	3,542,828		
Pledges receivable				87,250	
Accrued interest receivable			-		
Inventory	202,970		202,970		
Internal balances	(167,969)	167,969	-		
Total Current Assets	<u>46,041,482</u>	<u>167,969</u>	<u>46,209,451</u>	<u>279,997</u>	<u>193,485</u>
Noncurrent Assets:					
Pledges receivable				92,800	
Long-Term Investments, at market				10,106	
Non-depreciable capital assets	7,243,966	-	7,243,966		173,808
Depreciable capital assets, net of depreciation	84,810,212	192,432	85,002,644		
Total Noncurrent Assets	<u>92,054,178</u>	<u>192,432</u>	<u>92,246,610</u>	<u>102,906</u>	<u>173,808</u>
TOTAL ASSETS	<u>\$ 138,095,660</u>	<u>\$ 360,401</u>	<u>\$ 138,456,061</u>	<u>\$ 382,903</u>	<u>\$ 367,293</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 7,621,800	\$ 4,874	\$ 7,626,674	\$ -	\$ -
Salaries and benefits payable	3,887,014	23,601	3,910,615		
Deferred revenues	2,354,647		2,354,647		
Accrued hospital insurance	9,079,665		9,079,665		
Current portion of long-term debt	136,537		136,537		
Other current liabilities	1,955,283		1,955,283		
Total Current Liabilities	<u>25,034,946</u>	<u>28,475</u>	<u>25,063,421</u>	<u>-</u>	<u>-</u>
Noncurrent Liabilities:					
Long-term portion of compensated absences	2,361,796		2,361,796		
TOTAL LIABILITIES	<u>27,396,742</u>	<u>28,475</u>	<u>27,425,217</u>	<u>-</u>	<u>-</u>
NET ASSETS					
Invested in capital assets, net of related debt	92,054,178	192,432	92,246,610		
Restricted for:					
Capital projects	7,960,744		7,960,744	336,202	
Food inventories	202,970		202,970		
Other			-	36,655	
Unrestricted	10,481,026	139,494	10,620,520	10,046	367,293
TOTAL NET ASSETS	<u>110,698,918</u>	<u>331,926</u>	<u>111,030,844</u>	<u>382,903</u>	<u>367,293</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 138,095,660</u>	<u>\$ 360,401</u>	<u>\$ 138,456,061</u>	<u>\$ 382,903</u>	<u>\$ 367,293</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Function/Programs	Net (Expense) Revenue and Changes in Net Assets				Component Unit	
	Primary Government			Total	Allegany County	Allegany County
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Public Schools Foundation, Inc.
Primary government						
Governmental activities:						
Administration	\$ 2,590,400	\$ -	\$ 65,597	\$ 4,625	\$ (2,524,803)	\$ -
Mid-level administration	7,481,267		447,488		(7,029,154)	
Instruction - salaries	44,988,536		3,238,987		(41,749,549)	
Instruction - textbooks & instructional supplies	3,673,205		317,222		(3,355,983)	
Instruction - other	2,856,275		786,350	125,747	(1,966,178)	
Student personnel services	622,374		58,866		(563,508)	
Health services	622,553		424,988		(197,565)	
Student transportation	5,958,108		87,258		(5,870,850)	
Operation of plant and equipment	8,399,226		203		(8,399,023)	
Maintenance of plant	1,664,773				(1,664,773)	
Fixed charges	21,162,174		2,377,215	1,190,587	(18,784,959)	
Capital outlay	216,876		-		973,711	
Special education	16,831,206		4,615,891		(12,215,315)	
Food Service	5,479,533	1,499,090	2,967,286	9,183	(1,003,974)	
Unallocated depreciation expense (excludes direct depreciation)	4,911,617	1,499,090	15,367,351	1,328,142	(4,911,617)	
Total Governmental Activities	127,458,123	1,499,090	15,367,351	1,328,142	(109,263,540)	-
Business-type activities:						
ALLCOMET	17,255	-			(17,255)	
Information Technology	752,761	696,668			(56,093)	
Total Business-type Activities	770,016	696,668	-	-	(73,348)	-
Total Primary Government	\$ 128,228,139	\$ 2,195,758	\$ 15,367,351	\$ 1,328,142	\$ (109,263,540)	\$ -
Component unit						
Allegany County Public Schools Foundation, Inc.	513,769		29,365	85,767	(398,637)	5,916
Allegany County Building Trades Education Foundation, Inc.	45,954		51,870		(398,637)	5,916
Total Component Unit	\$ 559,723	\$ -	# \$ 81,235	\$ 85,767	\$ -	\$ -
General Revenues:						
County appropriation:						
Regular						
Grants, subsidies, and contributions not restricted						
Investment earnings						
Miscellaneous income						
Loss on disposal of fixed assets						
Total General Revenues, Special Items, Extraordinary Items and Transfers	28,200,000		20,581	20,581	113,421,207	458
	83,834,779				4,084,319	6,374
	453,352				(393,750)	
	1,139,996		20,581		776,633	360,919
	(227,501)				382,903	367,293
Total General Revenues, Special Items, Extraordinary Items and Transfers	113,400,626		20,581	20,581	113,421,207	458
Change in Net Assets						
Net Assets - July 1, 2009						
Net Assets - June 30, 2010						

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010**

	<u>General Fund (Current Expense) Unrestricted</u>	<u>(Current Expense) Restricted</u>	<u>Food Service</u>	<u>School Construction</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 17,642,070	\$ -	\$ 3,662	\$ 4,817,921	\$ 22,463,653
Investments	18,000,000			2,000,000	20,000,000
Accounts receivable	657,268	1,115,963	158,544	1,611,053	3,542,828
Inventory - food			202,970		202,970
Internal receivables		1,631,650	123,862	1,508,876	3,264,388
TOTAL ASSETS	<u>36,299,338</u>	<u>2,747,613</u>	<u>489,038</u>	<u>9,937,850</u>	<u>49,473,839</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	1,443,588	83,518	24,345	140,555	1,692,006
Salaries and benefits payable	3,501,738	309,448	75,828		3,887,014
Internal payables	9,362,151				9,362,151
Deferred revenues		2,354,647			2,354,647
Accrued hospital insurance	9,079,665				9,079,665
Current portion of long-term debt	136,537				136,537
Other current liabilities	1,955,283				1,955,283
TOTAL LIABILITIES	<u>25,478,962</u>	<u>2,747,613</u>	<u>100,173</u>	<u>140,555</u>	<u>28,467,303</u>
FUND BALANCES					
Reserved for food inventories			202,970		202,970
Reserved for capital projects				7,960,744	7,960,744
Unreserved - designated for unemployment benefits	50,000				50,000
Unreserved - designated for contingencies	5,500,000				5,500,000
Unreserved - undesignated					
General Fund	5,270,376				5,270,376
Special Revenue Fund - Food Service			185,895		185,895
Capital Projects Fund				1,836,551	1,836,551
TOTAL FUND BALANCES	<u>10,820,376</u>	<u>-</u>	<u>388,865</u>	<u>9,797,295</u>	<u>21,006,536</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 36,299,338</u>	<u>\$ 2,747,613</u>	<u>\$ 489,038</u>	<u>\$ 9,937,850</u>	<u>\$ 49,473,839</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

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

June 30, 2010

Total Fund Balances - Governmental Funds **\$ 21,006,536**

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$170,623,370 and the accumulated depreciation is \$78,569,192. 92,054,178

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. (2,361,796)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 110,698,918**

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, 2010**

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
REVENUES					
County - regular appropriation	\$ 28,200,000	\$ 314	\$ -	\$ 318,587	\$ 28,518,901
State - direct	83,834,779	1,056,878	203,885	872,000	85,967,542
Federal - direct	351,683		232,638		584,321
- received through State		10,257,902	2,444,146		12,702,048
- received through Pass-Thru Agency		861,133			861,133
Other revenue	604,835	90,052	1,521,562	975,196	3,191,645
TOTAL REVENUES	112,991,297	12,266,279	4,402,231	2,165,783	131,825,590
EXPENDITURES					
Administration	2,274,280	65,597			2,339,877
Mid-level administration	7,033,779	452,113			7,485,892
Instruction - salaries	41,802,351	3,238,987			45,041,338
Instruction - textbooks & instructional supplies	3,355,983	317,222			3,673,205
Instruction - other	2,418,487	890,097			3,308,584
Student personnel services	563,508	58,866			622,374
Health services	197,565	424,988			622,553
Student transportation	5,935,012	87,258			6,022,270
Operation of plant and equipment	8,883,481	203			8,883,684
Maintenance of plant	1,698,730				1,698,730
Fixed charges	17,977,335	2,025,532			20,002,867
Capital outlay	422,506			4,125,244	4,547,750
Special education	12,215,315	4,615,891			16,831,206
Food Service		95,800	5,361,921		5,457,721
TOTAL EXPENDITURES	104,778,332	12,272,554	5,361,921	4,125,244	126,538,051
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	8,212,965	(6,275)	(959,690)	(1,959,461)	5,287,539
OTHER FINANCING SOURCES (USES)					
Interfund transfers	(5,860,057)		1,080,200	3,615,000	(1,164,857)
Intrafund transfers		6,275			6,275
TOTAL OTHER FINANCING SOURCES (USES)	(5,860,057)	6,275	1,080,200	3,615,000	(1,158,582)
NET CHANGE IN FUND BALANCES	2,352,908	-	120,510	1,655,539	4,128,957
FUND BALANCE - JULY 1, 2009	8,467,468	-	268,355	8,141,756	16,877,579
FUND BALANCE - JUNE 30, 2010	\$ 10,820,376	\$ -	\$ 388,865	\$ 9,797,295	\$ 21,006,536

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, 2010

Total Net Change in Fund Balance - Governmental Funds					\$ 4,128,957
Amounts reported for governmental activities in the statement of activities are different because:					
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 \$52,802.					52,802
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		5,619,568		
	Capital Outlays		<u>5,811,551</u>		
					191,983
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 \$236,656.					<u>(236,656)</u>
TOTAL CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES					<u>\$ 4,137,086</u>

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, 2010**

	<u>Information Technology Fund</u>	<u>Allconet Fund</u>	<u>Total</u>
ASSETS			
Current Assets:			
Accounts receivable	\$ -	\$ -	\$ -
Internal receivables	126,341	41,628	167,969
Total Current Assets	<u>126,341</u>	<u>41,628</u>	<u>167,969</u>
Noncurrent Assets:			
Construction in progress			-
Machinery and equipment, net of depreciation	138,686	53,746	192,432
Total Noncurrent Assets	<u>138,686</u>	<u>53,746</u>	<u>192,432</u>
TOTAL ASSETS	<u>265,027</u>	<u>95,374</u>	<u>360,401</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	4,874		4,874
Salaries and benefits payable	23,601		23,601
Total Current Liabilities	<u>28,475</u>	<u>-</u>	<u>28,475</u>
TOTAL LIABILITIES	<u>28,475</u>	<u>-</u>	<u>28,475</u>
NET ASSETS			
Invested in capital assets, net of related debt	138,686	53,746	192,432
Unrestricted	97,866	41,628	139,494
TOTAL NET ASSETS	<u>236,552</u>	<u>95,374</u>	<u>331,926</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 265,027</u>	<u>\$ 95,374</u>	<u>\$ 360,401</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, 2010**

	<u>Information Technology Fund</u>	<u>Allconet Fund</u>	<u>Total</u>
OPERATING REVENUES			
County - regular appropriation	\$ 348,334	\$ -	\$ 348,334
- special appropriation			-
Other sources			-
Total Operating Revenues	<u>348,334</u>	<u>-</u>	<u>348,334</u>
OPERATING EXPENSES			
Salaries and wages	473,842		473,842
Contracted services	93,047		93,047
Supplies and materials	10,596		10,596
Other charges	124,089		124,089
Equipment replacement	11,834		11,834
Depreciation	39,353	17,255	56,608
Total Operating Expenses	<u>752,761</u>	<u>17,255</u>	<u>770,016</u>
Operating Income (Loss)	(404,427)	(17,255)	(421,682)
NON-OPERATING REVENUE			
Transfers	348,334		348,334
Other revenue	20,581		20,581
Total Non-operating Revenues	<u>368,915</u>	<u>-</u>	<u>368,915</u>
Change in Net Assets	(35,512)	(17,255)	(52,767)
TOTAL NET ASSETS - JULY 1, 2009	<u>272,064</u>	<u>112,629</u>	<u>384,693</u>
TOTAL NET ASSETS - JUNE 30, 2010	<u>\$ 236,552</u>	<u>\$ 95,374</u>	<u>\$ 331,926</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, 2010**

	<u>Information Technology Fund</u>	<u>Allconet Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 369,065	\$ 2,190
Cash received from quasi-external operation transactions with other funds	348,334	
Cash paid to suppliers	(234,690)	(6)
Cash payments to employees	<u>(471,108)</u>	
Net Cash Provided by Operating Activities	<u>11,601</u>	<u>2,184</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Change in due to/from other funds	<u>4,179</u>	<u>(2,184)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of equipment	<u>(15,780)</u>	
Net Cash Used in Capital and Related Financing Activities	<u>(15,780)</u>	<u>-</u>
Net change in Cash	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>
 RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ (35,512)	\$ (17,255)
Adjustments to reconcile change in nets assets to net cash provided by operations:		
Depreciation	39,353	17,255
Change in assets and liabilities		
Decrease (increase) in account receivable	150	2,190
Increase (decrease) in accounts payable	4,875	(6)
Increase (decrease) salaries & benefits payable	<u>2,735</u>	<u>-</u>
Total Adjustments	<u>47,113</u>	<u>19,439</u>
Net Cash Provided by Operating Activities	<u>\$ 11,601</u>	<u>\$ 2,184</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, 2010**

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,412,599	\$ -	\$ 676,108	\$ 2,088,707
Investments	613,956	4,000,000		4,613,956
Accounts receivable	32,684			32,684
Internal receivables		5,929,794		5,929,794
TOTAL ASSETS	<u>2,059,239</u>	<u>9,929,794</u>	<u>676,108</u>	<u>12,665,141</u>
LIABILITIES				
Accounts payable	51,781			51,781
Deferred revenue	2,007,458			2,007,458
Internal payables				-
TOTAL LIABILITIES	<u>2,059,239</u>	<u>-</u>		<u>2,059,239</u>
NET ASSETS				
Designated for future retiree benefits		9,929,794		9,929,794
Held in trust for retiree health plan benefits			676,108	676,108
TOTAL NET ASSETS	<u>-</u>	<u>9,929,794</u>	<u>676,108</u>	<u>10,605,902</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,059,239</u>	<u>\$ 9,929,794</u>	<u>\$ 676,108</u>	<u>\$ 12,665,141</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
ADDITIONS				
Student activity revenues	\$ 2,891,678	\$ -	\$ -	\$ 2,891,678
Transfers		1,164,857		1,164,857
Earnings on investment		188,406	28,533	216,939
Grants received on behalf of others				-
Contributions			89,000	89,000
DEDUCTIONS				
Student activity expenses	2,891,678			2,891,678
Retiree benefits		863,433		863,433
Grants passed to other agencies				-
Administrative expenses				-
Other		1,039		1,039
CHANGE IN NET ASSETS	-	488,791	117,533	606,324
NET ASSETS - JULY 1, 2009	-	9,441,003	558,575	9,999,578
NET ASSETS - JUNE 30, 2010	\$ -	\$ 9,929,794	\$ 676,108	\$ 10,605,902

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, the Allegany County Public Schools Foundation, Inc. and the Allegany County Building Trades Education Foundation, Inc. have been identified as component units for inclusion in the reporting entity.

The Allegany County Public Schools Foundation, Inc. is a legally, separate, tax-exempt entity that acts primarily as a fund-raising organization to supplement resources that are available to the Board in support of its programs. The Board does not control the timing or the amount of the receipts from the organization. The resources and income of the organization are restricted to the activities of the Board by the donors. Because the restricted resources held by the organization can only be used by, or for the benefit of, the Board, the organization meets the criteria of a component unit of the Board as set forth in Governmental Accounting Standards Board (GASB) Statement 39. Therefore, the organization is discretely presented in the Board's financial statements.

The Allegany County Building Trades Education Foundation Inc. is a legally, separate tax-exempt entity that have students with the assistance of local contractors and trade unions, build houses as part of their curriculum. The proceeds from the sale of these houses will be used to purchase materials for construction of additional houses and materials and equipment for other instructional programs at the Career Center. Because of the Foundation's relationship with the Board of Education, the organization meets the criteria of a component unit of the board as set forth in Governmental Accounting Standards Board (GASB 30). Therefore, the organization is discretely present in the Board's financial statements.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - REPORTING ENTITY (Continued)

Both the Allegany County Public Schools Foundation, Inc. and the Allegany County Building Trades Education Foundation Inc. are public nonprofit organizations that report under FASB standards including FASB Statement No. 117, *Financial Reporting for Not-for Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Limited modifications have been made to the organization's financial statement format for inclusion in the Board's financial statements.

Complete financial statements of the component units can be obtained from the administrative office:

Allegany County Public Schools Foundation, Inc.
108 Washington Street P.O. Box 1724
Cumberland, MD 21502

The Allegany County Building Trades Education Foundation, Inc.
108 Washington Street P.O. Box 1724
Cumberland, MD 21502

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

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, are 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Fund Types (Continued)

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.

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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Fiduciary Fund Type (Continued)

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.

Retiree Health Plan Trust

The Retiree Health Plan Trust is used to account for assets held in trust 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.

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 (i.e., revenues and other financing sources) and uses (i.e., 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus (Continued)

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 (i.e., revenues) and decreases (i.e., 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 types. 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 EDUCATIONS OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

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 with a few exceptions. At the request of the Maryland State Department of Education, on-behalf retirement payments made by the State of Maryland are not included in the final budgeted amounts of revenue and expenditures. The other exceptions are in the Proprietary Fund Type – Information Technology Fund and the Governmental Fund Type - School Construction Fund. The Proprietary Fund Type – Information Technology Fund 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Encumbrances (Continued)

At June 30, 2010, \$7,960,744 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.

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, 2010 is \$202,970.

I. Compensated Absences

Accumulated earned vacation time is accrued when incurred. At June 30, 2010, \$1,793,939 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, 2010, \$136,537 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,361,796 has been recorded in the government-wide statement of net assets. Total compensated absences decreased in the current year by \$52,802 over the prior year total of \$2,414,598.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences (Continued)

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.

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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Capital Assets (Continued)

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:

<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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Credit Risk

As of June 30, 2010, the Board has recorded receivables from various governmental units. As these receivables are believed to be completely collectable, 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 4 - 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.

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 \$232,638. 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance 6/30/09</u>	<u>Additions</u>	<u>Disposals and Transfers</u>	<u>Balance 6/30/10</u>
Governmental Activities				
Non-depreciable assets:				
Land	\$ 4,002,794	\$ 24,600	\$ -	\$ 4,027,394
Construction-in-progress	<u>1,326,270</u>	<u>2,564,572</u>	<u>(674,270)</u>	<u>3,216,572</u>
Total Non-depreciable assets	<u>5,329,064</u>	<u>2,589,172</u>	<u>(674,270)</u>	<u>7,243,966</u>
Depreciable assets:				
Land Improvements	6,405,251	1,086,389	-	7,491,640
Buildings and Improvements	140,774,581	925,296	(385,579)	141,314,298
Furniture, Equipment, and Vehicles	<u>13,255,823</u>	<u>1,884,964</u>	<u>(567,321)</u>	<u>14,573,466</u>
Total Depreciable assets	<u>160,435,655</u>	<u>3,896,649</u>	<u>(952,900)</u>	<u>163,379,404</u>
Less accumulated depreciation:				
Land Improvements	(407,693)	(356,828)	-	(764,521)
Buildings and Improvements	(67,226,288)	(3,871,354)	251,517	(70,846,125)
Furniture, Equipment, and Vehicles	<u>(6,031,887)</u>	<u>(1,391,386)</u>	<u>464,727</u>	<u>(6,958,546)</u>
Total accumulated depreciation	<u>(73,665,868)</u>	<u>(5,619,568)</u>	<u>716,244</u>	<u>(78,569,192)</u>
Total capital assets being depreciated	<u>86,769,787</u>	<u>(1,722,919)</u>	<u>(236,656)</u>	<u>84,810,212</u>
Governmental Activities Capital Assets, Net	<u>\$ 92,098,851</u>	<u>\$ 866,253</u>	<u>\$ (910,926)</u>	<u>\$ 92,054,178</u>
Business-Type Activities				
Non-depreciable assets:				
Construction-in-progress	\$ 58,051	\$ -	\$ (58,051)	\$ -
Total Non-depreciable assets	<u>58,051</u>	<u>-</u>	<u>(58,051)</u>	<u>-</u>
Depreciable assets:				
Furniture, Equipment, and Vehicles	653,864	73,831	(29,151)	698,544
Less accumulated depreciation	<u>(478,655)</u>	<u>(56,608)</u>	<u>29,151</u>	<u>(506,112)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 233,260</u>	<u>\$ 17,223</u>	<u>\$ (58,051)</u>	<u>\$ 192,432</u>
* Depreciation was charged to governmental functions as follows:				
Administration	\$ 270,144			
Student transportation	210,908			
Operation of plant and equipment	53,833			
Maintenance of plant	142,071			
Food Service	30,995			
Unallocated	<u>4,911,617</u>			
Total Depreciation Expense	<u>\$ 5,619,568</u>			

The insurance value of capital assets as of June 30, 2010 is \$345,172,573.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PENSION PLAN (Continued)

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 5% of earnable compensation. The Board is required to contribute at an actuarially determined rate for individuals in the employee retirement system and the employee contributory pension system. The current rates are 12.58% and 7.58% 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, 2010, 2009, 2008, 2007, and 2006 were \$ 1,121,559, \$955,884, \$993,118, \$866,800, and \$758,376 respectively, equal to the required contributions for each year.

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.

The Board is closely related to the Allegany County Public Schools Foundation, Inc. in that the Board provides labor and certain administrative costs for the Foundation in exchange for the funds the Foundation provides to the Board's students. The Foundation provided \$500,200 in programs and projects to the Board's students.

NOTE 8 - CASH AND INVESTMENTS

Deposits

At June 30, 2010, the carrying amount of the Board's bank deposits was \$23,674,802 and the various bank balances were \$24,934,568. Of the bank balances, \$24,672,521 was covered by depository insurance and \$262,047 was covered by collateral held at various banks in the Board's name. Total market value of these pledged securities at June 30, 2010 was \$3,678,543. Included in cash and cash equivalents is \$47,589 of money market funds invested in U.S government obligations.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - CASH AND INVESTMENTS (Continued)

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, 2010, 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
Certificates of Deposit	24,613,956	15,042	11,164,257	13,177,975	256,682

Of the Board's investments in certificates of deposits, \$17,391 was covered by federal depository insurance and \$24,596,565 was uninsured but collateralized by securities held by the counterparty's trust department.

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

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

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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - CASH AND INVESTMENTS (Continued)

Board of Education Discretely Presented Component Unit – Allegany County Public Schools Foundation, Inc.

Cash and cash equivalents are invested in interest bearing accounts at financial institutions and in money market funds. The carrying amount of the Foundation's deposit as of June 30, 2010 was \$177,728 and the balance per bank was \$177,918. This amount is fully insured by federal depository insurance.

Board of Education Discretely Presented Component Unit – Allegany County Building Trades Educational Foundation Inc.

Cash and cash equivalents are invested in interest bearing accounts at financial institutions and in money market funds. The carrying amount of the Foundation's deposit as of June 30, 2010 was \$193,485 and the balance per bank was \$195,559. This amount is fully insured by federal depository insurance.

NOTE 9 - ON-BEHALF PAYMENTS

The State of Maryland paid \$8,021,470 into the State Retirement and Pension System of Maryland on behalf of the Board.

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 \$1,077,134 of which \$654,946 is paid by the Board and the remainder is funded by the Allegany County Government. 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 \$9,079,665 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount increased by \$164,618 over the prior year amount of \$8,915,047, and was

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 10 - COMMITMENTS, CONTINGENCIES, RISKS, AND SUBSEQUENT EVENTS
(Continued)

based on total claims paid of \$14,962,658 and \$14,642,646 for 2010 and 2009, 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 \$275,000, the insurance company will reimburse the Board for the excess. The Board participates in the Maryland Association of Boards of Education's risk pool to manage the risks for workers' compensation claims. The Board pays an annual premium into the pool and may participate in refunds or be assessed additional 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, 2010. 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, 2010 the Board continued construction of the Mountain Ridge High School project. The school was finished and opened August of 2007. The stadium and related sports facilities were substantially completed as of June 30, 2010. The total cost of the project is expected to be in excess of \$46,000,000. As of June 30, 2010, \$45,764,896 has been expended toward the project. 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 2010, a maximum subsidy for all retirees of \$385,000 was approved by the Board.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

The total annual amount of the subsidy for the 2009-2010 fiscal year is as follows for 196 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	\$17,221	\$117,374
30 or more years	\$22,961	\$227,444

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 contributed \$1,164,857 toward the fund during the fiscal year ended June 30, 2010. 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 and printing equipment under operating and capital leases expiring during the next five years. In most cases, the Board expects that in the normal course of business, the lease options 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 and capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2010:

Year ending June 30:	
2011	\$ 304,442
2012	288,192
2013	235,671
2014	182,015
2015	<u>52,851</u>
Total minimum payments require	<u>\$1,063,171</u>

Rental expenditures for operating leases for the year ended June 30, 2010 is \$264,253.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - FUND BALANCE

A surplus fund balance of \$10,820,376 existed in the Current Expense Fund Type, Unrestricted fund, as of June 30, 2010. The surplus consisted of a \$50,000 designation for unemployment benefits, \$5,500,000 designated for contingencies, and an undesignated surplus of \$5,270,376.

NOTE 14 - ACCOUNTS RECEIVABLE

Total accounts receivable of Governmental Funds in the financial statements as of June 30, 2010 is \$3,542,828. This total consists of the following components:

County Government	\$318,587
State Government	1,843,580
Federal Government	1,150,375
Other Local Education Agencies	171,974
Other	<u>58,312</u>
Total	<u>\$ 3,542,828</u>

NOTE 15 - PLEDGES RECEIVABLE

Board of Education Discretely Presented Component Unit – Allegany County Public Schools Foundation, Inc.

The Allegany County Public Schools Foundation recognizes pledges receivable from donors based upon written instructions from donors indicating their intention to make multi-year disbursements to the Foundation. Those pledges expected within the next twelve months are classified as current. The Foundation has no allowance for doubtful pledges. The Foundation sends a reminder notice to donors approximately one month before payment is expected based upon written instructions from the donors. Most pledges are for naming rights at the Allegany County Board of Education's facilities. Three pledges are in arrears.

NOTE 16 - STADIUM FUNDS

Greenway Avenue Stadium

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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 16 - STADIUM FUNDS (Continued)

The activity for the year ended June 30, 2010 is as follows:

Balance, beginning of year	\$ 203,504
Add: Ticket surcharge collections	25,641
Interest	3,114
Tower rent	12,000
Less: Expenditures	<u>(0)</u>
Balance, end of year	<u>\$ 244,259</u>

Mountain Ridge Stadium

On March 13, 2007 the Board approved a \$1 surcharge on adult ticket sales for varsity football, varsity soccer, and varsity track sporting events held at Mountain Ridge Stadium. The funds are to be used to maintain, renovate, and upgrade Mountain Ridge Stadium. These funds are collected by Mountain Ridge High School 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, 2010 is as follows:

Balance, beginning of year	\$ 13,053
Add: Ticket surcharge collections	5,803
Interest	209
Less: Expenditures	<u>(0)</u>
Balance, end of year	<u>\$ 19,065</u>

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 17 - POST-RETIREMENT BENEFITS OTHER THAN PENSION BENEFITS

The Board provides medical benefits including prescription drug to eligible employees who retire from the Allegany County Public School System. The employer's contributions are financed on a pay-as-you-go basis through negotiated agreements with employee bargaining groups, and the future payment for these benefits is contingent upon annual approval of the operating budget. Details of the post-retirement benefits are as follows:

Medical Benefits – Retirees are eligible for continued membership of the school system's group medical plans provided they have at least 15 years service with the Allegany County Public Schools and retire directly from the school system. The retiree pays the premiums for these benefits but is eligible for a reduction of the premium based upon years of service and age.

Annual OPEB Cost and Net OPEB Obligation. The Board's annual other post-retirement benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's Annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation:

Components of Net OPEB Obligation

Annual Required Contribution	\$714,960
Interest on Net OPEB Obligation	(29,946)
Adjustment to Annual Required Contribution	23,650
Annual OPEB Cost (Expense)	<u>\$708,664</u>
Contributions Made	<u>(715,000)</u>
Increase in Net Obligation	<u><u>(\$6,336)</u></u>
Net OPEB Obligation (BOY)	(\$427,800)
Net OPEB Obligation (EOY)	(\$434,136)

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 18 - POST-RETIREMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for 2009-2010 is as follows:

<u>Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2010	708,664	100.9%	(434,136)
6/30/2009	698,000	161.3%	(427,800)

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$7,609,070 and the actuarial value of the assets was \$0 resulting in an unfunded accrued liability (UAAL) of \$7,050,359. The covered payroll (annual payroll of active employees covered by the plan was \$70,365,000 and the ratio of the UAAL to the covered payroll was 10.2%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend used. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial purposes are based on substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial value of assets, consistent with the long-term perspective of calculations.

In the July 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment return on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at July 1, 2009 was 29 years.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010**

	Unrestricted			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final	Budgetary Basis	
REVENUES				
County - regular appropriation	\$ 28,165,000	\$ 28,200,000	\$ 28,200,000	\$ -
State - direct	83,702,764	83,702,764	83,834,779	132,015
Federal - direct	325,000	325,000	351,683	26,683
Other revenue	458,414	558,414	604,835	46,421
TOTAL REVENUES	<u>112,651,178</u>	<u>112,786,178</u>	<u>112,991,297</u>	<u>205,119</u>
EXPENDITURES				
Administration	2,567,292	2,355,892	2,274,280	81,612
Mid-level administration	7,245,711	6,987,911	7,033,779	(45,868)
Instruction - salaries	43,161,565	42,518,065	41,802,351	715,714
Instruction - textbooks & instructional supplies	3,023,138	3,488,948	3,355,983	132,965
Instruction - other	2,604,839	2,658,729	2,418,487	240,242
Student personnel services	590,201	590,201	563,508	26,693
Health services	228,893	202,893	197,565	5,328
Student transportation	6,357,320	6,333,320	5,935,012	398,308
Operation of plant and equipment	9,279,552	8,854,552	8,883,481	(28,929)
Maintenance of plant	1,922,769	1,699,769	1,698,730	1,039
Fixed charges	18,848,892	18,546,892	17,977,335	569,557
Capital outlay	835,242	423,242	422,506	736
Special education	12,930,707	12,265,707	12,215,315	50,392
TOTAL EXPENDITURES	<u>109,596,121</u>	<u>106,926,121</u>	<u>104,778,332</u>	<u>2,147,789</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>3,055,057</u>	<u>5,860,057</u>	<u>8,212,965</u>	<u>2,352,908</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers	(3,055,057)	(5,860,057)	(5,860,057)	-
Intrafund transfers	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,055,057)</u>	<u>(5,860,057)</u>	<u>(5,860,057)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	2,352,908	2,352,908
FUND BALANCE - JULY 1, 2009	<u>8,467,468</u>	<u>8,467,468</u>	<u>8,467,468</u>	<u>-</u>
FUND BALANCE - JUNE 30, 2010	<u>\$ 8,467,468</u>	<u>\$ 8,467,468</u>	<u>\$ 10,820,376</u>	<u>\$ 2,352,908</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 SPECIAL REVENUE FUNDS - RESTRICTED (CURRENT EXPENSE) AND FOOD SERVICE
 FOR THE YEAR ENDED JUNE 30, 2010

	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)
REVENUES						
County - regular appropriation	\$ -	\$ 314	\$ 314	\$ -	\$ -	\$ -
State - direct	1,310,399	1,056,878	(253,521)	245,693	203,885	(41,808)
Federal - direct - received through State & Pass-Thru Agencies	11,856,489	11,119,035	(737,454)	371,461	232,638	(138,823)
Other revenue	67,651	90,052	22,401	1,904,182	1,521,562	(382,620)
TOTAL REVENUES	<u>13,234,539</u>	<u>12,266,279</u>	<u>(968,260)</u>	<u>5,033,906</u>	<u>4,402,231</u>	<u>(631,675)</u>
EXPENDITURES						
Administration	36,423	65,597	(29,174)			
Mid-level administration	336,977	452,113	(115,136)			
Instruction - salaries	3,604,374	3,238,987	365,387			
Instruction - textbooks & instructional supplies	514,433	317,222	197,211			
Instruction - other	851,978	890,097	(38,119)			
Student personnel services	62,357	58,866	3,491			
Health services	422,464	424,988	(2,524)			
Student transportation	82,014	87,258	(5,244)			
Operation of plant and equipment	960	203	757			
Fixed charges	2,089,772	2,025,532	64,240			
Capital outlay	30,000	-	30,000			
Special education	5,106,987	4,615,891	491,096			
Food Service	95,800	95,800	-	5,839,106	5,361,921	477,185
TOTAL EXPENDITURES	<u>13,234,539</u>	<u>12,272,554</u>	<u>961,985</u>	<u>5,839,106</u>	<u>5,361,921</u>	<u>477,185</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(6,275)	(6,275)	(805,200)	(959,690)	(154,490)
OTHER FINANCING SOURCES (USES)						
Interfund transfers		6,275	6,275	805,200	1,080,200	275,000
Intrafund transfers						
NET CHANGE IN FUND BALANCES	-	-	-	-	120,510	120,510
FUND BALANCE - JULY 1, 2008	-	-	-	268,355	268,355	-
FUND BALANCE - JUNE 30, 2009	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 268,355</u>	<u>\$ 388,865</u>	<u>\$ 120,510</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 18 - BUDGET TO ACTUAL VARIANCES

General Fund

For the year ended June 30, 2010 the General Fund had an excess of revenues and overall shortfall of expenditures.

The excess of revenues occurred because of the increased number of students qualifying for placement. Costs for this program are funded by both state government and the local Board of Education. The budget is set on an anticipated formula and an estimated number of students to be served. Interest revenues also exceeded budget. The finance office bids out investments. Finance management believed interest rates would fall further in FY2010 when investments were made in FY2009 thereby generating favorable returns.

An unfavorable variance existed in mid-level administration because the system reduced its final budget during the year to fund a capital project. Unanticipated retirement costs, travel, and equipment purchases at year end caused the unfavorable variance. Instructional salaries came in under budget due to the elimination of positions through attrition. The school system also saved money on staff development by having staff development take place during 5 student waiver days granted by the State Superintendent due to inclement weather in February 2010. This saved the school system money because staff development often takes place after the student school year and those costs are in addition to regular salaries.

Other instructional costs were lower due to lower costs for field trips and equipment. The number of field trips decreased because of the number of student snow days in February 2010. Field trips were decreased so that the curriculum could be covered. Student transportation was under budget because fuel prices were lower than budgeted. The school system also saved on fuel because buses were not run on the student days waived by the State Superintendent.

The budget for operation of plant and equipment was adjusted because the system entered into a favorable contract for natural gas. The school system also was able to reduce its usage of energy through efficient shut down and start up procedures. Savings were used for capital projects. Cooler spring weather after the budget adjustment caused the unfavorable variance.

Special Revenue Fund - Restricted

The Restricted Fund had a deficit of revenues and expenditures under the budgeted amounts for the year ended June 30, 2010. The system received grants under the American Recovery and Reinvestment Act (ARRA) for Title I and Special Education. Not all the funds budgeted were spent. The system has until September 30, 2012 to spend the funds.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 18 - BUDGET TO ACTUAL VARIANCES (Continued)

Special Revenue Fund – Food Service

The Food Service Special Revenue Fund for the year ended June 30, 2010 had a shortfall in revenues and an excess of expenditures over appropriations.

The shortfall in revenues was largely due to a reduced number of serving days. The system received a state waiver due to inclement weather in February 2010.

The reduced number of serving days caused the school system not to purchase as much food as anticipated but the system did not reduce labor costs due to fewer serving days. The school system provided training and staff development opportunities to staff so staff would not be financially harmed by the waiver of student days.

BOARD OF EDUCATION OF ALLEGANY COUNTY

**SCHOOL ACTIVITIES FUND
INCREASES, DECREASES AND BALANCES BY SCHOOL
For Year Ended June 30, 2010**

	<u>Balances June 30, 2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2010</u>
HIGH SCHOOLS				
Allegany	\$ 209,075	\$ 533,963	\$ 520,046	\$ 222,992
Center for Career and Technical Education	73,383	147,103	132,328	88,158
Fort Hill	184,785	624,329	617,345	191,769
Mountain Ridge	212,534	442,085	463,436	191,183
Alternative	6,409	16,217	19,385	3,241
Total High Schools	<u>686,186</u>	<u>1,763,697</u>	<u>1,752,540</u>	<u>697,343</u>
MIDDLE SCHOOLS				
Braddock	39,254	123,833	116,711	46,376
Mount Savage	74,745	154,595	162,137	67,203
Washington	96,146	104,798	118,742	82,202
Westmar	42,643	84,332	74,751	52,224
Total Middle Schools	<u>252,788</u>	<u>467,558</u>	<u>472,341</u>	<u>248,005</u>
ELEMENTARY SCHOOLS				
Beall	46,901	43,568	47,142	43,327
Bel Air	30,221	38,498	34,192	34,527
Cash Valley	32,321	42,080	42,329	32,072
Cresaptown	68,912	47,500	38,604	77,808
Flintstone-school	113,327	53,910	30,322	136,915
Flintstone-McLuckie	387,423	60,610	67,086	380,947
Frost	48,517	47,920	39,671	56,766
Georges Creek	63,137	115,821	110,284	68,674
John Humbird	49,014	44,381	31,739	61,656
Northeast	35,800	53,757	40,624	48,933
Parkside	16,786	36,870	37,945	15,711
South Penn	22,182	49,920	48,088	24,014
West Side	44,996	60,695	52,656	53,035
Westernport	32,879	40,961	46,115	27,725
Total Elementary Schools	<u>992,416</u>	<u>736,491</u>	<u>666,797</u>	<u>1,062,110</u>
TOTAL SCHOOLS	<u>\$ 1,931,390</u>	<u>\$ 2,967,746</u>	<u>\$ 2,891,678</u>	<u>\$ 2,007,458</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, 2010 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