

**BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**FINANCIAL REPORT**  
**AS OF JUNE 30, 2011 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 units, 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, 2011, 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 units, each major fund, and the aggregate remaining fund information of the Board of Education of Allegany County, Maryland as of June 30, 2011, 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, 2011, 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 taken as a whole. The accompanying information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is also not a required part of the financial statements. The accompanying information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 prepare 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 financial statements as a whole.

*Helen, Michaels + Company*

Cumberland, Maryland  
September 30, 2011

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2011**

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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, 2011 and 2010, 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 \$298,847 (0.27%) during the fiscal year ended June 30, 2011. This increase is mainly attributed to the completion of construction of athletic fields for baseball, soccer, and softball at Mountain Ridge High School.

Total Governmental Funds revenues for the fiscal year ended June 30, 2011, were \$129,384,982. This represents a decrease of \$2,440,608 (1.85%) under the prior fiscal year. The school system received less state aid due to enrollment declines and the change in real estate values. Allegany County real estate values increased more than the state average causing the county to appear wealthier and reducing state aid to the school system.

Total Governmental Funds expenses for the fiscal year ended June 30, 2011, were \$127,838,065. This represents an increase of \$1,300,014 (1.02%) over the prior fiscal year. School construction expenses increased by \$1,104,677 mainly related to the renovation of Greenway Avenue Stadium.

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2011**

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The Current Expense Fund total fund balance as of June 30, 2011, was \$12,517,669. This represents an increase of \$1,697,293 (15.69%) from the fund balance as of June 30, 2010.

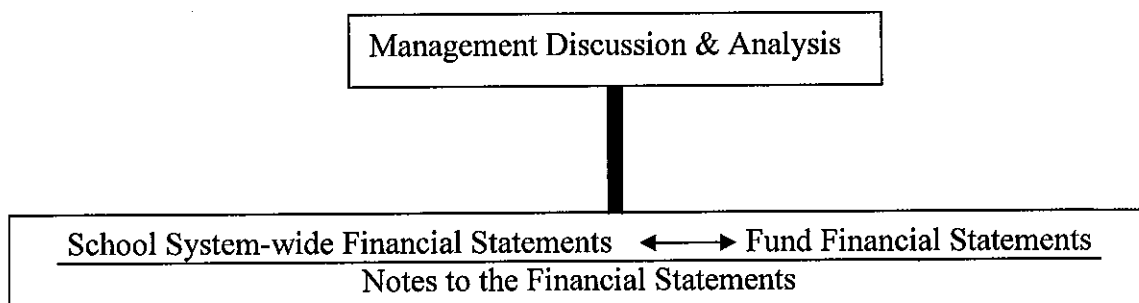
The Current Expense Fund unassigned fund balance as of June 30, 2011, was \$3,729,782. This represents a decrease of \$1,540,594 (29.23%) from the unassigned fund balance as of June 30, 2010. A total of \$2.5 million of the fund balance is committed to the FY2012 budget. A total of \$5.5 million of fund balance is assigned for contingencies and another \$700,000 assigned for future textbook purchases. The decrease in unassigned fund balance is attributed increasing the amount of fund balance committed to the next year's budget and the new assigned amount for textbook purchases.

Current Expense Fund revenues fell short of the final budget by \$986,897(0.91%). The system did not need to use the amount of fund balance budgeted to balance the budget in FY2011 due to aggressive expenditure control.

Current Expense Fund expenses and transfers were under budget by \$2,684,190 (2.46%). This shortfall was mainly due to staffing efficiencies in regular and special education instructional wages. The system also has a strong energy management program and was under budget in utilities. The school also decided not to buy textbooks that were budgeted because of Maryland's selection to the federal Race to the Top program which will require curriculum and textbook changes when implemented.

The unrestricted General Fund budget decreased by \$3,814,515 (3.38%) to \$108,971,663 compared to the \$112,786,178 budget for the period ended June 30, 2010 due to a declining student population, county wealth increase compared to the rest of Maryland, and receiving federal Education Jobs Funds. The state of Maryland reduced the unrestricted budget during the fiscal year by \$2,337,958 because of the availability of these funds which were accounted for in the restricted fund.

**BASIC FINANCIAL STATEMENTS**



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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2011**

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

**School System-wide Financial Statements**

In addition to the MD&A, the System-wide Financial Statements are the other primary addition to financial reporting under GASB Statement No. 34. The System-wide perspective is designed to provide readers with a complete financial view of the entity known as The Board of Education of Allegany County. The financial presentation of this perspective is similar to a private sector business. An analysis of the School System as a whole and as to whether it is better off as a result of the year's activities is reflected in the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* presents information on all of the assets and liabilities of the School System with the difference between the two reported as *net assets*. Over time, increases or decreases in the System's net assets are one indicator as to whether the System's financial health is improving or deteriorating. Keep in mind to consider other non-financial factors to assess the overall health of the System. The *Statement of Activities* presents information showing how the School System's net assets changed during the most recent fiscal year.

These statements measure the change in total economic resources during the period utilizing the accrual basis of accounting. All of the current year's revenues and expenses are taken into 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 BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**Maryland**

**Management's Discussion and Analysis (MD&A)**  
**June 30, 2011**

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

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

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

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

	<b>School System-wide Statements</b>	<b>Fund Statements</b>	<b>Budgetary Fund Statements</b>
<b>Measurement Focus</b>	Economic Resources	Current Financial Resources	Current Financial Resources
<b>Basis of Accounting</b>	Accrual	Modified Accrual	Cash and Commitments
<b>Budget</b>	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 Fund are used for their intended purpose.

The unrestricted portion of net assets at June 30, 2011, of \$12,071,823 is the result of combining the unreserved fund balances of the Governmental Funds with the unreserved fund balances of the Business-type Activities.

**THE BOARD OF EDUCATION OF ALLEGANY COUNTY**  
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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2011**

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 \$2,476,125 and is the amount we expect to pay beyond June 30, 2012. Historically, this liability was funded on a "pay as you go" basis from available current financial resources. This method is expected to continue.

	Total Cost of Services			Net Cost of Services		
	June 30, 2011	June 30, 2010	% Change	June 30, 2011	June 30, 2010	% Change
Administration	\$ 2,711,954	\$ 2,590,400	4.69%	\$ 2,678,879	\$ 2,524,803	6.10%
Mid-level administration	7,511,572	7,481,267	0.41%	7,032,346	7,029,154	0.05%
Instruction (regular and special education)	68,096,737	68,349,222	-0.37%	58,801,795	59,287,025	-0.82%
Student personnel and health services	1,454,370	1,244,927	16.82%	761,009	761,073	-0.01%
Student transportation	6,253,990	5,958,108	4.97%	6,169,340	5,870,850	5.08%
Operation, maintenance and capital outlay	10,620,549	10,280,875	3.30%	9,062,683	9,090,085	-0.30%
Fixed charges	21,619,464	21,162,174	2.16%	16,956,568	18,784,959	-9.73%
Food service	5,383,848	5,479,533	-1.75%	767,212	1,003,974	-23.58%
Depreciation & other	5,283,702	5,139,118	2.81%	5,283,702	5,139,118	2.81%
<b>Total</b>	<b>\$ 128,936,186</b>	<b>\$ 127,685,624</b>	<b>0.98%</b>	<b>\$ 107,513,534</b>	<b>\$ 109,491,041</b>	<b>-1.81%</b>

Results of operations for the School System as a whole are presented in the Statement of Activities. The cost of all governmental activities is \$128,936,186, of which \$1,524,218 was financed by users of the School System's programs. Grants and contributions from Federal and State governments for certain programs were \$19,898,434. This left a net cost of services of \$107,513,534.

The School System is fiscally dependent on local and state aid to fund its daily operations. Over 83% 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 15% of the School System's funding.

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

**Management's Discussion and Analysis (MD&A)**  
**June 30, 2011**

**Condensed Statement of Net Assets**

	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2011	June 30, 2010	\$ Change	% Change	June 30, 2011	June 30, 2010	\$ Change	% Change	June 30, 2011	June 30, 2010	\$ Change	% Change
Current and other assets	\$ 48,224,328	\$ 46,041,482	\$ 2,182,846	4.74%	\$ 49,948	\$ 167,969	\$ (118,021)	-70.25%	\$ 48,274,876	\$ 46,209,451	\$ 2,065,425	4.47%
Capital assets	92,581,322	92,054,178	527,144	0.57%	168,868	192,482	(23,614)	-12.25%	92,750,190	92,246,610	503,580	0.55%
<b>Total Assets</b>	<b>\$ 140,805,250</b>	<b>\$ 138,095,660</b>	<b>\$ 2,710,590</b>	<b>1.96%</b>	<b>\$ 218,816</b>	<b>\$ 360,451</b>	<b>\$ (141,635)</b>	<b>-39.29%</b>	<b>\$ 141,025,066</b>	<b>\$ 138,456,061</b>	<b>\$ 2,569,005</b>	<b>1.86%</b>
Current and other liabilities	\$ 27,187,777	\$ 25,034,946	\$ 2,152,831	8.60%	\$ 31,473	\$ 28,475	\$ 2,998	10.53%	\$ 27,219,250	\$ 25,063,421	\$ 2,155,829	8.60%
Long-term liabilities	2,476,125	2,361,796	114,329	4.84%					2,476,125	2,361,796	114,329	4.84%
<b>Total Liabilities</b>	<b>\$ 29,663,902</b>	<b>\$ 27,396,742</b>	<b>\$ 2,267,160</b>	<b>8.28%</b>	<b>\$ 31,473</b>	<b>\$ 28,475</b>	<b>\$ 2,998</b>	<b>10.53%</b>	<b>\$ 29,695,375</b>	<b>\$ 27,425,217</b>	<b>\$ 2,270,158</b>	<b>8.28%</b>
<b>Net assets:</b>												
Invested in capital assets, net of related debt	\$ 92,581,322	\$ 92,054,178	\$ 527,144	0.57%	\$ 168,868	\$ 192,432	\$ (23,564)	-12.25%	\$ 92,750,190	\$ 92,246,610	\$ 503,580	0.55%
Restricted	6,507,678	8,163,714	(1,656,036)	-20.28%					6,507,678	8,163,714	(1,656,036)	-20.28%
Unrestricted	12,068,348	10,491,026	1,577,322	15.00%	18,475	139,494	(121,019)	-86.76%	12,071,823	10,620,520	1,451,303	13.67%
<b>Total Net Assets</b>	<b>\$ 111,142,348</b>	<b>\$ 110,698,918</b>	<b>\$ 443,430</b>	<b>0.40%</b>	<b>\$ 187,343</b>	<b>\$ 331,926</b>	<b>\$ (144,583)</b>	<b>-43.56%</b>	<b>\$ 111,329,691</b>	<b>\$ 111,930,844</b>	<b>\$ (298,847)</b>	<b>0.27%</b>

**Changes in Net Assets from Operating Results**

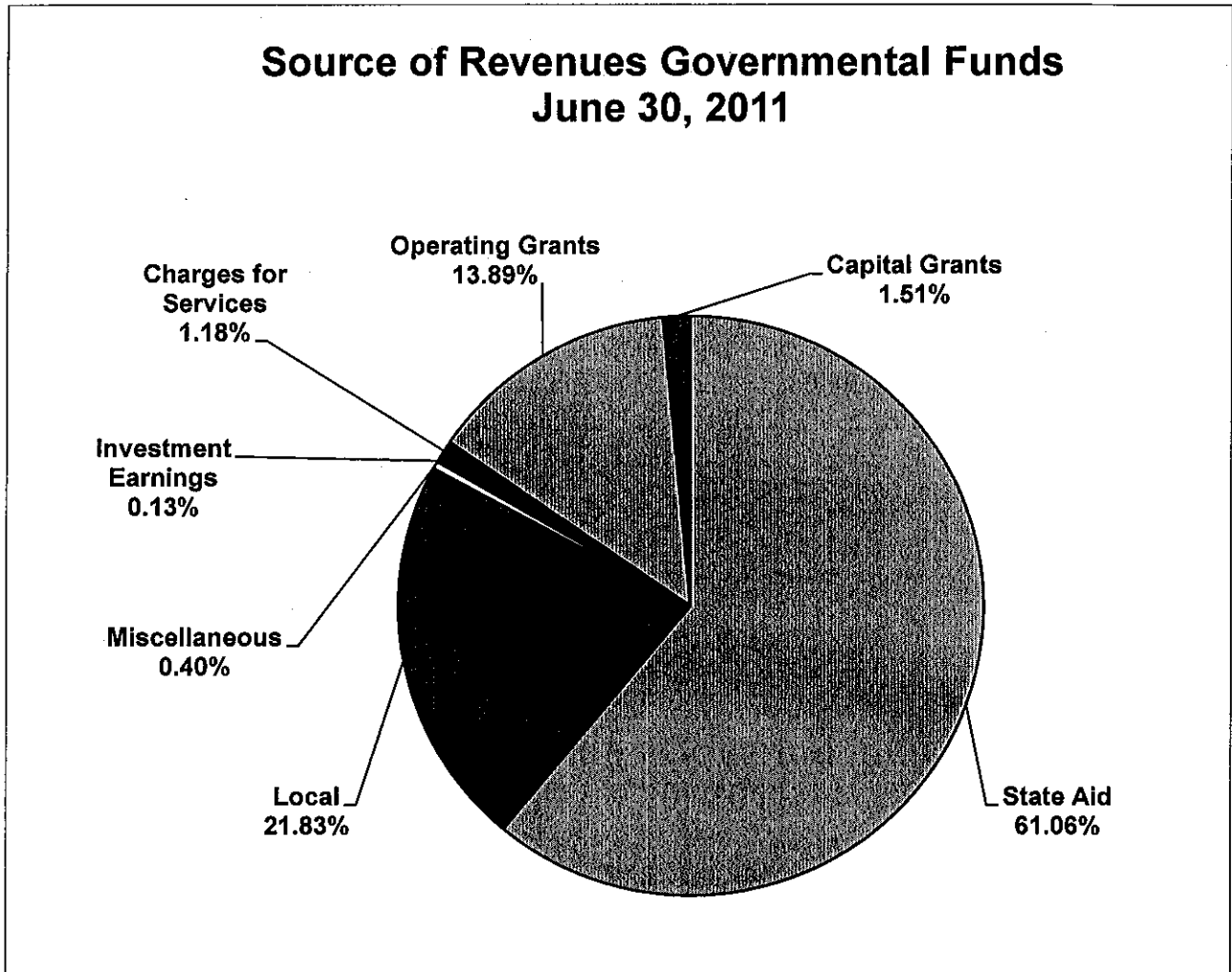
	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2011	June 30, 2010	\$ Change	% Change	June 30, 2011	June 30, 2010	\$ Change	% Change	June 30, 2011	June 30, 2010	\$ Change	% Change
Program revenues:												
Changes for services	\$ 1,524,218	\$ 1,499,090	\$ 25,128	1.68%	\$ 696,668	\$ 696,668	\$ -	0.00%	\$ 2,220,886	\$ 2,195,758	\$ 25,128	1.14%
Operating grants and contributions	17,946,229	15,367,351	2,578,878	16.78%					17,946,229	15,367,351	2,578,878	16.78%
Capital grants and contributions	1,952,205	1,328,142	624,063	46.99%					1,952,205	1,328,142	624,063	46.99%
General revenues:												
County government	28,240,000	28,200,000	40,000	0.14%					28,240,000	28,200,000	40,000	0.14%
Grants and contributions (unrestricted)	78,998,701	83,834,779	(4,836,078)	-5.77%					78,998,701	83,834,779	(4,836,078)	-5.77%
Other	718,263	1,593,348	(875,085)	-54.92%	20,700	20,351	349	0.58%	738,963	1,613,929	(874,966)	-54.21%
<b>Total Revenues</b>	<b>\$ 129,375,616</b>	<b>\$ 131,822,710</b>	<b>\$ (2,447,094)</b>	<b>-1.85%</b>	<b>\$ 717,368</b>	<b>\$ 717,249</b>	<b>\$ 119</b>	<b>0.02%</b>	<b>\$ 130,086,984</b>	<b>\$ 132,539,959</b>	<b>\$ (2,442,975)</b>	<b>-1.84%</b>
Administration	\$ 2,711,954	\$ 2,590,400	\$ 121,554	4.69%					2,711,954	2,590,400	121,554	4.69%
Mid-level administration	7,511,572	7,481,267	30,305	0.41%					7,511,572	7,481,267	30,305	0.41%
Instruction (regular and special education)	68,096,737	68,349,222	(252,485)	-0.37%					68,096,737	68,349,222	(252,485)	-0.37%
Student personnel and health services	1,454,370	1,244,927	209,443	16.82%					1,454,370	1,244,927	209,443	16.82%
Student transportation	6,253,990	5,958,108	295,882	4.97%					6,253,990	5,958,108	295,882	4.97%
Operation, maintenance and capital outlay	10,620,549	10,280,875	339,674	3.30%					10,620,549	10,280,875	339,674	3.30%
Fixed charges	21,619,464	21,162,174	457,290	2.16%					21,619,464	21,162,174	457,290	2.16%
Food service	5,383,848	5,479,533	(95,685)	-1.75%					5,383,848	5,479,533	(95,685)	-1.75%
Depreciation & other	5,283,702	5,139,118	144,584	2.81%					5,283,702	5,139,118	144,584	2.81%
<b>Total Expenses</b>	<b>\$ 128,936,186</b>	<b>\$ 127,665,624</b>	<b>\$ 1,270,562</b>	<b>0.98%</b>	<b>\$ 820,324</b>	<b>\$ 770,016</b>	<b>\$ 50,308</b>	<b>6.53%</b>	<b>\$ 129,756,510</b>	<b>\$ 128,455,640</b>	<b>\$ 1,300,870</b>	<b>1.01%</b>
<b>Increase(decrease) in Net Assets</b>	<b>\$ 443,430</b>	<b>\$ 4,137,086</b>	<b>\$ (3,693,656)</b>	<b>-89.28%</b>	<b>\$ (102,956)</b>	<b>\$ (52,767)</b>	<b>\$ (50,189)</b>	<b>-95.11%</b>	<b>\$ 340,474</b>	<b>\$ 4,084,319</b>	<b>\$ (3,743,845)</b>	<b>-91.66%</b>

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

**Management's Discussion and Analysis (MD&A)  
June 30, 2011**

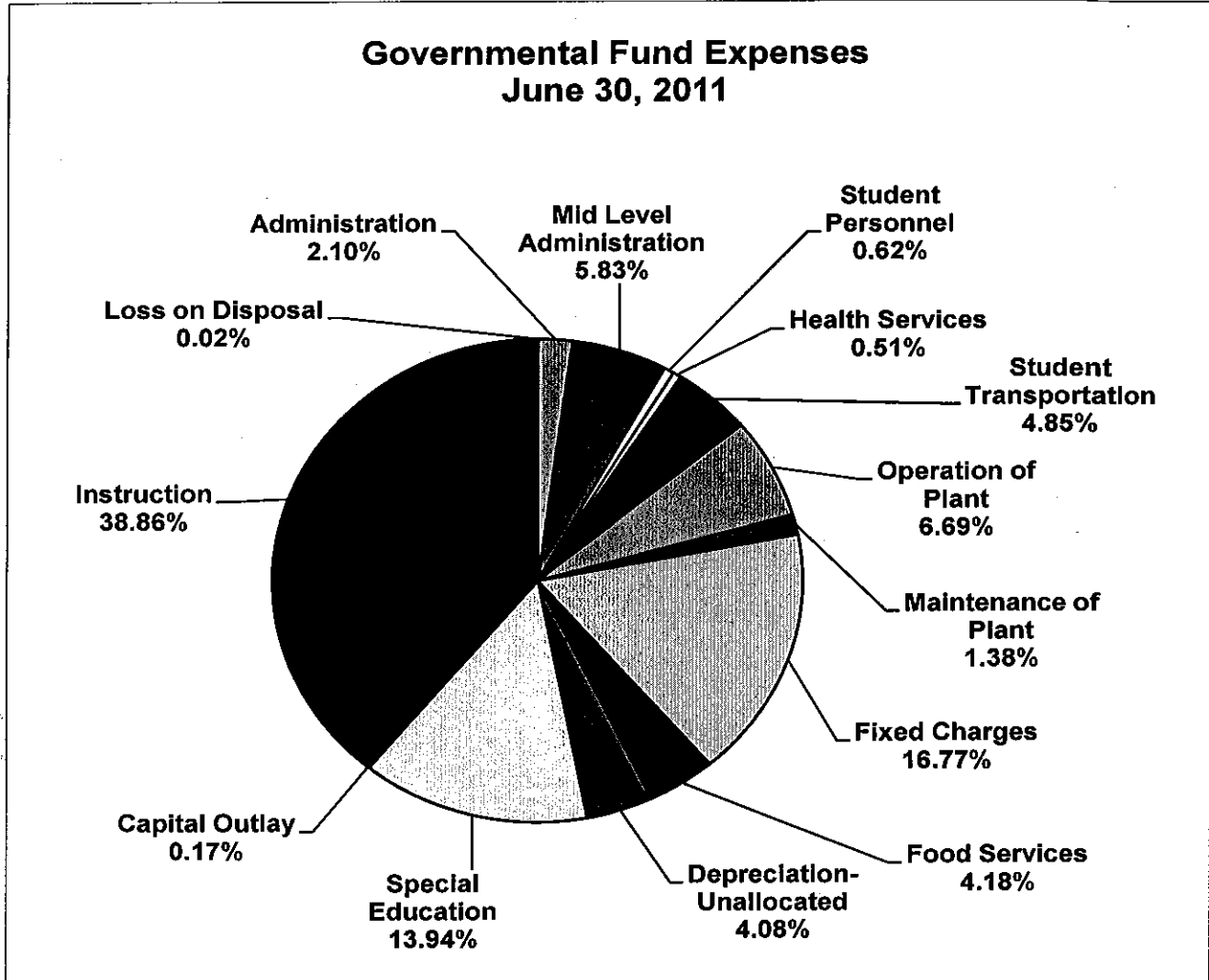
**GENERAL FUND (CURRENT EXPENSE) BUDGETARY HIGHLIGHTS**

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



THE BOARD OF EDUCATION OF ALLEGANY COUNTY  
Maryland

Management's Discussion and Analysis (MD&A)  
June 30, 2011



**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, 2011, is presented below. The net change resulted in a \$2,337,958 decrease.

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

**Management's Discussion and Analysis (MD&A)  
June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Additions</u>	<u>Reductions</u>	<u>Total Change</u>
County Appropriation	\$ 28,240,000	\$ 28,240,000			\$ -
State	81,048,270	78,710,312		2,337,958	(2,337,958)
Federal	325,000	325,000			
Local	233,951	233,951			
Earnings on investments	252,000	252,000			
Other Sources	1,210,400	1,210,400			
<b>Total Revenues</b>	<b>\$ 111,309,621</b>	<b>\$ 108,971,663</b>	<b>\$ -</b>	<b>\$ 2,337,958</b>	<b>\$ (2,337,958)</b>
Administration	\$ 2,495,996	\$ 2,414,901	\$ 43,905	\$ 125,000	\$ (81,095)
Mid-Level Administration	7,317,620	7,070,791		246,829	(246,829)
Instructional Salaries	43,227,553	42,691,658		535,895	(535,895)
Textbooks	2,712,258	2,679,258		33,000	(33,000)
Other Instructional Costs	2,336,738	2,352,238	33,000	17,500	15,500
Special Education	13,395,537	13,170,222	7,185	232,500	(225,315)
Student Personnel Services	626,268	715,402	89,134		89,134
Student Health Services	128,893	128,893			
Student Transportation	6,266,242	6,266,242			
Operation of Plant	9,236,939	9,254,439	17,500		17,500
Maintenance of Plant	1,982,285	1,982,285			
Fixed Charges	20,025,950	17,687,992		2,337,958	(2,337,958)
Food Services	760,100	760,100			
Capital Outlay	797,242	1,797,242	1,000,000		1,000,000
<b>Total Expenditures</b>	<b>\$ 111,309,621</b>	<b>\$ 108,971,663</b>	<b>\$ 1,190,724</b>	<b>\$ 3,528,682</b>	<b>\$ (2,337,958)</b>

Local and state revenues account for over 98% 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, 2011 as a supplement to the narrative discussion below the chart.

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**Unrestricted General Fund Budget to Actual Variances**

<b>Budget Variance Descriptions:</b>	<b>Positive (Negative)</b>
<b>Revenues:</b>	
Medicare Part D	52,081
Special Education Private Placements	288,389
Interest Revenue	(101,674)
Use of Fund Balance	(1,210,400)
Other Revenue Variances	<u>(15,293)</u>
<b>Total Revenue Variances</b>	<b>\$ (986,897)</b>
<b>Expenditures and Interfund Transfers:</b>	
Labor Savings & Efficiencies	1,133,500
Transportation Savings	88,275
Administrative & Instructional Travel	207,104
Insurance Savings	173,232
Utilities and Energy Management	410,478
Private Placements	(434,989)
Instructional Textbooks & Supplies	737,099
Coursework Reimbursement	72,586
Health Nurses and Special Education Contracted Services	144,486
Contracted Services For Field Trips and Software Maintenance	141,530
Other expenditure variances	<u>10,889</u>
<b>Total Expenditures and Interfund Transfers Variances</b>	<b><u>2,684,190</u></b>
<b>Total Positive Variance - Unrestricted General Fund</b>	<b><u><u>\$ 1,697,293</u></u></b>

**Revenues:**

For the year ended June 30, 2011, total unrestricted general fund revenues resulted in a negative variance of \$986,897.

Medicare Part D revenues show a favorable variance of \$52,081. 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 \$288,389. 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.

The system planned on using \$1,210,400 of the fund balance during the fiscal year. Due to expense management, use of the fund balance was not needed. Interest revenue was under budget by \$101,674 because the school system forecasted interest rates would increase from the historic low interest rates at the time the budget was set. Interest rates continue at historic lows. The school system competitively bids investments when investments are purchased. Other revenues were under budgeted amounts creating a net unfavorable variance in the amount of \$15,293.

**Expenditures and Inter-fund transfers:**

For the year ended June 30, 2011, total unrestricted general fund expenditures resulted in a positive variance of \$2,684,190.

The school system diligently manages labor costs. Management evaluates positions that come open through attrition to determine if replacement is necessary. When a position is open, the position is filled with a substitute at a lower cost than the budgeted amount for a position. This effect accounts for approximately \$116,000 of favorable variance in the maintenance, operations, and transportation departments. This same reason caused approximately \$254,000 of favorable variance in instructional wages. In the instructional area there were several instances where individuals were on leave without pay and the vacancy was covered with lower cost labor. Management tries to limit overtime to instances where it is absolutely necessary. A favorable variance of approximately \$79,000 resulted from managing overtime in the maintenance and operations departments. A \$365,000 favorable variance resulted from controlling hourly amounts paid to instructional personnel. The amounts for hourly pay are over the school system's negotiated base pay amounts. Hourly amounts are budgeted at the request of instructional supervisory management. Of the \$365,000 favorable variance, \$266,000 is due to lower locally funded after school program costs, lower professional development costs, lower costs for an in school suspension program, and lower costs for an evening high school program. Grants that the school system receives during the school year help lower locally funded costs by transferring the cost from the local budget to a grant budget. This most commonly occurs in special education. All labor savings resulted in a savings of \$163,000 in payroll tax expenditures to the school system.



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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 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 conference 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

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 were lower than budgeted. The system also competitively bids annually the required coverage for vehicles and buses. Unemployment insurance came in under budget as the school system actively questions requests for unemployment insurance.

The school system aggressively manages utility costs. Several years ago the system created a new position to monitor energy bills and energy usage of the buildings the school system operates. As a result energy savings have resulted from reducing energy usage when buildings are not being used by students and the public. The school system has been installing automatic energy control equipment in the buildings where costs are higher in terms of energy consumption to reduce energy usage when the buildings are not being used.

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.

Instructional textbooks and supplies came in under budget. The school system had budgeted over \$550,000 locally for new textbooks. A favorable variance of \$485,000 resulted from the school system not spending the money budgeted for textbooks because Maryland was selected to receive federal Race to the Top funds. A component of the federal Race to the Top program will cause school systems to revise their curriculums resulting in new textbook purchases. The school system did not want to purchase new textbooks in fiscal year 2011 and be forced to purchase new textbooks again shortly thereafter. Because of the increased expenditures of textbooks the last few years, school system management believes use of the current textbooks can be continued while the new curriculum changes are being identified. Fund balance is assigned for the textbook savings. Fewer supplies were needed for professional development and special education purposes resulting in a favorable variance of almost \$110,000. Supplies and software purchased centrally by the school system and distributed to the schools came in

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under budget by over \$43,000 due to a weak economy that resulted in favorable bids. During the school year, the school system joined a national purchasing cooperative for office and classroom supplies resulting in a price savings of 20%. This along with expense control management resulted in approximately \$100,000 of favorable variance. Included in the \$100,000 is over \$13,000 of unspent funds that are allocated to schools for instructional supplies and materials.

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 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.

The school system was the recipient of federal stimulus funds referred to as State Fiscal Stabilization Funds (SFSF). These funds were restricted to certain expenditures. The system originally planned on using some of the SFSF funds for textbook purchases. Because of Maryland's selection to receive Race to the Top funds, some of the textbook purchases were not made. Instead special education occupational and physical therapy costs and health nurse payments to the Allegany County Health Department were used resulting in favorable variances of over \$214,000. The school system does not directly employ health nurses but instead contracts their services from the Allegany County Health Department.

Another area contributing positive expenditure variances was contracted services for instructional programs. Software maintenance agreements came in under budget by approximately \$54,000. The system constantly evaluates software needed in delivering instructional programs to discontinue software no longer needed or used. A weak economy also resulted in lower prices on software. Transportation costs for field trips, outdoor school, and environmental education programs came in under budget resulting in favorable variances. Costs for individual trips for instructional purposes was less than budgeted and the number of trips were fewer.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### ***Capital Assets***

At June 30, 2011, the School System had \$177,286,975 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$5,965,061 from the same time last year, net of disposals. The total net cost of assets after depreciation was \$92,750,190. Total depreciation expense for the year ended June 30, 2011 was \$6,072,899.

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The school system and the Allegany County Public Schools Foundation conducted a joint fundraising effort to renovate and upgrade athletic fields at high school campuses. Pledges were made over a five year period and work continues. New scoreboards were installed at Mountain Ridge for baseball and softball. The baseball field was completed and work continues on a new entrance building and visitor field house. Work commenced in March 2010 at Greenway Avenue Stadium on home side bleachers and on the construction of a new field house. Work was substantially complete in the fall of 2010.

***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 but the system does have a debt policy to cover leasing and alternative financing arrangements permitted under state law.

**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. A special pension commission authorized by state government to study pension funding and

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pension benefits has recommended shifting one-half of the cost of teacher pensions to local school systems or to county government. 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 72% of the unrestricted General Fund revenue. Student population is also a factor in the required minimum of funding from county government called maintenance of effort.

Allegany County continues to gain wealth in the state aid education formulas which results in less funding for the school system. Wealth in the state aid education formulas is measured by income taxes, real estate assessments, and personal property assessments. Counties east of Allegany County have experienced declines in real estate assessable bases while Allegany County has remained increased. While Allegany County's wealth is still below the state average, the difference is shrinking resulting in less funds from state government. County government has not increased funding to the school system because of less funding coming into the school system due to Allegany County's increasing real property assessments.

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. A feasibility study focusing on a high school and two middle schools in the city of Cumberland was completed. The Board of Education voted the construction of a new high school on a new site yet undetermined as the number one school construction priority for the school system. Allegany County qualifies to have state government pay for 93% of the eligible construction costs if the project is approved by both county and state government. Costs not eligible for state funding 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.

On August 24, 2010, the state of Maryland was named a winner in the federal Race to the Top grant program. Maryland received \$250 million. Money was distributed to individual counties that have agreed to implement the requirements of the grant. Allegany County agreed to implement the requirements and was awarded \$1.7 million over a 4 year period. The requirements include revising curriculum to assure all graduates are college and career ready, building data systems that measure student growth and inform teachers and principals about how they can improve instruction, redesigning the model for the preparation, development, retention, and evaluation of teachers and principals, and turning around low achieving schools.

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**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@acps.k12.md.us](mailto:boardfinance@acps.k12.md.us), 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, 2011

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Allegany County Public Schools Foundation, Inc.	Allegany County Building Trades Education Foundation, Inc.
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 19,433,258	\$ -	\$ 19,433,258	\$ 35,087	\$ 95,339
Investments	25,000,000		25,000,000	17,000	
Accounts receivable	3,627,482	350	3,627,832		
Pledges receivable				61,100	
Accrued interest receivable			-		
Inventory	213,786		213,786		
Internal balances	(49,598)	49,598	-		
<b>Total Current Assets</b>	<b>48,224,928</b>	<b>49,948</b>	<b>48,274,876</b>	<b>113,187</b>	<b>95,339</b>
<b>Noncurrent Assets:</b>					
Pledges receivable				12,100	
Long-Term Investments, at market				17,950	
Non-depreciable capital assets	4,780,231	-	4,780,231		276,758
Depreciable capital assets, net of depreciation	87,801,091	168,868	87,969,959		
<b>Total Noncurrent Assets</b>	<b>92,581,322</b>	<b>168,868</b>	<b>92,750,190</b>	<b>30,050</b>	<b>276,758</b>
<b>TOTAL ASSETS</b>	<b>\$ 140,806,250</b>	<b>\$ 218,816</b>	<b>\$ 141,025,066</b>	<b>\$ 143,237</b>	<b>\$ 372,097</b>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts payable	\$ 7,659,452	\$ 7,521	\$ 7,666,973	\$ -	\$ -
Salaries and benefits payable	4,054,812	23,952	4,078,764		
Deferred revenues	4,432,739		4,432,739		
Accrued hospital insurance	8,895,040		8,895,040		
Current portion of long-term debt	138,604		138,604		
Other current liabilities	2,007,130		2,007,130		
<b>Total Current Liabilities</b>	<b>27,187,777</b>	<b>31,473</b>	<b>27,219,250</b>	<b>-</b>	<b>-</b>
<b>Noncurrent Liabilities:</b>					
Long-term portion of compensated absences	2,476,125		2,476,125		
<b>TOTAL LIABILITIES</b>	<b>29,663,902</b>	<b>31,473</b>	<b>29,695,375</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	92,581,322	168,868	92,750,190		
Restricted for:					
Capital projects	6,293,892		6,293,892	80,252	
Food inventories	213,786		213,786		
Other			-	53,618	
Unrestricted	12,053,348	18,475	12,071,823	9,367	372,097
<b>TOTAL NET ASSETS</b>	<b>111,142,348</b>	<b>187,343</b>	<b>111,329,691</b>	<b>143,237</b>	<b>372,097</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 140,806,250</b>	<b>\$ 218,816</b>	<b>\$ 141,025,066</b>	<b>\$ 143,237</b>	<b>\$ 372,097</b>

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, 2011

	Net (Expense) Revenue and Changes in Net Assets				Component Unit	
	Primary Government			Total	Allegany County	Allegany County
	Governmental Activities	Business-type Activities	Allegany County Public Schools Foundation, Inc.		Building Trades Education Foundation, Inc.	
<b>Primary government</b>						
<b>Governmental activities:</b>						
Administration	\$ 2,711,954	\$ -	\$ 13,969	\$ (2,678,879)	\$ -	\$ -
Mid-level administration	7,511,572	-	475,466	(7,032,346)	-	-
Instruction - salaries	45,184,599	-	3,075,599	(42,109,000)	-	-
Instruction - textbooks & instructional supplies	2,547,972	-	540,079	(2,007,893)	-	-
Instruction - other	2,396,112	-	719,247	(1,279,842)	-	-
Student personnel services	794,364	-	65,959	(728,405)	-	-
Health services	660,006	-	627,402	(32,604)	-	-
Student transportation	6,253,990	-	84,650	(6,169,340)	-	-
Operation of plant and equipment	8,620,942	-	29,945	(8,590,997)	-	-
Maintenance of plant	1,780,102	-	-	(1,780,102)	-	-
Fixed charges	21,619,464	-	4,662,896	(16,956,568)	-	-
Capital outlay	219,505	-	-	1,308,416	-	-
Special education	17,968,054	-	4,558,599	(13,405,060)	-	-
Food Service	5,383,848	1,524,218	3,092,418	(767,212)	-	-
Unallocated depreciation expense (excludes direct depreciation)	5,261,072	1,524,218	17,946,229	(5,261,072)	-	-
<b>Total Governmental Activities</b>	<b>128,913,556</b>			<b>(107,490,904)</b>		
<b>Business-type activities:</b>						
Allcomet	4,246	-	-	(4,246)	-	-
Information Technology	746,471	695,668	-	(49,803)	-	-
<b>Total Business-type Activities</b>	<b>750,717</b>	<b>695,668</b>	<b>-</b>	<b>(54,049)</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 129,664,273</b>	<b>\$ 2,220,886</b>	<b>\$ 17,946,229</b>	<b>\$ (107,490,904)</b>	<b>\$ (54,049)</b>	<b>\$ (107,544,953)</b>
<b>Component unit</b>						
Allegany County Public Schools Foundation, Inc.	274,070	-	28,736	(240,441)	(240,441)	4,591
Allegany County Building Trades Education Foundation, Inc.	47,697	-	52,288	-	(240,441)	4,591
<b>Total Component Unit</b>	<b>\$ 321,767</b>	<b>\$ -</b>	<b>\$ 81,024</b>	<b>\$ (240,441)</b>	<b>\$ (240,441)</b>	<b>\$ 4,591</b>
<b>General Revenues:</b>						
County appropriation:						
Regular						
Grants, subsidies, and contributions not restricted						
Investment earnings						
Miscellaneous income						
Loss on disposal of fixed assets						
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>						
Change in Net Assets						
Transfers to the County						
Net Assets - July 1, 2010						
Net Assets - June 30, 2011						

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

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2011**

	<b>General Fund (Current Expense) Unrestricted</b>	<b>(Current Expense) Restricted</b>	<b>Food Service</b>	<b>School Construction</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 11,237,827	\$ -	\$ 1,651	\$ 8,193,780	\$ 19,433,258
Investments	25,000,000				25,000,000
Accounts receivable	912,592	916,528	122,074	1,676,288	3,627,482
Inventory - food			213,786		213,786
Internal receivables		2,237,140	172,849		2,409,989
<b>TOTAL ASSETS</b>	<b>37,150,419</b>	<b>3,153,668</b>	<b>510,360</b>	<b>9,870,068</b>	<b>50,684,515</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	1,036,870	109,337	9,746	250,382	1,406,335
Salaries and benefits payable	3,688,060	328,284	38,468		4,054,812
Internal payables	7,150,354			1,562,350	8,712,704
Deferred revenues	1,716,692	2,716,047			4,432,739
Accrued hospital insurance	8,895,040				8,895,040
Current portion of long-term debt	138,604				138,604
Other current liabilities	2,007,130				2,007,130
<b>TOTAL LIABILITIES</b>	<b>24,632,750</b>	<b>3,153,668</b>	<b>48,214</b>	<b>1,812,732</b>	<b>29,647,364</b>
<b>FUND BALANCES</b>					
Nonspendable - food inventories			213,786		213,786
Restricted - capital projects				6,293,892	6,293,892
Committed - FY12 budget	2,537,887				2,537,887
Assigned to:					
Contingencies	5,500,000				5,500,000
Textbooks	700,000				700,000
Unemployment benefits	50,000				50,000
Capital Projects				1,763,444	1,763,444
Food Service			248,360		248,360
Unassigned	3,729,782				3,729,782
<b>TOTAL FUND BALANCES</b>	<b>12,517,669</b>	<b>-</b>	<b>462,146</b>	<b>8,057,336</b>	<b>21,037,151</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 37,150,419</b>	<b>\$ 3,153,668</b>	<b>\$ 510,360</b>	<b>\$ 9,870,068</b>	<b>\$ 50,684,515</b>

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, 2011**

**Total Fund Balances - Governmental Funds** **\$ 21,037,151**

**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 \$176,717,654 and the accumulated depreciation is \$84,136,332. 92,581,322

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. (2,476,125)

**TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES** **\$ 111,142,348**

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, 2011**

	<b>General Fund (Current Expense) Unrestricted</b>	<b>(Current Expense) Restricted</b>	<b>Food Service</b>	<b>School Construction</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>					
County - regular appropriation	\$ 28,240,000	\$ -	\$ -	\$ 765,829	\$ 29,005,829
State - direct	78,998,701	883,411	213,880	762,092	80,858,084
Federal - direct			288,693		288,693
- received through State		12,790,671	2,589,845		15,380,516
- received through Pass-Thru Agency	377,081	978,969			1,356,050
Other revenue	368,984	236,861	1,572,924	317,041	2,495,810
<b>TOTAL REVENUES</b>	<b>107,984,766</b>	<b>14,889,912</b>	<b>4,665,342</b>	<b>1,844,962</b>	<b>129,384,982</b>
<b>EXPENDITURES</b>					
Administration	2,034,855	33,075			2,067,930
Mid-level administration	7,045,856	479,226			7,525,082
Instruction - salaries	41,994,671	3,075,599			45,070,270
Instruction - textbooks & instructional supplies	2,007,893	540,079			2,547,972
Instruction - other	2,125,385	1,116,270			3,241,655
Student personnel services	728,405	65,959			794,364
Health services	32,604	627,402			660,006
Student transportation	6,125,765	84,650			6,210,415
Operation of plant and equipment	8,681,402	29,945			8,711,347
Maintenance of plant	1,831,120				1,831,120
Fixed charges	16,185,867	4,285,815			20,471,682
Capital outlay	151,691			5,229,921	5,381,612
Special education	13,409,455	4,562,994			17,972,449
Food Service			5,352,161		5,352,161
<b>TOTAL EXPENDITURES</b>	<b>102,354,969</b>	<b>14,901,014</b>	<b>5,352,161</b>	<b>5,229,921</b>	<b>127,838,065</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>5,629,797</b>	<b>(11,102)</b>	<b>(686,819)</b>	<b>(3,384,959)</b>	<b>1,546,917</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers	(3,918,291)		760,100	1,645,000	(1,513,191)
Intrafund transfers	(14,213)	11,102			(3,111)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(3,932,504)</b>	<b>11,102</b>	<b>760,100</b>	<b>1,645,000</b>	<b>(1,516,302)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,697,293</b>	<b>-</b>	<b>73,281</b>	<b>(1,739,959)</b>	<b>30,615</b>
<b>FUND BALANCE - JULY 1, 2010</b>	<b>10,820,376</b>	<b>-</b>	<b>388,865</b>	<b>9,797,295</b>	<b>21,006,536</b>
<b>FUND BALANCE - JUNE 30, 2011</b>	<b>\$ 12,517,669</b>	<b>\$ -</b>	<b>\$ 462,146</b>	<b>\$ 8,057,336</b>	<b>\$ 21,037,151</b>

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, 2011

Total Net Change in Fund Balance - Governmental Funds \$ 30,615

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 an increase of \$114,329. (114,329)

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	6,025,593	
Capital Outlays	<u>6,591,835</u>	566,242

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 \$39,098. (39,098)

**TOTAL CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 443,430

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, 2011**

	<u>Information Technology Fund</u>	<u>Allconet Fund</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Accounts receivable	\$ 350	\$ -	\$ 350
Internal receivables	49,598		49,598
<b>Total Current Assets</b>	<u>49,948</u>	<u>-</u>	<u>49,948</u>
<b>Noncurrent Assets:</b>			
Construction in progress			-
Machinery and equipment, net of depreciation	168,868		168,868
<b>Total Noncurrent Assets</b>	<u>168,868</u>	<u>-</u>	<u>168,868</u>
<b>TOTAL ASSETS</b>	<u>218,816</u>	<u>-</u>	<u>218,816</u>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts payable	7,521		7,521
Salaries and benefits payable	23,952		23,952
<b>Total Current Liabilities</b>	<u>31,473</u>	<u>-</u>	<u>31,473</u>
<b>TOTAL LIABILITIES</b>	<u>31,473</u>	<u>-</u>	<u>31,473</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	168,868	-	168,868
Unrestricted	18,475	-	18,475
<b>TOTAL NET ASSETS</b>	<u>187,343</u>	<u>-</u>	<u>187,343</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 218,816</u>	<u>\$ -</u>	<u>\$ 218,816</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, 2011**

	<u>Information Technology Fund</u>	<u>Allconet Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>			
County - regular appropriation	\$ 348,334	\$ -	\$ 348,334
- special appropriation			-
Other sources			-
<b>Total Operating Revenues</b>	<u>348,334</u>	<u>-</u>	<u>348,334</u>
<b>OPERATING EXPENSES</b>			
Salaries and wages	482,455		482,455
Contracted services	85,601		85,601
Supplies and materials	8,284		8,284
Other charges	120,562		120,562
Equipment replacement	6,509		6,509
Depreciation	43,060	4,246	47,306
<b>Total Operating Expenses</b>	<u>746,471</u>	<u>4,246</u>	<u>750,717</u>
Operating Income (Loss)	(398,137)	(4,246)	(402,383)
<b>NON-OPERATING REVENUE</b>			
Transfers		(41,627)	(41,627)
Interfund Transfers	348,334		348,334
Other revenue	20,700		20,700
Loss on the disposal of fixed assets	(20,106)	(49,501)	(69,607)
<b>Total Non-operating Revenues</b>	<u>348,928</u>	<u>(91,128)</u>	<u>257,800</u>
Change in Net Assets	(49,209)	(95,374)	(144,583)
<b>TOTAL NET ASSETS - JULY 1, 2010</b>	<u>236,552</u>	<u>95,374</u>	<u>331,926</u>
<b>TOTAL NET ASSETS - JUNE 30, 2011</b>	<u>\$ 187,343</u>	<u>\$ -</u>	<u>\$ 187,343</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, 2011**

	<u>Information Technology Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 368,684
Cash received from quasi-external operation transactions with other funds	348,334
Cash paid to suppliers	(218,308)
Cash payments to employees	<u>(482,104)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>16,606</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Change in due to/from other funds	<u>76,743</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchase of equipment	<u>(93,349)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(93,349)</u>
Net change in Cash	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ -</u>
 <b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVIT</b>	
<b>Change in net assets</b>	\$ (49,209)
Adjustments to reconcile change in nets assets to net cash provided by operations:	
Depreciation	43,060
Loss on disposal of fixed assets	20,106
Change in assets and liabilities	
Decrease (increase) in account receivable	(350)
Increase (decrease) in accounts payable	2,648
Increase (decrease) salaries & benefits payable	<u>351</u>
<b>Total Adjustments</b>	<u>65,815</u>
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 16,606</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, 2011**

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,453,884	\$ -	\$ 962,279	\$ 2,416,163
Investments	614,511	4,000,000		4,614,511
Accounts receivable	16,363	729		17,092
Internal receivables		6,253,117		6,253,117
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>2,084,758</b>	<b>10,253,846</b>	<b>962,279</b>	<b>13,300,883</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>LIABILITIES</b>				
Accounts payable	51,044	4,357		55,401
Salaries and benefits payable		147		147
Deferred revenue	2,033,714			2,033,714
Internal payables				-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>2,084,758</b>	<b>4,504</b>	<b>-</b>	<b>2,089,262</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET ASSETS</b>				
Designated for future retiree benefits		10,249,342		10,249,342
Held in trust for retiree health plan benefits			962,279	962,279
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	<b>-</b>	<b>10,249,342</b>	<b>962,279</b>	<b>11,211,621</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,084,758</b>	<b>\$ 10,253,846</b>	<b>\$ 962,279</b>	<b>\$ 13,300,883</b>
	<hr/>	<hr/>	<hr/>	<hr/>

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

**BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
<b>ADDITIONS</b>				
Student activity revenues	\$ 2,867,118	\$ -	\$ -	\$ 2,867,118
Transfers		1,164,857		1,164,857
Earnings on investment		60,157	122,171	182,328
Grants received on behalf of others				-
Contributions			164,000	164,000
<b>DEDUCTIONS</b>				
Student activity expenses	2,867,118			2,867,118
Retiree benefits		905,319		905,319
Grants passed to other agencies				-
Administrative expenses				-
Other		147		147
CHANGE IN NET ASSETS	-	319,548	286,171	605,719
NET ASSETS - JULY 1, 2010	-	9,929,794	676,108	10,605,902
NET ASSETS - JUNE 30, 2011	<u>\$ -</u>	<u>\$ 10,249,342</u>	<u>\$ 962,279</u>	<u>\$ 11,211,621</u>

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



# BOARD OF EDUCATION OF ALLEGANY COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - REPORTING ENTITY

The Board of Education of Allegany County, Maryland ("Board") is an elected group constituting an on-going entity which has governance responsibilities over all activities related to public elementary and secondary school education within its jurisdiction, Allegany County, Maryland ("County"). The Board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. The Board is included as a component unit of Allegany County, Maryland as defined in Generally Accepted Accounting Principles (GAAP) since the Board is fiscally dependent on Allegany County, Maryland. In evaluating how to define the Board, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Board is able to exercise oversight responsibilities. Based upon the application of these criteria, 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) Statement 39. 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. 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 Financial Accounting Standards Board (FASB) is the organization that establishes financial accounting and reporting standards. FASB's are incorporated into the financial statements as they have become effective. 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, 2011, \$6,293,892 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, 2011 is \$213,786.

**I. Compensated Absences**

Accumulated earned vacation time is accrued when incurred. At June 30, 2011, \$1,809,764 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, 2011, \$138,604 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,476,125 has been recorded in the government-wide statement of net assets. Total compensated absences increased in the current year by \$114,329 over the prior year total of \$2,361,796.



**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 (\$3,000) for equipment and five thousand dollars (\$5,000) for buildings. 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, 2011, the Board has recorded receivables from various governmental units. As these receivables are believed to be completely collectable, allowances for doubtful accounts are 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.

**Q. Debt**

The school system does not have the authority to issue bonds under Maryland state law or the ability to access revolving loan funds or pools. The school system cannot enter into revenue debt, conduit debt, or any other type of hybrid debt. The school system is permitted to enter into alternative financing types of debt as approved by the Board of Education and County Commissioners. The finance department reviews all lease agreements to ensure consistency with school system policy and Maryland law. Leases paid for by central office funds are approved as part of the annual budget process. No lease financing in excess of \$100,000 will be entered into without approval of the Board of Education.

**R. Fund Balance**

The elected Board of Education is the highest level of decision making authority in the organization. The elected Board of Education can commit fund balance and removal or change the constraints placed on the resources requires action by the elected Board of Education. The elected Board of Education has delegated authority to assign fund balance to the Superintendent or designee to assign fund balance. In the event an expenditure is made from multiple balance classifications, the order of spending will be committed, assigned, and unassigned.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance 6/30/10</u>	<u>Additions</u>	<u>Disposals and Transfers</u>	<u>Balance 6/30/11</u>
<b>Governmental Activities</b>				
Non-depreciable assets:				
Land	\$ 4,027,394	\$ -	\$ -	\$ 4,027,394
Construction-in-progress	3,216,572	426,952	(2,890,687)	752,837
<b>Total Non-depreciable assets</b>	<u>7,243,966</u>	<u>426,952</u>	<u>(2,890,687)</u>	<u>4,780,231</u>
Depreciable assets:				
Land Improvements	7,491,640	640,687	-	8,132,327
Buildings and Improvements	141,314,298	5,997,346	-	147,311,644
Furniture, Equipment, and Vehicles	14,573,466	2,417,537	(497,551)	16,493,452
<b>Total Depreciable assets</b>	<u>163,379,404</u>	<u>9,055,570</u>	<u>(497,551)</u>	<u>171,937,423</u>
Less accumulated depreciation:				
Land Improvements	(764,521)	(398,747)	-	(1,163,268)
Buildings and Improvements	(70,846,125)	(3,999,181)	-	(74,845,306)
Furniture, Equipment, and Vehicles	(6,958,546)	(1,627,665)	458,453	(8,127,758)
<b>Total accumulated depreciation</b>	<u>(78,569,192)</u>	<u>(6,025,593)</u>	<u>458,453</u>	<u>(84,136,332)</u>
<b>Total capital assets being depreciated</b>	<u>84,810,212</u>	<u>3,029,977</u>	<u>(39,098)</u>	<u>87,801,091</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 92,054,178</u>	<u>\$ 3,456,929</u>	<u>\$ (2,929,785)</u>	<u>\$ 92,581,322</u>
 <b>Business-Type Activities</b>				
Non-depreciable assets:				
Construction-in-progress	\$ -	\$ -	\$ -	\$ -
<b>Total Non-depreciable assets</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciable assets:				
Furniture, Equipment, and Vehicles	698,544	93,349	(222,572)	569,321
Less accumulated depreciation	(506,112)	(47,306)	152,965	(400,453)
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 192,432</u>	<u>\$ 46,043</u>	<u>\$ (69,607)</u>	<u>\$ 168,868</u>

\* Depreciation was charged to governmental functions as follows:

Administration	\$ 300,583
Student transportation	234,558
Operation of plant and equipment	57,545
Maintenance of plant	140,148
Food Service	31,687
Unallocated	5,261,072
<b>Total Depreciation Expense</b>	<u>\$ 6,025,593</u>

The insurance value of capital assets as of June 30, 2011 is \$355,527,743.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**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 \$288,693. This amount includes the value of the donated commodities plus costs to process the commodities into useable form.

**NOTE 6 - PENSION PLAN**

**Plan Description**

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

**Funding Policy**

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

The board joined the Alternative Contributory Pension System (ACPS) on July 1, 2006. Members of the contributory pension system 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 contributory pension system. The current rate is 10.83%. 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, 2011, 2010, 2009, 2008, and 2007 were \$1,428,305, \$1,121,559, \$955,884, \$993,118, and \$866,800, and respectively, equal to the required contributions for each year.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - RELATED PARTIES**

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

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 \$260,420 in programs and projects to the Board's students.

**NOTE 8 - CASH AND INVESTMENTS**

**Deposits**

At June 30, 2011, the carrying amount of the Board's bank deposits was \$20,623,050 and the various bank balances were \$21,401,537. Of the bank balances, \$928,991 was covered by depository insurance and \$20,472,546 was covered by collateral held at various banks in the Board's name. Total market value of these pledged securities at June 30, 2011 was \$23,668,408. Included in cash and cash equivalents is \$47,845 of money market funds invested in U.S government obligations.

**Investments**

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

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

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

As of June 30, 2011, 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	29,614,511	0	13,334,549	16,077,911	202,052

Of the Board's investments in certificates of deposits, \$17,597 was covered by federal depository insurance and \$29,596,914 was uninsured but collateralized by securities held by the counterparty's trust department.

## BOARD OF EDUCATION OF ALLEGANY COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 8 - CASH AND INVESTMENTS (Continued)

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 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, 2011 was \$35,087 and the balance per bank was \$35,322. 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, 2011 was \$95,339 and the balance per bank was \$96,041. This amount is fully insured by federal depository insurance.

#### NOTE 9 - ON-BEHALF PAYMENTS

The State of Maryland paid \$9,036,062 into the State Retirement and Pension System of Maryland on behalf of the Board.

## BOARD OF EDUCATION OF ALLEGANY COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 9 - ON-BEHALF PAYMENTS (Continued)

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 \$1,098,053 of which \$666,323 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 \$8,895,040 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount decreased by \$184,625 from the prior year amount of \$9,079,665, and was based on total claims paid of \$15,830,135 and \$14,962,658 for 2011 and 2010, 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, 2011. 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.



**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

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

During the year ended June 30, 2011 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, 2011. The total cost of the project is expected to be in excess of \$46,500,000. As of June 30, 2011, \$46,075,859 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 2011, a maximum subsidy for all retirees of \$385,000 was approved by the Board.

The total annual amount of the subsidy for the 2010-2011 fiscal year is as follows for 186 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	\$15,213	\$119,450
30 or more years	\$20,285	\$230,052

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, 2011. 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.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - LEASING ARRANGEMENTS (Continued)**

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, 2011:

Year ending June 30:	
2012	\$ 308,117
2013	275,661
2014	221,234
2015	91,770
2016	<u>19,407</u>
Total minimum payments require	<u>\$ 916,189</u>

Rental expenditures for operating leases for the year ended June 30, 2011 is \$260,084.

**NOTE 13 - FUND BALANCE**

A surplus fund balance of \$12,517,699 existed in the Current Expense Fund Type, Unrestricted fund, as of June 30, 2011. The surplus consisted of \$2,537,887 committed to the FY2012 budget. In addition, \$50,000 is assigned for unemployment benefits, \$5,500,000 assigned for contingencies, \$700,000 assigned for textbooks, and an undesignated surplus of \$3,729,782.

**NOTE 14 - ACCOUNTS RECEIVABLE**

Total accounts receivable of Governmental Funds in the financial statements as of June 30, 2011 is \$3,627,481. This total consists of the following components:

County Government	\$25,888
State Government	2,589,008
Federal Government	837,618
Other Local Education Agencies	20,470
Other	<u>154,497</u>
Total	<u>\$ 3,627,481</u>

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**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. One pledge was in arrears as of June 30, 2011. It has since been paid in full.

**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.

The activity for the year ended June 30, 2011 is as follows:

Balance, beginning of year	\$ 244,259
Add: Ticket surcharge collections	20,900
Interest	1,880
Tower rent	12,000
Less: Expenditures	(0)
Balance, end of year	<u>\$ 279,040</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.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 16 - STADIUM FUNDS (Continued)**

The activity for the year ended June 30, 2011 is as follows:

Balance, beginning of year	\$ 19,065
Add: Ticket surcharge collections	5,884
Interest	157
Less: Expenditures	<u>(0)</u>
Balance, end of year	<u>\$ 25,106</u>

**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:

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

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

Components of Net OPEB Obligation

Annual Required Contribution	\$635,029
Interest on Net OPEB Obligation	30,390
Adjustment to Annual Required Contribution	<u>(21,210)</u>
Annual OPEB Cost (Expense)	\$644,209
Contributions Made	<u>(648,523)</u>
Increase in Net Obligation	<u><u>(\$4,314)</u></u>
Net OPEB Obligation (BOY)	(\$434,136)
Net OPEB Obligation (EOY)	(\$438,450)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for 2010-2011 is as follows:

<u>Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2011	644,209	100.7%	(438,450)
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, 2010, the most recent actuarial valuation date, the plan was 8.33% funded. The actuarial accrued liability for benefits was \$8,113,878 and the actuarial value of the assets was \$676,108 resulting in an unfunded accrued liability (UAAL) of \$7,437,770. The covered payroll (annual payroll of active employees covered by the plan was \$73,406,000 and the ratio of the UAAL to the covered payroll was 10.13%.

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.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

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

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, 2010 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, 2010 was 28 years.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>REVENUES</b>				
County - regular appropriation	\$ 28,240,000	\$ 28,240,000	\$ 28,240,000	\$ -
State - direct	81,048,270	78,710,312	78,998,701	288,389
Federal - direct	325,000	325,000	377,081	52,081
Fund Balance	1,210,400	1,210,400	-	(1,210,400)
Other revenue	485,951	485,951	368,984	(116,967)
<b>TOTAL REVENUES</b>	<u>111,309,621</u>	<u>108,971,663</u>	<u>107,984,766</u>	<u>(986,897)</u>
<b>EXPENDITURES</b>				
Administration	2,147,662	2,066,567	2,034,855	31,712
Mid-level administration	7,317,620	7,070,791	7,045,856	24,935
Instruction - salaries	43,227,553	42,691,658	41,994,671	696,987
Instruction - textbooks & instructional supplies	2,712,258	2,679,258	2,007,893	671,365
Instruction - other	2,336,738	2,352,238	2,125,385	226,853
Student personnel services	626,268	715,402	728,405	(13,003)
Health services	128,893	128,893	32,604	96,289
Student transportation	6,266,242	6,266,242	6,125,765	140,477
Operation of plant and equipment	9,236,939	9,254,439	8,681,402	573,037
Maintenance of plant	1,982,285	1,982,285	1,831,120	151,165
Fixed charges	18,861,093	16,523,135	16,185,867	337,268
Capital outlay	737,242	737,242	151,691	585,551
Special education	13,395,537	13,170,222	13,409,455	(239,233)
<b>TOTAL EXPENDITURES</b>	<u>108,976,330</u>	<u>105,638,372</u>	<u>102,354,969</u>	<u>3,283,403</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>2,333,291</u>	<u>3,333,291</u>	<u>5,629,797</u>	<u>2,296,506</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers	(2,333,291)	(3,333,291)	(3,918,291)	(585,000)
Intrafund transfers			(14,213)	(14,213)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,333,291)</u>	<u>(3,333,291)</u>	<u>(3,932,504)</u>	<u>(599,213)</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	1,697,293	1,697,293
<b>FUND BALANCE - JULY 1, 2010</b>	<u>10,820,376</u>	<u>10,820,376</u>	<u>10,820,376</u>	-
<b>FUND BALANCE - JUNE 30, 2011</b>	<u>\$ 10,820,376</u>	<u>\$ 10,820,376</u>	<u>\$ 12,517,669</u>	<u>\$ 1,697,293</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, 2011**

	Restricted			Food Service				
	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budgetary Basis	Variance With Final Budget Positive (Negative)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>								
County - regular appropriation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State - direct	1,037,613	1,037,613	883,411	(154,202)	195,000	195,000	213,880	18,880
Federal - direct	9,573,556	9,573,556	13,769,640	4,196,084	300,000	300,000	288,693	(11,307)
- received through State & Pass-Thru Agencies					2,400,000	2,400,000	2,589,845	189,845
Other revenue	73,390	73,390	236,861	163,471	1,705,600	1,705,600	1,572,924	(132,676)
<b>TOTAL REVENUES</b>	<b>10,684,559</b>	<b>10,684,559</b>	<b>14,889,912</b>	<b>4,205,353</b>	<b>4,600,600</b>	<b>4,600,600</b>	<b>4,665,342</b>	<b>64,742</b>
<b>EXPENDITURES</b>								
Administration	24,704	24,704	33,075	(8,371)				
Mid-level administration	458,405	458,405	479,226	(20,821)				
Instruction - salaries	2,770,267	2,770,267	3,075,599	(305,332)				
Instruction - textbooks & instructional supplies	666,228	666,228	540,079	126,149				
Instruction - other	458,688	458,688	1,116,270	(657,582)				
Student personnel services	65,990	65,990	65,959	31				
Health services	516,343	516,343	627,402	(111,059)				
Student transportation	114,263	114,263	84,650	29,613				
Operation of plant and equipment			29,945	(29,945)				
Fixed charges	1,843,874	1,843,874	4,285,815	(2,441,941)				
Capital outlay								
Special education	3,765,797	3,765,797	4,562,994	(797,197)				
Food Service					5,360,700	5,360,700	5,352,161	8,539
<b>TOTAL EXPENDITURES</b>	<b>10,684,559</b>	<b>10,684,559</b>	<b>14,901,014</b>	<b>(4,216,455)</b>	<b>5,360,700</b>	<b>5,360,700</b>	<b>5,352,161</b>	<b>8,539</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>								
			(11,102)	(11,102)	(760,100)	(760,100)	(686,819)	73,281
<b>OTHER FINANCING SOURCES (USES)</b>								
Interfund transfers					760,100	760,100	760,100	-
Intrafund transfers			11,102	11,102				
<b>NET CHANGE IN FUND BALANCES</b>								
<b>FUND BALANCE - JULY 1, 2010</b>					388,865	388,865	388,865	
<b>FUND BALANCE - JUNE 30, 2011</b>					<b>\$ 388,865</b>	<b>\$ 388,865</b>	<b>\$ 462,146</b>	<b>\$ 73,281</b>

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



**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

**NOTE 19 - BUDGET TO ACTUAL VARIANCES**

***General Fund***

For the year ended June 30, 2011 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 private 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. The increased number of private placements more than offset the shortfall in interest revenue due to low interest rates.

A favorable variance existed for instructional salaries due to several employees being off due to illness and injury. These positions were covered with costs lower than budgeted. Instructional wages also generated a favorable variance due to locally funded professional development and locally funded after school programs requiring less hours than requested and budgeted.

Instructional textbooks and supplies generated a favorable variance due to the school not purchasing textbooks that were budgeted. In August 2010, Maryland was selected to receive Race to the Top federal funds. Parts of the condition of receiving these funds will be to change curriculum that will necessitate new textbook purchases. The system has purchased many textbooks in prior years and felt it would be a better use of taxpayer funds to wait until the curriculum standards are identified which is expected shortly.

Other instructional costs were lower due to lower costs for field trips and software maintenance agreements. The rate budgeted for field trips was lower than projected. The school system evaluates software before renewing maintenance agreements to see if the software is still used or needed. Instructional employee travel was also under budget. The school system has implemented conference call technology and more training is being conducted over the internet.

Special education exceeded the budget due to the increased number of students needing private 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.

Student transportation was under budget due to the fuel rates were lower than budgeted. The school system must budget up to 18 months in advance of expenditure and the system uses an average fuel rate when developing the budget. The operations area was under budget due to controlling labor expenses and utility costs. The school system has an energy management program that stress efficient energy use and competitive price purchases of the energy used. Maintenance was under budget due to controlling labor costs and vehicle purchases. The maintenance department was not able to purchase the standard vehicle in their fleet due to low supply of that vehicle by the manufacturer.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

**NOTE 19 - BUDGET TO ACTUAL VARIANCES (Continued)**

Fixed costs came under budget because the school system rebid its liability insurance. The new costs were substantially under the budgeted rate. The bidding process occurred after the budget was adopted. Controlling labor costs in all areas led to reduce social security expenditures by the organization.

***Special Revenue Fund - Restricted***

The Restricted Fund had an excess of revenues and expenditures over the budgeted amounts for the year ended June 30, 2011. The system received grants under the American Recovery and Reinvestment Act (ARRA) for Title I and Special Education. Funds were budgeted in fiscal year 2010 when the grants were received. Spending on those grants occurred in FY2011. The system has until September 30, 2012 to spend the funds. The school system also received grants during the fiscal year that were not known at the time the budget was adopted. During the year the school system received \$2.3 million from the federal Education Jobs Fun which was created in August 2010.

***Special Revenue Fund – Food Service***

The Food Service Special Revenue Fund for the year ended June 30, 2011 had an excess in revenues and a shortfall of expenditures over appropriations.

The excess in revenues was due to the federal reimbursement being greater than originally budgeted. The school system served more meals to students qualifying for free and reduced meals.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**SCHOOL ACTIVITIES FUND  
INCREASES, DECREASES AND BALANCES BY SCHOOL  
For Year Ended June 30, 2011**

	<u>Balances June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2011</u>
<b>HIGH SCHOOLS</b>				
Allegany	\$ 222,992	\$ 476,653	\$ 485,677	\$ 213,968
Center for Career and Technical Education	88,158	125,277	129,697	83,738
Fort Hill	191,769	640,714	671,327	161,156
Mountain Ridge	191,183	505,790	486,949	210,024
Alternative	<u>3,241</u>	<u>12,162</u>	<u>9,630</u>	<u>5,773</u>
Total High Schools	<u>697,343</u>	<u>1,760,596</u>	<u>1,783,280</u>	<u>674,659</u>
<b>MIDDLE SCHOOLS</b>				
Braddock	46,376	120,761	115,080	52,057
Mount Savage	67,203	148,188	137,404	77,987
Washington	82,202	109,341	109,106	82,437
Westmar	<u>52,224</u>	<u>62,557</u>	<u>58,100</u>	<u>56,681</u>
Total Middle Schools	<u>248,005</u>	<u>440,847</u>	<u>419,690</u>	<u>269,162</u>
<b>ELEMENTARY SCHOOLS</b>				
Beall	43,327	65,326	55,080	53,573
Bel Air	34,527	44,721	43,623	35,625
Cash Valley	32,072	32,401	42,520	21,953
Cresaptown	77,808	48,836	44,369	82,275
Flintstone-school	136,915	43,084	42,756	137,243
Flintstone-McLuckie	380,947	10,150	5,349	385,748
Frost	56,766	49,546	49,313	56,999
Georges Creek	68,674	86,844	91,368	64,150
John Humbird	61,656	44,507	43,352	62,811
Northeast	48,933	60,930	38,995	70,868
Parkside	15,711	36,564	43,779	8,496
South Penn	24,014	51,835	40,517	35,332
West Side	53,035	70,479	74,543	48,971
Westernport	<u>27,725</u>	<u>46,708</u>	<u>48,584</u>	<u>25,849</u>
Total Elementary Schools	<u>1,062,110</u>	<u>691,931</u>	<u>664,148</u>	<u>1,089,893</u>
<b>TOTAL SCHOOLS</b>	<u>\$ 2,007,458</u>	<u>\$ 2,893,374</u>	<u>\$ 2,867,118</u>	<u>\$ 2,033,714</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, 2011 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*