

BOARD OF EDUCATION OF ALLEGANY COUNTY
FINANCIAL REPORT
AS OF JUNE 30, 2012 AND FOR THE YEAR THEN ENDED

BOARD OF EDUCATION OF ALLEGANY COUNTY

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	3-18
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	19
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet – Governmental Funds	21
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	23
Reconciliation of Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	24
Statement of Net Assets – Proprietary Funds	25
Statement of Revenues, Expenditures and Changes in Net Assets – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27
Statement of Fiduciary Net Assets – Fiduciary Funds	28
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	29

NOTES TO FINANCIAL STATEMENTS 30-51

REQUIRED SUPPLEMENTAL INFORMATION

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget
and Actual – General Fund 52

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget
and Actual – Special Revenue Funds – Restricted (Current Expense) and Food Service 53

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION 54-55

SUPPLEMENTAL INFORMATION

School Activities Increases, Decreases and Balances by School 56

Statement Concerning Debt Service Fund for Public School Construction 57

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, 2012, 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 the 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, 2012, and the respective changes in financial position, and, where applicable, cash flows 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 October 1, 2012, 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 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 eighteen (18) and fifty-two (52) through fifty-five (55) 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 financial statements as a whole. The accompanying information listed in the table of contents as supplemental information is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying information is the responsibility of management and was derived from and relate 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.

Cumberland, Maryland
October 1, 2012

Huber, Michael & Company

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

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, 2012 and 2011, 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 decreased by \$2,760,811 (2.48%) during the fiscal year ended June 30, 2012. The school system focused on completing projects that were started and in process. Few new projects were started because the budget for capital projects and equipment has been reduced the past few years with budget reductions. This caused the depreciation of assets to exceed asset additions. The school system also spent a considerable amount of time studying aspects of building a new high school in order to secure state funding. While planning approval has been granted from state government, funding has not yet been awarded.

Total Governmental Funds revenues for the fiscal year ended June 30, 2012, were \$124,293,343. This represents a decrease of \$5,091,639 (3.94%) 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. The school system has also experienced a decline in grant revenue with the expiration of federal stimulus funds.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

Total Governmental Funds expenses for the fiscal year ended June 30, 2012, were \$123,890,804. This represents a decrease of \$3,947,261 (3.09%) from the prior fiscal year. This decline is attributable to less spending in the school systems restricted expenses with the expiration of federal stimulus funds.

The Current Expense Fund total fund balance as of June 30, 2012, was \$12,627,254. This represents an increase of \$109,585 (0.88%) from the fund balance as of June 30, 2011.

The Current Expense Fund unassigned fund balance as of June 30, 2012, was \$2,272,041. This represents a decrease of \$1,457,741 (39.08%) from the unassigned fund balance as of June 30, 2011. A total of \$4,805,213 of the fund balance is committed to the FY2013 budget. A total of \$5.5 million of fund balance is assigned for contingencies and another \$50,000 assigned for future unemployment benefits. The decrease in unassigned fund balance is attributed to increasing the amount of fund balance committed to the next year's budget.

Current Expense Fund revenues fell short of the final budget by \$2,915,242 (2.66%). The system did not need to use the amount of fund balance budgeted to balance the budget in FY2012 due to aggressive expenditure control.

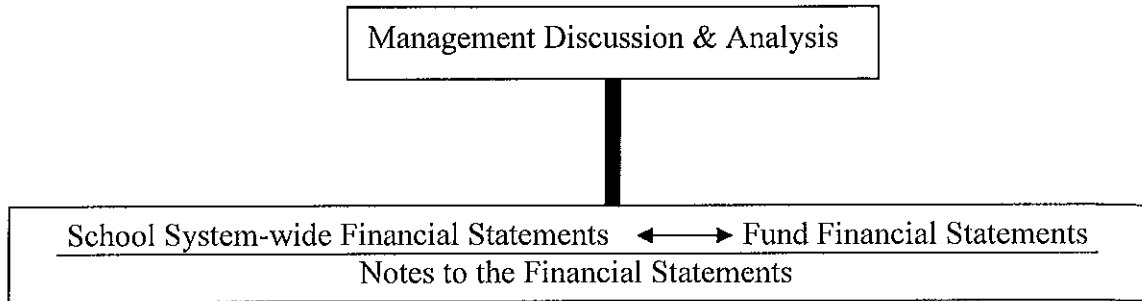
Current Expense Fund expenses and transfers were under budget by \$3,024,827 (2.86%). This shortfall was mainly due to staffing efficiencies. The organization eliminated more positions through attrition than planned. The system also has a strong energy management program and experienced an unusually warm winter causing utilities to be under budget. Special education expenses were under budget by serving fewer students in non public institutions than was budgeted.

The unrestricted General Fund budget increased by \$644,469 (0.59%) to \$109,616,132 compared to the \$108,971,663 budget for the period ended June 30, 2011. The school system received less state aid because of a declining student population and county wealth increase compared to the rest of Maryland. This decrease was more than offset with the school system receiving federal Education Jobs Funds in the amount of \$2,337,958 that was accounted for in the Restricted Fund in fiscal year 2011 causing a state aid reduction in the General Fund in 2011. The school system also increased the use of the fund balance to balance the 2012 budget.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

BASIC FINANCIAL STATEMENTS



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

School System-wide Financial Statements

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

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

These statements measure the change in total economic resources during the period utilizing the accrual basis of accounting. All of the current year's revenues and expenses are taken into 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).

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

Fund Financial Statements

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

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

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

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

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

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

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

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

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, 2012, of \$11,909,381 is the result of combining the unreserved fund balances of the Governmental Funds with the unreserved fund balances of the Business-type Activities.

We are committed by employee agreements to pay most employees at retirement their earned, unused sick leave up to 140 days at \$30 per day. The long-term portion of unused sick leave is \$2,518,285 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, 2012	June 30, 2011	% Change	June 30, 2012	June 30, 2011	% Change
Administration	\$ 2,639,522	\$ 2,711,954	-2.67%	\$ 2,610,706	\$ 2,678,879	-2.54%
Mid-level Administration	7,217,918	7,511,572	-3.91%	6,884,020	7,032,346	-2.11%
Instruction (regular and special education)	66,705,109	68,096,737	-2.04%	58,822,615	58,801,795	0.04%
Student Personnel and Health Services	1,405,520	1,454,370	-3.36%	1,347,158	761,009	77.02%
Student Transportation	6,404,405	6,253,990	2.41%	6,305,282	6,169,340	2.20%
Operation, Maintenance and Capital Outlay	10,206,660	10,620,549	-3.90%	8,804,194	9,062,683	-2.85%
Fixed Charges	21,426,131	21,619,464	-0.89%	18,416,099	16,956,568	8.61%
Community Services	197,441		100.00%			
Food Service	5,412,150	5,383,848	0.53%	594,788	767,212	-22.47%
Depreciation & Other	5,424,033	5,283,702	2.66%	5,424,033	5,353,309	1.32%
Total	\$ 127,038,889	\$ 128,936,186	-1.47%	\$ 109,208,895	\$ 107,583,141	1.51%

Results of operations for the School System as a whole are presented in the Statement of Activities. The cost of all governmental activities is \$127,038,889, of which \$1,487,646 was financed by users of the School System's programs. Grants and contributions from Federal and State governments for certain programs were \$16,342,348. This left a net cost of services of \$109,208,895.

The School System is fiscally dependent on local and state aid to fund its daily operations. Over 85% of the School System's Governmental Activities comes from these sources. State aid is largely formula-driven based on student population and wealth. Local revenue, provided by the Allegany County Government, is dependent upon the economic condition of the County. Most of the operating and capital grant funding is from the State and County governments and Federal grants passing through the State. These operating and capital grants represent approximately 13% of the School System's funding.

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

**Management's Discussion and Analysis (MD&A)
June 30, 2012**

Condensed Statement of Net Assets

	Governmental Activities			Business-type Activities			Total School System		
	June 30, 2012	June 30, 2011	% Change	June 30, 2012	June 30, 2011	% Change	June 30, 2012	June 30, 2011	% Change
Current and Other Assets	\$ 44,174,154	\$ 48,224,928	-8.40%	\$ 61,881	\$ 49,948	23.89%	\$ 44,236,035	\$ 48,274,876	-8.37%
Capital Assets	90,775,389	92,581,322	-1.95%	151,868	168,868	-10.07%	90,927,247	92,750,190	-1.97%
Total Assets	\$ 134,949,543	\$ 140,806,250	-4.16%	\$ 213,739	\$ 218,816	-2.32%	\$ 135,163,282	\$ 141,025,066	-4.16%
Current and Other Liabilities	\$ 24,042,891	\$ 27,187,777	-11.57%	\$ 33,227	\$ 31,473	5.57%	\$ 24,076,118	\$ 27,219,250	-11.55%
Long-term Liabilities	2,518,284	2,476,125	1.70%	42,159	42,159	0.00%	2,518,284	2,476,125	1.70%
Total Liabilities	\$ 26,561,175	\$ 29,663,902	-10.46%	\$ 33,227	\$ 31,473	5.57%	\$ 26,594,402	\$ 29,695,375	-10.44%
Net Assets:									
Invested in Capital Assets, Net of Related Debt	\$ 90,775,389	\$ 92,581,322	-1.95%	\$ 151,868	\$ 168,868	-10.07%	\$ 90,927,247	\$ 92,750,190	-1.97%
Restricted	5,732,252	6,507,678	-11.92%	28,654	18,475	55.10%	5,732,252	6,507,678	-11.92%
Unrestricted	11,890,727	12,053,348	-1.43%	180,512	187,945	-3.66%	11,903,381	12,071,823	-1.35%
Total Net Assets	\$ 108,398,368	\$ 111,142,348	-2.48%	\$ 180,512	\$ 187,945	-3.66%	\$ 108,563,880	\$ 111,329,691	-2.48%

Changes in Net Assets from Operating Results

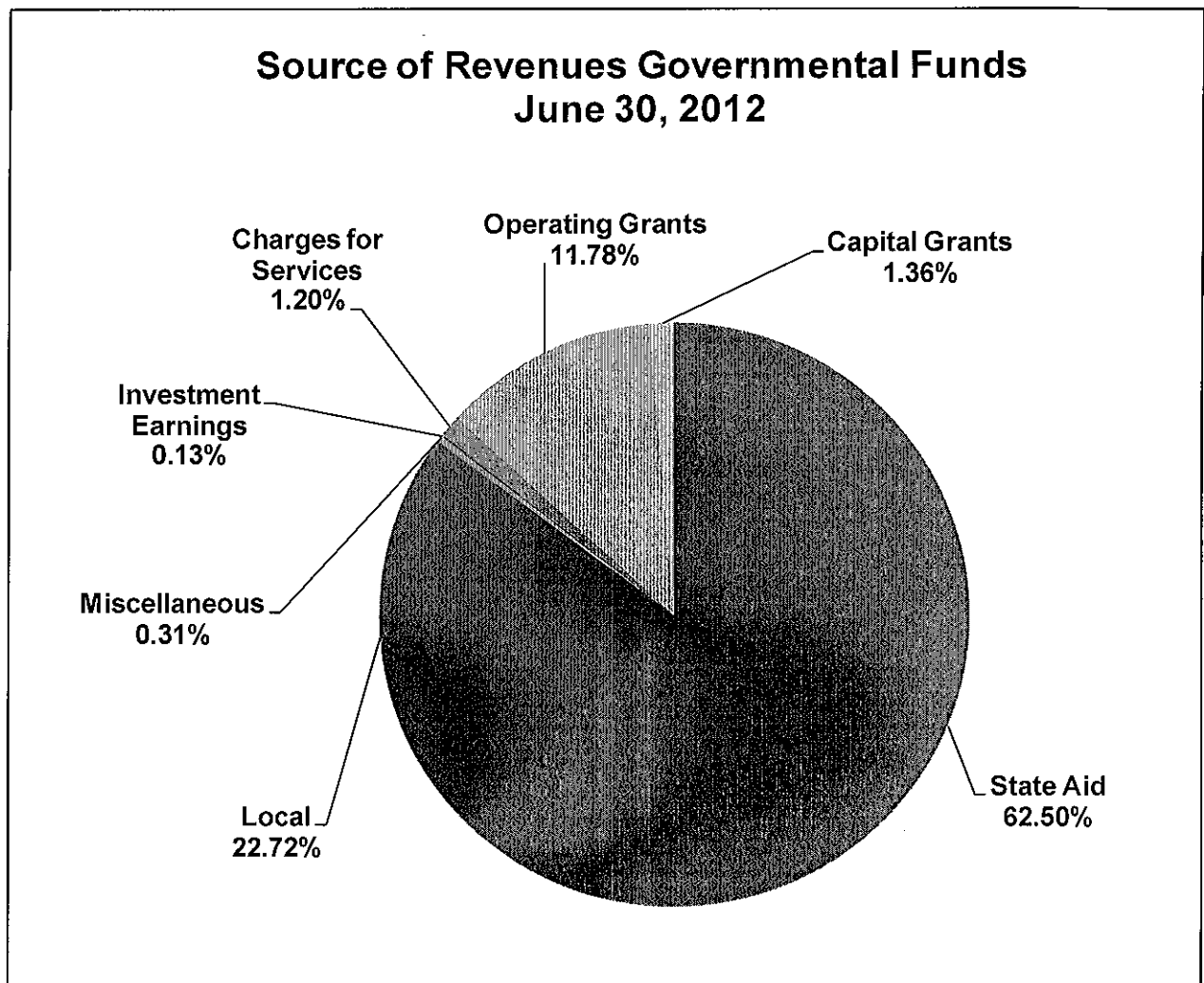
	Governmental Activities			Business-type Activities			Total School System		
	June 30, 2012	June 30, 2011	% Change	June 30, 2012	June 30, 2011	% Change	June 30, 2012	June 30, 2011	% Change
Program Revenues:									
Charges for Services	\$ 1,467,646	\$ 1,524,218	-2.40%	\$ 717,538	\$ 696,668	2.98%	\$ 2,205,184	\$ 2,220,886	-0.71%
Operating Grants and Contributions	14,645,800	17,946,229	-18.39%	14,645,900	17,946,229	-18.39%	14,645,900	17,946,229	-18.39%
Capital Grants and Contributions	1,696,448	1,952,205	-13.10%	1,696,448	1,952,205	-13.10%	1,696,448	1,952,205	-13.10%
General Revenues:									
County Government	28,240,000	28,240,000	0.00%	28,240,000	28,240,000	0.00%	28,240,000	28,240,000	0.00%
Grants and Contributions (unrestricted)	77,660,395	78,998,701	-1.69%	77,660,395	78,998,701	-1.69%	77,660,395	78,998,701	-1.69%
Other	554,520	718,263	-22.80%	20,400	20,700	-1.45%	574,920	738,963	-22.20%
Total Revenues	\$ 124,284,909	\$ 128,378,616	-3.94%	\$ 737,908	\$ 717,368	2.86%	\$ 125,022,817	\$ 130,056,984	-3.90%
Administration	\$ 2,699,522	\$ 2,711,954	-2.67%	\$ 2,699,522	\$ 2,711,954	-2.67%	\$ 2,699,522	\$ 2,711,954	-2.67%
Mid-level Administration	7,217,918	7,511,572	-3.91%	7,217,918	7,511,572	-3.91%	7,217,918	7,511,572	-3.91%
Instruction (regular and special education)	66,705,109	68,096,737	-2.04%	66,705,109	68,096,737	-2.04%	66,705,109	68,096,737	-2.04%
Student Personnel and Health Services	1,405,520	1,454,370	-3.36%	1,405,520	1,454,370	-3.36%	1,405,520	1,454,370	-3.36%
Student Transportation	6,404,405	6,253,990	2.41%	6,404,405	6,253,990	2.41%	6,404,405	6,253,990	2.41%
Operation, Maintenance and Capital Out	10,206,660	10,620,549	-3.90%	10,206,660	10,620,549	-3.90%	10,206,660	10,620,549	-3.90%
Fixed Charges	21,426,131	21,619,464	-0.89%	21,426,131	21,619,464	-0.89%	21,426,131	21,619,464	-0.89%
Community Services	197,441	197,441	100.00%	197,441	197,441	100.00%	197,441	197,441	100.00%
Food Service	5,412,150	5,383,848	0.53%	5,412,150	5,383,848	0.53%	5,412,150	5,383,848	0.53%
Depreciation & Other	5,424,033	5,283,702	2.66%	5,424,033	5,283,702	2.66%	5,424,033	5,283,702	2.66%
Total Expenses	\$ 127,038,889	\$ 128,936,186	-1.47%	\$ 744,739	\$ 820,324	-9.21%	\$ 127,783,628	\$ 129,756,510	-1.52%
Increase (Decrease) in Net Assets	\$ (2,753,980)	\$ 443,430	721.06%	\$ (6,831)	\$ (102,966)	93.37%	\$ (2,760,811)	\$ 340,474	910.87%

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

**Management's Discussion and Analysis (MD&A)
June 30, 2012**

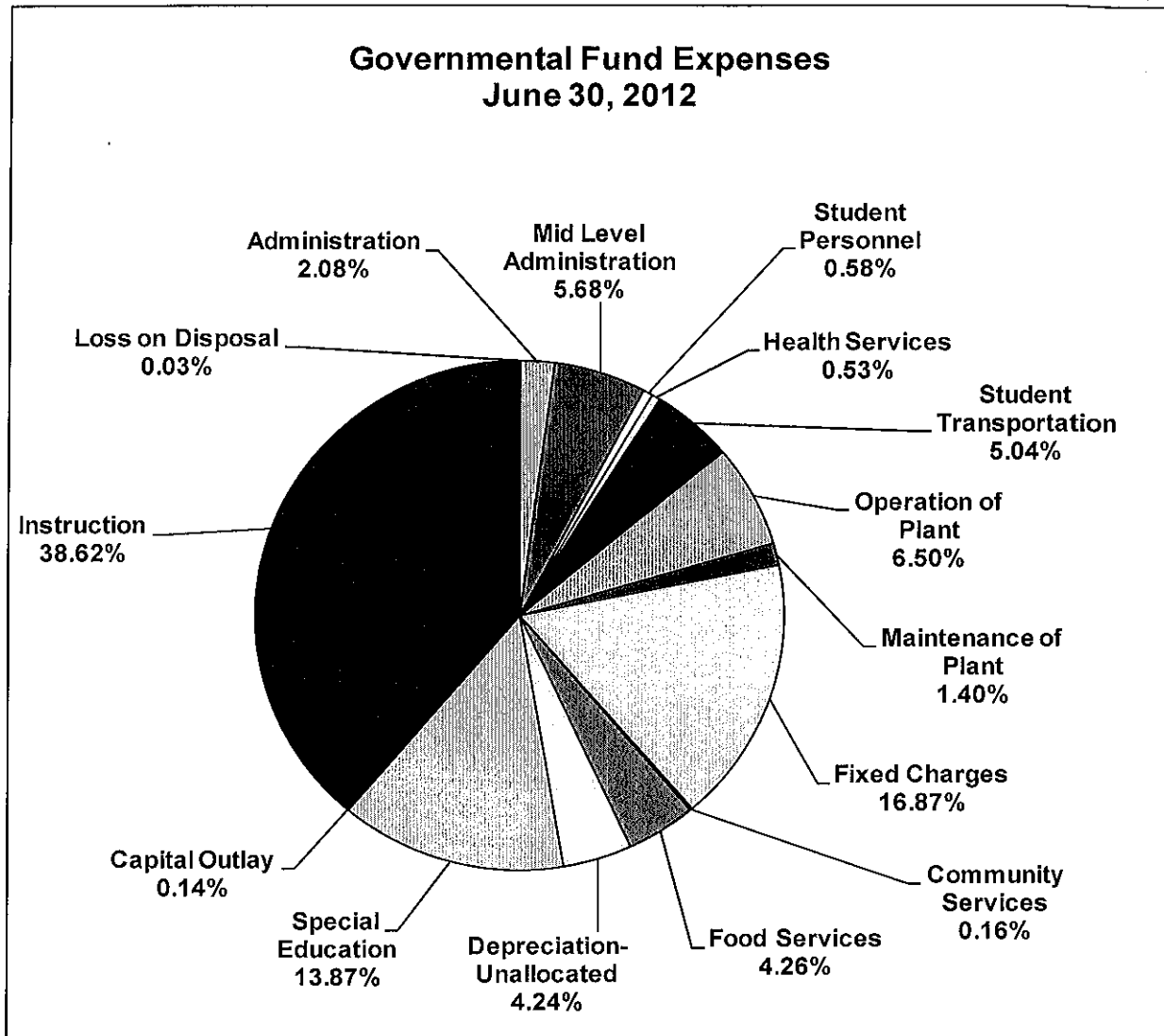
GENERAL FUND (CURRENT EXPENSE) BUDGETARY HIGHLIGHTS

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, 2012



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, 2012, is presented below. The net change resulted in a \$ 48,961 increase.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

	Original Budget	Final Budget	Additions	Reductions	Total Change
County Appropriation	\$ 28,240,000	\$ 28,240,000			\$ -
State	77,975,732	77,932,471		43,261	(43,261)
Federal	350,000	442,222	92,222		92,222
Local	211,552	211,552			
Earnings on investments	252,000	252,000			
Other Sources	2,537,887	2,537,887			
Total Revenues	\$ 109,567,171	\$ 109,616,132	\$ 92,222	\$ 43,261	\$ 48,961
Administration	\$ 2,490,946	\$ 2,490,946			\$ -
Mid-Level Administration	7,158,915	7,028,915		130,000	(130,000)
Instructional Salaries	42,061,645	42,061,645		-	-
Textbooks	2,081,935	2,071,335		10,600	(10,600)
Other Instructional Costs	2,090,170	2,141,370	51,200		51,200
Special Education	14,481,801	14,481,801			
Student Personnel Services	724,437	724,437			
Student Health Services	644,936	644,936			
Student Transportation	6,196,561	6,326,561	130,000		130,000
Operation of Plant	9,184,917	9,169,917		15,000	(15,000)
Maintenance of Plant	1,981,248	1,981,248			
Fixed Charges	18,997,533	19,020,894	92,222	68,861	23,361
Food Services	722,888	722,888			
Capital Outlay	749,239	749,239			-
Total Expenditures	\$ 109,567,171	\$ 109,616,132	\$ 273,422	\$ 224,461	\$ 48,961

Local and state revenues account for over 97% 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, 2012 as a supplement to the narrative discussion below the chart.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

Unrestricted General Fund Budget to Actual Variances

Budget Variance Descriptions:	Positive (Negative)
Revenues:	
Medicare Part D	(4,569)
Special Education Private Placements	(267,140)
Interest Revenue	(113,276)
Other Revenue Variances	<u>7,630</u>
Total Revenue Variances	\$ (377,355)
Expenditures and Interfund Transfers:	
Labor Savings & Efficiencies	1,580,554
Transportation Savings	29,652
Administrative & Instructional Travel	100,108
Insurance Savings	107,833
Utilities and Energy Management	569,329
Private Placements	444,460
Special Education Contracted Services	(403,894)
Instructional Textbooks & Supplies	173,849
Maintenance Contracted Services and Supplies	163,104
Other Instructional Expenditures	77,335
Coursework Reimbursement	45,163
Other expenditure variances	<u>137,334</u>
Total Expenditures and Interfund Transfers Variances	<u>3,024,827</u>
Total Positive Variance - Unrestricted General Fund	<u><u>\$ 2,647,472</u></u>

Revenues:

For the year ended June 30, 2012, total unrestricted general fund revenues resulted in a negative variance of \$377,355.

Medicare Part D revenues show a unfavorable variance of \$4,569. 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

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

requiring recipients of Medicare Part D funds to show these proceeds as revenue. The system budgets are estimated based upon past experience.

Special education private placement revenue was up due to having more students qualifying for special placement. There was a negative budget variance of \$267,140. The decrease is due to fewer 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 \$2,537,887 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 because the school system forecasted interest rates would remain unchanged during the fiscal year. When investments matured, they were renewed at lower rates. 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 favorable variance in the amount of \$7,630.

Expenditures and Inter-fund transfers:

For the year ended June 30, 2012, total unrestricted general fund expenditures resulted in a positive variance of \$3,024,827.

The school system diligently manages labor costs. Management evaluates positions that come open through attrition to determine if replacement is necessary. A total of 13 instructional positions including special education were eliminated when evaluated resulting in a favorable variance of approximately \$620,000. Instructional hourly wage accounts contributed a favorable variance of almost \$97,000 mainly because the school system altered the plan for locally funded professional development and concentrated on professional development for which grant funding was available. The school system was also the recipient of a grant for the middle school after school program which was budgeted to be funded locally. During the year, several instructional members of the instructional staff went out on unpaid sick leave and the system was forced to use substitutes which are paid a lower rate than full-time staff to deliver instructional activities which resulted in a favorable variance of almost \$307,000. A total of 3 administrative positions were not filled during the year contributing a favorable variance of over \$210,000. The positions have since been eliminated. Open positions in operations were filled during the year with a substitute at a lower cost than the budgeted amount resulting in a favorable variance of approximately \$113,000. Management tries to limit overtime to instances where it is absolutely necessary. A favorable variance of approximately \$38,000 resulted from managing overtime in the maintenance and operations departments. All labor savings resulted in a savings of approximately \$75,000 in payroll tax expenditures to the school system.

The school system as part of the normal budgeting process, budgets transportation costs up to 18 months before incurring them. During the school year the school system made a budget

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

amendment increasing the transportation budget because of increased 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. Grants were also used to fund some travel for professional development opportunities.

Liability and vehicle 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 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 also had better experience in recovering costs to school system property associated with vandalism. The school system has cameras outside many of its properties.

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. A mild winter contributed to utility savings.

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

An unfavorable variance of approximately \$222,000 in contracted services with special education students because the school system could not find qualified speech pathologists. The school system was forced to purchase these services in the open market which costs more than when the school system provides these services with school system personnel. The rest of the unfavorable variance in special education contracted services resulted from an increase in students qualifying for services.

Instructional textbooks and supplies came in under budget. Expenditures for textbooks came in under budget by approximately \$27,000 and expenditures for instructional software can in under

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

budget approximately \$16,000. The school system evaluates the need for textbooks and software and then competitively seeks out the best price. Supplies came in under budget in the school system's print shop program by over \$30,000. The school system is trying to place more information on-line rather than printing the information which is resulting in fewer supplies being used. Supplies for a new Chinese program established during the school year came in under budget by approximately \$13,000. The school system allocates money to school principals to spend on instructional supplies. A total of \$12,000 was not spent resulting in a favorable variance. Supplies used by instructional supervisors and principals came in under budget by approximately \$82,000. Amounts budgeted are based upon the requests from instructional supervisors. In September 2011, 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 the favorable variance. Included in the \$100,000 is over \$12,000 of unspent funds that are allocated to schools for instructional supplies and materials.

During the year no major equipment breakdowns occurred requiring the maintenance department to hire an outside vendor for the repair. Repairs were done by personnel on staff. While supplies were over budget, the overall net favorable variance was approximately \$163,000.

Other instructional expenditures came under budget. Equipment expenditures were under budget by \$23,000. The Garrett County Outdoor School program was under budget due to having one less week of activity and instruction than originally budgeted. Professional development activities were under budget by \$28,000 with using grants to fund professional development activities. The school system altered its plan for locally funded professional development in order to focus on the Maryland common core state curriculum transition for which grant funding was available. The school system also experienced lower than expected costs for field trips.

The school system offers a benefit to teachers by reimbursing them for coursework towards a master's degree. The system has reduced its teacher workforce through attrition and has hired fewer new teachers than in previous years. Often those teachers hired have a master's degree. As a result the expenditure for this reimbursement came in under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the School System had \$181,375,641 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$4,088,666 from the same time last year, net of disposals. The total net cost of assets after depreciation was \$90,927,247. Total depreciation expense for the year ended June 30, 2012 was \$6,260,042.

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

**Management's Discussion and Analysis (MD&A)
June 30, 2012**

The school system completed a variety of projects during the 2012 fiscal year. Two pre-kindergarten classrooms and numerous site improvements were made at South Penn Elementary. The total cost of the project was \$1.4 million. Phase 1 of a roof job at Fort Hill High School was completed in 2011. Phase two of the job was completed during the summer of 2012. The school system completed electrical wiring projects at two elementary schools in order to add air conditioning at buildings not equipped with central air. A total of four buildings have been completed and the system has plans for additional buildings. A project to improve traffic flow at West Side Elementary was completed as was a playground project at Westernport Elementary.

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 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.

On August 24, 2010, the state of Maryland was named a winner in the federal Race to the Top grant program funded from the Educational Reform Act of 2010. 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 the English language arts and mathematics curriculums to assure all graduates are college and career ready,

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2012

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. All of these requirements could significant costs impacts with them after the grant expires.

Allegheny 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 71% 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.

Allegheny 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 Allegheny County have experienced declines in real estate assessable bases while Allegheny County has remained increased. While Allegheny County's wealth is still below the state average, the difference is shrinking resulting in fewer funds from state government.

During the 2012 Maryland General Assembly session, legislation was approved to shift a portion of the employer's share of teacher pension back to local school systems. State government had previously paid all of the employer's contribution to the pension system for teachers. To pay the incremental costs to the school system, the required minimum funding from county government was increased since school systems in Maryland rely entirely on appropriations from state and county government. Some county governments were awarded supplemental disparity grants from state government to help offset some of the cost of the teacher pension shift. State government also enacted tax increases that would increase county government revenues. Allegheny County government received a supplemental disparity grant that exceeded the required minimum increase to the local school system in FY2013 but the package of the supplemental disparity grant and state tax increases will not pay for the increase in teacher pension shift in future years. The ability to secure additional funding exceeding the teacher pension shift from the county government is limited since Allegheny County is the second poorest jurisdiction in the state of Maryland as measured by wealth per pupil.

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 as the number one school construction priority for the school system. The school system has acquired a site in the city limits of Cumberland at no cost for the construction of Allegheny High School. Allegheny County qualifies to have state government pay for 93% of the eligible construction costs if the project is approved for funding by FY2015 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

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

**Management's Discussion and Analysis (MD&A)
June 30, 2012**

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.

**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, 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, 2012

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Allegany County Public Schools Foundation, Inc.	Allegany County Building Trades Education Foundation, Inc.
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 16,917,272	\$ -	\$ 16,917,272	\$ 64,142	\$ 52,473
Investments	23,000,000	-	23,000,000	17,000	-
Accounts receivable	4,131,943	-	4,131,943	-	-
Pledges receivable	-	-	-	4,850	-
Accrued interest receivable	-	-	-	-	-
Inventory	186,820	-	186,820	-	-
Internal balances	(61,881)	61,881	-	-	-
Total Current Assets	<u>44,174,154</u>	<u>61,881</u>	<u>44,236,035</u>	<u>85,992</u>	<u>52,473</u>
Noncurrent Assets:					
Pledges receivable	-	-	-	7,300	-
Long-Term Investments, at market	-	-	-	38,661	-
Non-depreciable capital assets	4,323,684	-	4,323,684	-	297,906
Depreciable capital assets, net of depreciation	86,451,706	151,858	86,603,564	-	-
Total Noncurrent Assets	<u>90,775,390</u>	<u>151,858</u>	<u>90,927,248</u>	<u>45,961</u>	<u>297,906</u>
TOTAL ASSETS	<u>\$ 134,949,544</u>	<u>\$ 213,739</u>	<u>\$ 135,163,283</u>	<u>\$ 131,953</u>	<u>\$ 350,379</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 7,959,558	\$ 4,936	\$ 7,964,494	\$ 9,951	\$ -
Salaries and benefits payable	3,927,582	28,291	3,955,873	-	-
Deferred revenues	2,765,280	-	2,765,280	-	-
Accrued hospital insurance	7,364,207	-	7,364,207	-	-
Current portion of long-term debt	142,469	-	142,469	-	-
Other current liabilities	1,883,795	-	1,883,795	517	-
Total Current Liabilities	<u>24,042,891</u>	<u>33,227</u>	<u>24,076,118</u>	<u>10,468</u>	<u>-</u>
Noncurrent Liabilities:					
Long-term portion of compensated absences	2,518,285	-	2,518,285	-	-
TOTAL LIABILITIES	<u>26,561,176</u>	<u>33,227</u>	<u>26,594,403</u>	<u>10,468</u>	<u>-</u>
NET ASSETS					
Invested in capital assets, net of related debt	90,775,390	151,858	90,927,248	-	-
Restricted for:					
Capital projects	5,545,432	-	5,545,432	12,150	-
Food inventories	186,820	-	186,820	-	-
Other	-	-	-	97,460	-
Unrestricted	11,880,726	28,654	11,909,380	11,875	350,379
TOTAL NET ASSETS	<u>108,388,368</u>	<u>180,512</u>	<u>108,568,880</u>	<u>121,485</u>	<u>350,379</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 134,949,544</u>	<u>\$ 213,739</u>	<u>\$ 135,163,283</u>	<u>\$ 131,953</u>	<u>\$ 350,379</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012**

Primary government Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Allegany County Public Schools Foundation, Inc.	Allegany County Building Trades Education Foundation, Inc.
					Governmental Activities	Business-type Activities		
Governmental activities:								
Administration	\$ 2,639,522	\$ -	\$ 28,816	\$ 14,645	\$ (2,610,706)	\$ (2,610,706)	\$ -	\$ -
Mid-level administration	7,217,918		319,255	1,645	(6,884,020)	(6,884,020)	-	-
Instruction - salaries	44,241,197		2,948,524		(41,292,673)	(41,292,673)		
Instruction - textbooks & instructional supplies	2,102,844		197,009		(1,905,835)	(1,905,835)		
Instruction - other	2,746,553		999,109	259,886	(1,487,358)	(1,487,358)		
Student personnel services	750,798		7,510		(723,288)	(723,288)		
Health services	674,722		50,852		(623,870)	(623,870)		
Student transportation	6,404,405		99,123		(6,305,282)	(6,305,282)		
Operation of plant and equipment	8,257,969		-		(8,257,969)	(8,257,969)		
Maintenance of plant	1,775,628		-		(1,775,628)	(1,775,628)		
Fixed charges	21,426,131		3,010,032		(18,416,099)	(18,416,099)		
Community Services	197,441		197,441		-	-		
Capital outlay	175,063		-	1,402,466	1,227,403	1,227,403		
Special education	17,614,715		3,458,515	19,451	(14,136,749)	(14,136,749)		
Food Service	5,412,150	1,487,646	3,329,716		(594,788)	(594,788)		
Unallocated depreciation expense (excludes direct depreciation)	5,386,080	1,487,646	14,645,900		(5,386,080)	(5,386,080)		
Total Governmental Activities	127,000,936			1,696,448	(109,170,942)	(109,170,942)		
Business-type activities:								
Information Technology	744,739	717,508	-	-	(27,231)	(27,231)		
Total Business-type Activities	744,739	717,508	-	-	(27,231)	(27,231)		
Total Primary Government	\$ 127,745,675	\$ 2,205,154	\$ 14,645,900	\$ 1,696,448	\$ (109,170,942)	\$ (109,198,173)	\$ -	\$ -
Component unit								
Allegany County Public Schools Foundation, Inc.	125,904		97,939	4,495			(23,470)	(21,825)
Allegany County Building Trades Education Foundation, Inc.	37,729		15,904					
Total Component Unit	\$ 163,633	\$ -	\$ 113,843	\$ 4,495	\$ -	\$ (23,470)	\$ (23,470)	\$ (21,825)
General Revenues:								
County appropriation:								
Regular								
Grants, subsidies, and contributions not restricted					28,240,000	28,240,000		
Investment earnings					77,660,395	77,660,395		
Miscellaneous income					164,850	164,850	1,718	107
Loss on disposal of fixed assets					389,670	410,070		
					(37,953)	(37,953)		
Total General Revenues, Special Items, Extraordinary Items and Transfers					106,416,962	106,437,362	1,718	107
Change in Net Assets					(2,753,980)	(2,760,811)	(21,752)	(21,718)
Net Assets - July 1, 2011					111,142,348	111,329,691	143,237	372,097
Net Assets - June 30, 2012					\$ 108,388,368	\$ 108,568,880	\$ 121,485	\$ 350,379

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 10,483,072	\$ -	\$ 888	\$ 6,433,312	\$ 16,917,272
Investments	23,000,000				23,000,000
Accounts receivable	665,998	1,225,119	49,123	2,191,703	4,131,943
Inventory - food			186,820		186,820
Internal receivables		2,240,012	450,210		2,690,222
TOTAL ASSETS	34,149,070	3,465,131	687,041	8,625,015	46,926,257
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	1,319,083	332,938	5,194	56,573	1,713,788
Salaries and benefits payable	3,528,798	366,913	31,871		3,927,582
Internal payables	7,286,566			1,711,307	8,997,873
Deferred revenues	-	2,765,280			2,765,280
Accrued hospital insurance	7,364,207				7,364,207
Current portion of long-term debt	142,469				142,469
Other current liabilities	1,880,693		3,102		1,883,795
TOTAL LIABILITIES	21,521,816	3,465,131	40,167	1,767,880	26,794,994
FUND BALANCES					
Nonspendable - food inventories			186,820		186,820
Restricted - capital projects				5,545,432	5,545,432
Committed - FY13 budget	4,805,213				4,805,213
Assigned to:					
Contingencies	5,500,000				5,500,000
Unemployment benefits	50,000				50,000
Capital Projects				1,311,703	1,311,703
Food Service			460,054		460,054
Unassigned	2,272,041				2,272,041
TOTAL FUND BALANCES	12,627,254	-	646,874	6,857,135	20,131,263
TOTAL LIABILITIES AND FUND BALANCES	\$ 34,149,070	\$ 3,465,131	\$ 687,041	\$ 8,625,015	\$ 46,926,257

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, 2012

Total Fund Balances - Governmental Funds **\$ 20,131,263**

**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 \$180,791,036 and the accumulated depreciation is \$90,015,646. 90,775,390

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. (2,518,285)

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 108,388,368**

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, 2012**

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
REVENUES					
County - regular appropriation	\$ 28,240,000	\$ 16,000	\$ -	\$ 523,656	\$ 28,779,656
State - direct	77,660,395	742,143	211,115	878,810	79,492,463
Federal - direct			351,516		351,516
- received through State		8,934,308	2,767,085		11,701,393
- received through Pass-Thru Agency	437,653	1,159,625			1,597,278
Other revenue	362,842	320,437	1,520,585	167,173	2,371,037
TOTAL REVENUES	106,700,890	11,172,513	4,850,301	1,569,639	124,293,343
EXPENDITURES					
Administration	1,874,643	28,816			1,903,459
Mid-level administration	6,898,665	333,898			7,232,563
Instruction - salaries	41,250,513	2,948,524			44,199,037
Instruction - textbooks & instructional supplies	1,905,835	197,009			2,102,844
Instruction - other	1,986,995	1,258,995			3,245,990
Student personnel services	723,288	7,510			730,798
Health services	623,870	50,852			674,722
Student transportation	6,253,861	99,123			6,352,984
Operation of plant and equipment	8,415,823				8,415,823
Maintenance of plant	1,788,766				1,788,766
Fixed charges	17,924,895	2,572,379			20,497,274
Community Services		197,441			197,441
Capital outlay	325,588			3,192,840	3,518,428
Special education	14,164,248	3,477,966			17,642,214
Food Service			5,388,461		5,388,461
TOTAL EXPENDITURES	104,136,990	11,172,513	5,388,461	3,192,840	123,890,804
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,563,900	-	(538,160)	(1,623,201)	402,539
OTHER FINANCING SOURCES (USES)					
Interfund transfers	(2,433,499)		722,888	423,000	(1,287,611)
Intrafund transfers	(20,816)				(20,816)
TOTAL OTHER FINANCING SOURCES (USES)	(2,454,315)	-	722,888	423,000	(1,308,427)
NET CHANGE IN FUND BALANCES	109,585	-	184,728	(1,200,201)	(905,888)
FUND BALANCE - JULY 1, 2011	12,517,669	-	462,146	8,057,336	21,037,151
FUND BALANCE - JUNE 30, 2012	\$ 12,627,254	\$ -	\$ 646,874	\$ 6,857,135	\$ 20,131,263

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, 2012

Total Net Change in Fund Balance - Governmental Funds	\$ (905,888)
 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 \$42,160.	
	(42,160)
 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	6,227,748
Capital Outlays	<u>4,468,203</u>
	(1,759,545)
 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 \$46,387.	
	<u>(46,387)</u>
 TOTAL CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	 <u>\$ (2,753,980)</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

**STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2012**

	<u>Information Technology Fund</u>	<u>Total</u>
ASSETS		
Current Assets:		
Internal receivables	\$ 61,881	\$ 61,881
Total Current Assets	<u>61,881</u>	<u>61,881</u>
Noncurrent Assets:		
Construction in progress	-	-
Machinery and equipment, net of depreciation	151,858	151,858
Total Noncurrent Assets	<u>151,858</u>	<u>151,858</u>
TOTAL ASSETS	<u>213,739</u>	<u>213,739</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	4,936	4,936
Salaries and benefits payable	28,291	28,291
Total Current Liabilities	<u>33,227</u>	<u>33,227</u>
TOTAL LIABILITIES	<u>33,227</u>	<u>33,227</u>
NET ASSETS		
Invested in capital assets, net of related debt	151,858	151,858
Unrestricted	28,654	28,654
TOTAL NET ASSETS	<u>180,512</u>	<u>180,512</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 213,739</u>	<u>\$ 213,739</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, 2012**

	<u>Information Technology Fund</u>	<u>Total</u>
OPERATING REVENUES		
County - regular appropriation	\$ 358,754	\$ 358,754
- special appropriation		-
Other sources		-
	<hr/>	<hr/>
Total Operating Revenues	358,754	358,754
OPERATING EXPENSES		
Salaries and wages	490,181	490,181
Contracted services	83,511	83,511
Supplies and materials	11,981	11,981
Other charges	123,489	123,489
Equipment replacement	3,283	3,283
Depreciation	32,294	32,294
	<hr/>	<hr/>
Total Operating Expenses	744,739	744,739
Operating Income (Loss)	(385,985)	(385,985)
NON-OPERATING REVENUE		
Interfund Transfers	358,754	358,754
Other revenue	20,400	20,400
	<hr/>	<hr/>
Total Non-operating Revenues	379,154	379,154
Change in Net Assets	(6,831)	(6,831)
TOTAL NET ASSETS - JULY 1, 2011	187,343	187,343
	<hr/>	<hr/>
TOTAL NET ASSETS - JUNE 30, 2012	\$ 180,512	\$ 180,512
	<hr/>	<hr/>

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, 2012**

	<u>Information Technology Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 379,504
Cash received from quasi-external operation transactions with other funds	358,754
Cash paid to suppliers	(224,849)
Cash payments to employees	<u>(485,842)</u>
Net Cash Provided by Operating Activities	<u>27,567</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Change in due to/from other funds	<u>(12,283)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of equipment	<u>(15,284)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(15,284)</u>
Net change in Cash	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Change in net assets	\$ (6,831)
Adjustments to reconcile change in net assets to net cash provided by operations:	
Depreciation	32,294
Change in assets and liabilities	
Decrease (increase) in account receivable	350
Increase (decrease) in accounts payable	(2,585)
Increase (decrease) salaries & benefits payable	<u>4,339</u>
Total Adjustments	<u>34,398</u>
Net Cash Provided by Operating Activities	<u><u>\$ 27,567</u></u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012**

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,557,249	\$ -	\$ 1,109,134	\$ 2,666,383
Investments	614,576	4,000,000		4,614,576
Accounts receivable	28,515	-		28,515
Internal receivables		6,245,769		6,245,769
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	2,200,340	10,245,769	1,109,134	13,555,243
	<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES				
Accounts payable	45,645	10,185		55,830
Salaries and benefits payable		-		-
Deferred revenue	2,154,695			2,154,695
Internal payables				-
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES	2,200,340	10,185	-	2,210,525
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS				
Designated for future retiree benefits		10,235,584		10,235,584
Held in trust for retiree health plan benefits			1,109,134	1,109,134
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL NET ASSETS	-	10,235,584	1,109,134	11,344,718
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 2,200,340	\$ 10,245,769	\$ 1,109,134	\$ 13,555,243
	<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, 2012

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
ADDITIONS				
Student activity revenues	\$ 3,287,292	\$ -	\$ -	\$ 3,287,292
Transfers		928,857		928,857
Earnings/loss on investment		70,983	(17,145)	53,838
Grants received on behalf of others				-
Contributions			164,000	164,000
DEDUCTIONS				
Student activity expenses	3,287,292			3,287,292
Retiree benefits		995,597		995,597
Grants passed to other agencies				-
Administrative expenses				-
Other		18,001		18,001
CHANGE IN NET ASSETS	-	(13,758)	146,855	133,097
NET ASSETS - JULY 1, 2011	-	10,249,342	962,279	11,211,621
NET ASSETS - JUNE 30, 2012	<u>\$ -</u>	<u>\$ 10,235,584</u>	<u>\$ 1,109,134</u>	<u>\$ 11,344,718</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.

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, 2012, \$5,545,432 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, 2012 is \$186,820.

I. Compensated Absences

Accumulated earned vacation time is accrued when incurred. At June 30, 2012, \$1,718,285 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, 2012, \$142,469 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,518,285 has been recorded in the government-wide statement of net assets. Total compensated absences increased in the current year by \$42,160 over the prior year total of \$2,476,125.

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.

The composition of interfund balances as of June 30, 2012 is as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>	<u>Amount</u>
General	Restricted	\$2,240,012
School Construction	General	(1,711,306)
General	Retiree Ins.	6,245,769
General	Food Service	450,210
General	Information Technology	61,881
		<u>\$ 7,286,566</u>

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of three thousand dollars (\$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, 2012, 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, 2012, was as follows:

	<u>Balance 6/30/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance 6/30/12</u>
Governmental Activities					
Non-depreciable assets:					
Land	\$ 4,027,394	\$ 40,000	\$ -	\$ -	\$ 4,067,394
Construction-in-progress	<u>752,837</u>	<u>161,459</u>	<u>-</u>	<u>(658,006)</u>	<u>256,290</u>
Total Non-depreciable assets	<u>4,780,231</u>	<u>201,459</u>	<u>-</u>	<u>(658,006)</u>	<u>4,323,684</u>
Depreciable assets:					
Land Improvements	8,132,327	586,618	-	38,773	8,757,718
Buildings and Improvements	147,311,644	2,367,556	-	334,682	150,013,882
Furniture, Equipment, and Vehicles	<u>16,493,452</u>	<u>1,312,570</u>	<u>(394,821)</u>	<u>284,551</u>	<u>17,695,752</u>
Total Depreciable assets	<u>171,937,423</u>	<u>4,266,744</u>	<u>(394,821)</u>	<u>658,006</u>	<u>176,467,352</u>
Less accumulated depreciation:					
Land Improvements	(1,163,268)	(422,574)	-	-	(1,585,842)
Buildings and Improvements	(74,845,306)	(3,998,705)	-	-	(78,844,011)
Furniture, Equipment, and Vehicles	<u>(8,127,758)</u>	<u>(1,806,469)</u>	<u>348,434</u>	<u>-</u>	<u>(9,585,793)</u>
Total accumulated depreciation	<u>(84,136,332)</u>	<u>(6,227,748)</u>	<u>348,434</u>	<u>-</u>	<u>(90,015,646)</u>
Total capital assets being depreciated	<u>87,801,091</u>	<u>(1,961,004)</u>	<u>(46,387)</u>	<u>658,006</u>	<u>86,451,706</u>
Governmental Activities Capital Assets, Net	<u>\$ 92,581,322</u>	<u>\$ (1,759,545)</u>	<u>\$ (46,387)</u>	<u>\$ -</u>	<u>\$ 90,775,390</u>
Business-Type Activities					
Non-depreciable assets:					
Construction-in-progress	\$ -	\$ -	\$ -	\$ -	\$ -
Total Non-depreciable assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciable assets:					
Furniture, Equipment, and Vehicles	569,321	15,284	-	-	584,605
Less accumulated depreciation	<u>(400,453)</u>	<u>(32,294)</u>	<u>-</u>	<u>-</u>	<u>(432,747)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 168,868</u>	<u>\$ (17,010)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 151,858</u>

* Depreciation was charged to governmental functions as follows:

Administration	\$ 373,400
Student transportation	248,472
Operation of plant and equipment	54,062
Maintenance of plant	142,045
Food Service	23,689
Unallocated	<u>5,386,080</u>
Total Depreciation Expense	<u>\$ 6,227,748</u>

The insurance value of capital assets as of June 30, 2012 is \$332,773,967

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 \$351,516. 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 7% 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 10.94%. 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, 2012, 2011, 2010, 2009, and 2008 were \$1,513,902, \$1,428,305, \$1,121,559, \$955,884, and \$993,118, 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 \$74,742 in programs and projects to the Board's students.

NOTE 8 - CASH AND INVESTMENTS

Deposits

At June 30, 2012, the carrying amount of the Board's bank deposits was \$18,211,022 and the various bank balances were \$19,136,439. Of the bank balances, \$869,416 was covered by depository insurance and \$18,267,023 was covered by collateral held at various banks in the Board's name. Total market value of these pledged securities at June 30, 2012 was \$21,818,228. Included in cash and cash equivalents is \$47,921 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, 2012, 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	27,614,576	15,042	11,123,231	16,065,600	410,703

Of the Board's investments in certificates of deposits, \$17,781 was covered by federal depository insurance and \$27,596,795 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, 2012 was \$64,142 and the balance per bank was \$64,762. 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, 2012 was \$52,473 and the balance per bank was \$52,503. This amount is fully insured by federal depository insurance.

NOTE 9 - ON-BEHALF PAYMENTS

The State of Maryland paid \$9,168,043 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 \$1,118,590 of which \$677,703 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 \$7,364,207 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount decreased by \$1,530,833 from the prior year amount of \$8,895,040, and was based on total claims paid of \$17,767,352 and \$15,830,135 for 2012 and 2011, 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 \$300,000, 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, 2012. 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 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 2012, a maximum subsidy for all retirees of \$390,000 was approved by the Board.

The total annual amount of the subsidy for the 2011-2012 fiscal year is as follows for 180 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	\$15,688	\$120,356
30 or more years	\$16,733	\$237,223

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 \$928,857 toward the fund during the fiscal year ended June 30, 2012. 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, 2012:

Year ending June 30:

2013	\$ 300,556
2014	264,254
2015	134,790
2016	62,427
2017	<u>18,785</u>
Total minimum payments require	<u>\$ 780,812</u>

Rental expenditures for operating leases for the year ended June 30, 2012 is \$228,477.

NOTE 13 - FUND BALANCE

A surplus fund balance of \$12,627,254 existed in the Current Expense Fund Type, Unrestricted fund, as of June 30, 2012. The surplus consisted of \$4,805,213 committed to the FY2013 budget. In addition, \$50,000 is assigned for unemployment benefits, \$5,500,000 assigned for contingencies, and an undesignated surplus of \$2,272,041.

NOTE 14 - ACCOUNTS RECEIVABLE

Total accounts receivable of Governmental Funds in the financial statements as of June 30, 2012 is \$4,131,943. This total consists of the following components:

County Government	\$492,443
State Government	2,228,124
Federal Government	1,160,425
Other Local Education Agencies	119,384
Other	<u>131,567</u>
Total	<u>\$ 4,131,943</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, 2012. 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, 2012 is as follows:

Balance, beginning of year	\$ 279,040
Add: Ticket surcharge collections	22,513
Interest	1,962
Tower rent	13,112
Less: Expenditures	<u>(279,625)</u>
Balance, end of year	<u>\$ 37,002</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, 2012 is as follows:

Balance, beginning of year	\$ 25,106
Add: Ticket surcharge collections	6,594
Interest	186
Less: Expenditures	<u>(0)</u>
Balance, end of year	<u>\$ 31,886</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 17 - POST-RETIREMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

Components of Net OPEB Obligation

Annual Required Contribution	\$628,867
Interest on Net OPEB Obligation	30,692
Adjustment to Annual Required Contribution	<u>(21,090)</u>
Annual OPEB Cost (Expense)	\$638,469
Contributions Made	<u>(678,161)</u>
Increase in Net Obligation	<u><u>(\$39,692)</u></u>
Net OPEB Obligation (BOY)	(\$438,450)
Net OPEB Obligation (EOY)	(\$478,143)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for 2011-2012 is as follows:

<u>Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2012	638,469	106.2%	(478,143)
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, 2011, the most recent actuarial valuation date, the plan was 11.86% funded. The actuarial accrued liability for benefits was \$8,113,878 and the actuarial value of the assets was \$962,279 resulting in an unfunded accrued liability (UAAL) of \$7,151,599. 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 9.74%.

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 17 - 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, 2011 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, 2011 was 27 years.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012**

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
REVENUES				
County - regular appropriation	\$ 28,240,000	\$ 28,240,000	\$ 28,240,000	\$ -
State - direct	77,975,732	77,932,471	77,660,395	(272,076)
Federal - direct	350,000	442,222	437,653	(4,569)
Fund Balance	2,537,887	2,537,887	-	(2,537,887)
Other revenue	463,552	463,552	362,842	(100,710)
TOTAL REVENUES	<u>109,567,171</u>	<u>109,616,132</u>	<u>106,700,890</u>	<u>(2,915,242)</u>
EXPENDITURES				
Administration	2,132,192	2,132,192	1,874,643	257,549
Mid-level administration	7,158,915	7,028,915	6,898,665	130,250
Instruction - salaries	42,061,645	42,061,645	41,250,513	811,132
Instruction - textbooks & instructional supplies	2,081,935	2,071,335	1,905,835	165,500
Instruction - other	2,090,170	2,141,370	1,986,995	154,375
Student personnel services	724,437	724,437	723,288	1,149
Health services	644,936	644,936	623,870	21,066
Student transportation	6,196,561	6,326,561	6,253,861	72,700
Operation of plant and equipment	9,184,917	9,169,917	8,415,823	754,094
Maintenance of plant	1,981,248	1,981,248	1,788,766	192,482
Fixed charges	18,068,676	18,092,037	17,924,895	167,142
Capital outlay	689,239	689,239	325,588	363,651
Special education	14,481,801	14,481,801	14,164,248	317,553
TOTAL EXPENDITURES	<u>107,496,672</u>	<u>107,545,633</u>	<u>104,136,990</u>	<u>3,408,643</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,070,499</u>	<u>2,070,499</u>	<u>2,563,900</u>	<u>493,401</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers	(2,070,499)	(2,070,499)	(2,433,499)	(363,000)
Intrafund transfers			(20,816)	(20,816)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(2,070,499)</u>	<u>(2,070,499)</u>	<u>(2,454,315)</u>	<u>(383,816)</u>
NET CHANGE IN FUND BALANCES	-	-	109,585	109,585
FUND BALANCE - JULY 1, 2011	<u>12,517,669</u>	<u>12,517,669</u>	<u>12,517,669</u>	-
FUND BALANCE - JUNE 30, 2012	<u>\$ 12,517,669</u>	<u>\$ 12,517,669</u>	<u>\$ 12,627,254</u>	<u>\$ 109,585</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, 2012

	Restricted				Food Service			
	Budgeted Amounts Original	Final	Actual Budgetary Basis	Variance With Final Budget Positive (Negative)	Budgeted Amounts Original	Final	Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
REVENUES								
County - regular appropriation	\$ -	\$ -	\$ 16,000	\$ 16,000	\$ -	\$ -	\$ -	\$ -
State - direct	1,151,276	1,151,276	742,143	(409,133)	225,000	225,000	211,115	(13,885)
Federal - direct	7,303,177	7,303,177	10,093,933	2,790,756	250,000	250,000	351,516	101,516
- received through State & Pass-Thru Agencies					2,450,000	2,450,000	2,767,085	317,085
Other revenue	79,313	79,313	320,437	241,124	1,654,668	1,654,668	1,520,585	(134,083)
TOTAL REVENUES	8,533,766	8,533,766	11,172,513	2,638,747	4,579,668	4,579,668	4,850,301	270,633
EXPENDITURES								
Administration	20,374	20,374	28,816	(8,442)				
Mid-level administration	477,251	477,251	333,898	143,353				
Instruction - salaries	2,633,865	2,633,865	2,948,524	(314,659)				
Instruction - textbooks & instructional supplies	189,904	189,904	197,009	(7,105)				
Instruction - other	424,520	424,520	1,258,995	(834,475)				
Student personnel services	67,039	67,039	7,510	59,529				
Health services	73,284	73,284	50,852	22,432				
Student transportation	83,645	83,645	99,123	(15,478)				
Operation of plant and equipment	-	-	-	-				
Fixed charges	1,926,754	1,926,754	2,572,379	(645,625)				
Community Services	-	-	197,441	(197,441)				
Capital outlay	-	-	-	-				
Special education	2,637,130	2,637,130	3,477,966	(840,836)				
Food Service	-	-	-	-	5,302,556	5,302,556	5,388,461	(85,905)
TOTAL EXPENDITURES	8,533,766	8,533,766	11,172,513	(2,638,747)	5,302,556	5,302,556	5,388,461	(85,905)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	-	-	(722,888)	(722,888)	(538,160)	184,728
OTHER FINANCING SOURCES (USES)								
Interfund transfers	-	-	-	-	722,888	722,888	722,888	-
Intrafund transfers	-	-	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	-	-	-	-	184,728	184,728
FUND BALANCE - JULY 1, 2011	-	-	-	-	462,146	462,146	462,146	-
FUND BALANCE - JUNE 30, 2012	\$ -	\$ -	\$ -	\$ -	\$ 462,146	\$ 462,146	\$ 646,874	\$ 184,728

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

BOARD OF EDUCATION OF ALLEGANY COUNTY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 18 - BUDGET TO ACTUAL VARIANCES

General Fund

For the year ended June 30, 2012 the General Fund had a shortfall of revenues and overall shortfall of expenditures.

The shortfall of revenues occurred because of the decreased 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. A shortfall in interest revenue occurred due to low interest rates. The school system budgeted for a slight increase in interest rates.

Administrative and mid-level administrative costs were lower than budget because several positions budgeted were not filled after evaluation. When positions come open through attrition, the school system evaluates the opening to see if the position is needed or if duties can be covered differently. Travel costs for administrators was also lower than budget. The school system has an agreement with a car rental company that results in lower costs than reimbursing mileage costs.

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. The school system is reducing positions through attrition and more positions than budgeted were able to be eliminated after evaluation. Instructional wages also generated a favorable variance due to professional development being able to be funded with grants rather than locally.

Instructional textbooks and supplies generated a favorable variance due to the strong expenditure control by school system personnel. The school system has implemented programs that leverage purchasing power by joining national purchasing cooperatives which result in lower costs. Textbook purchases came under budget because of a large planned purchase in the upcoming fiscal year causing current year purchases to be re-evaluated. Printing supplies came in under budget at the school system's print shop due to putting more information on-line which results in less paper being distributed.

Other instructional costs were lower due to lower costs for field trips and lower equipment purchases. The school system has an outdoor school program in Garrett County and the school system was able to deliver the program in 1 less week than budgeted due to declining enrollment. Equipment costs were lower because more equipment purchased was able to be charged to grants allowing for equipment purchases. Instructional employee travel was also under budget. The school system has implemented conference call technology and more training is being conducted over the internet.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 18 - BUDGET TO ACTUAL VARIANCES (Continued)

Special education came in under budget because of eliminating positions through attrition. The school system also placed fewer students in private placement resulting in lower costs. 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 stresses efficient energy use and competitive price purchases of the energy used. The school system also experienced an unusually warm winter that assisted in reducing utility and labor costs. Maintenance was under budget because major repairs were able to be done with school system personnel rather than contracting the repairs out to a contractor. Fixed charges came in under budget because of the school system's emphasis on controlling labor costs by evaluating open positions. This caused lower employer paid social security and Medicare costs and lower health insurance costs.

Special Revenue Fund - Restricted

The Restricted Fund had a excess of revenues and expenditures over the budgeted amounts for the year ended June 30, 2012. The school system spent the remaining funds for Special Education under the American Recovery and Reinvestment Act (ARRA) by September 30, 2011 which is when those funds expired. During the budgeting process the school system thought those funds would be expended by June 30, 2011. The system received grants under the Education Jobs Fund that were not budgeted during the budget process. These funds were used for teacher health benefits. The school system also received funds under the federal ERATE program and Medicaid program. Those funds are not budgeted due to unpredictable nature of those funds.

Special Revenue Fund – Food Service

The Food Service Special Revenue Fund for the year ended June 30, 2012 had an excess in revenues and 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 resulting in an increase in the reimbursement per meal. Also, more federal commodities were available to the school system.

Expenditures exceeded budget slightly. The school system experienced higher food costs due to inflation of food costs and serving more meals. The increase costs were offset by controlling labor costs. Open positions are evaluated to see if the position is needed. The school system has also implemented a new lower rate for food service substitutes.

BOARD OF EDUCATION OF ALLEGANY COUNTY

**SCHOOL ACTIVITIES FUND
INCREASES, DECREASES AND BALANCES BY SCHOOL
For Year Ended June 30, 2012**

	<u>Balances June 30, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2012</u>
HIGH SCHOOLS				
Allegany	\$ 213,968	\$ 531,816	\$ 500,561	\$ 245,223
Center for Career and Technical Education	83,738	177,689	162,301	99,126
Fort Hill	161,156	648,428	655,738	153,846
Mountain Ridge	210,024	727,094	679,467	257,651
Alternative	<u>5,773</u>	<u>9,637</u>	<u>9,864</u>	<u>5,546</u>
Total High Schools	<u>674,659</u>	<u>2,094,664</u>	<u>2,007,931</u>	<u>761,392</u>
MIDDLE SCHOOLS				
Braddock	52,057	106,075	105,933	52,199
Mount Savage	77,987	152,697	151,403	79,281
Washington	82,437	113,567	121,968	74,036
Westmar	<u>56,681</u>	<u>62,605</u>	<u>65,853</u>	<u>53,433</u>
Total Middle Schools	<u>269,162</u>	<u>434,944</u>	<u>445,157</u>	<u>258,949</u>
ELEMENTARY SCHOOLS				
Beall	53,573	62,989	63,684	52,878
Bel Air	35,625	32,507	37,044	31,088
Cash Valley	21,953	40,997	37,428	25,522
Cresaptown	82,275	57,607	36,067	103,815
Flintstone-school	137,243	49,926	33,970	153,199
Flintstone-McLuckie	385,748	186,693	190,529	381,912
Frost	56,999	46,845	38,159	65,685
Georges Creek	64,150	70,550	67,391	67,309
John Humbird	62,811	41,361	47,929	56,243
Northeast	70,868	63,727	74,991	59,604
Parkside	8,496	49,043	42,589	14,950
South Penn	35,332	48,870	43,615	40,587
West Side	48,971	69,495	69,156	49,310
Westernport	<u>25,849</u>	<u>58,056</u>	<u>51,653</u>	<u>32,252</u>
Total Elementary Schools	<u>1,089,893</u>	<u>878,666</u>	<u>834,205</u>	<u>1,134,354</u>
TOTAL SCHOOLS	<u><u>\$ 2,033,714</u></u>	<u><u>\$ 3,408,274</u></u>	<u><u>\$ 3,287,293</u></u>	<u><u>\$ 2,154,695</u></u>

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

Board of Education of Allegany County
Cumberland, Maryland

Our audit of the basic financial statements of the Board of Education of Allegany County as of June 30, 2012 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