

**BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**FINANCIAL REPORT**  
**AS OF JUNE 30, 2013 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)	3-17
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position	21
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	22
Reconciliation of Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	23
Statement of Net Assets – Proprietary Funds	24
Statement of Revenues, Expenditures and Changes in Net Assets – Proprietary Funds	25
Statement of Cash Flows – Proprietary Funds	26
Statement of Fiduciary Net Assets – Fiduciary Funds	27
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds	28

NOTES TO FINANCIAL STATEMENTS 29-50

REQUIRED SUPPLEMENTAL INFORMATION

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget  
and Actual – General Fund 51

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget  
and Actual – Special Revenue Funds – Restricted (Current Expense) and Food Service 52

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION 53-55

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

**Report on the Financial Statements**

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, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages three (3) through seventeen (17) and fifty-one (51) 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.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the Board of Education of Allegany County, Maryland'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* in considering the Board of Education of Allegany County, Maryland's internal control over financial reporting and compliance.



Cumberland, Maryland  
September 30, 2013

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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Our discussion and analysis of The Board of Education of Allegany County's financial performance provides an overview of the School System's financial activities for the fiscal years ended June 30, 2013 and 2012, 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 \$5,055,954 (4.66%) during the fiscal year ended June 30, 2013. The school system is reducing the accrued hospital insurance after completing a study indicating more payments from the administrator to providers are occurring electronically. The school system is also reducing its fund balance due to state and county operating funding reductions. As a result, the school system has fewer investments.

Total Governmental Funds revenues for the fiscal year ended June 30, 2013, were \$121,190,349. This represents a decrease of \$3,102,994 (2.50%) 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.

Total Governmental Funds expenses for the fiscal year ended June 30, 2013, were \$123,206,641. This represents a decrease of \$684,163 (0.55%) from the prior fiscal year. This decline is

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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attributable to less spending in the school systems restricted expenses with the expiration of federal stimulus funds and federal Education Jobs Funds.

The Current Expense Fund total fund balance as of June 30, 2013, was \$9,568,077. This represents a decrease of \$3,059,177 (24.23%) from the fund balance as of June 30, 2012.

The Current Expense Fund unassigned fund balance as of June 30, 2013, was \$396,609. This represents a decrease of \$1,875,432 (82.54%) from the unassigned fund balance as of June 30, 2012. A total of \$3,621,468 of the fund balance is committed to the FY2014 budget. A total of \$5,500,000 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 using the fund balance because of decreases in state and county operating appropriations.

Current Expense Fund revenues fell short of the final budget by \$5,144,978 (4.69%). The system is using the fund balance because of decreases in state and county operating appropriations. The system did not need to use the amount of fund balance budgeted to balance the budget in FY2013 due to aggressive expenditure control.

Current Expense Fund expenses and transfers were under budget by \$2,085,801 (1.90%). The system has a strong energy management program and experienced a warmer winter causing utilities to be under budget. The school system was given a hospital building in which it will build a new high school. Expenses in maintaining the property until it is demolished came in under budget after working with the State Fire Marshall to minimize such expenses. Special Education expenses were under budget due to students requiring less intensive services in non public institutions. Textbooks and supplies were under budget because prices for textbook purchases came in under previously given quotes. The school system also distributed more information electronically.

The unrestricted General Fund budget increased by \$124,456 (0.11%) to \$109,740,588 compared to the \$109,616,132 budget for the period ended June 30, 2012. The school system received additional money from county government because of state government's shifting of employer contributions of teacher pensions to local governments. County government's appropriation for pension expenses was covered by a state grant. The school system received less state aid because of a declining student population and county wealth increase compared to the rest of Maryland. The school system also increased the use of fund balance in the 2013 budget.

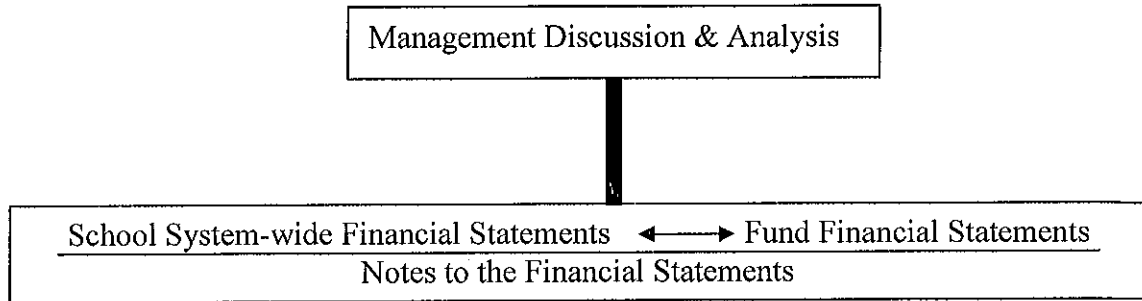
**THE BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**Maryland**

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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**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, 2013**

**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. 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.

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

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

The School System is the trustee, or fiduciary, for three fiduciary funds: the School Activity Fund, the Retiree Insurance Benefit Plan Fund, and Retiree Health Plan Trust Fund. These funds

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

**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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, 2013, of \$8,785,125 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 \$2,438,770 and is the amount we expect to pay beyond June 30, 2013. 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, 2013	June 30, 2012	% Change	June 30, 2013	June 30, 2012	% Change
Administration	\$ 2,577,677	\$ 2,639,522	-2.34%	\$ 2,550,357	\$ 2,610,706	-2.31%
Mid-Level Administration	7,088,209	7,217,918	-1.80%	6,787,514	6,884,020	-1.40%
Instruction (regular and special education)	66,275,378	66,705,109	-0.64%	58,799,534	58,822,615	-0.04%
Student Personnel and Health Services	1,532,666	1,405,620	9.05%	1,366,263	1,347,158	1.42%
Student Transportation	6,425,459	6,404,405	0.33%	6,332,198	6,305,282	0.43%
Operation, Maintenance and Capital Outlay	10,348,256	10,206,660	1.39%	8,666,723	8,804,194	-1.56%
Fixed Charges	22,077,600	21,426,131	3.04%	19,992,196	18,416,099	8.56%
Community Services	264,420	197,441	33.92%			
Food Service	5,220,130	5,412,150	-3.55%	766,365	594,788	28.85%
Depreciation & Other	5,208,049	5,424,033	-3.98%	5,208,049	5,424,033	-3.98%
<b>Total</b>	<b>\$ 127,017,844</b>	<b>\$ 127,038,889</b>	<b>-0.02%</b>	<b>\$ 110,469,199</b>	<b>\$ 109,208,895</b>	<b>1.15%</b>

Results of operations for the School System as a whole are presented in the Statement of Activities. The cost of all governmental activities is \$127,017,844, of which \$1,252,254 was financed by users of the School System's programs. Grants and contributions from Federal and State governments for certain programs were \$15,296,391. This left a net cost of services of \$110,469,199.

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, 2013**

**Condensed Statement of Net Assets**

	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2013	June 30, 2012	% Change	June 30, 2013	June 30, 2012	% Change	June 30, 2013	June 30, 2012	% Change	June 30, 2013	June 30, 2012	% Change
Current and Other Assets	\$ 39,406,868	\$ 44,174,154	-10.79%	\$ 98,785	\$ 61,881	59.64%	\$ 39,506,653	\$ 44,236,035	-10.69%	\$ 128,582,277	\$ 135,163,282	-4.88%
Capital Assets	88,935,825	90,775,389	-2.03%	120,799	151,858	-20.45%	89,056,624	90,927,247	-2.06%	22,610,581	2,518,284	-6.09%
<b>Total Assets</b>	<b>\$ 128,342,693</b>	<b>\$ 134,949,543</b>	<b>-4.90%</b>	<b>\$ 219,584</b>	<b>\$ 213,739</b>	<b>4.30%</b>	<b>\$ 128,582,277</b>	<b>\$ 135,163,282</b>	<b>-4.88%</b>	<b>\$ 25,049,951</b>	<b>\$ 26,594,402</b>	<b>-6.81%</b>
Current and Other Liabilities	\$ 22,579,508	\$ 24,042,891	-6.09%	\$ 31,073	\$ 33,227	-6.48%	\$ 22,579,508	\$ 24,076,118	-6.09%	\$ 2,438,770	\$ 2,518,284	-3.16%
Long-term Liabilities	2,438,770	2,518,284	-3.16%	31,073	33,227	-6.81%	2,438,770	2,518,284	-3.16%	25,049,951	26,594,402	-6.81%
<b>Total Liabilities</b>	<b>\$ 25,018,278</b>	<b>\$ 26,561,175</b>	<b>-6.81%</b>	<b>\$ 31,073</b>	<b>\$ 33,227</b>	<b>-6.81%</b>	<b>\$ 25,049,951</b>	<b>\$ 26,594,402</b>	<b>-6.81%</b>	<b>\$ 25,049,951</b>	<b>\$ 26,594,402</b>	<b>-6.81%</b>
<b>Net Assets:</b>												
Invested in Capital Assets, Net of Related Debt	\$ 88,935,825	\$ 90,775,389	-2.03%	\$ 120,799	\$ 151,858	-20.45%	\$ 89,056,624	\$ 90,927,247	-2.06%	\$ 89,056,624	\$ 90,927,247	-2.06%
Restricted	5,671,177	5,732,282	-1.07%	67,712	29,654	138.31%	5,671,177	5,732,252	-1.07%	5,671,177	5,732,252	-1.07%
Unrestricted	8,717,413	11,880,727	-26.63%	138,511	180,512	4.43%	8,785,125	11,909,381	-26.23%	103,512,926	106,568,880	-4.66%
<b>Total Net Assets</b>	<b>\$ 103,324,415</b>	<b>\$ 108,388,368</b>	<b>-4.67%</b>	<b>\$ 138,511</b>	<b>\$ 180,512</b>	<b>4.43%</b>	<b>\$ 103,512,926</b>	<b>\$ 106,568,880</b>	<b>-4.66%</b>	<b>\$ 103,512,926</b>	<b>\$ 106,568,880</b>	<b>-4.66%</b>

**Changes in Net Assets from Operating Results**

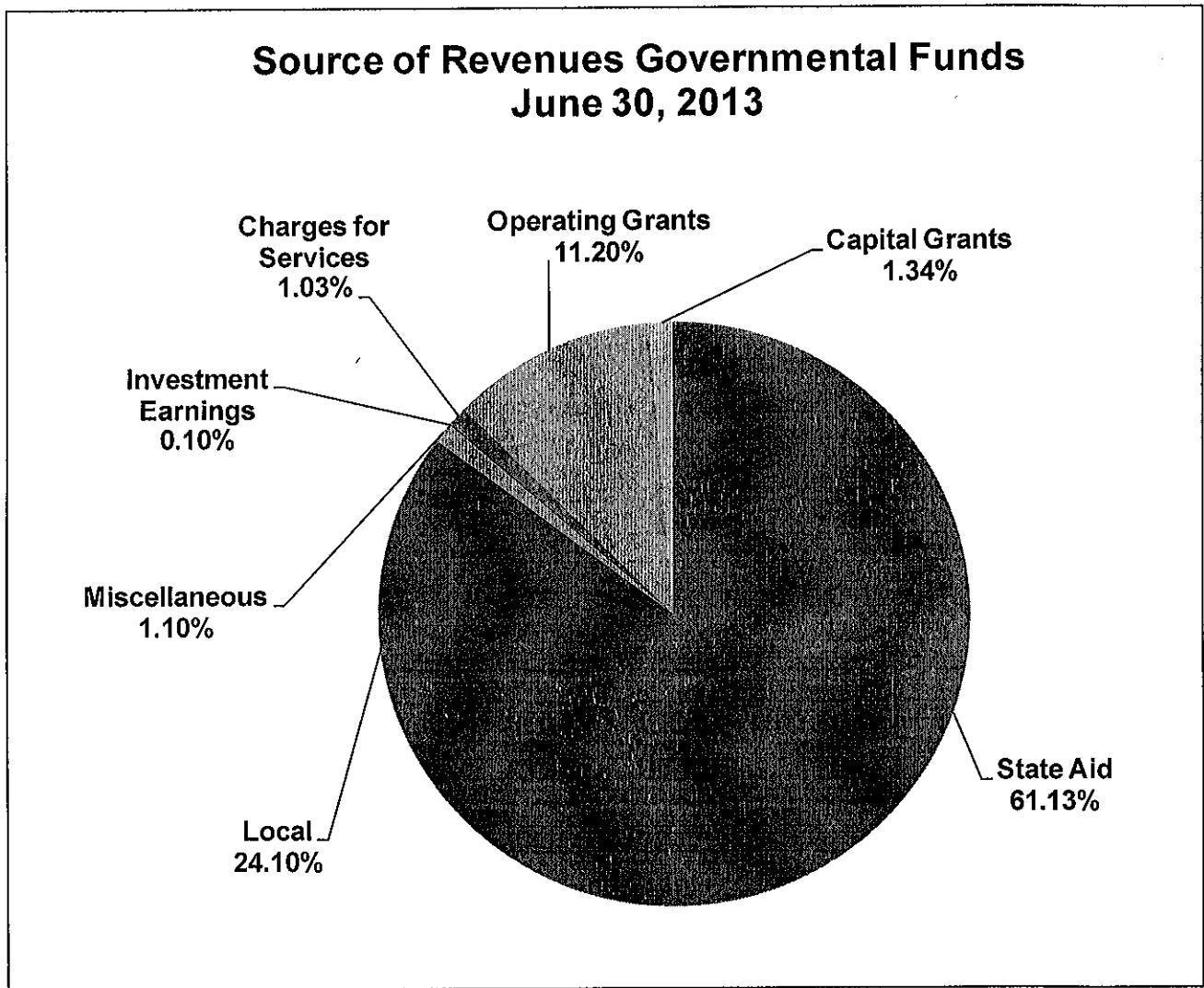
	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2013	June 30, 2012	% Change	June 30, 2013	June 30, 2012	% Change	June 30, 2013	June 30, 2012	% Change	June 30, 2013	June 30, 2012	% Change
Program Revenues:												
Charges for Services	\$ 1,252,254	\$ 1,487,646	-15.82%	\$ 717,508	\$ 717,508	0.00%	\$ 1,969,762	\$ 2,205,154	-10.67%	\$ 1,969,762	\$ 2,205,154	-10.67%
Operating Grants and Contributions	13,682,201	14,645,900	-6.72%	1,634,190	1,634,190	0.00%	13,682,201	14,645,900	-6.72%	13,682,201	14,645,900	-6.72%
Capital Grants and Contributions	1,634,190	1,686,448	-3.67%	20,700	20,400	1.47%	1,634,190	1,686,448	-3.67%	1,634,190	1,686,448	-3.67%
General Revenues:												
County Government	29,391,968	28,240,000	4.08%	29,391,968	29,391,968	0.00%	29,391,968	28,240,000	4.08%	29,391,968	28,240,000	4.08%
Grants and Contributions (unrestricted)	74,543,490	77,660,395	-4.01%	74,543,490	74,543,490	0.00%	74,543,490	77,660,395	-4.01%	74,543,490	77,660,395	-4.01%
Other	1,469,798	554,520	165.06%	735,208	737,908	-0.37%	1,490,498	574,920	159.25%	1,490,498	574,920	159.25%
<b>Total Revenues</b>	<b>\$ 121,353,851</b>	<b>\$ 124,284,909</b>	<b>-1.88%</b>	<b>\$ 735,208</b>	<b>\$ 737,908</b>	<b>-0.37%</b>	<b>\$ 121,682,099</b>	<b>\$ 125,022,817</b>	<b>-1.86%</b>	<b>\$ 121,682,099</b>	<b>\$ 125,022,817</b>	<b>-1.86%</b>
Administration	\$ 2,577,677	\$ 2,639,522	-2.34%	\$ 7,088,209	\$ 7,088,209	0.00%	\$ 2,577,677	\$ 2,639,522	-2.34%	\$ 2,577,677	\$ 2,639,522	-2.34%
Mid-level Administration	7,088,209	7,217,918	-1.80%	66,705,109	66,705,109	0.00%	7,088,209	7,217,918	-1.80%	66,705,109	66,705,109	0.00%
Instruction (regular and special education)	66,705,378	62,731,731	9.05%	1,532,666	1,405,520	9.05%	66,275,378	62,731,731	6.45%	1,532,666	1,405,520	9.05%
Student Personnel and Health Services	1,532,666	1,405,520	9.05%	6,425,459	6,404,405	0.33%	1,532,666	1,405,520	9.05%	6,425,459	6,404,405	0.33%
Student Transportation	6,425,459	6,404,405	0.33%	10,348,256	10,206,660	1.39%	6,425,459	6,404,405	0.33%	10,348,256	10,206,660	1.39%
Operation, Maintenance and Capital Outlay	10,348,256	10,206,660	1.39%	22,077,600	21,426,131	3.04%	22,077,600	21,426,131	3.04%	22,077,600	21,426,131	3.04%
Fixed Charges	22,077,600	21,426,131	3.04%	264,420	197,441	33.92%	264,420	197,441	33.92%	264,420	197,441	33.92%
Community Services	264,420	197,441	33.92%	5,412,150	5,412,150	0.00%	5,220,130	5,412,150	-3.59%	5,220,130	5,412,150	-3.59%
Food Service	5,220,130	5,412,150	-3.55%	730,209	744,739	-1.95%	5,220,130	5,412,150	-3.59%	730,209	744,739	-1.95%
Depreciation & Other	5,220,049	5,424,033	-3.96%	730,209	744,739	-1.95%	5,220,049	5,424,033	-3.96%	5,220,049	5,424,033	-3.96%
<b>Total Expenses</b>	<b>\$ 127,017,844</b>	<b>\$ 127,038,889</b>	<b>-0.02%</b>	<b>\$ 730,209</b>	<b>\$ 744,739</b>	<b>-1.95%</b>	<b>\$ 127,748,053</b>	<b>\$ 127,763,628</b>	<b>-0.01%</b>	<b>\$ 127,748,053</b>	<b>\$ 127,763,628</b>	<b>-0.02%</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ (5,663,993)</b>	<b>\$ (2,753,980)</b>	<b>-83.88%</b>	<b>\$ 7,999</b>	<b>\$ (6,831)</b>	<b>217.10%</b>	<b>\$ (5,065,954)</b>	<b>\$ (2,760,811)</b>	<b>-83.13%</b>	<b>\$ (5,065,954)</b>	<b>\$ (2,760,811)</b>	<b>-83.13%</b>

THE BOARD OF EDUCATION OF ALLEGANY COUNTY  
Maryland

Management's Discussion and Analysis (MD&A)  
June 30, 2013

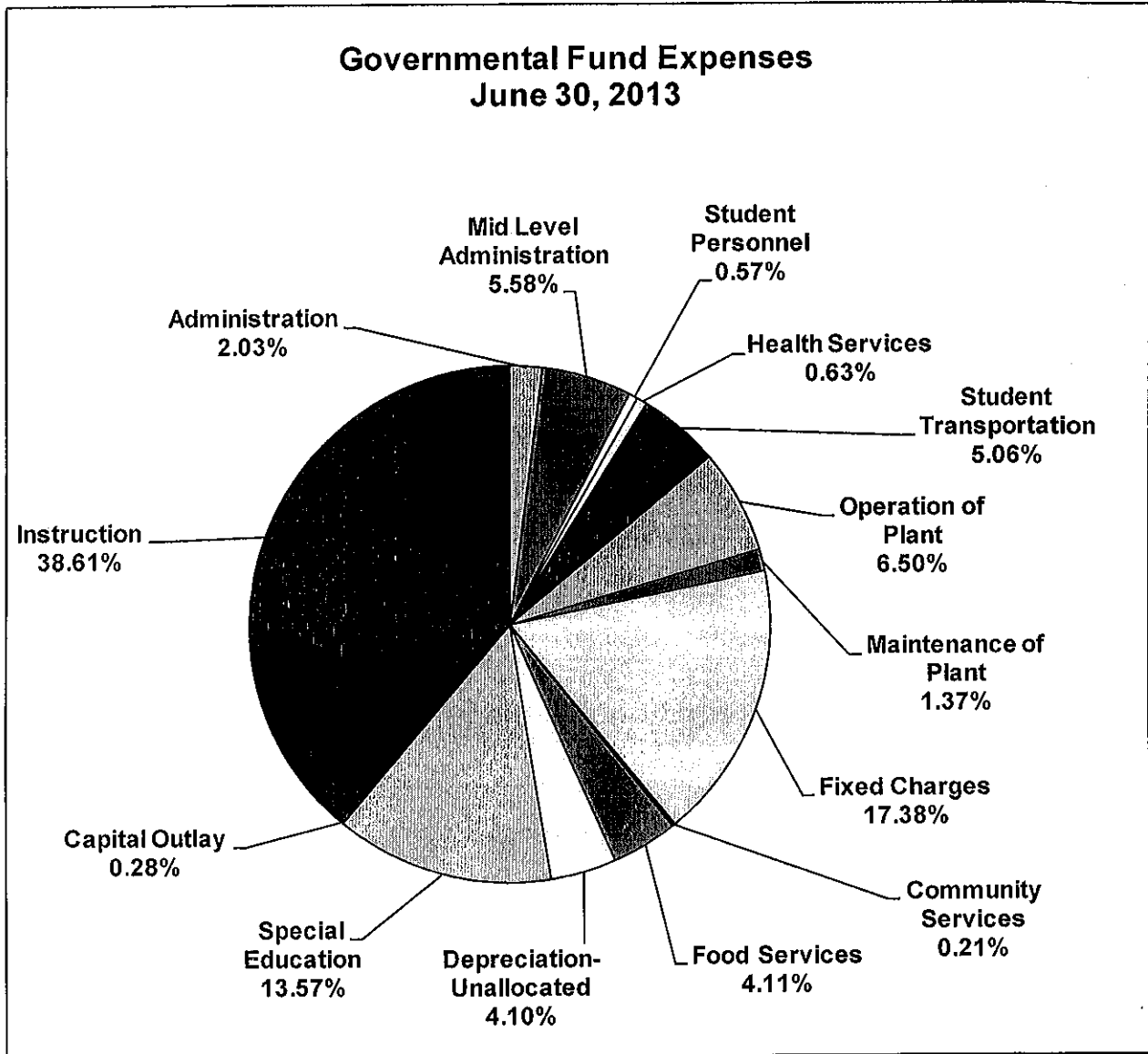
**GENERAL FUND (CURRENT EXPENSE) BUDGETARY HIGHLIGHTS**

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, 2013



**Fund Performance**

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

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

**Management's Discussion and Analysis (MD&A)  
June 30, 2013**

**General Fund – Unrestricted**

A schedule of changes between the original and final budgets for the year ended June 30, 2013, is presented below. There was no net change between the original and final budget.

	Original Budget	Final Budget	Additions	Reductions	Total Change
County Appropriation	\$ 29,391,956	\$ 29,391,956			\$ -
State	74,849,512	74,849,512			-
Federal	350,000	350,000			-
Local	192,907	192,907			-
Earnings on investments	151,000	151,000			-
Other Sources	4,805,213	4,805,213			-
<b>Total Revenues</b>	<b>\$ 109,740,588</b>	<b>\$ 109,740,588</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Administration	\$ 2,350,187	\$ 2,350,187			\$ -
Mid-Level Administration	6,503,164	6,645,491	142,327		142,327
Instructional Salaries	41,072,063	40,979,736	50,000	142,327	(92,327)
Textbooks	3,042,739	3,084,589	50,000	8,150	41,850
Other Instructional Costs	1,987,167	1,945,317	8,150	50,000	(41,850)
Special Education	14,413,367	14,413,367			-
Student Personnel Services	726,206	726,206			-
Student Health Services	644,936	644,936			-
Student Transportation	6,468,562	6,468,562			-
Operation of Plant	9,110,021	9,060,021		50,000	(50,000)
Maintenance of Plant	1,899,700	1,899,700			-
Fixed Charges	20,284,116	20,284,116			-
Food Services	574,704	574,704			-
Capital Outlay	663,656	663,656			-
<b>Total Expenditures</b>	<b>\$ 109,740,588</b>	<b>\$ 109,740,588</b>	<b>\$ 250,477</b>	<b>\$ 250,477</b>	<b>\$ -</b>

Local and state revenues account for over 95% 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, 2013 as a supplement to the narrative discussion below the chart.

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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**Unrestricted General Fund Budget to Actual Variances**

<b>Budget Variance Descriptions:</b>	<b>Positive (Negative)</b>
<b>Revenues:</b>	
Medicare Part D	(38,707)
Special Education Private Placements	(303,404)
Interest Revenue	(38,707)
Sale of Equipment	17,808
Other Revenue Variances	<u>23,245</u>
<b>Total Revenue Variances</b>	<b>\$ (339,765)</b>
 <b>Expenditures and Interfund Transfers:</b>	
Labor Savings & Efficiencies	113,785
Transportation Savings	162,815
Administrative & Instructional Travel	63,546
Utilities and Energy Management	436,739
Braddock Campus Hospital Holding Costs	115,407
Private Placements	347,900
Instructional Textbooks & Supplies	443,812
Non Labor Maintenance and Operations Costs	233,729
Other Instructional Expenditures	117,908
Other expenditure variances	<u>50,160</u>
<b>Total Expenditures and Interfund Transfers Variances</b>	<b><u>2,085,801</u></b>
<b>Total Positive Variance - Unrestricted General Fund</b>	<b><u>\$ 1,746,036</u></b>

**Revenues:**

For the year ended June 30, 2013, total unrestricted General Fund revenues resulted in a negative variance of \$339,765.

Medicare Part D revenues show an unfavorable variance of \$38,707. 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

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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bulletin requiring recipients of Medicare Part D funds to show these proceeds as revenue. The system budget is based upon past experience.

Special Education private placement revenue had a negative budget variance of \$303,404. The decrease was because students did not require service as long or as intensive as budgeted. The budget for Special Education private placement is an estimate based on the anticipated state formula and number of students served.

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 purchased. The school system also had fewer funds on hand to invest as the fund balance and accrued hospital liability were reduced.

During the year, the school system implemented the services of an electronic marketplace for surplus property. As a result of using this service, the school system received many more bids when surplus property became available and there were more bids outside Allegany County, resulting in higher prices being attained for surplus property. Other revenues were over budgeted amounts creating a net favorable variance in the amount of \$23,245. The system planned on using \$4,805,213 of the fund balance during the fiscal year. Due to expense management, a smaller use of the fund balance occurred.

**Expenditures and Inter-fund transfers:**

For the year ended June 30, 2013, total unrestricted General Fund expenditures resulted in a positive variance of \$2,085,801.

The school system diligently managed labor costs. Management evaluated positions that came open through attrition to determine if replacement was necessary. Through the replacement process, when an open position was replaced, it was at a lower cost than was budgeted. Labor savings were also generated by controlling overtime in the maintenance and operations areas. All labor savings resulted in saving 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. Lower fuel costs overall were recognized as compared to budget resulting in a savings. The system also traveled fewer miles than budgeted. 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



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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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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. System administrators also traveled with counterparts from other counties to come under budget.

A partnership between the school system, Western Maryland Health System, and the City of Cumberland resulted in an arrangement where the City of Cumberland gave land to the Western Maryland Health System who in turn gave a hospital building and land to the school system contingent upon building a new high school at the location. The school budgeted costs for heating and cooling the hospital building until the building could be demolished for construction of a new high school. School system facilities personnel were able to work with the Fire Marshall in order to avoid heating the building. Facilities personnel also worked on understanding the operation of heating and cooling mechanical systems in order to minimize the air conditioning needed for the property.

The school system aggressively managed 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. A mild winter contributed to utility savings.

Public schools are required to provide a free and appropriate education to all students in a public school system. When students have intensive educational needs that cannot be met by the local school system, the school system is mandated to provide an education in a facility that can meet those needs. The cost is shared between the local school system and state government based upon a formula. A favorable budget resulted because students did not require service as long or as intensive as budgeted. The budget for Special Education private placement is an estimate based on the anticipated state formula and number of students served.

Instructional textbooks and supplies came in under budget. Expenditures for textbooks came in under budget by approximately \$222,000 and expenditures for instructional software came in under budget approximately \$38,000. The school system evaluated the need for textbooks and software and then competitively seeks out the best price. Textbook manufacturers aggressively reduced their prices from prior quotes. Supplies came in under budget in the school system's print shop program by over \$38,000. The school system is trying to place more information on-line rather than printing the information, which resulted in fewer supplies being used. The school system allocates money to school principals to spend on instructional supplies. A total of \$25,000 was not spent resulting in a favorable variance. Supplies used by instructional supervisors and principals came in under budget by approximately \$71,000. Amounts budgeted are based upon the requests from instructional supervisors. The school system also came under budget by approximately \$50,000 due to less paper being purchased centrally. As more information was communicated digitally, the use of paper declined.

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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During the year, no major equipment breakdowns or building incidents occurred requiring the maintenance department to hire an outside vendor for the repair. Repairs were performed by maintenance staff and those repairs came in under budget with using fewer supplies than budgeted. Maintenance staff was used to winterize the Braddock Campus Hospital property, which saved the school system money as discussed above. Equipment in the Network and Repairs Department was under budget as grants were used or will be used to replace equipment that normally would be charged locally.

Other instructional expenditures came under budget. Equipment expenditures were under budget by \$70,000. The system searches for grants to fund instructional endeavors and often there are grants available for equipment. The Garrett County Outdoor School program was under budget by \$13,000 due to having one less week of activity and instruction than originally budgeted. Instructional travel was under budget by \$16,000. The system is finding more meetings are being held electronically. 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.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### ***Capital Assets***

At June 30, 2013, the School System had \$185,143,549 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$3,767,908 from the same time last year, net of disposals. The total net cost of assets after depreciation was \$89,056,624. Total depreciation expense for the year ended June 30, 2013 was \$6,007,153.

The school system completed a variety of projects during the 2013 fiscal year. The system purchased two properties near John Humbird Elementary. One property was converted to a parking lot and the other extended the playground. A waterline was replaced at Washington Middle School. A chiller was replaced at George's Creek Elementary. The school system was given a lot near Greenway Avenue Stadium and the system had it paved for use as a parking lot. A canopy was completed at Cresaptown Elementary. Part of the roof was replaced at Westmar Middle and Fort Hill High School.

### ***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.

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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**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 legislation require school systems to ensure that all students in core academic areas are taught by "highly qualified" teachers and economically disadvantaged children must have access to a pre-kindergarten program. In addition, there are new certification and assessment requirements for paraprofessionals and extensive tracking and reporting requirements.

Newer requirements from the federal Race to the Top program include adopting standards and writing curriculum that prepare students for college and workplace success, building data systems that measure student growth and inform teachers and principals about how to improve instruction, redesigning teacher and principal evaluation systems, and turning around persistently low-achieving schools. The Partnership for Assessment of Readiness for College and Careers (PARCC) assessments that will be fully implemented in 2014-2015 require school systems to build technology capacity for administering the computer-based assessments which may require additional technology and/or bandwidth to administer the assessments in an efficient and timely manner. All of these requirements have significant cost impacts.

A majority of the funding for the school system comes from the Maryland General Assembly. State aid education formulas are based largely on student population and wealth. Wealth in the state aid education formulas is measured by income taxes, real estate assessments, and personal property assessments. Less funding can result when a school system's student population declines or wealth increases more than state averages or decreases less than state averages. Student population is also a factor in the required minimum of funding from county government called maintenance of effort.

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. Allegany 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 Allegany County is the second poorest jurisdiction in the state of Maryland as measured by wealth per pupil.

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2013**

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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 Allegany High School. Allegany County qualifies to have state government pay for 93% of the eligible construction costs. The state has approved the project and funded part of the project locking in the 93% eligible cost factor for the project. Costs not eligible for state funding must be funded locally. The system was required to fund part of the construction of Mountain Ridge High School by county government for costs exceeding a stated dollar amount. All costs funded by the school system were not eligible for state funding.

**CONTACT THE BOARD OF EDUCATION OF ALLEGANY COUNTY'S FINANCIAL MANAGEMENT**

Our financial report is designed to provide our citizens, taxpayers, parents, and students with a general overview of the school system's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or wish to request additional financial information, contact Randall P. Bittinger, CPA, Chief Business Officer, (301) 759-2024, [boardfinance@acps.k12.md.us](mailto:boardfinance@acps.k12.md.us), at The Board of Education of Allegany County, 108 Washington Street, Cumberland, Maryland 21502.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF NET POSITION  
6/30/2013

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Allegany County Public Schools Foundation, Inc.	Allegany County Building Trades Education Foundation, Inc.
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 15,211,686	\$ -	\$ 15,211,686	\$ 32,890	\$ 179,184
Investments	18,000,000		18,000,000	20,500	
Accounts receivable	6,084,500	500	6,085,000		7848
Pledges receivable				7,600	
Accrued interest receivable			-		
Inventory	208,967		208,967		
Internal balances	(98,285)	98,285	-		
<b>Total Current Assets</b>	<b>39,406,868</b>	<b>98,785</b>	<b>39,505,653</b>	<b>60,990</b>	<b>187,032</b>
<b>Noncurrent Assets:</b>					
Long-Term Investments, at market				90,876	
Non-depreciable capital assets	5,983,581	-	5,983,581		125,108
Depreciable capital assets, net of depreciation	82,952,244	120,799	83,073,043		
<b>Total Noncurrent Assets</b>	<b>88,935,825</b>	<b>120,799</b>	<b>89,056,624</b>	<b>90,876</b>	<b>125,108</b>
<b>TOTAL ASSETS</b>	<b>\$ 128,342,693</b>	<b>\$ 219,584</b>	<b>\$ 128,562,277</b>	<b>\$ 151,866</b>	<b>\$ 312,140</b>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts payable	\$ 8,116,853	\$ 5,433	\$ 8,122,286	\$ 4,550	\$ -
Salaries and benefits payable	3,976,774	25,640	4,002,414		
Deferred revenues	2,704,994		2,704,994		
Accrued hospital insurance	5,776,803		5,776,803		
Current portion of long-term debt	145,909		145,909		
Other current liabilities	1,858,175		1,858,175	41	
<b>Total Current Liabilities</b>	<b>22,579,508</b>	<b>31,073</b>	<b>22,610,581</b>	<b>4,591</b>	<b>-</b>
<b>Noncurrent Liabilities:</b>					
Long-term portion of compensated absences	2,438,770		2,438,770		
<b>TOTAL LIABILITIES</b>	<b>25,018,278</b>	<b>31,073</b>	<b>25,049,351</b>	<b>4,591</b>	<b>-</b>
<b>NET POSITION</b>					
Invested in capital assets, net of related debt	88,935,825	120,799	89,056,624		
Restricted for:					
Capital projects	5,462,210		5,462,210	13,205	
Food inventories	208,967		208,967		
Other			-	124,802	
Unrestricted	8,717,413	67,712	8,785,125	9,268	312,140
<b>TOTAL NET POSITION</b>	<b>103,324,415</b>	<b>188,511</b>	<b>103,512,926</b>	<b>147,275</b>	<b>312,140</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$ 128,342,693</b>	<b>\$ 219,584</b>	<b>\$ 128,562,277</b>	<b>\$ 151,866</b>	<b>\$ 312,140</b>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Unit	
	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		
<b>Primary government</b>							
<b>Governmental activities:</b>							
Administration	\$	2,577,677		\$	(2,550,357)	\$	\$
Mid-level administration		7,088,209			(6,787,514)		
Instruction - salaries		43,593,651			(40,873,427)		
Instruction - textbooks & instructional supplies		2,871,255			(2,640,775)		
Instruction - other		2,571,548			(1,249,166)		
Student personnel services		728,026			(728,026)		
Health services		804,640			(638,237)		
Student transportation		6,425,459			(6,332,198)		
Operation of plant and equipment		8,256,802			(8,256,802)		
Maintenance of plant		1,736,697			(1,736,697)		
Fixed charges		22,077,600			(19,992,196)		
Community Services		264,420			-		
Capital outlay		354,757			1,326,776		
Special education		17,232,924			(14,036,166)		
Food Service		5,220,130			(766,365)		
Unallocated depreciation expense (excludes direct depreciation)		5,208,049			(5,208,049)		
<b>Total Governmental Activities</b>		<b>127,017,844</b>			<b>(110,469,199)</b>		
<b>Business-type activities:</b>							
Information Technology		730,209					
<b>Total Business-type Activities</b>		<b>730,209</b>					
<b>Total Primary Government</b>		<b>\$ 127,748,053</b>			<b>\$ (110,469,199)</b>		
<b>Component unit</b>							
Allegany County Public Schools Foundation, Inc.		97,173				26,941	(1,830)
Allegany County Building Trades Education Foundation, Inc.		53,204					(1,830)
<b>Total Component Unit</b>		<b>\$ 150,377</b>				<b>\$ 26,941</b>	<b>\$ (1,830)</b>
<b>General Revenues:</b>							
County appropriation:							
Regular							
Grants, subsidies, and contributions not restricted							
Investment earnings/loss							
Miscellaneous income							
Other source income							
Gain/loss on disposal of fixed assets							
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>							
<b>Change in Net Position</b>							
Net Position - July 1, 2012							
<b>Net Position - June 30, 2013</b>							

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

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2013**

	<b>General Fund (Current Expense) Unrestricted</b>	<b>(Current Expense) Restricted</b>	<b>Food Service</b>	<b>School Construction</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 8,215,879	\$ -	\$ 29,066	\$ 6,966,741	\$ 15,211,686
Investments	18,000,000				18,000,000
Accounts receivable	753,743	1,878,211	1,072,235	2,380,311	6,084,500
Inventory - food			208,967		208,967
Internal receivables		1,551,741			1,551,741
<b>TOTAL ASSETS</b>	<b>26,969,622</b>	<b>3,429,952</b>	<b>1,310,268</b>	<b>9,347,052</b>	<b>41,056,894</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	1,328,511	435,263	59,732	99,291	1,922,797
Salaries and benefits payable	3,619,770	289,695	67,309		3,976,774
Internal payables	4,689,607		697,660	2,456,815	7,844,082
Deferred revenues		2,704,994			2,704,994
Accrued hospital insurance	5,776,803				5,776,803
Current portion of long-term debt	145,909				145,909
Other current liabilities	1,840,945		17,230		1,858,175
<b>TOTAL LIABILITIES</b>	<b>17,401,545</b>	<b>3,429,952</b>	<b>841,931</b>	<b>2,556,106</b>	<b>24,229,534</b>
<b>FUND BALANCES</b>					
Nonspendable - food inventories			208,967		208,967
Restricted - capital projects				5,462,210	5,462,210
Committed - FY14 budget	3,621,468				3,621,468
Assigned to:					
Contingencies	5,500,000				5,500,000
Unemployment benefits	50,000				50,000
Capital Projects				1,328,736	1,328,736
Food Service			259,370		259,370
Unassigned	396,609				396,609
<b>TOTAL FUND BALANCES</b>	<b>9,568,077</b>	<b>-</b>	<b>468,337</b>	<b>6,790,946</b>	<b>16,827,360</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 26,969,622</b>	<b>\$ 3,429,952</b>	<b>\$ 1,310,268</b>	<b>\$ 9,347,052</b>	<b>\$ 41,056,894</b>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

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

6/30/2013

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 16,827,360</b>
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>	
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 \$184,558,944 and the accumulated depreciation is \$95,623,119.	88,935,825
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.	<u>(2,438,770)</u>
<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b><u>\$ 103,324,415</u></b>

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, 2013**

	<u>General Fund (Current Expense) Unrestricted</u>	<u>(Current Expense) Restricted</u>	<u>Food Service</u>	<u>School Construction</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
County - regular appropriation	\$ 29,391,958	\$ -	\$ -	\$ 336,193	\$ 29,728,151
State - direct	74,543,490	713,041	194,898	1,035,075	76,486,504
Federal - direct			274,888		274,888
- received through State		7,680,333	2,731,725		10,412,058
- received through Pass-Thru Agency	311,293	1,623,883			1,935,176
Other revenue	348,869	395,062	1,283,403	326,238	2,353,572
<b>TOTAL REVENUES</b>	<u>104,595,610</u>	<u>10,412,319</u>	<u>4,484,914</u>	<u>1,697,506</u>	<u>121,190,349</u>
<b>EXPENDITURES</b>					
Administration	1,900,246	21,177			1,921,423
Mid-level administration	6,787,514	300,695			7,088,209
Instruction - salaries	40,952,942	2,720,224			43,673,166
Instruction - textbooks & instructional supplies	2,640,775	236,480			2,877,255
Instruction - other	1,812,245	1,322,382			3,134,627
Student personnel services	728,026				728,026
Health services	638,237	166,403			804,640
Student transportation	6,296,641	93,261			6,389,902
Operation of plant and equipment	8,280,029				8,280,029
Maintenance of plant	1,665,675				1,665,675
Fixed charges	19,390,320	1,774,111			21,164,431
Community Services		264,420			264,420
Capital outlay	185,444	256,265		2,295,907	2,737,616
Special education	14,036,166	3,196,758			17,232,924
Food Service			5,244,298		5,244,298
<b>TOTAL EXPENDITURES</b>	<u>105,314,260</u>	<u>10,352,176</u>	<u>5,244,298</u>	<u>2,295,907</u>	<u>123,206,641</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(718,650)</u>	<u>60,143</u>	<u>(759,384)</u>	<u>(598,401)</u>	<u>(2,016,292)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers	(2,340,527)	(60,143)	580,847	532,212	(1,287,611)
Intrafund transfers					-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,340,527)</u>	<u>(60,143)</u>	<u>580,847</u>	<u>532,212</u>	<u>(1,287,611)</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(3,059,177)</u>	<u>-</u>	<u>(178,537)</u>	<u>(66,189)</u>	<u>(3,303,903)</u>
<b>FUND BALANCE - JULY 1, 2012</b>	<u>12,627,254</u>	<u>-</u>	<u>646,874</u>	<u>6,857,135</u>	<u>20,131,263</u>
<b>FUND BALANCE - JUNE 30, 2013</b>	<u>\$ 9,568,077</u>	<u>\$ -</u>	<u>\$ 468,337</u>	<u>\$ 6,790,946</u>	<u>\$ 16,827,360</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

<b>Total Net Change in Fund Balance - Governmental Funds</b>				<b>\$ (3,303,903)</b>
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>				
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 decrease of \$79,515.				79,515
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the period.	Depreciation expense	5,976,094		
	Capital Outlays	<u>4,154,487</u>		(1,821,607)
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 \$17,958.				<u>(17,958)</u>
<b>TOTAL CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>				<b><u>\$ (5,063,953)</u></b>

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, 2013**

	<u>Information Technology Fund</u>	<u>Total</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Accounts receivable	\$ 500	\$ 500
Internal receivables	98,285	\$ 98,285
	<hr/>	<hr/>
<b>Total Current Assets</b>	<b>98,785</b>	<b>98,785</b>
<b>Noncurrent Assets:</b>		
Construction in progress	-	-
Machinery and equipment, net of depreciation	120,799	120,799
	<hr/>	<hr/>
<b>Total Noncurrent Assets</b>	<b>120,799</b>	<b>120,799</b>
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>219,584</b>	<b>219,584</b>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	5,433	5,433
Salaries and benefits payable	25,640	25,640
	<hr/>	<hr/>
<b>Total Current Liabilities</b>	<b>31,073</b>	<b>31,073</b>
	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<b>31,073</b>	<b>31,073</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	120,799	120,799
Unrestricted	67,712	67,712
	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	<b>188,511</b>	<b>188,511</b>
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 219,584</b>	<b>\$ 219,584</b>
	<hr/>	<hr/>

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, 2013**

	<u>Information Technology Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>		
County - regular appropriation	\$ 358,754	\$ 358,754
- special appropriation		-
Other sources		-
	<hr/>	<hr/>
<b>Total Operating Revenues</b>	<b>358,754</b>	<b>358,754</b>
<b>OPERATING EXPENSES</b>		
Salaries and wages	486,536	486,536
Contracted services	79,196	79,196
Supplies and materials	11,720	11,720
Other charges	122,433	122,433
Equipment replacement	(735)	(735)
Depreciation	31,059	31,059
	<hr/>	<hr/>
<b>Total Operating Expenses</b>	<b>730,209</b>	<b>730,209</b>
Operating Income (Loss)	(371,455)	(371,455)
<b>NON-OPERATING REVENUE</b>		
Interfund Transfers	358,754	358,754
Other revenue	20,700	20,700
	<hr/>	<hr/>
<b>Total Non-operating Revenues</b>	<b>379,454</b>	<b>379,454</b>
Change in Net Assets	7,999	7,999
<b>TOTAL NET ASSETS - JULY 1, 2012</b>	<b>180,512</b>	<b>180,512</b>
	<hr/>	<hr/>
<b>TOTAL NET ASSETS - JUNE 30, 2013</b>	<b>\$ 188,511</b>	<b>\$ 188,511</b>
	<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, 2013**

	<u>Information Technology Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 378,954
Cash received from quasi-external operation transactions with other funds	358,754
Cash paid to suppliers	(212,117)
Cash payments to employees	<u>(489,187)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>36,404</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Change in due to/from other funds	<u>(36,404)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchase of equipment	<u>-</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>-</u>
Net change in Cash	-
<b>Cash and cash equivalents, beginning of year</b>	<u>-</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ -</u></u>

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

<b>Change in net assets</b>	\$ 7,999
Adjustments to reconcile change in net assets to net cash provided by operations:	
Depreciation	31,059
Change in assets and liabilities	
Decrease (increase) in account receivable	(500)
Increase (decrease) in accounts payable	497
Increase (decrease) salaries & benefits payable	<u>(2,651)</u>
<b>Total Adjustments</b>	<u>28,405</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 36,404</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, 2013

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,583,642	\$ -	\$ 1,192,920	\$ 2,776,562
Investments	578,548	4,000,000		4,578,548
Accounts receivable	62,211	-		62,211
Internal receivables		6,194,056		6,194,056
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<u>2,224,401</u>	<u>10,194,056</u>	<u>1,192,920</u>	<u>13,611,377</u>
<b>LIABILITIES</b>				
Accounts payable	64,496	6,627		71,123
Salaries and benefits payable		-		-
Deferred revenue	2,159,905			2,159,905
Internal payables				-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	<u>2,224,401</u>	<u>6,627</u>	<u>-</u>	<u>2,231,028</u>
<b>NET ASSETS</b>				
Designated for future retiree benefits		10,187,429		10,187,429
Held in-trust for retiree health plan benefits			1,192,920	1,192,920
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	<u>-</u>	<u>10,187,429</u>	<u>1,192,920</u>	<u>11,380,349</u>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,224,401</u>	<u>\$ 10,194,056</u>	<u>\$ 1,192,920</u>	<u>\$ 13,611,377</u>

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

**BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
<b>ADDITIONS</b>				
Student activity revenues	\$ 2,911,054	\$ -	\$ -	\$ 2,911,054
Transfers		928,857		928,857
Earnings/loss on investment		54,300	83,786	138,086
Grants received on behalf of others				-
Contributions				-
<b>DEDUCTIONS</b>				
Student activity expenses	2,911,054			2,911,054
Retiree benefits		1,031,312		1,031,312
Grants passed to other agencies				-
Administrative expenses				-
Other				-
<b>CHANGE IN NET ASSETS</b>	-	(48,155)	83,786	35,631
<b>NET ASSETS - JULY 1, 2012</b>	-	10,235,584	1,109,134	11,344,718
<b>NET ASSETS - JUNE 30, 2013</b>	<u>\$ -</u>	<u>\$ 10,187,429</u>	<u>\$ 1,192,920</u>	<u>\$ 11,380,349</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 position 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 position 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 position 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 position. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net position.

*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 a 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 basis 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, 2013, \$5,462,210 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, 2013 is \$208,967.

##### I. Compensated Absences

Accumulated earned vacation time is accrued when incurred. At June 30, 2013, \$1,673,136 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, 2013, \$145,909 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,438,770 has been recorded in the government-wide statement of net position. Total compensated absences decreased in the current year by \$79,515 over the prior year total of \$2,518,285.

**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 position, 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, 2013 is as follows:

Payable Fund	Receivable Fund	Amount
General	Restricted	\$1,551,741
School Construction	General	(2,456,815)
General	Retiree Ins.	6,194,056
General	Food Service	(697,660)
General	Information Technology	98,285
		\$ 4,689,607



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 position 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 position 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:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
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 Fund 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 Fund considers 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, 2013, 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. To remove or change the constraints placed on 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, 2013, was as follows:

	<u>Balance 6/30/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance 6/30/13</u>
<b>Governmental Activities</b>					
Non-depreciable assets:					
Land	\$ 4,067,394	\$ 140,942	\$ -	\$ -	\$ 4,208,336
Construction-in-progress	256,290	1,676,708	-	(157,753)	1,775,245
Total Non-depreciable assets	<u>4,323,684</u>	<u>1,817,650</u>	<u>-</u>	<u>(157,753)</u>	<u>5,983,581</u>
Depreciable assets:					
Land Improvements	8,757,718	294,221	-	56,482	9,108,421
Buildings and Improvements	150,013,882	1,232,610	-	57,323	151,303,815
Furniture, Equipment, and Vehicles	17,695,752	810,006	(386,579)	43,948	18,163,127
Total Depreciable assets	<u>176,467,352</u>	<u>2,336,837</u>	<u>(386,579)</u>	<u>157,753</u>	<u>178,575,363</u>
Less accumulated depreciation:					
Land Improvements	(1,585,842)	(451,595)	-	-	(2,037,437)
Buildings and Improvements	(78,844,011)	(3,941,092)	-	-	(82,785,103)
Furniture, Equipment, and Vehicles	(9,585,793)	(1,583,407)	368,621	-	(10,800,579)
Total accumulated depreciation	<u>(90,015,646)</u>	<u>(5,976,094)</u>	<u>368,621</u>	<u>-</u>	<u>(95,623,119)</u>
Total capital assets being depreciated	<u>86,451,706</u>	<u>(3,639,257)</u>	<u>(17,958)</u>	<u>157,753</u>	<u>82,952,244</u>
Governmental Activities Capital Assets, Net	<u>\$ 90,775,390</u>	<u>\$ (1,821,607)</u>	<u>\$ (17,958)</u>	<u>\$ -</u>	<u>\$ 88,935,825</u>
<b>Business-Type Activities</b>					
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	584,605	-	-	-	584,605
Less accumulated depreciation	<u>(432,747)</u>	<u>(31,059)</u>	<u>-</u>	<u>-</u>	<u>(463,806)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 151,858</u>	<u>\$ (31,059)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 120,799</u>

\* Depreciation was charged to governmental functions as follows:

Administration	\$ 305,219
Student transportation	231,182
Operation of plant and equipment	57,064
Maintenance of plant	154,684
Food Service	19,896
Unallocated	<u>5,208,049</u>
Total Depreciation Expense	<u>\$ 5,976,094</u>

The insurance value of capital assets as of June 30, 2013 is \$339,429,449

**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 \$274,888. 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 8.99%. The Board is also required to contribute part of the employer's pension contribution for teachers that was previously contributed entirely by the State of Maryland. The amount of the Board's teacher pension contribution is defined by legislation for the next four years. The Board also contributes an administrative fee determined on a per member rate. The contribution requirements of plan members and the Board are established and may be amended by the SRPS Board of Trustees. The Board's contributions to SRPS for the years ended June 30, 2013, 2012, 2011, 2010, and 2009 were \$2,886,886, \$1,695,690, \$1,428,305, \$1,121,559, and \$955,884, 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 \$4,721 in programs and projects to the Board's Greenway Avenue and Mt. Ridge stadium projects. The Board provided \$3,000 to the Foundation and it is included in other income.

**NOTE 8 - CASH AND INVESTMENTS**

**Deposits**

At June 30, 2013, the carrying amount of the Board's bank deposits was \$16,618,440 and the various bank balances were \$17,505,895. Of the bank balances, \$855,016 was covered by depository insurance and \$16,650,879 was covered by collateral held at various banks in the Board's name. Total market value of these pledged securities at June 30, 2013 was \$19,648,162. Included in cash and cash equivalents is \$47,989 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, 2013, 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	22,578,548	0	13,269,651	9,226,856	82,041

Of the Board's investments in certificates of deposits, \$17,792 was covered by federal depository insurance and \$22,560,756 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, 2013 was \$32,840 and the balance per bank was \$33,374. 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, 2013 was \$179,184 and the balance per bank was \$179,719. This amount is fully insured by federal depository insurance.

**NOTE 9 - ON-BEHALF PAYMENTS**

The State of Maryland paid \$7,071,603 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 \$1,154,119 of which \$699,693 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 \$5,776,803 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount decreased by \$1,587,404 from the prior year amount of \$7,364,207, and was based on total claims paid of \$18,113,336 and \$17,767,352 for 2013 and 2012, 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 \$325,000, 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, 2013. 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 2013, a maximum subsidy for all retirees of \$390,000 was approved by the Board.

The total annual amount of the subsidy for the 2012-2013 fiscal year is as follows for 178 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	\$ 9,737	\$128,119
30 or more years	\$ 4,328	\$247,816

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, 2013. 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, 2013:

Year ending June 30:	
2014	\$ 289,544
2015	195,107
2016	144,291
2017	93,274
2018	<u>129,295</u>
Total minimum payments require	<u>\$ 851,511</u>

Rental expenditures for operating leases for the year ended June 30, 2013 is \$184,268.

**NOTE 13 - FUND BALANCE**

A surplus fund balance of \$9,568,077 existed in the Current Expense Fund Type, Unrestricted fund, as of June 30, 2013. The surplus consisted of \$3,621,468 committed to the FY2014 budget. In addition, \$50,000 is assigned for unemployment benefits, \$5,500,000 assigned for contingencies, and an undesignated surplus of \$396,609.

**NOTE 14 - ACCOUNTS RECEIVABLE**

Total accounts receivable of Governmental Funds in the financial statements as of June 30, 2013 is \$6,084,500. This total consists of the following components:

County Government	\$630,043
State Government	2,451,266
Federal Government	2,674,259
Other Local Education Agencies	127,532
Other	<u>201,400</u>
Total	<u>\$ 6,084,500</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, 2013.

**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, 2013 is as follows:

Balance, beginning of year	\$ 37,002
Add: Ticket surcharge collections	22,451
Interest	0
Tower rent	13,472
Less: Expenditures	<u>(0)</u>
Balance, end of year	<u>\$ 72,925</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, 2013 is as follows:

Balance, beginning of year	\$ 31,886
Add: Ticket surcharge collections	5,093
Interest	0
Less: Expenditures	<u>(0)</u>
Balance, end of year	<u>\$ 36,979</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	\$695,444
Interest on Net OPEB Obligation	33,470
Adjustment to Annual Required Contribution	<u>(23,610)</u>
Annual OPEB Cost (Expense)	\$705,304
Contributions Made	<u>(611,442)</u>
Increase in Net Obligation	<u>\$93,862</u>
Net OPEB Obligation (BOY)	(\$478,142)
Net OPEB Obligation (EOY)	(\$384,280)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for 2012-2013 is as follows:

<u>Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2013	705,304	86.7%	(384,280)
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, 2012, the most recent actuarial valuation date, the plan was 11.74% funded. The actuarial accrued liability for benefits was \$9,447,862 and actuarial value of the assets was \$1,109,134 resulting in an unfunded actuarial accrued liability (UAAL) of \$8,338,728. The covered payroll (annual payroll of active employees covered by the plan) was \$70,758,000 and the ratio of the UAAL to the covered payroll was 11.78%.

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. 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 accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of calculations.

In the July 1, 2012 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 cost 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, 2012 was 26 years.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>REVENUES</b>				
County - regular appropriation	\$ 29,391,956	\$ 29,391,956	\$ 29,391,958	\$ 2
State - direct	74,849,512	74,849,512	74,543,490	(306,022)
Federal - direct	350,000	350,000	311,293	(38,707)
Fund Balance	4,805,213	4,805,213	-	(4,805,213)
Other revenue	343,907	343,907	348,869	4,962
<b>TOTAL REVENUES</b>	<u>109,740,588</u>	<u>109,740,588</u>	<u>104,595,610</u>	<u>(5,144,978)</u>
<b>EXPENDITURES</b>				
Administration	2,003,933	2,003,933	1,900,246	103,687
Mid-level administration	6,503,164	6,645,491	6,787,514	(142,023)
Instruction - salaries	41,072,063	40,979,736	40,952,942	26,794
Instruction - textbooks & instructional supplies	3,042,739	3,084,589	2,640,775	443,814
Instruction - other	1,987,167	1,945,317	1,812,245	133,072
Student personnel services	726,206	726,206	728,026	(1,820)
Health services	644,936	644,936	638,237	6,699
Student transportation	6,468,562	6,468,562	6,296,641	171,921
Operation of plant and equipment	9,110,021	9,060,021	8,280,029	779,992
Maintenance of plant	1,899,700	1,899,700	1,665,675	234,025
Fixed charges	19,355,259	19,355,259	19,390,320	(35,061)
Capital outlay	603,656	603,656	185,444	418,212
Special education	14,413,367	14,413,367	14,036,166	377,201
<b>TOTAL EXPENDITURES</b>	<u>107,830,773</u>	<u>107,830,773</u>	<u>105,314,260</u>	<u>2,516,513</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>1,909,815</u>	<u>1,909,815</u>	<u>(718,650)</u>	<u>(2,628,465)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers	(1,909,815)	(1,909,815)	(2,340,527)	(430,712)
Intrafund transfers	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(1,909,815)</u>	<u>(1,909,815)</u>	<u>(2,340,527)</u>	<u>(430,712)</u>
<b>NET CHANGE IN FUND BALANCES</b>	-	-	(3,059,177)	(3,059,177)
<b>FUND BALANCE - JULY 1, 2012</b>	<u>12,627,254</u>	<u>12,627,254</u>	<u>12,627,254</u>	-
<b>FUND BALANCE - JUNE 30, 2013</b>	<u>\$ 12,627,254</u>	<u>\$ 12,627,254</u>	<u>\$ 9,568,077</u>	<u>\$ (3,059,177)</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, 2013

	Restricted				Food Service			
	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budgetary Basis	Variance With Final Budget Positive (Negative)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
<b>REVENUES</b>								
County - regular appropriation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State - direct	952,987	952,987	713,041	(239,946)	225,000	225,000	194,898	(30,102)
Federal - direct	8,577,089	8,577,089	9,304,216	727,127	240,000	240,000	274,888	34,888
- received through State & Pass-Thru Agencies					2,750,000	2,750,000	2,731,725	(18,275)
Other revenue	75,051	75,051	395,062	320,011	1,600,000	1,600,000	1,283,403	(316,597)
<b>TOTAL REVENUES</b>	<b>9,605,127</b>	<b>9,605,127</b>	<b>10,412,319</b>	<b>807,192</b>	<b>4,815,000</b>	<b>4,815,000</b>	<b>4,484,914</b>	<b>(330,086)</b>
<b>EXPENDITURES</b>								
Administration	16,312	16,312	21,177	(4,865)				
Mid-level administration	315,091	315,091	300,695	14,396				
Instruction - salaries	2,795,789	2,795,789	2,720,224	75,565				
Instruction - textbooks & instructional supplies	180,089	180,089	236,480	(56,391)				
Instruction - other	1,065,006	1,065,006	1,322,382	(257,376)				
Student personnel services	171,207	171,207	-	171,207				
Health services	144,994	144,994	166,403	(21,409)				
Student transportation	143,915	143,915	93,261	50,654				
Operation of plant and equipment	-	-	-	-				
Fixed charges	1,748,164	1,748,164	1,774,111	(25,947)				
Community Services	252,349	252,349	264,420	(12,071)				
Capital outlay	10,000	10,000	256,265	(246,265)				
Special education	2,762,211	2,762,211	3,196,758	(434,547)				
Food Service	-	-	-	-	5,389,704	5,389,704	5,244,298	145,406
<b>TOTAL EXPENDITURES</b>	<b>9,605,127</b>	<b>9,605,127</b>	<b>10,352,176</b>	<b>(747,049)</b>	<b>5,389,704</b>	<b>5,389,704</b>	<b>5,244,298</b>	<b>145,406</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>60,143</b>	<b>60,143</b>	<b>(574,704)</b>	<b>(574,704)</b>	<b>(759,384)</b>	<b>(184,680)</b>
<b>OTHER FINANCING SOURCES (USES)</b>								
Interfund transfers	-	-	(60,143)	(60,143)	574,704	574,704	580,847	6,143
Intrafund transfers	-	-	-	-	-	-	(178,537)	(178,537)
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(178,537)</b>
<b>FUND BALANCE - JULY 1, 2012</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>646,874</b>	<b>646,874</b>	<b>646,874</b>	<b>-</b>
<b>FUND BALANCE - JUNE 30, 2013</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 646,874</b>	<b>\$ 646,874</b>	<b>\$ 468,337</b>	<b>\$ (178,537)</b>

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, 2013, the General Fund had a shortfall of revenues and overall shortfall of expenditures.

The shortfall of revenues occurred because the number of students qualifying for private placement needed fewer days of service and less intensive service. 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 and the school system reducing its fund balance and accrued hospital liability. Medicare D revenues were under budget as the budget is prepared based on prior year experience. The school system is reimbursed a share of the prescription costs of Medicare retirees.

Administrative costs were lower than budget for a variety of reasons. First, wages were under budget because of a retirement and the position was not filled during the fiscal year. Administrative supplies and travel came under budget due to strong expenditure control. The school system tries to car pool with another county school system to save travel costs.

An unfavorable variance existed in mid-level administration because of an unusually high number of personnel retiring at the end of the fiscal year. Negotiated employee agreements dictate the payment of earned vacation and sick days at retirement. The system also transferred some personnel from instructional wages to mid-level administration in order to perform teacher evaluations as required by the federal Race To The Top program. More wages were charged than budgeted.

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 textbooks and supplies generated a favorable variance due to the strong expenditure control by school system personnel. Approximately half of the variance was due to textbooks coming in under budget. The school system competitively seeks out the best price. Textbook manufacturers aggressively reduced their price from prior quotes from which the budget was based upon. In addition to expenditure control, the school system is using less paper as more information is being communicated electronically.



**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

**NOTE 18 - BUDGET TO ACTUAL VARIANCES (Continued)**

*General Fund (Continued)*

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 one less week than budgeted due to declining enrollment. Equipment costs were lower because more equipment was able to be charged to grants that allows 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.

Special Education was under budget due to private placement costs. Public schools are required to provide a free and appropriate education to all students in a public school system. When students have intensive educational needs that cannot be met by the local school system, the school system is mandated to provide an education in a facility that can meet those needs. The cost is shared between the local school system and state government based upon a formula. A favorable budget resulted because students did not require service as long or as intensive as budgeted. The budget for Special Education private placement is an estimate based on the anticipated state formula and number of students served. Costs for this program are funded by both state government and the local Board of Education.

Student transportation was under budget due to the fuel rates being 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. Transportation also came in under budget in labor costs. 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 a more mild winter than usual that assisted in reducing utility and labor costs.

Operations also came under budget by controlling expenses at a hospital building given to the school system. As a result of a partnership with the Board of Education, City of Cumberland, and Western Maryland Health System, the school system became the owner of 26 acres of a medical campus, including a building previously used as a hospital. The school system will build a new high school on the property. School system facilities personnel worked with the State Fire Marshal to avoid expenditures in heating and cooling the building until the building is demolished. Maintenance was under budget because no major repairs were required during the school year. Maintenance personnel also spent a considerable amount of time winterizing the Braddock Hospital Campus, saving utility costs that had been budgeted. Fixed charges came in over budget because of the delay in performing a dependent health care audit that had been budgeted for the fiscal year.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

**NOTE 18 - BUDGET TO ACTUAL VARIANCES (Continued)**

***Special Revenue Fund - Restricted***

The Restricted Fund had a excess of revenues and expenditures over the budgeted amounts for the year ended June 30, 2013. The school system received funds under the federal E-RATE program and Medicaid program. Those funds are not budgeted due to the unpredictable nature of those funds. The school system's Title I allocation was larger than budgeted.

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

The Food Service Special Revenue Fund for the year ended June 30, 2013 had a shortfall in revenues and of expenditures compared to budget.

The shortfall in revenues was due to a decline in the number of meals served. New federal regulations from the Healthy Hunger Act of 2010 were implemented starting July 1, 2012. The regulations established goals and targets for calories, trans fat, sodium, grains, and mandated increased servings of fruits and vegetables. The response to these new regulations resulted in fewer meals being served, which impacted all components of revenues except the General Fund subsidy. The school system also implemented a new student meal charging policy in February 2012 that limits the unpaid lunch balance of a student. This policy also reduced the number of meals served.

Expenditures were under budget. The school system was able to reduce labor costs. Open positions are evaluated to see if the position is needed. With the decreased meal count, the school system was able to come in under budget for supplies despite the higher costs of complying with the Healthy Hunger Act of 2010. The school system was forced to replace some equipment that was not budgeted causing equipment to exceed budget.

**NOTE 19 - SCHEDULE OF FUNDING PROGRESS - OTHER POST-EMPLOYMENT BENEFIT PLAN CONTRIBUTION**

<u>Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Actuarial Accrued Liability (UAAL)</u>	<u>Annual Covered Payroll</u>	<u>as a Percentag of Covered Payroll</u>
7/1/2012	\$1,109,134	\$8,338,728	11.74%	\$9,447,862	\$70,758,000	11.78%

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**SCHOOL ACTIVITIES FUND  
INCREASES, DECREASES AND BALANCES BY SCHOOL  
For Year Ended June 30, 2013**

	<u>Balances June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2013</u>
<b>HIGH SCHOOLS</b>				
Allegany	\$ 245,223	\$ 521,798	\$ 492,542	\$ 274,479
Center for Career and Technical Education	99,126	189,671	195,489	93,308
Fort Hill	153,846	632,019	657,003	128,862
Mountain Ridge	257,651	522,809	534,034	246,426
Alternative	5,546	7,953	10,424	3,075
<b>Total High Schools</b>	<u>761,392</u>	<u>1,874,250</u>	<u>1,889,492</u>	<u>746,150</u>
<b>MIDDLE SCHOOLS</b>				
Braddock	52,199	102,311	91,946	62,564
Mount Savage	79,281	147,593	156,020	70,854
Washington	74,036	101,075	106,209	68,902
Westmar	53,433	64,785	67,005	51,213
<b>Total Middle Schools</b>	<u>258,949</u>	<u>415,764</u>	<u>421,180</u>	<u>253,533</u>
<b>ELEMENTARY SCHOOLS</b>				
Beall	52,878	62,311	66,686	48,503
Bel Air	31,088	31,977	30,962	32,103
Cash Valley	25,522	46,330	31,211	40,641
Cresaptown	103,815	47,886	31,904	119,797
Flintstone-school	153,199	46,588	40,631	159,156
Flintstone-McLuckie	381,912	4,604	7,500	379,016
Frost	65,685	39,735	31,551	73,869
Georges Creek	67,309	70,187	68,759	68,737
John Humbird	56,243	27,178	38,892	44,529
Northeast	59,604	50,684	53,427	56,861
Parkside	14,950	32,638	32,626	14,962
South Penn	40,587	49,049	43,129	46,507
West Side	49,310	63,692	67,025	45,977
Westernport	32,252	53,391	56,079	29,564
<b>Total Elementary Schools</b>	<u>1,134,354</u>	<u>626,250</u>	<u>600,382</u>	<u>1,160,222</u>
<b>TOTAL SCHOOLS</b>	<u>\$ 2,154,695</u>	<u>\$ 2,916,264</u>	<u>\$ 2,911,054</u>	<u>\$ 2,159,905</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, 2013 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*