

BOARD OF EDUCATION OF ALLEGANY COUNTY
FINANCIAL REPORT
AS OF JUNE 30, 2014 AND FOR THE YEAR THEN ENDED

BOARD OF EDUCATION OF ALLEGANY COUNTY

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INDEPENDENT AUDITORS' REPORT

Board of Education of Allegany County
Cumberland, Maryland

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, 2014, 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, 2014, 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, budgetary comparison and the schedule of funding progress - other post-employment benefit plan contribution on pages three (3) through eighteen (18) and fifty-two (52) through fifty-seven (57) 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of Allegany County, Maryland's basic financial statements. The accompanying School Activities Increases, Decreases and Balances by School and the Statement Concerning Debt Service Fund for Public School Construction is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2014, 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.

Heber, Michaels + Company

Cumberland, Maryland
September 30, 2014

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2014

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, 2014 and 2013, 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 position of the School System decreased by \$3,920,659 (3.79%) during the fiscal year ended June 30, 2014. 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, 2014, were \$123,299,651. This represents an increase of \$2,109,302 (1.74%) over the prior fiscal year. The school system received more state aid due a change in state formulas that considers income tax returns filed later in the year. Additional state aid was received due to the increased number of students requiring non public placement. The school system also started the construction process of a new high school and recognized school construction funds for start of the construction process

Total Governmental Funds expenses for the fiscal year ended June 30, 2014, were \$124,695,702. This represents an increase of \$1,489,061 (1.21%) from the prior fiscal year. This increase is

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Management's Discussion and Analysis (MD&A)
June 30, 2014

attributable to increased school construction spending relating to school security and energy efficiency projects worked upon during the fiscal year.

The Current Expense Fund total fund balance as of June 30, 2014, was \$6,459,642. This represents a decrease of \$3,108,435 (32.49%) from the fund balance as of June 30, 2013.

The Current Expense Fund unassigned fund balance as of June 30, 2014, was \$4,834,323. This represents an increase of \$4,437,714 (1,118.91%) from the unassigned fund balance as of June 30, 2013. A total of \$1,575,319 of the fund balance is assigned to the FY2015 budget. A total of \$50,000 assigned for future unemployment benefits. The increase in unassigned fund balance is attributed to eliminating the fund balance assigned for contingencies due to an overall declining fund balance.

Current Expense Fund revenues fell short of the final budget by \$4,784,950 (4.33%). 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 FY2014 due to aggressive expenditure control.

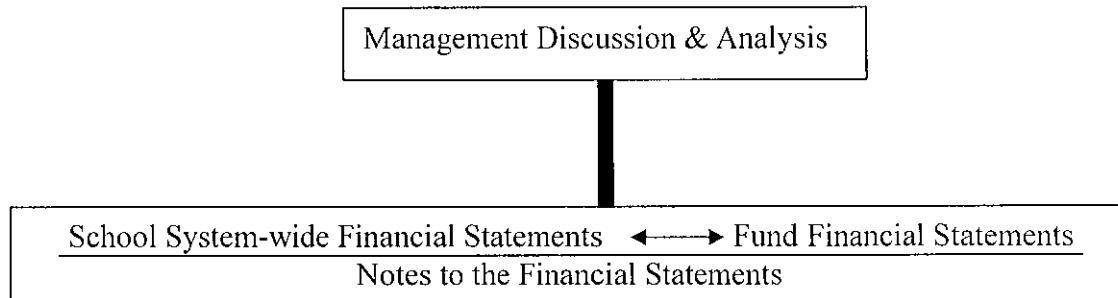
Current Expense Fund expenses and transfers were under budget by \$1,676,515 (1.60%). The system controls labor costs by evaluating positions that come open during the school year. Controlling labor costs also results in lower fixed charges. Textbooks and supplies were under budget due to instructional supervisors buying only what was absolutely necessary to deliver the educational program as a request from the Superintendent. Other instructional costs were under budget due to fewer field trips because the missed days during the winter. The system received a waiver of five instructional days. Instructional equipment was under budget due to the ability to secure grants. Maintenance and operations were under budget due to controlling labor costs and not having major building incidents or major equipment failures. The maintenance department also did not replace any equipment.

The unrestricted General Fund budget increased by \$751,136 (0.68%) to \$110,491,724 compared to the \$109,740,588 budget for the period ended June 30, 2013. The school system received additional money from county government because of state government's shifting of employer contributions of teacher pensions to local governments. The school system also received more state funds due to a change in the state funding formulas that considers income tax returns filed after September. State aid also increased because of the number of students in private placement.

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Management's Discussion and Analysis (MD&A)
June 30, 2014

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 Position and the Statement of Activities.

The *Statement of Net Position* presents information on all of the assets and liabilities of the School System with the difference between the two reported as *net position*. Over time, increases or decreases in the System's net position 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 position 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 position 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).

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Management's Discussion and Analysis (MD&A)
June 30, 2014

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.

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

Fiduciary Responsibility - School Activity Fund, Retiree Insurance Benefit Plan Fund, Retiree Insurance Benefit Trust, And Retiree Health Plan Trust Funds

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Management's Discussion and Analysis (MD&A)
June 30, 2014

The School System is the trustee, or fiduciary, for four fiduciary funds: the School Activity Fund, the Retiree Insurance Benefit Plan Fund, the Retiree Insurance Benefit Trust, and Retiree Health Plan Trust Fund. These funds are reported as separate Agency Funds. We exclude these activities from The Board of Education of Allegany County's other financial statements because their assets cannot be used to finance the School System's activities. We are responsible for ensuring that the assets reported in the School Activity Fund, Retiree Insurance Benefit Plan Fund, Retiree Insurance Benefit Trust, and Retiree Health Plan Trust Fund are used for their intended purpose.

The unrestricted portion of net position at June 30, 2014, of \$5,870,550 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 \$2,463,652 and is the amount we expect to pay beyond June 30, 2014. 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, 2014	June 30, 2013	% Change	June 30, 2014	June 30, 2013	% Change
Administration	\$ 2,552,762	\$ 2,577,677	-0.97%	\$ 2,526,864	\$ 2,550,357	-0.92%
Mid-level administration	6,987,977	7,088,209	-1.41%	6,690,864	6,787,514	-1.42%
Instruction (regular and special education)	65,711,262	66,275,378	-0.85%	57,858,580	58,799,534	-1.60%
Student personnel and health services	1,546,528	1,532,666	0.90%	1,417,176	1,366,263	3.73%
Student transportation	6,407,373	6,425,459	-0.28%	6,335,135	6,332,198	0.05%
Operation, maintenance and capital outlay	10,084,957	10,348,256	-2.54%	7,446,837	8,666,723	-14.08%
Fixed charges	23,362,202	22,077,600	5.82%	21,247,147	19,992,196	6.28%
Community Services	255,781	264,420	-3.27%			
Food service	5,137,652	5,220,130	-1.58%	633,204	766,365	-17.38%
Depreciation & other	5,129,838	5,208,049	-1.50%	5,129,838	5,208,049	-1.50%
Total	\$ 127,176,332	\$ 127,017,844	0.12%	\$ 109,285,645	\$ 110,469,199	-1.07%

Results of operations for the School System as a whole are presented in the Statement of Activities. The cost of all governmental activities is \$127,176,332, of which \$1,142,363 was financed by users of the School System's programs. Grants and contributions from Federal and State governments for certain programs were \$16,748,324. This left a net cost of services of \$109,285,645.

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, 2014**

Condensed Statement of Net Position

	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2014	June 30, 2013	% Change	\$ Change	June 30, 2014	June 30, 2013	% Change	\$ Change	June 30, 2014	June 30, 2013	\$ Change	% Change
Current and other assets	\$ 34,031,754	\$ 39,406,868	-13.64%	\$ (5,375,114)	\$ 105,319	\$ 98,785	6.54%	\$ 6,534	\$ 34,137,073	\$ 39,505,653	\$ (5,368,580)	-13.59%
Capital assets	87,725,105	88,935,825	-1.36%	(1,210,720)	97,971	120,799	(22,828)	(22,828)	87,823,076	89,056,624	(1,233,548)	-1.39%
Total Assets	\$ 121,756,859	\$ 128,342,693	-8.13%	\$ (6,585,834)	\$ 203,290	\$ 219,584	(16,294)	\$ (16,294)	\$ 121,960,149	\$ 128,562,277	\$ (6,602,128)	-5.14%
Current and other liabilities	\$ 19,862,298	\$ 22,579,508	-12.03%	\$ (2,717,210)	\$ 41,932	\$ 31,073	10.85%	\$ 10,859	\$ 19,904,230	\$ 22,610,581	\$ (2,706,351)	-11.97%
Long-term liabilities	2,463,652	2,438,770	1.02%	24,882	41,932	31,073	10.85%	10,859	2,463,652	2,438,770	24,882	1.02%
Total Liabilities	\$ 22,325,950	\$ 25,018,278	(10.76%)	\$ (2,692,328)	\$ 41,932	\$ 31,073	10.85%	\$ 10,859	\$ 22,367,882	\$ 25,049,351	\$ (2,681,469)	(10.70%)
Net assets:												
Invested in capital assets, net of related debt	\$ 87,725,105	\$ 88,935,825	-1.36%	\$ (1,210,720)	\$ 97,971	\$ 120,799	(22,828)	(22,828)	\$ 87,823,076	\$ 89,056,624	\$ (1,233,548)	-1.39%
Restricted	5,898,641	5,671,177	4.01%	227,464	63,387	67,712	(4,325)	(4,325)	5,898,641	5,671,177	227,464	4.01%
Unrestricted	5,807,153	8,717,413	-33.38%	(2,910,260)	161,356	183,511	(22,155)	(22,155)	5,970,550	8,785,125	(2,814,575)	-33.18%
Total Net Assets	\$ 98,430,909	\$ 103,324,415	-3.77%	\$ (4,893,506)	\$ 161,356	\$ 183,511	(22,155)	\$ (22,155)	\$ 98,592,267	\$ 103,512,926	\$ (4,920,659)	-3.79%

Changes in Net Position from Operating Results

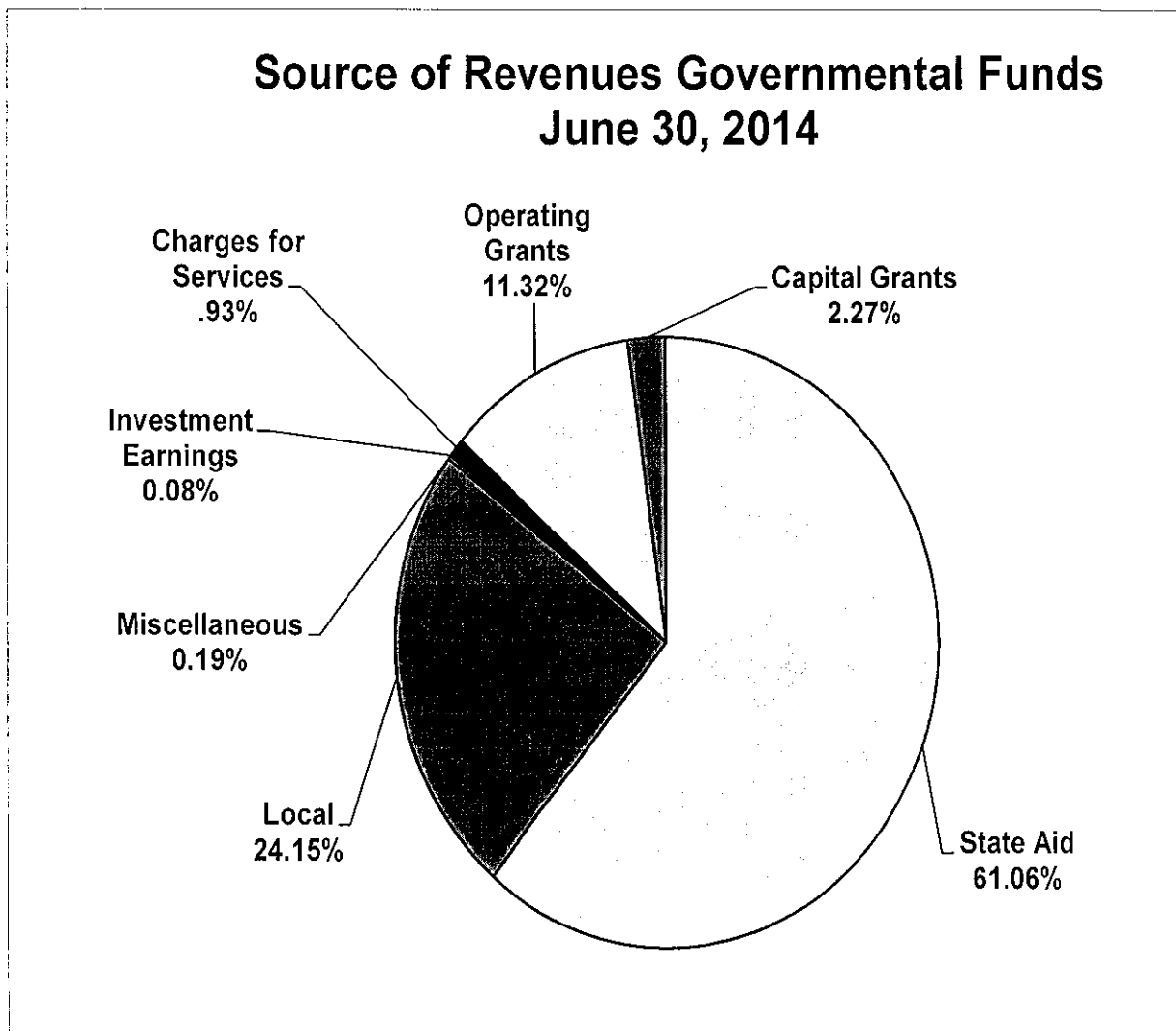
	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2014	June 30, 2013	% Change	\$ Change	June 30, 2014	June 30, 2013	% Change	\$ Change	June 30, 2014	June 30, 2013	\$ Change	% Change
Program revenues:												
Changes for services	\$ 1,142,363	\$ 1,252,254	-8.78%	\$ (109,891)	\$ 665,392	\$ 717,508	(7.18%)	\$ (51,516)	\$ 1,806,355	\$ 1,869,762	\$ (63,407)	-3.19%
Operating grants and contributions	13,956,032	13,562,201	2.15%	393,831	13,956,032	13,562,201	2.15%	393,831	13,956,032	13,562,201	393,831	2.15%
Capital grants and contributions	2,795,120	1,634,190	71.04%	1,160,930	2,795,120	1,634,190	71.04%	1,160,930	2,795,120	1,634,190	1,160,930	71.04%
General revenues:												
County government	29,770,045	29,391,958	1.29%	378,087	29,770,045	29,391,958	1.29%	378,087	29,770,045	29,391,958	378,087	1.29%
Grants and contributions (unrestricted)	75,274,512	74,543,490	0.98%	731,022	75,274,512	74,543,490	0.98%	731,022	75,274,512	74,543,490	731,022	0.98%
Other	347,582	1,469,798	-76.35%	(1,122,216)	20,550	20,700	(150)	(150)	368,132	1,450,498	(1,082,366)	-76.30%
Total Revenues	\$ 123,285,654	\$ 121,953,891	1.09%	\$ 1,331,763	\$ 686,642	\$ 738,209	(7.00%)	\$ (51,567)	\$ 123,972,196	\$ 122,692,099	\$ 1,280,097	1.04%
Expenses:												
Administration	\$ 2,552,762	\$ 2,577,677	(0.97%)	\$ (24,915)	\$ 2,552,762	\$ 2,577,677	(0.97%)	\$ (24,915)	\$ 2,552,762	\$ 2,577,677	\$ (24,915)	(0.97%)
Mid-level administration	6,987,977	7,088,209	(1.41%)	(100,232)	6,987,977	7,088,209	(1.41%)	(100,232)	6,987,977	7,088,209	(100,232)	(1.41%)
Instruction (regular and special education)	65,711,262	66,275,378	(0.85%)	(564,116)	65,711,262	66,275,378	(0.85%)	(564,116)	65,711,262	66,275,378	(564,116)	(0.85%)
Student personnel and health services	1,546,928	1,532,666	0.90%	13,862	1,546,928	1,532,666	0.90%	13,862	1,546,928	1,532,666	13,862	0.90%
Student transportation	6,407,373	6,425,459	(0.28%)	(18,086)	6,407,373	6,425,459	(0.28%)	(18,086)	6,407,373	6,425,459	(18,086)	(0.28%)
Operation, maintenance and capital outlay	10,084,957	10,348,256	(2.54%)	(263,299)	10,084,957	10,348,256	(2.54%)	(263,299)	10,084,957	10,348,256	(263,299)	(2.54%)
Fixed charges	23,362,202	22,077,600	5.82%	1,284,602	23,362,202	22,077,600	5.82%	1,284,602	23,362,202	22,077,600	1,284,602	5.82%
Community Services	255,781	264,420	(3.27%)	(8,639)	255,781	264,420	(3.27%)	(8,639)	255,781	264,420	(8,639)	(3.27%)
Food service	5,137,682	5,220,130	(1.58%)	(82,478)	5,137,682	5,220,130	(1.58%)	(82,478)	5,137,682	5,220,130	(82,478)	(1.58%)
Depreciation & other	5,129,838	5,208,049	(1.50%)	(78,211)	5,129,838	5,208,049	(1.50%)	(78,211)	5,129,838	5,208,049	(78,211)	(1.50%)
Total Expenses	\$ 127,176,332	\$ 127,047,844	0.12%	\$ 168,488	\$ 713,695	\$ 730,209	(2.26%)	\$ (16,514)	\$ 127,890,027	\$ 127,746,053	\$ 143,974	0.11%
Increase/(decrease) in Net Assets	\$ (3,890,678)	\$ (6,063,953)	23.17%	\$ 1,173,275	\$ (27,163)	\$ 7,999	439.45%	\$ (35,152)	\$ (3,917,831)	\$ (6,065,954)	\$ 1,138,123	22.54%

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June 30, 2014

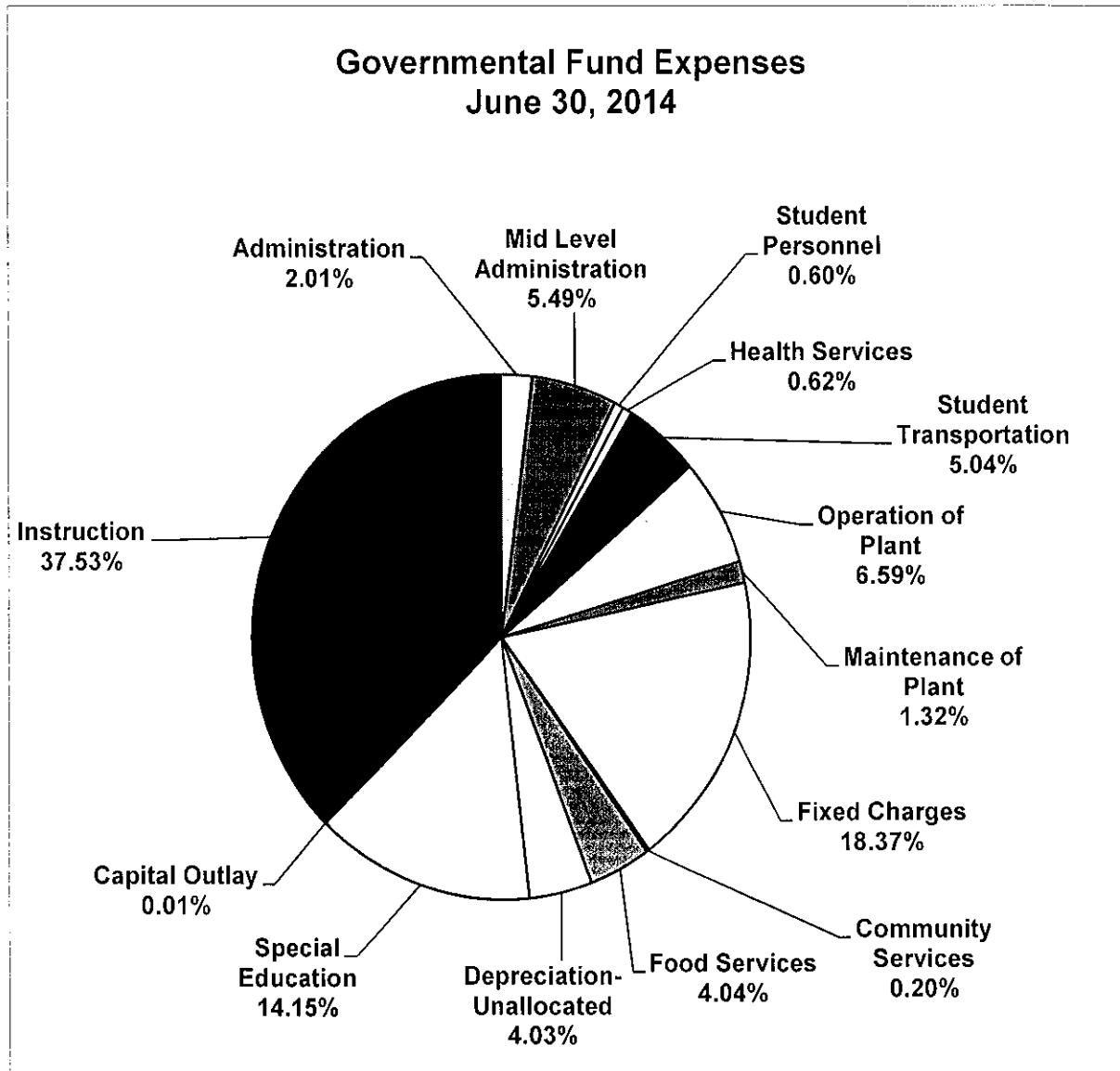
GENERAL FUND (CURRENT EXPENSE) BUDGETARY HIGHLIGHTS

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 following two pie charts are reflective of actual revenues and expenses.



THE BOARD OF EDUCATION OF ALLEGANY COUNTY
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Management's Discussion and Analysis (MD&A)
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Fund Performance

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

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2014

General Fund – Unrestricted

A schedule of changes between the original and final budgets for the year ended June 30, 2014, is presented below. There was no net change between the original and final budget.

	Original Budget	Final Budget	Additions	Reductions	Total Change
County Appropriation	\$ 29,770,045	\$ 29,770,045			\$ -
State	74,723,701	75,298,701	575,000		575,000
Federal	350,000	350,000			-
Local	185,510	185,510			
Earnings on investments	76,000	76,000			
Other Sources	3,621,468	4,811,468	1,190,000		1,190,000
Total Revenues	\$ 108,726,724	\$ 110,491,724	\$ 1,765,000	\$	\$ 1,765,000
Administration	\$ 2,419,939	\$ 2,419,939			\$ -
Mid-Level Administration	6,703,316	6,783,316	80,000		80,000
Instructional Salaries	40,159,452	40,128,860	35,128	65,720	(30,592)
Textbooks	2,132,723	2,119,723		13,000	(13,000)
Other Instructional Costs	1,894,873	1,907,873	13,000		13,000
Special Education	14,281,945	14,956,945	675,000		675,000
Student Personnel Services	731,230	741,230	10,000		10,000
Student Health Services	665,900	665,900			
Student Transportation	6,403,418	6,403,418			
Operation of Plant	8,354,351	8,384,943	65,720	35,128	30,592
Maintenance of Plant	1,827,262	1,827,262			
Fixed Charges	21,970,664	21,970,664			-
Food Services	517,995	517,995			
Capital Outlay	663,656	1,663,656	1,000,000		1,000,000
Total Expenditures	\$ 108,726,724	\$ 110,491,724	\$ 1,878,848	\$ 113,848	\$ 1,765,000

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, 2014 as a supplement to the narrative discussion below the chart.

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

**Management's Discussion and Analysis (MD&A)
June 30, 2014**

Unrestricted General Fund Budget to Actual Variances

Budget Variance Descriptions:

	Positive (Negative)	
Revenues:		
Medicare Part D	60,008	
Special Education Private Placements	(24,189)	
Other Revenue Variances	(9,301)	
Total Revenue Variances		\$ 26,518
 Expenditures and Interfund Transfers:		
Labor Savings & Efficiencies	276,378	
Transportation Savings	121,662	
Administrative Efficiencies and Savings	188,934	
Utilities and Energy Management	(61,097)	
Braddock Campus Hospital Holding Costs	(91,443)	
Healthcare and Coursework Savings	203,901	
Retiree Health Savings	150,867	
Instructional Textbooks & Supplies	348,952	
Other Instructional Expenditures	230,523	
Non Labor Maintenance and Operations Costs	233,729	
Other expenditure variances	74,109	
Total Expenditures and Interfund Transfers Variances		1,676,515
Total Positive Variance - Unrestricted General Fund		<u>\$ 1,703,033</u>

Revenues:

For the year ended June 30, 2014, total unrestricted General Fund revenues resulted in a positive variance of \$26,518.

Medicare Part D revenues show a favorable variance of \$60,008. The system is self insured for health insurance purposes. As a result, the system qualifies for the Medicare Part D program that reimburses the system for a portion of prescription drug benefits provided to Medicare eligible retirees. The Government Accounting Standards Board (GASB) has issued a technical bulletin requiring recipients of Medicare Part D funds to show these proceeds as revenue. The system budget is based upon past experience.

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Special Education private placement revenue had a negative budget variance of \$24,189. The budget for Special Education private placement is an estimate based on the anticipated state formula and number of students served.

Other revenues were under budgeted amounts creating a net unfavorable variance in the amount of \$9,301. The system planned on using \$4,811,468 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, 2014, total unrestricted General Fund expenditures resulted in a positive variance of \$1,676,515.

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. The school system was challenged in controlling its overtime costs with a harsh winter that required labor to clear parking lots and treat pedestrian surfaces. In some cases, overtime was also used to cover an opening due to an illness which resulted in an overall labor savings. 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 the budgeted amount resulting in a savings. The system also traveled fewer miles than budgeted. The system owns buses that transport qualifying special education students. Gas and oil costs in operating these buses were higher than budgeted due to transporting more students needing non public placement services. Overall, transportation costs were under budget.

Management makes every effort to control administrative costs. An electronic benefit enrollment system was budgeted at \$80,000. This system was not purchased because an enterprise resource planning (ERP) system which would have electronic benefit enrollment capabilities included as part of the overall ERP system will be evaluated. Contracted services in administrative costs came in under budget due to controlling leased copier costs, lower than planned software maintenance costs, and controlling student testing evaluation costs. Office supplies came in under budget. During the year the school system joined a statewide purchasing program from a major office supply company that will match competitor prices. The school system searches out programs to purchase goods and services at lower costs. The number of administrative computers needing to be replaced came in under budget contributing to administrative costs coming in under budget. The finance department was also able to charge indirect costs for administrative efforts to eligible grants that the school system receives.

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Indirect costs charged to grants lower overall administrative costs.

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. The school system also tries to purchase energy at the lowest possible price with membership in an energy cooperative, bidding for commodities, and locking in commodity prices at favorable rates. Despite these efforts, the actual costs for energy exceeded budgets mainly due to a cold, harsh winter. The system also delayed implementation of a lighting retrofit program that will result in lower energy usage due to bids coming in higher than available funding for the project. The project was reconfigured and rebid. As a result, the project was undertaken later in the fiscal year than planned, thus delaying the savings that had been planned for this project.

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 in the fall of 2013. Due to delays in getting state approval and the harsh winter, bidding for the demolition was delayed and holding costs of labor, insurance, electricity, and gas for the property exceeded budget. Demolition of the building has started.

Healthcare costs and costs for coursework reimbursements to instructional staff came in under budget by approximately \$140,000. The school system is self insured for medical, dental, and vision costs. The school system uses the services of a healthcare consultant in developing a budget. Many factors are considered in developing the budget including national healthcare trends, the specific trend of the school system, and the expectation of large claims. The school system also implemented a disease management program a few years ago to minimize chronic, large claims. Course work reimbursement costs were under budget due to the school system being able to hire more teachers with a master's degree. The school system also has a large percentage of instructional staff with a master's degree.

The school system has two programs to assist eligible retirees of the school system with healthcare costs. Both of these programs came in under budget. The first retiree health program has not been offered since 2002. The benefit paid to eligible retirees is dependent on the total amount appropriated, the number of retirees, and the individual benefit level in the new program for retirees that started in 2002. The benefits paid out were lower than budgeted. The second retiree health program allows retirees to be reimbursed up to the individual benefit level set by a committee. The amount of reimbursements was lower in total than established by the retirement benefit level committee.

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Instructional textbooks and supplies came in under budget. Instructional supervisors were asked by the Superintendent to limit expenditures to those absolutely necessary in delivering the instructional program. The elementary program came in under budget by over \$91,000 by delaying purchases of materials due the Superintendent's request and also due to science standards with the Common Core standards not being finalized. Expenditures for software came in under budget by approximately \$55,000. The school system evaluates the need for software and then competitively seeks out the best price. The number of copies of software was reduced and a number of programs were not renewed after evaluation. Supplies came in under budget in the school system's print shop program by over \$18,000. 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 \$46,000 was not spent resulting in a favorable variance. Math workbooks that were budgeted were not purchased due to Common Core standards not being finalized resulting in a savings of \$33,000. The school system also came under budget by approximately \$22,000 due to less paper being purchased centrally. As more information was communicated digitally, the use of paper declined.

Other instructional expenditures came under budget. Equipment expenditures were under budget by \$179,000. The system searches for grants to fund instructional endeavors and often there are grants available for equipment. Expenditures for computer equipment came in under budget by over \$87,000. Instructional leadership decided not to use \$48,000 budgeted for instructional equipment as requested by principals. This was in response to the Superintendent's request to only purchase equipment absolutely necessary in delivering the instructional programs. All other instructional supervisors contributed to over \$43,000 in instructional equipment savings. The school system also experienced lower than expected costs for field trips due to the harsh winter which limited opportunities for field trips.

During the year, no major equipment breakdowns or building incidents occurred requiring the maintenance department to hire an outside vendor for the repair. Due to management concentrating on the demolition of the Braddock Hospital and design of the new Allegany High School, projects totaling over \$25,000 were limited thus causing a favorable variance in contracted services. Supplies also came in under budget. Maintenance staff were able to harvest maintenance parts from the Braddock Hospital, thus lowering the amounts spent on supplies and contributing to a favorable variance. The maintenance department also did not make any equipment purchases which also contributed to a favorable variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the School System had \$189,640,491 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$4,496,942 from the same time last year, net of disposals. The total net

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cost of assets after depreciation was \$87,823,076. Total depreciation expense for the year ended June 30, 2014 was \$5,889,807.

The school system completed a variety of projects during the 2014 fiscal year. The system completed the installation of air conditioning in all elementary schools. A school security project that installed additional security cameras, additional door entry systems, and installed panic buttons connected directly to Allegany County Emergency Management was completed. During the year, crews finished removing asbestos from the Braddock Hospital in preparation of the construction of a new Allegany High School. Web based temperature control software was installed in two more schools as part of the energy management program. Mount Savage was connected to a new community water system. The school formerly obtained water from two wells. School system personnel constructed a softball field including dugouts at Washington Middle Schools. In order to comply with new environmental regulations, staff constructed enclosures for ashes at four coal fired schools.

Debt

School systems in Maryland are in the uncommon position of owning assets, but not the debt associated with those assets, as we have no borrowing power. We are fully fiscally dependent on the state and county governments to incur debt to fund capital projects. Accordingly, the School System carries no bond rating but the system does have a debt policy to cover leasing and alternative financing arrangements permitted under state law.

FACTORS IMPACTING THE SCHOOL SYSTEM

Legislation from federal and state governments has impacted public education in Maryland. The State's Bridge to Excellence in Public Schools and the Federal No Child Left Behind 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

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June 30, 2014

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. A state study is underway that will look at the current state funding formulas. Changes to the funding formulas may result.

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. The ability to secure additional funding exceeding county minimum funding from county government is limited because of the pension shift and because Allegany County is the fifth poorest jurisdiction in the state of Maryland as measured by wealth per pupil.

The school system completed a utilization study of the secondary schools in the city of Cumberland. A committee consisting of stakeholders recommended building and renovations to all five schools as part of a long range facility program. A feasibility study focusing on a high school and two middle schools in the city of Cumberland was completed. The Board of Education voted the construction of a new high school as the number one school construction priority for the school system. The school system has acquired a site in the city limits of Cumberland at no cost for the construction of 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, at The Board of Education of Allegany County, 108 Washington Street, Cumberland, Maryland 21502.

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF NET POSITION
June 30, 2014

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Allegany County Public Schools Foundation, Inc.	Allegany County Building Trades Education Foundation, Inc.
ASSETS					
Current Assets:					
Cash and cash equivalents	\$ 27,106,274	\$ -	\$ 27,106,274	\$ 44,155	\$ 149,739
Investments, at market			-	14,000	
Accounts receivable	6,827,590	150	6,827,740		3,131
Pledges receivable				2,300	
Accrued interest receivable			-		
Inventory	203,059		203,059		
Internal balances	(105,169)	105,169	-		
Total Current Assets	<u>34,031,754</u>	<u>105,319</u>	<u>34,137,073</u>	<u>60,455</u>	<u>152,870</u>
Noncurrent Assets:					
Investments, at market				180,981	
Non-depreciable capital assets	7,295,519	-	7,295,519		171,468
Depreciable capital assets, net of depreciation	80,429,586	97,971	80,527,557		
Total Noncurrent Assets	<u>87,725,105</u>	<u>97,971</u>	<u>87,823,076</u>	<u>180,981</u>	<u>171,468</u>
TOTAL ASSETS	<u>\$ 121,756,859</u>	<u>\$ 203,290</u>	<u>\$ 121,960,149</u>	<u>\$ 241,436</u>	<u>\$ 324,338</u>
LIABILITIES					
Current Liabilities:					
Accounts payable	\$ 5,684,507	\$ 5,836	\$ 5,690,343	\$ -	\$ -
Salaries and benefits payable	3,968,175	36,096	4,004,271		
Grant Advances	3,147,087		3,147,087		
Accrued hospital insurance	4,976,345		4,976,345		
Current portion of long-term debt	153,300		153,300		
Other current liabilities	1,932,884		1,932,884		
Total Current Liabilities	<u>19,862,298</u>	<u>41,932</u>	<u>19,904,230</u>	<u>-</u>	<u>-</u>
Noncurrent Liabilities:					
Long-term portion of compensated absences	2,463,652		2,463,652		
TOTAL LIABILITIES	<u>22,325,950</u>	<u>41,932</u>	<u>22,367,882</u>	<u>-</u>	<u>-</u>
NET POSITION					
Invested in capital assets, net of related debt	87,725,105	97,971	87,823,076		
Restricted for:					
Capital projects	5,695,582		5,695,582	2,300	
Food inventories	203,059		203,059		
Other			-	229,943	
Unrestricted	5,807,163	63,387	5,870,550	9,193	324,338
TOTAL NET POSITION	<u>99,430,909</u>	<u>161,358</u>	<u>99,592,267</u>	<u>241,436</u>	<u>324,338</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 121,756,859</u>	<u>\$ 203,290</u>	<u>\$ 121,960,149</u>	<u>\$ 241,436</u>	<u>\$ 324,338</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Function/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total	Primary Government		Allegany County Public Schools Foundation, Inc.	Allegany County Building Trades Education Foundation, Inc.	
					Governmental Activities	Business-type Activities			
Primary government									
Governmental activities:									
Administration	\$ 2,552,762	\$ 25,898		\$ (2,526,864)	\$ -	\$ (2,526,864)	\$ -	\$ -	
Mid-level administration	6,987,977	297,113		(6,690,864)		(6,690,864)			
Instruction - salaries	42,599,716	2,509,626		(40,090,090)		(40,090,090)			
Instruction - textbooks & instructional supplies	2,300,635	529,865	157,000	(1,770,770)		(1,770,770)			
Instruction - other	2,818,834	1,522,557		(1,139,277)		(1,139,277)			
Student personnel services	758,685	-		(758,685)		(758,685)			
Health services	787,843	129,352		(658,491)		(658,491)			
Student transportation	6,407,373	72,238		(6,335,135)		(6,335,135)			
Operation of plant and equipment	8,382,209	-		(8,382,209)		(8,382,209)			
Maintenance of plant	1,684,125	-		(1,684,125)		(1,684,125)			
Fixed charges	23,362,202	2,115,055		(21,247,147)		(21,247,147)			
Community Services	255,781	255,781		-		-			
Capital outlay	18,623	-	2,638,120	2,619,497		2,619,497			
Special education	17,992,077	3,133,634		(14,858,443)		(14,858,443)			
Food Service	5,137,652	3,362,085		(633,204)		(633,204)			
Unallocated depreciation expense (excludes direct depreciation)	5,129,838			(5,129,838)		(5,129,838)			
Total Governmental Activities	127,176,332	13,953,204	2,795,120	(109,285,645)	-	(109,285,645)	-	-	
Business-type activities:									
Information Technology	713,695			(47,703)		(47,703)			
Total Business-type Activities	713,695	-	-	(47,703)	(47,703)	(47,703)	-	-	
Total Primary Government	\$ 127,890,027	\$ 13,953,204	\$ 2,795,120	\$ (109,285,645)	\$ (47,703)	\$ (109,333,348)	\$ -	\$ -	
Component unit									
Allegany County Public Schools Foundation, Inc.	101,067	190,028	400	89,361		89,361		11,967	
Allegany County Building Trades Education Foundation, Inc.	41,723	53,690						11,967	
Total Component Unit	\$ 142,790	\$ 243,718	\$ 400	\$ 89,361	\$ -	\$ 89,361	\$ -	\$ 23,934	
General Revenues:									
County appropriation:									
Regular									
Grants, subsidies, and contributions not restricted									
Investment earnings/loss								231	
Miscellaneous income									
Other source income									
Gain/loss on disposal of fixed assets									
Total General Revenues, Special Items, Extraordinary Items and Transfers	(2,828)	(2,828)	-	(2,828)	-	(2,828)	-	-	
Change in Net Position									
Net Position - July 1, 2013									
Net Position - June 30, 2014									

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 17,399,131	\$ -	\$ 31,893	\$ 9,675,250	\$ 27,106,274
Accounts receivable	1,303,673	1,708,907	148,115	3,666,895	6,827,590
Inventory - food			203,059		203,059
Internal receivables	719,241	2,317,681	164,179		3,201,101
TOTAL ASSETS	19,422,045	4,026,588	547,246	13,342,145	37,338,024
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	2,322,304	606,920	65,849	182,653	3,177,726
Salaries and benefits payable	3,596,671	272,581	98,923		3,968,175
Internal payables				5,813,051	5,813,051
Grant Advances		3,147,087			3,147,087
Accrued hospital insurance	4,976,345				4,976,345
Current portion of long-term debt	153,300				153,300
Other current liabilities	1,913,783		19,101		1,932,884
TOTAL LIABILITIES	12,962,403	4,026,588	183,873	5,995,704	23,168,568
FUND BALANCES					
Nonspendable - Food Inventories			203,059		203,059
Restricted - Capital Projects				5,695,582	5,695,582
Assigned to:					
FY15 Budget	1,575,319				1,575,319
Unemployment Benefits	50,000				50,000
Capital Projects				1,650,859	1,650,859
Food Service			160,314		160,314
Unassigned	4,834,323				4,834,323
TOTAL FUND BALANCES	6,459,642	-	363,373	7,346,441	14,169,456
TOTAL LIABILITIES AND FUND BALANCES	\$ 19,422,045	\$ 4,026,588	\$ 547,246	\$ 13,342,145	\$ 37,338,024

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

June 30, 2014

Total Fund Balances - Governmental Funds \$ 14,169,456

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$189,048,811 and the accumulated depreciation is \$101,323,706. 87,725,105

Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of compensated absences. (2,463,652)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 99,430,909

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, 2014**

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
REVENUES					
County - regular appropriation	\$ 29,770,045	\$ -	\$ -	\$ 123,480	\$ 29,893,525
State - direct	75,274,512	751,571	203,745	2,514,640	78,744,468
Federal - direct			265,247		265,247
- received through State		7,508,878	2,893,093		10,401,971
- received through Pass-Thru Agency	410,008	1,540,161			1,950,169
Other revenue	252,209	537,501	1,169,820	84,741	2,044,271
TOTAL REVENUES	<u>105,706,774</u>	<u>10,338,111</u>	<u>4,531,905</u>	<u>2,722,861</u>	<u>123,299,651</u>
EXPENDITURES					
Administration	1,917,298	25,898			1,943,196
Mid-level administration	6,695,744	297,113			6,992,857
Instruction - salaries	40,065,209	2,509,626			42,574,835
Instruction - textbooks & instructional supplies	1,770,770	529,865			2,300,635
Instruction - other	1,677,348	1,679,557			3,356,905
Student personnel services	758,685				758,685
Health services	658,491	129,352			787,843
Student transportation	6,300,276	72,238			6,372,514
Operation of plant and equipment	8,376,990				8,376,990
Maintenance of plant	1,558,828				1,558,828
Fixed charges	20,728,298	1,705,047			22,433,345
Community Services		255,781			255,781
Capital outlay	241,380			3,589,642	3,831,022
Special education	14,863,768	3,133,634			17,997,402
Food Service			5,154,864		5,154,864
TOTAL EXPENDITURES	<u>105,613,085</u>	<u>10,338,111</u>	<u>5,154,864</u>	<u>3,589,642</u>	<u>124,695,702</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>93,689</u>	<u>-</u>	<u>(622,959)</u>	<u>(866,781)</u>	<u>(1,396,051)</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers	<u>(3,202,124)</u>		517,995	1,422,276	<u>(1,261,853)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(3,202,124)</u>	<u>-</u>	<u>517,995</u>	<u>1,422,276</u>	<u>(1,261,853)</u>
NET CHANGE IN FUND BALANCES	(3,108,435)	-	(104,964)	555,495	(2,657,904)
FUND BALANCE - JULY 1, 2013	<u>9,568,077</u>	<u>-</u>	<u>468,337</u>	<u>6,790,946</u>	<u>16,827,360</u>
FUND BALANCE - JUNE 30, 2014	<u>\$ 6,459,642</u>	<u>\$ -</u>	<u>\$ 363,373</u>	<u>\$ 7,346,441</u>	<u>\$ 14,169,456</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, 2014

Total Net Change in Fund Balance - Governmental Funds	\$ (2,657,904)
 Amounts reported for governmental activities in the statement of activities are different because:	
 Long-term accrued compensated absences are not reported in governmental funds as a liability. However, in the statement of activities, the long-term absences are reported as current expense. The net amount of long term accrued compensated absences is an increase of \$24,881.	
	(24,881)
 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 depreciation exceeds capital outlays in the period.	
Depreciation expense	5,859,904
Capital Outlays	<u>4,666,008</u>
	(1,193,896)
 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 \$16,825.	
	<u>(16,825)</u>
 TOTAL CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	 <u>\$ (3,893,506)</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 June 30, 2014

	<u>Information Technology Fund</u>	<u>Total</u>
ASSETS		
Current Assets:		
Accounts receivable	\$ 150	\$ 150
Internal receivables	<u>105,169</u>	<u>105,169</u>
Total Current Assets	<u>105,319</u>	<u>105,319</u>
Noncurrent Assets:		
Machinery and equipment, net of depreciation	<u>97,971</u>	<u>97,971</u>
Total Noncurrent Assets	<u>97,971</u>	<u>97,971</u>
TOTAL ASSETS	<u><u>203,290</u></u>	<u><u>203,290</u></u>
LIABILITIES		
Current Liabilities:		
Accounts payable	5,836	5,836
Salaries and benefits payable	<u>36,096</u>	<u>36,096</u>
Total Current Liabilities	<u>41,932</u>	<u>41,932</u>
TOTAL LIABILITIES	<u>41,932</u>	<u>41,932</u>
NET POSITION		
Invested in capital assets, net of related debt	97,971	97,971
Unrestricted	<u>63,387</u>	<u>63,387</u>
TOTAL NET POSITION	<u>161,358</u>	<u>161,358</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 203,290</u></u>	<u><u>\$ 203,290</u></u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Information Technology Fund</u>	<u>Total</u>
OPERATING REVENUES		
County - regular appropriation	\$ 332,996	\$ 332,996
- special appropriation		-
Other sources		-
Total Operating Revenues	<u>332,996</u>	<u>332,996</u>
OPERATING EXPENSES		
Salaries and wages	460,317	460,317
Contracted services	82,285	82,285
Supplies and materials	7,317	7,317
Other charges	132,344	132,344
Equipment replacement	1,529	1,529
Depreciation	29,903	29,903
Total Operating Expenses	<u>713,695</u>	<u>713,695</u>
Operating Income (Loss)	(380,699)	(380,699)
NON-OPERATING REVENUE		
Interfund Transfers	332,996	332,996
Other revenue	20,550	20,550
Total Non-operating Revenues	<u>353,546</u>	<u>353,546</u>
Change in Net Position	(27,153)	(27,153)
TOTAL NET POSITION - JULY 1, 2013	<u>188,511</u>	<u>188,511</u>
TOTAL NET POSITION - JUNE 30, 2014	<u>\$ 161,358</u>	<u>\$ 161,358</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 FOR THE YEAR ENDED JUNE 30, 2014**

	Information Technology Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 353,896
Cash received from quasi-external operation transactions with other funds	332,996
Cash paid to suppliers	(223,072)
Cash payments to employees	(449,861)
Net Cash Provided by Operating Activities	13,959
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Change in due to/from other funds	(6,884)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of equipment	(7,075)
Net Cash Used in Capital and Related Financing Activities	(7,075)
Net change in Cash	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ -

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

Change in net position	\$ (27,153)
Adjustments to reconcile change in net position to net cash provided by operations:	
Depreciation	29,903
Change in assets and liabilities	
Decrease (increase) in account receivable	350
Increase (decrease) in accounts payable	403
Increase (decrease) salaries & benefits payable	10,456
Total Adjustments	41,112
Net Cash Provided by Operating Activities	\$ 13,959

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2014

	School Activities	Retiree Insurance Benefit Plan	Retiree Insurance Benefit Trust	Retiree Health Plan Trust	Total Fiduciary Funds
ASSETS					
Cash and cash equivalents	\$ 1,727,430	\$ -	8,061,624	\$ 1,459,914	\$ 11,248,968
Investments	392,077				392,077
Accounts receivable	4,905				4,905
Internal receivables		2,506,781			2,506,781
TOTAL ASSETS	<u>2,124,412</u>	<u>2,506,781</u>	<u>8,061,624</u>	<u>1,459,914</u>	<u>14,152,731</u>
LIABILITIES					
Accounts payable	35,017	11,231			46,248
Salaries and benefits payable					-
School Activity Advances	2,089,395				2,089,395
Internal payables					-
TOTAL LIABILITIES	<u>2,124,412</u>	<u>11,231</u>		<u>-</u>	<u>2,135,643</u>
NET POSITION					
Designated for future retiree benefits	-	2,495,550	8,061,625		10,557,175
Held in trust for retiree health plan benefits	-			1,459,914	1,459,914
TOTAL NET POSITION	<u>-</u>	<u>2,495,550</u>	<u>8,061,625</u>	<u>1,459,914</u>	<u>12,017,089</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,124,412</u>	<u>\$ 2,506,781</u>	<u>\$ 8,061,625</u>	<u>\$ 1,459,914</u>	<u>\$ 14,152,732</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Insurance Benefit Trust</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
ADDITIONS					
Student activity revenues	\$ 2,828,547	\$ -		\$ -	\$ 2,828,547
Transfers		928,857			928,857
Earnings/loss on investment		29,550	561,625	166,994	758,169
Grants received on behalf of others					-
Contributions				100,000	100,000
DEDUCTIONS					
Student activity expenses	2,828,547				2,828,547
Retiree benefits		1,150,286			1,150,286
Grants passed to other agencies					-
Administrative expenses					-
Other					-
CHANGE IN NET POSITION	-	(191,879)	561,625	266,994	636,740
NET POSITION - JULY 1, 2013	-	10,187,429	-	1,192,920	11,380,349
TRANSFER		(7,500,000)	7,500,000		
NET POSITION - JUNE 30, 2014	\$ -	\$ 2,495,550	\$ 8,061,625	\$ 1,459,914	\$ 12,017,089

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 assigned and unassigned net position is available, assigned 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 Insurance Benefit Plan Trust

The Retiree Insurance Benefit Plan Trust is an expendable trust fund used to account for assets held in trust 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 position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. 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 inflows on its statement of net position. Deferred inflows arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred inflows 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 inflow is removed from the statement of net position 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, 2014, \$5,695,582 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, 2014 is \$203,059.

I. Compensated Absences

Accumulated earned vacation time is accrued when incurred. At June 30, 2014, \$1,746,010 has been accrued and included in other current liabilities 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, 2014, \$153,300 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,463,652 has been recorded in the government-wide statement of net position. Long-term compensated absences increased in the current year by \$24,881 over the prior year total of \$2,438,771.

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, 2014 is as follows:

Payable Fund	Receivable Fund	Amount
General	Restricted	\$2,317,681
School Construction	General	(5,813,051)
General	Retiree Ins.	2,506,781
General	Food Service	164,179
General	Information Technology	105,169
		\$ (719,241)

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land	N/A	N/A
Buildings and Improvements	7-50 years	N/A
Furniture, Equipment, and Vehicles	5-20 years	5-20 years

M. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Board, these revenues are for services provided by the Information Technology 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, 2014, 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, 2014, was as follows:

	<u>Balance 6/30/13</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance 6/30/14</u>
Governmental Activities					
Non-depreciable assets:					
Land	\$ 4,208,336	\$ -	\$ -	\$ -	\$ 4,208,336
Construction-in-progress	<u>1,775,245</u>	<u>2,027,045</u>	<u>-</u>	<u>(715,107)</u>	<u>3,087,183</u>
Total Non-depreciable assets	<u>5,983,581</u>	<u>2,027,045</u>	<u>-</u>	<u>(715,107)</u>	<u>7,295,519</u>
Depreciable assets:					
Land Improvements	9,108,421	120,277	-	4,902	9,233,600
Buildings and Improvements	151,303,815	1,484,625	-	504,256	153,292,696
Furniture, Equipment, and Vehicles	<u>18,163,127</u>	<u>1,034,061</u>	<u>(176,141)</u>	<u>205,949</u>	<u>19,226,996</u>
Total Depreciable assets	<u>178,575,363</u>	<u>2,638,963</u>	<u>(176,141)</u>	<u>715,107</u>	<u>181,753,292</u>
Less accumulated depreciation:					
Land Improvements	(2,037,437)	(458,948)	-	-	(2,496,385)
Buildings and Improvements	(82,785,103)	(3,963,698)	-	-	(86,748,801)
Furniture, Equipment, and Vehicles	<u>(10,800,579)</u>	<u>(1,437,257)</u>	<u>159,316</u>	<u>-</u>	<u>(12,078,520)</u>
Total accumulated depreciation	<u>(95,623,119)</u>	<u>(5,859,903)</u>	<u>159,316</u>	<u>-</u>	<u>(101,323,706)</u>
Total capital assets being depreciated	<u>82,952,244</u>	<u>(3,220,940)</u>	<u>(16,825)</u>	<u>715,107</u>	<u>80,429,586</u>
Governmental Activities Capital Assets, Net	<u>\$ 88,935,825</u>	<u>\$ (1,193,895)</u>	<u>\$ (16,825)</u>	<u>\$ -</u>	<u>\$ 87,725,105</u>
Business-Type Activities					
Non-depreciable assets:					
Construction-in-progress	\$ -	\$ -	\$ -	\$ -	\$ -
Total Non-depreciable assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciable assets:					
Furniture, Equipment, and Vehicles	584,605	7,075	-	-	591,680
Less accumulated depreciation	<u>(463,806)</u>	<u>(29,903)</u>	<u>-</u>	<u>-</u>	<u>(493,709)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 120,799</u>	<u>\$ (22,828)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,971</u>

* Depreciation was charged to governmental functions as follows:

Administration	\$ 276,570
Student transportation	232,474
Operation of plant and equipment	53,556
Maintenance of plant	147,789
Food Service	19,677
Unallocated	<u>5,129,838</u>
Total Depreciation Expense	<u>\$ 5,859,904</u>

The insurance value of capital assets as of June 30, 2014 is \$330,743,019

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 \$250,597. This amount includes the value of the donated commodities plus costs to process the commodities into useable form.

NOTE 6 - PENSION PLAN

Plan Description

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

Funding Policy

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

The board joined the Alternative Contributory Pension System (ACPS) on July 1, 2006. Members of the contributory pension system are required to make contributions of 7% of earnable compensation. The Board is required to contribute at an actuarially determined rate for individuals in the employee contributory pension system. The current rate is 10.00%. 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 two 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, 2014, 2013, 2012, 2011, and 2010 were \$3,349,990, \$2,886,886, \$1,695,690, \$1,428,305, and \$1,121,559, 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 \$9,455 in programs and projects to the Board's Greenway Avenue and Mountain Ridge stadium projects. An additional \$425 was provided to the Board to supplement educational programs. The Board provided \$2,000 to the Foundation and it is included in other income on the Foundation's statements.

NOTE 8 - CASH AND INVESTMENTS

Deposits

At June 30, 2014, the carrying amount of the Board's bank deposits was \$28,664,396 and the various bank balances were \$28,492,214. Of the bank balances, \$860,102 was covered by depository insurance and \$27,632,112 was covered by collateral held at various banks in the Board's name. Total market value of these pledged securities at June 30, 2014 was \$42,596,395. Included in cash and cash equivalents is \$48,054 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, 2014, the Board's investments and maturities are as follows:

	Investment Maturity in Months				
	Fair Value	Less Than 1	1-6	6-12	More Than 12
Certificates of Deposit	392,077	0	63,371	89,970	238,736

Of the Board's investments in certificates of deposits, \$17,792 was covered by federal depository insurance and \$374,285 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, 2014 was \$44,155 and the balance per bank was \$45,001. 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, 2014 was \$149,739 and the balance per bank was \$148,981. This amount is fully insured by federal depository insurance.

NOTE 9 - ON-BEHALF PAYMENTS

The State of Maryland paid \$7,852,080 into the State Retirement and Pension System of Maryland on behalf of the Board. The on-behalf spending by the State of Maryland has not been recorded in these statements.

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 \$1,192,350 of which \$724,975 is paid by the Board and the remainder is funded by the Allegany County Government. County government also supported the school system by assisting with school security and mental health spending in the amount of \$157,132 for both public and non public school students. The on-behalf spending by the County has not been recorded in these financial statements.

NOTE 10 - COMMITMENTS, CONTINGENCIES, RISKS, AND SUBSEQUENT EVENTS

The Board is exposed to risks of loss from lawsuits, medical and dental insurance claims, workers' compensation claims, and property damage claims. The Board manages its risks for these claims in various ways. Risks of loss arising from property damage and errors and omissions have been transferred to the Board's insurance carrier through the purchase of set premium insurance. The Board retains the risk of loss for medical and dental claims and has included \$4,976,345 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount decreased by \$800,458 from the prior year amount of \$5,776,803, and was based on total claims paid of \$17,544,181 and \$18,113,336 for 2014 and 2013, 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 \$350,000, 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, 2014. 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. Formal action is required for school consolidations and new school constructions. Funding for any action would come from State, County, and the Board of Education's funds.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

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

Long-range facilities plan - (continued)

During the 2014 fiscal year, the school system started design on a new Allegany High School. Funding for the project has been approved by the State, County, and Board of Education. The new high school will be built on property given to the school system. The school system solicited bids to demolish buildings previously used as a hospital, office building, and living quarters in order to prepare for construction.

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 2014, a maximum subsidy for all retirees of \$390,000 was approved by the Board.

The total annual amount of the subsidy for the 2013-2014 fiscal year is as follows for 169 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	\$ 6,980	\$137,675
30 or more years	\$ 4,480	\$231,451

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, 2014. 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, 2014:

Year ending June 30:	
2015	\$ 270,690
2016	231,040
2017	180,024
2018	149,269
2019 and beyond	<u>124,242</u>
Total minimum payments require	<u>\$ 955,265</u>

Rental expenditures for operating leases for the year ended June 30, 2014 is \$115,710.

NOTE 13 - FUND BALANCE

A surplus fund balance of \$6,459,642 existed in the Current Expense Fund Type, Unrestricted Fund, as of June 30, 2014. The surplus consisted of \$1,575,319 assigned to the FY2015 budget. In addition, \$50,000 is assigned for unemployment benefits and an undesignated surplus of \$4,834,323.

NOTE 14 - ACCOUNTS RECEIVABLE

Total accounts receivable of Governmental Funds in the financial statements as of June 30, 2014 is \$6,827,590. This total consists of the following components:

County Government	\$144,180
State Government	4,911,044
Federal Government	1,317,246
Other Local Education Agencies	3,496
Other	<u>451,624</u>
Total	<u>\$ 6,827,590</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, 2014.

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, 2014 is as follows:

Balance, beginning of year	\$ 72,925
Add: Ticket surcharge collections	21,696
Interest	0
Tower rent	14,891
Less: Expenditures	<u>(0)</u>
Balance, end of year	<u>\$ 109,512</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, 2014 is as follows:

Balance, beginning of year	\$ 36,979
Add: Ticket surcharge collections	4,608
Interest	0
Less: Expenditures	(0)
Balance, end of year	<u>\$ 41,587</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	\$703,054
Interest on Net OPEB Obligation	26,900
Adjustment to Annual Required Contribution	<u>(19,290)</u>
Annual OPEB Cost (Expense)	\$710,664
Contributions Made	<u>(741,742)</u>
Increase in Net Obligation	<u><u>(\$31,078)</u></u>
Net OPEB Obligation (BOY)	(\$384,280)
Net OPEB Obligation (EOY)	(\$415,359)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for 2013-2014 is as follows:

<u>Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2014	710,664	104.4%	(415,359)
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 12.63% funded. The actuarial accrued liability for benefits was \$9,447,862 and actuarial value of the assets was \$1,192,920 resulting in an unfunded actuarial accrued liability (UAAL) of \$8,254,942. 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 11.67%.

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, 2013 was 25 years.

BOARD OF EDUCATION OF ALLEGANY COUNTY

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary	Final Budget
				Positive (Negative)
REVENUES				
County - regular appropriation	\$ 29,770,045	\$ 29,770,045	\$ 29,770,045	\$ -
State - direct	74,723,701	75,298,701	75,274,512	(24,189)
Federal - direct	350,000	350,000	410,008	60,008
Fund Balance	3,621,468	4,811,468	-	(4,811,468)
Other revenue	261,510	261,510	252,209	(9,301)
TOTAL REVENUES	108,726,724	110,491,724	105,706,774	(4,784,950)
EXPENDITURES				
Administration	2,086,943	2,086,943	1,917,298	169,645
Mid-level administration	6,703,316	6,783,316	6,695,744	87,572
Instruction - salaries	40,159,452	40,128,860	40,065,209	63,651
Instruction - textbooks & instructional supplies	2,132,723	2,115,323	1,770,770	344,553
Instruction - other	1,894,873	1,912,273	1,677,348	234,925
Student personnel services	731,230	741,230	758,685	(17,455)
Health services	665,900	665,900	658,491	7,409
Student transportation	6,403,418	6,403,418	6,300,276	103,142
Operation of plant and equipment	8,354,351	8,384,943	8,376,990	7,953
Maintenance of plant	1,827,262	1,827,262	1,558,828	268,434
Fixed charges	21,041,807	21,041,807	20,728,298	313,509
Capital outlay	603,656	603,656	241,380	362,276
Special education	14,281,945	14,956,945	14,863,768	93,177
TOTAL EXPENDITURES	106,886,876	107,651,876	105,613,085	2,038,791
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,839,848	2,839,848	93,689	(2,746,159)
OTHER FINANCING SOURCES (USES)				
Interfund transfers	(1,839,848)	(2,839,848)	(3,202,124)	(362,276)
Intrafund transfers			-	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,839,848)	(2,839,848)	(3,202,124)	(362,276)
NET CHANGE IN FUND BALANCES	-	-	(3,108,435)	(3,108,435)
FUND BALANCE - JULY 1, 2013	9,568,077	9,568,077	9,568,077	-
FUND BALANCE - JUNE 30, 2014	\$ 9,568,077	\$ 9,568,077	\$ 6,459,642	\$ (3,108,435)

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, 2014

	Restricted			Food Service			
	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budgetary Basis	Budgeted Amounts Original	Budgeted Amounts Final	Actual Budgetary Basis	Variance With Final Budget Positive (Negative)
REVENUES							
County - regular appropriation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State - direct	831,356	831,356	751,571	215,000	215,000	203,745	(11,255)
Federal - direct	8,188,981	8,188,981	9,049,039	352,000	352,000	265,247	(86,753)
- received through State & Pass-Thru Agencies	98,966	98,966	537,501	2,775,000	2,775,000	2,893,093	118,093
Other revenue	9,119,303	9,119,303	10,338,111	1,464,336	1,464,336	1,169,820	(294,516)
TOTAL REVENUES	9,119,303	9,119,303	10,338,111	4,806,336	4,806,336	4,531,905	(274,431)
EXPENDITURES							
Administration	24,368	24,368	25,898				(1,530)
Mid-level administration	139,500	139,500	297,113				(157,613)
Instruction - salaries	2,914,954	2,914,954	2,509,626				405,328
Instruction - textbooks & instructional supplies	196,165	196,165	529,865				(333,700)
Instruction - other	1,037,359	1,037,359	1,679,557				(642,198)
Student personnel services	52,733	52,733	129,352				(76,619)
Health services	58,920	58,920	72,238				(13,318)
Student transportation	-	-	-				-
Operation of plant and equipment	1,774,127	1,774,127	1,705,047				69,080
Fixed charges	220,314	220,314	255,781				(35,467)
Community Services	10,000	10,000	-				10,000
Capital outlay	2,690,863	2,690,863	3,133,634				(442,771)
Special education	-	-	-				-
Food Service	-	-	-	5,324,331	5,324,331	5,154,864	169,467
TOTAL EXPENDITURES	9,119,303	9,119,303	10,338,111	5,324,331	5,324,331	5,154,864	169,467
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	-	-	(517,995)	(517,995)	(622,959)	(104,964)
OTHER FINANCING SOURCES (USES)							
Intrafund transfers	-	-	-	517,995	517,995	517,995	-
Interfund transfers	-	-	-	-	-	(104,964)	(104,964)
NET CHANGE IN FUND BALANCES	-	-	-	-	-	468,337	468,337
FUND BALANCE - JULY 1, 2013	-	-	-	468,377	468,337	468,337	-
FUND BALANCE - JUNE 30, 2014	\$ -	\$ -	\$ -	\$ 468,377	\$ 468,337	\$ 363,373	\$ (104,964)

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

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>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Annual Covered Payroll</u>	<u>as a Percentage of Covered Payroll</u>
7/1/2013	\$1,192,920	\$9,447,862	12.63%	\$8,254,942	\$70,758,000	11.67%
7/1/2012	\$1,109,134	\$9,447,862	11.74%	\$8,338,728	\$70,758,000	11.78%
7/1/2011	\$962,279	\$8,113,878	11.86%	\$7,151,599	\$73,406,000	9.74%
7/1/2010	\$676,108	\$8,113,878	8.33%	\$7,437,770	\$73,406,000	10.13%

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, 2014, the General Fund exceeded the budget for revenues but had an overall shortfall of expenditures.

Medicare D revenues exceeded budget. The budget is prepared based on prior year experience. The school system is reimbursed a share of the prescription costs of Medicare retirees. The number of retirees eligible and the cost of their prescription drugs are the factors that determine the amount reimbursed to the school system

Administrative costs were lower than budget for a variety of reasons. First, wages were under budget because a position budgeted was not filled during the year. The school system evaluates all open positions to determine if a replacement is necessary. 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. The purchase of an electronic benefit enrollment and management system that was budgeted was not made during the fiscal year. Management determined to evaluate its entire financial ledger system. Benefit enrollment systems are often part of new Enterprise Resource Planning Systems (ERP) and it may be more cost effective to wait until this evaluation is performed.

A favorable variance existed in mid-level administration. An unusually high number of personnel retired at the end of the prior fiscal year. Replacements were not named until after the beginning of the fiscal year creating a favorable wage variance. Supplies came in under budget due to strong expenditure control. Equipment came under budget because not as many computers needed to be replaced as 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. The Superintendent asked instructional supervisors to purchase only what was absolutely necessary to deliver the educational program. Almost all departments came in under budget in supplies with a large variance from elementary. Instructional supplies allocated to be used by principals came in under budget by \$47,000. The school system searches out opportunities to buy items at the lowest possible cost. The school system also came in under budget for software. The school system constantly evaluates programs needed for instruction and was able to reduce overall number programs and the number of copies of programs. Another area coming in under budget was the central budget for copier paper. As more items are distributed on-line, the need for paper has been reduced. This also caused supplies within the print shop to come in under budget. The math department came in under budget with supplies because the curriculum for math workbooks, which were budgeted, was not finalized by federal and state authorities.

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 approximately \$179,000 not spent for equipment that was budgeted. In some cases the school system was able to obtain grants to pay for equipment that was budgeted to be spent locally. In other cases, the decision was made not to purchase equipment in order to preserve and prolong the system's fund balance. Another factor contributing to the positive variance in other instructional costs was the extreme, cold weather that prolonged the academic school year. This decreased the opportunity for field trips that were budgeted.

Special Education was under budget due to being able to charge some labor to federal grants and federal funding sources. The school system also came in under budget for 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 intensively as budgeted. The original budget was increased during the year with a budget amendment. 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 department was able to come in under budget with the number of actual miles run being less than budgeted, which also contributed to a favorable variance.

The past fiscal year was a very challenging one for the operations area of the budget. While the school system has an energy management program to control energy costs, energy costs were over budget due to the extremely harsh winter. The school system was not able to reduce building temperatures during non instructional times as it normally does due to cold temperatures. The school system also added its own school security police force in an effort to provide better school security and safety. The operations area was able to come in under budget overall due to strong expenditure control of labor costs. The operations department also seeks out the best available price for supplies used to clean school system buildings and was able to come in under budget. Equipment purchases came in under budget due to evaluating all purchases to see if they were absolutely necessary in maintaining the school system's infrastructure.

BOARD OF EDUCATION OF ALLEGANY COUNTY
NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 18 - BUDGET TO ACTUAL VARIANCES (Continued)

The facilities department came in under budget in labor, contracted services, supplies, and equipment. The school system became the owner of a former hospital building in a prior fiscal year at no cost to the school system. The agreement that transferred the hospital building to the school requires the school system to build a new school on the land of the old hospital. Administrative staff of the facilities department concentrated on the demolition plans of the old hospital building and the design of a new high school. This limited projects by contractors to ones under \$25,000 because projects over \$25,000 are competitively bid. This caused contracted services to come in under budget. Facilities personnel were also able to recycle and salvage many building parts from the hospital building for use in the school system. This along with no major repairs which were needed caused supplies to come in under budget. Also, the facilities department did not make any equipment purchases, even though equipment was budgeted.

The school system was able to come in under budget in fixed charges. One reason for this was controlling labor costs in all departments. This caused employment taxes to come in under budget. The school system also completed a dependent audit of the healthcare plan in order to ensure coverage was being extended and provided only to eligible individuals. Healthcare costs were under budget. Fixed charges were also favorable due to retirees not using all of budgeted retiree health benefits. The school system will reimburse retirees up to a set amount providing documentation. In some cases, the coverage obtained by retirees is less than the cap on the amount retirees are eligible to receive.

Special Revenue Fund - Restricted

The Restricted Fund had an excess of revenues and expenditures over the budgeted amounts for the year ended June 30, 2014. 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. The school system also received some additional Race To The Top grants after the budget was adopted.

Special Revenue Fund – Food Service

The Food Service Special Revenue Fund for the year ended June 30, 2014 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. 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

**SCHOOL ACTIVITIES FUND
INCREASES, DECREASES AND BALANCES BY SCHOOL
For Year Ended June 30, 2014**

	<u>Balances June 30, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2014</u>
HIGH SCHOOLS				
Allegany	\$ 274,479	\$ 477,232	\$ 475,340	\$ 276,371
Center for Career and Technical Education	93,308	149,318	148,610	94,016
Fort Hill	128,862	536,493	583,929	81,426
Mountain Ridge	246,426	602,609	586,110	262,925
Alternative	<u>3,075</u>	<u>4,870</u>	<u>7,945</u>	<u>0</u>
Total High Schools	<u>746,150</u>	<u>1,770,522</u>	<u>1,801,934</u>	<u>714,738</u>
MIDDLE SCHOOLS				
Braddock	62,564	98,979	106,067	55,476
Mount Savage	70,854	139,608	132,336	78,126
Washington	68,902	84,012	88,697	64,217
Westmar	<u>51,213</u>	<u>67,216</u>	<u>69,506</u>	<u>48,923</u>
Total Middle Schools	<u>253,533</u>	<u>389,815</u>	<u>396,606</u>	<u>246,742</u>
ELEMENTARY SCHOOLS				
Beall	48,503	43,413	46,408	45,508
Bel Air	32,103	32,566	36,582	28,087
Cash Valley	40,641	38,876	43,339	36,178
Cresaptown	119,797	39,355	52,945	106,207
Flintstone-school	159,156	42,765	38,826	163,095
Flintstone-McLuckie	379,016	6,384	9,350	376,050
Frost	73,869	39,352	31,892	81,329
Georges Creek	68,737	72,316	78,126	62,927
John Humbird	44,529	26,398	35,641	35,286
Northeast	56,861	53,331	51,775	58,417
Parkside	14,962	30,711	29,993	15,680
South Penn	46,507	50,023	46,325	50,205
West Side	45,977	71,894	76,107	41,764
Westernport	<u>29,564</u>	<u>50,316</u>	<u>52,698</u>	<u>27,182</u>
Total Elementary Schools	<u>1,160,222</u>	<u>597,700</u>	<u>630,007</u>	<u>1,127,915</u>
TOTAL SCHOOLS	<u><u>\$ 2,159,905</u></u>	<u><u>\$ 2,758,037</u></u>	<u><u>\$ 2,828,547</u></u>	<u><u>\$ 2,089,395</u></u>

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

Board of Education of Allegany County
Cumberland, Maryland

Our audit of the basic financial statements of the Board of Education of Allegany County as of June 30, 2014 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