

**BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**FINANCIAL REPORT**  
**AS OF JUNE 30, 2015 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, 2015, 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, 2015, 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, the schedule of funding progress - other post-employment benefit plan contribution, schedule of the Board's proportionate share of the net pension liability – Maryland State Retirement and Pension System and schedule of the Board's contributions – Maryland State Retirement and Pension System on pages four (4) through eighteen (18) and sixty-one (61) through sixty-seven (67) 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 are presented for the purposes of additional analysis and are 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 28, 2015, 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.

*Huber, Michaels + Company*

Cumberland, Maryland  
September 28, 2015

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2015**

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Our discussion and analysis of The Board of Education of Allegany County's financial performance provides an overview of the School System's financial activities for the fiscal years ended June 30, 2015 and 2014, 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 \$683,851 (0.73%) during the fiscal year ended June 30, 2015. The school system in previous fiscal years set aside net position for the building of a new Allegany High School. The funds set aside were expended in preparation of building the new high school thus lowering net position.

Total Governmental Funds revenues for the fiscal year ended June 30, 2015, were \$125,562,129. This represents an increase of \$2,262,478 (1.83%) over the prior fiscal year. The school system received more state aid due to per pupil amounts increasing and more students qualifying for free and reduced meals. The school system also received more Title 1 funds, Race to the Top funds, a state grant for teachers having an advanced teacher certificate, and medical assistance funds

Total Governmental Funds expenses for the fiscal year ended June 30, 2015 were \$126,237,234. This represents an increase of \$1,541,532 (1.24%) from the prior fiscal year. This increase was attributable to spending in school construction for the demolition of a building previously used as a hospital and for architect fees to design a new high school. Higher spending occurred in the restricted fund due to receiving additional federal and state grants.

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2015**

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The Current Expense Fund total fund balance as of June 30, 2015, was \$6,625,656. This represents an increase of \$166,014 (2.57%) from the fund balance as of June 30, 2014.

The Current Expense Fund unassigned fund balance as of June 30, 2015, was \$5,141,843. This represents an increase of \$307,520 (6.36%) from the unassigned fund balance as of June 30, 2014. A total of \$1,433,813 of the fund balance is assigned to the FY2016 budget. A total of \$50,000 is assigned for future unemployment benefits.

Current Expense Fund revenues fell short of the final budget by \$1,748,601 (1.62%). The system budgeted to use fund balance but this was not necessary due to aggressive expenditure control.

Current Expense Fund expenses and transfers were under budget by \$1,914,615 (1.83%). The system controls labor costs by evaluating positions that come open during the school year. Some labor costs budgeted were able to be charged to a grant. Controlling labor costs also results in lower fixed charges. Textbooks and supplies were under budget due to principals buying only what was absolutely necessary to deliver the educational program. Some textbook spending did not occur due to a desire to switch funds from supplies to equipment. The additional equipment was budgeted in the new fiscal year. Other instructional costs were under budget due to charging costs for an early college program to a grant and because some travel for professional development did not occur. Maintenance and operations were under budget due to controlling labor costs and not having major building incidents or major equipment failures.

The unrestricted General Fund budget decreased by \$2,607,571(2.36%) to \$107,884,153 compared to the \$110,491,724 budget for the period ended June 30, 2014. The school system received less money from county government because of an enrollment decrease. Additional state revenue was received due to the state increase in the per pupil amounts in the state funding formulas. The school system decreased the amount of fund balance used to balance the budget because of concerns of a declining fund balance and there were no one time transfers for construction projects in FY2015.



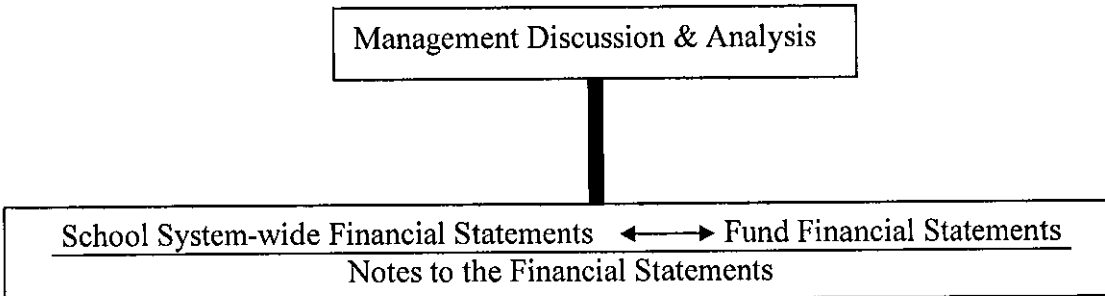
THE BOARD OF EDUCATION OF ALLEGANY COUNTY  
Maryland

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Management's Discussion and Analysis (MD&A)  
June 30, 2015

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**BASIC FINANCIAL STATEMENTS**



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

**School System-wide Financial Statements**

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

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2015**

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**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.

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

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

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

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

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

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

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

**Management's Discussion and Analysis (MD&A)**  
**June 30, 2015**

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, 2015, of \$711,440 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 \$2,410,883 and is the amount we expect to pay beyond June 30, 2015. 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, 2015	June 30, 2014	% Change	June 30, 2015	June 30, 2014	% Change
Administration	\$ 2,562,209	\$ 2,552,762	0.37%	\$ 2,331,298	\$ 2,526,864	-7.74%
Mid-level Administration	6,801,443	6,987,977	-2.67%	6,544,014	6,690,864	-2.19%
Instruction (regular and special education)	65,902,425	65,711,262	0.29%	57,338,706	57,858,580	-0.90%
Student Personnel and Health Services	1,600,061	1,546,528	3.46%	1,333,981	1,417,176	-5.87%
Student Transportation	6,211,104	6,407,373	-3.06%	6,142,124	6,335,135	-3.05%
Operation, Maintenance and Capital Outlay	9,458,954	10,084,957	-6.21%	6,389,134	7,446,837	-14.20%
Fixed Charges	23,095,399	23,362,202	-1.14%	20,846,598	21,247,147	-1.89%
Community Services	268,655	255,781	5.03%			
Food Service	5,164,771	5,137,652	0.53%	600,547	633,204	-5.16%
Depreciation & Other	5,195,671	5,129,838	1.28%	5,195,671	5,129,838	1.28%
<b>Total</b>	<b>\$ 128,260,692</b>	<b>\$ 127,176,332</b>	<b>-0.72%</b>	<b>\$ 106,722,073</b>	<b>\$ 109,285,645</b>	<b>-2.35%</b>

Results of operations for the School System as a whole are presented in the Statement of Activities. The cost of all governmental activities is \$128,260,692 of which \$1,129,375 was financed by users of the School System's programs. Grants and contributions from Federal and State governments for certain programs were \$18,409,244. This left a net cost of services of \$106,722,073.

The School System is fiscally dependent on local and state aid to fund its daily operations. Over 83% of the School System's Governmental Activities comes from these sources. State aid is largely formula-driven based on student population and wealth. Local revenue, provided by the Allegany County Government, is dependent upon the economic condition of the County. Most of the operating and capital grant funding is from the State and County governments and Federal grants passing through the State. These operating and capital grants represent approximately 15% of the School System's funding.

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

**Management's Discussion and Analysis (MD&A)  
June 30, 2015**

**Condensed Statement of Net Position**

	Governmental Activities			Business-type Activities			Total School System		
	June 30, 2015	June 30, 2014	% Change	June 30, 2015	June 30, 2014	% Change	June 30, 2015	June 30, 2014	% Change
Current and Other Assets	\$ 26,554,940	\$ 34,031,754	-21.97%	\$ 144,946	\$ 105,319	37.63%	\$ 26,699,886	\$ 34,137,073	-21.79%
Capital Assets	88,877,511	87,725,105	1.31%	71,509	97,971	-27.01%	88,948,020	87,823,076	1.28%
Deferred Outflow of Resources	783,553	743,919	5.33%	216,455	203,290	6.48%	783,553	743,919	5.33%
<b>Total Assets</b>	<b>\$ 116,216,004</b>	<b>\$ 122,500,778</b>	<b>-5.13%</b>	<b>\$ 216,455</b>	<b>\$ 203,290</b>	<b>6.48%</b>	<b>\$ 116,432,459</b>	<b>\$ 122,704,068</b>	<b>-(6,271,609)</b>
Current and Other Liabilities	\$ 14,303,008	\$ 19,882,298	-27.95%	\$ 26,850	\$ 41,932	-35.97%	\$ 14,329,858	\$ 19,904,230	-28.01%
Long-term Liabilities	8,076,156	8,709,643	-7.27%	118,096	63,367	86.31%	8,076,156	8,709,643	-7.27%
Deferred Inflow of Resources	620,101	620,101	100.00%	26,850	41,932	-35.97%	620,101	620,101	100.00%
<b>Total Liabilities</b>	<b>\$ 22,999,265</b>	<b>\$ 29,212,042</b>	<b>-18.50%</b>	<b>\$ 26,850</b>	<b>\$ 41,932</b>	<b>-35.97%</b>	<b>\$ 23,026,115</b>	<b>\$ 28,613,873</b>	<b>-(6,587,758)</b>
<b>Net Assets:</b>									
Invested in Capital Assets, Net of Related Debt	\$ 88,877,511	\$ 87,725,105	1.31%	\$ 71,509	\$ 97,971	-27.01%	\$ 88,948,020	\$ 87,823,076	1.28%
Restricted	3,745,884	5,898,641	-36.50%	118,096	63,367	86.31%	3,745,884	5,898,641	-36.50%
Unrestricted	583,344	305,091	91.40%	189,605	161,358	17.51%	93,406,344	94,909,135	-4.73%
<b>Total Net Position</b>	<b>\$ 93,206,739</b>	<b>\$ 93,928,837</b>	<b>-0.76%</b>	<b>\$ 189,605</b>	<b>\$ 161,358</b>	<b>17.51%</b>	<b>\$ 93,406,344</b>	<b>\$ 94,909,135</b>	<b>-(633,851)</b>

**Changes in Net Position from Operating Results**

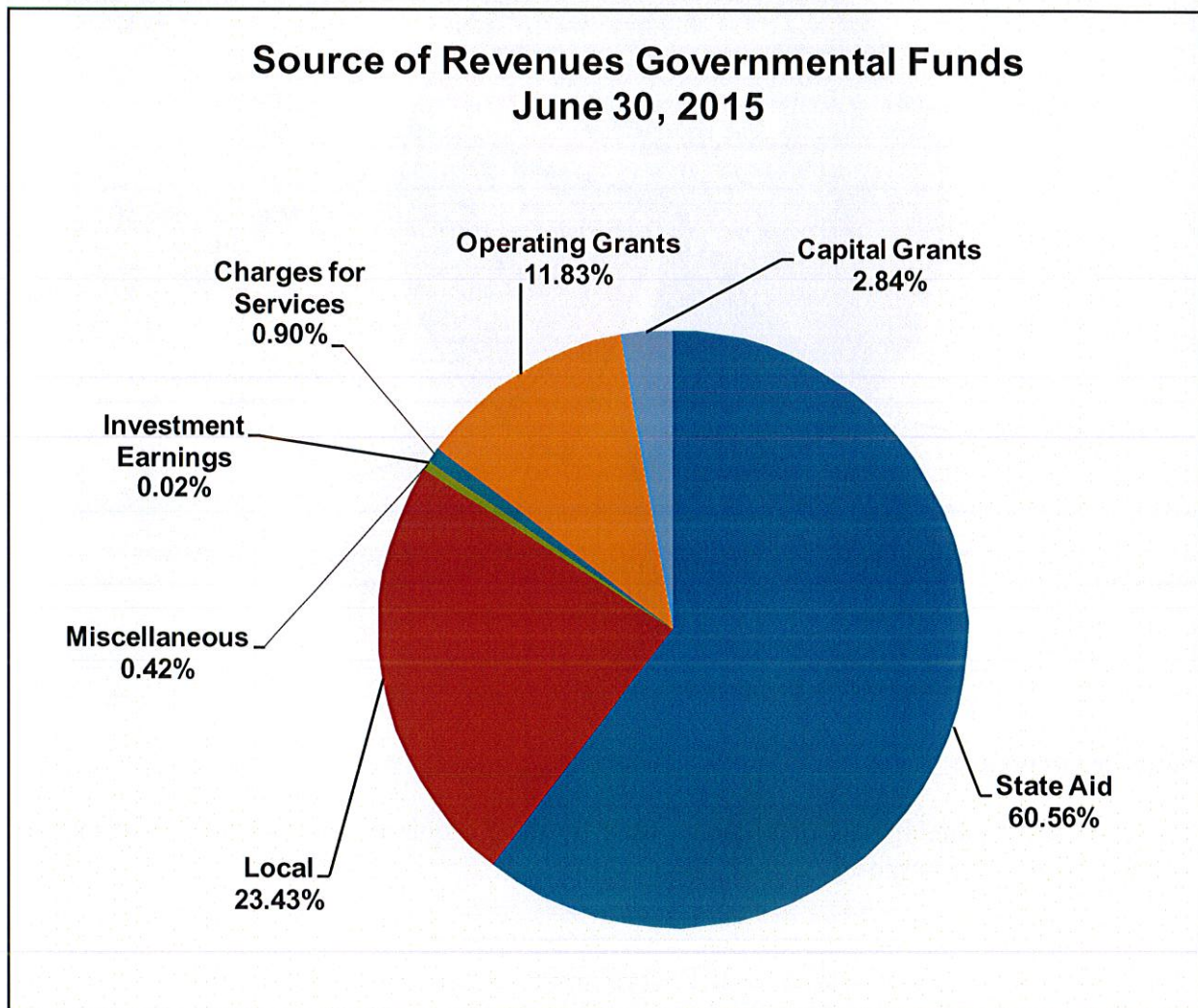
	Governmental Activities			Business-type Activities			Total School System		
	June 30, 2015	June 30, 2014	% Change	June 30, 2015	June 30, 2014	% Change	June 30, 2015	June 30, 2014	% Change
Program Revenues:									
Charges for Services	\$ 1,129,375	\$ 1,142,363	-1.14%	\$ 627,124	\$ 665,992	-5.84%	\$ 1,756,499	\$ 1,808,355	-2.87%
Operating Grants and Contributions	14,846,679	13,953,204	6.40%	14,846,679	13,953,204	6.40%	14,846,679	13,953,204	6.40%
Capital Grants and Contributions	3,562,565	2,795,120	27.46%	3,562,565	2,795,120	27.46%	3,562,565	2,795,120	27.46%
General Revenues:									
County Government	28,418,144	28,770,045	-1.18%	28,418,144	28,770,045	-1.18%	28,418,144	28,770,045	-1.18%
Grants and Contributions (unrestricted)	76,037,137	75,274,512	1.01%	76,037,137	75,274,512	1.01%	76,037,137	75,274,512	1.01%
Other	554,694	350,410	58.30%	20,445	20,550	-0.51%	76,037,137	75,274,512	1.01%
<b>Total Revenues</b>	<b>\$ 125,548,594</b>	<b>\$ 123,285,654</b>	<b>1.84%</b>	<b>\$ 627,124</b>	<b>\$ 665,992</b>	<b>-5.84%</b>	<b>\$ 126,198,183</b>	<b>\$ 123,372,136</b>	<b>1.79%</b>
Administration	\$ 2,562,209	\$ 2,552,762	0.37%	\$ 2,562,209	\$ 2,552,762	0.37%	\$ 2,562,209	\$ 2,552,762	0.37%
Mid-level Administration	6,801,443	6,987,977	-2.67%	6,801,443	6,987,977	-2.67%	6,801,443	6,987,977	-2.67%
Instruction (regular and special education)	65,902,425	65,711,262	0.29%	65,902,425	65,711,262	0.29%	65,902,425	65,711,262	0.29%
Student Personnel and Health Services	1,600,061	1,546,528	3.46%	1,600,061	1,546,528	3.46%	1,600,061	1,546,528	3.46%
Student Transportation	6,211,104	6,407,373	-3.05%	6,211,104	6,407,373	-3.05%	6,211,104	6,407,373	-3.05%
Operation, Maintenance and Capital Outlay	9,458,954	10,084,957	-6.21%	9,458,954	10,084,957	-6.21%	9,458,954	10,084,957	-6.21%
Fixed Charges	23,095,399	23,362,202	-1.14%	23,095,399	23,362,202	-1.14%	23,095,399	23,362,202	-1.14%
Community Services	268,655	255,761	5.03%	268,655	255,761	5.03%	268,655	255,761	5.03%
Food Service	5,164,771	5,137,652	0.53%	5,164,771	5,137,652	0.53%	5,164,771	5,137,652	0.53%
Depreciation & Other	5,195,671	5,132,666	1.23%	5,195,671	5,132,666	1.23%	5,195,671	5,132,666	1.23%
<b>Total Expenses</b>	<b>\$ 126,260,692</b>	<b>\$ 127,179,160</b>	<b>-0.72%</b>	<b>\$ 619,322</b>	<b>\$ 713,695</b>	<b>-13.22%</b>	<b>\$ 126,880,014</b>	<b>\$ 127,692,855</b>	<b>-(1,012,841)</b>
<b>Increase/(Decrease) in Net Position</b>	<b>\$ (712,098)</b>	<b>\$ (3,893,506)</b>	<b>81.71%</b>	<b>\$ 28,247</b>	<b>\$ (27,153)</b>	<b>204.03%</b>	<b>\$ (683,851)</b>	<b>\$ (3,920,659)</b>	<b>82.56%</b>

THE BOARD OF EDUCATION OF ALLEGANY COUNTY  
Maryland

Management's Discussion and Analysis (MD&A)  
June 30, 2015

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

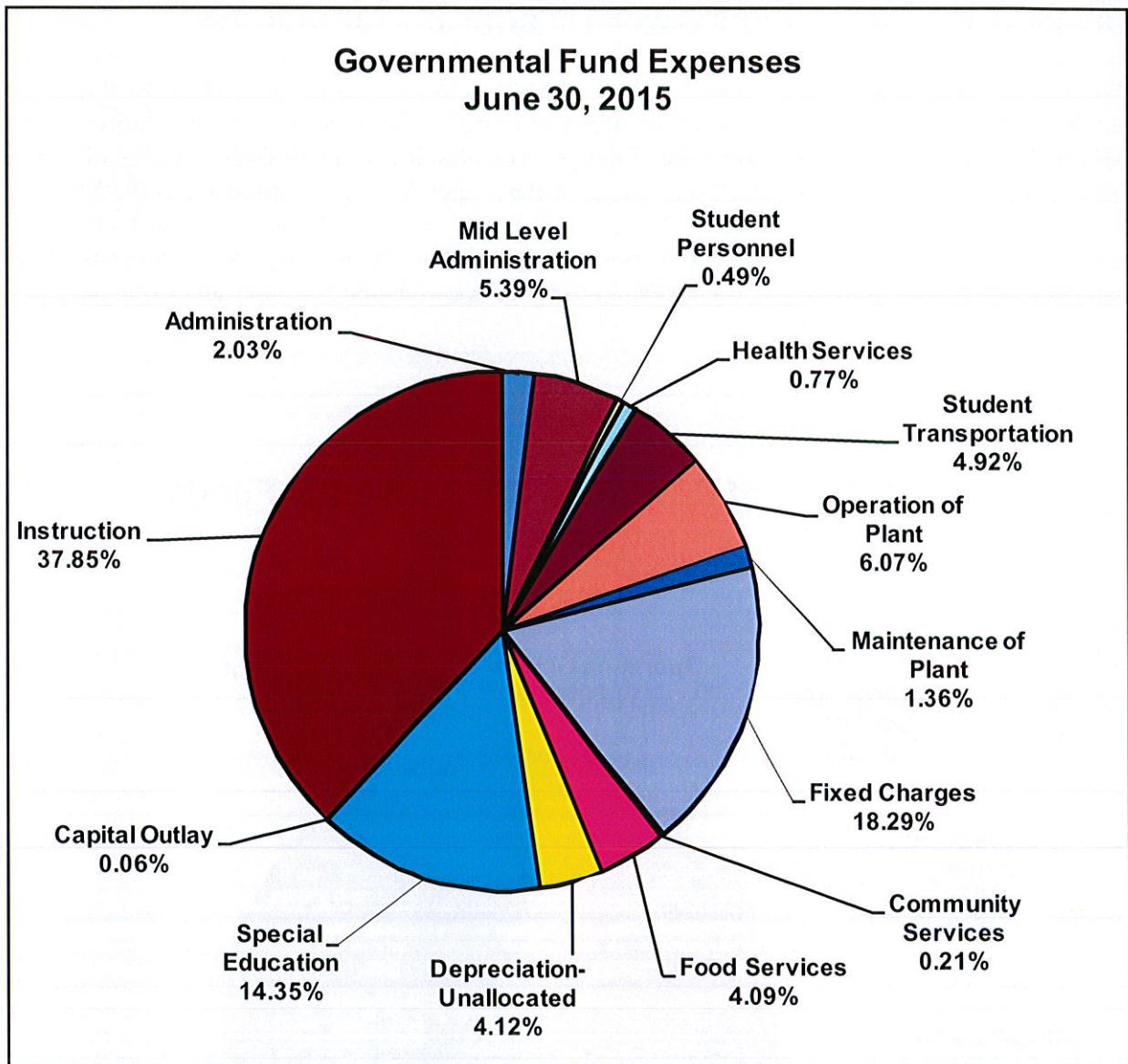
The Current Expense Fund operates under a legally adopted annual budget. The budget is subdivided into State mandated categories of expenditures. These categories are Administration, Mid-level Administration, Instructional Salaries, Textbooks and Instructional Supplies, Other Instructional Costs, Special 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  
Maryland

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**  
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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2015**

**General Fund – Unrestricted**

A schedule of changes between the original and final budgets for the year ended June 30, 2015, is presented below. There was no net change between the original and final budget.

	Original Budget	Final Budget	Additions	Reductions	Total Change
County Appropriation	\$ 29,418,144	\$ 29,418,144			\$ -
State	76,012,991	76,177,440	164,449		164,449
Federal	425,000	425,000			-
Local	152,699	152,699			-
Earnings on investments	50,000	50,000			-
Other Sources	1,575,319	1,660,870	85,551		85,551
<b>Total Revenues</b>	<b>\$ 107,634,153</b>	<b>\$ 107,884,153</b>	<b>\$ 250,000</b>	<b>\$ -</b>	<b>\$ 250,000</b>
Administration	\$ 2,251,559	2,251,559			\$ -
Mid-Level Administration	6,565,279	6,565,279			-
Instructional Salaries	39,866,018	39,783,518		82,500	(82,500)
Textbooks	2,023,983	2,089,483	65,500		65,500
Other Instructional Costs	2,005,624	1,980,624		25,000	(25,000)
Special Education	15,108,956	15,358,956	250,000		250,000
Student Personnel Services	608,889	625,889	17,000		17,000
Student Health Services	694,800	719,800	25,000		25,000
Student Transportation	6,248,889	6,248,889			-
Operation of Plant	8,210,319	8,210,319			-
Maintenance of Plant	1,816,842	1,816,842			-
Fixed Charges	21,299,449	21,299,449			-
Food Services	569,890	569,890			-
Capital Outlay	363,656	363,656			-
<b>Total Expenditures</b>	<b>\$ 107,634,153</b>	<b>\$ 107,884,153</b>	<b>\$ 357,500</b>	<b>\$ 107,500</b>	<b>\$ 250,000</b>

Local and state revenues account for over 97% of the total General Fund unrestricted revenue. Both are stable and highly predictable.

**Budget Variances**

Below is a table listing positive and negative budget variances for the year ended June 30, 2015 as a supplement to the narrative discussion below the chart.

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**Management's Discussion and Analysis (MD&A)**  
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**Unrestricted General Fund Budget to Actual Variances**

<b>Budget Variance Descriptions:</b>	<b>Positive (Negative)</b>
<b>Revenues:</b>	
Interest Earned	(35,583)
Medicare D Revenues	19,203
Special Education Private Placements	(140,303)
Tuition Charges	58,382
Other Revenue Variances	<u>10,570</u>
<b>Total Revenue Variances</b>	<b>\$ (87,731)</b>
<b>Expenditures and Interfund Transfers:</b>	
Labor Savings & Efficiencies	824,539
Transportation Savings	185,586
Administrative Efficiencies and Savings	113,978
Utilities and Energy Management	58,698
Instructional Textbooks & Supplies	270,108
Other Instructional Expenditures	134,706
Non Labor Maintenance and Operations Costs	276,008
Other expenditure variances	<u>50,992</u>
<b>Total Expenditures and Interfund Transfers Variances</b>	<b><u>1,914,615</u></b>
<b>Total Positive Variance - Unrestricted General Fund</b>	<b><u>\$ 1,826,884</u></b>

**Revenues:**

For the year ended June 30, 2015, total unrestricted General Fund revenues resulted in a negative variance of \$87,731.

Interest revenues were under budget by \$35,583. The school system has been reducing the accrued hospital liability, resulting in less cash. The reduction in the liability account was more than planned. Interest rates have continued to remain at historic lows.

Medicare Part D revenues show a favorable variance of \$19,203. The system is self insured for health insurance purposes. As a result, the system qualifies for the Medicare Part D program that



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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.

Special Education private placement revenue had a negative budget variance of \$140,303. The budget for Special Education private placement is an estimate based on the anticipated state formula and number of students served. The students served required fewer days of service and less intensive service than budgeted.

The school system charges tuition for students that live in another state or in another Maryland county not covered under an agreement with a Maryland school system. Students not covered under an agreement with another Maryland county do not cross state or county lines that often and no amount was budgeted for tuition. This created a positive variance of \$30,733. The system also was able to charge tuition for a student that lived in Maryland but was not part of an out of county living arrangement or a school near county line. Another reason for the positive variance was more students attended school in Allegany County from Garrett County than was budgeted. The school system recognizes revenue from Garrett County as part of the schools near county lines procedure from the Maryland State Department of Education (\$17,504). Another program called out of county living arrangements, which allows the school system to receive funds from other counties for extenuating living circumstances, resulted in more money than was budgeted (\$10,145).

Other revenues were over budget, creating a net favorable variance in the amount of \$10,570. The system planned on using \$1,660,870 of the fund balance during the fiscal year. Due to expense management, use of the fund balance was not needed.

**Expenditures and Inter-fund transfers:**

For the year ended June 30, 2015, total unrestricted General Fund expenditures resulted in a positive variance of \$1,914,615.

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 filled at a lower cost than was budgeted. The school system was also able to charge some labor costs budgeted in special education to a grant. All labor savings resulted in lower payroll tax expenditures for 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 school system has implemented a new computerized software routing system in order to

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minimize the number of miles traveled and the transportation office constantly evaluates busing routes to minimize costs to the school system.

Management makes every effort to control administrative costs. An accounting position in the finance office, which was budgeted for, was not filled, creating a \$56,000 variance. The finance office has not filled three budgeted positions the past few years. Legal costs incurred by the board were under budget by approximately \$33,000. The board contracts all of its legal costs with either a local attorney or attorneys that specialize in certain areas of the law. The school system did not need to contract with attorneys that specialize in certain legal areas during the fiscal year thus creating the positive variance. Staff travel costs were under budget. Staff will travel with staff from other counties and will try to car pool to minimize costs. The school system implemented a new procedure reimbursing employees the lower of actual meal costs or a per diem of meal costs. The prior practice was to reimburse employees a per diem of meal costs. The finance department was also able to charge indirect costs for administrative efforts to eligible grants that the school system receives. Indirect costs charged to grants exceeded the amount budgeted.

The school system aggressively managed utility costs. Natural gas was locked in at a very favorable price during a period of extreme energy volatility in October 2014. This caused the natural gas to be under budget. The system also budgets for an energy efficiency project in its local budget. These funds were not spent because the energy manager position was restructured to a part-time position in the fiscal year and time did not allow for a locally funded project. The maintenance department oversaw a lighting retrofit project that was paid for in large part with state, county, and energy company funds.

Instructional textbooks and supplies came in under budget. Textbooks came in under budget by \$46,000. The school system budgets a small amount of funds for unplanned purchases during the school year. These funds were not needed. Some of the licenses for the elementary science tech books, which were originally budgeted for in FY2015, will be paid in FY2016, causing \$20,000 of the textbook variance. Elementary instructional supervisors did not spend \$61,000 of supplies that were budgeted because of the desire to buy technology furniture for a program to be tried in an elementary school. The furniture was not ordered in the current fiscal year and funds for the furniture were added to the FY2016 budget. Expenditures for software came in under budget by approximately \$9,000. 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 \$7,200. 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 \$38,000 was not spent resulting in a favorable variance. Math supplies of \$33,000 were not spent because equipment for the math program was purchased instead of the supplies. .

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Other instructional expenditures came under budget. The school system was able to use a grant to pay for \$52,000 of contracted services costs that were budgeted for an early college program for school system students. Professional development costs for travel came under budget because planned training that would require travel in social studies and English language arts did not occur. This created a favorable variance exceeding \$52,000. Equipment expenditures were under budget by \$20,000.

During the year, no major equipment breakdowns or building incidents occurred. Therefore, the maintenance department did not have 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 by the operations department came in under budget by bidding supplies and seeking lowest costs when purchasing supplies. Any equipment purchase over \$10,000 in maintenance or operations must be approved by the Superintendent before acquisition. This ensures only necessary purchases are made.

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

##### ***Capital Assets***

At June 30, 2015, the School System had \$195,940,269 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$6,299,778 from the same time last year, net of disposals. The total net cost of assets after depreciation was \$88,949,020. Total depreciation expense for the year ended June 30, 2015 was \$5,908,181.

The school system completed a variety of projects during the 2015 fiscal year. The system completed the installation of air conditioning in all middle schools. A lighting retrofit upgrade was completed at 12 schools that will result in more energy efficient lighting fixtures. Additional wireless access points were installed at nine schools and a generator was installed at an elementary school. The school system completed the demolition of an old hospital building for the construction of a new Allegany High School. The fiber network of the school system was expanded by 3 schools. The school system removed outside field bleachers from a middle school because of safety concerns. The roof replacement of Washington Middle School was completed during the fiscal year.

##### ***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.

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**FACTORS IMPACTING THE SCHOOL SYSTEM**

Legislation from federal and state governments has impacted public education in Maryland. The State's Bridge to Excellence in Public Schools and the Federal No Child Left Behind legislation require school systems to ensure that all students in core academic areas are taught by "highly qualified" teachers and economically disadvantaged children must have access to a pre-kindergarten program. In addition, there are new certification and assessment requirements for paraprofessionals and extensive tracking and reporting requirements.

Requirements from the federal Race to the Top program included 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 were used to comply with the requirements. The school system must continue to build capacity for administering the computer-based assessments which will require additional technology and/or bandwidth to administer the assessments in an efficient and timely manner that does not negatively impact instructional time. All of these requirements have significant cost impacts.

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

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The school system completed a utilization study of the secondary schools in the city of Cumberland. A committee consisting of stakeholders recommended building and renovations to all five schools as part of a long range facility program. A feasibility study focusing on a high school and two middle schools in the city of Cumberland was completed. The Board of Education voted the construction of a new high school as the number one school construction priority for the school system. The school system has acquired a site in the city limits of Cumberland at no cost for the construction of Allegany High School. Allegany County qualifies to have state government pay for 93% of the eligible construction costs. The state has approved the project and funded part of the project locking in the 93% eligible cost factor for the project. Costs not eligible for state funding must be funded locally. Bids were recently received and the bids exceeded available funding. The project is being reviewed.

The school system is self insured for health, dental, and prescription drug costs. Provisions of the federal Affordable Care Act have caused additional costs in order to comply with the regulations. Additional medical costs to the schools system's health plan for employees and retirees may increase the budget for health costs since the hospital liability is at the lowest required level.

The federal Healthy Choice Act of 2010 has created regulations regarding what foods are allowed to be served to students and has created training mandates for staff. Since the legislation was enacted, the schools system has experienced a decline in the number of meals served. School systems are being encouraged to adopt the community eligibility provision (CEP), which provides free meals to all students regardless of household income. Costs not covered by the food service fund will have to be covered by the unrestricted fund.

**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@acpsmd.org](mailto:boardfinance@acpsmd.org), 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, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Allegany County Public Schools Foundation, Inc.	Allegany County Building Trades Education Foundation, Inc.
<b>ASSETS</b>					
<b>Current Assets:</b>					
Cash and cash equivalents	\$ 20,612,189	\$ -	\$ 20,612,189	\$ 29,357	\$ 119,957
Accounts receivable	5,881,125	-	5,881,125		232
Inventory	206,572		206,572		
Internal balances	(144,946)	144,946	-		
<b>Total Current Assets</b>	<u>26,554,940</u>	<u>144,946</u>	<u>26,699,886</u>	<u>29,357</u>	<u>120,189</u>
<b>Noncurrent Assets:</b>					
Cash - Restricted				27,922	
Investments - C.D.'s				14,000	
Investments, at market				237,771	
Pledges receivable				300	
Non-depreciable capital assets	9,588,230	-	9,588,230		204,134
Depreciable capital assets, net of depreciation	79,289,281	71,509	79,360,790		
<b>Total Noncurrent Assets</b>	<u>88,877,511</u>	<u>71,509</u>	<u>88,949,020</u>	<u>279,993</u>	<u>204,134</u>
Deferred Outflow Of Resources	783,553	-	783,553		
<b>TOTAL ASSETS</b>	<u>\$ 116,216,004</u>	<u>\$ 216,455</u>	<u>\$ 116,432,459</u>	<u>\$ 309,350</u>	<u>\$ 324,323</u>
<b>LIABILITIES</b>					
<b>Current Liabilities:</b>					
Accounts payable	\$ 3,256,302	\$ 5,394	\$ 3,261,696	\$ -	\$ 15
Salaries and benefits payable	3,909,686	21,456	3,931,142		
Grant Advances	3,052,143		3,052,143		
Accrued hospital insurance	2,073,609		2,073,609		
Current portion of long-term debt	157,320		157,320		
Other current liabilities	1,853,948		1,853,948		
<b>Total Current Liabilities</b>	<u>14,303,008</u>	<u>26,850</u>	<u>14,329,858</u>	<u>-</u>	<u>15</u>
<b>Noncurrent Liabilities:</b>					
Long-term portion of compensated absences	2,410,883		2,410,883		
Net Pension Liability	5,665,273		5,665,273		
<b>Total Noncurrent Liabilities</b>	<u>8,076,156</u>	<u>-</u>	<u>8,076,156</u>	<u>-</u>	<u>-</u>
Deferred Inflow Of Resources	620,101		620,101		
<b>TOTAL LIABILITIES</b>	<u>22,999,265</u>	<u>26,850</u>	<u>23,026,115</u>	<u>-</u>	<u>15</u>
<b>NET POSITION</b>					
Invested in capital assets, net of related debt	88,877,511	71,509	88,949,020		
Restricted for:					
Capital projects	3,539,312		3,539,312	300	
Food inventories	206,572		206,572		
Other	-		-	300,879	
Unrestricted	593,344	118,096	711,440	8,171	324,308
<b>TOTAL NET POSITION</b>	<u>93,216,739</u>	<u>189,605</u>	<u>93,406,344</u>	<u>309,350</u>	<u>324,308</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 116,216,004</u>	<u>\$ 216,455</u>	<u>\$ 116,432,459</u>	<u>\$ 309,350</u>	<u>\$ 324,323</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, 2015**

	Net (Expense) Revenue and Changes in Net Position						
	Primary Government			Component Unit		Total	
	Charges for Services	Program Revenues	Capital Grants and Contributions	Governmental Activities	Business-type Activities		Allegany County Public Schools Foundation, Inc
<b>Primary government</b>							
<b>Governmental activities:</b>							
Administration	\$ -	\$ 230,911	\$ -	\$ (2,331,298)	\$ -	\$ -	\$ -
Mid-level administration		337,429		(6,544,014)			
Instruction - salaries		2,910,205		(39,588,189)			
Instruction - textbooks & instructional supplies		268,570		(1,819,374)			
Instruction - other		1,765,256	492,745	(941,674)			
Student personnel services		-		(624,006)			
Health services		266,080		(709,975)			
Student transportation		68,980		(6,142,124)			
Operation of plant and equipment		-		(7,661,055)			
Maintenance of plant		-		(1,723,211)			
Fixed charges		2,248,801		(20,846,598)			
Community Services		268,655		-			
Capital outlay		74,688	3,069,820	2,995,132			
Special education		3,126,943		(14,989,469)			
Food Service		3,434,849		(600,547)			
Unallocated depreciation expense (excludes direct depreciation)		1,129,375		(5,195,671)			
<b>Total Governmental Activities</b>		<u>14,846,679</u>	<u>3,562,565</u>	<u>(106,722,073)</u>			
<b>Business-type activities:</b>							
Information Technology		627,124		7,802			
<b>Total Business-type Activities</b>		<u>627,124</u>		<u>7,802</u>			
<b>Total Primary Government</b>		<u>\$ 1,756,499</u>	<u>\$ 3,562,565</u>	<u>\$ (106,722,073)</u>			
<b>Component unit</b>							
Allegany County Public Schools Foundation, Inc.		209,115		-	57,091		(165)
Allegany County Building Trades Education Foundation, Inc		36,577		-	-		(165)
<b>Total Component Unit</b>		<u>\$ 245,692</u>			<u>\$ 57,091</u>		
<b>General Revenues:</b>							
County appropriation:							
Regular:							
Grants, subsidies, and contributions not restricted				29,418,144			
Investment earnings/loss				76,037,137			135
Miscellaneous income				27,129	10,823		
Other source income				523,700	20,445		
Gain/loss on disposal of fixed assets				-	-		
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>				<u>3,865</u>	<u>3,865</u>		
<b>Change in Net Position</b>							
Net Position - July 1, 2014, as previously presented				106,009,975	20,445	106,030,420	135
Change in beginning Net Position - See Note 18				(712,098)	28,247	(683,851)	(30)
<b>Net Position - July 1, 2014, as restated</b>				<u>99,450,909</u>	<u>161,358</u>	<u>99,592,267</u>	<u>324,338</u>
<b>Net Position - July 1, 2014, as restated</b>				<u>93,938,837</u>	<u>161,358</u>	<u>94,090,195</u>	<u>324,338</u>
<b>Net Position - June 30, 2015</b>				<u>93,216,739</u>	<u>189,605</u>	<u>93,406,344</u>	<u>324,308</u>

The accompanying notes are an integral part of these financial statements

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2015**

	<u>General Fund (Current Expense) Unrestricted</u>	<u>(Current Expense) Restricted</u>	<u>Food Service</u>	<u>School Construction</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 10,721,813	\$ -	\$ 30,179	\$ 9,860,197	\$ 20,612,189
Accounts receivable	1,436,890	2,086,340	124,219	2,233,676	5,881,125
Inventory - food			206,572		206,572
Internal receivables	<u>3,124,149</u>	<u>1,735,096</u>	<u>114,724</u>		<u>4,973,969</u>
<b>TOTAL ASSETS</b>	<u><u>15,282,852</u></u>	<u><u>3,821,436</u></u>	<u><u>475,694</u></u>	<u><u>12,093,873</u></u>	<u><u>31,673,855</u></u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	1,078,550	457,352	23,220	223,013	1,782,135
Salaries and benefits payable	3,517,875	311,941	79,870		3,909,686
Internal payables				6,593,082	6,593,082
Grant Advances		3,052,143			3,052,143
Accrued hospital insurance	2,073,609				2,073,609
Current portion of long-term debt	157,320				157,320
Other current liabilities	<u>1,829,842</u>		<u>24,106</u>		<u>1,853,948</u>
<b>TOTAL LIABILITIES</b>	<u><u>8,657,196</u></u>	<u><u>3,821,436</u></u>	<u><u>127,196</u></u>	<u><u>6,816,095</u></u>	<u><u>19,421,923</u></u>
<b>FUND BALANCES</b>					
Nonspendable - Food Inventories			206,572		206,572
Restricted - Capital Projects				3,539,312	3,539,312
Assigned to:					
FY16 Budget	1,433,813				1,433,813
Unemployment Benefits	50,000				50,000
Capital Projects				1,738,466	1,738,466
Food Service			141,926		141,926
Unassigned	<u>5,141,843</u>				<u>5,141,843</u>
<b>TOTAL FUND BALANCES</b>	<u><u>6,625,656</u></u>	<u><u>-</u></u>	<u><u>348,498</u></u>	<u><u>5,277,778</u></u>	<u><u>12,251,932</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 15,282,852</u></u>	<u><u>\$ 3,821,436</u></u>	<u><u>\$ 475,694</u></u>	<u><u>\$ 12,093,873</u></u>	<u><u>\$ 31,673,855</u></u>

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



BOARD OF EDUCATION OF ALLEGANY COUNTY

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

June 30, 2015

**Total Fund Balances - Governmental Funds** \$ 12,251,932

**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 \$195,357,589 and the accumulated depreciation is \$106,480,078. 88,877,511

Other assets associated with pension benefits are not due and payable in the current period and therefore are not reported as assets in the funds. 783,553

The net pension liability is not due and payable in the current period, and therefore not reported as a liabilities in the funds. The amount is the net pension liability of \$5,665,273 and the net financing inflow of \$620,101. (6,285,374)

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. (2,410,883)

**TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES** \$ 93,216,739

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, 2015**

	<u>General Fund (Current Expense) Unrestricted</u>	<u>(Current Expense) Restricted</u>	<u>Food Service</u>	<u>School Construction</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
County - regular appropriation	\$ 29,418,144	\$ -	\$ -	\$ 887,140	\$ 30,305,284
State - direct	76,037,137	1,044,159	194,249	2,182,680	79,458,225
Federal - direct			262,284		262,284
- received through State		8,018,072	2,978,316		10,996,388
- received through Pass-Thru Agency	444,203	1,961,390			2,405,593
Other revenue	236,068	436,751	1,129,658	331,878	2,134,355
<b>TOTAL REVENUES</b>	<u>106,135,552</u>	<u>11,460,372</u>	<u>4,564,507</u>	<u>3,401,698</u>	<u>125,562,129</u>
<b>EXPENDITURES</b>					
Administration	1,828,708	230,911			2,059,619
Mid-level administration	6,544,014	257,429			6,801,443
Instruction - salaries	39,640,958	2,910,205			42,551,163
Instruction - textbooks & instructional supplies	1,819,374	268,570			2,087,944
Instruction - other	1,845,919	2,258,001			4,103,920
Student personnel services	624,006				624,006
Health services	709,975	266,080			976,055
Student transportation	6,100,829	68,980			6,169,809
Operation of plant and equipment	7,691,791				7,691,791
Maintenance of plant	1,636,335				1,636,335
Fixed charges	20,362,195	1,804,598			22,166,793
Community Services		268,655			268,655
Capital outlay	171,536			5,662,481	5,834,017
Special education	14,989,469	3,126,943			18,116,412
Food Service			5,149,272		5,149,272
<b>TOTAL EXPENDITURES</b>	<u>103,965,109</u>	<u>11,460,372</u>	<u>5,149,272</u>	<u>5,662,481</u>	<u>126,237,234</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>2,170,443</u>	<u>-</u>	<u>(584,765)</u>	<u>(2,260,783)</u>	<u>(675,105)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers	(2,004,429)		569,890	192,120	(1,242,419)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(2,004,429)</u>	<u>-</u>	<u>569,890</u>	<u>192,120</u>	<u>(1,242,419)</u>
<b>NET CHANGE IN FUND BALANCES</b>	166,014	-	(14,875)	(2,068,663)	(1,917,524)
<b>FUND BALANCE - JULY 1, 2014</b>	<u>6,459,642</u>	<u>-</u>	<u>363,373</u>	<u>7,346,441</u>	<u>14,169,456</u>
<b>FUND BALANCE - JUNE 30, 2015</b>	<u>\$ 6,625,656</u>	<u>\$ -</u>	<u>\$ 348,498</u>	<u>\$ 5,277,778</u>	<u>\$ 12,251,932</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, 2015**

<b>Total Net Change in Fund Balance - Governmental Funds</b>	<b>\$ (1,917,524)</b>				
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>					
 Long-term accrued compensated absences are not reported in governmental funds as a liability. However, in the statement of activities, the long-term absences are reported as current expense. The net amount of long term accrued compensated absences is a decrease of \$52,769.					
52,769	52,769				
 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.					
<table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="padding-right: 20px;">Depreciation expense</td> <td style="text-align: right;">5,881,719</td> </tr> <tr> <td>Capital Outlays</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">7,047,661</td> </tr> </table>	Depreciation expense	5,881,719	Capital Outlays	7,047,661	1,165,942
Depreciation expense	5,881,719				
Capital Outlays	7,047,661				
 A portion of pension expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds.					
251	251				
 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 \$13,536.					
(13,536)	<u>(13,536)</u>				
 <b>TOTAL CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	 <b><u>\$ (712,098)</u></b>				

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, 2015

	<u>Information Technology Fund</u>	<u>Total</u>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Accounts receivable	\$ -	\$ -
Internal receivables	144,946	144,946
<b>Total Current Assets</b>	<u>144,946</u>	<u>144,946</u>
<b>Noncurrent Assets:</b>		
Machinery and equipment, net of depreciation	71,509	71,509
<b>Total Noncurrent Assets</b>	<u>71,509</u>	<u>71,509</u>
<b>TOTAL ASSETS</b>	<u>216,455</u>	<u>216,455</u>
<b>LIABILITIES</b>		
<b>Current Liabilities:</b>		
Accounts payable	5,394	5,394
Salaries and benefits payable	21,456	21,456
<b>Total Current Liabilities</b>	<u>26,850</u>	<u>26,850</u>
<b>TOTAL LIABILITIES</b>	<u>26,850</u>	<u>26,850</u>
<b>NET POSITION</b>		
Invested in capital assets, net of related debt	71,509	71,509
Unrestricted	118,096	118,096
<b>TOTAL NET POSITION</b>	<u>189,605</u>	<u>189,605</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 216,455</u>	<u>\$ 216,455</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, 2015**

	<u>Information Technology Fund</u>	<u>Total</u>
<b>OPERATING REVENUES</b>		
County - regular appropriation	\$ 313,562	\$ 313,562
<b>Total Operating Revenues</b>	<u>313,562</u>	<u>313,562</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	397,734	397,734
Contracted services	86,197	86,197
Supplies and materials	5,610	5,610
Other charges	102,965	102,965
Equipment replacement	354	354
Depreciation	26,462	26,462
<b>Total Operating Expenses</b>	<u>619,322</u>	<u>619,322</u>
Operating Income (Loss)	(305,760)	(305,760)
<b>NON-OPERATING REVENUE</b>		
Interfund Transfers	313,562	313,562
Other revenue	20,445	20,445
<b>Total Non-operating Revenues</b>	<u>334,007</u>	<u>334,007</u>
Change in Net Position	28,247	28,247
<b>TOTAL NET POSITION - JULY 1, 2014</b>	<u>161,358</u>	<u>161,358</u>
<b>TOTAL NET POSITION - JUNE 30, 2015</b>	<u>\$ 189,605</u>	<u>\$ 189,605</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, 2015**

	<u>Information Technology Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 334,157
Cash received from quasi-external operation transactions with other funds	313,562
Cash paid to suppliers	(195,568)
Cash payments to employees	<u>(412,374)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>39,777</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Change in due to/from other funds	<u>(39,777)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Purchase of equipment	<u>-</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>-</u>
Net change in Cash	-
<b>Cash and cash equivalents, beginning of year</b>	<u>-</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ -</u></u>
 <b>RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
<b>Change in net position</b>	\$ 28,247
Adjustments to reconcile change in net position to net cash provided by operations:	
Depreciation	26,462
Change in assets and liabilities	
Decrease (increase) in account receivable	150
Increase (decrease) in accounts payable	(442)
Increase (decrease) salaries & benefits payable	<u>(14,640)</u>
<b>Total Adjustments</b>	<u>11,530</u>
<b>Net Cash Provided by Operating Activities</b>	<u><u>\$ 39,777</u></u>

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, 2015

	School Activities	Retiree Insurance Benefit Plan	Retiree Insurance Benefit Trust	Retiree Health Plan Trust	Total Fiduciary Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,695,316	\$ -	\$ -	\$ -	\$ 1,695,316
Investments	395,267	-	8,866,199	1,588,591	10,850,057
Accounts receivable	6,923				6,923
Internal receivables		1,474,167			1,474,167
<b>TOTAL ASSETS</b>	<u>2,097,506</u>	<u>1,474,167</u>	<u>8,866,199</u>	<u>1,588,591</u>	<u>14,026,463</u>
<b>LIABILITIES</b>					
Accounts payable	46,145	7,850			53,995
Salaries and benefits payable					-
School Activity Advances	2,051,361				2,051,361
Internal payables					-
<b>TOTAL LIABILITIES</b>	<u>2,097,506</u>	<u>7,850</u>		<u>-</u>	<u>2,105,356</u>
<b>NET POSITION</b>					
Designated for future retiree benefits	-	1,466,317	8,866,199		10,332,516
Held in trust for retiree health plan benefits	-			1,588,591	1,588,591
<b>TOTAL NET POSITION</b>	<u>-</u>	<u>1,466,317</u>	<u>8,866,199</u>	<u>1,588,591</u>	<u>11,921,107</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 2,097,506</u>	<u>\$ 1,474,167</u>	<u>\$ 8,866,199</u>	<u>\$ 1,588,591</u>	<u>\$ 14,026,463</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, 2015**

	<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>
<b>ADDITIONS</b>					
Student activity revenues	\$ 2,798,970	\$ -		\$ -	\$ 2,798,970
Transfers		928,857			928,857
Earnings/loss on investment		2,969	54,574	2,551	60,094
Grants received on behalf of others					-
Contributions				126,126	126,126
<b>DEDUCTIONS</b>					
Student activity expenses	2,798,970				2,798,970
Retiree benefits		1,211,059			1,211,059
Grants passed to other agencies					-
Administrative expenses					-
Other					-
<b>CHANGE IN NET POSITION</b>	-	(279,233)	54,574	128,677	(95,982)
<b>NET POSITION - JULY 1, 2014</b>	-	2,495,550	8,061,625	1,459,914	12,017,089
<b>TRANSFER</b>		(750,000)	750,000		
<b>NET POSITION - JUNE 30, 2015</b>	<u>\$ -</u>	<u>\$ 1,466,317</u>	<u>\$ 8,866,199</u>	<u>\$ 1,588,591</u>	<u>\$ 11,921,107</u>

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



## **BOARD OF EDUCATION OF ALLEGANY COUNTY**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1 - REPORTING ENTITY**

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

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

The Allegany County Building Trades Education Foundation Inc. is a legally, separate tax-exempt entity that have students with the assistance of local contractors and trade unions, build houses as part of their curriculum. The proceeds from the sale of these houses will be used to purchase materials for construction of additional houses and materials and equipment for other instructional programs at the Career Center. Because of the Foundation's relationship with the Board of Education, the organization meets the criteria of a component unit of the board as set forth in Governmental Accounting Standards Board (GASB) Statement 39. Therefore, the organization is discretely present in the Board's financial statements.

## BOARD OF EDUCATION OF ALLEGANY COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 - REPORTING ENTITY (Continued)

Both the Allegany County Public Schools Foundation, Inc. and the Allegany County Building Trades Education Foundation Inc. are public nonprofit organizations that report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Limited modifications have been made to the organization's financial statement format for inclusion in the Board's financial statements.

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

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

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

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board have been prepared in conformity with GAAP as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Financial Accounting Standards Board (FASB) is the organization that establishes financial accounting and reporting standards. FASB's are incorporated into the financial statements as they have become effective. The more significant of the government's accounting policies are described below.

##### **A. Basis of Presentation**

The Board's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Board that are governmental (primarily supported by County appropriations and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges).

## BOARD OF EDUCATION OF ALLEGANY COUNTY

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### A. Basis of Presentation (Continued)

The statement of net position presents the financial condition of the governmental and business-type activities of the Board at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program, or function of the Board's governmental activities and for the single business-type activity of the Board. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Board. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Board.

*Fund Financial Statements* During the year, the Board segregates transactions related to certain Board functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Board at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each enterprise and governmental fund was a major fund and is presented in a separate column. Fiduciary funds are reported by type.

##### B. Fund Accounting

The accounts of the Board are organized on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, revenues, and expenses or expenditures. The following funds and account groups are used by the Board:

##### *Governmental Fund Types*

##### Current Expense Fund - Unrestricted

The Current Expense Fund - Unrestricted is the general operating fund of the Board. All financial resources, except those required to be accounted for in another fund, are accounted for in this fund.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Fund Accounting (Continued)**

***Governmental Fund Types (Continued)***

Current Expense Fund - Restricted and Food Service Fund

The Current Expense Fund - Restricted and Food Service Fund are special revenue funds used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. In the event an expenditure is incurred for purposes for which both 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. The Board also reports deferred outflows and inflows related to its pension plan. See Note 6. Deferred outflows represent changes in assumptions while deferred inflows report net differences in projected and actual investment earnings on pension plan investments.

##### **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, 2015, \$3,539,312 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, 2015 is \$206,572.

**I. Compensated Absences**

Accumulated earned vacation time is accrued when incurred. At June 30, 2015, \$1,659,868 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, 2015, \$157,320 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,410,883 has been recorded in the government-wide statement of net position. Long-term compensated absences decreased in the current year by \$52,769 over the prior year total of \$2,463,652.



**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, 2015 is as follows:

Payable Fund	Receivable Fund	Amount
General	Restricted	\$1,735,096
School Construction	General	(6,593,082)
General	Retiree Ins.	1,474,167
General	Food Service	114,724
General	Information	
	Technology	144,946
		<b>\$ (3,124,149)</b>

**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, 2015, 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.

**S. Net Pension Liability**

The net pension liability had a balance at June 30, 2014 of \$6,245,991, and a balance at June 30, 2015 of \$5,665,273. The liability balance decreased \$580,718 during the current year. No portion of the balance is considered due within one year.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2015, was as follows:

	<u>Balance 6/30/14</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance 6/30/15</u>
<b>Governmental Activities</b>					
Non-depreciable assets:					
Land	\$ 4,208,336	\$ -	\$ -	\$ -	\$ 4,208,336
Construction-in-progress	3,087,183	3,167,353	-	(874,642)	5,379,894
<b>Total Non-depreciable assets</b>	<u>7,295,519</u>	<u>3,167,353</u>	<u>-</u>	<u>(874,642)</u>	<u>9,588,230</u>
Depreciable assets:					
Land Improvements	9,233,600	90,447	-	-	9,324,047
Buildings and Improvements	153,292,696	2,753,592	(5,189)	799,146	156,840,245
Furniture, Equipment, and Vehicles	19,226,996	1,036,269	(733,694)	75,496	19,605,067
<b>Total Depreciable assets</b>	<u>181,753,292</u>	<u>3,880,308</u>	<u>(738,883)</u>	<u>874,642</u>	<u>185,769,359</u>
Less accumulated depreciation:					
Land Improvements	(2,496,385)	(462,414)	-	-	(2,958,799)
Buildings and Improvements	(86,748,801)	(3,942,807)	5,189	-	(90,686,419)
Furniture, Equipment, and Vehicles	(12,078,520)	(1,476,498)	720,158	-	(12,834,860)
<b>Total accumulated depreciation</b>	<u>(101,323,706)</u>	<u>(5,881,719)</u>	<u>725,347</u>	<u>-</u>	<u>(106,480,078)</u>
<b>Total capital assets being depreciated</b>	<u>80,429,586</u>	<u>(2,001,411)</u>	<u>(13,536)</u>	<u>874,642</u>	<u>79,289,281</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 87,725,105</u>	<u>\$ 1,165,942</u>	<u>\$ (13,536)</u>	<u>\$ -</u>	<u>\$ 88,877,511</u>
<b>Business-Type Activities</b>					
Non-depreciable assets:					
Construction-in-progress	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Non-depreciable assets</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Depreciable assets:					
Furniture, Equipment, and Vehicles	591,680	-	(9,000)	-	582,680
Less accumulated depreciation	(493,709)	(26,462)	9,000	-	(511,171)
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 97,971</u>	<u>\$ (26,462)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,509</u>

\* Depreciation was charged to governmental functions as follows:

Administration	\$ 244,163
Student transportation	234,378
Operation of plant and equipment	45,865
Maintenance of plant	142,944
Food Service	18,698
Unallocated	5,195,671
<b>Total Depreciation Expense</b>	<u>\$ 5,881,719</u>

The insurance value of capital assets as of June 30, 2015 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 \$276,821. This amount includes the value of the donated commodities plus costs to process the commodities into useable form.

#### NOTE 6 - PENSION PLAN

For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System (MSRP) and addition to/deductions from the MSRP fiduciary net position have been determined on the same basis as they are reported by MSRP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### General Information about the Pension Plan

The Board of Education of Allegany County participates in the Maryland State Retirement and Pension System, a cost sharing multiple-employer public employee retirement system. Substantially all employees of the Board are eligible to participate in the System, which provides retirement, disability and death benefits in accordance with State statutes. The system is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland and managed by a board of trustees. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Teachers and Employees Retirement and Pension Systems. The annual report for the year ended June 30, 2014 (most recent available data) may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202, by calling 1-800-492-5909 or at [www.sra.state.md.us](http://www.sra.state.md.us).

The Maryland State Retirement and Pension System has various plans for school system employees. The Teachers' and Employees' Retirement System closed to new members hired on or after January 1, 1980. Members on December 31, 1979 continue to be members unless they elected to transfer into the pension system prior to January 1, 2005. The Teachers' and Employees' Pension System was established for members hired on or after January 1, 1980. The plan design and benefit levels are different for the retirement system as compared to the pension system. They will be disclosed separately.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN (Continued)**

**Teachers' and Employees' Retirement System**

Retirement system member contributions are based upon a specified percentage of annual earnable compensation. Generally members who elected in 1984 to receive unlimited future cost-of-living adjustments (COLA) contribute 7%. Members who elected in 1984 to receive a limited future COLA contribute 5%.

Retirement system members are eligible for full service retirement allowance upon attaining age 60 or upon accumulating 30 years of service regardless of age. Full service retirement allowance equals  $1/55$  (1.818%) of the highest three years' average final compensation (AFC) multiplied by the number of years and months of creditable service.

Retirement system members are eligible for early service retirement upon accumulating at least 25 years of eligibility service prior to attaining age 60. The benefit will be reduced by 0.5% per month by which the retirement date precedes the earlier of the date on which the member reaches age 60 or the date on which the member would have completed 30 years of service. The maximum reduction is 30% for the pension in the retirement system and 42% on the benefit of the pension system if applicable.

Ordinary disability retirement is possible for members upon completing five years of eligibility service and receiving certification from the Medical Board that the member is permanently incapable of performing their necessary job functions. The ordinary disability retirement allowance generally equals  $1/55$  (1.818%) of the highest three years' AFC multiplied by the number of years of accumulated creditable service. However, the ordinary disability benefit can be no greater than 1.818% of the AFC for each year of creditable service the member would have received had they continued to work until age 60.

There is also an accidental disability retirement benefit if the Medical Board certifies that, in the course of job performance, and as the direct result of an accidental injury, the member became totally and permanently disabled. The accidental disability allowance equals the sum of an annuity determined as the actuarial value of the members' accumulated contributions plus  $2/3$  (66.7%) of AFC. Allowance may not exceed the members' AFC.

To be eligible for death benefits, retirement system members must have accumulated at least one year of eligibility service prior to the date of death or died in the line of duty. Death benefits are equal to a members' annual earnable compensation at the time of death plus accumulated contributions.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PENSION PLAN (Continued)

Teachers' and Employees' Retirement System (Continued)

Retirement system members are vested provided they have at least five years of eligibility prior to separation. Vested allowances are equal to the normal service retirement allowances computed on the basis of the members' accumulated creditable service and AFC at the point of separation. If members do not withdraw their contributions and die before attaining age 60, their accumulated contributions are returned to the designated beneficiary.

Teachers' and Employees' Pension System

The Teachers' and Employees' Pension System was established on January 1, 1980. All members of the pension system on or before June 30, 2011, generally participate in the Alternative Contributory Pension Selection (ACPS). All members who enroll in the pension system on or after July 1, 2011, participate in the Reformed Contributory Pension Benefit (RCPB).

Members of the ACPS and RCPB contribute 7% of earnable compensation. Members of the ACPS are eligible for retirement upon accumulating 30 years of service. Absent 30 years of eligibility, options exist for retirement based upon age and years of eligibility if a member's age is 62 or older. Generally, the full service pension allowance equals 1.2% of the AFC for the three highest consecutive years for the ACPS. RCPB members are eligible for full service pension when their combined age and eligibility service equals 90 years or they attain age 65 after 10 years of eligibility. The RCPB full service pension allowance is equal to 1.5% of the AFC for the five highest years as an employee. Members of the ACPS and RCPB are eligible for cost-of-living adjustments. ACPS members have the adjustment capped at 3% and is applied to all benefits attributable to service earned before June 30, 2011 which would have been in payment for one year. ACPS and RCPB members have the cost-of-living allowance capped at 2.5% for service earned on and after July 1, 2011 or the increase in the consumer price index if the most recent calendar quarter was greater than or equal to the assumed rate. In years in which cost-of-living adjustments would be less than zero due to a decline in the consumer price index, retirement allowances will not be adjusted. Cost-of-living adjustments in succeeding years are adjusted until the difference between the negative cost-of-living adjustment that would have been applied and the zero cost-of-living adjustment is fully recovered.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN (Continued)**

**Teachers' and Employees' Pension System (Continued)**

Pension system members are eligible for early service retirement benefits. The ACPS allows an early service payment upon attaining age 55 with at least 15 years of eligibility service. The benefit payable will be the ACPS full service pension which will be reduced by 0.5% for each month by which the retirement precedes age 62. The maximum reduction is 42%. The RCPB members are eligible for early service pension payments attaining age 60 and 15 years of eligible service. The benefit payable will be the RCPB full service pension which will be reduced by 0.5% for each month by which the retirement precedes age 65. The maximum reduction is 30%.

Ordinary disability retirement is possible for ACPS and RCPB members upon completing five years of eligibility service and receiving certification from the Medical Board that the member is permanently incapable of performing their necessary job functions. The ordinary disability pension allowances generally equals the full service pension allowance if the members are at least age 62 on the date of retirement.

There is also an accidental disability pension benefit if the Medical Board certifies that, in the course of job performance, and as the direct result of an accidental injury, the member became totally and permanently disabled. The accidental disability allowance equals the sum of an annuity determined as the actuarial value of the members' accumulated contributions plus 2/3 (66.7%) of AFC. Allowance may not exceed the members' AFC.

To be eligible for death benefits, pension system members must have accumulated at least one year of eligibility service prior to the date of death or died in the line of duty. Generally the benefit is equal to the members' annual earnable compensation on the date of death plus accumulated contributions.

Pension system members are vested depending upon their plan. ACPS members are vested with five years of service. RCPB members are vested with 10 years of service.

For all individuals who are members of the pension systems of the State Retirement and Pension System on or before June 30, 2011, pension allowances are computed using both the highest three consecutive years' Average Final Compensation (AFC) and the actual number of years of accumulated creditable service. For any individual who becomes a member of one of the pension systems on or after July 1, 2011, pension allowances are computed using both the highest five consecutive years' AFC and the actual number of years of accumulated creditable service. Various retirement options are available under each system which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's and/or designated beneficiary's attained age and similar actuarial factors.



**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN (Continued)**

**Teachers' and Employees' Pension System (Continued)**

A member of either the Teachers' or Employees' Retirement System is generally eligible for full retirement benefits upon the earlier of attaining age 60 or accumulating 30 years of creditable service regardless of age. The annual retirement allowance equals 1/55 (1.81%) of the member's AFC multiplied by the number of years of accumulated creditable service.

An individual who is a member of either the Teachers' or Employees' Pension System on or before June 30, 2011, is eligible for full retirement benefits upon the earlier of attaining age 62, with specified years of eligibility service, or accumulating 30 years of eligibility service regardless of age. An individual who becomes a member of either the Teachers' or Employees' Pension System on or after July 1, 2011, is eligible for full retirement benefits if the member's combined age and eligibility service equals at least 90 years or if the member is at least age 65 and has accrued at least 10 years of eligibility service.

Any individual who is a member of the State Retirement and Pension System on or before June 30, 2011 and who terminates employment before attaining retirement age but after accumulating 5 years of eligibility service is eligible for a vested retirement allowance. Any individual who joins the State Retirement and Pension System on or after July 1, 2011 and who terminates employment before attaining retirement age but after accumulating 10 years of eligibility service is eligible for a vested retirement allowance.

The State of Maryland, which is a non-employer contributor to the Teachers' Retirement System (TRS) and Teachers' Pension System (TPS), makes non-employee contributions in amounts required by State statutes at a set cost-sharing amount through 2016. The Board pays all employer contributions for employees who participate in the Employees' Pension System (EPS). Employees participating in the ERPS include employees classified as custodial and cafeteria personnel. Employer contribution rates for custodial and cafeteria personnel are established by annual actuarial valuations, subject to the approval of the systems' Board of Trustees in accordance with the Annotated Code of Maryland.

Employees covered under the TRS, TPS and the EPS are required by State statute to contribute 7.0% of earned compensation.

The State's contributions on behalf of the Board for the year ended June 30, 2015 were \$7,734,770, which were equal to the State's required contributions for that year. The Board's contributions for the year ended June 30, 2015 were \$2,412,464 and \$701,601 to the TRS, TPS, and ERS, respectively, which were equal to the Board's required contributions for that year.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

Before discussion of the process used to calculate and allocate the net pension liability, it is important to understand Maryland's particular situation concerning the payment of employer pension costs for Maryland's teacher population under the 24 Boards of Education (BOE).

At the time that the GASB's pension changes were under consideration, an initiative for pension cost sharing was before the 2012 session of the General Assembly. This legislation, which became law, required each BOE to begin paying the "normal cost" for their teachers starting in FY 2013 and full normal cost to be paid in FY 2017 and each year thereafter.

Because the State of Maryland pays the unfunded liability and the local BOEs pay the normal cost for the teachers' pension, the local Boards of Education are not required under GASB 68 to record their share of the unfunded pension liability for the TRS but instead, that liability is recorded by the State of Maryland. The portion of the net pension liability recorded by the State of Maryland related to the Board's teachers' pensions was \$100,995,284 as of June 30, 2015. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's portion of the net pension liability recorded by the State was calculated based on pension contributions made for Board teacher pensions relative to total employer contributions for the Teachers' Retirement System and Teachers' Pension System for the year ended June 30, 2014, actuarially determined. As June 30, 2014, the Board's proportion was 0.01 percent.

Certain non-teacher Board personnel including custodial and cafeteria personnel participate in the ERS. The Board has responsibility for the funding of these employees contributions and therefore, is required under GASB 68 to record their proportional share of the net pension liability of the Employee' Retirement and Pension System. The proportional share is based on the employer contributions for only those employees participating in the ERS and does not include contributions made for employees participating in the TRS.

At June 30, 2015, the Board reported a liability of \$5,665,273 for its proportionate share of the ERS and EPS net pension liability. The net pension liability was measured as of June 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability was based on the Board's contributions to the ERS relative to total contributions made by all participants to the Maryland State Retirement and Pension System for the year ended June 30, 2014, actuarially determined. At June 30, 2014, the Board's proportion was 0.03 percent.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

Pension expense for the ERS plan for the year ended June 30, 2015 was \$701,350.

At June 30, 2015, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 81,952	
Net difference between projected and actual Earnings on pension plan investments		620,101
Board contributions to the Employees' Pension System subsequent to the measurement date	701,601	
	\$ 783,553	\$ 620,101
	\$ 783,553	\$ 620,101

\$701,601 reported as deferred outflows of resources related to pensions resulting from Board contributions to the ERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2016	\$(107,620)
2017	\$(107,620)
2018	\$(107,620)
2019	\$(107,620)
2020	\$(107,620)

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following key actuarial assumptions, applied to all periods included in the measurement:

Actuarial	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Inflation	2.9% general, 3.4% wage
Salary increases	3.4% to 11.9%, including inflation
Discount rate	7.65%
Investment rate of return	7.65%
Mortality	RP-2000 Combined Healthy Mortality Table projected to the year 2025

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to reduce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the System after considering input from the System's investment consultant(s) and actuary(s). For each major asset class that is included in the System's target asset allocation, these best estimates are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	35.00%	4.70%
Fixed Income	10.00%	2.00%
Credit Opportunity	10.00%	3.00%
Real Return	14.00%	2.80%
Absolute Return	10.00%	5.00%
Private Equity	10.00%	6.30%
Real Estate	10.00%	4.50%
Cash	1.00%	1.40%
<hr/>		
Total	100.00%	
<hr/> <hr/>		

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PENSION PLAN (Continued)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the State will be made at current statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to determine the total pension liability.

The following presents the Board's proportionate share of the net pension liability calculated using the discount rate of 7.65 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.65 percent) or 1-percentage-point higher (8.65) than the current rate:

	1% Decrease 6.65%	Current Discount Rate 7.65%	1% Increase 8.65%
Board's proportionate share of the net pension liability	\$ 8,164,371	\$ 5,665,273	\$ 3,571,962

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

**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 \$2,300 in programs and projects to the Board's Mountain Ridge stadium project. An additional \$300 was provided to the Board to supplement educational programs. The Board provided \$5,849 of donated services to the Foundation and it is included in other income on the Foundation's statements. The Foundation received \$5,175 for administrative costs from the Board and it is included in donations.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - RELATED PARTIES (Continued)**

The Board is closely related to the Allegany County Building Trades Educational Foundation in that the Board provides labor, certain administrative costs, and donates the use of equipment to Foundation in exchange for the curriculum the Foundation provides to the Board's students. The Board provided \$7,178 of donated services to the Foundation and it is included in other income on the Foundation's statements.

**NOTE 8 - CASH AND INVESTMENTS**

**Deposits**

At June 30, 2015, the carrying amount of the Board's bank deposits was \$22,144,205 and the various bank balances were \$23,002,209. Of the bank balances, \$860,660 was covered by depository insurance and \$22,141,549 was covered by collateral held at various banks in the Board's name. Total market value of these pledged securities at June 30, 2015 was \$25,675,709 Included in cash and cash equivalents is \$48,059 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, 2015, 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	395,267	0	58,426	59,350	277,491

Of the Board's investments in certificates of deposits, \$17,891 was covered by federal depository insurance and \$377,376 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, 2015 was \$57,729 and the balance per bank was \$57,729. 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, 2015 was \$119,957 and the balance per bank was \$120,060. This amount is fully insured by federal depository insurance.

**NOTE 9 - ON-BEHALF PAYMENTS**

The State of Maryland paid \$7,734,770 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 \$1,341,244 of which \$804,317 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 of \$95,051 for public school students and mental health spending in the amount of \$29,087 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 \$2,073,609 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount decreased by \$2,902,736 from the prior year amount of \$4,976,345, and was based on total claims paid of \$20,490,211 and \$17,544,181 for 2015 and 2014, 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, 2015. 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 2015 fiscal year, the school system finished 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 demolished buildings previously used as a hospital, office building, and living quarters in order to prepare for construction. Bids have been received but they exceed the available amount of funding. The project is being evaluated.

**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 2015, a maximum subsidy for all retirees of \$375,000 was approved by the Board.

The total annual amount of the subsidy for the 2014-2015 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	\$ 0	\$134,869
30 or more years	\$ 4,480	\$209,525

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, 2015. 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, 2015:

Year ending June 30:	
2016	\$ 316,728
2017	284,308
2018	253,859
2019	210,693
2020 and beyond	<u>82,152</u>
Total minimum payments require	<u>\$ 1,147,740</u>

Rental expenditures for operating leases for the year ended June 30, 2015 is \$ 17,535.

NOTE 13 - FUND BALANCE

A surplus fund balance of \$6,625,656 existed in the Current Expense Fund Type, Unrestricted Fund, as of June 30, 2015. The surplus consisted of \$1,433,813 assigned to the FY2016 budget. In addition, \$50,000 is assigned for unemployment benefits and an undesignated surplus of \$5,141,843.

NOTE 14 - ACCOUNTS RECEIVABLE

Total accounts receivable of Governmental Funds in the financial statements as of June 30, 2015 is \$5,881,125. This total consists of the following components:

County Government	\$84,325
State Government	2,906,201
Federal Government	1,842,803
Other Local Education Agencies	35,473
Other	<u>1,012,323</u>
Total	<u>\$ 5,881,125</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, 2015. It has since been collected.

**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, 2015 is as follows:

Balance, beginning of year	\$ 109,512
Add: Ticket surcharge collections	22,716
Interest	0
Tower rent	16,188
Less: Expenditures	(0)
Balance, end of year	<u>\$ 148,416</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, 2015 is as follows:

Balance, beginning of year	\$ 41,587
Add: Ticket surcharge collections	4,433
Interest	0
Less: Expenditures	<u>(0)</u>
Balance, end of year	<u>\$ 46,020</u>

**NOTE 17 - POST-RETIREMENT BENEFITS OTHER THAN PENSION BENEFITS**

In March 2009, the Board entered into an agreement with the Maryland Association of Boards of Education (MABE), together with certain member Board of Education of Maryland to establish the MABE Pooled OPEB Investment Trust (MABE Pool) in order to pool assets of the member Boards of Education for investment purposes and to arrange for the establishment of a reserve to pay health and welfare benefits for future retirees. Each member of the MABE Pool shall ensure that the MABE Pool keep such records as necessary in order to maintain a separation of the assets of the Trust from the assets of trusts maintained by other governmental employers. Assets of the member trusts are reported in the respective Financial Report using economic resources measurement focus and the accrual basis of accounting under which expenses are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major brokers at current exchange rates, as available. The Pool issues an audit which may be obtained in writing to the Maryland Association of Boards of Education, 621 Ridgely Avenue, Annapolis, Maryland or by calling 1-800-841-8197.

In addition to subsidizing a portion of retiree health care benefits as described in Note 11, the Board provides other post-employment benefits under a single employer plan. 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.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 17 - POST-RETIREMENT BENEFITS OTHER THAN PENSION BENEFITS**  
**(Continued)**

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

Components of Net OPEB Obligation

Annual Required Contribution	\$519,658
Interest on Net OPEB Obligation	(29,075)
Adjustment to Annual Required Contribution	20,298
Annual OPEB Cost (Expense)	<u>\$510,881</u>
Contributions Made	<u>(509,016)</u>
Increase in Net Obligation	<u><u>\$1,865</u></u>
Net OPEB Obligation (BOY)	(\$415,359)
Net OPEB Obligation (EOY)	(\$413,494)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for 2014-2015 is as follows:

<u>Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2015	510,881	99.6%	(413,494)
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)

**Funded Status and Funding Progress.** As of July 1, 2014, the most recent actuarial valuation date, the plan was 17.24% funded. The actuarial accrued liability for benefits was \$8,468,255 and actuarial value of the assets was \$1,459,914 resulting in an unfunded actuarial accrued liability (UAAL) of \$7,008,341. The covered payroll (annual payroll of active employees covered by the plan) was \$65,143,000 and the ratio of the UAAL to the covered payroll was 10.76%.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

**NOTE 17 - POST-RETIREMENT BENEFITS OTHER THAN PENSION BENEFITS**  
**(Continued)**

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.

**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, 2014 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, 2014 was 24 years.

**NOTE 18 - PRIOR PERIOD ADJUSTMENT – CHANGE IN ACCOUNTING PRINCIPAL**

The Board adopted new accounting standards related to accounting for pensions during the year ended June 30, 2015. The effect of adopting the new standards has been accounted for as a change in accounting principal.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 18 - PRIOR PERIOD ADJUSTMENT – CHANGE IN ACCOUNTING PRINCIPAL  
(Continued)

Net position at the beginning of the current fiscal year has been restated for the effects of recording the Board’s portion of the net pension liability under the new accounting standards as follows:

	<u>Government Wide State of Net Position</u>
Net Position – Beginning of Year As Previously Reported	\$ 99,430,909
To record opening net pension liability	(6,245,991)
To record 2014 contributions expense as A Deferred Financing Outflow	743,919
	<hr/>
Net Position – Beginning of Year, As Restated	\$ 93,928,837

**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, 2015**

	<b>Unrestricted</b>			
	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance With</b>
	<b>Original</b>	<b>Final</b>	<b>Budgetary</b>	<b>Final Budget</b>
			<b>Basis</b>	<b>Positive (Negative)</b>
<b>REVENUES</b>				
County - regular appropriation	\$ 29,418,144	\$ 29,418,144	\$ 29,418,144	\$ -
State - direct	76,012,991	76,177,440	76,037,137	(140,303)
Federal - direct	425,000	425,000	444,203	19,203
Fund Balance	1,575,319	1,660,870	-	(1,660,870)
Other revenue	202,699	202,699	236,068	33,369
<b>TOTAL REVENUES</b>	<b>107,634,153</b>	<b>107,884,153</b>	<b>106,135,552</b>	<b>(1,748,601)</b>
<b>EXPENDITURES</b>				
Administration	1,937,997	1,937,997	1,828,708	109,289
Mid-level administration	6,565,279	6,565,279	6,544,014	21,265
Instruction - salaries	39,866,018	39,783,518	39,640,958	142,560
Instruction - textbooks & instructional supplies	2,023,983	2,089,483	1,819,374	270,109
Instruction - other	2,005,624	1,980,624	1,845,919	134,705
Student personnel services	608,889	625,889	624,006	1,883
Health services	694,800	719,800	709,975	9,825
Student transportation	6,248,889	6,248,889	6,100,829	148,060
Operation of plant and equipment	8,210,319	8,210,319	7,691,791	518,528
Maintenance of plant	1,816,842	1,816,842	1,636,335	180,507
Fixed charges	20,370,592	20,370,592	20,362,195	8,397
Capital outlay	303,656	303,656	171,536	132,120
Special education	15,108,956	15,358,956	14,989,469	369,487
<b>TOTAL EXPENDITURES</b>	<b>105,761,844</b>	<b>106,011,844</b>	<b>103,965,109</b>	<b>2,046,735</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>1,872,309</b>	<b>1,872,309</b>	<b>2,170,443</b>	<b>298,134</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers	(1,872,309)	(1,872,309)	(2,004,429)	(132,120)
Intrafund transfers			-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,872,309)</b>	<b>(1,872,309)</b>	<b>(2,004,429)</b>	<b>(132,120)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>166,014</b>	<b>166,014</b>
<b>FUND BALANCE - JULY 1, 2014</b>	<b>6,459,642</b>	<b>6,459,642</b>	<b>6,459,642</b>	<b>-</b>
<b>FUND BALANCE - JUNE 30, 2015</b>	<b>\$ 6,459,642</b>	<b>\$ 6,459,642</b>	<b>\$ 6,625,656</b>	<b>\$ 166,014</b>

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



**BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE FUNDS - RESTRICTED (CURRENT EXPENSE) AND FOOD SERVICE**  
**FOR THE YEAR ENDED JUNE 30, 2015**

	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)
<b>REVENUES</b>							
County - regular appropriation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State - direct	823,098	823,098	1,044,159	210,000	210,000	194,249	(15,751)
Federal - direct	7,972,944	7,972,944	9,979,462	322,000	322,000	262,284	(59,716)
- received through State & Pass-Thru Agencies	119,836	119,836	436,751	2,845,000	2,845,000	2,978,316	133,316
Other revenue				1,315,000	1,315,000	1,129,658	(185,342)
<b>TOTAL REVENUES</b>	<b>8,915,878</b>	<b>8,915,878</b>	<b>11,460,372</b>	<b>4,692,000</b>	<b>4,692,000</b>	<b>4,564,507</b>	<b>(127,493)</b>
<b>EXPENDITURES</b>							
Administration	23,128	23,128	230,911				(207,783)
Mid-level administration	297,038	297,038	257,429				39,609
Instruction - salaries	2,572,577	2,572,577	2,910,205				(337,628)
Instruction - textbooks & instructional supplies	222,297	222,297	268,570				(46,273)
Instruction - other	528,892	528,892	2,258,001				(1,729,109)
Student personnel services	-	-	-				-
Health services	-	-	266,080				(266,080)
Student transportation	85,360	85,360	68,980				16,380
Operation of plant and equipment	-	-	-				-
Fixed charges	1,811,474	1,811,474	1,804,598				6,876
Community Services	240,691	240,691	268,655				(27,964)
Capital outlay	-	-	-				-
Special education	3,134,421	3,134,421	3,126,943				7,478
Food Service	-	-	-	5,261,890	5,261,890	5,149,272	112,618
<b>TOTAL EXPENDITURES</b>	<b>8,915,878</b>	<b>8,915,878</b>	<b>11,460,372</b>	<b>5,261,890</b>	<b>5,261,890</b>	<b>5,149,272</b>	<b>112,618</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(569,890)</b>	<b>(569,890)</b>	<b>(584,765)</b>	<b>(14,875)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Interfund transfers	-	-	-	569,890	569,890	569,890	-
Intrafund transfers	-	-	-	-	-	-	-
<b>NET CHANGE IN FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(14,875)</b>	<b>(14,875)</b>
<b>FUND BALANCE - JULY 1, 2014</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>363,373</b>	<b>363,373</b>	<b>363,373</b>	<b>-</b>
<b>FUND BALANCE - JUNE 30, 2015</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 363,373</b>	<b>\$ 363,373</b>	<b>\$ 348,498</b>	<b>\$ (14,875)</b>

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>
7/1/2014	\$1,459,914	\$8,468,255	17.24%	\$7,008,341	\$65,143,000	10.76%
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%

**SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

	2015
Board's proportion of the net pension liability	0.03%
Board's proportionate share of the net pension liability	\$ 5,665,273
Board's covered payroll – Employee Retirement System	\$ 7,210,687
Board's proportionate share of the net pension liability as a percentage of its covered payroll	78.57%
Plan fiduciary net position as a percentage of the total pension liability	71.87%

This schedule is presented to illustrate the requirement to show the information for 10 years. However, until a full 10-year trend is completed the Board will present information for those years for which the information is available.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)**  
**SCHEDULE OF THE BOARD'S CONTRIBUTIONS -**  
**MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

		2015
Contractually required contribution – Employee Retirement System	\$	701,601
Contributions in relation to the contractually required contribution – Employee Retirement System		(701,601)
Contribution deficiency (excess)		-
Board's covered-employee payroll Employee Retirement System	\$	7,210,687
Contributions as a percentage of covered-employee payroll – Employee Retirement System		9.73%

This schedule is presented to illustrate the requirement to show the information for 10 years. However, until a full 10-year trend is compiled the Board will present information for those years for which the information is available

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**Teachers' Retirement System** – 100% of the net pension liability associated with this system is the responsibility of the State of Maryland. Consequently, 10-year information is not provided for the Teachers' Retirement System.

**Changes in Benefit Terms** – There were no benefit changes during the year.

**Changes in Assumptions**

Adjustments to the roll-forward liabilities were made to reflect the following assumptions

Changes in the 2014 valuation:

- Investment return assumption changed from 7.70% to 7.65%
- Inflation assumption changed from 2.95% to 2.90%

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

**NOTE 19 - BUDGET TO ACTUAL VARIANCES**

***General Fund***

For the year ended June 30, 2015, both the General Fund revenues and expenditures came in under budget.

State revenues were under budget because of non public placements. 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. Revenues were under budget because students did not require service as long or as intensively as budgeted.

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 an accountant position that was budgeted for was not filled during the year. The school system is prioritizing instructional and classroom needs in the budget process. Administrative supplies and travel came under budget due to strong expenditure control. A new travel reimbursement procedure was implemented reimbursing employees the lower of actual or per diem meal costs. This replaced the procedure of reimbursing employees on a per diem meal amount. The school system tries to car pool with another county school system to save travel costs. The actual legal costs incurred by the school system was under budget because legal matters requiring the services of an attorney other than the school system attorney were covered under insurance policies rather than requiring local resources. The finance department was also able to charge more costs to grants creating a favorable variance.

A favorable variance existed in mid-level administration. Travel came in under budget. The school system tries to limit travel when possible especially for conferences. Travel costs were also lower because of the new procedure of reimbursing employees the lower of actual or the per diem cost of meals. 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.

Instructional textbooks and supplies came in under budget. The school system budgets a small amount of funds for unplanned purchases during the school year. These funds were not needed. Some of the licenses for the elementary science tech books, which were originally

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

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

*General Fund (Continued)*

budgeted for in FY2015, will be paid in FY2016. Elementary instructional supervisors did not spend \$61,000 of supplies that were budgeted because of the desire to buy technology furniture for a program to be tried in an elementary school. The furniture was not ordered in the current fiscal year and funds for the furniture were added to the FY2016 budget. The school system allocates money to school principals to spend on instructional supplies. A total of \$38,000 was not spent resulting in a favorable variance. Math supplies of \$33,000 were not spent because equipment for the math program was purchased instead of the supplies. .

Other instructional expenditures came in under budget. The school system was able to use a grant to pay for costs that were budgeted for an early college program for school system students. Professional development costs for travel came under budget because planned training that would require travel in social studies and English language arts did not occur. This created a favorable variance exceeding. Equipment expenditures were under budget.

Special Education was under budget due to being able to charge some labor to federal grants and federal funding sources. The special education department also had employees that retired or were on leave without pay. When this happened, substitutes were used which was lower than the labor budgeted. A favorable variance also resulted because the amount of occupational and physical therapy services was lower than budgeted because of the ability to charge some of these costs to grants.

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. 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 department has implemented a new computerized routing program.

The operations area was able to come in under budget overall due to strong expenditure control of labor costs by reducing the number of personnel through attrition. 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. Utilities were under budget due to securing a fixed natural gas price at the beginning of the winter season that was below the price of natural gas budgeted.

The facilities department came in under budget in labor, contracted services, 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.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION**

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

***General Fund (Continued)***

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. Equipment came in under budget in the facilities department. The facilities department is restricted to get the Superintendent's approval for any purchase over \$10,000 in order to ensure equipment that is absolutely necessary is acquired.

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. 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, 2015. The school system received funds under the federal E-RATE program which was not budgeted due to the unpredictable nature of those funds. The school system also received Race To The Top grants after the budget was adopted. The funds the school system received for Title 1 and Medicaid were in excess of budget.

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

The Food Service Special Revenue Fund for the year ended June 30, 2015 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. The school system received a waiver of student instructional days from state government due to winter conditions that existed throughout the year. This resulted in fewer meals served because a full school year was budgeted. The school system also scheduled three delayed openings for staff development time in the mornings reducing the number of breakfasts served. New federal regulations from the Healthy Hunger Act of 2010 were implemented starting July 1, 2014 for a la carte sales. The regulations established goals and targets for calories, trans fat, sodium, and grains. These regulations limited the products the school system could sell, which resulted in lower sales. Expenditures were under budget. The school system was able to reduce labor costs. Open positions are evaluated to see if the position is needed. The school system received fewer USDA commodities thus resulting in those revenues and costs coming in under budget.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**SCHOOL ACTIVITIES FUND  
INCREASES, DECREASES AND BALANCES BY SCHOOL  
For Year Ended June 30, 2015**

	Balances June 30, 2014	Increases	Decreases	Balances June 30, 2015
<b>HIGH SCHOOLS</b>				
Allegany	\$ 276,371	\$ 479,346	\$ 483,876	\$ 271,841
Center for Career and Technical Education	94,016	147,327	142,667	98,676
Fort Hill	81,426	596,316	623,985	53,757
Mountain Ridge	262,925	607,609	603,384	267,150
<b>Total High Schools</b>	<b>714,738</b>	<b>1,830,598</b>	<b>1,853,912</b>	<b>691,424</b>
<b>MIDDLE SCHOOLS</b>				
Braddock	55,476	108,987	110,414	54,049
Mount Savage	78,126	146,161	146,327	77,960
Washington	64,217	69,952	66,414	67,755
Westmar	48,923	68,461	79,304	38,080
<b>Total Middle Schools</b>	<b>246,742</b>	<b>393,561</b>	<b>402,459</b>	<b>237,844</b>
<b>ELEMENTARY SCHOOLS</b>				
Beall	45,508	33,261	38,187	40,582
Bel Air	28,087	27,607	26,840	28,854
Cash Valley	36,178	33,971	38,220	31,929
Cresaptown	106,207	32,365	44,099	94,473
Flintstone-school	163,095	38,303	35,380	166,018
Flintstone-McLuckie	376,050	2,802	8,200	370,652
Frost	81,329	41,894	36,180	87,043
Georges Creek	62,927	64,147	71,328	55,746
John Humbird	35,286	28,298	34,012	29,572
Northeast	58,417	46,725	46,635	58,507
Parkside	15,680	27,613	24,760	18,533
South Penn	50,205	51,670	52,054	49,821
West Side	41,764	90,697	73,358	59,103
Westernport	27,182	55,458	51,380	31,260
<b>Total Elementary Schools</b>	<b>1,127,915</b>	<b>574,811</b>	<b>580,633</b>	<b>1,122,093</b>
<b>TOTAL SCHOOLS</b>	<b>\$ 2,089,395</b>	<b>\$ 2,798,970</b>	<b>\$ 2,837,004</b>	<b>\$ 2,051,361</b>

110 S. Centre Street, Cumberland, MD 21502 • PH (301)722-4455 • FAX (301)722-5004 • www.hmccpa.com  
**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, 2015 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*