

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**FINANCIAL REPORT**

**AS OF JUNE 30, 2017 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 unit, 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, 2017, 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 unit, each major fund, and the aggregate remaining fund information of the Board of Education of Allegany County, Maryland, as of June 30, 2017, 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, schedule of the Board's contributions - Maryland State Retirement and Pension System and Reconciliation of Budgetary Basis to GAAP on pages four (4) through eighteen (18) and sixty-two (62) through seventy (70) 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 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 November 14, 2017, 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.

*Hedden, Michaels + Company*

Cumberland, Maryland  
November 14, 2017

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

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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, 2017 and 2016, 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, one entity meets the criteria qualifying it as a component unit. The component unit is the Allegany County Building Trades Education Foundation Inc. The component unit is included in the accompanying financial statements in a separate column. However, the following discussion and analysis does not include its financial condition and activities. Separately issued financial statements for the component unit 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 increased by \$26,578,643 (29.2%) during the fiscal year ended June 30, 2017. Healthcare claims improved significantly from the prior year as claims for the district decreased. Capital costs relating to the construction of a new high school had a significant impact on the organization's net position as Non-depreciable capital assets increased by \$20,422,849 of which the majority is the construction in process of the new Allegany high school.

Total Governmental Funds revenues for the fiscal year ended June 30, 2017, were \$158,300,247. This represents an increase of \$23,249,061 (17.22%) over the prior fiscal year. The system received an increase of \$22,180,910 from state-direct revenues in School Construction revenues with the majority coming for the construction to date of the new high school. The school system also received more state aid due to per pupil amounts increasing and more students qualifying for free and reduced meals.

Total Governmental Funds expenses for the fiscal year ended June 30, 2017 were \$148,030,354. This represents an increase of \$15,698,637 (11.86%) from the prior fiscal year. This increase was attributable to the increase in the school construction fund and related directly to the construction of the new high school. Construction of the new facility began in the 4<sup>th</sup> Quarter of fiscal 2016. Significantly lower spending occurred in the restricted fund due to receiving fewer

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

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federal and state grants. General fund spending also was significantly lower as a result of healthcare claims being lower than prior year as well as positive variances in salaries.

The Current Expense Fund total fund balance as of June 30, 2017, was \$8,562,566. This represents an increase of \$3,767,539 (78.57%) to the fund balance as of June 30, 2016. The school system is self-funded with regard to healthcare costs. The stabilization of healthcare claims, decreases in instructional costs and student transportation had a dramatic impact the school system's financial status during fiscal 2017.

The Current Expense Fund unassigned fund balance as of June 30, 2017, was \$8,512,566. This represents an increase of \$4,041,653 (90.40%) from the unassigned fund balance as of June 30, 2016. A total of \$50,000 of the fund balance has been assigned for future unemployment benefits.

Current Expense Fund revenues fell short of the final budget by \$945,739 (.86%). The system budgeted to use fund balance of \$274,114 but \$0 was necessary due to aggressive expenditure control including the stabilization of healthcare costs.

Current Expense Fund expenses and transfers were under budget by \$4,713,278 (4.35%). The system controls labor costs by evaluating positions that come open during the school year. Controlling labor costs and reducing salary expenses also resulted in lower fixed charges. The healthcare costs of the system also trended in a positive direction compared to budget. Maintenance and operations were under budget due to controlling labor costs and not having major building incidents or major equipment failures. Transportation fuel costs also trended positive compared to plan as a result of fuel costs remaining relatively stagnant and below the budgeted amount.

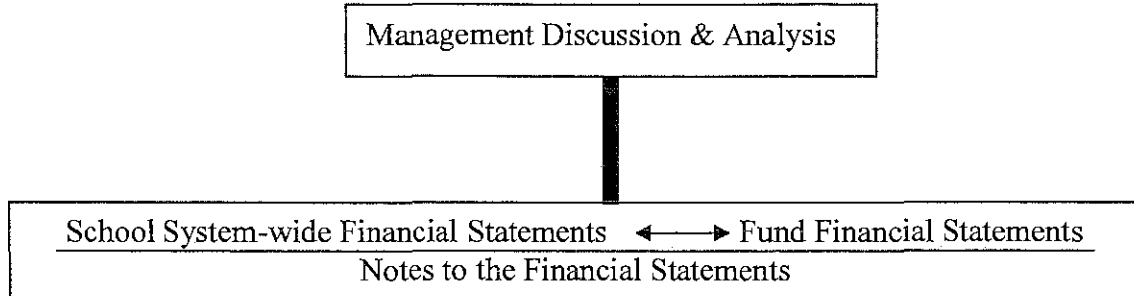
The unrestricted final General Fund budget decreased by \$2,863,163 (2.5%) to \$110,085,649 compared to the \$112,948,812 budget for the period ended June 30, 2016. The school system received additional funding from county government because of their historic funding being below the state's five year moving average. The funding received from county government was at maintenance of effort. Additional state revenue was received due to the state increase in the per pupil amounts in the state funding formulas compared to prior year. As previously mentioned, the school system did not utilize the \$274,114 from fund balance to balance the original budget.



THE BOARD OF EDUCATION OF ALLEGANY COUNTY  
Maryland

Management's Discussion and Analysis (MD&A)  
June 30, 2017

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. Deferred Outflows and Deferred Inflows are reported on the *Statement of Net Position*. The *Statement of Activities* presents information showing how the School System's net position changed during the most recent fiscal year.

These statements measure the change in total economic resources during the period utilizing the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is actually received or paid. This means that any change in net position is reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (like earned, but unused employee leave), or for which cash has already been expended (depreciation of buildings and equipment already purchased).

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**Maryland**

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

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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 Trust, 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 their assets cannot be used to finance the School System's activities. We are responsible for

**THE BOARD OF EDUCATION OF ALLEGANY COUNTY**  
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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

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, 2017, of \$2,648,034 is the result of combining the unreserved fund balances of the Governmental Funds with the unreserved fund balances of the Business-type Activities. This represents an increase of \$4,387,088 from the prior year where the net position showed a decrease of (\$1,739,054).

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 \$2,302,066 and is the amount we expect to pay beyond June 30, 2017. This liability is funded on a "pay as you go" basis from current financial resources. This method is expected to continue.

	Total Cost of Services			Net (Expense) Revenue		
	June 30, 2017	June 30, 2016	% Change	June 30, 2017	June 30, 2016	% Change
Administration	\$ 2,358,250	\$ 2,508,604	-5.99%	\$ 2,339,326	\$ 2,479,645	-5.66%
Mid-level Administration	6,974,639	6,703,916	4.04%	6,708,962	6,439,287	4.19%
Instruction (Regular and Special Education)	63,166,243	64,394,493	-1.91%	56,287,382	56,777,636	-0.86%
Student Personnel and Health Services	1,291,884	1,355,804	-4.71%	1,291,884	1,355,804	-4.71%
Student Transportation	5,909,001	5,918,170	-0.15%	5,831,400	5,887,180	-0.95%
Operation, Maintenance and Capital Outlay	9,182,643	9,335,016	-1.63%	(18,127,219)	4,055,899	-546.93%
Fixed Charges	32,388,052	36,113,735	-10.32%	22,106,349	25,958,128	-14.84%
Community Services	53,743	-	0.00%	-	-	0.00%
Food Services	5,079,980	5,221,325	-2.71%	474,834	553,550	-14.22%
Depreciation & Other	5,173,491	5,165,537	0.15%	5,173,491	5,165,537	0.15%
<b>Total</b>	<b>\$ 131,577,926</b>	<b>\$ 136,716,600</b>	<b>-3.76%</b>	<b>\$ 82,086,409</b>	<b>\$ 108,672,666</b>	<b>-24.46%</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 \$131,577,926 of which \$1,122,339 was financed by users of the School System's programs. Grants and contributions from Federal and State governments for certain programs were \$48,369,178. Net services costs were \$82,086,409. Interest on capital leases is included within Administration and Instruction.

The School System is fiscally dependent on local and state aid to fund its daily operations. Nearly 69% 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 30% of the School System's funding.

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

**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

**Condensed Statement of Net Position**

	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2017	June 30, 2016	\$ Change	% Change	June 30, 2017	June 30, 2016	\$ Change	% Change	June 30, 2017	June 30, 2016	\$ Change	% Change
Current and Other Assets	\$ 37,000,923	\$ 24,802,374	\$ 12,198,549	49.18%	\$ 111,791	\$ 159,741	\$ (47,950)	-30.02%	\$ 37,112,714	\$ 24,962,115	\$ 12,150,599	48.89%
Capital Assets	102,875,080	95,001,747	15,873,333	19.82%	33,510	48,288	(14,778)	-30.60%	102,908,590	89,060,095	16,858,555	19.59%
<b>Total Assets</b>	<b>\$ 139,876,003</b>	<b>\$ 119,804,121</b>	<b>\$ 29,071,882</b>	<b>26.24%</b>	<b>\$ 145,301</b>	<b>\$ 208,029</b>	<b>\$ (62,728)</b>	<b>-30.15%</b>	<b>\$ 140,021,304</b>	<b>\$ 111,012,150</b>	<b>\$ 29,009,154</b>	<b>26.13%</b>
Deferred Outflow of Resources	1,993,281	1,589,447	403,834	25.41%					1,993,281	1,589,447	403,834	25.41%
Current and Other Liabilities	\$ 14,293,418	\$ 11,165,052	\$ 3,118,366	27.93%	\$ 18,827	\$ 17,487	\$ 1,340	7.66%	\$ 14,302,245	\$ 11,182,539	\$ 3,119,706	27.90%
Long-term Liabilities	9,482,482	9,659,707	(177,225)	-1.83%					9,482,482	9,659,707	(177,225)	-1.83%
<b>Total Liabilities</b>	<b>\$ 23,765,900</b>	<b>\$ 20,824,759</b>	<b>\$ 2,941,141</b>	<b>14.12%</b>	<b>\$ 18,827</b>	<b>\$ 17,487</b>	<b>\$ 1,340</b>	<b>7.66%</b>	<b>\$ 23,784,727</b>	<b>\$ 20,842,246</b>	<b>\$ 2,942,481</b>	<b>14.12%</b>
Deferred Inflow of Resources	498,587	605,743	(108,156)	-17.83%					498,587	605,743	(108,156)	-17.83%
Net Assets:												
Invested in Capital Assets, Net of Related Debt	\$ 102,484,197	\$ 86,531,034	\$ 15,953,133	19.82%	\$ 33,510	\$ 48,288	\$ (14,778)	-30.60%	\$ 102,517,677	\$ 86,579,322	\$ 15,938,355	19.79%
Restricted	12,565,540	7,312,340	5,253,200	71.84%					12,565,540	7,312,340	5,253,200	71.84%
Unrestricted	2,655,070	(1,881,308)	4,436,378	-235.61%	92,964	142,254	(49,290)	-34.65%	2,948,034	(1,739,054)	4,387,088	-262.27%
<b>Total Net Position</b>	<b>\$ 117,604,777</b>	<b>\$ 90,962,066</b>	<b>\$ 26,642,711</b>	<b>29.28%</b>	<b>\$ 126,474</b>	<b>\$ 190,542</b>	<b>\$ (64,068)</b>	<b>-33.62%</b>	<b>\$ 117,731,251</b>	<b>\$ 91,162,608</b>	<b>\$ 26,578,643</b>	<b>29.16%</b>

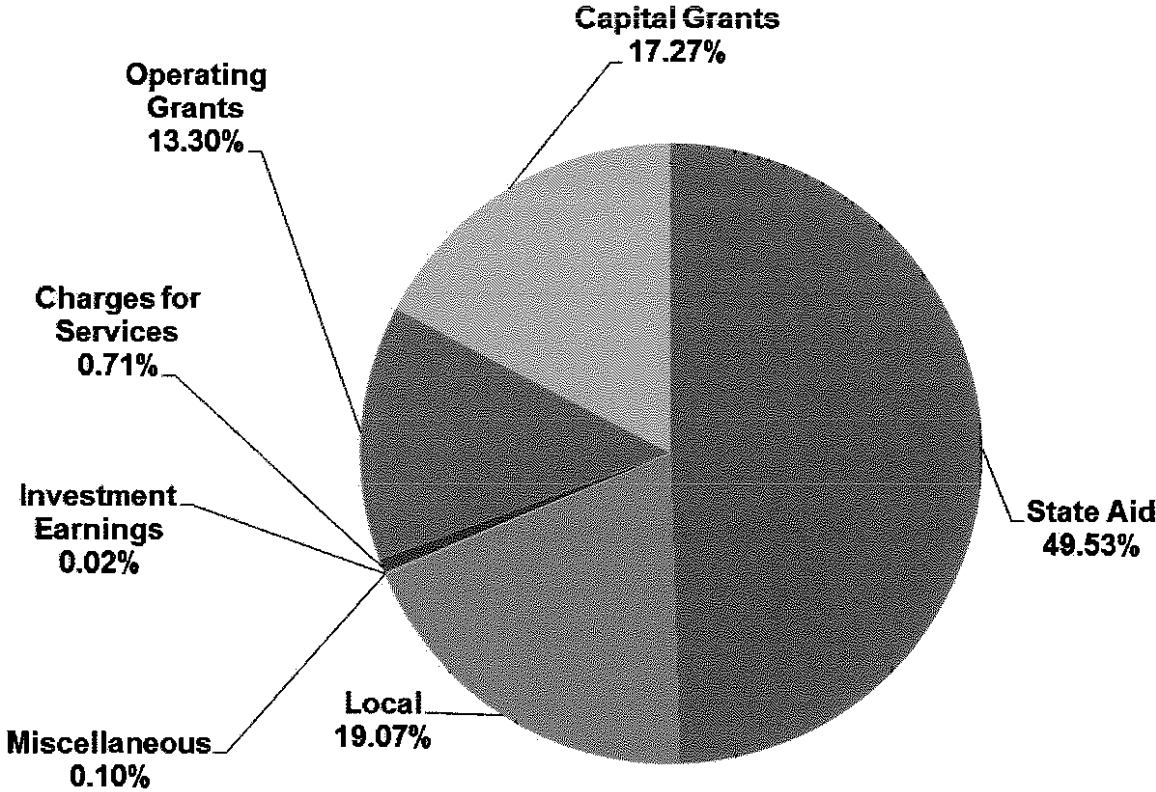
**Changes in Net Position from Operating Results**

	Governmental Activities				Business-type Activities				Total School System			
	June 30, 2017	June 30, 2016	\$ Change	% Change	June 30, 2017	June 30, 2016	\$ Change	% Change	June 30, 2017	June 30, 2016	\$ Change	% Change
Program Revenues:												
Charges for Services	\$ 1,122,339	\$ 1,136,709	\$ (14,370)	-1.26%	\$ 463,978	\$ 544,136	\$ (80,158)	-14.73%	\$ 1,586,317	\$ 1,680,845	\$ (94,528)	-5.62%
Operating Grants and Contributions	21,036,521	21,024,119	12,402	0.06%					21,036,521	21,024,119	12,402	0.06%
Capital Grants and Contributions	27,332,657	5,883,106	21,449,551	364.60%					27,332,657	5,883,106	21,449,551	364.60%
General Revenues:												
County Government	30,169,985	29,837,545	332,440	1.11%					30,169,985	29,837,545	332,440	1.11%
Grants and Contributions (unrestricted)	78,366,746	76,659,158	1,709,588	2.23%					78,366,746	76,659,158	1,709,588	2.23%
Transfer	-	(24,083)	24,083	100.00%		24,083	(24,083)	100.00%	-	-	-	0.00%
Other	190,389	489,857	(299,468)	-61.05%		(24,083)	24,083	-100.00%	190,389	464,774	(274,385)	-69.04%
<b>Total Revenues</b>	<b>\$ 159,220,837</b>	<b>\$ 135,005,411</b>	<b>\$ 24,215,226</b>	<b>17.20%</b>	<b>\$ 463,978</b>	<b>\$ 544,136</b>	<b>\$ (80,158)</b>	<b>-14.73%</b>	<b>\$ 159,684,615</b>	<b>\$ 135,649,547</b>	<b>\$ 24,135,068</b>	<b>17.07%</b>
Administration	\$ 2,358,250	\$ 2,508,604	\$(150,354)	-5.99%					2,358,250	2,508,604	\$(150,354)	-5.99%
Mid-level Administration	6,974,639	6,703,916	270,723	4.04%					6,974,639	6,703,916	270,723	4.04%
Instruction (regular and special education)	83,166,243	64,364,493	(1,228,250)	-1.91%					83,166,243	64,364,493	(1,228,250)	-1.91%
Student Personnel and Health Services	1,291,884	1,355,804	(63,920)	-4.71%					1,291,884	1,355,804	(63,920)	-4.71%
Student Transportation	5,909,001	5,918,170	(9,169)	-0.15%					5,909,001	5,918,170	(9,169)	-0.15%
Operation, Maintenance and Capital Outlay	9,182,643	9,336,016	(153,373)	-1.63%					9,182,643	9,336,016	(153,373)	-1.63%
Fixed Charges	32,388,052	36,113,735	(3,725,683)	-10.32%					32,388,052	36,113,735	(3,725,683)	-10.32%
Community Services	53,743	-	53,743	0.00%					53,743	-	53,743	0.00%
Food Service	5,079,980	5,221,325	(141,345)	-2.71%					5,079,980	5,221,325	(141,345)	-2.71%
Depreciation & Other	5,173,491	5,165,537	7,954	0.15%	528,046	543,199	(15,153)	-2.79%	5,701,537	5,708,736	(7,199)	-0.13%
<b>Total Expenses</b>	<b>\$ 131,677,926</b>	<b>\$ 136,716,600</b>	<b>\$ (5,138,674)</b>	<b>-3.76%</b>	<b>\$ 528,046</b>	<b>\$ 643,199</b>	<b>\$ (15,153)</b>	<b>-2.79%</b>	<b>\$ 132,105,972</b>	<b>\$ 137,259,799</b>	<b>\$ (5,153,827)</b>	<b>-3.75%</b>
<b>Increase(Decrease) in Net Position</b>	<b>\$ 28,642,711</b>	<b>\$ (1,711,189)</b>	<b>\$ 28,353,900</b>	<b>1656.97%</b>	<b>\$ (64,068)</b>	<b>\$ 937</b>	<b>\$ (65,005)</b>	<b>6937.57%</b>	<b>\$ 26,578,643</b>	<b>\$ (1,710,252)</b>	<b>\$ 28,288,895</b>	<b>1654.08%</b>

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

**Management's Discussion and Analysis (MD&A)  
June 30, 2017**

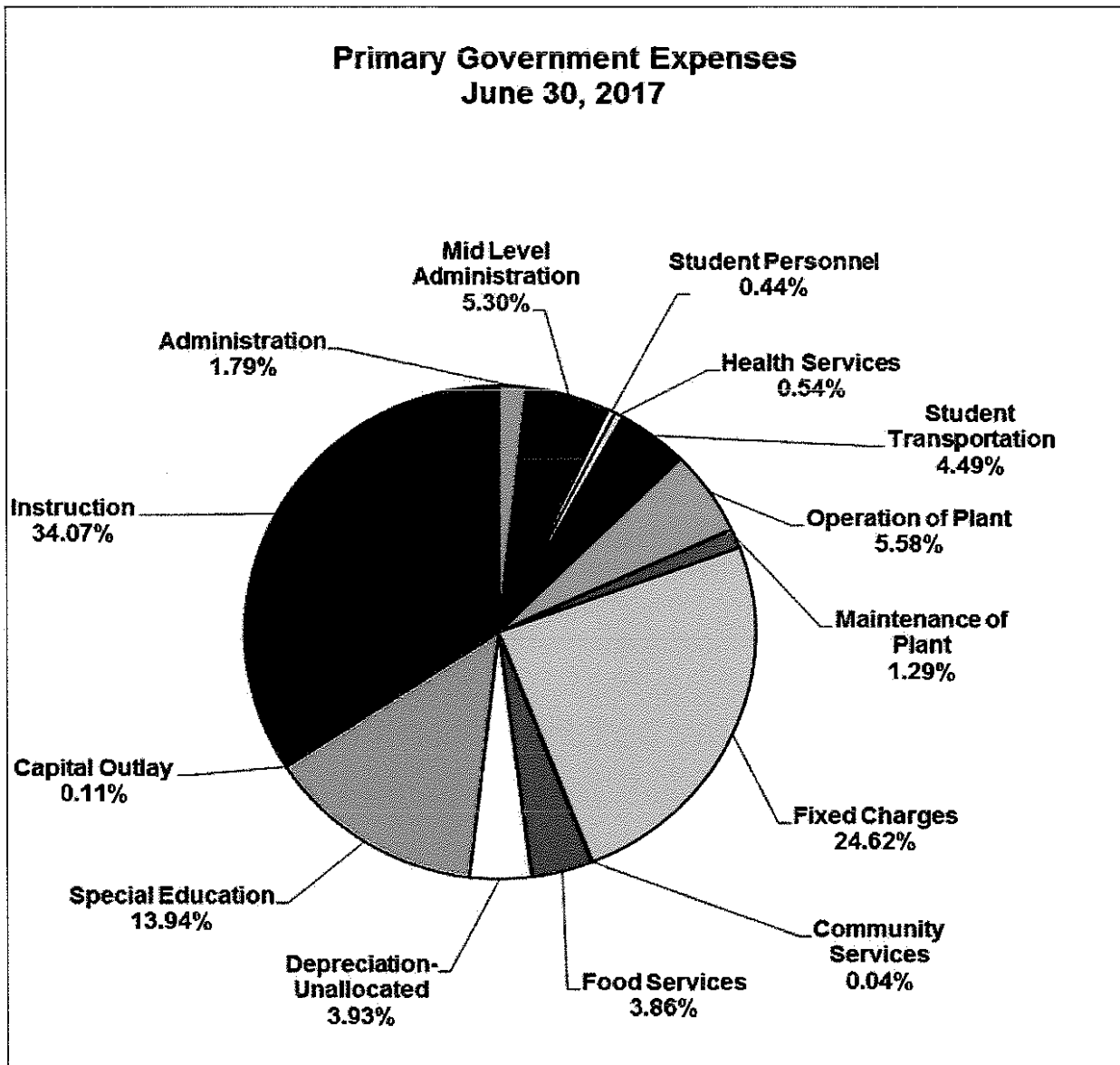
**Source of Revenues Primary Government  
June 30, 2017**



**Note: Transfers are included within Miscellaneous Revenues**

THE BOARD OF EDUCATION OF ALLEGANY COUNTY  
Maryland

Management's Discussion and Analysis (MD&A)  
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**GENERAL FUND (CURRENT EXPENSE) BUDGETARY HIGHLIGHTS**

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

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

**Management's Discussion and Analysis (MD&A)  
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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.

**General Fund – Unrestricted**

A schedule of changes between the original and final budgets for the year ended June 30, 2017, is presented below. There was no change between the original and final budget.

	Original Budget	Final Budget	Additions	Reductions	Total Change
County Appropriation	\$ 30,169,985	\$ 30,169,985			\$ -
State	78,732,755	78,732,755			-
Federal	425,000	425,000			-
Local	471,795	471,795			-
Earnings on investments	12,000	12,000			-
Other Sources	274,114	274,114			-
<b>Total Revenues</b>	<b>\$ 110,085,649</b>	<b>\$ 110,085,649</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Administration	\$ 2,335,167	2,335,167			\$ -
Mid-Level Administration	6,772,592	6,772,592			-
Instructional Salaries	39,174,284	39,174,284			-
Textbooks	2,160,978	2,160,978			-
Other Instructional Costs	1,680,989	1,680,989			-
Special Education	15,658,020	15,658,020			-
Student Personnel Services	625,881	625,881			-
Student Health Services	722,371	722,371			-
Student Transportation	6,171,301	6,171,301			-
Operation of Plant	7,811,737	7,811,737			-
Maintenance of Plant	1,915,238	1,915,238			-
Fixed Charges	24,225,348	24,225,348			-
Food Services	544,788	544,788			-
Capital Outlay	286,956	286,956			-
<b>Total Expenditures</b>	<b>\$ 110,085,649</b>	<b>\$ 110,085,649</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

Local and state revenues account for over 99% 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, 2017 as a supplement to the narrative discussion below the chart.

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

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**Budget Variance Descriptions:**

	<b>Positive (Negative)</b>
<b>Revenues:</b>	
Interest Earned	633
Medicare D Revenues	(20,119)
Special Education Private Placements	(355,403)
Tuition Charges	37,483
Other Revenue Variances	<u>(334,219)</u>
<b>Total Revenue Variances</b>	<b>\$ (671,625)</b>
<b>Expenditures and Interfund Transfers:</b>	
Labor Savings & Efficiencies	1,207,685
Transportation Savings	402,489
Administrative Efficiencies and Savings	143,929
Utilities and Energy Management	143,663
Instructional Textbooks & Supplies	328,703
Other Instructional Expenditures	286,258
Non Labor Maintenance and Operations Costs	443,397
Other expenditure variances	<u>1,757,154</u>
<b>Total Expenditures and Interfund Transfers Variances</b>	<b><u>4,713,278</u></b>
<b>Total Positive Variance - Unrestricted General Fund</b>	<b><u>\$ 4,041,653</u></b>

**Revenues:**

For the year ended June 30, 2017, total unrestricted General Fund revenues resulted in a negative variance of \$671,625.

Interest revenues were slightly better than plan by \$633. Interest rates have continued to remain at historic lows.

Medicare Part D revenues show an unfavorable variance of \$20,199. The system is self insured for health insurance purposes. As a result, the system qualifies for the Medicare Part D program that reimburses the system for a portion of prescription drug benefits provided to Medicare eligible retirees. The Government Accounting Standards Board (GASB) has issued a technical bulletin requiring recipients of Medicare Part D funds to show these proceeds as revenue. The system budget is based upon past experience.



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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

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Special Education private placement revenue had a negative budget variance of \$355,403. 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 \$29,241. 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 were dually enrolled and taking college courses than anticipated in the budget. This created a positive variance of \$12,635.

Other revenues were under budget, creating a net unfavorable variance in the amount of \$334,219. This variance was primarily as a result of not utilizing \$300,000 set aside within the budget from OPEB funds. The district chose not to remove those funds given the creation of other positive variances from expense management. The system also planned on utilizing \$274,114 of the fund balance during the fiscal year to balance the budget. However, as a result of expense management in other expense areas, there was no need to remove funds from fund balance in fiscal 2017.

**Expenditures and Inter-fund transfers:**

For the year ended June 30, 2017, total unrestricted General Fund expenditures resulted in a positive variance of \$4,713,278.

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. Staff retiring or leaving the system during the year typically were replaced with part-time substitutes for the remainder of the year. Those open positions were then evaluated prior to the next school year. 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. Fuel costs can be very volatile given the nature of the industry as well as influences outside of the control of the system, so the district typically takes a conservative approach with regard to budgeting fuel costs. 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 transportation office constantly evaluates busing routes to minimize costs to the school system.

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

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Management makes every effort to control administrative costs. Legal costs incurred by the board were over budget by \$44,036. The board contracts all of its legal costs with either a local attorney or attorneys that specialize in certain areas of the law. Staff travel costs were under budget by \$30,195. The district has also encouraged staff when traveling longer distances, for example to Maryland State Department of Education meetings in Baltimore or Annapolis, to rent vehicles versus seeking mileage reimbursement as it typically results in savings to the district. Staff will also travel with staff from other counties and will try to car pool to minimize costs when possible. 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 by approximately \$6,500.

The school system aggressively manages utility costs and has in recent years had several lighting retrofit projects and mechanical controls projects that were paid from various revenue sources. The district also has cooperative agreements that mitigate the volatility of the cost of electric and gas usage within the district. Funds were also not spent for a local energy project during the fiscal year which resulted in additional savings compared to plan of \$22,200.

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. The school system allocates money to school principals to spend on instructional supplies. A total of \$42,867 was not spent resulting in a favorable variance. Secondary textbook purchases were \$140,349 below plan and elementary textbook purchases were \$18,564 below budget. These variances were in non-distributed instructional funds. There were also \$20,742 in general supply savings within non-distributed instructional funds. The school system is trying to replace printed materials with electronic data that can be shared over social media, which resulted in fewer supplies being used.

Other instructional expenditures came under budget by \$311,947. Contracted services represent \$113,859 of the variance while the decision to delay the purchase of replacement computer equipment had a positive impact of \$155,908 or 50% of the total variance. Other charges and transfers make up the remainder of the other instructional expenditures variance.

During the year, no major equipment breakdowns or building incidents occurred. Administrative staff of the facilities department concentrated on the construction of the new high school. This limited projects by contractors, which caused contracted services to come in significantly under budget. Equipment also came in under budget as the facilities department did not spend funds appropriated in the budget for vehicles. The department's vehicles were evaluated and subsequently added to the following year's budget.

The majority of the remaining other expenditure variance is attributable to the reduction in Non Public placements compared to budget. The budget for Special Education private placements was an estimate based on the anticipated number of students to be served. The students served required fewer days of service and less intensive service than budgeted.

**THE BOARD OF EDUCATION OF ALLEGANY COUNTY**  
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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

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The organization participates in a cooperative arrangement with Allegany County Government. The Information Technology fund has four individual employees that perform various information technology functions for both the school system and county government. Operating revenues for the fund were \$202,961 while non-operating revenues totaled \$261,017 for fiscal year 2017. Total operating expenses were \$528,046 in fiscal year 2017 while last year's operating expenses were \$543,199. The fund had a negative change in net position of \$64,068 as a result of the county funding its participation in the agreement at 35% this fiscal year. Both parties agreed to take the shortfall from fund balance. The financial results of this proprietary fund can be found on pages 25 and 26 of this report.

**Restricted Fund**

Restricted revenues and expenses for the year were \$9,302,456 which is down about 4.7% from the prior year's revenues and expenses of \$9,747,069. Restricted revenues are in many ways tied to the availability of grants and funding. Overall, the district had fewer grants in fiscal 2017. Within Special Education, there were fewer expenses charged to occupational and physical therapy this year compared to prior years and the fiber project from fiscal 2016 was completed.

**Food Services Fund**

The Food Services fund was profitable this fiscal year with income of \$79,499 compared to a loss in the prior year of \$64,937. Overall, revenues decreased by over \$46,362 to \$4,621,596 as the district served fewer meals compared to the prior year. However, expenses within the fund dropped to \$5,086,885 compared to fiscal 2016's expenses of \$5,287,480. There were savings related to salaries and wages compared to the prior year as well as fewer mechanical failures with equipment which resulted in savings as well.

**School Construction Fund**

The majority of the activity within the School Construction fund centered around the construction phase of the new Allegany high school project. Fund state-direct revenues in fiscal 2017 were \$27,173,694 compared to \$4,992,784 last year. The increase is almost exclusively the Allegany project. To that end, expenses were \$22,194,132 compared to \$2,105,647 last year. The second year of construction is ongoing and the school is scheduled to be open for the start of the 2018-2019 school year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital Assets***

At June 30, 2017, the School System had \$220,678,737 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$22,372,192 from the same time last year, net of disposals and transfers. The total net cost of assets after depreciation was \$102,908,590. Total depreciation expense for the year ended June 30, 2017 was \$5,797,395.

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

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**Management's Discussion and Analysis (MD&A)**  
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The school system completed a variety of projects during the 2017 fiscal year. Continuation of construction of the new Allegany High School was a focus of the fiscal year. A chiller project was also finalized at South Penn Elementary school. The roof replacement project at Braddock Middle School was also finalized during the fiscal year and a new roof replacement project began at Frost Elementary school.

***Debt***

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

**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 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.

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

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**Management's Discussion and Analysis (MD&A)**  
**June 30, 2017**

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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 fourth poorest jurisdiction in the state of Maryland as measured by wealth per pupil.

For state participating construction projects, such as the new high school, Allegany County qualifies to have state government pay for 83% of the eligible construction costs. The state has approved the project and funded part of the project locking in the 83% eligible cost factor for the project. Costs not eligible for state funding must be funded locally. Bids for the project were received and the project was amended and rebid before all parties agreed on a vendor and total project cost. The new school is currently in the construction phase with the district requesting a final funding appropriation from the state for fiscal 2019.

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 school system's health plan for employees and retirees may increase the budget for health costs even though a nominal reserve now exists relative to the costs of health care for the district.

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 school 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 Lawrence S. McKenzie, CPA, Chief Financial 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, 2017

	Primary Government			Component Unit Allegany County Building Trades Education Foundation, Inc.
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 20,670,900	\$ -	\$ 20,670,900	\$ 209,656
Accounts receivable	16,223,508	833	16,224,341	
Accrued interest receivable			-	450
Inventory	217,473		217,473	
Internal balances	(110,958)	110,958	-	
<b>Total Current Assets</b>	<b>37,000,923</b>	<b>111,791</b>	<b>37,112,714</b>	<b>210,106</b>
<b>Noncurrent Assets:</b>				
Non-depreciable capital assets	31,686,405	-	31,686,405	86,522
Depreciable capital assets, net of depreciation	71,188,675	33,510	71,222,185	
<b>Total Noncurrent Assets</b>	<b>102,875,080</b>	<b>33,510</b>	<b>102,908,590</b>	<b>86,522</b>
<b>TOTAL ASSETS</b>	<b>\$ 139,876,003</b>	<b>\$ 145,301</b>	<b>\$ 140,021,304</b>	<b>\$ 296,628</b>
<b>Deferred Outflow Of Resources:</b>				
Deferred outflows of resources related to pension	1,993,261	-	1,993,261	-
<b>LIABILITIES</b>				
<b>Current Liabilities:</b>				
Accounts payable	\$ 5,684,394	\$ 5,897	\$ 5,690,291	\$ -
Salaries and benefits payable	847,787	12,930	860,717	
Grant Advances	2,455,260		2,455,260	
Accrued hospital insurance	3,397,010		3,397,010	
Current portion of long-term capital leases	143,115		143,115	
Current portion of long-term debt	162,587		162,587	
Other current liabilities	1,593,265		1,593,265	
<b>Total Current Liabilities</b>	<b>14,283,418</b>	<b>18,827</b>	<b>14,302,245</b>	<b>-</b>
<b>Noncurrent Liabilities:</b>				
Long-term portion of capital leases	247,798		247,798	
Long-term portion of compensated absences	2,302,066		2,302,066	
Net Pension Liability	6,932,618		6,932,618	
<b>Total Noncurrent Liabilities</b>	<b>9,482,482</b>	<b>-</b>	<b>9,482,482</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>23,765,900</b>	<b>18,827</b>	<b>23,784,727</b>	<b>-</b>
<b>Deferred Inflow Of Resources:</b>				
Deferred inflows of resources related to pension	498,587		498,587	
<b>NET POSITION</b>				
Invested in capital assets, net of related debt	102,484,167	33,510	102,517,677	
Restricted for:				
Capital projects	12,348,067		12,348,067	
Food inventories	217,473		217,473	
Other				
Unrestricted	2,555,070	92,964	2,648,034	296,628
<b>TOTAL NET POSITION</b>	<b>\$ 117,604,777</b>	<b>\$ 126,474</b>	<b>\$ 117,731,251</b>	<b>\$ 296,628</b>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Allegany County Building Trades Education Foundation, Inc.
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
<b>Governmental activities:</b>								
Administration	\$ 2,358,250	\$ -	\$ 11,124	\$ 7,800	\$ (2,339,326)	\$ -	\$ (2,339,326)	\$ -
Mid-level administration	6,974,639		265,677		(6,708,962)		(6,708,962)	
Instruction - salaries	40,729,226		2,531,705		(38,197,521)		(38,197,521)	
Instruction - textbooks & instructional supplies	1,986,494		268,342		(1,718,152)		(1,718,152)	
Instruction - other	2,074,318		909,259	14,995	(1,150,064)		(1,150,064)	
Student personnel services	575,649		-		(575,649)		(575,649)	
Health services	716,235		-		(716,235)		(716,235)	
Student transportation	5,909,001		77,601		(5,831,400)		(5,831,400)	
Operation of plant and equipment	7,348,466		-		(7,348,466)		(7,348,466)	
Maintenance of plant	1,694,976		-		(1,694,976)		(1,694,976)	
Fixed charges	24,518,880		2,412,531		(22,106,349)		(22,106,349)	
- on behalf, retirement	7,110,748		7,110,748		-		-	
- on behalf, nurses, security & mental health	758,424		758,424		-		-	
Community Services	53,743		53,743		-		-	
Capital outlay	139,201		-	27,309,862	27,170,661		27,170,661	
Special education	18,341,883		3,154,560		(15,187,323)		(15,187,323)	
Food Service	5,079,980	1,122,339	3,482,807		(474,834)		(474,834)	
Interest on capital leases	34,322		-		(34,322)		(34,322)	
Unallocated depreciation expense (excludes direct depreciation)	5,173,491		-		(5,173,491)		(5,173,491)	
<b>Total Governmental Activities</b>	<b>131,577,926</b>	<b>1,122,339</b>	<b>21,036,521</b>	<b>27,332,657</b>	<b>(82,086,409)</b>	<b>-</b>	<b>(82,086,409)</b>	<b>-</b>
<b>Business-type activities:</b>								
Information Technology	528,046	463,978	-	-	-	(64,068)	(64,068)	-
<b>Total Business-type Activities</b>	<b>528,046</b>	<b>463,978</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(64,068)</b>	<b>(64,068)</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 132,105,972</b>	<b>\$ 1,586,317</b>	<b>\$ 21,036,521</b>	<b>\$ 27,332,657</b>	<b>\$ (82,086,409)</b>	<b>\$ (64,068)</b>	<b>\$ (82,150,477)</b>	<b>\$ -</b>
<b>Component unit</b>								
Allegany County Building Trades Education Foundation, Inc.	10,501	-	34,868	-	-	-	-	24,367
<b>Total Component Unit</b>	<b>\$ 10,501</b>	<b>\$ -</b>	<b>\$ 34,868</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 24,367</b>
<b>General Revenues:</b>								
County appropriation:								
Regular					30,169,985		30,169,985	
Grants, subsidies, and contributions not restricted					78,368,746		78,368,746	
Investment earnings/loss					26,563		26,563	55
Miscellaneous income					221,851		221,851	
Gain/loss on disposal of fixed assets					(58,025)		(58,025)	(59,750)
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>					<b>108,729,120</b>	<b>-</b>	<b>108,729,120</b>	<b>(59,695)</b>
<b>Change in Net Position</b>					<b>26,642,711</b>	<b>(64,068)</b>	<b>26,578,643</b>	<b>(35,328)</b>
<b>Net Position - July 1, 2016</b>					<b>90,962,066</b>	<b>190,542</b>	<b>91,152,608</b>	<b>331,956</b>
<b>Net Position - June 30, 2017</b>					<b>\$ 117,604,777</b>	<b>\$ 126,474</b>	<b>\$ 117,731,251</b>	<b>\$ 296,628</b>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 10,262,761	\$ -	\$ 11,116	\$ 10,397,023	\$ 20,670,900
Accounts receivable	934,483	1,704,082	45,195	13,539,748	16,223,508
Inventory - food			217,473		217,473
Internal receivables	4,130,067	1,169,832	155,934		5,455,833
<b>TOTAL ASSETS</b>	<b>15,327,311</b>	<b>2,873,914</b>	<b>429,718</b>	<b>23,936,771</b>	<b>42,567,714</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	880,072	350,939	18,397	3,661,099	4,910,507
Salaries and benefits payable	762,118	67,715	17,954		847,787
Internal payables				6,340,678	6,340,678
Grant Advances		2,455,260			2,455,260
Accrued hospital insurance	3,397,010				3,397,010
Current portion of long-term debt	162,587				162,587
Other current liabilities	1,562,958		30,307		1,593,265
<b>TOTAL LIABILITIES</b>	<b>6,764,745</b>	<b>2,873,914</b>	<b>66,658</b>	<b>10,001,777</b>	<b>19,707,094</b>
<b>FUND BALANCES</b>					
Nonspendable - Food Inventories			217,473		217,473
Restricted - Capital Projects				12,348,067	12,348,067
Assigned to:					
Unemployment Benefits	50,000				50,000
Capital Projects				1,586,927	1,586,927
Food Service			145,587		145,587
Unassigned	8,512,566				8,512,566
<b>TOTAL FUND BALANCES</b>	<b>8,562,566</b>	<b>-</b>	<b>363,060</b>	<b>13,934,994</b>	<b>22,860,620</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 15,327,311</b>	<b>\$ 2,873,914</b>	<b>\$ 429,718</b>	<b>\$ 23,936,771</b>	<b>\$ 42,567,714</b>

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



BOARD OF EDUCATION OF ALLEGANY COUNTY

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

June 30, 2017

<b>Total Fund Balances - Governmental Funds</b>			\$ 22,860,620
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>			
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$220,194,791 and the accumulated depreciation is \$117,319,711.			102,875,080
The net pension liability associated with the school system's proportionate share of the Maryland State Retirement and Pension System is not payable with current financial resources and is not reported in the government funds. The activity associated with the school system's share of the net pension liability consist of:			
Net pension liability		(6,932,618)	
Deferred outflows of resources		1,993,261	
Deferred inflows of resources		<u>(498,587)</u>	(5,437,944)
Long-term liabilities for compensated absences are not due and payable in the current period, and therefore are not reported as liabilities in the funds.			(2,302,066)
Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Similarly, the short and long-term liabilities related to copiers under lease are not reported in the governmental funds.			<u>(390,913)</u>
<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>			<u>\$ 117,604,777</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
<b>REVENUES</b>					
County - regular appropriation	\$ 30,169,985	\$ -	\$ -	\$ 136,168	\$ 30,306,153
- on behalf, nurses, security & mental health	758,424				758,424
State - direct	78,368,746	385,518	181,844	27,173,694	106,109,802
- on behalf, retirement	7,110,748				7,110,748
Federal - direct			299,240		299,240
- received through State		6,612,849	3,001,723		9,614,572
- received through Pass-Thru Agency	404,881	1,611,844			2,016,725
Other revenue	196,298	692,245	1,138,789	57,251	2,084,583
<b>TOTAL REVENUES</b>	<b>117,009,082</b>	<b>9,302,456</b>	<b>4,621,596</b>	<b>27,367,113</b>	<b>158,300,247</b>
<b>EXPENDITURES</b>					
Administration	1,907,963	18,924			1,926,887
Mid-level administration	6,708,962	265,677			6,974,639
Instruction - salaries	38,310,120	2,531,705			40,841,825
Instruction - textbooks & instructional supplies	1,647,331	268,342			1,915,673
Instruction - other	1,394,732	924,254			2,318,986
Student personnel services	575,649				575,649
Health services	716,235				716,235
Student transportation	5,772,894	77,601			5,850,495
Operation of plant and equipment	7,314,971				7,314,971
Maintenance of plant	1,640,337				1,640,337
Fixed charges	22,079,332	2,007,650			24,086,982
- on behalf, retirement	7,110,748				7,110,748
- on behalf, nurses, security & mental health	758,424				758,424
Community Services		53,743			53,743
Capital outlay	136,916			22,194,132	22,331,048
Special education	15,187,323	3,154,560			18,341,883
Food Service			5,086,885		5,086,885
Capital lease payments					
Principal	150,622				150,622
Interest	34,322				34,322
<b>TOTAL EXPENDITURES</b>	<b>111,446,881</b>	<b>9,302,456</b>	<b>5,086,885</b>	<b>22,194,132</b>	<b>148,030,354</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>5,562,201</b>	<b>-</b>	<b>(465,289)</b>	<b>5,172,981</b>	<b>10,269,893</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers	(1,794,662)		544,788	60,000	(1,189,874)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(1,794,662)</b>	<b>-</b>	<b>544,788</b>	<b>60,000</b>	<b>(1,189,874)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>3,767,539</b>	<b>-</b>	<b>79,499</b>	<b>5,232,981</b>	<b>9,080,019</b>
<b>FUND BALANCE - JULY 1, 2016</b>	<b>4,795,027</b>	<b>-</b>	<b>283,561</b>	<b>8,702,013</b>	<b>13,780,601</b>
<b>FUND BALANCE - JUNE 30, 2017</b>	<b>\$ 8,562,566</b>	<b>\$ -</b>	<b>\$ 363,060</b>	<b>\$ 13,934,994</b>	<b>\$ 22,860,620</b>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

RECONCILIATION OF THE GOVERNMENTAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

<b>Total Net Change in Fund Balance - Governmental Funds</b>		<b>\$ 9,080,019</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 \$112,599.		112,599
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.	Depreciation expense Capital Outlays	(5,782,616) <u>22,664,738</u> 16,882,122
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.		496,959
Repayment of capital lease principal is an expenditure in the government funds, but the repayment reduces long-term liabilities in the statement of net position.		150,622
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 \$79,610.		<u>(79,610)</u>
<b>TOTAL CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ 26,642,711</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, 2017

	<u>Information Technology Fund</u>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Accounts receivable	\$ 833
Internal receivables	<u>110,958</u>
<b>Total Current Assets</b>	<u>111,791</u>
<b>Noncurrent Assets:</b>	
Machinery and equipment, net of depreciation	<u>33,510</u>
<b>Total Noncurrent Assets</b>	<u>33,510</u>
<b>TOTAL ASSETS</b>	<u><u>145,301</u></u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts payable	5,897
Salaries and benefits payable	<u>12,930</u>
<b>Total Current Liabilities</b>	<u>18,827</u>
<b>TOTAL LIABILITIES</b>	<u>18,827</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	33,510
Unrestricted	<u>92,964</u>
<b>TOTAL NET POSITION</b>	<u>126,474</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 145,301</u></u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>Information Technology Fund</u>
<b>OPERATING REVENUES</b>	
County - regular appropriation	\$ 182,712
Other sources	<u>20,249</u>
<b>Total Operating Revenues</b>	<u>202,961</u>
<b>OPERATING EXPENSES</b>	
Salaries and wages	337,467
Contracted services	73,890
Supplies and materials	3,592
Other charges	98,319
Depreciation	<u>14,778</u>
<b>Total Operating Expenses</b>	<u>528,046</u>
Operating Income (Loss)	(325,085)
<b>NON-OPERATING REVENUE</b>	
Interfund Transfers	<u>261,017</u>
<b>Total Non-operating Revenues</b>	<u>261,017</u>
Change in Net Position	(64,068)
<b>TOTAL NET POSITION - JULY 1, 2016</b>	<u>190,542</u>
<b>TOTAL NET POSITION - JUNE 30, 2017</b>	<u>\$ 126,474</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, 2017**

	<b>Information Technology Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 202,188
Cash received from quasi-external operation transactions with other funds	261,017
Cash paid to suppliers	(175,866)
Cash payments to employees	<u>(336,063)</u>
<b>Net Cash (Used) by Operating Activities</b>	<u>(48,724)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Change in due to/from other funds	<u>48,724</u>
Net change in Cash	-
Cash and cash equivalents, beginning of year	<u>-</u>
Cash and cash equivalents, end of year	<u><u>\$ -</u></u>
 <b>RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
<b>Change in net position</b>	\$ (64,068)
Adjustments to reconcile change in net position to net cash provided by operations:	
Depreciation	14,778
Change in assets and liabilities	
Decrease (increase) in account receivable	(773)
Increase (decrease) in accounts payable	(65)
Increase (decrease) salaries & benefits payable	<u>1,404</u>
Total Adjustments	<u>15,344</u>
<b>Net Cash (Used) by Operating Activities</b>	<u><u>\$ (48,724)</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, 2017

	School Activities	Retiree Insurance Benefit Plan	Retiree Insurance Benefit Trust	Retiree Health Plan Trust	Total Fiduciary Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,579,600		\$ -	\$ -	\$ 1,579,600
Investments	542,510		9,750,957	1,734,556	12,028,023
Accounts receivable	2,432				2,432
Internal receivables		773,887			773,887
<b>TOTAL ASSETS</b>	<u>2,124,542</u>	<u>773,887</u>	<u>9,750,957</u>	<u>1,734,556</u>	<u>14,383,942</u>
<b>LIABILITIES</b>					
Accounts payable	14,653	34,428			49,081
School Activity Advances	2,109,889				2,109,889
<b>TOTAL LIABILITIES</b>	<u>2,124,542</u>	<u>34,428</u>		<u>-</u>	<u>2,158,970</u>
<b>NET POSITION</b>					
Designated for future retiree benefits	-	739,459	9,750,957		10,490,416
Held in trust for retiree health plan benefits	-			1,734,556	1,734,556
<b>TOTAL NET POSITION</b>	<u>-</u>	<u>739,459</u>	<u>9,750,957</u>	<u>1,734,556</u>	<u>12,224,972</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 2,124,542</u>	<u>\$ 773,887</u>	<u>\$ 9,750,957</u>	<u>\$ 1,734,556</u>	<u>\$ 14,383,942</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, 2017

	<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	\$ 2,861,639			\$ -	\$ 2,861,639
Transfers		928,857			928,857
Earnings/loss on investment		1,394	984,096	169,280	1,154,770
<b>DEDUCTIONS</b>					
Student activity expenses	2,861,639				2,861,639
Retiree benefits		1,310,771			1,310,771
CHANGE IN NET POSITION	-	(380,520)	984,096	169,280	772,856
NET POSITION - JULY 1, 2016	-	1,119,979	8,766,861	1,565,276	11,452,116
TRANSFER					
NET POSITION - JUNE 30, 2017	<u>\$ -</u>	<u>\$ 739,459</u>	<u>\$ 9,750,957</u>	<u>\$ 1,734,556</u>	<u>\$ 12,224,972</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 Building Trades Education Foundation, Inc. has been identified as a component unit for inclusion in the reporting entity.

The Allegany County Building Trades Education Foundation Inc. is a legally, separate tax-exempt entity that has 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.

The Allegany County Building Trades Education Foundation Inc. is a public nonprofit organization that reports 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.

# BOARD OF EDUCATION OF ALLEGANY COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - REPORTING ENTITY (Continued)

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

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).

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

*Government-wide Financial Statements (Continued)*

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.

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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

*Governmental Fund Types (Continued)*

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.

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.

# BOARD OF EDUCATION OF ALLEGANY COUNTY

## NOTES TO FINANCIAL STATEMENTS

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

#### 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.

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).

# BOARD OF EDUCATION OF ALLEGANY COUNTY

## NOTES TO FINANCIAL STATEMENTS

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

#### D. Basis of Accounting (Continued)

"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.

The Board reports deferred inflows of resources on its statement of net position. Deferred inflows represent an acquisition of net position that applies to a future period and will not be recognized as an inflow or resources, or a revenue, until that time. The Board reports deferred outflows of resources on its statement of net position. Deferred outflows represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources, or an expense, until that time. The Board reports deferred outflows of resources and deferred inflows of resources related to its pension plan. See Note 6. Deferred inflows of resources consist of the net difference between projected and actual earnings on the Board's proportionate share of the State of Maryland Retirement and Pension system pension plan investments. Deferred outflows of resources represent employer contributions made for the Board's share of the pension after the actuarial measurement date of the plan. Deferred outflows also include amounts deferred due to changes in the Plan's actuarial assumptions, and net difference between projected and actual earnings on investments, that will be amortized in future periods.

#### 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

BOARD OF EDUCATIONS OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

**E. Budgets and Budgetary Accounting (Continued)**

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.

At June 30, 2017, \$12,348,067 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**

Prior to 1992, the Board was reimbursed 100% by all retired employees that elected 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 retired could elect to continue their coverage at their own expense. The reimbursements the Board received were 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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, 2017 is \$217,473.

**I. Compensated Absences**

Accumulated earned vacation time is accrued when incurred. At June 30, 2017, \$1,522,925 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, 2017, \$162,587 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,302,066 has been recorded in the government-wide statement of net position. Long-term compensated absences decreased in the current year by \$112,599 over the prior year total of \$2,414,665.

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.



**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

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

**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, 2017 is as follows:

Payable Fund	Receivable Fund	Amount
General	Restricted	\$1,169,832
School Construction	General	(6,340,678)
General	Retiree Ins.	773,887
General	Food Service	155,934
General	Information Technology	110,958
		\$ (4,130,067)

**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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Capital Assets (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land	N/A	N/A
Buildings and Improvements	7-50 years	N/A
Furniture, Equipment, and Vehicles	5-20 years	5-20 years
Equipment under capital lease	5-7 years	5-7 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.

O. Credit Risk

As of June 30, 2017, 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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. The Board's debt consists of compensated absences payable and obligations related to capital leases.

**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, 2016 of \$6,917,608, and a balance at June 30, 2017 of \$6,932,618. The liability balance increased \$15,010 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, 2017, was as follows:

	Balance 6/30/16	Additions	Disposals	Transfers	Balance 6/30/17
<b>Governmental Activities</b>					
Non-depreciable assets:					
Land	\$ 4,208,336	\$ -	\$ -	\$ -	\$ 4,208,336
Construction-in-progress	7,055,220	21,071,465	-	(648,616)	27,478,069
Total Non-depreciable assets	11,263,556	21,071,465	-	(648,616)	31,686,405
Depreciable assets:					
Land Improvements	9,474,574	6,000	-	-	9,480,574
Buildings and Improvements	157,264,354	1,116,211	(7,140)	620,904	158,994,329
Furniture, Equipment, and Vehicles	19,820,115	541,883	(356,227)	27,712	20,033,483
Total Depreciable assets	186,559,043	1,664,094	(363,367)	648,616	188,508,386
Less accumulated depreciation:					
Land Improvements	(3,428,262)	(473,954)	-	-	(3,902,216)
Buildings and Improvements	(94,658,444)	(4,036,633)	4,254	-	(98,690,823)
Furniture, Equipment, and Vehicles	(13,734,146)	(1,272,029)	279,503	-	(14,726,672)
Total accumulated depreciation	(111,820,852)	(5,782,616)	283,757	-	(117,319,711)
Total capital assets being depreciated	74,738,191	(4,118,522)	(79,610)	648,616	71,188,675
Governmental Activities Capital Assets, Net	\$ 86,001,747	\$ 16,952,943	\$ (79,610)	\$ -	\$ 102,875,080
<b>Business-Type Activities</b>					
Non-depreciable assets:					
Construction-in-progress	\$ -	\$ -	\$ -	-	\$ -
Total Non-depreciable assets	-	-	-	-	-
Depreciable assets:					
Furniture, Equipment, and Vehicles	483,946	-	-	-	483,946
Less accumulated depreciation	(435,658)	(14,778)	-	-	(450,436)
Business-Type Activities Capital Assets, Net	\$ 48,288	\$ (14,778)	\$ -	\$ -	\$ 33,510

\* Depreciation was charged to governmental functions as follows:

Administration	\$ 204,470
Student transportation	245,864
Operation of plant and equipment	33,495
Maintenance of plant	122,196
Food Service	3,100
Unallocated	5,173,491
Total Depreciation Expense	\$ 5,782,616

The insurance value of capital assets as of June 30, 2017 is \$344,110,549

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 \$312,343. 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, 2016 (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 (Continued)

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.

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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PENSION PLAN (Continued)

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.

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%.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PENSION PLAN (Continued)

Teachers' and Employees' Pension System (Continued)

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 equal 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.

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.



BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - PENSION PLAN (Continued)

Teachers' and Employees' Pension System (Continued)

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.

For the year ended June 30, 2016, the Board is responsible for paying 100% of the normal cost for the TPS and TRS plans. The State of Maryland is responsible for paying 100% of the School System's past costs related to TPS and TRS plans. This meets the criteria of a special funding situation in accordance with Governmental Accounting Standards. The State's contributions on behalf of the Board for the year ended June 30, 2017 were \$7,110,748, which were equal to the State's required contributions for that year. The contributions are recognized as revenues and expenditures in the Unrestricted Current Expense Fund. The Board's contributions for the year ended June 30, 2017 were \$2,568,701 and \$532,468 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 \$115,998,202 as of June 30, 2016. The net pension liability was measured as of June 30, 2015 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, 2015, actuarially determined. As June 30, 2015, 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 employee 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, 2017, the Board reported a liability of \$6,932,618 for its proportionate share of the ERS and EPS net pension liability. The net pension liability was measured as of June 30, 2016 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, 2016, actuarially determined. At June 30, 2016, 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, 2017 was \$35,509.

At June 30, 2017, 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	\$ 316,153	\$
Net difference between projected and actual earnings	1,144,640	
Difference between actual and expected experience		498,587
Board contributions to the Employees' Pension System subsequent to the measurement date	532,468	
<b>Total</b>	<b>\$ 1,993,261</b>	<b>\$ 498,587</b>

\$532,468 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, 2017. 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:		
2018	\$	216,105
2019		216,105
2020		350,642
2021		192,856
2022		(13,501)
<b>Total</b>	<b>\$</b>	<b>962,207</b>

**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, 2016 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	2.70% general, 3.20% wage
Salary increases	3.30% to 9.20%, including wage inflation
Discount rate	7.55%
Investment rate of return	7.55%
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

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	37.00%	6.60%
Private Equity	10.00%	7.40%
Rate Sensitive	20.00%	1.30%
Credit Opportunity	9.00%	4.20%
Real Assets	15.00%	4.70%
Absolute Return	9.00%	3.70%
<u>Total</u>	<u>100.00%</u>	

**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 7.55 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 7.55 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 (6.55 percent) or 1-percentage-point higher (8.55) than the current rate:

	1% Decrease 6.55%	Current Discount Rate 7.55%	1% Increase 8.55%
Board's proportionate share of the net pension liability	\$ 9,522,552	\$ 6,932,618	\$ 4,777,405

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 \$1,150 to the Board to supplement educational programs. The Board provided \$2,859 of donated services to the Foundation and it is included in Donated Services on the Foundation's statements.

**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 \$14,040 of donated services to the Foundation and it is included in Donated Services on the Foundation's statements.

**NOTE 8 - CASH AND INVESTMENTS**

**Deposits**

At June 30, 2017, the carrying amount of the Board's reconciled bank deposits was \$20,880,556 and the various bank balances were \$21,369,685. Of the bank balances, \$537,405 was covered by depository insurance and \$20,832,280 was covered by collateral held at various banks in the Board's name. Total market value of these pledged securities at June 30, 2017 was \$23,004,910. This information includes the cash balance for the Allegany County Building Trades Foundation.

**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, 2017, 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	\$542,510	\$0	\$58,537	\$103,473	\$380,500

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 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, 2017 was \$209,656 and the balance per bank was \$209,680. This amount is fully insured by federal depository insurance.

NOTE 9 - ON-BEHALF PAYMENTS

The State of Maryland paid \$7,110,748 into the State Retirement and Pension System of Maryland on behalf of the Board.

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 \$1,441,493 of which \$849,866 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 \$136,627 for public school students and mental health spending in the amount of \$30,170 for both public and non public school students.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO 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 \$3,397,010 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount increased by \$1,238,533 from the prior year amount of \$2,158,477, and was based on total claims paid of \$20,035,803 and \$22,084,708 for 2017 and 2016, 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 litigation at June 30, 2017. 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.

During the 2014 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 were received but they exceeded the available amount of funding. The project was reopened for new bids in fiscal year 2016. Leonard S. Fiore Inc. was awarded the contract. The total project will cost \$57,134,581 and the Board's portion is \$3,704,673. To date, the Board's contribution has been utilized for architectural and engineering costs as well as some demolition costs. The remaining costs to the Board are expected to be approximately \$585,807.



BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

Since 1992, a new policy was implemented to subsidize a portion of the retiree's health care premiums. For 2017, a maximum subsidy for all retirees of \$315,000 was approved by the Board.

The total annual amount of the subsidy for the 2016-2017 fiscal year is as follows for 132 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	\$115,225
30 or more years	\$ 0	\$188,573

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. Total Supplements contributed by the Board were \$340,639 during the fiscal year ended June 30, 2017. The supplements plus \$970,132, which is the amount that is withheld from retirees pensions, is deposited in the General Fund. The total retirees benefits expense is \$1,310,771 and is reported in the Retiree Insurance Benefit Plan Fiduciary Fund. Transfers from the General fund of \$928,857 were used to pay the expense. Interest income is calculated and added to the fiduciary fund balance in addition to the transfer. 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 - CAPITAL LEASES**

The Board leases photocopy and printing equipment under capital leases with interest rates ranging from 2.1% to 8.0% and maturity dates up to 2023. The total capital lease obligation as of June 30, 2017 was \$390,913 with \$143,115 representing the current portion and \$247,798 representing the long-term portion. The capital lease obligations are secured by the equipment under lease.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - CAPITAL LEASES (Continued)**

Following is a schedule of principal and interest payments under capital leases as of June 30, 2017:

<u>Year Ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 143,115	\$ 25,031	\$ 168,146
2019	136,244	14,211	150,455
2020	74,925	5,617	80,542
2021	28,397	1,802	30,199
2022	7,717	330	8,047
2023	<u>515</u>	<u>3</u>	<u>518</u>
Total	<u>\$ 390,913</u>	<u>\$ 46,994</u>	<u>\$ 437,907</u>

The lease payments include amounts for service and materials that have not been capitalized. Minimum total future lease payments as of June 30, 2017 follow:

<u>Year ended June 30:</u>	<u>Minimum Lease Payments</u>
2018	\$ 326,696
2019	270,194
2020	145,633
2021	56,749
2022	15,496
2023	<u>794</u>
Total	<u>\$ 815,562</u>

The following is equipment acquired through capital leases, which is included in capital assets on the statement of net position at June 30, 2017:

Cost	\$924,613
Less accumulated depreciation	<u>(568,090)</u>
	<u>\$356,523</u>

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - FUND BALANCE

A surplus fund balance of \$8,562,566 existed in the Current Expense Fund Type, Unrestricted Fund, as of June 30, 2017. The surplus of \$8,512,566 was undesignated.

NOTE 14 - ACCOUNTS RECEIVABLE

Total accounts receivable of Governmental Funds in the financial statements as of June 30, 2017 is \$16,223,508. This total consists of the following components:

County Government	\$ 9,893
State Government	14,196,216
Federal Government	1,573,650
Other Local Education Agencies	7,204
Other	<u>436,545</u>
Total	<u>\$ 16,223,508</u>

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, 2017 is as follows:

Balance, beginning of year	\$ 185,524
Add: Ticket surcharge collections	21,469
Interest	0
Tower rent	17,258
Less: Expenditures	<u>(0)</u>
Balance, end of year	<u>\$ 224,251</u>

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 16 - STADIUM FUNDS

*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.

The activity for the year ended June 30, 2017 is as follows:

Balance, beginning of year	\$ 50,577
Add: Ticket surcharge collections	4,663
Interest	0
Less: Expenditures	(0)
Balance, end of year	<u>\$ 55,240</u>

NOTE 17 - POST-RETIREMENT BENEFITS OTHER THAN PENSION BENEFITS

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 of service with the Allegany County Public Schools and retire directly from the school system. The retiree pays the premiums for these benefits but is eligible for a reduction of the premium based upon years of service and age.

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

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

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

Components of Net OPEB Obligation

Annual Required Contribution	\$374,551
Interest on Net OPEB Obligation	(19,848)
Adjustment to Annual Required Contribution	<u>12,166</u>
Annual OPEB Cost (Expense)	\$366,869
Contributions Made	<u>(604,294)</u>
Increase in Net Obligation	<u><u>(\$237,425)</u></u>
Net OPEB Obligation (BOY)	(\$283,546)
Net OPEB Obligation (EOY)	(\$520,971)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB for 2016-2017 is as follows:

<b>Fiscal Year</b>		<b>OPEB Cost</b>	<b>Net OPEB</b>
<u>Ended</u>	<u>Annual OPEB Cost</u>	<u>Contributed</u>	<u>Obligation</u>
6/30/2017	366,869	164.70%	(520,971)
6/30/2016	542,122	76.0%	(283,546)
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)

Funded Status and Funding Progress. As of July 1, 2016, the most recent measurement date, the plan was 30.82% funded. The actuarial accrued liability for benefits was \$5,078,198 and actuarial value of the assets was \$1,565,276 resulting in an unfunded actuarial accrued liability (UAAL) of \$3,512,922. The covered payroll (annual payroll of active employees covered by the plan) was \$63,910,000 and the ratio of the UAAL to the covered payroll was 5.50%.

In March 2009, the Board entered into an agreement with the Maryland Association of Boards of Education (MABE), together with certain member Boards 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. The assets of the MABE Trust are managed by Wells Fargo Advisors and consist of money market funds, U.S. government securities, fixed income securities, asset-backed securities, equity securities, mutual funds and exchange traded funds.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

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

At June 30, 2017 the net position of the MABE Trust was valued at \$292.67 million; the School System's interest was \$11,485,513, of which \$1,734,556 was held in trust for the OPEB liability. The investments are measured at net asset value and as such are not subject to fair value disclosure leveling.

The MABE OPEB Trust is audited annually by an independent CPA firm. Since 2010, Arthur Bell and Associates of Hunt Valley, Maryland performed this service. The audit report is usually issued by September 1<sup>st</sup> each year, a copy of which can be obtained by sending a request to the following address: Administrator of the MABE Pooled Investment Trust, 621 Ridgely Road, Suite 300, Annapolis, MD 21401-1112. The State of Maryland Treasurer's Office provides regulatory oversight of the investment pool, and the fair value of the School System's position in the pool is the same as the fair value of pool shares. The Board can withdrawal its allocated investment balance from the fund by providing written notification six months prior to the intended date of withdrawal.

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.

The last complete actuarial valuation was performed as of July 1, 2016. The July 1, 2016 valuation was based on the projected unit credit actuarial cost method. The actuarial assumptions included a 7.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after six 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 a closed basis. The remaining amortization period at July 1, 2016 was 22 years.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 18 - FAIR VALUE MEASUREMENTS**

Government Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities.
- Level 2 – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed securities and swap agreements.
- Level 3 – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity’s own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

Fair values of assets measured on a recurring basis at June 30, 2017 are as follows:

**Fair Value Measurement Using:**

<u>Investment by Fair Value Level</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Certificates of Deposit	\$542,510	-	-
Money Market Funds	48,160		
Investments by Fair Value Level	<u>\$590,670</u>	<u>-</u>	<u>-</u>

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

**NOTE 18 - FAIR VALUE MEASUREMENTS (Continued)**

The fair value measurement for these assets are based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data (Level 2). In certain cases, where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the hierarchy.



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, 2017

	Unrestricted			
	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>REVENUES</b>				
County - regular appropriation	\$ 30,169,985	\$ 30,169,985	\$ 30,169,985	\$ -
State - direct	78,732,755	78,732,755	78,368,746	(364,009)
Federal - direct	425,000	425,000	404,881	(20,119)
Fund Balance	274,114	274,114	-	(274,114)
Other revenue	483,795	483,795	196,298	(287,497)
<b>TOTAL REVENUES</b>	<u>110,085,649</u>	<u>110,085,649</u>	<u>109,139,910</u>	<u>(945,739)</u>
<b>EXPENDITURES</b>				
Administration	2,335,167	2,074,150	1,907,963	166,187
Mid-level administration	6,772,592	6,772,592	6,708,962	63,630
Instruction - salaries	39,174,283	39,174,283	38,310,120	864,163
Instruction - textbooks & instructional supplies	2,160,978	2,160,978	1,832,275	328,703
Instruction - other	1,680,989	1,680,989	1,394,732	286,257
Student personnel services	625,881	625,881	575,649	50,232
Health services	722,371	722,371	716,235	6,136
Student transportation	6,171,301	6,171,301	5,772,894	398,407
Operation of plant and equipment	7,811,737	7,811,737	7,314,971	496,766
Maintenance of plant	1,915,238	1,915,238	1,640,337	274,901
Fixed charges	24,225,348	23,296,491	22,079,332	1,217,159
Food Service	544,788	-	-	-
Capital outlay	286,956	226,956	136,916	90,040
Special education	15,658,020	15,658,020	15,187,323	470,697
<b>TOTAL EXPENDITURES</b>	<u>110,085,649</u>	<u>108,290,987</u>	<u>103,577,709</u>	<u>4,713,278</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>1,794,662</u>	<u>5,562,201</u>	<u>3,767,539</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers	-	(1,794,662)	(1,794,662)	-
Intrafund transfers	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>(1,794,662)</u>	<u>(1,794,662)</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>-</u>	<u>-</u>	<u>3,767,539</u>	<u>3,767,539</u>
<b>FUND BALANCE - JULY 1, 2016</b>	<u>4,795,027</u>	<u>4,795,027</u>	<u>4,795,027</u>	<u>-</u>
<b>FUND BALANCE - JUNE 30, 2017</b>	<u>\$ 4,795,027</u>	<u>\$ 4,795,027</u>	<u>\$ 8,562,566</u>	<u>\$ 3,767,539</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
SPECIAL REVENUE FUNDS - RESTRICTED (CURRENT EXPENSE) AND FOOD SERVICE  
FOR THE YEAR ENDED JUNE 30, 2017

	Restricted				Food Service			
	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
<b>REVENUES</b>								
County - regular appropriation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State - direct	566,443	566,443	385,518	(180,925)	206,504	206,504	181,844	(24,660)
Federal - direct					280,000	280,000	299,240	19,240
- received through State & Pass-Thru Agencies	8,221,605	8,221,605	8,224,693	3,088	3,080,000	3,080,000	3,001,723	(78,277)
Other revenue	98,854	98,854	692,245	593,391	1,165,000	1,165,000	1,138,789	(26,211)
<b>TOTAL REVENUES</b>	<u>8,886,902</u>	<u>8,886,902</u>	<u>9,302,456</u>	<u>415,554</u>	<u>4,731,504</u>	<u>4,731,504</u>	<u>4,621,596</u>	<u>(109,908)</u>
<b>EXPENDITURES</b>								
Administration	18,931	18,931	18,924	7				
Mid-level administration	275,141	275,141	265,677	9,464				
Instruction - salaries	2,214,476	2,214,476	2,531,705	(317,229)				
Instruction - textbooks & instructional supplies	191,563	191,563	268,342	(76,779)				
Instruction - other	489,077	489,077	924,254	(435,177)				
Student personnel services								
Health services								
Student transportation	66,840	66,840	77,601	(10,761)				
Operation of plant and equipment								
Fixed charges	1,991,403	1,991,403	2,007,650	(16,247)				
Community Services	234,679	234,679	53,743	180,936				
Capital outlay								
Special education	3,404,792	3,404,792	3,154,560	250,232				
Food Service					5,276,292	5,276,292	5,086,885	189,407
<b>TOTAL EXPENDITURES</b>	<u>8,886,902</u>	<u>8,886,902</u>	<u>9,302,456</u>	<u>(415,554)</u>	<u>5,276,292</u>	<u>5,276,292</u>	<u>5,086,885</u>	<u>189,407</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(544,788)</u>	<u>(544,788)</u>	<u>(465,289)</u>	<u>79,499</u>
<b>OTHER FINANCING SOURCES (USE\$)</b>								
Interfund transfers					544,788	544,788	544,788	-
Intrafund transfers								
<b>NET CHANGE IN FUND BALANCES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,499</u>	<u>79,499</u>
<b>FUND BALANCE - JULY 1, 2016</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>283,561</u>	<u>283,561</u>	<u>283,561</u>	<u>-</u>
<b>FUND BALANCE - JUNE 30, 2017</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 283,561</u>	<u>\$ 283,561</u>	<u>\$ 363,060</u>	<u>\$ 79,499</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

REQUIRED SUPPLEMENTAL INFORMATION

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>
7/1/2016	\$1,565,276	\$5,078,198	30.82%	\$3,512,922	\$63,910,000	5.50%
7/1/2015	\$1,588,591	\$8,778,211	18.10%	\$7,189,620	\$63,546,000	11.31%
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%

**BOARD OF EDUCATION OF ALLEGANY COUNTY**  
**SCHEDULE OF THE BOARD'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY – MARYLAND STATE**  
**RETIREMENT AND PENSION SYSTEM**  
**LAST 10 FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of the net pension liability	0.03%	0.03%	0.03%
Board's proportionate share of the net pension liability	\$ 6,932,618	\$ 6,917,608	\$ 5,665,273
Board's covered payroll – Employee Retirement System	\$6,710,481	\$7,210,687	\$7,469,056
Board's proportionate share of the net pension liability as a percentage of its covered payroll	103.31%	95.94%	75.85%
Plan fiduciary net position as a percentage of the total pension liability	65.79%	68.78%	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  
SCHEDULE OF THE BOARD'S CONTRIBUTIONS -  
MARYLAND STATE RETIREMENT AND PENSION SYSTEM  
LAST 10 FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$532,468	\$572,404	\$701,601
Contributions in relation to the contractually required contribution	<u>(532,468)</u>	<u>(572,404)</u>	<u>(701,601)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Board's covered-employee payroll	\$6,517,359	\$6,710,481	\$7,210,687
Contributions as a percentage of covered-employee payroll	8.17%	8.53%	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 completed 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 the system is the responsibility of the State of Maryland. Consequently, 10 year information is not provided for the Teachers' Retirement System.

**Change in Benefit Terms** - There were no changes during the year.

**Change in Assumptions** - Adjustments to the roll-forward liabilities were made to reflect the following assumption valuation:

- Inflation assumption changed from 2.95% general and 3.45% wage to 2.70% general and 3.20% wage.
- Salary Increase assumption changed from a range of 3.45% to 10.75% to a range of 3.3% to 9.2%.
- Mortality Tables were changed from RP-2014 Combined Healthy Mortality Table projected to the year 2025 to RP-2014 mortality projections using scale MP-2014, calibrated to MSRPS experience.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**REQUIRED SUPPLEMENTAL INFORMATION**

**RECONCILIATION OF BUDGETARY BASIS TO GAAP**

	Revenues	Expenditures	Current Year Effect on Fund Balance
Unrestricted Current Expense Fund Budgetary Basis	\$ 109,139,910	\$ 103,577,709	\$ 5,562,201
Retirement contribution made by the State on behalf of the Board	7,110,748	7,110,748	-
Local contributions for nurses, security and mental health professionals	<u>758,424</u>	<u>758,424</u>	-
Total	<u>\$ 117,009,082</u>	<u>\$ 111,446,881</u>	<u>\$ 5,562,201</u>

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, 2017, 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 Part D revenues show an unfavorable variance. The system is self-insured for health insurance purposes. As a result, the system qualifies for the Medicare Part D program that reimburses the system for a portion of prescription drug benefits provided to Medicare eligible retirees. The system budget is based upon past experience.

Administrative costs were lower than budget for a variety of reasons. The school system is prioritizing instructional and classroom needs in the budget process. Administrative contracted services within Information Technology was below budget. There were also vacancies within the finance department compared to plan for a portion of the year. Also, within the finance department, indirect costs reimbursements from grants were higher than anticipated.

Overall, travel costs were below plan. The actual legal costs incurred by the school system exceeded the budget. While legal matters requiring the services of an attorney other than the school system attorney are typically covered under insurance policies, there are often deductibles to reach prior to the participation of the insurance policy.

A favorable variance existed in mid-level administration. Other charges came in under budget and were driven by lower travel costs than anticipated. The school system tries to limit travel to conferences when possible and has encouraged the use of carpooling and renting of vehicles when traveling down state for meetings which typically saves the district money compared to the standard IRS mileage reimbursements. Equipment also came under budget because fewer computers needed to be replaced than budgeted.

A favorable variance existed for instructional salaries due to several employees being off due to illness and some other employees retiring during the school year. These positions were covered with substitute costs which would have been significantly lower than budgeted. During the next budget cycle, these positions are critically reviewed to determine if a permanent position is required.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 19 - BUDGET TO ACTUAL VARIANCES (Continued)

*General Fund (Continued)*

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. The school system allocates money to school principals to spend on instructional supplies. Secondary textbooks were \$140,349 below plan and elementary textbooks were \$18,564 below budget. There were also instances of savings in supplies of \$20,742.

Other instructional expenditures came in under budget. Professional development costs for travel came under budget due to the schedule. Overall, instructional travel expenses were also below plan. Equipment expenditures were also significantly under budget as the district evaluates the timing and necessity of all equipment purchases.

The budget for Special Education private placements was an estimate based on the anticipated number of students to be served. The students served in this demographic required fewer days of service and less intensive service than budgeted. Special Education was also under budget within salaries. Contracted services for occupational and physical therapy were higher than budgeted based upon the needs of the students.

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 monitors and adjusts bus routes as appropriate.

The operations area was able to come in under budget overall due to strong expenditure control across categories. 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. Contracted service needs were further refined which led to additional savings compared to budget. Utilities were also significantly under budget due to securing cooperative purchasing agreements for the district gas and electric usage. There was also savings within the equipment line item as all purchases were evaluated for need.

The facilities department came in under budget in labor, contracted services, supplies, other charges and equipment.

Administrative staff of the facilities department concentrated on the construction phase of the new high school. This limited projects by contractors which caused contracted services to come in significantly under budget. Equipment also came in under budget as the facilities department did not spend funds appropriated in the budget for vehicles. Vehicles were evaluated and added to the subsequent fiscal year budget.



BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 19 - BUDGET TO ACTUAL VARIANCES (Continued)

*General Fund (Continued)*

The school system was able to come in under budget in fixed charges as a result of stabilizing healthcare claims and savings of payroll related fixed charges within the system overall. Controlling labor costs 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, 2017. The school system received funds under the federal E-RATE program which were not budgeted due to the unpredictable nature of those funds. This year's E-RATE appropriation and expenditures were \$429,025.

*Special Revenue Fund – Food Service*

The Food Service Special Revenue Fund for the year ended June 30, 2017 had a slight shortfall in revenues while also showing a positive variance compared to budgeted expenditures.

The shortfall in revenues was partially due to a decline in the total number of meals 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. Federal regulations which required districts to raise prices for meals by \$.10 also are likely impacting meal counts. Expenditures were less than budget for the fiscal year. While labor costs were slightly higher than planned, the cost of supplies and materials were less than anticipated within the budget. Also, there were savings compared to plan within equipment as there were no significant equipment issues that required replacement.

NOTE 20 - RECONCILIATION OF BUDGETARY BASIS TO GAAP

Actual results of operations are presented in the Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual on the budgetary basis of accounting, in order to provide a meaningful comparison of actual results with budget estimates. Under the budgetary basis, capital leases principal payments are recognized as a current expense. In addition, retirement contributions made by the State on behalf of the Board, and local contributions for nurses, security, and mental health professionals are not recognized as revenue and current expense on the budget basis.

**BOARD OF EDUCATION OF ALLEGANY COUNTY**

**SCHOOL ACTIVITIES -  
INCREASES, DECREASES AND BALANCES BY SCHOOL  
For Year Ended June 30, 2017**

	<u>Balances June 30, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2017</u>
<b>HIGH SCHOOLS</b>				
Allegany	\$ 264,725	\$ 519,886	\$ 543,200	\$ 241,411
Center for Career and Technical Education	91,781	141,270	149,539	83,512
Fort Hill	71,676	594,833	568,195	98,314
Mountain Ridge	<u>279,319</u>	<u>629,453</u>	<u>630,847</u>	<u>277,925</u>
Total High Schools	<u>707,501</u>	<u>1,885,442</u>	<u>1,891,781</u>	<u>701,162</u>
<b>MIDDLE SCHOOLS</b>				
Braddock	57,118	116,885	138,713	35,290
Mount Savage	78,690	129,067	122,445	85,312
Washington	77,148	77,439	75,639	78,948
Westmar	<u>43,537</u>	<u>60,949</u>	<u>61,555</u>	<u>42,931</u>
Total Middle Schools	<u>256,493</u>	<u>384,340</u>	<u>398,352</u>	<u>242,481</u>
<b>ELEMENTARY SCHOOLS</b>				
Beall	41,771	42,337	51,990	32,118
Bel Air	24,859	23,853	27,748	20,964
Cash Valley	33,523	35,215	40,355	28,383
Cresaptown	95,245	31,831	42,697	84,379
Flintstone-school	174,334	39,615	32,532	181,417
Flintstone-McLuckie	364,463	4,667	6,500	362,630
Frost	93,807	40,832	35,716	98,923
Georges Creek	53,486	56,228	52,854	56,860
John Humbird	27,725	26,679	21,738	32,666
Northeast	60,430	50,822	37,646	73,606
Parkside	21,690	19,057	26,308	14,439
South Penn	45,359	84,426	76,833	52,952
West Side	84,876	88,046	79,492	93,430
Westernport	<u>29,075</u>	<u>48,249</u>	<u>43,845</u>	<u>33,479</u>
Total Elementary Schools	<u>1,150,643</u>	<u>591,857</u>	<u>576,254</u>	<u>1,166,246</u>
<b>TOTAL SCHOOLS</b>	<u>\$ 2,114,637</u>	<u>\$ 2,861,639</u>	<u>\$ 2,866,387</u>	<u>\$ 2,109,889</u>

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

Board of Education of Allegany County  
Cumberland, Maryland

Our audit of the basic financial statements of the Board of Education of Allegany County as of June 30, 2017 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.