

BOARD OF EDUCATION OF ALLEGANY COUNTY
FINANCIAL REPORT
AS OF JUNE 30, 2018 AND FOR THE YEAR THEN ENDED

BOARD OF EDUCATION OF ALLEGANY COUNTY

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	4-18
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Position	19
Statement of Activities	20
Fund Financial Statements:	
Balance Sheet – Governmental Funds	21
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position	22
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	23
Reconciliation of Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	24
Statement of Net Position – Proprietary Funds	25
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds	26
Statement of Cash Flows – Proprietary Funds	27
Statement of Fiduciary Net Position – Fiduciary Funds	28
Statement of Changes in Fiduciary Net Position – Fiduciary Funds	29

NOTES TO FINANCIAL STATEMENTS	30-64
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REQUIRED SUPPLEMENTAL INFORMATION

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	65
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – Special Revenue Funds – Restricted (Current Expense) and Food Service	66
Schedule of Net Other Post-Employment Benefit Liability and Related Ratios	67
Retiree Post-Employment Benefits - Schedule of Changes in the Board's Net OPEB and Related Ratios	68
Schedule of the Board's Proportionate Share of the Net Pension Liability – Maryland State Retirement and Pension System	69
Schedule of the Board's Contributions - Maryland State Retirement and Pension System	70
Reconciliation of Budgetary Basis to GAAP	71

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION	72-74
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SUPPLEMENTAL INFORMATION

School Activities - Increases, Decreases and Balances by School	75
Statement Concerning Debt Service Fund for Public School Construction	76

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, 2018, 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, 2018, 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-five (65) through seventy-four (74) 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 July 16, 2019, 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 solely 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 the effectiveness of the Board of Education of Allegany County, Maryland's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of Allegany County, Maryland's internal control over financial reporting and compliance.

Huber, Michaels + Company

Cumberland, Maryland
July 16, 2019

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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, 2018 and 2017, 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 of qualifying as a component unit. The component unit is the Allegany County Building Trades Education Foundation Inc. This component unit is included in the accompanying financial statements in a separate column. However, the following discussion and analysis does not include their financial condition and activities. Separately issued financial statements for the component 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 \$21,549,026 (17.36%) during the fiscal year ended June 30, 2018. 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 \$28,862,347 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, 2018, were \$152,241,336. This represents a decrease of \$6,058,911 (3.83%) over the prior fiscal year. The system received a decrease of \$8,325,266 in School Construction revenues based upon the timing of construction to date of the new high school compared to last year. The school system received more state aid due to per pupil amounts increasing and the timing of restricted E-rate reimbursements.

Total Governmental Funds expenses for the fiscal year ended June 30, 2018 were \$155,375,871. This represents an increase of \$7,345,517 (4.96%) 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 summer of fiscal 2017.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Spending increased within the restricted fund, specifically the E-rate program. General fund spending increased slightly by 0.20% compared to the prior year.

The Current Expense Fund total fund balance as of June 30, 2018, was \$13,828,392. This represents an increase of \$5,265,826 (61.50%) to the fund balance as of June 30, 2017. 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 2018.

The Current Expense Fund unassigned fund balance as of June 30, 2018, was \$13,778,392. This represents an increase of \$5,265,826 (61.86%) from the unassigned fund balance as of June 30, 2017. No fund balance has been assigned to the fiscal 2018 budget.

Current Expense Fund revenues fell short of the final budget by \$597,074 (.54%). The system did not budget to use fund balance in fiscal 2018. The system revenues were short primarily as a result of having fewer students in nonpublic placements which resulted in lower proportionate revenue being received from the state.

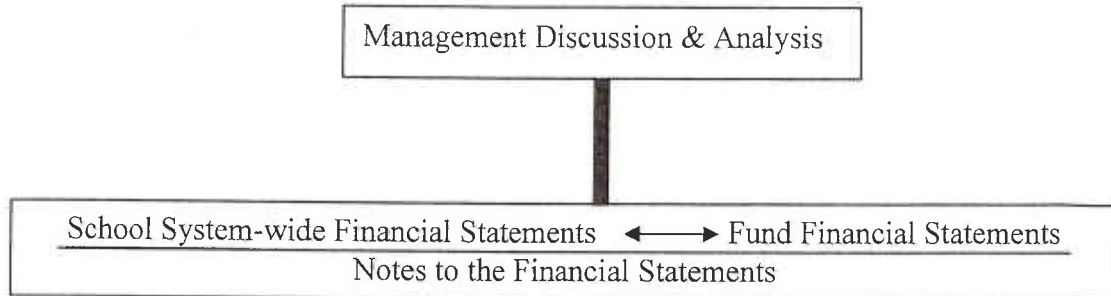
Current Expense Fund expenses and transfers were under budget by \$5,862,900 (5.25%). The system controls labor costs by evaluating positions that come open during the school year. Controlling labor costs and reducing salary expenses also resulted in lower fixed charges. The healthcare costs of the system 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 increased by \$1,484,020 (1.35%) to \$111,569,669 compared to the \$110,085,649 budget for the period ended June 30, 2017. The school system received additional funding from county government of 2.1% per student 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 of \$30,424,308. 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 fund balance to balance the original budget.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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).

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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, Retiree Insurance Benefit Plan and Retiree Health Plan Trust Funds.

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

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

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

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

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

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

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

The School System is the trustee 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. The trust funds are included in the Government Wide Statement of Net Position as a result of GASB 75. We are responsible for ensuring that the assets reported in the School Activity Fund, Retiree Insurance Benefit Plan Fund, Retiree Insurance Benefit Trust, and Retiree Health Plan Trust Fund are used for their intended purpose.

The unrestricted portion of net position at June 30, 2018, of \$8,508,092 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 \$5,860,058 from the prior year where the unrestricted net position showed \$2,648,034. There was an adjustment of \$6,389,628 booked at June 30, 2017 that related to the recognition of GASB 75.

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 compensated absences is \$2,127,141 and is the amount we expect to pay beyond June 30, 2019. This liability is funded on a "pay as you go" basis from current financial resources.

	Total Cost of Services			Net (Expense) Revenue		
	June 30, 2018	June 30, 2017	% Change	June 30, 2018	June 30, 2017	% Change
Administration	\$ 2,653,224	\$ 2,358,250	12.51%	\$ 2,632,335	\$ 2,339,326	12.53%
Mid-level Administration	6,842,931	6,974,639	-1.89%	6,570,567	6,708,962	-2.06%
Instruction (Regular and Special Education)	63,343,266	63,166,243	0.28%	56,181,244	56,287,382	-0.19%
Student Personnel and Health Services	1,598,042	1,291,884	23.70%	1,306,701	1,291,884	1.15%
Student Transportation	5,977,240	5,909,001	1.15%	5,909,445	5,831,400	1.34%
Operation, Maintenance and Capital Outlay	9,139,497	9,182,643	-0.47%	(9,825,283)	(18,127,219)	-45.80%
Fixed Charges	30,937,012	32,388,052	-4.48%	21,098,439	22,106,349	-4.56%
Community Services	471,253	53,743	776.86%	-	-	0.00%
Food Services	4,715,867	5,079,980	-7.17%	313,874	474,834	-33.90%
Depreciation & Other	4,928,521	5,173,491	-4.74%	4,928,521	5,173,491	-4.74%
Total	\$ 130,606,853	\$ 131,577,926	-0.74%	\$ 89,115,843	\$ 82,086,409	8.56%

Results of operations for the School System as a whole are presented in the Statement of Activities. The cost of all governmental activities is \$130,606,853 of which \$1,061,410 was financed by users of the School System's programs. Grants and contributions from Federal and State governments for certain programs were \$40,429,600. Net services costs were \$89,115,843. 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. Over 72% 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 27% of the School System's funding.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY Maryland

Management's Discussion and Analysis (MD&A) June 30, 2018

	Governmental Activities				Business-Type Activities				Total School System			
	June 30, 2018	June 30, 2017	June 30, 2018	% Change	June 30, 2018	June 30, 2017	June 30, 2018	% Change	June 30, 2018	June 30, 2017	June 30, 2017	% Change
Current and Other Assets	\$ 35,357,482	\$ 37,000,923	\$ (1,643,441)	-4.44%	\$ 56,800	\$ 111,701	\$ (54,901)	-49.18%	\$ 35,414,282	\$ 37,112,714	\$ (1,698,432)	-4.58%
Net Other Asset	12,280,202	6,386,628	5,893,574	13.94%	20,378	33,510	(13,132)	-39.78%	7,280,202	6,386,628	893,574	13.94%
Capital Asset	10,725,030	10,250,000	475,030	4.63%	76,378	145,201	(68,823)	-47.02%	10,725,030	10,250,000	475,030	4.63%
Total Assets	\$ 164,033,027	\$ 169,250,913	\$ (5,217,886)	-3.08%	\$ 183,556	\$ 145,201	\$ 38,355	26.34%	\$ 164,033,027	\$ 169,250,913	\$ (5,217,886)	-3.08%
Deferred Outflow of Resources	1,247,754	1,923,261	(745,507)	-37.40%					1,247,754	1,923,261	(745,507)	-37.40%
Current and Other Liabilities	\$ 14,979,282	\$ 14,282,416	\$ 696,866	4.88%	\$ 18,984	\$ 18,827	\$ 157	0.83%	\$ 14,979,282	\$ 14,301,243	\$ 678,039	4.74%
Long Term Liabilities	\$ 9,022,841	\$ 9,487,482	\$ (464,641)	-4.89%	\$ 18,984	\$ 18,827	\$ 157	0.83%	\$ 9,022,841	\$ 9,487,482	\$ (464,641)	-4.89%
Total Liabilities	\$ 24,002,123	\$ 23,769,898	\$ 232,225	0.97%	\$ 37,968	\$ 37,654	\$ 314	0.83%	\$ 24,002,123	\$ 23,788,725	\$ 213,398	0.89%
Deferred Inflow of Resources	456,937	496,587	(41,650)	-8.36%					456,937	496,587	(41,650)	-8.36%
Net Assets	\$ 128,574,931	\$ 135,084,528	\$ (6,509,597)	-4.81%	\$ 145,588	\$ 107,547	\$ 38,041	35.36%	\$ 128,574,931	\$ 135,084,528	\$ (6,509,597)	-4.81%
Invested in Capital Assets, Net of Related Debt	\$ 126,786,899	\$ 102,484,187	\$ 24,302,712	23.71%	\$ 20,178	\$ 33,510	\$ (13,332)	-39.78%	\$ 126,807,037	\$ 102,517,677	\$ 24,289,360	23.69%
Restricted	10,354,778	18,955,168	(8,600,390)	-45.37%	37,806	92,964	(55,158)	-59.33%	10,354,778	18,955,168	(8,600,390)	-45.37%
Unrestricted	\$ 473,254	\$ 2,552,070	\$ (2,078,816)	-81.44%	\$ 7,604	\$ 128,478	\$ (120,874)	-94.13%	\$ 473,254	\$ 2,552,070	\$ (2,078,816)	-81.44%
Total Net Position	\$ 148,614,931	\$ 143,991,425	\$ 4,623,506	3.21%	\$ 65,588	\$ 264,952	\$ (199,364)	-75.23%	\$ 148,614,931	\$ 143,991,425	\$ 4,623,506	3.21%

	Governmental Activities				Business-Type Activities				Total School System			
	June 30, 2018	June 30, 2017	June 30, 2018	% Change	June 30, 2018	June 30, 2017	June 30, 2018	% Change	June 30, 2018	June 30, 2017	June 30, 2017	% Change
Charges for Services	\$ 1,061,410	\$ 1,122,339	\$ (60,929)	-5.43%	\$ 487,548	\$ 483,978	\$ 3,570	0.77%	\$ 1,528,958	\$ 1,586,317	\$ (57,359)	-3.62%
Operating Grants and Contributions	21,442,431	21,036,521	405,910	1.93%	21,442,431	21,036,521	405,910	1.93%	21,442,431	21,036,521	405,910	1.93%
Capital Grants and Contributions	18,987,169	18,332,857	654,312	3.57%	18,987,169	18,332,857	654,312	3.57%	18,987,169	18,332,857	654,312	3.57%
General Revenues	30,424,308	30,469,585	(45,277)	-0.15%	30,424,308	30,469,585	(45,277)	-0.15%	30,424,308	30,469,585	(45,277)	-0.15%
Grants and Contributions (unrestricted)	79,480,772	78,946,746	534,026	0.68%	79,480,772	78,946,746	534,026	0.68%	79,480,772	78,946,746	534,026	0.68%
Other	428,279	190,349	237,930	124.45%	428,279	190,349	237,930	124.45%	428,279	190,349	237,930	124.45%
Total Revenues	\$ 152,224,369	\$ 158,220,637	\$ (5,996,268)	-3.79%	\$ 487,548	\$ 483,978	\$ 3,570	0.77%	\$ 152,224,369	\$ 158,220,637	\$ (5,996,268)	-3.79%
Administration	\$ 2,653,224	\$ 2,356,350	\$ 296,874	12.51%	2,653,224	2,356,350	296,874	12.51%	2,653,224	2,356,350	296,874	12.51%
Militer Administration	8,842,931	6,974,639	1,868,292	26.78%	8,842,931	6,974,639	1,868,292	26.78%	8,842,931	6,974,639	1,868,292	26.78%
Education (regular and special education)	53,446,299	53,186,243	260,056	0.49%	53,446,299	53,186,243	260,056	0.49%	53,446,299	53,186,243	260,056	0.49%
Student Transportation	3,977,240	3,995,001	(17,761)	-0.44%	3,977,240	3,995,001	(17,761)	-0.44%	3,977,240	3,995,001	(17,761)	-0.44%
Operation, Maintenance and Capital Outlay	\$ 139,497	\$ 182,643	(43,146)	-23.62%	\$ 139,497	\$ 182,643	(43,146)	-23.62%	\$ 139,497	\$ 182,643	(43,146)	-23.62%
Fixed Charges	30,937,012	32,385,052	(1,448,040)	-4.47%	30,937,012	32,385,052	(1,448,040)	-4.47%	30,937,012	32,385,052	(1,448,040)	-4.47%
Community Services	471,253	53,743	417,510	776.80%	471,253	53,743	417,510	776.80%	471,253	53,743	417,510	776.80%
Food Service	4,715,967	5,076,980	(361,013)	-7.11%	4,715,967	5,076,980	(361,013)	-7.11%	4,715,967	5,076,980	(361,013)	-7.11%
Depreciation & Other	\$ 928,571	\$ 1,473,491	(544,920)	-37.00%	\$ 928,571	\$ 1,473,491	(544,920)	-37.00%	\$ 928,571	\$ 1,473,491	(544,920)	-37.00%
Total Expenses	\$ 136,695,893	\$ 137,977,928	\$ (1,282,035)	-0.93%	\$ 536,038	\$ 525,046	\$ 10,992	2.09%	\$ 136,695,893	\$ 137,977,928	\$ (1,282,035)	-0.93%
Increase/(Decrease) in Net Position	\$ 21,517,516	\$ 26,642,711	\$ (5,125,195)	-19.23%	\$ (68,490)	\$ (64,069)	\$ (4,421)	-6.90%	\$ 21,517,516	\$ 26,642,711	\$ (5,125,195)	-19.23%

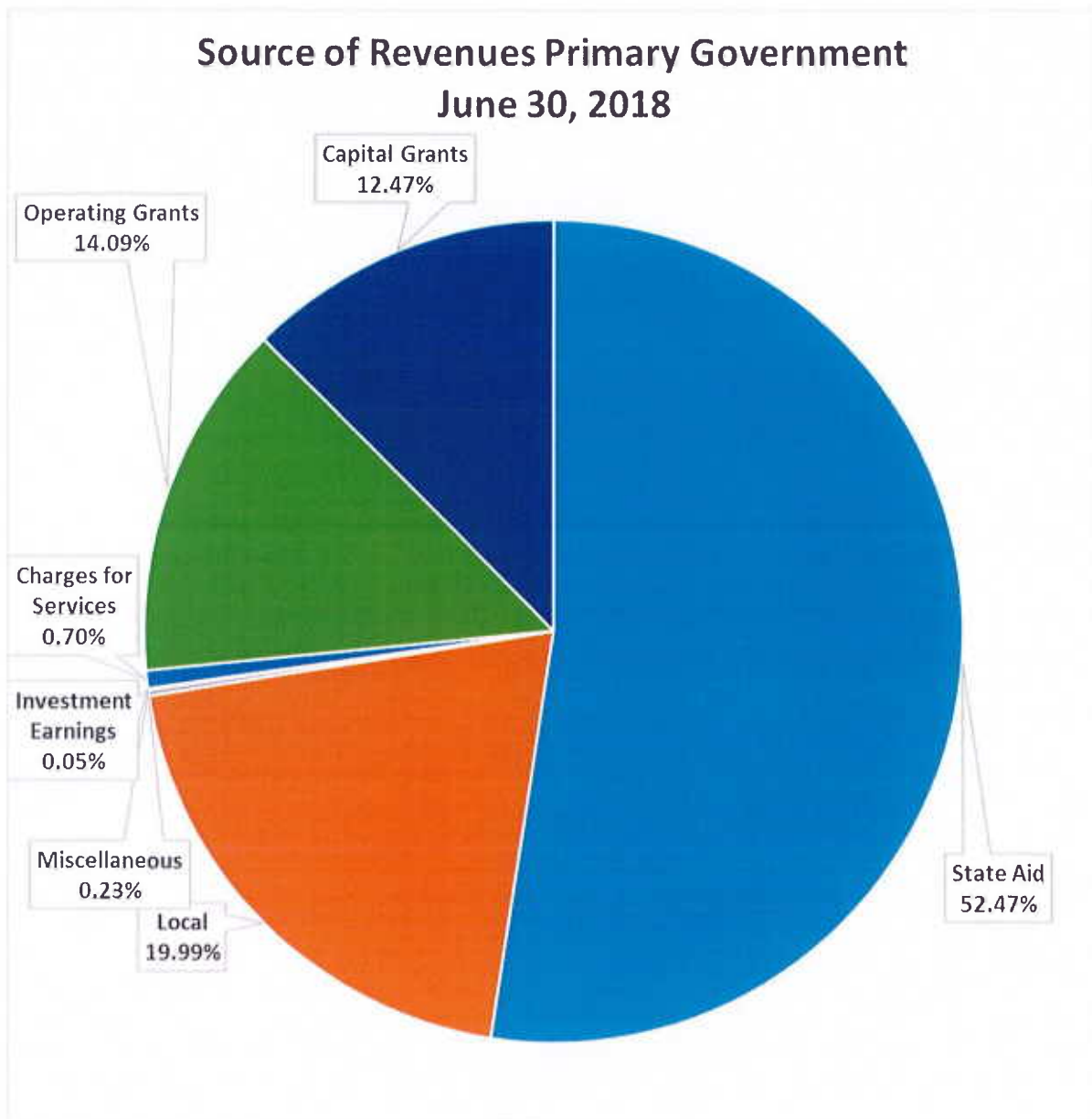
* The Statement of Changes in Net Position as of June 30, 2017 was not restated for the effects of GASB 75.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

GENERAL FUND (CURRENT EXPENSE) BUDGETARY HIGHLIGHTS

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

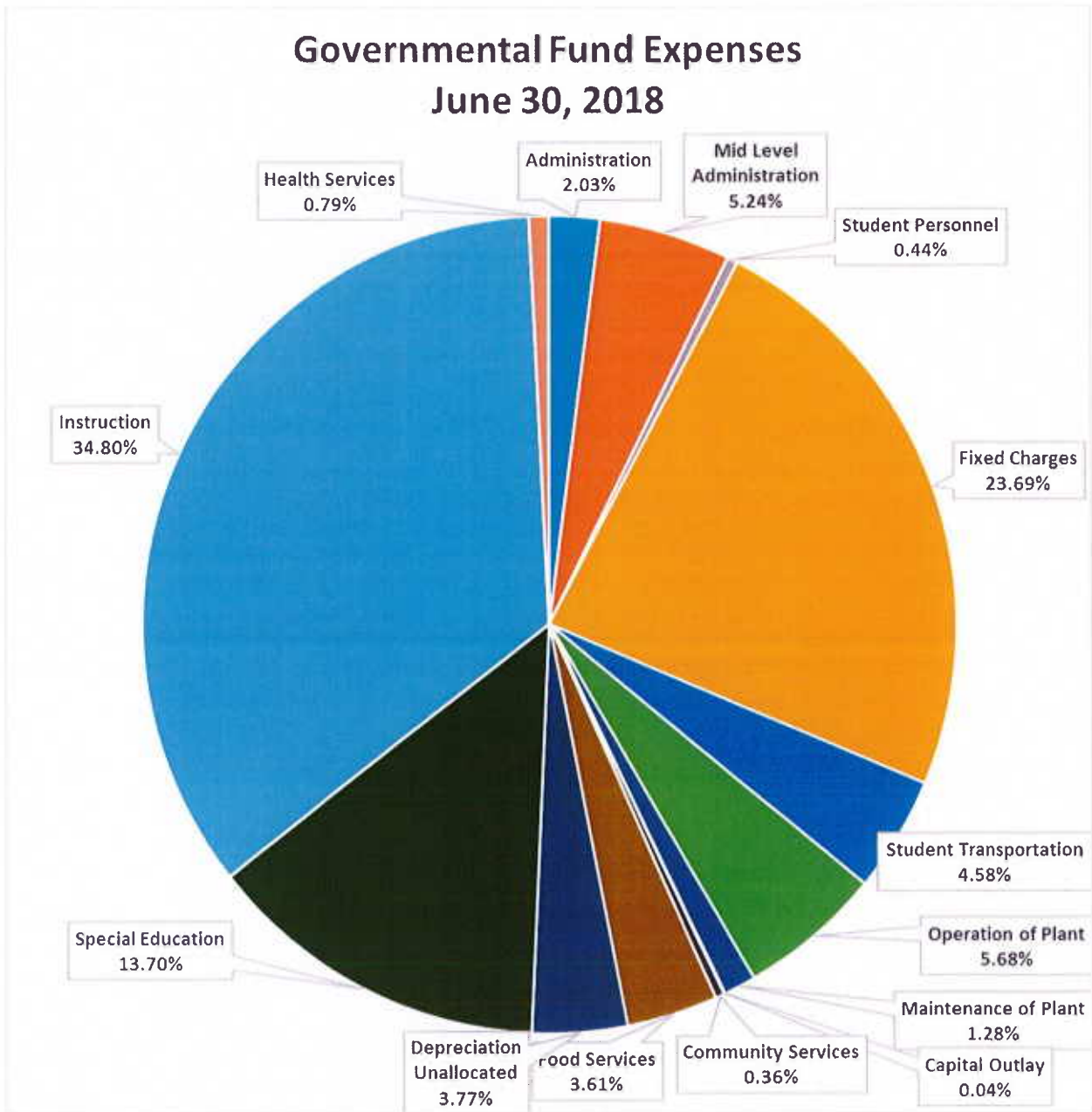


THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Fund Performance

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



THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

General Fund – Unrestricted

A schedule of changes between the original and final budgets for the year ended June 30, 2018, is presented below. There was no change between the original and final budget.

	Original Budget	Final Budget	Additions	Reductions	Total Change
County Appropriation	\$ 30,424,308	\$ 30,424,308			\$ -
State	80,426,211	80,426,211			-
Federal	400,000	400,000			-
Local	307,150	307,150			-
Earnings on investments	12,000	12,000			-
Other Sources	-	-			-
Total Revenues	\$ 111,569,669	\$ 111,569,669	\$ -	\$ -	\$ -
Administration	\$ 2,408,346	2,408,346			\$ -
Mid-Level Administration	6,673,259	6,673,259			-
Instructional Salaries	39,959,083	39,959,083			-
Textbooks	2,022,964	2,022,964			-
Other Instructional Costs	1,733,590	1,733,590			-
Special Education	15,704,468	15,704,468			-
Student Personnel Services	627,198	627,198			-
Student Health Services	732,506	732,506			-
Student Transportation	6,106,584	6,106,584			-
Operation of Plant	7,579,872	7,579,872			-
Maintenance of Plant	1,874,911	1,874,911			-
Fixed Charges	25,303,027	25,303,027			-
Food Services	553,861	553,861			-
Capital Outlay	290,000	290,000			-
Total Expenditures	\$ 111,569,669	\$ 111,569,669	\$ -	\$ -	\$ -

Local and state revenues account for over 99% of the total General Fund unrestricted revenue. Both are stable and highly predictable.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Budget Variances

Below is a table listing positive and negative budget variances for the year ended June 30, 2018 as a supplement to the narrative discussion below the chart.

Budget Variance Descriptions:	Positive (Negative)
Revenues:	
Interest Earned	38,098
Medicare D Revenues	(100,638)
Special Education Private Placements	(543,127)
Other Revenue Variances	<u>8,593</u>
Total Revenue Variances	\$ (597,074)
Expenditures and Interfund Transfers:	
Labor Savings & Efficiencies	1,721,128
Non Labor Transportation Savings	286,472
Administrative Efficiencies and Savings	(38,246)
Nonpublic Special Education Placements	1,165,572
Other Instructional Expenditures	297,693
Non Labor Maintenance and Operations Costs	193,643
Other expenditure variances	<u>2,236,638</u>
Total Expenditures and Interfund Transfers Variances	<u>5,862,900</u>
Total Positive Variance - Unrestricted General Fund	<u>\$ 5,265,826</u>

Revenues:

For the year ended June 30, 2018, total unrestricted General Fund revenues resulted in a negative variance of \$597,074.

Interest revenues were higher than anticipated as a result of increasing rates on the Board's cash accounts along with the utilization of a money market sweep account. The increase was better than planned by \$38,098. Interest rates are showing growth after being at historic lows for years.

Medicare Part D revenues show an unfavorable variance of \$100,638. 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

Management's Discussion and Analysis (MD&A)
June 30, 2018

Special Education private placement revenue had a negative budget variance of \$543,127. The budget for Special Education private placement is an estimate based on the anticipated state formula and number of students served. The number of students requiring these intensive services decreased significantly. The students served required fewer days of service and less intensive service than budgeted.

Other revenues were over budget, creating a net favorable variance in the amount of \$8,593.

Expenditures and Inter-fund transfers:

For the year ended June 30, 2018, total unrestricted General Fund expenditures resulted in a positive variance of \$5,862,900.

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 transportation office constantly evaluates busing routes to minimize costs to the school system.

Administrative costs were higher than budget for certain objects. Salaries were higher as a result of year end accruals for leave being higher than anticipated. Contracted service costs incurred by the Board were over budget by \$17,491. This includes legal, audit, and consultant fees. 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 \$11,583. 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 school system aggressively manages utility costs and has cooperative agreements that mitigate the volatility of the cost of electric and gas usage within the district.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Instructional textbooks and supplies came in slightly under budget. The school system allocates money to school principals to spend on instructional supplies. A total of \$23,960 was not spent resulting in a favorable variance. Textbook purchases were \$3,137 over plan as the district spent \$203,137 in miscellaneous textbook purchases. These variances were in non-distributed instructional funds. There were also \$10,100 in general supply savings within non-distributed instructional funds. Where possible, 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 \$297,693. Contracted services were over budget by \$16,302 while equipment made up the majority of the positive variance as computers were purchased based upon need. 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 all of the 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 Fixed charges compared to budget. As a result of staffing management and labor efficiencies, payroll related fixed charges declined compared to plan. Also, the district had lower claims than anticipated for healthcare costs.

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 \$208,499 while non-operating revenues totaled \$259,049 for fiscal year 2018. Total operating expenses were \$536,038 in fiscal year 2018 while last year's operating expenses were \$528,046. The fund had a negative change in net position of \$68,490 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 \$10,120,815 which is up about 8.8% from the prior year's revenues and expenses of \$9,302,456. Restricted revenues are in many ways tied to the availability of grants and funding. Overall, the district's participation in the Erate program for technology contributed to the increase compared to fiscal year 2017 as Erate spending increased by \$717,645. Within Special Education, there were fewer expenses charged to salaries and wages compared to the prior year.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

Food Services Fund

The Food Services fund was profitable this fiscal year with income of \$144,717 compared to the prior year's income of \$79,499. Overall, revenue decreased by \$219,577 to \$4,402,019 as the district served fewer meals compared to the prior year. However, expenses within the fund dropped to \$4,725,654 compared to fiscal year 2017's expenses of \$5,086,885. 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 focused on the construction phase of the new Allegany high school project. Fund state-direct revenues in fiscal year 2018 were \$9,415,373 compared to \$27,173,694 last year. This decrease related to the timing of the spending on construction as well as the funding source. For instance, the county's appropriation for the project was \$9,549,407 in fiscal year 2018 compared to \$136,168 contributed in fiscal year 2017. The County paid a larger portion of the project in fiscal year 2018, as planned. Current year expenses were \$28,862,188 compared to \$22,194,132 in fiscal year 2017. The 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, 2018, the School System had \$250,118,781 invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. Capital assets increased \$29,440,044 from the same time last year, net of disposals and transfers. The total net cost of assets after depreciation was \$127,185,511. Total depreciation expense for the year ended June 30, 2018 was \$5,511,468.

Continuation of construction of the new Allegany High School was the facility department's focus of the fiscal year and having the school open to students in August was critical to the district meeting the needs of its students. As a result, there were fewer overall capital projects completed during fiscal year 2018.

Debt

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

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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.

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.

THE BOARD OF EDUCATION OF ALLEGANY COUNTY
Maryland

Management's Discussion and Analysis (MD&A)
June 30, 2018

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, 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, 2018

	Primary Government			Component Unit Allegany County Building Trades Education Foundation, Inc.
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 27,080,006	\$ -	\$ 27,080,006	\$ 223,424
Accounts receivable	8,141,152		8,141,152	
Inventory	193,134		193,134	
Internal balances	(56,800)	56,800	-	
Total Current Assets	<u>35,357,492</u>	<u>56,800</u>	<u>35,414,292</u>	<u>223,424</u>
Noncurrent Assets:				
Non-depreciable capital assets	60,548,752	-	60,548,752	75,584
Depreciable capital assets, net of depreciation	66,616,581	20,178	66,636,759	
Net OPEB Asset	7,280,202		7,280,202	
Total Noncurrent Assets	<u>134,445,535</u>	<u>20,178</u>	<u>134,465,713</u>	<u>75,584</u>
TOTAL ASSETS	<u>\$ 169,803,027</u>	<u>\$ 76,978</u>	<u>\$ 169,880,005</u>	<u>\$ 299,008</u>
Deferred Outflow Of Resources:				
Deferred outflows of resources related to pension	1,247,754	-	1,247,754	-
LIABILITIES				
Current Liabilities:				
Accounts payable	\$ 7,121,788	\$ 5,894	\$ 7,127,682	\$ -
Salaries and benefits payable	771,162	13,100	784,262	
Grant Advances	1,880,599		1,880,599	
Accrued hospital insurance	5,103,117		5,103,117	
Current portion of long-term capital leases	159,979		159,979	
Current portion of long-term debt	249,073		249,073	
Other current liabilities	1,693,574		1,693,574	
Total Current Liabilities	<u>16,979,292</u>	<u>18,994</u>	<u>16,998,286</u>	<u>-</u>
Noncurrent Liabilities:				
Long-term portion of capital leases	218,495		218,495	
Long-term portion of compensated absences	2,127,141		2,127,141	
Net Pension Liability	5,657,005		5,657,005	
Total Noncurrent Liabilities	<u>8,002,641</u>	<u>-</u>	<u>8,002,641</u>	<u>-</u>
TOTAL LIABILITIES	<u>24,981,933</u>	<u>18,994</u>	<u>25,000,927</u>	<u>-</u>
Deferred Inflow Of Resources:				
Deferred inflows of resources related to OPEB	38,998		38,998	
Deferred inflows of resources related to pension	417,929		417,929	
	456,927		456,927	
NET POSITION				
Invested in capital assets, net of related debt	126,786,859	20,178	126,807,037	
Restricted for:				
OPEB	7,280,202		7,280,202	
Capital projects	2,881,440		2,881,440	
Food inventories	193,134		193,134	
Unrestricted	8,470,286	37,806	8,508,092	299,008
TOTAL NET POSITION	<u>\$ 145,611,921</u>	<u>\$ 57,984</u>	<u>\$ 145,669,905</u>	<u>\$ 299,008</u>

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

BOARD OF EDUCATION OF ALLEGANY COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Function/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Allegany County Building Trades Education Foundation, Inc
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government							
Governmental activities:							
Administration	2,653,224	\$ -	\$ 13,394	\$ 7,495	\$ (2,632,335)	\$ -	\$ (2,632,335)
Mid-level administration	6,842,931		272,364		(6,570,567)		(6,570,567)
Instruction - salaries	40,495,347		2,218,512		(38,276,835)		(38,276,835)
Instruction - textbooks & instructional supplies	2,214,646		236,378		(1,978,268)		(1,978,268)
Instruction - other	2,712,901		1,690,491	14,894	(1,007,516)		(1,007,516)
Student personnel services	572,725		4,000		(568,725)		(568,725)
Health services	1,025,317		287,341		(737,976)		(737,976)
Student transportation	5,977,240		67,795		(5,909,445)		(5,909,445)
Operation of plant and equipment	7,420,134				(7,420,134)		(7,420,134)
Maintenance of plant	1,667,330				(1,667,330)		(1,667,330)
Fixed charges	23,232,952		2,134,513		(21,098,439)		(21,098,439)
on behalf, retirement	6,986,216		6,986,216				
on behalf, nurses, security & mental health	717,844		717,844				
Community Services	471,253		471,253				
Capital outlay	52,033			18,964,780	18,912,747		18,912,747
Special education	17,890,424		3,001,747		(14,888,677)		(14,888,677)
Food Service	4,715,867	1,061,410	3,340,583		(313,874)		(313,874)
Interest on capital leases	29,948				(29,948)		(29,948)
Unallocated depreciation expense (excludes direct depreciation)	4,928,521				(4,928,521)		(4,928,521)
Total Governmental Activities	130,606,853	1,061,410	21,442,431	18,987,169	(89,115,843)		(89,115,843)
Business-type activities:							
Information Technology	536,038	467,548			(68,490)		(68,490)
Total Business-type Activities	536,038	467,548			(68,490)		(68,490)
Total Primary Government	\$ 131,142,891	\$ 1,528,958	\$ 21,442,431	\$ 18,987,169	\$ (89,115,843)	\$ (68,490)	\$ (89,184,333)
Component unit							
Allegany County Building Trades Education Foundation, Inc	13,553		2,865				(10,690)
Total Component Unit	\$ 13,553	\$ -	\$ 2,865	\$ -	\$ -	\$ -	\$ (10,690)
General Revenues:							
County appropriation							
Regular							
Grants, subsidies, and contributions not restricted							
Investment earnings/loss							
Miscellaneous income							325
Gain/loss on disposal of fixed assets							12,745
Total General Revenues, Special Items, Extraordinary Items and Transfers							13,070
Change in Net Position							
Net Position - July 1, 2017, as restated							2,380
Net Position - June 30, 2018							2,996,628
Net Position - July 1, 2017, as restated							2,996,628
Net Position - June 30, 2018							\$ 145,669,905
							\$ 299,008

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 16,541,414	\$ -	\$ 38,288	\$ 10,500,304	\$ 27,080,006
Accounts receivable	1,821,871	1,438,189	129,276	4,751,816	8,141,152
Inventory - food			193,134		193,134
Internal receivables	5,058,040	1,004,172	252,864		6,315,076
TOTAL ASSETS	23,421,325	2,442,361	613,562	15,252,120	41,729,368
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	1,906,578	507,739	29,237	4,304,626	6,748,180
Salaries and benefits payable	686,060	54,023	31,079		771,162
Internal payables				6,745,484	6,745,484
Grant Advances		1,880,599			1,880,599
Accrued hospital insurance	5,103,117				5,103,117
Current portion of long-term debt	249,073				249,073
Other current liabilities	1,648,105		45,469		1,693,574
TOTAL LIABILITIES	9,592,933	2,442,361	105,785	11,050,110	23,191,189
FUND BALANCES					
Nonspendable - Food Inventories			193,134		193,134
Restricted - Capital Projects				2,881,440	2,881,440
Assigned to:					
Unemployment Benefits	50,000				50,000
Capital Projects				1,320,570	1,320,570
Food Service			314,643		314,643
Unassigned	13,778,392				13,778,392
TOTAL FUND BALANCES	13,828,392	-	507,777	4,202,010	18,538,179
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,421,325	\$ 2,442,361	\$ 613,562	\$ 15,252,120	\$ 41,729,368

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, 2018

Total Fund Balances - Governmental Funds \$ 18,538,179

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

Capital Assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of assets is \$249,634,835 and the accumulated depreciation is \$122,469,502. 127,165,333

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	(5,657,005)	
Deferred outflows of resources - pension	1,247,754	
Deferred inflows of resources - pension	<u>(417,929)</u>	(4,827,180)

The other post-employment benefits asset for the school system is not received or payable with current financial resources and is not reported in the general funds. The activity associated with the school system's share of the other post-employment benefits asset consist

Net other post-employment benefits asset	7,280,202	
Deferred inflows of resources - other post-employment benefits	<u>(38,998)</u>	7,241,204

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. (2,127,141)

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. (378,474)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 145,611,921

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, 2018

	General Fund (Current Expense) Unrestricted	(Current Expense) Restricted	Food Service	School Construction	Total Governmental Funds
REVENUES					
County - regular appropriation	\$ 30,424,308	\$ -	\$ -	\$ 9,549,407	\$ 39,973,715
- on behalf, nurses, security & mental health	717,844				717,844
State - direct	79,880,772	728,818	148,830	9,415,373	90,173,793
- on behalf, retirement	6,986,216				6,986,216
Federal - direct			294,110		294,110
- received through State		6,319,112	2,897,643		9,216,755
- received through Pass-Thru Agency	299,362	1,708,272			2,007,634
Other revenue	368,153	1,364,613	1,061,436	77,067	2,871,269
TOTAL REVENUES	118,676,655	10,120,815	4,402,019	19,041,847	152,241,336
EXPENDITURES					
Administration	2,249,272	20,889			2,270,161
Mid-level administration	6,570,567	272,364			6,842,931
Instruction - salaries	38,451,760	2,218,512			40,670,272
Instruction - textbooks & instructional supplies	1,837,054	236,378			2,073,432
Instruction - other	1,435,897	1,705,385			3,141,282
Student personnel services	568,725	4,000			572,725
Health services	737,976	287,341			1,025,317
Student transportation	5,854,097	67,795			5,921,892
Operation of plant and equipment	7,388,635				7,388,635
Maintenance of plant	1,662,956				1,662,956
Fixed charges	21,931,285	1,835,151			23,766,436
- on behalf, retirement	6,986,216				6,986,216
- on behalf, nurses, security & mental health	717,844				717,844
Community Services		471,253			471,253
Capital outlay	202,653			28,862,188	29,064,841
Special education	14,888,677	3,001,747			17,890,424
Food Service			4,725,654		4,725,654
Capital lease payments					
Principal	153,652				153,652
Interest	29,948				29,948
TOTAL EXPENDITURES	111,667,214	10,120,815	4,725,654	28,862,188	155,375,871
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,009,441	-	(323,635)	(9,820,341)	(3,134,535)
OTHER FINANCING SOURCES (USES)					
Interfund transfers	(1,743,615)		468,352	87,357	(1,187,906)
TOTAL OTHER FINANCING SOURCES (USES)	(1,743,615)	-	468,352	87,357	(1,187,906)
NET CHANGE IN FUND BALANCES	5,265,826	-	144,717	(9,732,984)	(4,322,441)
FUND BALANCE - JULY 1, 2017	8,562,566	-	363,060	13,934,994	22,860,620
FUND BALANCE - JUNE 30, 2018	\$ 13,828,392	\$ -	\$ 507,777	\$ 4,202,010	\$ 18,538,179

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, 2018

Total Net Change in Fund Balance - Governmental Funds		\$ (4,322,441)				
Amounts reported for governmental activities in the statement of activities are different because:						
Long-term accrued compensated absences are not reported in governmental funds as a liability. However, in the statement of activities, the long-term absences are reported as current expense. The net amount of long term accrued compensated absences is a decrease of \$174,925.		174,925				
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeds capital outlays in the period.	<table style="margin-left: auto; margin-right: auto;"> <tr> <td style="padding-right: 20px;">Depreciation expense</td> <td style="text-align: right;">(5,498,136)</td> </tr> <tr> <td>Capital Outlays</td> <td style="text-align: right;"><u>29,664,141</u></td> </tr> </table>	Depreciation expense	(5,498,136)	Capital Outlays	<u>29,664,141</u>	24,166,005
Depreciation expense	(5,498,136)					
Capital Outlays	<u>29,664,141</u>					
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.		610,765				
The net income related to other post-employment benefits is not reflected as a source of current financial resources and therefore, is not reported in the governmental funds.		851,576				
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.		153,652				
Governmental funds report the proceeds from the sale of capital assets as income. However, in the statement of activities the sale of capital assets are reported net of the remaining book value of the assets as either a gain or loss. The remaining book value of assets disposed of during the year was \$16,966.		<u>(16,966)</u>				
TOTAL CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 21,617,516</u>				

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

BOARD OF EDUCATION OF ALLEGANY COUNTY

**STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 June 30, 2018**

	<u>Information Technology Fund</u>
ASSETS	
Current Assets:	
Internal receivables	\$ 56,800
Total Current Assets	<u>56,800</u>
Noncurrent Assets:	
Machinery and equipment, net of depreciation	<u>20,178</u>
Total Noncurrent Assets	<u>20,178</u>
TOTAL ASSETS	<u><u>76,978</u></u>
LIABILITIES	
Current Liabilities:	
Accounts payable	5,894
Salaries and benefits payable	<u>13,100</u>
Total Current Liabilities	<u>18,994</u>
TOTAL LIABILITIES	<u>18,994</u>
NET POSITION	
Invested in capital assets, net of related debt	20,178
Unrestricted	<u>37,806</u>
TOTAL NET POSITION	<u>57,984</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ <u>76,978</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, 2018

	<u>Information Technology Fund</u>
OPERATING REVENUES	
County - regular appropriation	\$ 188,456
Other sources	<u>20,043</u>
Total Operating Revenues	<u>208,499</u>
OPERATING EXPENSES	
Salaries and wages	340,598
Contracted services	71,580
Supplies and materials	2,775
Other charges	105,780
Equipment replacement	1,973
Depreciation	<u>13,332</u>
Total Operating Expenses	<u>536,038</u>
Operating Income (Loss)	(327,539)
NON-OPERATING REVENUE	
Interfund Transfers	<u>259,049</u>
Total Non-operating Revenues	<u>259,049</u>
Change in Net Position	(68,490)
TOTAL NET POSITION - JULY 1, 2017	<u>126,474</u>
TOTAL NET POSITION - JUNE 30, 2018	<u>\$ 57,984</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, 2018**

	Information Technology Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 209,332
Cash received from quasi-external operation transactions with other funds	259,049
Cash paid to suppliers	(182,111)
Cash payments to employees	(340,428)
Net Cash (Used) by Operating Activities	(54,158)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Change in due to/from other funds	54,158
Net change in Cash	-
Cash and cash equivalents, beginning of year	-
Cash and cash equivalents, end of year	\$ -
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Change in net position	\$ (68,490)
Adjustments to reconcile change in net position to net cash provided by operations:	
Depreciation	13,332
Change in assets and liabilities	
Decrease (increase) in account receivable	833
Increase (decrease) in accounts payable	(3)
Increase (decrease) salaries & benefits payable	170
Total Adjustments	14,332
Net Cash (Used) by Operating Activities	\$ (54,158)

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, 2018

	<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>
ASSETS					
Cash and cash equivalents	\$ 1,680,991		\$ -	\$ -	\$ 1,680,991
Investments	542,096		10,467,585	1,856,701	12,866,382
Accounts receivable	7,921				7,921
Internal receivables		373,608			373,608
TOTAL ASSETS	<u>2,231,008</u>	<u>373,608</u>	<u>10,467,585</u>	<u>1,856,701</u>	<u>14,928,902</u>
LIABILITIES					
Accounts payable	25,113	18,774			43,887
School Activity Advances	2,205,895				2,205,895
TOTAL LIABILITIES	<u>2,231,008</u>	<u>18,774</u>		<u>-</u>	<u>2,249,782</u>
NET POSITION					
Designated for future retiree benefits	-	354,834			354,834
Held in trust for retiree health plan benefits	-		10,467,585	1,856,701	12,324,286
TOTAL NET POSITION	<u>-</u>	<u>354,834</u>	<u>10,467,585</u>	<u>1,856,701</u>	<u>12,679,120</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 2,231,008</u>	<u>\$ 373,608</u>	<u>\$ 10,467,585</u>	<u>\$ 1,856,701</u>	<u>\$ 14,928,902</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, 2018

	<u>School Activities</u>	<u>Retiree Insurance Benefit Plan</u>	<u>Retiree Insurance Benefit Trust</u>	<u>Retiree Health Plan Trust</u>	<u>Total Fiduciary Funds</u>
ADDITIONS					
Student activity revenues	\$ 2,753,075			\$ -	\$ 2,753,075
Transfers		928,857			928,857
Earnings/loss on investment		1,903	716,628	122,145	840,676
DEDUCTIONS					
Student activity expenses	2,753,075				2,753,075
Retiree benefits		1,315,385			1,315,385
CHANGE IN NET POSITION	-	(384,625)	716,628	122,145	454,148
NET POSITION - JULY 1, 2017	-	739,459	9,750,957	1,734,556	12,224,972
NET POSITION - JUNE 30, 2018	<u>\$ -</u>	<u>\$ 354,834</u>	<u>\$ 10,467,585</u>	<u>\$ 1,856,701</u>	<u>\$ 12,679,120</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. The Board also reports deferred inflows of resources related to its Other Post-Employment Benefits or OPEB. See Note 11. 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, 2018, \$2,881,440 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, 2018 is \$193,134.

I. Compensated Absences

Accumulated earned vacation time is accrued when incurred. At June 30, 2018, \$1,606,899 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, 2018, \$249,073 has been accrued as the current portion of this liability on the Fund Balance Sheet. The long-term portion of \$2,127,141 has been recorded in the government-wide statement of net position. Long-term compensated absences decreased in the current year by \$174,925 over the prior year total of \$2,302,066.

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, 2018 is as follows:

Payable Fund	Receivable Fund	Amount
General Fund	Restricted	\$ 1,004,172
School Construction	General Fund	(6,745,484)
General Fund	Retiree Ins.	373,608
General Fund	Food Service	252,864
General Fund	Information Technology	56,800
		\$ (5,058,040)

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land	N/A	N/A
Buildings and Improvements	7-50 years	N/A
Furniture, Equipment, and Vehicles	5-20 years	5-20 years
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, 2018, 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. 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, 2017 of \$6,932,618, and a balance at June 30, 2018 of \$5,657,005. The liability balance decreased \$1,275,613 during the current year. No portion of the balance is considered due within one year.

T. Cash and Cash Equivalents

Cash includes currency on hand as well as demand deposits with banks or financial institutions. It also includes other kinds of accounts that have the general characteristics of demand deposits in that the Entity may deposit additional funds at any time and also effectively may withdraw funds at any time without prior notice or penalty. Cash equivalents, excluding items classified as marketable securities, include short-term, highly liquid investments that are both readily convertible to known amounts of cash, and so near their maturity that they present minimal risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less qualify under that definition.

U. Investments

Due to Board's investment practices being governed by the Annotated Code of the State of Maryland, investment activity includes certificates of deposit, money market funds, instruments of the U.S. Treasury, and repurchase agreements secured by the U.S. Treasury and other federal securities with maturities of three months or longer qualify as investments.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 3 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2018, was as follows:

	Balance 6/30/17	Additions	Disposals	Transfers	Balance 6/30/18
Governmental Activities					
Non-depreciable assets:					
Land	\$ 4,208,336	\$ -	\$ -	\$ -	\$ 4,208,336
Construction-in-progress	27,478,069	28,862,347	-	-	56,340,416
Total Non-depreciable assets	31,686,405	28,862,347	-	-	60,548,752
Depreciable assets:					
Land Improvements	9,480,574	40,330	-	-	9,520,904
Buildings and Improvements	158,994,329	137,989	-	-	159,132,318
Furniture, Equipment, and Vehicles	20,033,483	764,689	(365,311)	-	20,432,861
Total Depreciable assets	188,508,386	943,008	(365,311)	-	189,086,083
Less accumulated depreciation:					
Land Improvements	(3,902,216)	(475,940)	-	-	(4,378,156)
Buildings and Improvements	(98,690,823)	(3,765,682)	-	-	(102,456,505)
Furniture, Equipment, and Vehicles	(14,726,672)	(1,256,514)	348,345	-	(15,634,841)
Total accumulated depreciation	(117,319,711)	(5,498,136)	348,345	-	(122,469,502)
Total capital assets being depreciated	71,188,675	(4,555,128)	(16,966)	-	66,616,581
Governmental Activities Capital Assets, Net	\$ 102,875,080	\$ 24,307,219	\$ (16,966)	\$ -	\$ 127,165,333
Business-Type Activities					
Non-depreciable assets:					
Construction-in-progress	\$ -	\$ -	\$ -	-	\$ -
Total Non-depreciable assets	-	-	-	-	-
Depreciable assets:					
Furniture, Equipment, and Vehicles	483,946	-	-	-	483,946
Less accumulated depreciation	(450,436)	(13,332)	-	-	(463,768)
Business-Type Activities Capital Assets, Net	\$ 33,510	\$ (13,332)	\$ -	\$ -	\$ 20,178
* Depreciation was charged to governmental functions as follows:					
Administration	\$ 159,920				
Student transportation	245,218				
Operation of plant and equipment	31,499				
Maintenance of plant	129,878				
Food Service	3,100				
Unallocated	4,928,521				
Total Depreciation Expense	\$ 5,498,136				

The insurance value of capital assets as of June 30, 2018 is \$344,110,548.

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 \$307,293. 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, 2017 (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.

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 2017. 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, 2017, 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, 2018 were \$6,986,216, 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, 2018 were \$2,672,424 and \$555,670 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 \$101,064,417 as of June 30, 2017. The net pension liability was measured as of June 30, 2017 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, 2017, actuarially determined. As June 30, 2017, 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, 2018, the Board reported a liability of \$5,657,005 for its proportionate share of the ERS and EPS net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, actuarially determined. At June 30, 2017, the Board's proportion was 0.026 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, 2018 was (\$55,094).

At June 30, 2018, 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	\$ 252,722	\$
Net difference between projected and actual earnings	439,362	
Difference between actual and expected experience		417,929
Board contributions to the Employees' Pension System subsequent to the measurement date	555,670	
Total	\$ 1,247,754	\$ 417,929

\$555,670 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, 2018. 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:		
2019	\$	108,139
2020		242,676
2021		84,890
2022		(121,467)
2023		(40,084)
		(40,084)
Total	\$	274,154

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, 2017 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	2.65% general, 3.15% wage
Salary increases	3.15% to 9.15%, including wage inflation
Discount rate	7.50%
Investment rate of return	7.50%
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	36.00%	5.30%
Private Equity	11.00%	7.00%
Rate Sensitive	21.00%	1.20%
Credit Opportunity	9.00%	3.60%
Real Assets	15.00%	5.70%
Absolute Return	8.00%	3.10%
Total	<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 7.50 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 7.50 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 (6.50 percent) or 1-percentage-point higher (8.50) than the current rate:

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
	_____	_____	_____
Board's proportionate share of the net pension liability	\$ 8,017,093	\$ 5,657,003	\$ 3,698,795

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 \$933 to the Board to supplement educational programs. The Board provided \$387 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 the Foundation in exchange for the curriculum the Foundation provides to the Board's students. The Board provided \$2,865 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, 2018, the carrying amount of the Board's reconciled bank deposits was \$27,303,430 and the various bank balances were \$28,309,775. Of the bank balances, \$578,478 was covered by depository insurance and \$1,106,810 was covered by collateral held by M&T Bank in the Board's name. There are total uninsured and uncollateralized deposits of \$26,570,488, which are held in sweep accounts backed by the U.S. government. Additional information is presented below regarding these sweep accounts. Total deposits include the cash balance for the Allegany County Building Trades Foundation.

During fiscal 2018, the Board implemented sweep accounts for its main checking and operating accounts. The sweep accounts are invested in a Government Money Market Fund as defined in Rule 2a-7 under the Investment Company Act of 1940, as amended. This means that the fund invests at least 99.5% of its total assets in (1) U.S. government securities, (2) repurchase agreements that are collateralized fully by U.S. government securities or cash, (3) cash, and/or (4) other money market mutual funds that operate as Government Money Market Funds. As a result, the cash on hand at June 30, 2018 includes \$26,754,856 in Government Money Market Funds, net of outstanding checks, that while not risk free have low risk and are highly liquid.

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 at year end.

As of June 30, 2018, the Board's local investments in certificates of deposit and maturities are outlined as follows:

	Fair Value	Investment Maturity in Months			
		Less Than 1	1-6	6-12	More Than 12
Certificates of Deposit	\$542,096	\$18,797	\$58,537	\$30,762	\$434,000

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 for investments outside the MABE pooled investment trust 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.

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, 2018 was \$223,424 and the balance per bank was \$223,424. This amount is fully insured by federal depository insurance.

NOTE 9 - ON-BEHALF PAYMENTS

The State of Maryland paid \$6,986,216 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 \$1,471,705 of which \$941,664 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 \$157,633 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 \$5,103,117 in accrued expenses on the balance sheet to cover incurred but not reported claims. This amount increased by \$1,706,107 from the prior year amount of \$3,397,010, and was based on total claims paid of \$19,269,170 and \$20,035,803 for 2018 and 2017, 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, 2018. 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 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 cost \$57,134,581 and the Board's portion was \$3,704,673. To date, the Board's contribution has been utilized for architectural and engineering costs as well as some demolition costs.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

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

In fiscal year 2018, GASB issued a new accounting standard for the employer of OPEB plans (Statement No. 75 Accounting and Reporting for Postemployment Benefits Other than Pensions). The Board adopted and implemented this standard. The information disclosed for GASB 75, as it relates to the employer of the OPEB plan, supersedes the previous year's presentation of GASB 45 information, such as Net OPEB obligation.

Since 1992, a new policy was implemented to subsidize a portion of the retiree's health care premiums. For 2018, a maximum subsidy for all retirees of \$325,000 was Board approved. The total annual amount of the subsidy for the 2017-2018 fiscal year is as follows for 126 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	\$105,797
30 or more years	\$ 0	\$186,108

Plan Description

In 2000, the "Retiree Insurance Benefit Plan" was established to subsidize a portion of future retirees' health care costs. Eligible employees retiring after June 30, 2002 will be covered under this plan. Eligible employees who retired prior to July 1, 2002 will continue to receive supplements under the plan described in the previous paragraph. The Board contributed \$928,857 toward the fund during the fiscal year ended June 30, 2018. Interest income is calculated and added to the fund balance.

The Retiree Insurance Benefit Plan is an independent fund jointly established by the Board of Education of Allegany County and four bargaining units to reimburse eligible retirees a portion of their post-retirement health insurance costs. 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.

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 GYL Financial Synergies 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 11 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

At June 30, 2018 the net position of the MABE Trust was valued at \$339.86 million; the School System's interest was \$12,324,286 which is held in trust for the OPEB liability. Certain investments in the trust are measured at net asset value and as such are not subject to fair value disclosure leveling. The pool does not carry a credit quality rating.

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 1st 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 withdraw its allocated investment balance from the fund by providing written notification six months prior to the intended date of withdrawal.

Plan Membership and Benefits Provided

In addition to subsidizing a portion of retiree health care benefits, 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. As of the July 1, 2016 actuarial valuation date, plan membership included 1,127 active employees that may receive this benefit in the future and 749 retirees and beneficiaries that are currently eligible for this benefit. 675 retirees are taking advantage of some portion of retiree benefits as of June 30, 2018. 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. Employees must actually retire from the Board and begin receiving retirement benefits from the State of Maryland without any time break between the last day of employment and their retirement date. Employees must retire July 1, 2002, or thereafter. The retiree pays the premiums for these benefits but is eligible for a reduction of the premium based upon years of service and age. Retirees with 30 years of service are eligible for the maximum benefit. Retirees with more than 25 years, but less than 30 years of services are eligible for 85% of the maximum benefit. Retirees with over 20 years of service, but less than 25 years of service are eligible for 70% of the maximum benefit. Retirees with over 15 years of service but less than 20 years of service are eligible for 55% of the maximum benefit. The fund will reimburse for health, dental, vision, and prescription premiums paid toward the Board insurance, other employer provided insurance, private policies, and/or Medicare B. Retirees can be covered by any health insurance plan they choose.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

They can be covered by any combination of the Board's health insurance, their spouse's insurance and/or a supplemental health insurance policy. If the employee dies in service July 1, 2002, or thereafter, their spouse may be eligible for benefits as explained in the negotiated contract.

Actuarial Methods and Assumptions .

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Valuation Date:	July 1, 2016
Measurement Date	June 30, 2018
Amortization Method	Entry Age Normal
Inflation	2.0 percent
Salary Increases	4.0 percent
Discount Rate	7.0 percent
Investment Rate of Return	7.0 percent

Mortality:

RP 2000 Mortality table with AA generational improvement. The RP-2000 generational mortality table is used pending the review of the Society of Actuaries mortality study on governmental plans released earlier this year.

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 linearly 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Investments

The MABE Trust’s policy in regard to the allocation of invested assets is established and may be amended by the Trustees by a majority vote of its members. It is the policy of the Trust to pursue an investment strategy that emphasizes growth of principal while avoiding excess risk. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable market index. The MABE Trust’s investment policy discourages the use of cash equivalents, except for liquidity purposes and aims to refrain from dramatically shifting asset allocations over short time spans.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	59.90%	7.60%
Fixed Income	37.10%	4.01%
Cash	3.00%	2.30%
TOTAL	100.00%	

The projected level of plan assets are sufficient to cover projected future obligated payments.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

Rate of Return on Investments

For the year ended June 30, 2018, the annual money-weighted rate of return on investments net of investment expense was 7.30 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Actual future returns may vary due to the timing of capital contributions and redemptions.

Change in Net OPEB Asset

	<u>Total OPEB (Liability)</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Asset</u>
Balance at July 1, 2017	\$ (5,095,885)	\$ 11,485,513	\$ 6,389,628
Changes for the year:			
Service cost	(141,859)	-	(141,859)
Interest	(338,405)	-	(338,405)
Difference between expected and actual experience	-	-	-
Assumption changes	-	-	-
Contributions - employer	-	532,065	532,065
Contributions - employee	-	-	-
Net investment income	-	852,269	852,269
Benefit payments	532,065	(532,065)	-
Administrative expense	-	(13,496)	(13,496)
Other changes	-	-	-
Net changes	<u>51,801</u>	<u>838,773</u>	<u>890,574</u>
Balance at June 30, 2018	<u>\$ (5,044,084)</u>	<u>\$ 12,324,286</u>	<u>\$ 7,280,202</u>

For the year ended June 30, 2018, the Board recognized OPEB benefit of \$319,511.

Sensitivity of the net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Board, as well as what the Board's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.0 percent) or 1-percentage-point higher (8.0 percent) than the current discount rate:

	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Board's Share of net OPEB asset	<u>\$6,916,681</u>	<u>\$7,280,202</u>	<u>\$7,618,533</u>

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

Sensitivity of the net OPEB Asset to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB asset of the Board, as well as what the Board's net OPEB asset would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (7.0 percent decreasing to 4.0 percent) or 1-percentage-point higher (9.0 percent decreasing to 6.0 percent) than the current healthcare rates:

	1% Decrease (7.0% to 4.0%)	Current Discount Rate (8.0% to 5.0%)	1% Increase (9.0% to 6.0%)
Board's health care cost trend	<u>\$ 7,719,972</u>	<u>\$ 7,280,202</u>	<u>\$ 6,767,785</u>

Deferred Outflows and Deferred Inflows of Resources Related to Other Post-Employment Benefits

At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ -	\$ -
Net difference between projected and actual earnings	-	-
Difference between actual and expected experience	-	(38,998)
Board contributions to the OPEB subsequent to the measurement date	-	-
	<u>\$ -</u>	<u>\$ (38,998)</u>

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2019	\$ (9,749)
2020	(9,749)
2021	(9,749)
2022	(9,751)
2023	-
Total	<u><u>\$ (38,998)</u></u>

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 2024. The total capital lease obligation as of June 30, 2018 was \$378,474 with \$159,979 representing the current portion and \$218,495 representing the long-term portion. In fiscal 2017, the capital lease obligation was \$390,913 of which \$143,115 was current and \$247,798 was considered long-term. The detail of the \$12,439 decrease in the total capital lease liability is presented below. The capital lease obligations are secured by the equipment under lease.

Capital Lease Liability at June 30, 2017	\$ 390,913
Additional Lease Obligations	141,214
Payments on Capital Lease Liability	<u>(153,653)</u>
Capital Lease Liability at June 30, 2018	<u>\$ 378,474</u>

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, 2018:

<u>Year Ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 159,979	\$ 23,807	\$ 183,786
2020	100,631	13,243	113,874
2021	56,236	7,295	63,531
2022	37,867	3,512	41,379
2023	21,668	908	22,576
2024	<u>2,093</u>	<u>21</u>	<u>2,114</u>
Total	<u>\$ 378,474</u>	<u>\$ 48,786</u>	<u>\$ 427,260</u>

The portion of the lease payments that are for service and materials have not been capitalized. Minimum total future lease payments, including the amounts for service and materials, as of June 30, 2018 follow:

<u>Year ended June 30:</u>	<u>Minimum Lease Payments</u>
2019	\$ 340,679
2020	216,117
2021	127,234
2022	85,981
2023	51,810
2024	<u>5,910</u>
Total	<u>\$ 827,731</u>

The following is equipment acquired through capital leases, which is included in capital assets on the statement of net position at June 30, 2018:

Cost	\$837,048
Less accumulated depreciation	<u>(538,120)</u>
	<u>\$298,928</u>

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 13 - FUND BALANCE

A surplus fund balance of \$13,828,392 existed in the Current Expense Fund Type, Unrestricted Fund, as of June 30, 2018. The surplus of \$13,778,392 was undesignated.

NOTE 14 - ACCOUNTS RECEIVABLE

Total accounts receivable of Governmental Funds in the financial statements as of June 30, 2018 is \$8,141,152. This total consists of the following components:

County Government	\$ 1,170,427
State Government	5,292,141
Federal Government	1,227,580
Other Local Education Agencies	21,899
Other	<u>429,105</u>
 Total	 <u>\$ 8,141,152</u>

NOTE 15 - 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, 2018 is as follows:

Balance, beginning of year	\$ 224,251
Add: Ticket surcharge collections	23,224
Interest	0
Tower rent	17,512
Less: Expenditures	<u>(6,541)</u>
Balance, end of year	<u>\$ 258,446</u>

Mountain Ridge Stadium

On March 13, 2007 the Board approved a \$1 surcharge on adult ticket sales for varsity football, varsity soccer, and varsity track sporting events held at Mountain Ridge Stadium. The funds are to be used to maintain, renovate, and upgrade Mountain Ridge Stadium. These funds are collected by Mountain Ridge High School and remitted to the central office. Once received by the central office, these funds become part of the School Construction Fund.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 15 - STADIUM FUNDS (Continued)

Mountain Ridge Stadium (Continued)

The activity for the year ended June 30, 2018 is as follows:

Balance, beginning of year	\$ 55,240
Add: Ticket surcharge collections	4,649
Interest	0
Less: Expenditures	(0)
Balance, end of year	<u>\$ 59,889</u>

NOTE 16 - 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.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 16 - FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets measured on a recurring basis at June 30, 2018 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ 542,096	\$ -	\$ -	\$ 542,096
MABE Investment Assets:				
Corporate Bonds	-	1,411,876	-	1,411,876
Corporate Asset Backed Securities	-	64,745	-	64,745
Equity Securities	3,459,034	-	-	3,459,034
Exchange Traded Funds - Equity	1,407,271	-	-	1,407,271
Municipal Bonds	-	4,710	-	4,710
US Government and Agency Fixed Income	-	-	-	-
Cash Equivalents and Other	1,051,532	-	-	1,051,532
Asset Backed Securities	-	2,159,175	-	2,159,175
Total MABE Investments by Fair Value Level	<u>5,917,837</u>	<u>3,640,506</u>	<u>-</u>	<u>9,558,343</u>
Total Investments Measured by Fair Value Level	<u>\$ 6,459,933</u>	<u>\$ 3,640,506</u>	<u>\$ -</u>	<u>\$ 10,100,439</u>
MABE Investments measured at net asset value				
Mutual Funds				<u>2,765,943</u>
Total Investments Measured at Fair Value and Net Asset Value				<u>\$ 12,866,382</u>

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.

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLE

Government-wide net position of the Board as of July 1, 2017 has been increased by \$6,389,628 due to the implementation of GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, in order to record the increase in the beginning net OPEB asset for the defined benefit OPEB plan. The impact on beginning net position is as follows:

	Governmental Activities
Net Position - beginning of year	\$ 117,604,777
Increase in net OPEB Asset	6,389,628
Net Position - beginning of year - as restated	<u>123,994,405</u>

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, 2018

	Unrestricted			Variance With Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final	Budgetary Basis	
REVENUES				
County - regular appropriation	\$ 30,424,308	\$ 30,424,308	\$ 30,424,308	\$ -
State - direct	80,426,211	80,426,211	79,880,772	(545,439)
Federal - direct	400,000	400,000	299,362	(100,638)
Other revenue	319,150	319,150	368,153	49,003
TOTAL REVENUES	111,569,669	111,569,669	110,972,595	(597,074)
EXPENDITURES				
Administration	2,408,346	2,149,297	2,249,272	(99,975)
Mid-level administration	6,673,259	6,673,259	6,570,567	102,692
Instruction - salaries	39,959,083	39,959,083	38,451,760	1,507,323
Instruction - textbooks & instructional supplies	2,022,964	2,022,964	2,020,654	2,310
Instruction - other	1,733,590	1,733,590	1,435,897	297,693
Student personnel services	627,198	627,198	568,725	58,473
Health services	732,506	732,506	737,976	(5,470)
Student transportation	6,106,584	6,106,584	5,854,097	252,487
Operation of plant and equipment	7,579,872	7,579,872	7,388,635	191,237
Maintenance of plant	1,874,911	1,874,911	1,662,956	211,955
Fixed charges	25,303,027	24,374,170	21,931,285	2,442,885
Food Service	553,861	-	-	-
Capital outlay	290,000	230,000	202,653	27,347
Special education	15,704,468	15,704,468	14,888,677	815,791
TOTAL EXPENDITURES	111,569,669	109,767,902	103,963,154	5,804,748
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	1,801,767	7,009,441	5,207,674
OTHER FINANCING SOURCES (USES)				
Interfund transfers	-	(1,801,767)	(1,743,615)	58,152
TOTAL OTHER FINANCING SOURCES (USES)	-	(1,801,767)	(1,743,615)	58,152
NET CHANGE IN FUND BALANCES	-	-	5,265,826	5,265,826
FUND BALANCE - JULY 1, 2017	8,562,566	8,562,566	8,562,566	-
FUND BALANCE - JUNE 30, 2018	\$ 8,562,566	\$ 8,562,566	\$ 13,828,392	\$ 5,265,826

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, 2018

	Restricted			Food Service		
	Budgeted Amounts		Actual	Budgeted Amounts		Actual
	Original	Final	Budgetary Basis	Original	Final	Budgetary Basis
REVENUES						
State - direct	\$ 576,395	\$ 576,395	\$ 728,818	\$ 197,500	\$ 197,500	\$ 148,830
Federal - direct						
- received through State & Pass-Thru Agencies	7,743,674	7,743,674	8,027,384	320,000	320,000	294,110
Other revenue	98,854	98,854	1,364,613	3,100,000	3,100,000	2,897,643
TOTAL REVENUES	8,418,923	8,418,923	10,120,815	4,760,000	4,760,000	4,402,019
EXPENDITURES						
Administration	13,513	13,513	20,889			
Mid-level administration	343,947	343,947	272,364			
Instruction - salaries	1,874,739	1,874,739	2,218,512			
Instruction - textbooks & instructional supplies	118,573	118,573	236,378			
Instruction - other	396,089	396,089	1,705,385			
Student personnel services	67,799	67,799	4,000			
Health services			287,341			
Student transportation	34,840	34,840	67,795			
Fixed charges	1,879,931	1,879,931	1,835,151			
Community Services	242,577	242,577	471,253			
Special education	3,446,915	3,446,915	3,001,747			
Food Service				5,313,861	5,313,861	4,725,654
TOTAL EXPENDITURES	8,418,923	8,418,923	10,120,815	5,313,861	5,313,861	4,725,654
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES						
				(553,861)	(553,861)	(323,635)
OTHER FINANCING SOURCES (USES)						
Interfund transfers				553,861	553,861	468,352
NET CHANGE IN FUND BALANCES						
						144,717
FUND BALANCE - JULY 1, 2017						
						363,060
FUND BALANCE - JUNE 30, 2018						
				\$ 363,060	\$ 363,060	\$ 507,777
						\$ 144,717

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

**BOARD OF EDUCATION OF ALLEGANY COUNTY
 REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)
 SCHEDULE OF NET OTHER POST EMPLOYMENT BENEFIT LIABILITY AND RELATED
 RATIOS
 June 30, 2018**

	2018
Actuarially determined contribution	\$ 532,065
Contributions in relation to the actuarially determined contribution	532,065
Contribution deficiency (excess)	\$ -
Covered - employee payroll	63,892,883
Contribution as a percentage of covered employee payroll	0.83%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10 year trend is completed, the Board will present the information for the years that are available.

Methods and Assumptions used to determine contribution rates:

Measurement date: June 30, 2018

Actuarial cost method: Entry age normal

Investment return: 7.0%

Discount rate: 7.0%

Mortality: RP 2000 mortality table with AA generational improvement.

Salary scale: 4.0%

Health care trend rate: 8.0% to 5.0%

Retirement age: Rates are equal to those assumed for the Maryland State Teachers Pension Plan.

**BOARD OF EDUCATION OF ALLEGANY COUNTY
REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)**

**RETIREE POST-EMPLOYMENT BENEFITS-SCHEDULE OF CHANGES IN THE
BOARD'S NET OPEB AND RELATED RATIOS**

June 30, 2018

	2018
TOTAL OPEB LIABILITY	
Service cost	\$ 141,859
Interest	338,405
Change of assumptions	-
Benefit payments	<u>(532,065)</u>
Net change in total OPEB liability	(51,801)
Total OPEB liability - beginning	5,095,885
Total OPEB liability - end	<u><u>\$ 5,044,084</u></u>
 PLAN FIDUCIARY NET POSITION	
Contributions-employer	\$ 532,065
Net investment income	838,773
Benefit payments	<u>(532,065)</u>
Net change in plan fiduciary position	838,773
Plan fiduciary net position - beginning	11,485,513
Plan fiduciary net position - end	<u><u>\$ 12,324,286</u></u>
Board's net OPEB asset - end	<u><u>\$ 7,280,202</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	244.33%
Covered employee payroll	63,892,883
Net OPEB asset as a percentage of covered-employee payroll	11.39%

This schedule is presented to illustrate the requirement to show information for 10 years. Until a full 10 year trend is completed, the Board will present the information for the years that are available.

NOTES TO SCHEDULE

Benefit changes: None

Discount Rate: 06/30/18 - 7.00%

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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Board's proportion of the net pension liability	0.03%	0.03%	0.03%	0.03%
Board's proportionate share of the net pension liability	\$5,657,005	\$6,932,618	\$6,917,608	\$5,665,273
Board's covered payroll – Employee Retirement System	\$6,517,359	\$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	86.80%	103.31%	95.94%	75.85%
Plan fiduciary net position as a percentage of the total pension liability	69.38%	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>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$555,671	\$532,468	\$572,404	\$701,601
Contributions in relation to the contractually required contribution	<u>(555,671)</u>	<u>(532,468)</u>	<u>(572,404)</u>	<u>(572,404)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$129,197</u>
Board's covered-employee payroll	\$6,491,484	\$6,517,359	\$6,710,481	\$7,210,687
Contributions as a percentage of covered-employee payroll	8.56%	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 changes in the 2017 valuation:

- Inflation assumption changed from 2.70% to 2.65% general and from 3.20% to 3.15% wage.
- Salary Increase assumption changed from a range of 3.20% to 9.20% to a range of 3.15% to 9.15%.
- Investment rate of return changed from 7.55% to 7.50%.

**BOARD OF EDUCATION OF ALLEGANY COUNTY
RECONCILIATION OF BUDGETARY BASIS TO GAAP
JUNE 30, 2018**

	Revenues	Expenditures	Current Year Effect on Fund Balance
Unrestricted Current Expense Fund Budgetary Basis	\$ 110,972,595	\$ 103,963,154	\$ 7,009,441
Retirement contribution made by the State on behalf of the Board	6,986,216	6,986,216	-
Board, and local contributions for nurses, security and mental health professionals	717,844	717,844	-
Statement of Revenues, Expenditures, and Change in Fund Balances Actuals	<u>\$ 118,676,655</u>	<u>\$ 111,667,214</u>	<u>\$ 7,009,441</u>

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 1 - BUDGET TO ACTUAL VARIANCES

General Fund

For the year ended June 30, 2018, 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 higher than budget for certain objects. The cost of Administrative salaries were slightly over budget and were driven by year end accruals to recognize earned leave. The school system's administrative contracted services within Information Technology was higher than budget based upon the timing of the implementation of the district's hosted ERP system. Also, costs associated with the facilities study performed were also higher than originally budgeted.

A favorable variance existed in mid-level administration. Salaries and wages came in slightly under plan for the year. Other charges came in under budget and were driven by lower travel costs than anticipated. The school system 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. Contracted Services were also under budget primarily as a result of lower software maintenance costs. 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. There were also some open positions. During the next budget cycle, these positions are critically reviewed to determine if a permanent position is required. Instructional textbooks and supplies came in on budget.

BOARD OF EDUCATION OF ALLEGANY COUNTY

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION

NOTE 1 - BUDGET TO ACTUAL VARIANCES (Continued)

General Fund (Continued)

In total, other instructional expenditures came in under budget. However, contracted services as a category was over budget for the year as the school system saw a significant increase in the number of students who were dually enrolled compared to the budget. This was the primary reason for the increase in costs of the category. 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 and historic usage trends. The total number of students served in this demographic declined substantially. Participants required fewer days of service and less intensive service than budgeted. Special Education was slightly over budget within salaries. Also, contracted services for occupational and physical therapy were higher than budgeted based upon the needs of the students.

Student transportation was under budget overall and largely within contracted services 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 monitors and adjusts bus routes as appropriate. Overall contracted services was under budget by \$233,824.

The operations area was able to come in under budget overall, but did overspend a few lines within the categories. Overall, salaries were lower than anticipated within the budget. Supplies and materials was over budget as a result of the classification of some technology supplies. Contracted service needs were further refined which led to additional savings compared to budget. There was also an overage within the equipment line item as there were two new school communication systems installed during the year.

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. The facilities department came in under budget in labor, contracted services, supplies, other charges and equipment. Equipment came in under budget as the facilities department did not spend all 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 1 - 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, 2018. 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 \$1,146,670.

Special Revenue Fund – Food Service

The Food Service Special Revenue Fund for the year ended June 30, 2018 had a 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. Expenditures were less than budget for the fiscal year. While labor costs were less than planned, the cost of contracted services and other charges exceeded the plan. Overall, 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 2 - 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, 2018**

	<u>Balances June 30, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balances June 30, 2018</u>
HIGH SCHOOLS				
Allegany	\$ 241,411	\$ 541,204	\$ 462,143	\$ 320,472
Center for Career and Technical Education	83,512	141,987	147,126	78,373
Fort Hill	98,314	485,357	473,974	109,697
Mountain Ridge	<u>277,925</u>	<u>572,985</u>	<u>567,752</u>	<u>283,158</u>
Total High Schools	<u>701,162</u>	<u>1,741,533</u>	<u>1,650,995</u>	<u>791,700</u>
MIDDLE SCHOOLS				
Braddock	35,290	94,125	102,538	26,877
Mount Savage	85,312	138,157	133,956	89,513
Washington	78,948	75,511	69,461	84,998
Westmar	<u>42,931</u>	<u>53,215</u>	<u>50,652</u>	<u>45,494</u>
Total Middle Schools	<u>242,481</u>	<u>361,008</u>	<u>356,607</u>	<u>246,882</u>
ELEMENTARY SCHOOLS				
Beall	32,118	53,847	61,765	24,200
Bel Air	20,964	24,420	30,698	14,686
Cash Valley	28,383	34,426	37,040	25,769
Cresaptown	84,379	41,609	27,386	98,602
Flintstone-school	181,417	40,360	24,583	197,194
Flintstone-McLuckie	362,630	4,601	13,601	353,630
Frost	98,923	34,196	29,992	103,127
Georges Creek	56,860	54,971	52,247	59,584
John Humbird	32,666	23,800	17,070	39,396
Northeast	73,606	47,606	46,783	74,429
Parkside	14,439	29,182	27,282	16,339
South Penn	52,952	79,640	77,873	54,719
West Side	93,430	144,660	163,700	74,390
Westernport	<u>33,479</u>	<u>37,218</u>	<u>39,449</u>	<u>31,248</u>
Total Elementary Schools	<u>1,166,246</u>	<u>650,536</u>	<u>649,469</u>	<u>1,167,313</u>
TOTAL SCHOOLS	<u>\$ 2,109,889</u>	<u>\$ 2,753,077</u>	<u>\$ 2,657,071</u>	<u>\$ 2,205,895</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, 2018 and for the year then ended was intended for the purpose of formulating an opinion on the basic financial statements taken as a whole. The Board of Education of Allegany County has no jurisdiction, direct or indirect, over the Debt Service Fund for Public School Construction, and the fund is, consequently, outside the scope of our audit. Therefore, detailed information with respect to the Debt Service Fund is not included in this report.

Maryland law passed in 1971 provides for payment by the State of all costs, in excess of available federal funds, of all approved public school construction and capital improvements projects in its counties and Baltimore City. In addition, the law provides for payment of principal and interest on debt issued by any subdivision for public school construction, if the debt was outstanding or obligated as of June 30, 1967.

Additional legislation passed during 1973 provides that the State will assume public school costs for debt obligated after June 30, 1967 on construction contracts let prior to July 1, 1967.

Huber, Michaels & Company