

**BOARD OF EDUCATION OF CARROLL COUNTY
Westminster, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS,
FINANCIAL STATEMENTS AND REQUIRED
AND OTHER SUPPLEMENTARY INFORMATION
June 30, 2013**

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CliftonLarsonAllen

Independent Auditors' Report

Members of the Board of
Education of Carroll County
Westminster, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Carroll County (the Board), a component unit of Carroll County, Maryland as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Board'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 Board'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 component unit governmental activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2013, and the respective changes in financial position 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 discussion and analysis on pages 3-10, the budgetary comparison information on pages 42 and 43, and schedule of funding progress on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2013, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Board's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Baltimore, Maryland
September 27, 2013

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

As Management of the Board of Education of Carroll County (the Board), we offer readers of the Board's financial statements this discussion and analysis of the Board's financial performance during the fiscal year ended June 30, 2013. This section should be read in conjunction with the financial statements, which immediately follow this discussion.

Overview of the Financial Statements

The Board's basic financial statements consist of three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements include two kinds of statements that present different views of the Board's financial performance. The report also contains required supplementary information.

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the Board's overall financial strength.
- The next two statements are *fund financial statements* that focus on individual parts of the school system, and provide more detail on individual areas of revenues and expenditures.
- It also contains required supplementary information in addition to the basic financial statements themselves, such as a budgetary basis presentation of financial operations in the short-term for the budgetary general fund, measuring regulatory and budgetary compliance.

The financial statements also include notes that explain some of the information in the statements and, in some cases, provide even greater levels of detail.

Government-Wide Financial Statements

The school system's *Government-wide Financial Statements* provide a broad view of the school system's operations in a manner similar to a private sector business enterprise. The statements provide both short-term and long-term information about the school system's financial position, which assists in assessing the school system's economic condition at year end. They are prepared using the economic resources focus and full accrual basis of accounting. These are methods similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if the cash has not been received. The Government-wide Financial Statements include two statements:

The *Statement of Net Position* presents all of the school system's assets, liabilities, and deferred inflows/outflows of resources with the difference between the two reported as "net position." The statement combines and consolidates all of the school system's current financial resources (short-term spendable resources) with capital assets (net of accumulated depreciation) and liabilities, distinguishing between governmental and business-type activities. The end result is net position segregated into three components: investment in capital assets net of related debt, restricted, and unrestricted net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the school system is improving or deteriorating.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Government-Wide Financial Statements (Continued)

The *Statement of Activities* presents information showing how the school system's net position changed during the most recent fiscal year. All changes in net position are 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 not result in cash flows until future fiscal periods (such as earned, but unused, vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the board. The majority of the school system's revenue is general revenue, grants and contributions from other governments.

The governmental activities of the board include Administration, Mid-level Administration, Regular Education, Special Education, Student Personnel Services, Student Health Services, Student Transportation, Operation of Plant, Maintenance of Plant, Community Services, and Food Services. These activities are mostly supported by county and state appropriations mandated in accordance with state law, and state and federal grants.

Typically, the school system-wide financial statements can reflect governmental activities and business-type activities. While the school system's food service operation charges fees, the fee structure is not designed to recover costs including depreciation. Therefore, this function is included as a governmental activity and no business-type activities are presented.

Fund Financial Statements

The fund financial statements focus on major funds and on individual parts of the school system's operations. All of the funds of the school system can be divided into two categories: governmental funds and fiduciary funds, each of which use different accounting approaches and should be interpreted differently. The two categories are as follows:

Governmental Funds Financial Statements – Most of the basic services provided by the school system are accounted for in the governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on balances of spendable resources at the end of the fiscal year. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

The school system has three governmental funds:

General Fund includes most of the school system's basic functions and generally follows the requirements of the Maryland State Department of Education.

Food Service Fund captures the financial activities of the cafeteria operations.

Capital Project Fund, tracks larger construction projects. This fund reports revenue and expenditures on a yearly basis. It should be noted that due to the long-term nature of most projects, the budgetary basis of this fund crosses fiscal years.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Fund Financial Statements (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and Statement of Activities) and governmental funds in reconciliations found on pages 15 and 17.

Fiduciary Fund Financial Statements – The fiduciary funds are used to account for resources held for the benefit of parties outside the school system. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the school system's own programs. Accordingly, there is no analysis of the board's fiduciary funds included in this Management's Discussion and Analysis. The accounting used for fiduciary funds is the accrual basis of accounting.

The school system's fiduciary funds include the Agency Fund and *Other Post-Employment Benefits (OPEB)* Plan Trust. The Agency fund reflects liabilities due to student groups that are earmarked for specific student groups at individual schools. The OPEB Plan Trust accumulates resources for post employment health benefits.

Budget and Actual Financial Statements

A Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is presented for the General Fund, which has a legally adopted annual budget. This statement shows both original and final adopted budgets, along with actual revenues and expenditures compared to the final budget. In these statements, open encumbrances are treated as expenditures. The Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) can be found immediately following the basic governmental fund financial statements on page 43.

Financial Analysis of the School System as a Whole

As noted above, all activities are identified as governmental activities. Current assets totaled \$64.9 million, most of which appears as accounts receivable due from primary governments. This is primarily due from the County Commissioners of Carroll County. Noncurrent assets are composed of capital assets and account for approximately 87% of the school system's total assets. Current liabilities total \$45.0 million, of which approx. \$20.6 million is accrued payroll and related withholdings. It should be noted that this balance reflects payments made to 10-month staff members (such as teachers) who prefer to continue bi-weekly payrolls during July and August. Since these staff members have fulfilled their contractual obligation as of June 30th, the unpaid wages are reflected in this accrual. The accrued fringe portion of this balance is also primarily associated with the payments that will be made for 10-month staff members during July and August. Noncurrent liabilities are \$61.9 million and are predominantly tied to compensated absences for employees and post-employment benefits.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Financial Analysis of the School System as a Whole (Continued)

Condensed Statement of Net Position

	Governmental Activities	
	June 30, 2013	June 30, 2012
	(In Millions)	
Current and other assets	\$ 64.9	\$ 66.6
Capital assets	433.8	425.3
Total assets	498.7	491.9
Current liabilities	45.0	47.7
Noncurrent liabilities	61.9	52.3
Total liabilities	106.9	100.0
Net position:		
Net investment in capital assets	428.9	419.8
Restricted	0.4	0.8
Unrestricted	(37.5)	(28.7)
Total net position	\$ 391.8	\$ 391.9

For budgetary purposes, acquisitions of equipment and capital improvements are considered expenditures. However in accordance with Generally Accepted Accounting Principles (GAAP) and subject to the Board's Capitalization Policy, equipment and capital improvements for the current year totaled \$54.3 million, of which \$21.7 million is construction in progress and \$32.6 million is subject to depreciation. Of the \$32.6 million subject to depreciation, \$29.5 million as transferred from construction in progressed during the year. The replacement of Mt. Airy Middle School was the primary reason capital outlay increased during the year.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Financial Analysis of the School System as a Whole (Continued)

The associated debt to finance the increase in capital outlay resides on the County Government and State of Maryland financial statements, as it is not a burden of Carroll County Public Schools.

Changes in Net Position from Operating Results

	Governmental Activities	
	June 30, 2013	June 30, 2012
	(In Millions)	
Revenues		
Program revenues:		
Charge for services	\$ 4.1	\$ 4.2
Operating grants and contributions	48.2	58.2
Capital grants and contributions	21.3	19.4
General revenues:		
County government	170.8	165.4
State (unrestricted)	107.6	101.9
State pension aid	19.0	25.1
Other	1.5	1.6
Total revenues	372.5	375.8
Expenses		
Instruction (regular and special education)	256.9	254.4
Administration (central and school)	39.1	39.2
Maintenance and operations	42.1	41.4
Transportation	20.9	21.9
Student personnel, health and community services	6.6	6.8
Food services	6.9	6.4
Total expenses	372.5	370.1
Increase in net position	\$ -	\$ 5.7

All costs identified in the Statement of Activities include the cost of salaries, wages, supplies, contracted services, and depreciation by function. In the case of regular instruction, depreciation expense on the school buildings and equipment in those schools account for \$13.9 million. Fringe benefits and depreciation can be tracked by individual or asset, respectively, and therefore can be tied to a function. Review of the revenues identifies some fee for services circumstances, including use of facilities and tuition. Operating Grant revenues primarily include State and Federal Grants and reflect restricted sources. As detailed in the Statement of Activities, the general revenues include State and County revenue, as well as interest income, none of which meets the criteria for classification as program revenues. More specifically:

- The cost of all governmental services this year was \$372.5 million.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Financial Analysis of the School System as a Whole (Continued)

- \$4.1 million of the costs were financed by users of the school district's programs through fees for service.
- The State and Federal governments subsidized the operations of certain programs with grants and contributions totaling almost \$48.2 million.
- The majority of the district's costs were financed by Carroll County and the State of Maryland taxpayers. Specifically, \$170.8 million was associated with Carroll County appropriations.
- The State and County governments financed \$21.3 million in capital project expenditures, including construction in progress.

Financial Analysis of the Board's Funds

In the General Fund, revenues decreased by 1.6% to \$344.8 million which was predominately attributable to a 3.3% increase in local revenue allotted to cover the shift in teacher pension costs from the State to the Board, a 3.5%, \$6.0 million decrease in State revenue resulting from a decrease in State funded pension costs and the shift in teacher pension costs to the Board, and a 31% decrease in Federal revenue resulting from a \$5.3 million decrease in Education Jobs revenue.

The Food Service Operation reflected a net change in fund balance of \$(419,819) for the year ended June 30, 2013 versus a net change in fund balance of \$653,183 for the prior year. Change in Fund Balance resulted primarily from declining participation, as well as implementation of a Point-of-Sale (POS) System to modernize cash receipts and create reporting efficiencies.

The Capital Projects Fund reflected a net change in fund balance of \$2,989,965 for the year ended June 30, 2013, as compared to there being no change in the fund balance for the prior year. The change in Fund Balance resulted from a transfer of funds from the General Fund of \$3,000,000 during the year for the purpose of funding projects related to paving, roofing, HVAC, relocatable classrooms and technology improvements, for which adequate funding would not be available through other sources. The remaining fund balance at year end represents amounts of that funding that remained unspent at June 30, 2013.

Limitations affecting the availability of resources in the General Fund include nonspendable resources of \$747,956, restricted resources of \$555,966, assigned resources of \$3,685,478, and unassigned resources of \$14,696,424.

Budgetary Highlights

Over the course of each fiscal year, the school system revises the annual current operating budget. Generally, the budgets fluctuate for one of two reasons. First, when grants are awarded during the year, an amendment is made to adjust the budget as a whole. In addition, the system is required by law to maintain budgets by category or function. Therefore, the school system makes transfers within budgeted line items to more accurately reflect changing conditions. These transfers do not impact the budget total as a whole. As reflected in the Budgetary Comparison Schedule (Non-GAAP Budgetary Basis), none of the school system's categories were overspent at year-end.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Budgetary Highlights (Continued)

Most importantly, the school system ended the fiscal year with an excess of revenues over expenditures (Non-GAAP Budgetary Basis) of \$6,725. Beginning fiscal year 2008 and thereafter, the Board of Carroll County Commissioners and the Board agreed to create a fund balance reserve account to guard against unanticipated revenue shortfalls and minimize the impact on operations of the school system when unexpected, one-time expenses occur.

The budgetary process is designed to reflect revenues equal to expenditures. However, actual expenditures and actual revenues, non-GAAP basis, were both lower than budgeted. In fiscal year 2013, current operating fund actual revenues fell short of the final budget by approximately \$3.3 million. The majority of the shortfall was within the restricted portion, as a result of grants that cross into fiscal year 2014 and fewer grant funds carried forward from fiscal year 2012.

Specific examples that caused this shortfall include the state share for non-public placements of students with disabilities of \$1,657,148 (based on lower total costs), and federal Title I grants of \$483,215.

Specific categories of expenditures exceeded the original budget. Budget transfers between categories were approved to more closely align with actual expenditures, so that at year-end all categories were in compliance. In fiscal year 2013, current operating fund actual expenses were less than the final budget by approximately \$6.7 million. The majority of the decrease was within the instructional salaries and fixed charges categories, as fewer expenditures were incurred relating to these categories than originally budgeted.

Capital Asset Administration

By the end of fiscal year 2013, the school system had invested over \$433.8 million in capital assets net of depreciation, predominantly buildings. Total depreciation expense for the year approximated \$16.2 million, increasing accumulated depreciation on assets to \$210.4 million. Included in the Construction in Progress balance is the work in progress on the Robert Moton and Eldersburg Elementary School Open Space Enclosures and the Charles Carroll and Freedom Elementary School Heat Plant Conversions. The County government issues the debt associated with these capital projects; therefore, the school system financial statements do not reflect outstanding debt associated with these capital assets.

Factors Bearing on the School System's Future

At the time that these financial statements were prepared and audited, the school system was aware of a few existing circumstances that could affect its financial health in the future:

1. Considerable downturns in the economy or other factors further reducing revenue generated by the county or state government could limit their ability to provide legally mandated levels of funding to Carroll County Public Schools.
2. Beginning in fiscal year 2013, school boards were required to pay the normal cost of retirement for teachers phased-in over a four year period through fiscal year 2016. Specifically of concern is that future increases in pension costs will outpace future increases in revenues.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013**

Factors Bearing on the School System's Future (Continued)

3. State aid is calculated based on a number of factors, most significantly being enrollment. Carroll County Public Schools have seen a slight decrease in enrollment in recent years, as measured by full-time equivalent student counts, and this is projected to continue in the next several years. The decrease in enrollment could have a negative impact on the amount of future state aid received.

Contacting the Board's Financial Management

This financial report is designed to provide the school system's citizens, taxpayers, customers, stakeholders, and creditors with a general overview of the system's finances and to demonstrate the school system's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Carroll County Public Schools, 125 North Court Street, Westminster, Maryland 21157.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities
<u>ASSETS</u>	
Current Assets	
Cash and cash equivalents	\$ 7,074,885
Accounts receivable	455,968
Due from primary government	50,620,817
Due from other units of government	5,720,688
Inventory	695,359
Other current assets	312,689
Total current assets	64,880,406
Noncurrent Assets	
Capital assets (net of accumulated depreciation):	
Land and improvements	15,049,603
Construction in progress	2,122,459
Equipment	11,046,079
Buildings and improvements	405,619,625
Total noncurrent assets	433,837,766
Total assets	498,718,172
<u>LIABILITIES</u>	
Current Liabilities	
Accounts payable	7,844,193
Accrued salaries and fringes	20,562,290
Accrued health claims	5,846,252
Accrued expenses	4,524,811
Accrued interest	48,288
Due to student groups	2,243,330
Due to primary government	58,904
Due to other governments	26,532
Unearned revenue	734,998
Current portion of capital lease obligations	708,196
Current portion of compensated absences payable	2,440,000
Total current liabilities	45,037,794
Noncurrent Liabilities	
Long-term portion of capital lease obligations	4,189,410
Long-term portion of compensated absences payable	14,471,456
Other postemployment benefits	43,190,699
Total noncurrent liabilities	61,851,565
Total liabilities	106,889,359
<u>NET POSITION</u>	
Net investment in capital assets	428,940,160
Restricted for:	
Food services	363,307
Unrestricted	(37,474,654)
TOTAL NET POSITION	\$ 391,828,813

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

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

	Program Revenues			Net (Expenses)	
Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	
FUNCTIONS/PROGRAMS				Total Governmental Activities	
GOVERNMENTAL ACTIVITIES					
INSTRUCTION					
Regular education	\$ 206,795,208	\$ 695,274	\$ 24,407,087	\$ 21,280,511	\$ (160,412,336)
Special education	<u>50,073,565</u>	-	<u>18,949,858</u>	-	<u>(31,123,707)</u>
Total instruction	<u>256,868,773</u>	<u>695,274</u>	<u>43,356,945</u>	<u>21,280,511</u>	<u>(191,536,043)</u>
SUPPORT SERVICES					
Administration	6,955,902	-	253,098	-	(6,702,804)
Mid-level administration	32,175,153	-	217,761	-	(31,957,392)
Student personnel services	1,836,828	-	-	-	(1,836,828)
Student health services	4,539,331	-	10,291	-	(4,529,040)
Student transportation services	20,877,545	-	36,867	-	(20,840,678)
Operation of plant	31,968,196	-	120,389	-	(31,847,807)
Maintenance of plant	10,154,180	-	851,228	-	(9,302,952)
Community services	279,153	201,603	64,910	-	(12,640)
Food services	<u>6,890,147</u>	<u>3,200,871</u>	<u>3,284,292</u>	-	<u>(404,984)</u>
Total support services	<u>115,676,435</u>	<u>3,402,474</u>	<u>4,838,836</u>	-	<u>(107,435,125)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 372,545,208</u>	<u>\$ 4,097,748</u>	<u>\$ 48,195,781</u>	<u>\$ 21,280,511</u>	<u>(298,971,168)</u>
GENERAL REVENUES					
Local appropriations				170,799,564	
State aid				126,582,822	
Miscellaneous				<u>1,559,976</u>	
Total general revenues				<u>298,942,362</u>	
CHANGE IN NET POSITION				(28,806)	
NET POSITION, BEGINNING OF YEAR				<u>391,857,619</u>	
NET POSITION, END OF YEAR				<u>\$ 391,828,813</u>	

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

BOARD OF EDUCATION OF CARROLL COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2013

	<u>General Fund</u>	<u>Food Services Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 7,073,642	\$ 1,243	\$ -	\$ 7,074,885
Accounts receivable	429,770	26,198	-	455,968
Due from other funds	-	48,710	2,999,180	3,047,890
Due from fiduciary fund	-	452,830	-	452,830
Due from primary government	46,910,000	-	3,710,817	50,620,817
Due from other units of government	5,533,615	187,073	-	5,720,688
Inventory	435,267	260,092	-	695,359
Other current assets	312,689	-	-	312,689
	<u>\$ 60,694,983</u>	<u>\$ 976,146</u>	<u>\$ 6,709,997</u>	<u>\$ 68,381,126</u>
LIABILITIES				
Accounts payable	\$ 4,188,975	\$ 21,817	\$ 3,633,401	\$ 7,844,193
Accrued salaries and fringes	20,091,680	470,610	-	20,562,290
Accrued health claims	5,846,252	-	-	5,846,252
Accrued expenses	4,524,811	-	-	4,524,811
Due to other funds	3,047,890	-	-	3,047,890
Due to fiduciary fund	452,830	-	-	452,830
Due to student groups	2,156,699	-	86,631	2,243,330
Due to primary government	58,904	-	-	58,904
Due to other governments	26,532	-	-	26,532
Unearned revenue	614,586	120,412	-	734,998
	<u>41,009,159</u>	<u>612,839</u>	<u>3,720,032</u>	<u>45,342,030</u>
FUND BALANCES				
Non-spendable	747,956	260,092	-	1,008,048
Restricted	555,966	28,600	-	584,566
Committed	-	-	2,989,965	2,989,965
Assigned	3,685,478	74,615	-	3,760,093
Unassigned	14,696,424	-	-	14,696,424
	<u>19,685,824</u>	<u>363,307</u>	<u>2,989,965</u>	<u>23,039,096</u>
Total liabilities and fund balance	<u>\$ 60,694,983</u>	<u>\$ 976,146</u>	<u>\$ 6,709,997</u>	<u>\$ 68,381,126</u>

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

**BOARD OF EDUCATION OF CARROLL COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013**

Total fund balances - governmental funds (page 14) \$ 23,039,096

**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 these assets is \$644,197,899, and the accumulated depreciation is \$210,360,133. 433,837,766

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of capital lease obligations \$4,897,606, compensated absences payable \$16,911,456, and net other post-employment obligations \$43,190,699. (64,999,761)

Accrued interest is reported when due and payable in the funds and is reported when incurred on governmental activities. (48,288)

TOTAL NET POSITION, GOVERNMENTAL ACTIVITIES (page 12) \$ 391,828,813

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

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2013

	General Fund	Food Services Fund	Capital Projects Fund	Total Governmental Funds
REVENUES				
Local sources	\$ 170,831,812	\$ -	\$ 10,163,376	\$ 180,995,188
State sources	158,722,363	96,255	11,117,135	169,935,753
Federal sources	11,929,417	2,864,868	-	14,794,285
Charges for services	896,877	3,200,871	-	4,097,748
Miscellaneous revenues	2,370,259	323,169	-	2,693,428
	<u>344,750,728</u>	<u>6,485,163</u>	<u>21,280,511</u>	<u>372,516,402</u>
Total revenues				
EXPENDITURES				
Administration	5,280,612	-	-	5,280,612
Instruction	145,038,695	-	-	145,038,695
Student personnel services	1,441,090	-	-	1,441,090
Student health services	3,580,467	-	-	3,580,467
Student transportation services	20,368,146	-	-	20,368,146
Operation of plant	25,708,302	-	-	25,708,302
Maintenance of plant	8,120,077	-	-	8,120,077
Fixed charges	67,234,292	-	-	67,234,292
Mid-level administration	25,458,580	-	-	25,458,580
Community services	254,886	-	-	254,886
Special education	39,878,857	-	-	39,878,857
Costs of operation - food services	-	6,904,982	-	6,904,982
Capital outlay	967,881	-	21,290,546	22,258,427
	<u>343,331,885</u>	<u>6,904,982</u>	<u>21,290,546</u>	<u>371,527,413</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>1,418,843</u>	<u>(419,819)</u>	<u>(10,035)</u>	<u>988,989</u>
OTHER FINANCING SOURCES				
Transfers in (out)	<u>(3,000,000)</u>	<u>-</u>	<u>3,000,000</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(1,581,157)</u>	<u>(419,819)</u>	<u>2,989,965</u>	<u>988,989</u>
FUND BALANCES, BEGINNING OF YEAR				
	<u>21,266,981</u>	<u>783,126</u>	<u>-</u>	<u>22,050,107</u>
FUND BALANCES, END OF YEAR	<u>\$ 19,685,824</u>	<u>\$ 363,307</u>	<u>\$ 2,989,965</u>	<u>\$ 23,039,096</u>

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

**BOARD OF EDUCATION OF CARROLL COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2013**

Total net changes in fund balances - governmental funds (page 16) \$ 988,989

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF NET POSITION ARE DIFFERENT BECAUSE:**

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay, which is capitalized \$24,764,554, exceed depreciation expenses, \$16,187,132, in the period. 8,577,422

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid within one year). This year vacation and sick leave used exceed the amounts earned by: 1,035,586

The execution of a capital lease agreement provides current financial resources to governmental funds, while the repayment of the lease principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount of principal payments on the capital lease obligation for this year. 659,183

In the Statement of Activities, only the gain or loss on sale of the capital assets is reported. In the governmental funds, however, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed. (55,795)

OPEB costs reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (11,234,191)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (page 13) \$ (28,806)

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

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2013

	OPEB Plan Trust	Agency Fund
ASSETS		
Cash and cash equivalents	\$ -	\$ 360,607
Investments	12,384,954	-
Accounts receivable	-	3,557
Due from other funds	-	2,696,160
Prepaid expenses	-	32,129
	12,384,954	3,092,453
 Total assets	 12,384,954	 \$ 3,092,453
LIABILITIES		
Accounts payable	-	\$ 226,752
Due to student groups	-	2,412,871
Due to other funds	-	452,830
	-	452,830
 Total liabilities	 -	 \$ 3,092,453
NET POSITION		
Net position held in trust for benefits	\$ 12,384,954	

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

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
Year Ended June 30, 2013

	<u>OPEB Plan Trust</u>
ADDITIONS	
Contributions:	
Employer	\$ 5,321,809
Employee	<u>4,070,198</u>
Total contributions	<u>9,392,007</u>
Investment earnings:	
Net appreciation in fair value of investments	<u>1,357,774</u>
Total additions	10,749,781
DEDUCTIONS	
Benefits paid to plan members	<u>7,642,007</u>
CHANGE IN NET POSITION	3,107,774
NET POSITION, BEGINNING OF YEAR	<u>9,277,180</u>
NET POSITION, END OF YEAR	<u>\$ 12,384,954</u>

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

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Board of Education of Carroll County (the Board) as currently constituted was established under Title 3, Subtitle 103, Education, of the Annotated Code of Maryland. The Board is a five-member elected body responsible for the operation of Carroll County Public Schools.

The Board of Education of Carroll County is a component unit of Carroll County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. The Board does not have any component units, as it does not have any entities that it is considered to be financially accountable for in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 and as amended by GASB Statement No. 39 and GASB Statement No. 61.

The financial statements of the Board are prepared in conformity with generally accepted accounting principles (GAAP) applicable to governments in the United States of America.

Government-Wide and Fund Financial Statements

The Board follows GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by Statement No. 41, insofar as to the reporting of budgetary data. The statement makes annual reports easier to understand and more useful to those who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis many private sector entities provide in their annual reports.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable), but also capital assets and long-term liabilities. Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. Fiduciary funds are not included in government-wide financial statements.

The basic financial statements include both government-wide (based on the Board as a whole) and fund financial statements. The Board does not engage in business-type activities and, as such, issues single column government-wide financial statements. In the Government-Wide Statement of Net Position, both the governmental activities' assets, liabilities and deferred inflows/outflows of resources (a) are presented on a consolidated basis and (b) are reflected on a full accrual, economic resource basis, which incorporates noncurrent assets and receivables as well as long-term obligations.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government. The Board reports all capital assets in the government-wide Statement of Net Position and reports depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The Net Position of the Board are broken down into three categories – 1) net investment in capital assets, 2) restricted; and 3) unrestricted.

Statement of Activities - The Government-Wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each Board function. The expenses of individual functions are compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants). These directly matched revenues are called program revenues. This format enables the Government-Wide Statement of Activities to reflect both the gross and net cost per functional category (regular instruction, special instruction, pupil transportation, etc.) that are otherwise being supported by general government revenues.

Program revenues must be directly associated with a function and are restricted to meeting the operational or capital requirements of a particular function or activity. Multi-purposed grants and other items not properly included among program revenues are reported as general revenues. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Direct expenses are considered those that are clearly identifiable with a specific function or segment. The Board does not allocate indirect expenses.

Fund Financial Statements - Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the Board are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Budgetary Comparison Schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. The Board and many other governments revise their original budgets over the course of the year for a variety of reasons. A budgetary comparison schedule of the Board's original budget to the final budget and actual results is presented as required supplementary information.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide and certain fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Employee and employer contributions to the other employee benefit trust fund are recognized as revenue in the period the contributions are due.

Nonexchange transactions are where the Board either gives or receives value without directly receiving or giving equal value in exchange including, for example, grants and contributions. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This focus is on the determination of, and changes in financial position, and generally only current assets, current liabilities, and deferred inflows/outflows of resources are included on the Balance Sheet. Revenues are recorded as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within a current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major revenue sources subject to the availability criterion are the local, state, and federal revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Expenditures related to compensated absences are recorded when payment is due or when payable resulting from resignations or retirements.

The following types of transactions are reported as program revenues. Tuition paid directly by students and parents and sales associated with the Food Service Operation are identified as charges for services. State and federal support for Food Service Operation is identified as operating grants and contributions. Grant-related revenue that is specifically restricted for use by a particular function is separated in the Statement of Activities. The Board reports the following major governmental funds:

General Fund – The General Fund is the operating fund of the Board and is used to account for the revenues and expenditures necessary for the day-to-day operation of the Board. This fund is used to account for all financial resources except those required to be accounted for in another fund.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Food Service Fund – The Food Service Fund is used to account for the operations of the cafeteria program throughout the school system.

Capital Project Fund – The Capital Project Fund is used to account for the financial resources to be used for the acquisition, construction, or improvement of the Board’s major capital facilities.

Additionally, the Board reports the following fiduciary funds:

Agency Fund – The Agency Fund is a fiduciary fund used to account for the funds held by the Board in a trustee capacity. The school funds account for the funds of other persons or organizations which are the direct responsibility of the principals of the respective schools. This is an agency fund with no measurement focus as only assets and liabilities are reported on the accrual basis.

OPEB Plan Trust – The OPEB Plan Trust is used to account for the collection of medical premiums and the payments of medical claims for the Board’s retirees.

As a general rule, the effect of interfund and internal activity has been eliminated from the government-wide financial statements including the Statement of Activities. Interfund balances are not included in the Government-Wide Statement of Net Position. The Board distinguishes overhead costs, which are eliminated in the preparation of the Statement of Activities from interfund services provided and used between functions which are not eliminated in the Statement of Activities in the financial statement closing process. The Board does not allocate indirect expenses to functions in the fund financial statements.

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity

Investments

Investments are reported at fair value in accordance with GASB Statement No. 31. OPEB Plan Trust investments consisting of money market and mutual funds are stated at fair value.

Receivables and Payables

All interfund receivables and payables are displayed in the fund statements as “due to/due from other funds.” These amounts offset each other and are eliminated from the Government-Wide Statement of Net Position, so as to not overstate the Board’s assets and liabilities. All trade receivables are deemed fully collectible by management.

Inventory

Inventory consists of expendable supplies and food held for consumption and is valued at cost (first-in, first-out). Inventory is reflected in the financial statements by the consumption method. Under this method, the expenditure is recognized when inventory is used. In the fund financial statements, these inventories are considered nonspendable which indicates that they do not constitute available expendable resources, even though they are a component of assets.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are considered nonspendable in the fund financial statements since they do not constitute available expendable resources.

Capital Assets

Capital assets, which include land and improvements, buildings and improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of the donation.

There is no depreciation recorded for land. Construction in progress is depreciated when it is put in use.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

ASSETS	<u>Years</u>
Buildings	50
Improvements	20
Equipment	3 – 10

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. At June 30, 2013, the Board had no items that should be recognized as deferred outflows of resources.

Unearned Revenues

Unearned revenues represent amounts received from grantors in advance of incurrence of eligible expenditures for grants and unused commodities at June 30, 2013, since title does not pass to the Board until the commodities are used.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Equity (Continued)

Compensated Absences Payable

Compensated absences consist primarily of sick and vacation time earned but not taken. Employees hired prior to July 1, 1997 meeting specified service requirements are eligible to accumulate sick time and upon retirement, are entitled to payment for unused sick time at 50% of their accrued sick leave balance at their previous three year average daily rate. Employees hired prior to July 1, 1997 may accumulate unused sick time and will be paid for a maximum of 250 days or their accumulated balance at June 30, 2003, whichever is greater. Employees hired July 1, 1997 and later are eligible for accumulated unlimited sick time but are not entitled to payment for unused sick time upon retirement. There is a maximum accrual of 40 paid vacation days for those employees eligible to earn and accumulate vacation time. Vested absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only at the time of employee resignations and retirements.

School Construction Debt

The Board is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the County government. Accordingly, the Board does not record school construction debt service revenues, expenditures, or outstanding school construction debt. The authorization for annual expenditures related to debt service emanate from the Carroll County Operating Budget Ordinance.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the future period. For government-mandated and voluntary non-exchange transactions, a deferred inflow is reported when resources are received before time requirements are met. At June 30, 2013, the Board had no items that should be recognized as deferred inflows of resources.

Net Position/Fund Equity

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted.

- *Net Investment in capital assets* - This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net position* - This category presents net position with external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position/Fund Equity (Continued)

- *Unrestricted net position* - This category presents the net position of the Board, not restricted for any purpose.

Fund balance amounts are reported within one of the fund balance categories listed below.

Nonspendable

Amounts that cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.

Restricted

Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed

Amounts that can be used only for specific purposes determined by a formal action of the Board of Education, is the highest level of decision-making authority for the school system. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned

Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Board's adopted policy, the Superintendent, Assistant Superintendent, or Supervisor of Purchasing may assign amounts for specific purposes. .

Unassigned

All other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Board considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Board considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Governmental Accounting Standards Board (GASB) Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and defined the residual of assets and deferred outflows less liabilities and deferred inflows as net position. The Board has implemented the effects of this Statement for the reporting period ending June 30, 2013. The effect of this Statement on the Board was a change in the format of the entity wide statements to include the concept of net position.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Accounting Standards Board (GASB) Pronouncements (Continued)

The Board also implemented the requirements of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the reporting period ending June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement did not have an effect on the Board's financial statements.

Pending Pronouncements

GASB routinely issues standards that will become effective in future years. The following Standard that has been issued that management has determined may have an impact on future financial statements of the Board. Management is currently evaluating the specific impact of this Standard.

Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* – The objective of this Statement is to improve accounting and financial reporting by state and local government employers for the pension in which they are involved. This Statement will become effective for the reporting period ending June 30, 2015.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING POLICIES

Legal budgetary control is employed for the General Fund only. Capital Projects are budgeted on a project basis only. Management employs budgetary control over the Food Service Fund for operational purposes only.

The Board follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to December, the staff accumulates and summarizes data for a proposed operating budget (General Fund).
2. During January, the Superintendent of Schools submits a proposed operating budget to the Board.
3. Public hearings are held to obtain citizens' comments.
4. During February, the Board adopts the proposed budget.
5. On March 1, the budget is submitted to the Carroll County Commissioners for approval.
6. During May, the County Commissioners hold final hearings and adopt the budget which becomes effective July 1.
7. The General Fund budget is adopted on a basis consistent with GAAP except for the inclusion of encumbrances as expenditures and the exclusion of pension payments made by the State on behalf of the Board. Budget comparisons presented in this report are on a non-GAAP budgetary basis. The required supplementary information budgetary comparison schedule reflects the budget as amended.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING POLICIES (CONTINUED)

8. Request for adjustments to major categories must be submitted to the County Commissioners for approval or denial. No action within thirty (30) days of submission constitutes approval.
9. Requests for transfers between major categories must be submitted to the County Commissioners for approval or denial. No action within thirty (30) days of submission constitutes approval.
10. Expenditures may not legally exceed appropriations at the major category level. In addition, all appropriations lapse at year-end.

During the year, the County Commissioners adopted supplemental appropriations for the Board of Education's General Fund budget. The approved budget and supplemental appropriations are presented below:

Original operating budget approved by the County Commissioners	\$ 328,476,230
Approved supplemental appropriations	<u>1,006,079</u>
Amended operating budget for fiscal year 2013	<u>\$ 329,482,309</u>

NOTE 3 – CASH AND CASH EQUIVALENTS

The Board of Education maintains pooled and various separate cash accounts for its funds. The cash balances of the Agency Fund (see Statement of Fiduciary Net Position) consist of individual demand accounts maintained by the schools. The Board considers any instrument with a maturity of three months or less when purchased to be cash equivalents

Deposits

At year-end, the carrying value of the Board's combined deposits was \$7,432,384 and cash on hand was \$3,108. The bank balance of deposits was \$12,794,836. The bank balance was covered either by federal depository insurance or collateral held by the financial institution's trust department in the Board's name. Statutes authorize secured time deposits in Maryland banks. Statutes require uninsured deposits to be fully collateralized. Therefore, under the reporting requirements of GASB Statement No.40, the Board's deposits are not subject to custodial or credit risk at year-end. Because of the short-term maturity and type of the investments there is limited interest rate risk.

Investments

Statutes authorize the Board to invest in obligations of the U.S. Government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligations.

OPEB Plan Trust investments of \$12,384,954 are invested in the Carroll County Master Retiree Benefit Trust, which consists of money market and mutual funds. The trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 – CASH AND CASH EQUIVALENTS (CONTINUED)

Investments (Continued)

The Carroll County Master Retiree Benefit Trust is not rated by the rating agencies.

Investment Rate Risk

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. To limit the Board’s exposure to fair value losses arising from increasing interest rates, the Board’s investment policy limits the term of investment maturities other than the Fiduciary Funds to overnight repurchase agreements and requires that collateral securities underlying the repurchase agreements have a market value equal to the cost of the agreement.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counter party, the Board will not be able to recover all or a portion of its investments or collateral securities that are in the possession of an outside party. In this regard, the Board limits its investments to overnight deposits that are insured or collateralized with securities held by a custodian in the Board’s name. Statutes require that deposits be in Maryland banks and that uninsured deposits be fully collateralized and authorize the Board to invest in obligations of the United States government, federal agency obligations and repurchase agreements secured by direct government or agency obligations.

NOTE 4 – INVENTORY

Inventory consists of the following for the General Fund and Food Services Funds:

<u>General Fund</u>	
Custodial supplies	\$ 232,908
Equipment, repair and maintenance supplies	202,359
	<u>435,267</u>
 <u>Food Services Fund</u>	
Supplies	24,178
Food	235,914
	<u>260,092</u>
 Total inventories	 <u><u>\$ 695,359</u></u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

<u>Governmental Activities</u>	<u>Balance at June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>
Capital assets not being depreciated				
Land and improvements	\$ 15,049,603	\$ -	\$ -	\$ 15,049,603
Construction in progress	<u>9,973,482</u>	<u>21,661,093</u>	<u>(29,512,116)</u>	<u>2,122,459</u>
Total capital assets, not being depreciated	<u>25,023,085</u>	<u>21,661,093</u>	<u>(29,512,116)</u>	<u>17,172,062</u>
Capital assets being depreciated				
Equipment	41,942,219	2,800,607	(762,035)	43,980,791
Equipment under capital lease	2,399,329	-	-	2,399,329
Building and improvements	<u>550,830,747</u>	<u>29,814,970</u>	<u>-</u>	<u>580,645,717</u>
Total capital assets, being depreciated	<u>595,172,295</u>	<u>32,615,577</u>	<u>(762,035)</u>	<u>627,025,837</u>
Less - accumulated depreciation				
Equipment	31,389,999	2,250,953	(706,240)	32,934,712
Equipment under capital lease	2,399,329	-	-	2,399,329
Building and improvements	<u>161,089,913</u>	<u>13,936,179</u>	<u>-</u>	<u>175,026,092</u>
Total accumulated depreciation	<u>194,879,241</u>	<u>16,187,132</u>	<u>(706,240)</u>	<u>210,360,133</u>
Total capital assets being depreciated, net	<u>400,293,054</u>	<u>16,428,445</u>	<u>(55,795)</u>	<u>416,665,704</u>
Capital assets, net	<u>\$ 425,316,139</u>	<u>\$ 38,089,538</u>	<u>\$ (29,567,911)</u>	<u>\$ 433,837,766</u>

Depreciation expense for the year was charged to functions as follows:

Regular education	\$ 13,931,131
Special education	171,886
Administration	34,450
Mid level administration	150,322
Student personnel services	7,072
Student health services	286
Student transportation services	72,885
Operation of plant	975,285
Maintenance of plant	780,121
Food services	<u>63,694</u>
Total depreciation expense - governmental activities	<u>\$ 16,187,132</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 5 – CAPITAL ASSETS (CONTINUED)

At June 30, 2013, the Board has construction commitments consisting of the following:

	Future Amounts to be Expended	Future Funding to be Provided
Open Space Enclosure - Eldersburg Elementary	\$ 3,070,300	\$ 3,070,300
Mt. Airy Middle School Replacement	2,842,528	2,842,528
Energy Efficiency Lighting Projects (38)	2,463,000	2,463,000
Technolgoey Improvements - Wireless Infrastructure	2,332,802	2,000,000
West Middle School Roof	1,487,593	1,487,593
Taneytown Elementary Roof	1,055,000	1,055,000
Open Space Enclosure - Robert Moton Elementary	1,007,494	1,007,494
Carroll Springs Roof	845,000	845,000
Freedom Elementary Heat Plant Conversion	832,560	832,560
Manchester Valley High School	377,577	377,577
Total	\$ 16,313,854	\$ 15,981,052

NOTE 6 – INTERFUND BALANCES

The composition of interfund balances as of June 30, 2013 is as follows:

	Due From	Due To
General Fund		
Food Service	\$ -	\$ 47,590
Capital Projects	-	3,000,300
Agency	-	2,609,529
Total general fund	-	5,657,419
Food Service Fund		
General	\$ 47,590	\$ -
Capital Projects	1,120	-
Agency	452,830	-
Total food service fund	501,540	-
Capital Projects Fund		
General	3,000,300	-
Food Service	-	1,120
Agency	-	86,631
Total capital projects fund	3,000,300	87,751

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 – INTERFUND BALANCES (CONTINUED)

	Due From	Due To
Agency Fund		
General	2,609,529	-
Food Service	-	452,830
Capital Projects	86,631	-
Total agency fund	2,696,160	452,830
Total interfund balances	\$ 6,198,000	\$ 6,198,000

The interfund balances resulted from the time lag between the dates that payments of expenses and cash collections by one fund on behalf of another are made.

NOTE 7 – LONG-TERM DEBT

Long-term debt at June 30, 2013 consisted of amounts due under capital leases and compensated absences payable as further discussed in Note 1.

During the fiscal year ended June 30, 2013, no new capital leases were entered into by the Board. In October of 2004, the Board entered into a ten-year energy management plan to provide air conditioning to three elementary schools. Additionally, the plan upgraded water and lighting fixtures.

The Board leases energy management equipment pursuant to capital lease agreements entered into in prior years. Payments made on capital leases are recorded in the General Fund. Future minimum lease obligations are as follows:

Year Ending June 30	Energy Management Equipment
2014	\$ 881,595
2015	908,043
2016	935,285
2017	963,343
2018	992,243
2019	844,236
Total future payments	5,524,745
Less interest	(627,139)
Present value of future minimum lease payments	\$ 4,897,606

Interest expense related to capital leases was \$196,735 for the year ended June 30, 2013. This amount was allocated to the maintenance of plant and equipment function.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Changes in capital lease obligations for the year ended June 30, 2013 were as follows:

Balance, at June 30, 2012	\$	5,556,789
Additions		-
Reductions		<u>(659,183)</u>
Balance at June 30, 2013		4,897,606
Amounts due within one year		<u>708,196</u>
Capital lease obligations non-current	\$	<u>4,189,410</u>

Changes in compensated absences payable for the year ended June 30, 2013 were as follows:

Balance, at June 30, 2012	\$	17,947,042
Additions		1,283,290
Reductions		<u>(2,318,876)</u>
Balance at June 30, 2013		16,911,456
Amounts due within one year		<u>2,440,000</u>
Compensated absence non-current portion	\$	<u>14,471,456</u>

Capital lease and compensated absence liabilities are generally liquidated by the General Fund.

NOTE 8 – PENSION PLAN

The employees of the Board are covered by the State Retirement and Pension System of Maryland which is a cost sharing employer public employee retirement system (the State System). Most Board employees participate in the State System. The State System prepares a Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension Systems of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

Plan Description

The State System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of several plans which are managed by the Board of Trustees for the State System. All State employees and employees of the participating entities are eligible for coverage by the plans. The State System provides retirement, death, and disability benefits in accordance with State statutes.

Funding Policy

The Board's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the State System, all benefits of the State System are funded in advance. The entry age normal cost method is the actuarial cost method used. Both the Board and covered employees are required by State statute to contribute to the State System. The employees contribute 5% to 7% of compensation, as defined, depending on the participant's plan.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 8 – PENSION PLAN (CONTINUED)

Funding Policy (Continued)

The contribution requirements of the State System members, as well as the State and participating governmental employees are established and may be amended by the Board of Trustees for the State System. Benefits are provided in accordance with State statutes.

The State makes a substantial portion of the Board's annual required contributions to the State System on behalf of the Board. The State's contributions on behalf of the Board for the years ended June 30, 2013, 2012, and 2011 amounted to \$19,040,467; \$25,068,873; and \$25,655,139, respectively. The fiscal 2013 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the General Fund in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances and are also included as revenues and expenses on the Statement of Activities.

The Board made its share of the required contributions during the years ended June 30, 2013, 2012, and 2011 of \$5,755,786; \$2,138,012; and \$2,195,960, respectively.

The contributions are sufficient to fund normal costs and amortize the unfunded actuarial accrued liability over a 28-year period (as provided by law) from July 1, 1980.

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Plan Description and Funding Policy

The Board provides medical benefits to eligible employees who retire from employment with the Carroll County Public School System. The employer's contributions are financed on a pay-as-you-go basis and any amounts budgeted to be contributed towards meeting the annual required contribution per the actuarial valuation. The future payment of these benefits is contingent upon the annual approval of the operating budget.

The Board provides medical benefits to retirees pursuant to two medical benefit plans for retired employees based on negotiated agreements with various bargaining groups. For retirees over the age of 65 who retired prior to September 1, 1988, the percentage of the premium paid by the Board was dependent upon the retiree's years of service and ranged from 10% to 100%. For retirees who retired after September 1, 1988, the percentage of the premium paid by the Board is dependent upon the retiree's years of service and ranges from 0% to 100%. These percentages are applied to premiums established annually by the Board for individual, husband/wife, parent/child, and family coverages. Only Carroll County Board of Education years of service are considered. As of June 30, 2013, 930 eligible participants were receiving benefits.

Annual OPEB Cost and Net OPEB Obligation

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

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Annual required contribution	\$ 16,499,000
Interest on OPEB obligation	1,518,000
Adjustment to annual required contribution	<u>(1,461,000)</u>
Annual OPEB cost	16,556,000
Contributions made	<u>(5,321,809)</u>
Increase in net OPEB obligation	11,234,191
Net OPEB obligation - beginning of year	<u>31,956,508</u>
Net OPEB obligation - end of year	<u>\$ 43,190,699</u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2013 and the two preceding fiscal years are as follows:

Annual OPEB Cost	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	9,873,000	53.53%	21,373,441
June 30, 2012	15,541,000	32.03%	31,956,508
June 30, 2013	16,556,000	32.14%	43,190,699

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the Plan was 4.8% funded. The actuarial accrued liability for benefits was \$192,349,000 and the actuarial value of assets was \$9,277,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$183,072,000. The covered payroll (annual payroll of active employees covered by the plan) was \$198,512,177, and the ratio of the UAAL to the covered payroll was 92.2%.

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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (CONTINUED)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of 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 the calculations.

In the July 1, 2011, actuarial valuation, the projected unit credit method, with linear pro-ratio to assumed benefit commencement method was used. The actuarial assumptions included a 4.75% investment rate of return, which assumes that benefits will be funded on a pay-as-you-go basis and that General Fund investments earn 4.75% over the long-term. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 was 27 years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2011
Actuarial Cost Method	Projected unit method
Amortization Method	Level percentage of projected payroll over a 30-year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	4.75%
Payroll Growth Rate	3%
Healthcare Cost Trend Rates:	
Pre-65 Medical	6.5% initial / 3.8% ultimate (not applicable to Life)
Post-65 Medical	6.5% initial / 3.8% ultimate (not applicable to Life)

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 10 – FUND BALANCE

Fund balance at June 30, 2013 consists of the following:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Capital Projects Fund</u>
Fund Balances			
Nonspendable for:			
Inventory	\$ 435,267	\$ 260,092	\$ -
Prepaid expenses	312,689	-	-
Total nonspendable	<u>747,956</u>	<u>260,092</u>	<u>-</u>
Restricted for:			
Regular instruction	77,297	-	-
Operation of plant	9,387	-	-
Maintenance of plant	362,773	-	-
Mid-level administration	6,400	-	-
Cost of operation - food service	-	28,600	-
Special education	100,109	-	-
Total restricted	<u>555,966</u>	<u>28,600</u>	<u>-</u>
Committed for:			
Capital outlay	-	-	2,989,965
Assigned to:			
Administration	27,747	-	-
Regular instruction	2,342,933	-	-
Student personnel	12,350	-	-
Student health services	43,218	-	-
Student transportation services	72,512	-	-
Operation of plant	309,419	-	-
Maintenance of plant	499,431	-	-
Fixed charges	5,676	-	-
Mid-level administration	214,948	-	-
Special education	105,381	-	-
Cost of operation - food service	-	74,615	-
Capital outlay	51,863	-	-
Total assigned	<u>3,685,478</u>	<u>74,615</u>	<u>-</u>
Unassigned	<u>14,696,424</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>\$ 19,685,824</u>	<u>\$ 363,307</u>	<u>\$ 2,989,965</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 11 – ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of budgetary integration in the General Fund and Food Service Fund, and encumbrances outstanding at year-end are reported as commitments or assignments of fund balances since they do not constitute expenditures or liabilities.

Encumbrances at June 30, 2013 are for the following uses:

	<u>General Fund</u>	<u>Food Service Fund</u>
Administration	\$ 27,747	\$ -
Regular instruction	2,420,230	-
Student personnel	12,350	-
Student health services	43,218	-
Student transportation services	72,512	-
Operation of plant	318,806	-
Maintenance of plant	862,204	-
Fixed charges	5,676	-
Mid-level administration	221,348	-
Special education	205,490	-
Cost of operation - food service	-	28,600
Capital outlay	51,863	-
Total encumbrances	<u>\$ 4,241,444</u>	<u>\$ 28,600</u>

NOTE 12 – LITIGATION AND CONTINGENCIES

Several lawsuits have been filed arising from personnel grievances, personal injury, and other matters. It is anticipated by the Board that an adverse decision in excess of insurance coverage on any or all of these lawsuits would not have a material adverse affect on these financial statements.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. Amounts, if any, of expenditures that may be disallowed by grantors cannot be determined at this time, although the Board expects such amounts, if any, to be immaterial.

The Board leases equipment under agreements reported as operating leases. The annual lease payments are recorded as expenses in the Government-Wide Statement of Activities and Expenditures in the General Fund. Operating lease terms extend through the year ending June 30, 2017.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 12 – LITIGATION AND CONTINGENCIES (CONTINUED)

Future minimum payments on operating leases with an initial or remaining noncancellable term in excess of one year are as follows:

<u>Year Ending June 30</u>	<u>Miniumum Annual Lease Payments</u>
2014	\$ 449,406
2015	177,089
2016	57,958
2017	4,729
Total	\$ 689,182

Operating lease expenditures/expenses for the year ended June 30, 2013 were \$415,960.

NOTE 13 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Board participates in the Maryland Association of Boards of Education Group Insurance Pool (MABE). MABE is a public entity risk pool currently operating as a common risk management and insurance program for fourteen member counties to reduce the amount of claims expenditures incurred. The Board pays an annual premium to MABE for its general insurance coverage. The Formation Agreement of MABE provides that MABE will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of established loss limits which range from \$2,500 to \$5 million for each insured event depending on the type of loss. Settled claims have not exceeded coverage in any of the past three years.

Commercial insurance policies are purchased to provide coverage including workers' compensation coverage. Settled claims did not exceed coverage in any of the past three years.

The Board has also established limited risk management programs for healthcare insurance. The Board, with Aetna U.S. Healthcare, has an arrangement for providing coverage for future medical claims and employees contribute 15% towards this coverage. Deposits are made by the Board into a bank account used only for payments resulting from health insurance claims.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At June 30, 2013, liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated by an actuary based on the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The estimate of the claims liability also includes amounts for non-incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example, from salvage or subrogation are another component of the claims liability estimate.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE 13 – RISK MANAGEMENT (CONTINUED)

The liability for claims and judgments is reported in the General Fund. Changes in the balances of claims liabilities are as follows:

	<u>2013</u>	<u>2012</u>
Accrued health claims:		
Unpaid claims at beginning of year	\$ 5,793,827	\$ 4,374,518
Incurred claims (including IBNR)	46,815,972	45,861,754
Claim payments	<u>(46,763,547)</u>	<u>(44,442,415)</u>
Unpaid claims at end of year	<u>\$ 5,846,252</u>	<u>\$ 5,793,857</u>

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF CARROLL COUNTY
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS)
Year Ended June 30, 2013

	Original Budget	Final Budget	Non-GAAP Actual	Variances Positive (Negative) Final Budget To Actual
REVENUES				
Local sources	\$ 170,878,900	\$ 170,878,900	\$ 170,799,564	\$ (79,336)
State sources	141,012,238	141,573,955	139,726,052	(1,847,903)
Federal sources	13,455,001	13,502,101	12,043,194	(1,458,907)
Other revenues	3,130,091	3,130,091	3,267,136	137,045
Total revenues	<u>328,476,230</u>	<u>329,085,047</u>	<u>325,835,946</u>	<u>(3,249,101)</u>
EXPENDITURES				
Administration	5,035,846	5,035,846	4,840,442	195,404
Instructional salaries	122,768,550	122,584,798	121,115,728	1,469,070
Student personnel services	1,321,626	1,321,626	1,319,403	2,223
Student health services	3,385,075	3,385,075	3,285,448	99,627
Student transportation services	19,947,345	20,519,650	20,309,706	209,944
Operation of plant	26,283,639	25,592,139	25,568,570	23,569
Maintenance of plant	6,964,187	7,625,904	7,616,645	9,259
Fixed charges	69,580,126	69,392,010	67,230,042	2,161,968
Community services	331,000	331,000	254,886	76,114
Capital outlay	875,842	922,942	870,282	52,660
Mid-level administration	23,518,575	23,391,535	23,046,641	344,894
Special education	36,808,449	37,675,881	36,948,459	727,422
Instructional textbooks/supplies	8,635,947	8,958,215	8,341,303	616,912
Other instructional costs	3,020,023	2,745,688	2,081,666	664,022
Total expenditures	<u>328,476,230</u>	<u>329,482,309</u>	<u>322,829,221</u>	<u>6,653,088</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>(397,262)</u>	<u>3,006,725</u>	<u>3,403,987</u>
OTHER FINANCING SOURCES				
Use of prior year fund balance	3,000,000	3,397,262	-	(3,397,262)
Transfers out	(3,000,000)	(3,000,000)	(3,000,000)	-
Total other financing sources	<u>-</u>	<u>397,262</u>	<u>(3,000,000)</u>	<u>(3,397,262)</u>
Excess of revenues and other financing sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	6,725	<u>\$ 6,725</u>
FUND BALANCE AT JUNE 30, 2012			<u>15,568,584</u>	
FUND BALANCE AT JUNE 30, 2013			<u>\$ 15,575,309</u>	

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2013

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

Under the budgetary basis of accounting, revenues are recognized when cash is received and expenditures are recognized upon the commitment of an encumbrance. Pension payments made by the State on behalf of the Board are not considered revenues and expenditures on the budgetary basis of accounting.

NOTE 2 – BUDGETARY TO GAAP RECONCILIATION

A reconciliation of the revenues and expenditures for the funds which are affected by the adjustments necessary to present the Statement of Revenues and Expenditures and Changes in Fund Balance on a GAAP basis follows:

BUDGETARY GENERAL FUND

Revenues (non-GAAP budgetary basis)	\$ 325,835,946
Decrease in fiscal year revenues generated by fiscal year changes in encumbrances of expenditure driven grants	(125,685)
State pension payments	<u>19,040,467</u>
Revenues and other financing sources (GAAP basis)	<u>\$ 344,750,728</u>
Expenditures (non-GAAP budgetary basis)	\$ 322,829,221
Encumbrance adjustment, net	1,462,197
State pension payments	<u>19,040,467</u>
Total expenditures (GAAP basis)	<u>\$ 343,331,885</u>

**BOARD OF EDUCATION OF CARROLL COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
FOR OTHER POSTEMPLOYMENT BENEFIT PLAN
June 30, 2013**

Schedule of Funding Progress

Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2007	\$ -	\$ 86,140,000	\$ 86,140,000	0.0%	\$ 201,265,894	42.8%
July 1, 2008	-	75,282,000	75,282,000	0.0%	205,042,209	36.7%
July 1, 2009	1,500,000	116,797,000	115,297,000	1.3%	204,209,308	56.5%
July 1, 2010	3,722,000	110,803,000	107,081,000	3.4%	200,942,793	53.3%
July 1, 2011	7,369,200	181,428,000	174,058,800	4.1%	187,912,812	92.6%
July 1, 2012	9,277,000	192,349,000	183,072,000	4.8%	198,512,177	92.2%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contributions	Percentage Contributed	Net OPEB Obligation
2008	\$ 8,570,000	22.36%	\$ 6,653,345
2009	7,558,000	46.27%	10,758,137
2010	10,211,000	41.65%	16,785,610
2011	9,725,000	53.53%	21,373,441
2012	15,475,000	32.03%	31,956,508
2013	16,499,000	32.26%	43,190,699