

**BOARD OF EDUCATION OF GARRETT COUNTY**

**FINANCIAL REPORT**

**JUNE 30, 2009**

**R** **RODEHEAVER & ASSOCIATES, P. C.**  
*Certified Public Accountants*

---

6000 Thayer Center  
Oakland, Maryland 21550  
Telephone (301) 334-3127

# BOARD OF EDUCATION OF GARRETT COUNTY

## INDEX TO FINANCIAL REPORT

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1 - 2
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3 - 12
<b>BASIC FINANCIAL STATEMENTS</b>	
Government Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Budgetary Basis) :	
Current Expense Fund - Unrestricted	19
Current Expense Fund - Restricted	20
Food Service Fund	21
Statement of Fiduciary Net Assets	22
Notes to Financial Statements	23 - 41
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Funding Progress - Other Post-Employment Benefit Plan	42
Notes to Required Supplementary Information	42
<b>SUPPLEMENTARY INFORMATION</b>	
School Activities Fund Schedule of Revenues, Expenditures, and Balances by School	43



# RODEHEAVER & ASSOCIATES, P.C.

*Certified Public Accountants*

6000 Thayer Center  
Oakland, Maryland 21550  
Telephone: 301-334-3127  
Fax: 301-334-1102

*Principals*

Randle A. Rodeheaver, CPA, CVA  
James M. Murray, CPA  
Denise L. Rinker, CPA

## INDEPENDENT AUDITORS' REPORT

Board of Education of Garrett County  
Oakland, Maryland

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 Garrett County, a component unit of Garrett County, Maryland, as of and for the year ended June 30, 2009 which collectively comprise the Board's basic financial statements as listed in the index to financial report. These financial statements are the responsibility of the Board's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Garrett County as of June 30, 2009, and the respective changes in financial position thereof, and the respective budgetary comparison for the current expense fund and food service fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2009 on our consideration of the Board of Education of Garrett County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Members of

AICPA Private Companies Practice Section • Maryland Association of Certified Public Accountants

The management's discussion and analysis and schedule of other post-employment benefit plan funding progress listed in the index to financial report are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The accompanying school activities fund schedule of revenues, expenditures, and balances by school is presented for purposes of additional analysis and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Radheaver & Associates, P.C.*

Oakland, Maryland  
September 29, 2009

**BOARD OF EDUCATION OF GARRETT COUNTY**  
**Oakland, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

This section of the Board of Education of Garrett County School System's Financial Report represents our discussion and analysis of the School System's operations during the fiscal year ended June 30, 2009. Please read it in conjunction with the financial statements and notes to the basic financial statements which immediately follow this section to enhance the understanding of the School System's financial performance.

Government Accounting Standards require that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities.

The goal of the MD&A is for the School System's financial managers to present an objective and easily readable analysis of the Board's financial activities based on currently known facts.

**Financial Highlights**

- The Current Expense Fund undesignated and unreserved fund balance as of June 30, 2009, was \$1,307,957. The policy by the Board of Garrett County Commissioners that the Board of Education maintains an undesignated/unreserved fund balance at the end of each year of \$800,000 was amended during the year to \$500,000. In addition to the \$500,000, the Board of Education received authorization from the County Commissioners to carry-over \$693,628 to support the health care increase in the 2009-2010 budget, \$89,692 of donated funds received from an estate, and \$24,637 for the construction and rental of modular units at Northern Middle School.
- On a system-wide basis the Board of Education of Garrett County closed the fiscal year ended June 30, 2009, with combined net assets of \$54.2 million for an increase of \$12.2 million in relation to the prior year.
- The unrestricted Current Expense Fund actual revenues of \$48,291,371 came within \$375 of equaling the final budget, exclusive of local appropriations.
- The unrestricted Current Expense Fund actual expenditures of \$47,783,414 were under the final budget by \$1,110,006 or 2.3% during the year from the final adopted budget exclusive of Capital Outlay.
- Major budget initiatives in fiscal year 2009 included:
  - Implementation of a teacher salary schedule that increased the beginning teacher salary to \$42,043 which was part of a 6.0% salary package pursuant to the terms of the third year of negotiated collective bargaining agreements with all four bargaining units.
  - Outlays for school construction totaling \$13.3 million. These outlays were financed with revenues from the County of \$4.11 million, from the State of \$8.16 million, and from other financial assistance of \$1.07 million. Projects included the Grantsville Elementary addition which began in FY 2008 and was finished in June of FY 2009, the Northern Middle renovation which began in FY 2006 and will be completed in August of FY 2010, and the Northern High Roof which began in FY 2009 and will be completed in FY 2010. Northern Middle was equipped with all new furniture, new computer labs and smart boards throughout the school at a cost of \$496,312.

**BOARD OF EDUCATION OF GARRETT COUNTY**  
**Oakland, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

**Financial Highlights (Continued)**

- Continuation of a coalition between County government, Garrett College and the Board of Education to standardize health insurance benefits for current and retired employees of these entities. All three entities have the same insurance premium rates, the same benefits and the same employee co-pays.

**Overview of the Financial Statements**

The Financial Report is comprised of three parts: Management's Discussion and Analysis or MD&A (this section), the basic financial statements, and other supplementary information. The basic financial statements include two separate sets of statements that present different views of the School System:

- The two statements in the first set are the District-wide statements that provide both short and long-term information about the School System's overall financial condition.
- The other set of statements contain fund financial statements that focus on individual parts of the School System, reporting its operations in more detail than the District-wide statements.

**District-wide Financial Statements**

The District-wide Financial Statements report information about the School System as a whole using accounting methods similar to a private sector business. It is designed to provide readers with a complete financial view of the entity known as the Board of Education of Garrett County.

The *statement of net assets*, page 13, includes all of the School System's assets and liabilities with the difference between the two reported as net assets. The *statement of activities*, page 14, presents information showing how the District's net assets changed during the most recent fiscal year.

In the District-wide financial statements, the system's activities are reported under the single category of governmental activities. All of the School System's basic services are included in governmental activities, such as regular and special education, transportation, and administration. County appropriations funded by property taxes and other fees, as well as state formula aid, finance most of these activities.

Although the School System charges premiums to employees to help defray the costs of the health and dental care benefits programs, the bulk of the cost of these programs is financed by appropriations in the unrestricted Current Expense Fund budget. All insurance costs along with social security, retirement, and worker's compensation are reported under Fixed Charges.

The District-wide perspective is unrelated to the budget and, accordingly, budget comparisons are not provided in this view.

**BOARD OF EDUCATION OF GARRETT COUNTY  
Oakland, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009**

**District-wide Financial Statements (Continued)**

The School Activities Funds are fiduciary funds and as such are not included in the District-wide financial statements.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the Garrett County public schools' funds, focusing on its most significant or "major" funds - not the School System as a whole. A fund is a group of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The School System's funds are in two categories, governmental funds and fiduciary funds. The Board of Education of Garrett County does not operate any enterprise activities that are reported as proprietary funds.

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 on pages 19 through 21.

***Governmental Funds***

Most of the School System's basic services are included in governmental funds, page 15, which generally focus on (1) how current financial resources and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School System's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information, page 16, following the governmental funds statements explains the relationship (or differences) between them.

***Fiduciary Funds – School Activity Funds***

The Board is the trustee, or fiduciary, for its student activity funds. These funds are reported as a separate Agency Fund (See page 22.) We exclude these activities from the Board of Education of Garrett County's basic financial statements because the assets cannot be used to finance the Board's activities. We are responsible for ensuring that the assets reported in the School Activity Funds are used for their intended purpose.

**Financial Analysis of the School System as a Whole**

The School System's combined net assets increased in relation to FY 2008. The net assets increased by \$12.2 million or 29%. The increase in net assets is largely a result of two major school construction projects during FY 2009. The addition to Net Assets of "Restricted for Medical Assistance" is a result of a prior period adjustment explained in Note 14 to the financial statements. Unspent Medical Assistance funds were previously reported as deferred revenue.

**BOARD OF EDUCATION OF GARRETT COUNTY**  
**Oakland, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

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

The first chart below provides a summarized comparison of Net Assets between FY 2009 and FY 2008. The second chart shows program revenues and general revenues by major sources for FY 2009 and FY 2008 as well as program expenses by major function for both fiscal years. Percentage changes between the two years are shown as well.

**Condensed Statement of Net Assets**

	2009	2008	Percentage Change
Current and other assets	\$ 10,691,439	\$ 10,144,417	5.39%
Capital assets	53,027,539	41,787,549	26.90%
<b>Total assets</b>	<b>\$ 63,718,978</b>	<b>\$ 51,931,966</b>	<b>22.70%</b>
Current and other liabilities	\$ 8,880,953	\$ 9,270,707	-5.07%
Long-term liabilities	689,825	620,741	11.13%
<b>Total liabilities</b>	<b>\$ 9,490,778</b>	<b>\$ 9,891,448</b>	<b>-4.05%</b>
<b>Net assets</b>			
Invested in capital assets net of related debt	\$ 53,021,753	\$ 41,770,192	26.94%
Restricted	672,315	169,281	297.16%
Unrestricted	534,132	101,045	428.61%
<b>Total net assets</b>	<b>\$ 54,228,200</b>	<b>\$ 42,040,518</b>	<b>28.99%</b>

**Changes in Net Assets from Operating Results**

	2009	2008	Percentage Change
<b>Program revenues:</b>			
Charges for services	\$ 1,223,843	\$ 1,199,999	1.99%
Operating grants and contributions	8,673,215	8,040,142	7.87%
Capital grants and contributions	13,381,989	8,801,792	52.04%
<b>General revenues:</b>			
County government	23,212,854	21,612,852	7.40%
State (unrestricted)	25,594,218	25,315,178	1.10%
Federal	19,853	519,247	-96.18%
Other	215,871	376,449	-42.66%
<b>Total Revenues</b>	<b>\$ 72,321,843</b>	<b>\$ 65,865,659</b>	<b>9.80%</b>
Administration (central and school)	\$ 3,909,868	\$ 3,816,174	2.46%
Instruction			
(regular and special education)	30,678,209	30,381,154	0.98%
Student services and health	1,149,935	1,114,192	3.21%
Transportation	4,055,750	4,161,974	-2.55%
Maintenance and operations	4,904,029	4,843,816	1.24%
Fixed charges	12,914,840	11,716,415	10.23%
Food services	2,716,961	2,798,029	-2.90%
Other	239,756	212,720	12.71%
<b>Total Expenses</b>	<b>\$ 60,569,348</b>	<b>\$ 59,044,474</b>	<b>2.58%</b>
<b>Change in Net Assets</b>	<b>\$ 11,752,495</b>	<b>\$ 6,821,185</b>	<b>72.29%</b>



**BOARD OF EDUCATION OF GARRETT COUNTY  
Oakland, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009**

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

Revenues increased by 9.80% and expenditures increased by 2.58%. The revenue increase is higher than the expenditure increase as a result of recognizing all the revenue for school construction and renovation while the expenditures are capitalized and depreciated over a forty year period. The increase in revenue for capital grants for FY 2009 compared to FY 2008 of 52.04% reflects a greater expenditure in FY 2009 for two very large construction projects than was expended for those projects in FY 2008. The decrease in general federal revenues of 96.18% is a result of Medical Assistance funds being reported as program revenue in the current year. For the year ended June 30, 2008 these same Medical Assistance funds were reported as general revenues. The reporting change resulted from a state directive mandating that these funds be reported in the restricted current expense fund. The decrease in other revenue of 42.66% is due to lower interest rates earned on deposits.

Results of operations for the School System as a whole are presented on page 14, the Statement of Activities. Approximately \$61 million in expenses are reported. The majority of revenue received by the Board of Education of Garrett County is from the County and the State of Maryland. The State uses multiple formulas to calculate the allocation of aid to Maryland public school systems. Grant revenues can be derived by formula or awarded on a competitive basis. Charges for services are principally meals revenue derived from food service operations.

The Food Service program is primarily self-funded by children's payments and federal and state food and nutrition subsidies; however, the Current Expense Fund pays the cost of employee health insurance and worker's compensation premium costs for the Food Service program. In FY 2009, the Current Expense Fund also transferred \$3,349 in order for the Food Service Fund to avoid closing FY 2009 with a negative undesignated/unreserved fund balance.

The table on the next page presents the cost of the major school system functions: Administration (County & School Level), Instruction and Special Education, Student Personnel Services, Student Health Services, Student Transportation, Operation of Plant and Maintenance of Plant, Fixed Charges, and Others. The table also shows each function's net cost (total cost less fees generated by the functions and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on County and State taxpayers by each of these functions.

**BOARD OF EDUCATION OF GARRETT COUNTY  
Oakland, Maryland**

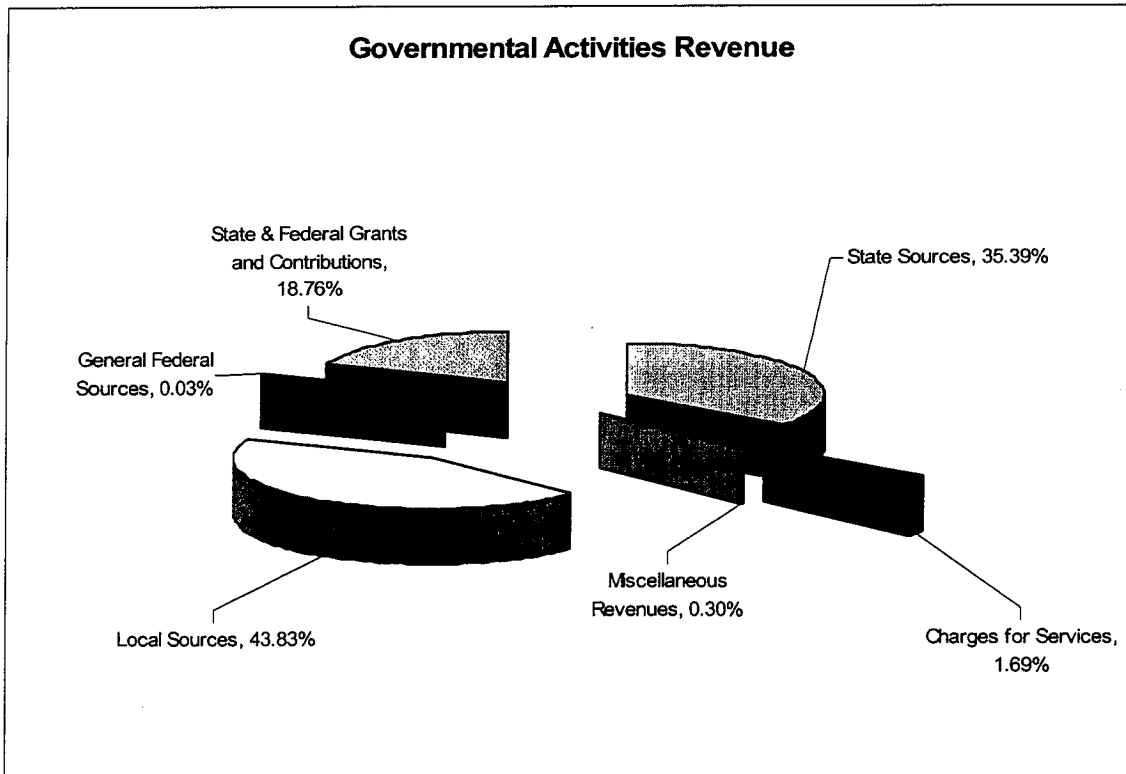
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009**

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

	Total Cost of Services			Net Cost of Services		
	2009	2008	Percentage Change	2009	2008	Percentage Change
Administration (County & School Level)	\$ 3,909,868	\$ 3,816,174	2.46%	\$ 3,722,161	\$ 3,644,587	2.13%
Instruction and Special Education	30,678,209	30,381,154	0.98%	14,238,969	18,722,371	-23.95%
Student Personnel Services	680,503	696,410	-2.28%	680,503	696,315	-2.27%
Student Health Services	469,432	417,782	12.36%	294,591	402,657	-26.84%
Student Transportation	4,055,750	4,161,974	-2.55%	1,473,871	1,655,811	-10.99%
Operation of Plant and Maintenance of Plant	4,904,029	4,843,816	1.24%	4,521,800	4,357,354	3.77%
Fixed Charges	12,914,840	11,716,415	10.23%	12,063,749	10,981,842	9.85%
Food Services	2,716,961	2,798,029	-2.90%	294,877	544,044	-45.80%
All others	239,756	212,720	12.71%	-220	-2,440	-90.98%
<b>Total</b>	<b>\$ 60,569,348</b>	<b>\$ 59,044,474</b>	<b>2.58%</b>	<b>\$ 37,290,301</b>	<b>\$ 41,002,541</b>	<b>-9.05%</b>

The cost of all governmental activities was \$60,569,348. Some of this cost was financed by users of the School System's programs through tuition and user fees of \$1,223,843. Operating and Capital Grants and contributions from the federal and state governments for certain programs were \$22,055,204. This left a net cost of services of \$37,290,301.

Most of the School System's total revenue of \$72,321,843 was provided through County and State of Maryland taxpayers. County sources totaled \$31,695,779, State sources totaled \$32,933,222, Federal sources totaled \$5,185,791 and the remainder was financed with charges for services and miscellaneous revenues.



**BOARD OF EDUCATION OF GARRETT COUNTY**  
**Oakland, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

**Financial Analysis of the School System's Funds**

The School System's financial performance as a whole is reflected in its governmental funds. At the completion of the current year, the combined fund balances for all governmental funds totaled \$1,980,272. This is \$575,804 more than the restated FY 2009 beginning balance of \$1,404,468. The beginning balance for FY 2009 was restated to include \$435,187 of Medical Assistance funds which in previous financial reports had been reported as deferred revenue. The higher balance in FY 2009 is due to a carry-over of \$693,628 of funds to support the 2009-2010 increase in health care insurance, a carry-over of \$89,692 for estate funds received by the Board of Education in FY 2009, \$24,637 for additional expenses in FY 2010 for the Northern Middle renovation, an increase of \$63,735 in Medical Assistance funds being carried over, and an increase in the fund balance of the Food Service Fund of \$4,112. The increases were offset by a \$300,000 decrease in the General Current Expense Fund undesignated/unreserved fund balance which decreased during 2008-2009 from \$800,000 to \$500,000. This ending balance each year is in accordance with the policy of the Board of Garrett County Commissioners. The \$500,000 represents less than 1% of the Current Expense Fund budgeted expenditures. The Food Service Fund fund balance of \$173,293 is reserved for inventories.

The undesignated/unreserved fund balance as of June 30, 2009 was \$1,307,957 in the Current Expense Fund and \$0 in the Food Service Fund. The previous year ending balance in the Current Expense Fund was \$800,000. This Current Expense ending balance at June 30, 2009 is comprised of the following:

Board of County Commissioner approved carry-over amount	\$ 500,000
Carry-over funds to support the health care increase in the 2009-2010 budget	693,628
Carry-over funds from estate funds	89,692
Carry-over funds for Northern Middle renovation expenses	<u>24,637</u>
Total ending balance	<u>\$ 1,307,957</u>

There was no change in the Food Service undesignated and unreserved carry-over amount from the previous fiscal year.

Local appropriations and state revenues account for about 99% of the total Unrestricted Current Expense Fund revenues. Both are stable and highly predictable. Total actual Unrestricted Current Expense Fund revenues less local appropriations, were very close to the actual budget.

**BOARD OF EDUCATION OF GARRETT COUNTY**  
**Oakland, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**June 30, 2009**

**General (Current Expense) Budgetary Highlights**

The Unrestricted Current Expense Fund operates under a legally adopted annual budget. The budget is subdivided into State mandated categories of expenditures including 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, and Community Services. The legal level of budgetary control is at the category level. Unexpended and encumbered appropriations terminate at the end of the fiscal year. The under budget variation in local source revenue resulted from a reduction in the appropriations from Garrett County of \$259,146 in order to reduce the ending fund balance to \$500,000, the changing of the ending undesignated and unreserved fund balance limitation from \$800,000 to \$500,000, open space projects not completed as of June 30, 2009, in the amount of \$380,167 and \$57,725 of unexpended funds for the Northern Middle modular units. Funds for Open Space projects and the Northern Middle project are only recognized as funds are expended. The under budget variation in administration expenditures was due to the reduced indirect cost allocation from the restricted current expense fund. The variation in capital outlay is largely due to approved Open Space projects that had not yet been completed as of June 30, 2009. The under budget variation in transportation is due to the transportation costs being budgeted at \$4.00 per gallon and fuel prices being under that figure by a substantial amount throughout the fiscal year. The variation between the original and final budget was primarily in state funding and was largely due to additional private placements in special education and additional out-of-county living placements that resulted in the receipt of additional state funding. The receipt of the estate bequest also resulted in additional revenue.

**Capital and Debt Administration**

By the end of fiscal year 2009, the School System had over \$86.7 million invested in a broad range of capital assets including land, buildings and improvements, furniture, vehicles, and other equipment. This amount represents a net increase of \$12.9 million. More detailed information about the school system's capital assets can be found in Note 4 to the financial statements.

The Capital Improvement Program included funding for school construction and renovation projects as follows:

	<u>Local Funding</u>	<u>State Funding</u>	<u>Misc Funding</u>
• Equipment for Northern Middle	\$ 496,312	\$	\$
• Grantsville Addition	2,120,572	1,010,071	1,066,985
• Northern High Roof	10,000	441,525	
• Northern Middle School Renovation	<u>5,533,360</u>	<u>2,665,000</u>	
	<u>\$ 8,160,244</u>	<u>\$ 4,106,596</u>	<u>\$ 1,066,985</u>

**BOARD OF EDUCATION OF GARRETT COUNTY**  
**Oakland, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2009**

**Long-Term Debt and Other Long-Term Obligations**

At year-end the School System had \$779,611 in long-term debt and other long-term obligations outstanding. Ninety-nine percent (99%) of this represents obligations for accumulated unpaid leave for the system's staff, and the remainder represents long-term financing for removal of asbestos and the School System's net other post employment benefit (OPEB) obligation.

**Factors Impacting the School System**

Full funding of the State of Maryland *Bridge to Excellence in Public Schools Act* was accomplished in FY 2009. The *Bridge to Excellence in Public Schools Act*, enacted in 2002, provides substantially increased funding to Garrett County Public Schools. Two factors that could negatively impact future revenue is the county's wealth potential and declining enrollment. The County's wealth potential impacts state-aid as state-aid is distributed in reverse order of each County's per pupil wealth ranking. As a county's wealth potential increases, state-aid decreases. The county has experienced a loss of enrollment in all but one of the past several years. The State of Maryland is continuing to experience a spending gap. County government has experienced major reductions in revenue as a result. This situation could stress both the State's and County's ability to support ongoing public service needs.

The Master Plan for Garrett County Public Schools, required under the Bridge to Excellence Act, provides a multi-year action plan to guide the school system in preparing students to reach high levels of academic achievement and to be contributing members of a democratic society. The plan directs the use of current and new state, federal, and local funds to eliminate achievement gaps among subgroups of students and to challenge each student to higher academic levels. The plan organizes and aligns research-based practices, instructional services, professional development, and resource distribution to guide the Garrett County Public Schools Budget that is now linked to Master Plan strategies.

The State's *Bridge to Excellence in Public Schools Act* and the Federal *No Child Left Behind Act* established certain requirements for Public School Systems. These requirements include, but are not limited to: that all students in core academic subjects are taught by "highly qualified" teachers, that all students must reach proficiency levels on state assessments by 2014, that all economically disadvantaged children must have access to a pre-kindergarten program, new certification and assessment requirements for paraprofessionals, and extensive tracking and reporting requirements. All of these new requirements have significant potential cost impacts associated with them.

Agreements with all four collective bargaining units have been reached through June 30, 2012; however for FY 2011 and FY 2012 negotiations will be reopened for wages and other rates of pay included in the agreement. For FY 2012 each respective party may select two articles to also negotiate.

**BOARD OF EDUCATION OF GARRETT COUNTY  
Oakland, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2009**

**Factors Impacting the School System (Continued)**

New accounting standards for reporting the Board's obligation for post-employment health insurance benefits went into effect for the fiscal year ended June 30, 2009. Under GASB Statement Number 45 benefits will be accrued during the employee's active years of service for government-wide financial reporting purposes. The Board's actuary has calculated an annual required OPEB cost of \$1,319,748 for the fiscal year ended 6/30/09. The actual OPEB contribution amount for the year ended 6/30/09 was \$1,316,944. Of this contribution amount \$613,000 was a direct contribution by the Garrett County Board of Commissioners and the remainder was from pay-as-you-go premiums paid for by the Board of Education for retirees and the subsidy paid for premiums by active employees. There remains a Net OPEB end of year obligation of \$2,804. Under GASB Statement Number 45 there is no requirement to fund this obligation; however, it does become a liability reported in the Board's financial statements against the Board's assets. In the 2009-2010 budget, the Board of Garrett County Commissioners has budgeted \$566,174 towards the OPEB obligation for next year.

Pay-as-you go costs incurred by the Board for qualified retirees and current employees are reported in the government funds financial statements. An additional accrued expense in the amount of \$2,804 was recognized in the government-wide financial statements and represents the extent to which the actuarially computed OPEB required contribution for the current fiscal year exceeded the actual contributions reported in the fund financial statements.

**Contacting the School System's Financial Management**

This financial report is designed to provide the citizens of Garrett County, taxpayers, parents and students, with a general overview of the Board of Education of Garrett County's finances and to demonstrate the School System's accountability for the resources it receives. If you have any questions about this report or need additional financial information, contact Ervin Fink, Executive Director of Administration, or Judy Travis, Financial Coordinator, at the Board of Education of Garrett County, 40 South Second Street, Oakland, MD 21550.

**BASIC FINANCIAL STATEMENTS**

**BOARD OF EDUCATION OF GARRETT COUNTY**

**STATEMENT OF NET ASSETS**

**June 30, 2009**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 6,592,891
Accounts receivable	
County	2,136,599
State	1,749,827
Federal	12,307
Other	26,422
Inventory	173,393
Non-depreciable capital assets	17,181,801
Depreciable capital assets, net of accumulated depreciation	<u>35,845,738</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 63,718,978</u></u>
<b>LIABILITIES</b>	
Accrued payroll and withholding	\$ 6,155,962
Accounts payable and accrued expenses	2,528,741
Deferred revenue	26,464
Long term debt - current	5,786
Compensated absences payable:	
Current portion	84,000
Long-term portion	687,021
Net OPEB obligation - long-term	<u>2,804</u>
<b>Total Liabilities</b>	<u>\$ 9,490,778</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 53,021,753
Restricted for medical assistance	498,922
Restricted for food service	173,393
Unrestricted	<u>534,132</u>
<b>Total Net Assets</b>	<u>\$ 54,228,200</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 63,718,978</u></u>

The Notes to Financial Statements are an integral part of this statement.



**BOARD OF EDUCATION OF GARRETT COUNTY**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2009**

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Administration	\$ 1,165,115	\$	\$ 87,210	\$	\$ (1,077,905)
Mid-level administration	2,744,753		100,497		(2,644,256)
Instruction - Salaries	22,148,843	7,265	1,727,548		(20,414,030)
- Textbooks and supplies	739,819		160,398		(579,421)
- Other	3,182,347		253,911	13,381,989	10,453,553
Special education	4,607,200		908,129		(3,699,071)
Student personnel services	680,503				(680,503)
Student health services	469,432		174,841		(294,591)
Student transportation	4,055,750	2,553	2,579,326		(1,473,871)
Operation of plant	4,129,542	20,775	313,627		(3,795,140)
Maintenance of plant	774,487		47,827		(726,660)
Fixed charges	12,914,840		851,091		(12,063,749)
Community services	239,756	9,791	230,185		220
Food services	2,716,961	1,183,459	1,238,625		(294,877)
<b>Total governmental activities</b>	<b>\$ 60,569,348</b>	<b>\$ 1,223,843</b>	<b>\$ 8,673,215</b>	<b>\$ 13,381,989</b>	<b>\$ (37,290,301)</b>
<b>General revenues:</b>					
Local appropriations				\$	23,212,854
State appropriations					25,594,218
Federal revenues					19,853
Miscellaneous					214,928
Unrestricted investment earnings					64,705
Gain (loss) on sale of equipment					(63,762)
<b>Total general revenues</b>				<b>\$</b>	<b>49,042,796</b>
<b>Change in net assets</b>				<b>\$</b>	<b>11,752,495</b>
<b>Net Assets - beginning of year, as restated</b>					<b>42,475,705</b>
<b>Net Assets - end of year</b>				<b>\$</b>	<b>54,228,200</b>

The Notes to Financial Statements are an integral part of this statement.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2009**

	Current Expense Fund	Food Service Fund	School Construction Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,382,329	\$ 210,562	\$	\$ 6,592,891
Accounts receivable				
County	1,710,789		425,810	2,136,599
State	1,259,200	49,102	441,525	1,749,827
Federal	12,307			12,307
Other	21,924	4,498		26,422
Due from other funds	54,850	3,349	57,281	115,480
Inventory		173,393		173,393
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 9,441,399</u>	<u>\$ 440,904</u>	<u>\$ 924,616</u>	<u>\$ 10,806,919</u>
<b>LIABILITIES</b>				
Accrued payroll and withholdings	\$ 5,962,693	\$ 193,269	\$	\$ 6,155,962
Accounts payable and accrued expenses	1,600,532	3,593	924,616	2,528,741
Deferred revenue	10,665	15,799		26,464
Due to other funds	60,630	54,850		115,480
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>\$ 7,634,520</u>	<u>\$ 267,511</u>	<u>\$ 924,616</u>	<u>\$ 8,826,647</u>
<b>FUND BALANCES</b>				
Reserved for inventories	\$	\$ 173,393	\$	\$ 173,393
Reserved for medical assistance	498,922			498,922
Undesignated and unreserved	1,307,957			1,307,957
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>\$ 1,806,879</u>	<u>\$ 173,393</u>	<u>\$ 0</u>	<u>\$ 1,980,272</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	<u>\$ 9,441,399</u>	<u>\$ 440,904</u>	<u>\$ 924,616</u>	<u>\$ 10,806,919</u>

The Notes to Financial Statements are an integral part of this statement.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

**June 30, 2009**

Total fund balances - Governmental funds \$ 1,980,272

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

Capital assets used in governmental activities are not financial resources,  
and therefore, are not reported in the funds. The cost of these assets  
is \$86,705,046 , net of accumulated depreciation of \$33,677,507. 53,027,539

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 include compensated absences payable (\$771,021), long-term  
debt (\$5,786), and net OPEB obligation (\$2,804). (779,611)

Total net assets - Governmental activities \$ 54,228,200

The Notes to Financial Statements are an integral part of this statement.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
Year Ended June 30, 2009**

	<u>Current Expense Fund</u>	<u>Food Services Fund</u>	<u>School Construction Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Intergovernmental revenues				
Local sources	\$ 23,535,535	\$	\$ 8,160,244	\$ 31,695,779
State sources	28,736,910	89,716	4,106,596	32,933,222
Federal sources	4,036,882	1,148,909		5,185,791
Earnings on investments	64,064	641		64,705
Charges for services	40,736	1,185,455		1,226,191
Miscellaneous revenues	200,545	9,062	1,066,985	1,276,592
	<u>\$ 56,614,672</u>	<u>\$ 2,433,783</u>	<u>\$ 13,333,825</u>	<u>\$ 72,382,280</u>
<b>Total Revenues</b>				
<b>EXPENDITURES</b>				
Administration	\$ 1,152,317	\$	\$	\$ 1,152,317
Mid-level administration	2,744,753			2,744,753
Instruction - Salaries	22,148,843			22,148,843
- Textbooks and supplies	739,819			739,819
- Other	940,308			940,308
Special education	4,612,567			4,612,567
Student personnel services	680,503			680,503
Health services	469,432			469,432
Student transportation	4,055,750			4,055,750
Operation of plant and equipment	4,230,523			4,230,523
Maintenance of plant	807,552			807,552
Fixed charges	12,839,970			12,839,970
Food services		2,692,443		2,692,443
Community services	239,756			239,756
Capital outlay	106,544		13,333,825	13,440,369
Debt service	11,571			11,571
	<u>\$ 55,780,208</u>	<u>\$ 2,692,443</u>	<u>\$ 13,333,825</u>	<u>\$ 71,806,476</u>
<b>Total Expenditures</b>				
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 834,464	\$ (258,660)	\$ 0	\$ 575,804
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating transfers in		262,772		262,772
Operating transfers out	(262,772)			(262,772)
<b>NET CHANGE IN FUND BALANCES</b>	\$ 571,692	\$ 4,112	\$ 0	\$ 575,804
Fund Balances - beginning of year, as restated	<u>1,235,187</u>	<u>169,281</u>		<u>1,404,468</u>
<b>FUND BALANCES - end of year</b>	<u>\$ 1,806,879</u>	<u>\$ 173,393</u>	<u>\$ 0</u>	<u>\$ 1,980,272</u>

The Notes to Financial Statements are an integral part of this statement.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2009**

Change in fund balances - Governmental funds	\$ 575,804
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$13,161,459 exceeded depreciation expense of (\$1,861,032) in the current year.	11,300,427
Governmental funds report only the proceeds from the sale of capital assets. In the statement of activities the net book value is written-off against the proceeds, if any, when assets are disposed of or sold.	(72,159)
Governmental funds do not report donated assets, however, the fair market value of these assets are reported as a source of revenue in the statement of activities.	11,722
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	11,571
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.	(2,804)
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.	<u>(72,066)</u>
Change in net assets - Governmental activities	<u>\$ 11,752,495</u>

The Notes to Financial Statements are an integral part of this statement.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**CURRENT EXPENSE FUND - UNRESTRICTED  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended June 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>REVENUES</b>				
Intergovernmental revenues				
Local sources	\$ 23,366,789	\$ 23,919,573	\$ 22,922,535	\$ (997,038)
State sources	24,955,205	24,970,293	24,970,292	(1)
Federal sources	454,910	93,554	93,551	(3)
Earnings on investments	270,000	64,000	64,064	64
Charges for services	25,000	31,744	40,384	8,640
Miscellaneous revenues		208,870	200,545	(8,325)
	<u>\$ 49,071,904</u>	<u>\$ 49,288,034</u>	<u>\$ 48,291,371</u>	<u>\$ (996,663)</u>
<b>EXPENDITURES</b>				
Administration	\$ 1,163,127	\$ 1,157,180	\$ 1,065,107	\$ (92,073)
Mid-level administration	2,710,255	2,647,326	2,644,256	(3,070)
Instruction - Salaries	20,787,951	20,547,938	20,510,993	(36,945)
- Textbooks and supplies	611,971	586,418	579,421	(6,997)
- Other	638,054	790,868	686,397	(104,471)
Special education	3,868,282	3,766,813	3,704,438	(62,375)
Student personnel services	678,338	680,504	680,503	(1)
Health services	455,334	431,886	358,326	(73,560)
Student transportation	4,631,217	4,632,598	4,049,039	(583,559)
Operation of plant and equipment	4,085,422	4,187,973	4,191,413	3,440
Maintenance of plant	768,306	809,029	807,552	(1,477)
Fixed charges	8,342,690	8,264,425	8,115,511	(148,914)
Food services	233,000	262,772	262,772	
Community services		9,574	9,571	(3)
Capital outlay	86,385	501,158	106,544	(394,614)
Debt service	11,572	11,572	11,571	(1)
	<u>\$ 49,071,904</u>	<u>\$ 49,288,034</u>	<u>\$ 47,783,414</u>	<u>\$ (1,504,620)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>\$ 0</u>	<u>\$ 0</u>	\$ 507,957	<u>\$ 507,957</u>
Fund Balance - beginning of year			<u>800,000</u>	
<b>FUND BALANCE - end of year</b>			<u>\$ 1,307,957</u>	

The Notes to Financial Statements are an integral part of this statement.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**CURRENT EXPENSE FUND - RESTRICTED  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended June 30, 2009**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>REVENUES</b>				
Intergovernmental revenues				
State sources	\$ 471,251	\$ 559,420	\$ 506,250	\$ (53,170)
Federal sources	3,593,693	4,367,847	3,943,331	(424,516)
Charges for services	<u>500</u>	<u>4,070</u>	<u>352</u>	<u>(3,718)</u>
 Total Revenues	 <u>\$ 4,065,444</u>	 <u>\$ 4,931,337</u>	 <u>\$ 4,449,933</u>	 <u>\$ (481,404)</u>
<b>EXPENDITURES</b>				
Administration	\$ 89,779	\$ 103,494	\$ 87,210	\$ (16,284)
Mid-level administration	83,093	125,083	100,497	(24,586)
Instruction - Salaries	1,679,366	1,884,721	1,637,850	(246,871)
- Textbooks and supplies	104,756	199,795	160,398	(39,397)
- Other	296,337	338,261	253,911	(84,350)
Special education	795,056	1,032,566	908,129	(124,437)
Health services	15,000	109,058	111,106	2,048
Student transportation	7,828	11,398	6,711	(4,687)
Operation of plant and equipment	24,124	37,207	39,110	1,903
Fixed charges	749,213	858,715	851,091	(7,624)
Community services	<u>220,892</u>	<u>231,039</u>	<u>230,185</u>	<u>(854)</u>
 Total Expenditures	 <u>\$ 4,065,444</u>	 <u>\$ 4,931,337</u>	 <u>\$ 4,386,198</u>	 <u>\$ (545,139)</u>
 <b>EXCESS OF REVENUES OVER EXPENDITURES</b>	 <u>\$ 0</u>	 <u>\$ 0</u>	 \$ 63,735	 <u>\$ 63,735</u>
 Fund Balance - beginning of year, as restated			 <u>435,187</u>	
 <b>FUND BALANCE - end of year</b>			 <u>\$ 498,922</u>	

The Notes to Financial Statements are an integral part of this statement.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**FOOD SERVICE FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)  
Year Ended June 30, 2009**

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>REVENUES</b>			
Federal	\$ 893,249	\$ 1,019,187	\$ 125,938
State of Maryland	89,990	89,716	(274)
Meals and food served	1,196,309	1,185,455	(10,854)
Interest earned	4,500	641	(3,859)
Federal donation of food	91,000	129,722	38,722
Other revenues	5,500	9,062	3,562
	<u>\$ 2,280,548</u>	<u>\$ 2,433,783</u>	<u>\$ 153,235</u>
<b>Total Revenues</b>			
<b>EXPENDITURES</b>			
Salaries and wages	\$ 1,130,597	\$ 1,121,978	\$ (8,619)
Contracted services	35,032	46,613	11,581
Supplies and materials	846,313	1,057,161	210,848
Other charges	501,799	466,691	(35,108)
Capital outlay	21,738		(21,738)
	<u>\$ 2,535,479</u>	<u>\$ 2,692,443</u>	<u>\$ 156,964</u>
<b>Total Expenditures</b>			
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	\$ (254,931)	\$ (258,660)	\$ (3,729)
<b>OTHER FINANCING SOURCES</b>			
Operating transfers in	<u>254,931</u>	<u>262,772</u>	<u>7,841</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 0</u>	\$ 4,112	<u>\$ 4,112</u>
Fund Balance - beginning of year		<u>169,281</u>	
<b>FUND BALANCE - end of year</b>		<u>\$ 173,393</u>	

The Notes to Financial Statements are an integral part of this statement.



**BOARD OF EDUCATION OF GARRETT COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS**

**June 30, 2009**

	<u>School Activities Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 481,092
Investments	84,796
Accounts receivable	<u>702</u>
<b>Total Assets</b>	<u><u>\$ 566,589</u></u>
<b>LIABILITIES</b>	
Accounts payable	\$ 159
School activity funds payable	<u>566,430</u>
<b>Total Liabilities</b>	<u><u>\$ 566,589</u></u>

The Notes to Financial Statements are an integral part of this statement.

# BOARD OF EDUCATION OF GARRETT COUNTY

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **A. Financial Reporting Entity**

The Board of Education of Garrett County (the Board) as currently constituted was established under Title 3, Subtitles 103 and 114, Education, of the Annotated Code of Maryland. The Board is a five-member elected body responsible for the operation of the Garrett County public school system.

The Board of Education of Garrett County is a component unit of Garrett County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. The financial statements of the Board are included in the financial statements of the County as required by generally accepted accounting principles.

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

#### **B. Government-Wide and Fund Statements**

The Government Accounting Standards Board (GASB) establishes reporting requirements and the reporting model for the annual financial reports of state and local governments. This model requires governments to report on the overall state of a government's financial health and not just individual funds. The reporting model was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. In addition, the model provides enhanced information regarding the costs of delivering specific services to citizens and includes:

**Management's Discussion and Analysis** – Government Accounting Standards require 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.

**District-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 costs 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.

# BOARD OF EDUCATION OF GARRETT COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### B. Government-Wide and Fund Statements (continued)

**District-Wide Financial Statements** (continued) – 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 assets, both the governmental activities' assets and liabilities (a) are presented on a consolidated basis and (b) are reflected, on a full accrual, economic resource basis, which incorporates non-current assets and receivables as well as long-term obligations.

**Statement of Net Assets** – The statement of net assets is designed to display the financial position of the Board of Education. The Board reports all capital assets in the government-wide statement of net assets and reports depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net assets of the Board are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

**Statement of Activities** – The government-wide statement of activities reports expenses and revenues in the format that focuses on the cost of each educational 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 education, student 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-purpose 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. All of the Board's funds are reported as major funds. In the fund financial statements, financial transactions and accounts of the Board are organized on the basis of funds.

# BOARD OF EDUCATION OF GARRETT COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### B. Government-Wide and Fund Statements (continued)

**Fund Financial Statements** (continued) - 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, 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.

**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. Under the current reporting model, governments provide budgetary comparison information including the government's original budget and the final budget compared to actual results. The Food Service Fund budget is presented in a single column format as no changes are made to original budget amounts once they are approved. These budgetary comparison schedules are presented as part of the basic financial statements.

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide 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.

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

It is the Board's policy to first use restricted assets for expenses incurred for which both restricted and unrestricted assets are available unless a local match is required. Where a local match is required, the expense is allocated to restricted and unrestricted assets based on the required match percentages.

# BOARD OF EDUCATION OF GARRETT COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

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. Generally, only current assets and current liabilities are included on the balance sheet. Revenues are recorded as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the 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 local, state, and federal revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and other post employment benefits, are recorded only when the obligations are expected to be liquidated with expendable available resources.

The following types of transactions are reported as program revenues. Tuition paid directly by students and parents; and sales associated with the food service operations are identified as charges for services. State and federal support for each function is identified as operating grants and contributions. Grant-related revenue that is specifically restricted for use in a particular function to meet the operational and capital requirements of a particular program is separated in the statement of activities.

The Board reports the following governmental funds in the fund financial statements:

**Current Expense Fund** - The Current Expense Fund is the general 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. State and federal grant programs are included in the restricted portion of this fund.

**Food Service Fund** - The Food Service Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures related to food service operations.

**School Construction Fund** - The School Construction Fund is used to account for the financial resources to be used for the acquisition, construction or renovation of the Board's major capital facilities.

**School Activities Fund** - The School Activities Funds are agency funds used to account for assets held by the Board in a trustee capacity. These funds belong to student and faculty organizations within each school and are under the direct responsibility of each school's principal.

# BOARD OF EDUCATION OF GARRETT COUNTY

## NOTES TO FINANCIAL STATEMENTS

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

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 assets. 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.

#### D. Assets, Liabilities, and Net Assets or Equity

**Cash and Cash Equivalents** - For purposes of financial statement presentation, the Board considers all highly liquid investments (i.e. certificates of deposit and repurchase agreements) with a remaining maturity of three months or less when purchased to be cash equivalents.

**Investments** - Investments consist of certificates of deposit with a remaining maturity of more than three months when purchased. These investments are recorded at cost which approximates market 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 assets, so as to not overstate the Board's assets and liabilities. All other receivables are reported at net realizable value.

**Inventories** - Inventory balances reflected in the financial statements consist of food stuffs located in each school. Inventory is recorded in the financial statements using the consumption method. Under this method, expenditures are recognized when inventory is used. Inventories are valued on a first-in, first-out cost basis. Unit cost values of donated food are determined from USDA price lists.

**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 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 if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets or Equity (continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements	15
Equipment	5-12
Vehicles	8

Deferred Revenues - Deferred revenues represent amounts received from grantors in advance of incurrence of eligible expenditures for reimbursable-type grants at June 30, 2009.

Compensated Absences Payable - As of June 30, 2009, employees of the Board had accumulated approximately \$771,021 of vested annual leave and other compensatory leave benefits. These benefits include salaries and salary related payments. The current and long-term portion of this liability are presented in the government-wide financial statements at fiscal year-end.

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 in the accompanying financial statements.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Fund balances in the governmental funds are reserved for inventories and medical assistance to indicate the amounts that are not available for other expenditures. For the current year, the Board of Garrett County Commissioners has agreed to fund the Board's Unrestricted Current Expense Fund budget at a level that allows the Board to maintain an undesignated/unreserved Current Expense Fund balance of \$1,307,957.

E. Budgets and Budgetary Accounting

The Board prepares its budget for the unrestricted component of the Current Expense Fund and Food Service Fund on a basis consistent with generally accepted accounting principles applicable to governmental entities except for retirement payments made on the Board's behalf to the State Retirement and Pension System of Maryland by the State of Maryland and contributions made by the County to the OPEB Trust. The Board is not legally responsible for such payments.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting (continued)

The budgetary basis does not reflect revenues and expenditures for such contributions as required by generally accepted accounting principles. In addition, certain reclassifications are made to the approved budgets to facilitate comparison for financial reporting purposes.

The restricted component of the Current Expense Fund budget accounts for special federal and state grant programs. Expenditures incurred under these programs are limited to the amounts expended under the respective grants.

School Construction Fund activity is budgeted on the basis of total project costs as approved by the Board of Public Works and County appropriations specifically allocated for capital outlay. Annual budgetary comparisons to actual expenditures are not presented in the financial statements for the School Construction Fund.

The superintendent submits the Current Expense Fund and Food Service Fund proposed budgets to the Board of Education. Upon approval by the Board, the proposed budgets are submitted to the county commissioners for approval. A copy of the budget as approved by the county commissioners is submitted to the State superintendent within 30 days after approval. All budget appropriations lapse at year end.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND CASH EQUIVALENTS

At June 30, 2009, cash and cash equivalents consisted of the following:

Cash in banks	\$ 6,592,741
Petty cash	150
	<u>\$ 6,592,891</u>

At year end, the carrying amount of the Board's combined deposits was \$6,592,741 and the bank balance was \$7,201,320 which was fully insured by federal depository insurance.



**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)**

Statutes authorize the Board to invest unexpended or surplus monies in obligations of the U.S. Government, federal government agency obligations and repurchase agreements secured by direct government or agency obligations. The Board follows the County's investment policy with respect to the portion of unexpended or surplus funds that may be concentrated at any one time in a specific type of investment instrument. This policy limits investments in U.S. Treasury obligations, federal government agency obligations and repurchase agreements to 100, 50 and 70 percent of the Board's overall deposit and investment portfolio, respectively.

The Board follows the County's policy for managing its exposure to fair value losses arising from increasing interest rates. The County's investment policy requires that the majority of investments be short-term (having a term of less than one year). Investments in instruments having long-term maturities are limited to direct federal government obligations and to securities issued by U.S. Government agencies. Under the terms of the County's policy the maximum length of maturity for any long-term investment is two years.

Fiduciary net assets at year-end consist of bank deposits held on behalf of school activity funds. All deposits held are fully insured or collateralized at June 30, 2009.

Fiduciary net assets also consist of investments in certificates of deposits with maturity dates in excess of three months. All certificates of deposits are fully insured at June 30, 2009.

**NOTE 3 - INTERFUND BALANCES AND TRANSFERS**

The composition of interfund balances at June 30, 2009 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Current Expense	Food Service	\$ 54,850
School Construction	Current Expense	57,281
Food Service	Current Expense	3,349
		<u>\$ 115,480</u>

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

Transfers between funds consist of \$262,772 in benefit costs paid by the Current Expense Fund on behalf of the Food Service Fund.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2009 was as follows:

<u>Governmental Activities</u>	<u>Balance June 30, 2008</u>	<u>Additions and Transfers</u>	<u>Dispositions and Transfers</u>	<u>Balance June 30, 2009</u>
<b>Capital assets not being depreciated</b>				
Land	\$ 867,363	\$	\$	\$ 867,363
Construction in progress	<u>9,436,539</u>	<u>12,882,128</u>	<u>(6,004,229)</u>	<u>16,314,438</u>
Total capital assets, not being depreciated	<u>\$ 10,303,902</u>	<u>\$ 12,882,128</u>	<u>\$ (6,004,229)</u>	<u>\$ 17,181,801</u>
 <b>Capital assets being depreciated</b>				
Building and improvements	\$ 60,677,235	\$ 59,549	\$ 5,899,478	\$ 66,636,262
Equipment	2,378,705	74,924	(106,677)	2,346,952
Vehicles	<u>488,538</u>	<u>156,580</u>	<u>(105,087)</u>	<u>540,031</u>
Total capital assets being depreciated	<u>\$ 63,544,478</u>	<u>\$ 291,053</u>	<u>\$ 5,687,714</u>	<u>\$ 69,523,245</u>
 <b>Less accumulated depreciation</b>				
Building and improvements	\$ 30,096,229	\$ 1,694,603	\$ (32,592)	\$ 31,758,240
Equipment	1,594,851	128,736	(106,677)	1,616,910
Vehicles	<u>369,751</u>	<u>37,693</u>	<u>(105,087)</u>	<u>302,357</u>
Total accumulated depreciation	<u>\$ 32,060,831</u>	<u>\$ 1,861,032</u>	<u>\$ (244,356)</u>	<u>\$ 33,677,507</u>
Capital assets being depreciated - net	<u>\$ 31,483,647</u>	<u>\$ (1,569,979)</u>	<u>\$ 5,932,070</u>	<u>\$ 35,845,738</u>
 Capital assets, net	<u>\$ 41,787,549</u>	<u>\$ 11,312,149</u>	<u>\$ (72,159)</u>	<u>\$ 53,027,539</u>

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 - CAPITAL ASSETS (Continued)**

Depreciation expense for the year ended June 30, 2009 was charged to governmental functions as follows:

Administration	\$ 12,798
Instruction	1,757,134
Special education	233
Operation of plant	39,472
Maintenance of plant	26,877
Food service	<u>24,518</u>
 Total depreciation expense - governmental activities	 <u>\$ 1,861,032</u>

The Board had active construction projects as of June 30, 2009 as follows:

	<u>Spent-To -Date</u>	<u>Remaining Commitment</u>
Northern Middle – Renovation	\$ 15,778,135	\$ 385,386
Northern High Roof	451,524	558,386
Open Space Projects	<u>84,779</u>	<u>383,716</u>
 Total	 <u>\$ 16,314,438</u>	 <u>\$ 1,327,488</u>

**NOTE 5 - COMPENSATED ABSENCES PAYABLE**

Activity in compensated absences for the year ended June 30, 2009 was as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2009</u>	<u>Due Within One Year</u>
Current Expense Fund	\$ 680,172	\$ 83,393	\$ (15,487)	\$ 748,078	\$ 84,000
Food Service Fund	<u>18,783</u>	<u>5,900</u>	<u>(1,740)</u>	<u>22,943</u>	<u>          </u>
	<u>\$ 698,955</u>	<u>\$ 89,293</u>	<u>\$ (17,227)</u>	<u>\$ 771,021</u>	<u>\$ 84,000</u>

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - LONG-TERM DEBT**

The Board is obligated under a loan agreement with the U.S. Environmental Protection Agency. The proceeds of this loan together with matching grant revenue was awarded to the Board under an EPA assistance agreement for the removal of asbestos in schools. Terms of this loan are as follows:

	<u>Balance</u> <u>June 30, 2009</u>
\$ 208,285 Dated May 4, 1990, subsequently amended July 18, 1991. \$5,786 semi-annual payments of principal only beginning May 30, 1992 for a period of 18 years.	\$ <u>5,786</u>

Maturities of long-term debt are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 5,786	\$ 0	\$ 5,786

**Changes in Long-Term Debt**

The following is a summary of changes in long-term debt for the year ended June 30, 2009.

	<u>Balance</u> <u>7/01/08</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/09</u>	<u>Due Within</u> <u>One Year</u>
U.S. EPA loans	\$ 17,357	\$	\$ (11,571)	\$ 5,786	\$ 5,786

Interest expense paid during the year ended June 30, 2009 was \$0.

**NOTE 7 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

The Board provides post-employment benefits in the form of contributions toward the cost of health insurance for eligible employees. Eligible employees include any current and former employee who qualifies for retirement under the Maryland State Retirement and Pension System and also meets the eligibility requirements of the post-employment benefit program under which they retire.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

(Continued)

The Board of Education of Garrett County participates with the Board of Garrett County Commissioners and Garrett College in the Garrett County Employees Health Care Plan, an agent multiple benefit plan which includes other post-employment benefits (OPEB). The participants in the Health Care Plan formed an OPEB Trust Fund to prefund future OPEB benefits. The financial statements of the OPEB Trust Fund are included in the financial report of the Board of County Commissioners of Garrett County, MD and can be obtained from the County administrator's office. The employer's contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon the annual approval of the operating budget.

Details of the post employment benefits are as follows:

Retirees must have a minimum of 10 years full-time equivalent service with The Board of Education of Garrett County, The Board of Garrett County Commissioners, Garrett College, or a combination thereof.

Retirees are given the option to maintain health insurance coverage after they retire and until they reach age 65. After age 65, they can elect to be covered under a supplemental coverage plan. Generally, retirees pay a percentage (from 0% to 60% depending upon years of service at retirement) of the COBRA equivalent cost of the pre-65 Maryland Point of Service individual plan benefit for themselves. After age 65, the Board pays the same percentage for the retirees' Medicare Supplemental Standard Program (including drugs). The following table outlines coverage percentages paid by the retiree and Board under the plan based on years of service at date of retirement:

	<u>Retiree %</u>	<u>Board %</u>
Less than 10 years	No coverage	No coverage
10 or less than 15 years	60%	40%
15 or less than 21 years	50%	50%
21 or less than 26 years	40%	60%
26 or less than 30 years	20%	80%
30 or more years	0%	100%

During the year ended June 30, 2009, there were 41 Board of Education retirees who met the eligibility requirements for participation in this program. The Board expended \$357,356 during the year ended June 30, 2009, to finance the benefits of this program on a pay-as-you-go basis. These costs are reported in Current Expense Fund fixed charges.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

**NOTE 7 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

(Continued)

For employees retiring between July 1, 2003 and June 30, 2006, an insurance post-employment benefit existed that offered a fixed amount of dollars toward the cost of insurance for eligible retirees. Eligibility requirements included having at least 15 years of service with the Board of Education of Garrett County and being enrolled in the insurance program for at least one year prior to retirement. The maximum number of years of benefit under this plan is 10. Participants may continue under the Board's health insurance policy or purchase insurance from any other plan that the individual may select. Benefits under the program are financed on a pay-as-you-go basis and include annual credits toward the cost of retiree health insurance premiums paid as follows:

30 years or more of service	\$3,000
25 years but less than 30 years	2,500
20 years but less than 25 years	2,000
15 years but less than 20 years	1,500

The benefit is further limited to the retiree's actual cost of insurance premiums. During the year ended June 30, 2009 the Board expended \$96,108 under this program. There are currently 51 retirees who meet the eligibility requirements and who are participating in this program. This program is also financed on a pay-as-you-go basis. These costs are included in Current Expense Fund fixed charges.

In addition, during the year ended June 30, 2009, the Board expended \$28,500 under post-employment insurance benefit programs which were in effect for eligible employees retiring prior to July 1, 2003. There are currently 8 retirees who meet the eligibility requirements and who are participating in these programs. These programs are also financed on a pay-as-you-go basis. These costs are included in Current Expense Fund fixed charges.

**Annual OPEB Cost and Net OPEB Obligation**

The Board implemented the provisions of GASB Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, prospectively in the current year. The Board's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal 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 ended June 30, 2009, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation:

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

(Continued)

**Components of Net OPEB Obligation**

Annual Required Contribution	\$ 1,319,748
Interest on Net OPEB Obligation	0
Adjustment to Annual Required Contribution	<u>0</u>
Annual OPEB Cost (Expense)	\$ 1,319,748
Contributions Made	<u>(1,316,944)</u>
Increase in Net OPEB Obligation	<u>\$ 2,804</u>
Net OPEB Obligation (Beginning of Year)	0
Net OPEB Obligation (End of Year)	\$ 2,804

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2009 is as follows:

Fiscal Year <u>Ended</u>	<u>Annual OPEB Cost</u>	<u>OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$ 1,319,748	99.8%	\$ 2,804

**Funded Status and Funding Progress**

As of July 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$12,331,162, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$12,331,162. The covered payroll (annual payroll of active employees covered by the plan) was \$26,791,941, and the ratio of the UAAL to the covered payroll was 46%.

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, is intended to present 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 GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

**NOTE 7 - 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, 2008, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 5% after three years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement plan asset returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period as of June 30, 2009, was twenty-nine years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percentage of projected payroll over a 30 year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	7 %
Discount Rate	7 %
Salary Scale	2.5 % per year under discount rate
Healthcare Cost Trend Rates	8 % initially, reduced by decrements to an ultimate rate of 5 % after 3 years
Retirement Age:	
Age 55+ & 10+ years of service	5 % probability of retirement 80 % probability of electing coverage
Age 55+ & 30+ years of service	100 % probability of retirement 80 % probability of electing coverage



**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - COMMITMENTS AND CONTINGENCIES**

**Financial Assistance Program Compliance**

The Board participates in numerous Federal and State grant/loan programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the laws and regulations governing the grant/loan programs, refunds of any money received may be required or, the collectibility of any related receivable at June 30, 2009 may be impaired. In the opinion of the Board, the amount, if any, of contingent liabilities relating to non-compliance with the laws and regulations governing the respective grant/loan programs is not material; consequently, no provision has been recorded in the accompanying financial statements for such contingencies.

**Operating Leases**

The Board has entered into various noncancellable operating leases primarily for instructional and operations equipment. Rent expense paid during the year ended June 30, 2009 was \$151,393.

Future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2009 are as follows:

2010	\$ 122,893
2011	115,618
2012	94,364
2013	48,182
2014	<u>4,888</u>
	<u>\$ 385,945</u>

**NOTE 9 - STATE RETIREMENT PLANS**

The Board of Education of Garrett County participates in the State Retirement and Pension System of Maryland, a cost sharing multiple-employer public employee retirement system. Substantially all employees of the Board are eligible to participate in the state system, which provides retirement disability and death benefits in accordance with State statutes. The State Retirement and Pension System of Maryland 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, 2008 (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 or by calling 1-800-492-5909.

# BOARD OF EDUCATION OF GARRETT COUNTY

## NOTES TO FINANCIAL STATEMENTS

### **NOTE 9 - STATE RETIREMENT PLANS** (Continued)

Employees covered under the Teachers and Employees Retirement Systems are required by State statute to contribute between 5.0% and 7.0% of earnable compensation depending upon the retirement options selected. Employees covered under the Teachers and Employees Pension Systems are generally required by State statute to contribute 2% of earnable compensation.

The State of Maryland, which is a non-employer contributor to the Teachers Retirement and Pension Systems, makes all non-employee contributions for participants whose salaries and wages are funded from the Unrestricted Current Expense Fund budget in amounts required by State statutes. Employers' contributions applicable to participants employed under restricted programs are funded by the restricted programs in amounts required by State statutes. The Board pays all employer contributions for participants classified as custodial and cafeteria personnel. Employer contribution rates are established by annual actuarial valuations, subject to the approval of the systems' Board of Trustees in accordance with the Annotated Code of Maryland.

The State's contributions on behalf of the Board for the years ended June 30, 2009, 2008, and 2007 were \$3,260,368, \$3,008,296, and \$2,440,131, respectively, which were equal to the required contributions for each year. The Board's contributions for the years ended June 30, 2009, 2008, and 2007 were \$505,307, \$504,809, and \$444,507, respectively, which were equal to the required contributions for each year.

### **NOTE 10 - RISK MANAGEMENT**

The Board of Education of Garrett County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Board carries commercial insurance for substantially all risks of loss, including employee health and accident and workers' compensation. However, not all natural disasters are covered. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **NOTE 11 - RELATED PARTIES**

The Board of Education is closely related to Garrett 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 during the year are disclosed within the financial statements. In addition, the Board offices are located in building space appropriated to them by the County. The annual fair market value of the space occupied is \$148,800. The fair market value of the appropriated space is recorded in the accompanying government-wide and fund financial statements as both a revenue and an expenditure.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

**NOTE 12 - RECONCILIATION OF FINANCIAL REPORTING BASIS TO BUDGETARY BASIS**

	<u>Current Expense Fund</u>	
	<u>Revenues</u>	<u>Expenditures</u>
Total per Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds (GAAP Basis)		
Unrestricted	\$ 52,164,739	\$ 51,394,010
Restricted	4,449,933	4,386,198
	<u>\$ 56,614,672</u>	<u>\$ 55,780,208</u>
On-behalf payments for employer contributions to the Teachers Retirement and Pension Systems by the State of Maryland	(3,260,368)	(3,260,368)
Contributions to OPEB Trust	(613,000)	(613,000)
Operating transfers reported as food service expenditures on budget basis but as other financing uses on GAAP basis		<u>262,772</u>
	<u>\$ 52,741,304</u>	<u>\$ 52,169,612</u>
Total per Current Expense Fund Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis)		
Unrestricted	\$ 48,291,371	\$ 47,783,414
Restricted	4,449,933	4,386,198
	<u>\$ 52,741,304</u>	<u>\$ 52,169,612</u>

**NOTE 13 - EXCESS OF EXPENDITURES OVER BUDGET**

For the year ended June 30, 2009, expenditures exceeded the budget in the following fund:

<u>Fund</u>	<u>Excess</u>
Food Service Fund	\$ 156,964

The expenditures over budget resulted from increases in food prices and costs associated with new programs not anticipated at the time that the budget was adopted. The deficiency of revenues over expenditures with respect to budget was funded by an additional operating transfer from the Current Expense Fund.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 14 – PRIOR PERIOD ADJUSTMENT - CORRECTION OF ERROR**

Certain Medical Assistance revenues earned and collected in prior years in connection with school health services provided were reflected as unearned deferred liabilities for financial reporting purposes. Generally accepted accounting principles require the recognition of fee for service revenues in the period earned.

Fund balance and net assets as of the beginning of the current fiscal year have been restated for the effects of the above adjustment as follows:

	<u>Current Expense Fund Balance</u>	<u>Government Wide Statement of Net Assets</u>
Fund Balance/Net Assets – Beginning of Year, As Previously Reported	\$ 800,000	\$ 42,040,518
Prior Period Adjustment	<u>435,187</u>	<u>435,187</u>
Fund Balance/Net Assets – Beginning of Year, As Restated	<u>\$ 1,235,187</u>	<u>\$ 42,475,705</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**BOARD OF EDUCATION OF GARRETT COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2009**

**SCHEDULE OF FUNDING PROGRESS -  
OTHER POST-EMPLOYMENT BENEFIT PLAN**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
July 1, 2008	\$ 0	\$ 12,331,162	\$ 12,331,162	0 %	\$ 26,791,941	46.03 %

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The above schedule is presented to provide a consistent basis for measuring the Plan's annual progress towards funding its actuarial accrued liability in accordance with the Plan's funding methods. The primary measure of funding progress are the Plan's funded ratios (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement in the Plan's abilities to pay all projected benefits as they come due. The Plan is fully funded if the funded ratio is greater than or equal to 100 percent.

**OTHER SUPPLEMENTARY INFORMATION**

**BOARD OF EDUCATION OF GARRETT COUNTY**

**SCHOOL ACTIVITIES FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND BALANCES BY SCHOOL  
YEAR ENDED JUNE 30, 2009**

	<u>BALANCES</u> <u>July 1, 2008</u>	<u>REVENUES</u>	<u>EXPENDITURES</u>	<u>BALANCES</u> <u>June 30, 2009</u>
<b>ELEMENTARY</b>				
Accident	\$ 9,843	\$ 28,015	\$ 25,653	\$ 12,205
Bloomington	8,354	9,439	10,764	7,029
Broadford	17,147	65,151	58,806	23,492
Hickory Environmental	10,750	13,701	11,912	12,539
Crellin	2,932	4,893	6,467	1,357
Dennett Road	16,970	48,066	43,892	21,143
Friendsville	3,121	14,369	14,010	3,479
Grantsville	10,246	43,097	48,002	5,341
Kitzmilller	2,799	7,439	8,285	1,953
Route 40	5,703	20,366	19,241	6,828
Swan Meadow	1,764	10,321	10,662	1,423
Yough Glades	3,257	16,701	14,253	5,704
	<u>\$ 92,884</u>	<u>\$ 281,557</u>	<u>\$ 271,949</u>	<u>\$ 102,493</u>
<b>MIDDLE AND SENIOR HIGH</b>				
Northern High	\$ 210,270	\$ 275,443	\$ 290,871	\$ 194,842
Southern High	153,650	540,440	535,501	158,590
Northern Middle	64,223	49,417	41,380	72,260
Southern Middle	32,121	79,709	73,583	38,246
	<u>\$ 460,263</u>	<u>\$ 945,009</u>	<u>\$ 941,335</u>	<u>\$ 463,938</u>
<b>Total Middle and Senior High</b>	<u>\$ 460,263</u>	<u>\$ 945,009</u>	<u>\$ 941,335</u>	<u>\$ 463,938</u>
<b>TOTAL SCHOOLS</b>	<u>\$ 553,147</u>	<u>\$ 1,226,567</u>	<u>\$ 1,213,284</u>	<u>\$ 566,430</u>



