

**BOARD OF EDUCATION OF GARRETT COUNTY**

**FINANCIAL REPORT**

**JUNE 30, 2012**

**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



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## **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, 2012 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, 2012, 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 25, 2012 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of other post-employment benefit plan funding progress listed in the index to financial report be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Rodheaver & Associates, P.C.*

Oakland, Maryland  
September 25, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2012**

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, 2012. 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 unassigned fund balance as of June 30, 2012, was \$500,000. Through policy of the Board of Garrett County Commissioners, the Board of Education maintains an unassigned fund balance at the end of each year of \$500,000. In FY 2012, the Commissioners approved the use of excess current expense fund balance above \$500,000 for funding the subsequent year's budget.
- On a system-wide basis the Board of Education of Garrett County closed the fiscal year ended June 30, 2012, with combined net assets of \$46.5 million for a decrease of \$3.2 million in relation to the prior year.
- The unrestricted Current Expense Fund actual revenues of \$47,813,248 came within \$126,860 of equaling the final budget.
- The unrestricted Current Expense Fund actual expenditures of \$47,621,780 were under the final budget by \$446,201 or 0.9%.
- Major budget initiatives in fiscal year 2012 included:
  - Signing an energy performance contract with Johnson Controls to perform approximately \$4.2 million dollars in capital improvements at Northern High School, Southern High School, Southern Middle School, Broad Ford Elementary and the Board Office. These additions will be completed in FY 2013 and paid for with energy savings over the life of the capital lease.
  - School construction initiatives in FY 2012 included the finalization of the Southern Middle School chiller project and the Southern High School window replacement project. FY 2012 outlays for these projects totaled \$154,784.
  - Aging School fund projects were completed at Southern Middle School and Northern High School.
  - Open Space projects during FY 2012 included the Southern High field press box.
  - 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.
  - Closure of Dennett Road and Kitzmiller Elementary Schools as a result of continued declining enrollment and significant reductions in state-aid for the FY 2013 budget.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2012**

**Financial Highlights (Continued)**

- Also impacting FY 2012 was the offering of a Retirement Incentive to qualified employees meeting certain service criteria. 19 employees took advantage of this incentive which helped in balancing the FY 2013 budget.

**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, 2012**

**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 the governmental funds, page 15 and 17, 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 and 18, 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 decreased in relation to FY 2011. The net assets decreased by \$3.2 million or 6.4%. The decrease in net assets was due to fund level expenditures exceeding fund level revenues by \$1,353,886 and depreciation expense and loss on sale of equipment exceeding expenditures for capital outlays by \$748,672 which also includes the loss realized on transfer of the former Bloomington School to county government during FY 2012. Also included in the decrease in net assets are the current year unfunded increases in compensated absences and the OPEB Obligation of \$170,235 and \$890,395, respectively.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2012**

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

The first chart below provides a summarized comparison of Net Assets between FY 2012 and FY 2011. The second chart shows program revenues and general revenues by major sources for FY 2012 and FY 2011 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**

	2012	2011	Percentage Change
Current and other assets	\$ 11,947,485	\$ 9,931,199	20.30%
Capital assets	49,710,488	50,459,160	-1.48%
Total assets	<u>\$ 61,657,973</u>	<u>\$ 60,390,359</u>	<b>2.10%</b>
Current and other liabilities	\$ 7,479,201	\$ 8,324,965	-10.16%
Long-term liabilities	7,641,757	2,365,191	223.09%
Total liabilities	<u>\$ 15,120,958</u>	<u>\$ 10,690,156</u>	<b>41.45%</b>
Net assets			
Invested in capital assets net of related debt	\$ 48,182,878	\$ 50,459,160	-4.51%
Restricted	706,897	724,641	-2.45%
Unrestricted	(2,352,760)	(1,483,598)	58.58%
Total net assets	<u>\$ 46,537,015</u>	<u>\$ 49,700,203</u>	<b>-6.36%</b>

**Changes in Net Assets from Operating Results**

	2012	2011	Percentage Change
Program revenues:			
Charges for services	\$ 1,036,288	\$ 1,069,099	-3.07%
Operating grants and contributions	8,501,830	11,059,160	-23.12%
Capital grants and contributions	159,102	530,437	-70.01%
General revenues:			
County government	24,859,000	23,159,000	7.34%
State (unrestricted)	23,754,794	23,728,342	0.11%
Federal	40,120	94,177	-57.40%
Other	146,769	382,283	-61.61%
<b>Total Revenues</b>	<u>\$ 58,497,903</u>	<u>\$ 60,022,498</u>	<b>-2.54%</b>
Administration (central and school)	\$ 3,923,119	\$ 4,250,358	-7.70%
Instruction			
(regular and special education)	28,998,694	30,050,535	-3.50%
Student services and health	1,195,833	1,155,031	3.53%
Transportation	4,074,045	4,024,850	1.22%
Maintenance and operations	4,822,011	5,304,569	-9.10%
Fixed charges	15,746,474	15,407,134	2.20%
Food services	2,693,040	2,635,926	2.17%
Other	207,875	201,243	3.30%
<b>Total Expenses</b>	<u>\$ 61,661,091</u>	<u>\$ 63,029,646</u>	<b>-2.17%</b>
<b>Change in Net Assets</b>	<u>\$ (3,163,188)</u>	<u>\$ (3,007,148)</u>	<b>-5.19%</b>



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2012**

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

Revenues decreased by 2.54% and expenditures decreased by 2.17%. Revenue decreased primarily as a result of several federal operating grants sun setting in FY 2011. The last of the major ARRA funding ended in FY 2011. State aid was reduced as a result of continued declining enrollment as well as increasing per capita wealth relative to the state aid funding formula. The decrease in expenditures in FY 2012 was primarily as a result of salary savings within Administration and Instruction. Overall, there were approximately 42 fewer employees in FY 2012 than in FY 2011 and many FY 2011 retirees' positions were filled with less senior employees. Maintenance and Operations reductions resulted primarily from utility savings as well as reductions in the number of projects and fewer facilities in FY 2012.

The total expenditures exceeded total revenues at the fund level by \$1,353,886; fixed asset activity at the government-wide level including depreciation expense and loss on sale of equipment in excess of capital outlays contributed another \$748,672 to the excess. Also contributing to the excess of expenditures over revenues at the government-wide level in the current year were the unfunded increases in compensated absences and the OPEB Obligation of \$170,235 and \$890,395, respectively.

Results of operations for the School System as a whole are presented on page 14, the Statement of Activities. Approximately \$61.7 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 meal 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 premiums for the Food Service program. In 2012, Food Services closed with a \$178,991 restricted fund balance. This represents an increase of \$5,161 over what was previously reported in 2011 as restricted for Food Service program 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**

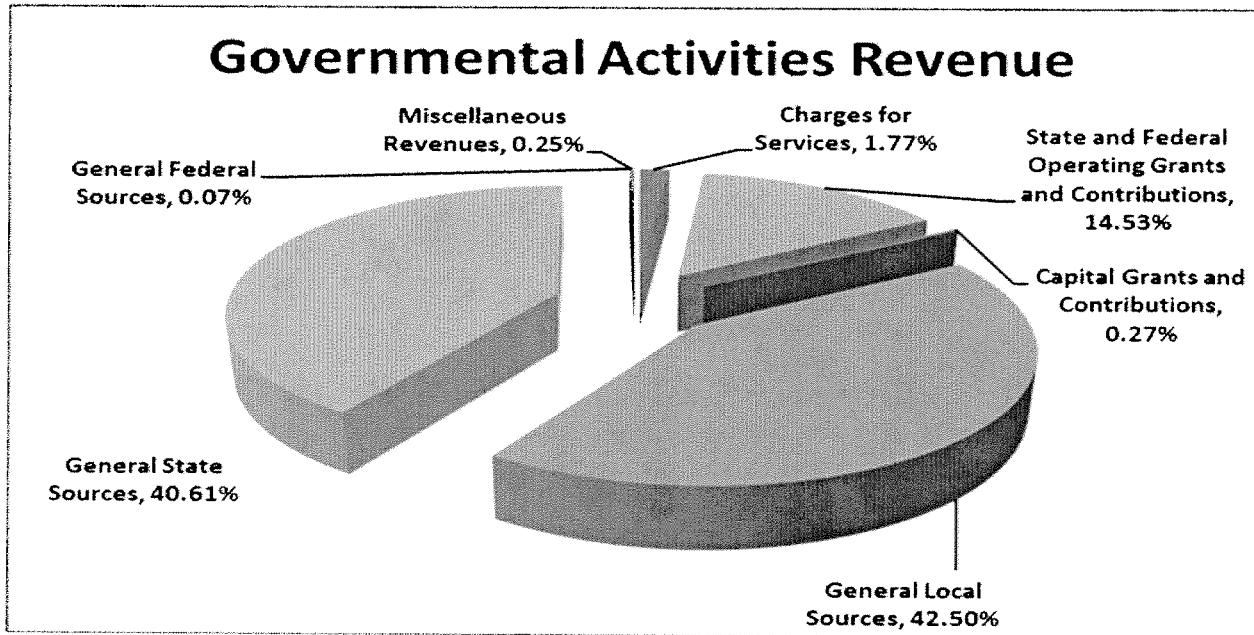
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

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

	Total Cost of Services			Net Cost of Services		
	2012	2011	Percentage Change	2012	2011	Percentage Change
Administration (County & School Level)	\$ 3,923,119	\$ 4,250,358	-7.70%	\$ 3,793,053	\$ 3,909,662	-2.98%
Instruction and Special Education	28,998,694	30,050,535	-3.50%	26,134,995	25,486,894	2.54%
Student Personnel Services	654,299	678,080	-3.51%	611,319	617,680	-1.03%
Student Health Services	541,534	476,951	13.54%	433,141	282,413	53.37%
Student Transportation	4,074,045	4,024,850	1.22%	1,247,920	1,283,587	-2.78%
Operation of Plant and Maintenance of Plant	4,822,011	5,304,569	-9.10%	4,574,992	5,038,866	-9.21%
Fixed Charges	15,746,474	15,407,134	2.20%	14,854,781	13,477,566	10.22%
Food Services	2,693,040	2,635,926	2.17%	315,979	275,207	14.82%
All Others	207,875	201,243	3.30%	-2,309	-925	149.62%
<b>Total</b>	<b>\$ 61,661,091</b>	<b>\$ 63,029,646</b>	<b>-2.17%</b>	<b>\$ 51,963,871</b>	<b>\$ 50,370,950</b>	<b>3.16%</b>

The cost of all governmental activities was \$61,661,091. Some of this cost was financed by users of the School System's programs through tuition and user fees of \$1,036,288. Operating and capital grants and contributions from the federal and state governments for certain programs were \$8,660,932. This left a net cost of services to be funded by general revenues of \$51,963,871.

Most of the School System's total revenue of \$58,497,903 was provided through County and State of Maryland taxpayers. Below is a chart detailing the governmental sources of revenue.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2012**

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

The School System's financial performance is reflected in its governmental funds. At the completion of the current year, the combined fund balances for all governmental funds totaled \$4,445,134. This is \$2,838,900 more than the FY 2012 beginning balance of \$1,606,234. The total Fund Balance in FY 2012 had an increase of \$5,161 in restricted for Food Service an increase of \$21,936 in nonspendable for Food Service inventories, a decrease of \$44,841 in restricted for medical assistance, an increase of \$191,468 in restricted for subsequent year's budget and \$2,665,176 categorized as restricted for capital projects. The overall increase in total fund balance is the result of unspent capital lease proceeds which are being used to finance energy efficiency enhancing capital projects.

The Current Expense Fund Balance of \$4,122,557 at June 30, 2012 includes \$573,061 restricted to support the subsequent year's budget, \$384,320 restricted for medical assistance, \$2,665,176 restricted for capital projects and a \$500,000 unassigned carry-over balance 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 balance of \$322,577 includes \$143,586 nonspendable for inventories.

Local appropriations and state and federal 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.

**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, Capital Outlays, 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 Administration is due primarily to the savings from a mid-year retirement of a director. The under budget variation in Transportation in the Unrestricted Current Expense Fund is due to the transportation costs being budgeted at \$4.25 per gallon for fuel and fuel prices being under that figure throughout most of the fiscal year. There were also savings in transportation relative to field trips. The variation between the original and final budget in the Restricted Current Expense Fund is due to Title II funds of \$314,560 which were not anticipated as being available in the original budget. The remaining variance between final budget and actual represents the remaining funds available to be spent from Race to the Top funds and other sources all of which are budgeted upon award.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2012**

**Capital and Debt Administration**

By the end of fiscal year 2012, the School System had almost \$89.8 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 \$1.2 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>
• Johnson Controls – Performance Contract	1,527,610	
• Southern Middle Chiller Project	68,988	
• Southern High Window Project	85,796	
	<u>\$ 1,682,394</u>	<u>\$ 0</u>

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

At year-end, the School System had \$7,641,757 in long-term obligations outstanding. \$843,835 or eleven percent (11%) of this represents obligations for accumulated unpaid leave for the system's staff, \$2,605,136 or thirty-four percent (34%) represents the School System's net other post-employment benefit (OPEB) obligation and the remainder represents the obligation relative to the energy performance contract capital lease of \$4,192,786 or fifty-five percent (55%).

**Factors Impacting the School System**

Two factors that will 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 school system lost \$1.1 million in state-aid from FY 2012 due to declining enrollment and the impact of increasing wealth within the county relative to state-aid. The county experienced the largest percentage decrease in enrollment of any district in the system as well as the largest percentage increase in wealth of any district in the state. These two factors combined led to Garrett County's FY 2012 budgeted state-aid having the largest reduction of any school district in the system. This same scenario is expected to continue in future years. Enrollment will continue to impact state-aid as enrollment projections indicate that enrollments will continue to decline in future years. The State of Maryland is continuing to experience a significant spending gap. County government has experienced major reductions in revenue as a result. This situation could stress both the State and County's ability to support ongoing public service needs. Also, for FY 2013 the General Assembly of Maryland passed legislation to pass a portion of the current state teacher's retirement obligation back to county government and ultimately local boards of education.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2012**

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

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, that all economically disadvantaged children must have access to a pre-kindergarten program, 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, 2015.

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 are 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 \$2,083,607 for the fiscal year ended June 30, 2012. The actual OPEB contribution amount for the year ended June 30, 2012 was \$1,174,022. This amount was entirely from pay-as-you-go premiums paid by the Board of Education for retirees and the subsidy paid for premiums by active employees. There was not any funding from the Board of Garrett County Commissioners toward the OPEB obligation during FY 2012. There remains a Net OPEB end of year obligation of \$2,605,136. 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. The Board of Garrett County Commissioners has not budgeted any funds towards the OPEB obligation for next year in their 2012-2013 budget.

Pay-as-you-go costs incurred by the Board for qualified retirees and current employees are reported in the governmental funds financial statements. The \$2,605,136 Net OPEB obligation is a total of the \$1,714,741 beginning of year obligation and an increase in the Net OPEB obligation during FY 2012 of \$890,395. The \$2,605,136 is recognized in the government-wide financial statements and represents the extent to which the actuarially computed OPEB required contributions have exceeded the actual contributions on a prospective basis since the inception of the plan.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2012**

**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 Larry McKenzie, Director of Finance, 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, 2012**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 8,208,733
Accounts receivable	
County	11,013
State	886,015
Federal	8,554
Other	24,408
Inventory	143,586
Restricted cash	2,665,176
Non-depreciable capital assets	2,599,362
Depreciable capital assets, net of accumulated depreciation	<u>47,111,126</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 61,657,973</u></u>
<b>LIABILITIES</b>	
Accrued payroll and withholding	\$ 6,128,239
Accounts payable and accrued expenses	1,284,287
Deferred revenue	66,675
Noncurrent liabilities:	
Due within one year	
Compensated absences payable	23,150
Capital lease	68,816
Due in more than one year	
Compensated absences payable	820,685
Capital lease	4,123,970
Net OPEB obligation	<u>2,605,136</u>
<b>Total Liabilities</b>	<u>\$ 15,120,958</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	\$ 48,182,878
Restricted for medical assistance	384,320
Restricted for food service	322,577
Unrestricted	<u>(2,352,760)</u>
<b>Total Net Assets</b>	<u>\$ 46,537,015</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 61,657,973</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, 2012**

		Program Revenues			Net (Expenses)
					Revenues and
					Changes in
					Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Administration	\$ 1,507,909	\$	\$ 70,573	\$	\$ (1,437,336)
Mid-level administration	2,415,210		59,493		(2,355,717)
Instruction - Salaries	20,734,387	9,040	1,377,374		(19,347,973)
- Textbooks and supplies	582,074		85,421		(496,653)
- Other	3,012,021		302,124	159,102	(2,550,795)
Special education	4,670,212		930,638		(3,739,574)
Student personnel services	654,299		42,980		(611,319)
Student health services	541,534		108,393		(433,141)
Student transportation	4,074,045		2,826,125		(1,247,920)
Operation of plant	3,927,284	17,276	178,107		(3,731,901)
Maintenance of plant	894,727		51,636		(843,091)
Fixed charges	15,746,474		891,693		(14,854,781)
Community services	207,875	21,556	188,628		2,309
Food services	2,693,040	988,416	1,388,645		(315,979)
	<u>\$ 61,661,091</u>	<u>\$ 1,036,288</u>	<u>\$ 8,501,830</u>	<u>\$ 159,102</u>	<u>\$ (51,963,871)</u>
General revenues:					
Local appropriations				\$	24,859,000
State appropriations					23,754,794
Federal revenues					40,120
Miscellaneous					249,138
Unrestricted investment earnings					9,901
Gain (loss) on sale of equipment					(112,270)
					<u>48,800,683</u>
Total general revenues				\$	<u>48,800,683</u>
Change in net assets				\$	(3,163,188)
Net Assets - beginning of year					<u>49,700,203</u>
Net Assets - end of year				\$	<u>46,537,015</u>

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

**BOARD OF EDUCATION OF GARRETT COUNTY**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**June 30, 2012**

	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	\$ 7,794,477	\$ 414,256	\$	\$ 8,208,733
Accounts receivable				
County	11,013			11,013
State	880,716	5,299		886,015
Federal	8,554			8,554
Other	23,845	563		24,408
Due from other funds	5,546			5,546
Inventory		143,586		143,586
Restricted cash	<u>2,665,176</u>			<u>2,665,176</u>
<b>Total Assets</b>	<u><u>\$ 11,389,327</u></u>	<u><u>\$ 563,704</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 11,953,031</u></u>
<b>LIABILITIES</b>				
Accrued payroll and withholdings	\$ 5,943,604	\$ 184,635	\$	\$ 6,128,239
Accounts payable and accrued expenses	1,280,349	3,938		1,284,287
Deferred revenue	19,667	47,008		66,675
Compensated absences payable	23,150			23,150
Due to other funds		5,546		5,546
<b>Total Liabilities</b>	<u><u>\$ 7,266,770</u></u>	<u><u>\$ 241,127</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 7,507,897</u></u>
<b>FUND BALANCES</b>				
Nonspendable - inventories	\$	\$ 143,586	\$	\$ 143,586
Restricted for medical assistance	384,320			384,320
Restricted for subsequent year's budget	573,061			573,061
Restricted for capital projects	2,665,176			2,665,176
Restricted for food service		178,991		178,991
Unassigned	<u>500,000</u>			<u>500,000</u>
<b>Total Fund Balances</b>	<u><u>\$ 4,122,557</u></u>	<u><u>\$ 322,577</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 4,445,134</u></u>
<b>Total Liabilities and Fund Balances</b>	<u><u>\$ 11,389,327</u></u>	<u><u>\$ 563,704</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 11,953,031</u></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, 2012**

Total fund balances - Governmental funds	\$ 4,445,134
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 \$89,745,708 , net of accumulated depreciation of \$40,035,220.	49,710,488
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 (\$820,685), capital lease (\$4,192,786) and net OPEB obligation (\$2,605,136).	<u>(7,618,607)</u>
Total net assets - Governmental activities	<u>\$ 46,537,015</u>

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, 2012**

	Current Expense Fund	Food Services Fund	School Construction Fund	Total Governmental Funds
<b>REVENUES</b>				
Intergovernmental revenues				
Local sources	\$ 25,018,866	\$	\$ 148,036	\$ 25,166,902
State sources	27,043,473	112,523		27,155,996
Federal sources	3,666,773	1,294,200		4,960,973
Earnings on investments	9,633	268		9,901
Charges for services	96,925	988,515		1,085,440
Miscellaneous revenues	183,340	32,163		215,503
	<u>\$ 56,019,010</u>	<u>\$ 2,427,669</u>	<u>\$ 148,036</u>	<u>\$ 58,594,715</u>
<b>EXPENDITURES</b>				
Administration	\$ 1,495,987	\$	\$	\$ 1,495,987
Mid-level administration	2,415,210			2,415,210
Instruction - Salaries	20,734,387			20,734,387
- Textbooks and supplies	582,074			582,074
- Other	711,800			711,800
Special education	4,669,718			4,669,718
Student personnel services	654,299			654,299
Health services	541,534			541,534
Student transportation	4,074,045			4,074,045
Operation of plant and equipment	3,876,416			3,876,416
Maintenance of plant	869,779			869,779
Fixed charges	14,685,844			14,685,844
Food services		2,684,537		2,684,537
Community services	207,875			207,875
Capital outlay	1,597,060		148,036	1,745,096
	<u>\$ 57,116,028</u>	<u>\$ 2,684,537</u>	<u>\$ 148,036</u>	<u>\$ 59,948,601</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>				
	\$ (1,097,018)	\$ (256,868)	\$ 0	\$ (1,353,886)
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital lease	4,192,786			4,192,786
Operating transfers in		283,965		283,965
Operating transfers out	(283,965)			(283,965)
	<u>\$ 2,811,803</u>	<u>\$ 27,097</u>	<u>\$ 0</u>	<u>\$ 2,838,900</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 2,811,803	\$ 27,097	\$ 0	\$ 2,838,900
Fund Balances - beginning of year	1,310,754	295,480		1,606,234
<b>FUND BALANCES - end of year</b>	<u>\$ 4,122,557</u>	<u>\$ 322,577</u>	<u>\$ 0</u>	<u>\$ 4,445,134</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, 2012**

Change in fund balances - Governmental funds	\$	2,838,900
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 depreciation expense of \$2,443,834 exceeded capital outlays of \$1,807,442 in the current year.		(669,938)
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.		(112,280)
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.		33,546
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.		(170,235)
Capital lease proceeds which provide current financial resources in the governmental funds are not reported as revenues in the statement of activities.		(4,192,786)
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.		<u>(890,395)</u>
Change in net assets - Governmental activities	\$	<u><u>(3,163,188)</u></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, 2012**

	Original Budget	Final Budget	Actual	Over (Under) Budget
<b>REVENUES</b>				
Intergovernmental revenues				
Local sources	\$ 24,859,000	\$ 25,037,517	\$ 25,018,866	\$ (18,651)
State sources	22,304,277	22,385,903	22,402,954	17,051
Federal sources	140,000	145,000	150,583	5,583
Earnings on investments	18,000	9,500	9,633	133
Charges for services	19,000	35,500	47,872	12,372
Miscellaneous revenues	36,000	72,968	183,340	110,372
	<u>47,376,277</u>	<u>47,686,388</u>	<u>47,813,248</u>	<u>126,860</u>
Total Revenues	\$ 47,376,277	\$ 47,686,388	\$ 47,813,248	\$ 126,860
<b>EXPENDITURES</b>				
Administration	\$ 1,293,135	\$ 1,509,636	\$ 1,425,414	\$ (84,222)
Mid-level administration	2,398,767	2,369,406	2,355,717	(13,689)
Instruction - Salaries	19,969,867	19,570,992	19,474,476	(96,516)
- Textbooks and supplies	516,168	497,050	496,653	(397)
- Other	437,863	426,412	409,676	(16,736)
Special education	3,436,087	3,726,879	3,716,211	(10,668)
Student personnel services	670,291	628,476	611,319	(17,157)
Health services	360,884	412,216	411,169	(1,047)
Student transportation	4,230,081	4,212,597	4,073,613	(138,984)
Operation of plant and equipment	3,758,824	3,875,614	3,847,109	(28,505)
Maintenance of plant	763,001	874,969	869,779	(5,190)
Fixed charges	9,856,017	9,527,225	9,557,982	30,757
Food services	347,000	347,000	283,965	(63,035)
Community services		21,500	19,247	(2,253)
Capital outlay	38,292	68,009	69,450	1,441
	<u>48,076,277</u>	<u>48,067,981</u>	<u>47,621,780</u>	<u>(446,201)</u>
Total Expenditures	\$ 48,076,277	\$ 48,067,981	\$ 47,621,780	\$ (446,201)
<b>(DEFICIENCY) EXCESS OF</b>				
<b>REVENUES OVER EXPENDITURES</b>	\$ (700,000)	\$ (381,593)	\$ 191,468	\$ <u>573,061</u>
Fund Balance - beginning of year	<u>700,000</u>	<u>381,593</u>	<u>881,593</u>	
<b>FUND BALANCE - end of year</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,073,061</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, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b>REVENUES</b>				
Intergovernmental revenues				
Federal sources	\$ 3,162,185	\$ 4,289,560	\$ 3,516,190	\$ (773,370)
State sources	344,464	412,112	404,350	(7,762)
Other sources	<u>2,650</u>	<u>68,062</u>	<u>49,053</u>	<u>(19,009)</u>
Total Revenues	<u>\$ 3,509,299</u>	<u>\$ 4,769,734</u>	<u>\$ 3,969,593</u>	<u>\$ (800,141)</u>
<b>EXPENDITURES</b>				
Administration	\$ 66,374	\$ 92,185	\$ 70,573	\$ (21,612)
Mid-level administration	68,973	81,968	59,493	(22,475)
Instruction - Salaries	1,091,916	1,472,449	1,259,911	(212,538)
- Textbooks and supplies	46,707	107,767	85,421	(22,346)
- Other	252,575	547,937	302,124	(245,813)
Special education	896,609	1,215,002	953,507	(261,495)
Student personnel services		42,900	42,980	80
Health services	127,679	127,679	130,365	2,686
Student transportation	650	823	432	(391)
Operation of plant and equipment	29,111	31,439	29,307	(2,132)
Fixed charges	745,595	866,475	891,693	25,218
Community services	<u>183,110</u>	<u>183,110</u>	<u>188,628</u>	<u>5,518</u>
Total Expenditures	<u>\$ 3,509,299</u>	<u>\$ 4,769,734</u>	<u>\$ 4,014,434</u>	<u>\$ (755,300)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<u>\$ 0</u>	<u>\$ 0</u>	\$ (44,841)	<u>\$ (44,841)</u>
Fund Balance - beginning of year			<u>429,161</u>	
<b>FUND BALANCE - end of year</b>			<u>\$ 384,320</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, 2012**

	<u>Budget</u>	<u>Actual</u>	Over (Under) <u>Budget</u>
<b>REVENUES</b>			
Federal	\$ 942,950	\$ 1,190,769	\$ 247,819
State of Maryland	72,983	112,523	39,540
Meals and food served	985,137	988,515	3,378
Interest earned		268	268
Federal donation of food	97,033	103,431	6,398
Other revenues	<u>22,500</u>	<u>32,163</u>	<u>9,663</u>
<b>Total Revenues</b>	<b><u>\$ 2,120,603</u></b>	<b><u>\$ 2,427,669</u></b>	<b><u>\$ 307,066</u></b>
<b>EXPENDITURES</b>			
Salaries and wages	\$ 1,092,176	\$ 1,101,284	\$ 9,108
Contracted services	31,500	41,041	9,541
Supplies and materials	714,779	999,183	284,404
Other charges	595,648	543,029	(52,619)
Capital outlay	<u>33,500</u>		<u>(33,500)</u>
<b>Total Expenditures</b>	<b><u>\$ 2,467,603</u></b>	<b><u>\$ 2,684,537</u></b>	<b><u>\$ 216,934</u></b>
<b>(DEFICIENCY) EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>\$ (347,000)</b>	<b>\$ (256,868)</b>	<b>\$ 90,132</b>
<b>OTHER FINANCING SOURCES</b>			
Operating transfers in	<u>347,000</u>	<u>283,965</u>	<u>(63,035)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<b><u><u>\$ 0</u></u></b>	<b><u><u>\$ 27,097</u></u></b>	<b><u><u>\$ 27,097</u></u></b>
Fund Balance - beginning of year		<u>295,480</u>	
<b>FUND BALANCE - end of year</b>		<b><u><u>\$ 322,577</u></u></b>	

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, 2012**

	<u>School Activities Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 426,626
Investments	<u>88,317</u>
<b>Total Assets</b>	<u><u>\$ 514,943</u></u>
<b>LIABILITIES</b>	
School activity funds payable	<u>\$ 514,943</u>
<b>Total Liabilities</b>	<u><u>\$ 514,943</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, 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.

**Restricted Assets** - The government-wide and governmental funds financial statements include restricted cash of \$2,665,176 which represents the Current Expense Fund cash balance related to unspent proceeds from an equipment lease/purchase agreement between the Board and Bank of America.

**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.

**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)

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.

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, 2012.

**Compensated Absences Payable** - As of June 30, 2012, employees of the Board had accumulated approximately \$843,835 of vested annual leave and other compensatory leave benefits. These benefits include salaries and salary related payments. The current and long-term portions of this liability are presented in the government-wide financial statements and the current portion is presented in the fund financial statements at fiscal year-end.

**Long-term Obligations** - In the government-wide financial statements a capital lease and the Board's net OPEB obligation are reported as liabilities in statement of net assets. In the fund financial statements proceeds received from the capital lease are reported as other financing sources.

**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 accordance with Governmental Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Board classifies governmental fund balances as follows:

    Nonspendable Fund Balance – Amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

    Restricted Fund Balance – Amounts constrained for a specific purpose by external parties, constitutional provision, or enabling legislation.

# 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)

Committed Fund Balance – Amounts constrained for a specific purpose by a governing body using its highest level of decision making authority. These constraints can only be removed or changed by the same governing body using its decision making authority to reverse a decision. Actions to constrain resources occur prior to the end of the fiscal year, though the exact amount may be determined subsequently. The Board had no committed fund balance as of June 30, 2012.

Assigned Fund Balance – Amounts intended to be used for a specific purpose. This intent is expressed by a governing body or another body such as a budget/finance committee or other approved individual designee of the governing body. Assigned fund balance includes residual amounts for all governmental funds except the general fund not otherwise classified as nonspendable, restricted, or committed. Amounts reported as assigned should not result in a deficit in unassigned fund balance. The Board had no assigned fund balance as of June 30, 2012.

Unassigned Fund Balance – Amounts available for any purpose that are not otherwise reported as nonspendable, restricted, committed, or assigned. The current expense fund is the only fund which would report a positive amount in the unassigned fund balance. For all other governmental funds, amounts expended in excess of available resources that are nonspendable, restricted, committed, or assigned are categorized as unassigned funds with negative balances.

The Board is the governing body with the highest level of decision-making authority relative to fund balances. The Board through formal resolution is the only body that can commit fund balance. The elected Board, through its fund balance policy, has delegated to the Superintendent or Assistant Superintendent and Director of Finance, the authority to assign fund balance. It is the Board's policy to first apply restricted resources when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. In the event that expenditures are made from multiple unrestricted fund balance classifications, the order of fund spending shall be as follows: Committed, Assigned, and Unassigned. The portion of the Board's fund balance to be utilized for subsequent year's budget is prescribed by the Board of County Commissioners of Garrett County and as such is reflected as restricted.

#### 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. 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. The budgetary basis also does not reflect the proceeds or capital outlay from the capital lease agreement. 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 accompanying 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, 2012, cash and cash equivalents consisted of the following:

Cash and cash equivalents	\$ 8,208,578
Restricted cash	2,665,176
Petty cash	<u>155</u>
	<u>\$ 10,873,909</u>

At year end, the carrying amount of the Board's combined deposits was \$10,873,754 and the bank balance was \$11,751,629. Of the bank balance \$2,915,176 was insured by the Federal Deposit Insurance Corporation (FDIC), \$8,768,899 was collateralized by securities held by the Board's agent in the Board's name and \$67,554 was exposed to custodial credit risk as it was uninsured and collateralized with securities held by the Board's agent but not in the Board's name.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

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

Statutes require collateral to be pledged as security for deposits in excess of available depository insurance and the market value of such collateral shall be at least equal to the amount of money on deposit. The market value of collateral pledged as security for the Board's deposits at June 30, 2012 was \$9,013,248.

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, 2012.

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, 2012.

**NOTE 3 - INTERFUND BALANCES AND TRANSFERS**

The composition of interfund balances at June 30, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Current Expense	Food Service	<u>\$ 5,546</u>

This interfund balance results 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 \$283,965 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, 2012 was as follows:

<b><u>Governmental Activities</u></b>	<b><u>Balance June 30, 2011</u></b>	<b><u>Additions and Transfers</u></b>	<b><u>Dispositions and Transfers</u></b>	<b><u>Balance June 30, 2012</u></b>
<b>Capital assets not being depreciated</b>				
Land	\$ 867,363	\$	\$ (4,950)	\$ 862,413
Construction in progress	284,663	1,693,460	(241,174)	1,736,949
Total capital assets, not being depreciated	<u>\$ 1,152,026</u>	<u>\$ 1,693,460</u>	<u>\$ (246,124)</u>	<u>\$ 2,599,362</u>
<b>Capital assets being depreciated</b>				
Buildings and improvements	\$ 84,485,430	\$ 51,636	\$ (295,042)	\$ 84,242,024
Equipment	2,438,680	62,346	(42,012)	2,459,014
Vehicles	445,308			445,308
Total capital assets being depreciated	<u>\$ 87,369,418</u>	<u>\$ 113,982</u>	<u>\$ (337,054)</u>	<u>\$ 87,146,346</u>
<b>Less accumulated depreciation</b>				
Buildings and improvements	\$ 36,030,061	\$ 2,274,729	\$ (436,249)	\$ 37,868,541
Equipment	1,770,592	124,309	(34,649)	1,860,252
Vehicles	261,631	44,796		306,427
Total accumulated depreciation	<u>\$ 38,062,284</u>	<u>\$ 2,443,834</u>	<u>\$ (470,898)</u>	<u>\$ 40,035,220</u>
Capital assets being depreciated - net	<u>\$ 49,307,134</u>	<u>\$ (2,329,852)</u>	<u>\$ 133,844</u>	<u>\$ 47,111,126</u>
Capital assets, net	<u>\$ 50,459,160</u>	<u>\$ (636,392)</u>	<u>\$ (112,280)</u>	<u>\$ 49,710,488</u>

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

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

Depreciation expense for the year ended June 30, 2012 was charged to governmental functions as follows:

Administration	\$ 11,922
Instruction	2,313,219
Special education	494
Operation of plant	66,670
Maintenance of plant	24,948
Food service	<u>26,581</u>
 Total depreciation expense - governmental activities	 <u>\$ 2,443,834</u>

The Board had active construction projects as of June 30, 2012 as follows:

	<u>Spent-To -Date</u>	<u>Remaining Commitment</u>
Northern Road & Parking Lot	\$ 29,991	\$ 1,355,415
Johnson Controls - Performance Contract	1,527,610	2,665,176
Open Space Projects	<u>179,348</u>	<u>18,651</u>
 Total	 <u>\$ 1,736,949</u>	 <u>\$ 4,039,242</u>

**NOTE 5 - COMPENSATED ABSENCES PAYABLE**

Activity in compensated absences for the year ended June 30, 2012 was as follows:

	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Current Expense Fund	\$ 719,120	\$ 170,423	\$ (79,304)	\$ 810,239	\$ 23,150
Food Service Fund	<u>22,852</u>	<u>10,744</u>	<u>0</u>	<u>33,596</u>	<u></u>
	<u>\$ 741,972</u>	<u>\$ 181,167</u>	<u>\$ (63,623)</u>	<u>\$ 843,835</u>	<u>\$ 23,150</u>

**NOTE 6 - VOLUNTARY RETIREMENT INCENTIVE PLAN**

On December 15, 2011 the Board offered a voluntary retirement incentive to employees having a minimum of 30 years of service and for those over age 55 and 62 having a minimum of 15 and 5 years of service, respectively. 19 Board employees opted for early retirement under the terms of the Plan and earned incentive payments from 6.5% to 15% of their 2011 annual salary depending upon years of service. Payments to qualified participants in the Plan totaled \$126,435. All payments were made as of June 30, 2012 and no further incentives or obligations existed with respect to the Plan after that date.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 - CAPITAL LEASE**

On January 19, 2012 the Board entered into an equipment lease purchase agreement with Bank of America to provide financing for the acquisition, construction and installation of energy efficiency improvements. The agreement qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the future minimum lease payments at the inception date. The construction costs paid from the capital lease totaled \$1,527,610 as of June 30, 2012 and are reported as construction in progress in the accompanying government-wide financial statements. At June 30, 2012 unspent capital lease proceeds of \$2,665,176 were on deposit in the Board's name to be used in completing the construction project. The Current Expense Fund will be used to liquidate the capital lease.

The following are the future minimum lease payments under the capital lease, and represent the present value of the minimum lease payments at June 30, 2012:

<u>Fiscal years ending June 30:</u>	<u>Total</u>
2013	\$ 200,469
2014	328,045
2015	274,666
2016	305,023
2017	323,785
2018-2022	1,783,580
2023-2027	2,214,875
Total payments	<u>\$ 5,430,443</u>
Less interest	1,237,657
Capital lease obligation	<u>\$ 4,192,786</u>

Biannual capital lease payments are due in January and July of each year and include principal and interest at 3.14%. The final lease payment is due on January 19, 2027. Bank of America has a first priority security lien interest in the energy efficiency improvements acquired with the capital lease proceeds.

On December 22, 2011 the Board entered into a performance contract with Johnson Controls, Inc. to acquire, construct and install the energy efficiency improvements. Under the terms of the performance contract, if actual utility cost savings fall short of the savings projected in the contract, Johnson Controls is required to make up the difference.

**NOTE 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)**

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 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (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, 2012, there were 140 Board of Education retirees who met the eligibility requirements for participation in this program. The Board expended \$790,061 during the year ended June 30, 2012, 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 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)** (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, 2012 the Board expended \$83,042 under this program. There are currently 45 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, 2012, the Board expended \$6,767 under post-employment insurance benefit programs which were in effect for eligible employees retiring prior to July 1, 2003. There are currently 3 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'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, 2012, 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 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)** (Continued)

**Components of Net OPEB Obligation**

Annual Required Contribution	\$ 2,083,607
Interest on Net OPEB Obligation	77,163
Adjustment to Annual Required Contribution	<u>(96,353)</u>
Annual OPEB Cost (Expense)	\$ 2,064,417
Contributions Made	<u>(1,174,022)</u>
Increase in Net OPEB Obligation	\$ 890,395
Net OPEB Obligation (Beginning of Year)	<u>1,714,741</u>
Net OPEB Obligation (End of Year)	<u><u>\$ 2,605,136</u></u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended June 30, 2012, 2011 and 2010 are as follows:

Fiscal Year <u>Ended</u>	<u>Annual OPEB Cost</u>	<u>OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2012	\$ 2,064,417	56.9%	\$ 2,605,136
6/30/2011	\$ 2,076,240	44.4%	\$ 1,714,741
6/30/2010	\$ 1,347,099	58.6%	\$ 560,312

**Funded Status and Funding Progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 4% funded. The actuarial accrued liability for benefits was \$21,026,423, and the actuarial value of assets was \$761,993, resulting in an unfunded actuarial accrued liability (UAAL) of \$20,264,430. The covered payroll (annual payroll of active employees covered by the plan) was \$28,835,000, and the ratio of the UAAL to the covered payroll was 70%.

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 8 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS  
(OPEB) (Continued)**

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% 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 July 1, 2011, was twenty-seven years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2011
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	4.5 %
Discount Rate	4.5 %
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 9 - 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 collectability of any related receivable at June 30, 2012 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 non-cancellable operating leases primarily for instructional and operations equipment. Rent expense paid during the year ended June 30, 2012 was \$151,679.

Future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of June 30, 2012 are as follows:

2013	\$ 95,295
2014	34,049
2015	27,650
2016	9,356
2017	<u>7,800</u>
	<u>\$ 174,150</u>

**NOTE 10 - 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, 2011 (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 10 - STATE RETIREMENT PLANS** (Continued)

Employees covered under the Teachers and Employees Retirement Systems are required by State statute to contribute 7.0% or 5.0% 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, 2012, 2011, and 2010 were \$4,236,169 \$4,288,139 and \$3,858,744, respectively, which were equal to the required contributions for each year. The Board's contributions for the years ended June 30, 2012, 2011, and 2010 were \$655,435, \$667,335 and \$561,418, respectively, which were equal to the required contributions for each year.

### **NOTE 11 - 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.

Effective July 1, 2009 the Garrett County Employees Health Care Plan became self-insured for hospitalization and medical benefits provided to its employees within specific limits. The Board of Education of Garrett County participates in the Plan with the Board of Garrett County Commissioners and Garrett College. The County's actuarial firm establishes premium rates for Plan participants based on claims history. The Board of Education of Garrett County submits the pro-rata portion of the actuarially prescribed premium to the Board of Garrett County Commissioners at the end of each pay period based on the number of employees covered and types of coverages in effect. Should actual claims exceed the projected claims used by the actuaries in establishing rates, the shortfall would be made up through future premium rate increases.

The Board carries commercial insurance for substantially all other risks of loss, including 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.

**BOARD OF EDUCATION OF GARRETT COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 - 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 revenue and expenditure.

**NOTE 13 - 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	\$ 52,049,417	\$ 53,101,594
Restricted	<u>3,969,593</u>	<u>4,014,434</u>
	\$ 56,019,010	\$ 57,116,028
 On-behalf payments for employer contributions to the Teachers Retirement and Pension Systems by the State of Maryland	 (4,236,169)	 (4,236,169)
 Johnson Controls, Inc. capital outlay funded by \$4,192,786 in capital lease proceeds received from Bank of America		 (1,527,610)
 Operating transfers reported as food service expenditures on budget basis but as other financing uses on GAAP basis		 <u>283,965</u>
	<u>\$ 51,782,841</u>	<u>\$ 51,636,214</u>
 Total per Current Expense Fund Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Budgetary Basis)		
Unrestricted	\$ 47,813,248	\$ 47,621,780
Restricted	<u>3,969,593</u>	<u>4,014,434</u>
	<u>\$ 51,782,841</u>	<u>\$ 51,636,214</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**BOARD OF EDUCATION OF GARRETT COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2012**

**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, 2011	\$ 761,993	\$ 21,026,423	\$ 20,264,430	3 %	\$ 28,835,000	70.28 %
July 1, 2010	\$ 641,360	\$ 21,026,423	\$ 20,385,063	3 %	\$ 28,835,000	70.70 %
July 1, 2009	\$ 613,000	\$ 12,826,484	\$ 12,213,484	5 %	\$ 26,791,941	45.59 %

**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.

The decline in the funded ratio between July 1, 2009 and July 1, 2010 resulted from the increase in the AAL. \$5,379,169 of this increase was the result of a reduction in both the investment rate of return and discount rate assumptions from 7% at July 1, 2009 to 4.5% at July 1, 2010. The 4.5% investment return and discount rates used in the July 1, 2010 and 2011 valuations are more appropriate for a post-employment benefit plan which is not prefunding, into a legally executed trust fund, the annual short-fall between the OPEB annual required contribution and actual pay-go expense. The Board intends to continue its policy of funding OPEB liabilities on a pay-as-you-go basis. The Board's intent is to also prefund any unfunded annual required contributions as determined under GASB 45 to the extent that the County's budget allows. The investment and discount rate assumptions have been modified in response to the County's current budget forecast which does not include funds available for this purpose into the foreseeable future.

**OTHER SUPPLEMENTARY INFORMATION**

**BOARD OF EDUCATION OF GARRETT COUNTY**

**SCHOOL ACTIVITIES FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND BALANCES BY SCHOOL  
YEAR ENDED JUNE 30, 2012**

	<b>BALANCES</b>				<b>BALANCES</b>
	<b>July 1, 2011</b>	<b>REVENUES</b>	<b>EXPENDITURES</b>		<b>June 30, 2012</b>
<b>ELEMENTARY</b>					
Accident	\$ 8,824	\$ 24,812	\$ 25,628		\$ 8,008
Bloomington	2,932	0	2,932		0
Broadford	13,338	51,026	45,352		19,013
Hickory Environmental	7,844	11,077	11,961		6,959
Crellin	5,072	6,539	7,900		3,711
Dennett Road	12,798	34,507	43,928		3,378
Friendsville	6,792	7,284	8,012		6,065
Grantsville	6,478	38,272	35,058		9,691
Kitzmilller	5,015	6,906	10,281		1,640
Route 40	3,364	16,600	15,334		4,630
Swan Meadow	1,054	9,437	8,039		2,452
Yough Glades	4,147	18,720	9,391		13,476
	<u>77,659</u>	<u>225,180</u>	<u>223,816</u>		<u>79,023</u>
<b>Total Elementary</b>	<b>\$ 77,659</b>	<b>\$ 225,180</b>	<b>\$ 223,816</b>		<b>\$ 79,023</b>
<b>MIDDLE AND SENIOR HIGH</b>					
Northern High	\$ 203,970	\$ 388,176	\$ 394,690		\$ 197,457
Southern High	132,801	402,192	394,494		140,498
Northern Middle	80,196	73,241	81,333		72,104
Southern Middle	16,302	72,996	63,437		25,861
	<u>433,269</u>	<u>936,605</u>	<u>933,954</u>		<u>435,920</u>
<b>Total Middle and Senior High</b>	<b>\$ 433,269</b>	<b>\$ 936,605</b>	<b>\$ 933,954</b>		<b>\$ 435,920</b>
<b>TOTAL SCHOOLS</b>	<b>\$ 510,928</b>	<b>\$ 1,161,785</b>	<b>\$ 1,157,771</b>		<b>\$ 514,943</b>