

BOARD OF EDUCATION OF GARRETT COUNTY

FINANCIAL REPORT

JUNE 30, 2014

BOARD OF EDUCATION OF GARRETT COUNTY

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INDEPENDENT AUDITORS' REPORT

Board of Education of Garrett County
Oakland, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Board of Education of Garrett County, a component unit of Garrett County, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the index to financial report.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Garrett County as of June 30, 2014, and the respective changes in financial position, and the respective budgetary comparison for the current expense fund and food service fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of funding progress - other post-employment benefit plan, listed in the index to the 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The accompanying school activities fund schedule of revenues, expenditures, and balances by school is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The school activities fund schedule of revenues, expenditures, and balances by school is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the school activities fund schedule of revenues, expenditures, and balances by school is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board of Education of Garrett County's internal control over financial reporting and compliance.

THE RODEHAWES GROUP, P.C.

Oakland, Maryland
September 22, 2014

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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, 2014. 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, 2014, 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 2014, 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, 2014, with combined net position of \$41.7 million for a decrease of \$3.2 million in relation to the prior year.
- The unrestricted Current Expense Fund actual revenues of \$47,036,823 came within \$161,993 of the final budget.
- The unrestricted Current Expense Fund actual expenditures of \$47,146,384 were under the final budget by \$1,310,995 or 2.7%.
- Major budget initiatives in fiscal year 2014 included:
 - Common Core State Standards curriculum alignment across the district.
 - A comprehensive facilities study performed by Facility Engineering Associates (FEA). This study will provide valuable facilities and infrastructure information to the school system for many years.
 - Several Qualified Zone Academy Bond (QZAB) projects were at various levels of completion during this fiscal year. They included:
 - Broad Ford Elementary School's Fire Alarm System
 - Grantsville Elementary School's Window Project
 - Southern High School's HVAC project.
 - Education specification development costs associated with Southern Middle School's renovation were incurred this year.
 - 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 identical insurance premium rates, benefits and employee co-pays. The coalition also requested bid proposals for health insurance benefits for active employees. The coalition awarded the contract for health benefits to United Medical Resources (UMR).

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Financial Highlights (Continued)

- The purchase of a new English Language Arts textbook series for grades 3-7 was approved. This represents the first investment in a textbook series in a number of years and aligns with the materials previously purchased for K-2 last year.

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 position*, page 14, includes all of the School System's assets and liabilities with the difference between the two reported as net position. The *statement of activities*, page 15, presents information showing how the District's net position 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.

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

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

District-wide Financial Statements (Continued)

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 20 through 22.

Governmental Funds

Most of the School System's basic services are included in the governmental funds, page 16 and 18, 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 17 and 19, 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 23.) 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 position decreased in relation to FY 2013. The net position decreased by \$3.2 million or 7.1%. The decrease in net position was due to fund level expenditures exceeding fund level revenues by \$435,354. Depreciation expense and the loss on the disposal of equipment exceeded capital outlays by \$2,191,003 during FY 2014. Additional decreases to the net position for the current year resulted from increases in compensated absences and the OPEB Obligation of \$9,347 and \$681,134, respectively. The only increase for the current year related to the repayment of capital lease obligations in the amount of \$130,941.

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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

The first chart below provides a summarized comparison of Net Position between FY 2014 and FY 2013. The second chart shows program revenues and general revenues by major sources for FY 2014 and FY 2013 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 Position

	2014	2013	Percentage Change
Current and other assets	\$ 9,990,517	\$ 10,723,909	-6.84%
Capital assets	48,137,662	50,328,665	-4.35%
Total assets	\$ 58,128,179	\$ 61,052,574	-4.79%
Current and other liabilities	\$ 7,872,437	\$ 8,061,016	-2.34%
Long-term liabilities	8,550,412	8,100,331	5.56%
Total liabilities	\$ 16,422,849	\$ 16,161,347	1.62%
Net position			
Net investment in capital assets	\$ 44,280,355	\$ 46,340,417	-4.45%
Restricted	1,792,500	2,227,854	-19.54%
Unrestricted	(4,367,525)	(3,677,044)	-18.78%
Total net position	\$ 41,705,330	\$ 44,891,227	-7.10%

Changes in Net Position from Operating Results

	2014	2013	Percentage Change
Program revenues:			
Charges for services	\$ 886,371	\$ 938,439	-5.55%
Operating grants and contributions	8,705,456	9,147,227	-4.83%
Capital grants and contributions	62,715	18,651	236.26%
General revenues:			
County government	26,201,544	26,023,714	0.68%
State (unrestricted)	20,384,352	21,492,997	-5.16%
Federal	14,537	32,801	-55.68%
Other	267,325	(25,417)	-1151.76%
Total Revenues	\$ 56,522,300	\$ 57,628,412	-1.92%
Administration (central and school)	\$ 4,177,748	\$ 3,899,888	7.12%
Instruction			
(regular and special education)	27,867,934	27,927,751	-0.21%
Student services and health	1,191,955	1,187,362	0.39%
Transportation	3,971,198	4,117,387	-3.55%
Maintenance and operations	4,797,376	4,520,872	6.12%
Fixed charges	14,642,574	14,509,003	0.92%
Food services	2,731,870	2,721,404	0.38%
Other	327,542	390,533	-16.13%
Total Expenses	\$ 59,708,197	\$ 59,274,200	0.73%
Change in Net Position	\$ (3,185,897)	\$ (1,645,788)	-93.58%

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

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

Revenues decreased by 1.92% and expenditures increased by 0.73%. Revenue decreased primarily as a result of significant state aid reductions. These aid reductions were the result of continued declining enrollment as well as increasing per capita wealth relative to the state average as defined within the state aid funding formula. Operating revenue from County government remained unchanged at \$25,359,000 when compared to FY 2013. The revenue increase from County government was attributed to the cost of teacher pensions passed back from the state during a past legislative session. Teacher pensions costs increase from \$664,714 in FY2013 to \$842,544 in FY2014. Corresponding fixed charge expenditures for teacher pensions are also shown on our books for \$842,544. Overall, there were nine fewer positions this year compared to the prior year. However, there were additional costs associated with the increase in teacher pensions of \$177,830 as outlined above which impacted fixed charges. Maintenance and Operations expenditures increased as a result of equipment purchases and an increase in contracted services, including the cost of the FEA facilities study. Administration fees increased as a result of the Board of Education's commitment to aid the schools by increasing the quality of the internet services provided by the use of the broad band initiative. There were also administrative increases relating to equipment purchases, and the impact of negotiated steps on the salary scale.

Results of operations for the School System as a whole are presented on page 15, the Statement of Activities. Approximately \$59.7 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 2014, Food Services closed with a \$144,577 restricted fund balance. This represents a decrease of \$57,592 over what was previously reported in 2013 as restricted for Food Service program fund balance. This reduction was due primarily to restrictions on the content of à la carte offerings as well as the impact of having five days waived at the end of the school year.

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, Food Services 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**

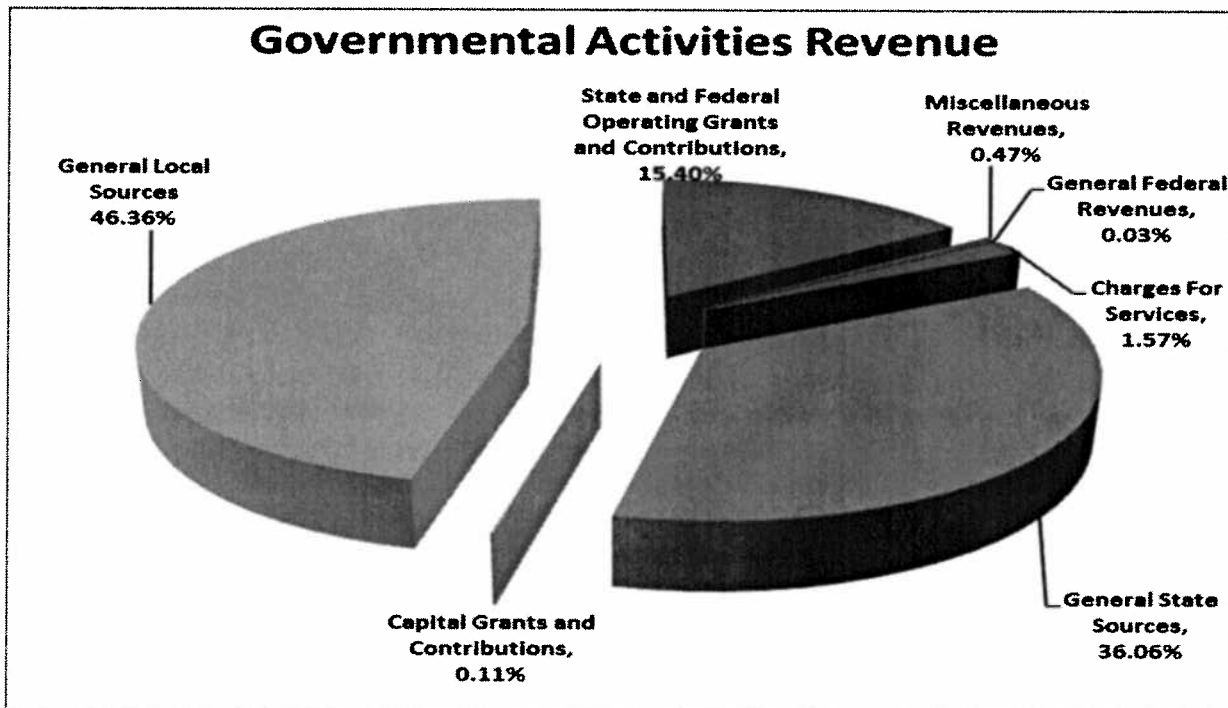
**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014**

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

	Total Cost of Services			Percentage Change	Net Cost of Services		
	2014	2013			2014	2013	Percentage Change
Administration (County & School Level)	\$ 4,177,748	\$ 3,899,888	7.12%	\$ 3,879,523	\$ 3,544,982	9.44%	
Instruction and Special Education	27,867,934	27,927,751	-0.21%	24,997,609	24,821,595	0.71%	
Student Personnel Services	699,013	632,782	10.47%	696,408	632,782	10.05%	
Student Health Services	492,942	554,580	-11.11%	489,056	435,726	12.24%	
Student Transportation	3,971,198	4,117,387	-3.55%	1,104,141	1,258,847	-12.29%	
Operation of Plant and Maintenance of Plant	4,797,376	4,520,872	6.12%	4,591,241	4,278,865	7.30%	
Fixed Charges	14,642,574	14,509,003	0.92%	13,799,419	13,655,221	1.06%	
Food Services	2,731,870	2,721,404	0.38%	377,776	346,385	9.06%	
All Others	327,542	390,533	-16.13%	118,482	195,480	-39.39%	
Total	\$ 59,708,197	\$ 59,274,200	0.73%	\$ 50,053,655	\$ 49,169,883	1.80%	

The cost of all governmental activities was \$59,708,197. Some of this cost was financed by users of the School System's programs through tuition and user fees of \$886,371. Operating and capital grants and contributions from the federal and state governments for certain programs were \$8,768,171. This left a net cost of services to be funded by general revenues of \$50,053,655.

Most of the School System's total revenue of \$56,522,300 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, 2014

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 \$2,292,500. This is \$435,354 less than the FY 2014 beginning balance of \$2,727,854. The total Fund Balance in FY 2014 had a decrease of \$57,592 in restricted for Food Service, a decrease of \$4,543 in nonspendable for Food Service inventories, a decrease of \$263,658 in restricted for medical assistance, and a decrease of \$934,005 in restricted for subsequent year's budget. Also included are restrictions of funds for capital expenditures of \$673,000 which includes funds appropriated for the purchase of modular classrooms at Broad Ford elementary and additional instructional technology needs of the system. There are also fund restrictions of \$151,444 relating to energy efficiency rebates that will be used to offset future capital lease payments for the energy efficiency capital projects completed in fiscal 2013.

The Current Expense Fund Balance of \$2,046,401 at June 30, 2014 includes \$648,543 restricted to support the subsequent year's budget, \$73,414 restricted for medical assistance, restrictions for instructional technology needs of the system and modular classroom purchases of \$673,000, energy efficiency rebates of \$151,444 that are restricted to offset future capital lease payments and a \$500,000 unassigned carry-over balance in accordance with the policy of the Board of Garrett County Commissioners. The \$500,000 represents approximately 1% of the Current Expense Fund budgeted expenditures. The Food Service Fund balance of \$246,099 includes \$101,522 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 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, Food Services 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 Unrestricted Current Expense Fund administration is due primarily to the savings associated with the indirect cost recovery. The variance in instructional salaries includes savings from positions vacated during the course of the year that were filled with substitutes versus new hires. Even with an additional number of substitutes, there was an overall positive variance relating to the amount of substitute teachers utilized compared to plan. Savings in instruction - other resulted from budget transfers for computers that were purchased in FY2015.

BOARD OF EDUCATION OF GARRETT COUNTY
Oakland, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

General (Current Expense) Budgetary Highlights (Continued)

The decrease in special education resulted from fewer non-public placements compared to the budget. The under budget variation in transportation is due to the fuel prices being under the budgeted rate throughout the fiscal year along with fewer field trips. The capital outlay variance was a result of a budget transfer for mobile modular classrooms that have been delayed for purchase until FY2015.

The overall variation between the original budget and final budget represents funds that were approved for carryover from the prior year. The variation between the original and final budget in the Unrestricted Current Expense Fund instruction salaries category is a result of vacancies created during the year that were filled with substitutes resulting in significant savings. These positions were not filled based upon the uncertainty of future funding and the potential of reductions in force.

The Restricted Current Expense Fund variance between final budget and actual represents the remaining funds available to be spent from restricted grants all of which are budgeted upon award.

Capital and Debt Administration

By the end of FY 2013, the School System had over \$93.2 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 \$0.5 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>
• Qualified Zone Academy Bond (QZAB)	\$ 80,413	\$ 0
• Southern Middle School Renovations	<u>11,594</u>	<u>0</u>
	<u>\$ 92,007</u>	<u>\$ 0</u>

Long-Term Debt and Other Long-Term Obligations

At year-end, the School System had \$8,779,357 in long-term obligations outstanding. \$908,843 or ten percent (10%) of this represents obligations for accumulated unpaid leave for the System's staff, \$4,013,207 or forty-six percent (46%) 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 \$3,857,307 or forty-four percent (44%).

BOARD OF EDUCATION OF GARRETT COUNTY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Factors Impacting the School System

Two factors that will negatively impact future revenue are the county's wealth potential and continued significant declining enrollments. 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 as the state perceives that the county has the ability to fill in funding gaps as a result of its wealth potential. The adequacy of the funding formula will be evaluated beginning in fiscal 2015 and lasting into fiscal 2017. Any legislative impacts resulting from this study will likely not occur prior to fiscal 2018.

As aid has been reduced by the state over the past several years, county government has not supplemented the budget of the Board of Education to the extent of the losses in state aid. The school system lost \$1.2 million in state-aid from FY 2013 due to declining enrollment and the impact of increasing wealth within the county relative to state-aid. Garrett's declining enrollment and wealth per pupil relative to the state average has led to Garrett County having the largest percentage reduction in state aid of any school district in the system the last four consecutive years. 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. Although improving, 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 may stress both the State and County's ability to support ongoing public service needs. Also, for FY 2013 and 2014 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. This increasing obligation will ultimately become part of county government's maintenance of effort calculation.

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.

In 2010, Maryland became one of 45 states that adopted rigorous, internationally benchmarked academic standards for English/Language Arts and Mathematics called the Common Core State Standards (CCSS). The State is in the process of implementing a new State curriculum and next generation assessments aligned to those standards. The CCSS are a set of clear high-quality academic expectations in English/Language Arts/Literacy and Mathematics that define the knowledge and skills all students should master by the end of each grade level. Finally, the Federal *No Child Left Behind Act* and subsequent waivers have resulted in changes to testing and evaluation systems that create additional costs for the school system. Instruction aligned to the new CCSS was fully implemented in 2013-2014.

BOARD OF EDUCATION OF GARRETT COUNTY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014

Factors Impacting the School System (Continued)

This shift required an alignment of resources, expenditures for improved texts and technology resources, and professional development. The Career and College Readiness emphasis nationally demanded a better alignment of Career and Technology Education preparation and higher education. Again, major shifts in program emphasis demanded an alignment of program, resources, expenditures for improved texts, equipment and technologies for GCPS students to be competitive in the work force and in college classrooms. Demands for additional training and resources will continue. The transition from the state's current curriculum content standards and Maryland School Assessment (MSA) to the new Common Core curriculum standards and Partnership for Assessment of Readiness for College and Careers (PARCC) assessments will be complete by school year 2014-2015.

Agreements with all four collective bargaining units were reached through June 30, 2015.

Under GASB Statement Number 45, post-employment health insurance 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 \$1,953,605 for the fiscal year ended June 30, 2014. The actual OPEB contribution amount for the year ended June 30, 2013 was \$1,234,067. 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 no funding from the Board of Garrett County Commissioners toward the OPEB obligation during FY 2014. There remains a Net OPEB obligation at end of year of \$4,013,207. 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 2014-2015 budget.

GASB Statement 68, Accounting and Financial Reporting for Pensions is effective for fiscal years beginning after June 15, 2014. Among several changes brought about by the new standard is the requirement that employers recognize an unfunded pension obligation as a liability in their government-wide financial statements. The Board of Education of Garrett County will adopt this new standard in FY '15. The State of Maryland has indicated that they are legally liable to fully fund the unfunded pension obligation for the Teachers Pension System. The State Retirement and Pension System of Maryland has indicated that they will be providing each local school board with the information necessary to record their portion of the unfunded pension obligation related to the Employees Pension System. The effect of recording this unfunded pension obligation on the Board's financial statements is not yet determinable.

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 Supervisor, 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 POSITION

June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 6,118,437
Accounts receivable	
County	2,195,056
State	402,511
Federal	1,136,010
Other	36,981
Inventory	101,522
Non-depreciable capital assets	962,169
Depreciable capital assets, net of accumulated depreciation	<u>47,175,493</u>
TOTAL ASSETS	<u><u>\$ 58,128,179</u></u>
 LIABILITIES	
Accrued payroll and withholding	\$ 5,950,658
Accounts payable and accrued expenses	1,632,737
Unearned revenue	60,097
Noncurrent liabilities:	
Due within one year	
Compensated absences payable	54,525
Capital lease	174,420
Due in more than one year	
Compensated absences payable	854,318
Capital lease	3,682,887
Net OPEB obligation	<u>4,013,207</u>
Total Liabilities	<u>\$ 16,422,849</u>
 NET POSITION	
Net investment in capital assets	\$ 44,280,355
Restricted for medical assistance	73,414
Restricted for subsequent year's budget, capital and capital lease payments	1,472,987
Restricted for food service	246,099
Unrestricted	<u>(4,367,525)</u>
Total Net Position	<u>\$ 41,705,330</u>
 TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 58,128,179</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, 2014

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Capital</u>	<u>Revenues and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Contributions</u>	<u>Net Position</u>
					<u>Governmental</u>
					<u>Activities</u>
Governmental activities:					
Administration	\$ 1,581,865	\$	\$ 165,377	\$	\$ (1,416,488)
Mid-level administration	2,595,883		132,848		(2,463,035)
Instruction - Salaries	18,823,517	7,185	1,420,330		(17,396,002)
- Textbooks and supplies	1,124,357		183,220		(941,137)
- Other	3,578,539		444,001	62,715	(3,071,823)
Special education	4,341,521		752,874		(3,588,647)
Student personnel services	699,013		2,605		(696,408)
Student health services	492,942		3,886		(489,056)
Student transportation	3,971,198		2,867,057		(1,104,141)
Operation of plant	3,834,994	22,516	183,619		(3,628,859)
Maintenance of plant	962,382				(962,382)
Fixed charges	14,642,574		843,155		(13,799,419)
Community services	203,331	20,821	188,239		5,729
Food services	2,731,870	835,849	1,518,245		(377,776)
Interest on capital lease obligation	124,211				(124,211)
	<u>\$ 59,708,197</u>	<u>\$ 886,371</u>	<u>\$ 8,705,456</u>	<u>\$ 62,715</u>	<u>\$ (50,053,655)</u>
General revenues:					
Local appropriations					\$ 26,201,544
State appropriations					20,384,352
Federal revenues					14,537
Miscellaneous					329,907
Unrestricted investment earnings					10,032
Gain (loss) on sale of equipment or disposals					(72,614)
					<u>\$ 46,867,758</u>
Change in net position					\$ (3,185,897)
Net Position - beginning of year					<u>44,891,227</u>
Net Position - end of year					<u>\$ 41,705,330</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, 2014

	Current Expense Fund	Food Service Fund	School Construction Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ASSETS				
Cash and cash equivalents	\$ 5,439,013	\$ 679,424	\$	\$ 6,118,437
Accounts receivable				
County	2,183,462		11,594	2,195,056
State	300,774	101,737		402,511
Federal	1,136,010			1,136,010
Other	33,886	3,095		36,981
Due from other funds	424,779			424,779
Inventory		101,522		101,522
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 9,517,924</u>	<u>\$ 885,778</u>	<u>\$ 11,594</u>	<u>\$ 10,415,296</u>
LIABILITIES				
Accrued payroll and withholdings	\$ 5,768,044	\$ 182,614	\$	\$ 5,950,658
Accounts payable and accrued expenses	1,609,768	22,969		1,632,737
Unearned revenue	39,186	20,911		60,097
Compensated absences payable	54,525			54,525
Due to other funds		413,185	11,594	424,779
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 7,471,523</u>	<u>\$ 639,679</u>	<u>\$ 11,594</u>	<u>\$ 8,122,796</u>
FUND BALANCES				
Nonspendable - inventories	\$	\$ 101,522	\$	\$ 101,522
Restricted for food service		144,577		144,577
Restricted for medical assistance	73,414			73,414
Restricted for subsequent year's budget	648,543			648,543
Restricted for capital expenditures	673,000			673,000
Restricted for capital lease payments	151,444			151,444
Unassigned	500,000			500,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>\$ 2,046,401</u>	<u>\$ 246,099</u>	<u>\$ 0</u>	<u>\$ 2,292,500</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 9,517,924</u>	<u>\$ 885,778</u>	<u>\$ 11,594</u>	<u>\$ 10,415,296</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 POSITION**

June 30, 2014

Total fund balances - Governmental funds	\$ 2,292,500
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the funds. The cost of these assets is \$93,202,860, net of accumulated depreciation of \$45,065,198.	48,137,662
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 (\$854,318), capital lease payable (\$3,857,307) and net OPEB obligation (\$4,013,207).	<u>(8,724,832)</u>
Total net position - Governmental activities	<u>\$ 41,705,330</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, 2014**

	Current Expense Fund	Food Services Fund	School Construction Fund	Total Governmental Funds
REVENUES				
Intergovernmental revenues				
Local sources	\$ 26,350,344	\$	\$ 11,594	\$ 26,361,938
State sources	24,076,287	156,386		24,232,673
Federal sources	3,374,905	1,357,880		4,732,785
Earnings on investments	9,750	282		10,032
Charges for services	50,522	842,483		893,005
Miscellaneous revenues	357,366	12,263		369,629
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 54,219,174	\$ 2,369,294	\$ 11,594	\$ 56,600,062
EXPENDITURES				
Administration	\$ 1,521,616	\$	\$	\$ 1,521,616
Mid-level administration	2,595,883			2,595,883
Instruction - Salaries	18,823,517			18,823,517
- Textbooks and supplies	1,124,357			1,124,357
- Other	1,071,938			1,071,938
Special education	4,341,027			4,341,027
Student personnel services	699,013			699,013
Student health services	492,942			492,942
Student transportation	3,971,198			3,971,198
Operation of plant	3,776,599			3,776,599
Maintenance of plant	1,032,225			1,032,225
Fixed charges	13,952,093			13,952,093
Food services		2,716,890		2,716,890
Community services	203,331			203,331
Capital outlay	405,141	40,900	11,594	457,635
Debt service	255,152			255,152
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 54,266,032	\$ 2,757,790	\$ 11,594	\$ 57,035,416
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	\$ (46,858)	\$ (388,496)	\$ 0	\$ (435,354)
OTHER FINANCING SOURCES (USES)				
Operating transfers in		326,361		326,361
Operating transfers out	(326,361)			(326,361)
	<hr/>	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	\$ (373,219)	\$ (62,135)	\$ 0	\$ (435,354)
Fund Balances - beginning of year	2,419,620	308,234		2,727,854
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES - end of year	\$ 2,046,401	\$ 246,099	\$ 0	\$ 2,292,500
	<hr/>	<hr/>	<hr/>	<hr/>

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, 2014**

Change in fund balances - Governmental funds	\$ (435,354)
 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 \$2,869,119 exceeded capital outlays of \$753,223 in the current year.	(2,115,896)
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.	(75,107)
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.	(9,347)
Repayment of capital lease obligation principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	130,941
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>(681,134)</u>
Change in net position - Governmental activities	<u>\$ (3,185,897)</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, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Intergovernmental revenues				
Local sources	\$ 26,201,544	\$ 26,350,344	\$ 26,350,344	\$ 0
State sources	20,512,241	20,184,878	20,182,877	(2,001)
Federal sources	111,000	126,000	123,193	(2,807)
Earnings on investments	12,000	12,000	9,750	(2,250)
Charges for services	14,000	37,500	50,522	13,022
Miscellaneous revenues	24,000	164,108	320,137	156,029
	<u>\$ 46,874,785</u>	<u>\$ 46,874,830</u>	<u>\$ 47,036,823</u>	<u>\$ 161,993</u>
EXPENDITURES				
Administration	\$ 1,417,024	\$ 1,493,449	\$ 1,356,239	\$ (137,210)
Mid-level administration	2,437,942	2,465,372	2,463,035	(2,337)
Instruction - Salaries	18,209,855	17,745,339	17,631,844	(113,495)
- Textbooks and supplies	877,119	945,916	941,137	(4,779)
- Other	414,150	898,933	642,168	(256,765)
Special education	3,645,644	3,530,832	3,422,048	(108,784)
Student personnel services	670,680	703,249	696,408	(6,841)
Student health services	434,850	393,981	391,503	(2,478)
Student transportation	4,306,014	4,011,264	3,970,681	(40,583)
Operation of plant	3,755,103	4,179,680	3,996,932	(182,748)
Maintenance of plant	798,891	1,071,671	1,032,225	(39,446)
Fixed charges	9,999,253	9,893,672	9,869,802	(23,870)
Food services	300,000	341,900	326,361	(15,539)
Community services		16,000	15,092	(908)
Capital outlay	308,260	766,121	390,909	(375,212)
	<u>\$ 47,574,785</u>	<u>\$ 48,457,379</u>	<u>\$ 47,146,384</u>	<u>\$ (1,310,995)</u>
EXCESS (DEFICIENCY) OF				
REVENUES OVER EXPENDITURES	\$ (700,000)	\$ (1,582,549)	\$ (109,561)	<u>\$ 1,472,988</u>
Fund Balance - beginning of year	<u>700,000</u>	<u>1,582,549</u>	<u>2,082,548</u>	
FUND BALANCE - end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,972,987</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, 2014**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES				
Intergovernmental revenues				
Federal sources	\$ 3,311,557	\$ 4,192,768	\$ 3,251,712	\$ (941,056)
State sources	384,790	688,792	654,274	(34,518)
Other sources		65,832	37,229	(28,603)
	<u>\$ 3,696,347</u>	<u>\$ 4,947,392</u>	<u>\$ 3,943,215</u>	<u>\$ (1,004,177)</u>
EXPENDITURES				
Administration	\$ 112,043	\$ 186,404	\$ 165,377	\$ (21,027)
Mid-level administration	120,814	145,076	132,848	(12,228)
Instruction - Salaries	1,090,362	1,457,160	1,191,673	(265,487)
- Textbooks and supplies	65,622	209,817	183,220	(26,597)
- Other	91,990	556,819	429,770	(127,049)
Special education	979,488	1,076,362	918,979	(157,383)
Student personnel services	2,400	2,400	2,605	205
Student health services	130,930	130,930	101,439	(29,491)
Student transportation			517	517
Operation of plant	30,830	30,792	34,819	4,027
Fixed charges	881,092	941,376	843,155	(98,221)
Community services	190,776	193,256	188,239	(5,017)
Capital outlay		17,000	14,232	(2,768)
	<u>\$ 3,696,347</u>	<u>\$ 4,947,392</u>	<u>\$ 4,206,873</u>	<u>\$ (740,519)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ 0</u>	<u>\$ 0</u>	\$ (263,658)	<u>\$ (263,658)</u>
Fund Balance - beginning of year			<u>337,072</u>	
FUND BALANCE - end of year			<u>\$ 73,414</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, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
REVENUES			
Federal	\$ 1,235,533	\$ 1,253,449	\$ 17,916
State of Maryland	128,427	156,386	27,959
Meals and food served	942,603	842,483	(100,120)
Interest earned	250	282	32
Federal donation of food	85,000	104,431	19,431
Other revenues	<u>21,500</u>	<u>12,263</u>	<u>(9,237)</u>
Total Revenues	<u>\$ 2,413,313</u>	<u>\$ 2,369,294</u>	<u>\$ (44,019)</u>
EXPENDITURES			
Salaries and wages	\$ 1,134,091	\$ 1,106,890	\$ (27,201)
Contracted services	44,350	77,008	32,658
Supplies and materials	940,489	1,021,550	81,061
Other charges	581,188	511,442	(69,746)
Capital outlay	<u>20,000</u>	<u>40,900</u>	<u>20,900</u>
Total Expenditures	<u>\$ 2,720,118</u>	<u>\$ 2,757,790</u>	<u>\$ 37,672</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>\$ (306,805)</u>	<u>\$ (388,496)</u>	<u>\$ (81,691)</u>
OTHER FINANCING SOURCES			
Operating transfers in	<u>306,805</u>	<u>326,361</u>	<u>19,556</u>
NET CHANGE IN FUND BALANCE	<u>\$ 0</u>	<u>\$ (62,135)</u>	<u>\$ (62,135)</u>
Fund Balance - beginning of year		<u>308,234</u>	
FUND BALANCE - end of year		<u>\$ 246,099</u>	

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

BOARD OF EDUCATION OF GARRETT COUNTY

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2014

	<u>School Activities Funds</u>
ASSETS	
Cash and cash equivalents	\$ 439,665
Investments - certificates of deposit	<u>85,450</u>
Total Assets	<u><u>\$ 525,115</u></u>
LIABILITIES	
School activity funds payable	<u>\$ 525,115</u>
Total Liabilities	<u><u>\$ 525,115</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 position, 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 Position – The statement of net position 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 position and reports depreciation expense – the cost of “using up” capital assets – in the statement of activities. The net position of the Board is broken down into three categories – 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities – The government-wide statement of activities reports expenses and revenues in 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-net position for expenses incurred for which both restricted-net position and unrestricted-net position are available unless a local match is required. Where a local match is required, the expense is allocated to restricted-net position and unrestricted-net position 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 position. The Board distinguishes overhead costs, which are eliminated in the preparation of the statement of activities from interfund services provided and used between functions which are not eliminated in the statement of activities in the financial statement closing process. The Board does not allocate indirect expenses to functions in the fund financial statements.

D. Assets, Liabilities, and Net Position 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 position, so as to not overstate the Board's assets and liabilities. All other receivables are reported at net realizable value.

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

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

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position 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

Unearned Revenues - Unearned revenues represent amounts received from grantors in advance of incurrence of eligible expenditures for reimbursable-type grants at June 30, 2014.

Compensated Absences Payable - As of June 30, 2014, employees of the Board had accumulated approximately \$908,843 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 the statement of net position.

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 Position or Equity (continued)

Committed Fund Balance – Amounts constrained for a specific purpose by the 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, 2014.

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, 2014.

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.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting (Continued)

The budgetary basis does not reflect revenues and expenditures for such contributions as required by generally accepted accounting principles. In addition, certain reclassifications are made to the actual column in the budget presentation 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, 2014, cash and cash equivalents consisted of the following:

Cash and cash equivalents	\$ 6,118,232
Petty cash	<u>205</u>
	<u>\$ 6,118,437</u>

At year end, the carrying amount of the Board's combined deposits was \$6,118,232 and the bank balance was \$7,182,023. Of the bank balance \$250,000 was insured by the Federal Deposit Insurance Corporation (FDIC), \$6,717,132 was collateralized by securities held by the Board's agent in the Board's name and \$214,891 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, 2014 was \$6,936,350.

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 position 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, 2014.

Fiduciary net position 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, 2014.

NOTE 3 - INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances at June 30, 2014 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Current Expense	Food Service	\$ 413,185
Current Expense	School Construction	11,594
		<u>\$ 424,779</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 \$326,361 in benefit and other 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, 2014 was as follows:

Governmental Activities	Balance June 30, 2013	Additions and Transfers	Dispositions and Transfers	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 840,172	\$	\$	\$ 840,172
Construction in progress	29,990	92,007		121,997
Total capital assets, not being depreciated	<u>\$ 870,162</u>	<u>\$ 92,007</u>	<u>\$ 0</u>	<u>\$ 962,169</u>
Capital assets being depreciated				
Buildings and improvements	\$ 88,430,606	\$ 310,497	\$ (139,865)	\$ 88,601,238
Equipment	3,001,604	243,308	(124,579)	3,120,333
Vehicles	430,358	107,411	(18,649)	519,120
Total capital assets being depreciated	<u>\$ 91,862,568</u>	<u>\$ 661,216</u>	<u>\$ (283,093)</u>	<u>\$ 92,240,691</u>
Less accumulated depreciation				
Buildings and improvements	\$ 40,096,017	\$ 2,595,236	\$ (67,865)	\$ 42,623,388
Equipment	1,976,124	236,295	(121,472)	2,090,947
Vehicles	331,924	37,588	(18,649)	350,863
Total accumulated depreciation	<u>\$ 42,404,065</u>	<u>\$ 2,869,119</u>	<u>\$ (207,986)</u>	<u>\$ 45,065,198</u>
Capital assets being depreciated - net	<u>\$ 49,458,503</u>	<u>\$ (2,207,903)</u>	<u>\$ (75,107)</u>	<u>\$ 47,175,493</u>
Capital assets, net	<u>\$ 50,328,665</u>	<u>\$ (2,115,896)</u>	<u>\$ (75,107)</u>	<u>\$ 48,137,662</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS (Continued)

Depreciation expense for the year ended June 30, 2014 was charged to governmental functions as follows:

Administration	\$ 60,249
Instruction	2,693,300
Special education	494
Operation of plant	66,295
Maintenance of plant	31,146
Food service	<u>17,635</u>
 Total depreciation expense - governmental activities	 <u>\$ 2,869,119</u>

The Board had the following active construction project as of June 30, 2014:

	<u>Spent-To -Date</u>	<u>Remaining Commitment</u>
Northern Road & Parking Lot	\$ 29,990	\$ 1,355,415
Southern Middle Renovations	11,594	570,806
QZAB Projects	<u>80,413</u>	<u>138,878</u>
 Total	 <u>\$ 121,997</u>	 <u>\$ 2,065,099</u>

NOTE 5 - COMPENSATED ABSENCES PAYABLE

Activity in compensated absences for the year ended June 30, 2014 was as follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>	<u>Due Within One Year</u>
Current Expense Fund	\$ 830,639	\$ 47,715	\$ (15,203)	\$ 863,151	\$ 54,525
Food Service Fund	<u>45,411</u>	<u>281</u>	<u>0</u>	<u>45,692</u>	<u>0</u>
	<u>\$ 876,050</u>	<u>\$ 47,996</u>	<u>\$ (15,203)</u>	<u>\$ 908,843</u>	<u>\$ 54,525</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - 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 \$4,192,786 and are reported as buildings and improvements in the accompanying government-wide financial statements. Amortization expense related to capital lease assets totaled \$300,033 for the year ended June 30, 2014 and was charged to the instruction function for government wide reporting purposes. Accumulated amortization of \$450,049 is reported as a component of accumulated depreciation on buildings and improvements as of June 30, 2014.

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.

	<u>Balance</u> <u>July 1, 2013</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Due Within</u> <u>One Year</u>
Capital lease - principal	<u>\$ 3,988,248</u>	<u>\$ (130,941)</u>	<u>\$ 3,857,307</u>	<u>\$ 174,420</u>

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, 2014:

<u>Fiscal years ending June 30,</u>	<u>Total</u>
2015	\$ 294,180
2016	315,865
2017	331,707
2018	327,973
2019	344,900
2020-2024	1,980,982
2025-2027	1,178,746
Total payments	<u>\$ 4,774,353</u>
Less interest	917,046
Capital lease obligation	<u>\$ 3,857,307</u>

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.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB)

The Board provides postemployment 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 postemployment benefit program under which they retire.

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 postemployment 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 postemployment 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, 2014, there were 174 Board of Education retirees who met the eligibility requirements for participation in this program. The Board expended \$850,600 during the year ended June 30, 2014, to finance the benefits of this program on a pay-as-you-go basis. These costs are reported in Current Expense Fund fixed charges.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (Continued)

For employees retiring between July 1, 2003 and June 30, 2006, an insurance postemployment 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, 2014 the Board expended \$62,810 under this program. There are currently 33 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.

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, 2014, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation:

Components of Net OPEB Obligation

Annual Required Contribution	\$ 1,953,605
Interest on Net OPEB Obligation	149,943
Adjustment to Annual Required Contribution	<u>(188,347)</u>
Annual OPEB Cost (Expense)	\$ 1,915,201
Contributions Made	<u>(1,234,067)</u>
Increase in Net OPEB Obligation	\$ 681,134
Net OPEB Obligation (Beginning of Year)	<u>3,332,073</u>
Net OPEB Obligation (End of Year)	<u>\$ 4,013,207</u>

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (Continued)

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, 2014, 2013 and 2012 are as follows:

Fiscal Year <u>Ended</u>	<u>Annual OPEB Cost</u>	<u>OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014	\$ 1,915,201	64.4%	\$ 4,013,207
6/30/2013	\$ 1,923,850	62.2%	\$ 3,332,073
6/30/2012	\$ 2,064,417	56.9%	\$ 2,605,136

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the plan was 5% funded. The actuarial accrued liability for benefits was \$19,324,808, and the actuarial value of assets was \$869,647, resulting in an unfunded actuarial accrued liability (UAAL) of \$18,455,161. The covered payroll (annual payroll of active employees covered by the plan) was \$25,443,000, and the ratio of the UAAL to the covered payroll was 73%.

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.

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.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (OPEB) (Continued)

In the July 1, 2013, 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, 2013, was twenty-five years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2013
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

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Financial Assistance Program Compliance

The Board participates in numerous Federal and State grant/loan programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the laws and regulations governing the grant/loan programs, refunds of any money received may be required or, the collectability of any related receivable at June 30, 2014 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.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - COMMITMENTS AND CONTINGENCIES (Continued)

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, 2014 was \$129,589.

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, 2014 are as follows:

2015	\$ 60,710
2016	33,949
2017	23,993
2018	10,193
2019	<u>850</u>
	<u>\$ 129,695</u>

NOTE 9 - STATE RETIREMENT PLANS

The Board of Education of Garrett County participates in the State Retirement and Pension System of Maryland, a cost sharing multiple-employer public employee retirement system. Substantially all employees of the Board are eligible to participate in the State system, which provides retirement, disability and death benefits in accordance with State statutes. The State Retirement and Pension System of Maryland is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland and managed by a board of trustees. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Teachers and Employees Retirement and Pension Systems. The annual report for the year ended June 30, 2013 (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.

Employees covered under the Teachers and Employees Pension System are required by State statute to contribute 7.0% of earned compensation.

The State of Maryland, which is a non-employer contributor to the Teachers Pension System, makes 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 unrestricted programs are funded at a set cost-sharing amount through 2016. 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 employees who participate in the Employees Pension System. Employees participating in the Employees Pension System include employees classified as custodial and cafeteria personnel. Employer contribution rates for custodial and cafeteria personnel are established by annual actuarial valuations, subject to the approval of the systems' Board of Trustees in accordance with the Annotated Code of Maryland.

BOARD OF EDUCATION OF GARRETT COUNTY

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - STATE RETIREMENT PLANS (Continued)

The State's contributions on behalf of the Board for the years ended June 30, 2014, 2013, and 2012 were \$3,239,136, \$3,159,549, and \$4,236,169, respectively, which were equal to the required contributions for each year. The Board's contributions for the years ended June 30, 2014, 2013, and 2012 were \$1,413,048, \$1,189,132 and \$655,435, respectively, which were equal to the required contributions for each year. The change in funding amounts reflected in 2014 and 2013 is the result of the State of Maryland requiring local school boards to share in the cost of funding teacher pensions.

GASB Statement 68, Accounting and Financial Reporting for Pensions is effective for fiscal years beginning after June 15, 2014. Among several changes brought about by the new standard is the requirement that employers recognize an unfunded pension obligation as a liability in their government-wide financial statements. The Board of Education of Garrett County will adopt this new standard in FY '15. The State of Maryland has indicated that they are legally liable to fully fund the unfunded pension obligation for the Teachers Pension System. The State Retirement and Pension System of Maryland has indicated that they will be providing each local school board with the information necessary to record their portion of the unfunded pension obligation related to the Employees Pension System. The effect of recording this unfunded pension obligation on the Board's financial statements is not yet determinable.

NOTE 10 - RISK MANAGEMENT

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

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 its 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.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF GARRETT COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2014

**SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFIT PLAN**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2013	\$ 869,647	\$ 19,324,808	\$ 18,455,161	5 %	\$ 25,443,000	72.54 %
July 1, 2012	\$ 789,405	\$ 19,324,808	\$ 18,535,403	4 %	\$ 25,443,000	72.85 %
July 1, 2011	\$ 761,993	\$ 21,026,423	\$ 20,264,430	3 %	\$ 28,835,000	70.28 %

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 decrease in the AAL between July 1, 2011 and July 1, 2012 was as a result of major staffing reductions which favorably impacted the census data on which the July 1, 2012 valuation was based. The Board's intent is to 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, 2014**

	Balances			Balances
	July 1, 2013	Revenues	Expenditures	June 30, 2014
ELEMENTARY				
Accident	\$ 8,392	\$ 23,710	\$ 24,831	\$ 7,271
Broadford	19,809	59,343	51,191	27,961
Crellin	4,728	8,848	9,210	4,366
Friendsville	5,352	12,676	9,651	8,377
Grantsville	11,644	28,969	31,566	9,047
Hickory Environmental	7,011	10,210	7,472	9,749
Route 40	6,630	13,704	14,507	5,827
Swan Meadow	3,371	7,615	9,797	1,189
Yough Glades	16,532	10,647	9,926	17,253
	<u>16,532</u>	<u>10,647</u>	<u>9,926</u>	<u>17,253</u>
Total Elementary	\$ 83,469	\$ 175,722	\$ 168,151	\$ 91,040
	<u>\$ 83,469</u>	<u>\$ 175,722</u>	<u>\$ 168,151</u>	<u>\$ 91,040</u>
MIDDLE AND SENIOR HIGH				
Northern High	\$ 191,320	\$ 328,314	\$ 347,003	\$ 172,631
Northern Middle	78,625	62,054	59,445	81,234
Southern High	120,351	434,422	417,192	137,581
Southern Middle	31,483	66,190	55,044	42,629
	<u>31,483</u>	<u>66,190</u>	<u>55,044</u>	<u>42,629</u>
Total Middle and Senior High	\$ 421,779	\$ 890,980	\$ 878,684	\$ 434,075
	<u>\$ 421,779</u>	<u>\$ 890,980</u>	<u>\$ 878,684</u>	<u>\$ 434,075</u>
TOTAL SCHOOLS	\$ 505,248	\$ 1,066,702	\$ 1,046,835	\$ 525,115
	<u>\$ 505,248</u>	<u>\$ 1,066,702</u>	<u>\$ 1,046,835</u>	<u>\$ 525,115</u>