

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS,  
FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION  
June 30, 2014**

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## Independent Auditors' Report

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

### **Report on the Financial Statements**

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the component unit governmental activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2014, and the respective changes in financial position thereof for

the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 - 10, the budgetary comparison information on pages 42 and 43, and schedule of funding progress on page 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2014, 2014, on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Board's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Baltimore, Maryland  
September 26, 2014

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

As Management of the Board of Education of Carroll County (the Board), we offer readers of the Board's financial statements this discussion and analysis of the Board's financial performance during the fiscal year ended June 30, 2014. This section should be read in conjunction with the financial statements, which immediately follow this discussion.

**Overview of the Financial Statements**

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

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

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

**Government-Wide Financial Statements**

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

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

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

**Government-Wide Financial Statements (Continued)**

The *Statement of Activities* presents information showing how the Board's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned, but unused, vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the Board. The majority of the Board's revenue is general revenue, grants and contributions from other governments.

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

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

**Fund Financial Statements**

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

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

The Board has three governmental funds:

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

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

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

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

**Fund Financial Statements (Continued)**

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

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

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

***Budget and Actual Financial Statements***

The Budgetary Comparison Schedule is presented for the General Fund, which has a legally adopted annual budget. This statement shows both original and final adopted budgets, along with actual revenues and expenditures compared to the final budget. In these statements, open encumbrances are treated as expenditures. The Budgetary Comparison Schedule (Non-GAAP Budgetary Basis) can be found immediately following the basic governmental fund financial statements on page 42.

**Financial Analysis of the Board as a Whole**

As noted above, all activities are identified as governmental activities. Current assets totaled \$53.2 million, most of which appears as accounts receivable due from primary governments. This is primarily due from the County Commissioners of Carroll County. Noncurrent assets are composed of capital assets and account for approximately 89% of the Board's total assets. Current liabilities total \$38.4 million, of which approximately \$18.2 million is accrued payroll and related withholdings. It should be noted that this balance reflects payments made to 10-month staff members (such as teachers) who prefer to continue semi-monthly payrolls during July and August. Since these staff members have fulfilled their contractual obligation as of June 30<sup>th</sup>, the unpaid wages are reflected in this accrual. The accrued fringe portion of this balance is also primarily associated with the payments that will be made for 10-month staff members during July and August. Noncurrent liabilities are \$75.6 million and are predominantly tied to compensated absences for employees and post-employment benefits.

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

**Financial Analysis of the Board as a Whole (Continued)**

**Condensed Statement of Net Position**

	<b>Governmental Activities</b>	
	<b>June 30, 2014</b>	<b>June 30, 2013</b>
	(In Millions)	
Current and other assets	\$ 53.2	\$ 64.9
Capital assets	429.4	433.8
Total assets	482.6	498.7
Current liabilities	38.4	45.0
Noncurrent liabilities	75.6	61.9
Total liabilities	114.0	106.9
Net position:		
Net investment in capital assets	425.2	428.9
Restricted	0.2	0.4
Unrestricted	(56.8)	(37.5)
<b>Total net position</b>	<b>\$ 368.6</b>	<b>\$ 391.8</b>

For budgetary purposes, acquisitions of equipment and capital improvements are considered expenditures. However in accordance with Generally Accepted Accounting Principles (GAAP) and subject to the Board's Capitalization Policy, equipment and capital improvements for the current year totaled \$15.9 million, of which a net of \$3.1 million was to construction in progress and \$12.8 million to capital assets subject to depreciation. Of the \$12.8 million subject to depreciation, \$5.4 million was transferred from construction in progress during the year.



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

**Financial Analysis of the Board as a Whole** (Continued)

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

**Changes in Net Position from Operating Results**

	<b>Governmental Activities</b>	
	<b>June 30, 2014</b>	<b>June 30, 2013</b>
	(In Millions)	
<b>Revenues</b>		
Program revenues:		
Charge for services	\$ 3.9	\$ 4.1
Operating grants and contributions	48.8	48.2
Capital grants and contributions	12.9	21.3
General revenues:		
County government	170.4	170.8
State (unrestricted)	102.5	107.6
State pension aid	21.4	19.0
Other	1.3	1.5
Total revenues	361.2	372.5
<b>Expenses</b>		
Instruction (regular and special education)	267.8	256.9
Administration (central and school)	41.4	39.1
Maintenance and operations	40.8	42.1
Transportation	20.9	20.9
Student personnel, health and community services	7.2	6.6
Food services	6.3	6.9
Total expenses	384.4	372.5
<b>Decrease in net position</b>	<b>\$ (23.2)</b>	<b>\$ -</b>

All costs identified in the Statement of Activities include the cost of salaries, wages, supplies, contracted services, and depreciation by function. In the case of regular instruction, depreciation expense on the school buildings and equipment in those schools account for \$14.5 million. Fringe benefits and depreciation can be tracked by individual or asset, respectively, and therefore can be tied to a function. Review of the revenues identifies some fee for services circumstances, including use of facilities and tuition. Operating Grant revenues primarily include State and Federal Grants and reflect restricted sources. As detailed in the Statement of Activities, the general revenues include State and County revenue, as well as interest income, none of which meets the criteria for classification as program revenues. More specifically:

- The cost of all governmental services this year was \$384.4 million.

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

**Financial Analysis of the Board as a Whole (Continued)**

- \$3.9 million of the costs were financed by users of the school district's programs through fees for service.
- The State and Federal governments subsidized the operations of certain programs with grants and contributions totaling almost \$48.8 million.
- The majority of the district's costs were financed by Carroll County and the State of Maryland taxpayers. Specifically, \$170.4 million was associated with Carroll County appropriations.
- Of the \$15.9 million of additions to capital projects, \$12.3 million was financed by capital contributions from the State and County governments.

**Financial Analysis of the Board's Funds**

In the General Fund, revenues decreased by .73% to \$342.3 million which was predominately attributable to a \$1.1 million decrease in IDEA Special Education revenue.

The Food Service Operation reflected a net change in fund balance of \$(210,869) for the year ended June 30, 2014 versus a net change in fund balance of \$(419,819) for the prior year. Change in Fund Balance resulted primarily from declining participation, as well as a slight decrease in the number of days in which meals were served to students.

The Capital Projects Fund reflected a net change in fund balance of \$(1,408,893) for the year ended June 30, 2014, versus a net change in fund balance of \$2,989,965 for the prior year. The change in Fund Balance resulted from the completion of certain HVAC and paving projects. The remaining fund balance at year end represents amounts of funding for HVAC, paving, roofing, relocatable classrooms, energy efficiency and technology improvements at June 30, 2014.

Limitations affecting the availability of resources in the General Fund include nonspendable resources of \$797,686, restricted resources of \$238,789, assigned resources of \$3,080,699, and unassigned resources of \$11,815,284.

**Budgetary Highlights**

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

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

**Budgetary Highlights (Continued)**

The Board ended the fiscal year with an excess of expenditures over revenue (Non-GAAP Budgetary Basis) of \$(3,279,522), inclusive of the budgeted appropriation of \$6,268,297. Beginning fiscal year 2008 and thereafter, the Board of Carroll County Commissioners and the Board agreed to create a fund balance reserve account to guard against unanticipated revenue shortfalls and minimize the impact on operations of the Board when unexpected, one-time expenses occur. The Board utilized a portion of the fund balance reserve account to cover this shortfall.

The budgetary process is designed to reflect revenues equal to expenditures. However, actual expenditures and actual revenues, non-GAAP basis, were both lower than budgeted. In fiscal year 2014, current operating fund actual revenues fell short of the final budget by approximately \$4.6 million. The majority of the shortfall was within the restricted portion, as a result of grants that cross into fiscal year 2015 and fewer grant funds carried forward from fiscal year 2013.

Specific examples that caused this shortfall include the state share for non-public placements of students with disabilities of \$725,775 revenue less than budgeted (based on lower total costs), and federal Title I grants carried forward from fiscal year 2013 in total being \$2,189,394 less than budgeted.

Specific categories of expenditures exceeded the original budget. Budget transfers between categories were approved to more closely align with actual expenditures, so that at year-end all categories were in compliance. In fiscal year 2014, current operating fund actual expenses were less than the final budget by approximately \$7.6 million. The majority of the decrease was within the instructional salaries, fixed charges, special education and instructional supplies categories, as fewer expenditures were incurred relating to these categories than originally budgeted.

**Capital Asset Administration**

By the end of fiscal year 2014, the Board had invested over \$429.4 million in capital assets net of depreciation, predominantly buildings. Total depreciation expense for the year approximated \$16.7 million, increasing accumulated depreciation on assets to \$216.1 million. Included in the Construction in Progress balance is the work in progress on the Eldersburg Elementary School Open Space Enclosures and the Energy Efficient Lighting projects. The County government issues the debt associated with these capital projects; therefore, the Board financial statements do not reflect outstanding debt associated with these capital assets.

**Factors Bearing on the Board's Future**

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

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

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

**Factors Bearing on the Board's Future** (Continued)

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

**Contacting the Board's Financial Management**

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

## **BASIC FINANCIAL STATEMENTS**

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**STATEMENT OF NET POSITION**  
**June 30, 2014**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 6,871,316
Accounts receivable	1,217,250
Due from primary government	38,579,391
Due from other units of government	5,493,127
Inventory	699,247
Other current assets	368,014
Total current assets	53,228,345
<b>Noncurrent Assets</b>	
Capital assets (net of accumulated depreciation):	
Land and improvements	15,049,603
Construction in progress	5,275,167
Equipment	10,823,731
Buildings and improvements	398,272,773
Total noncurrent assets	429,421,274
Total assets	482,649,619
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	5,318,340
Accrued salaries and fringes	18,165,665
Accrued health claims	4,590,000
Accrued expenses	4,311,233
Accrued interest	48,288
Due to student groups	2,146,970
Due to primary government	456,879
Unearned revenue	573,290
Current portion of capital lease obligations	759,714
Current portion of compensated absences payable	2,000,000
Total current liabilities	38,370,379
<b>Noncurrent Liabilities</b>	
Long-term portion of capital lease obligations	3,429,696
Long-term portion of compensated absences payable	13,375,292
Other postemployment benefits	58,881,226
Total noncurrent liabilities	75,686,214
Total liabilities	114,056,593
<b>NET POSITION</b>	
Net investment in capital assets	425,231,864
Restricted for:	
Food services	152,438
Unrestricted	(56,791,276)
<b>TOTAL NET POSITION</b>	<b>\$ 368,593,026</b>

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2014**

	Program Revenues			Net (Expenses) Revenue and Changes in Net Position	
Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	
<b>FUNCTIONS/PROGRAMS</b>					
<b>GOVERNMENTAL ACTIVITIES</b>					
<b>INSTRUCTION</b>					
Regular education	\$ 216,587,273	\$ 774,629	\$ 27,903,188	\$ 12,903,936	\$ (175,005,520)
Special education	<u>51,201,840</u>	<u>-</u>	<u>16,954,958</u>	<u>-</u>	<u>(34,246,882)</u>
Total instruction	<u>267,789,113</u>	<u>774,629</u>	<u>44,858,146</u>	<u>12,903,936</u>	<u>(209,252,402)</u>
<b>SUPPORT SERVICES</b>					
Administration	7,430,420	-	220,878	-	(7,209,542)
Mid-level administration	34,007,259	-	245,789	-	(33,761,470)
Student personnel services	2,243,789	-	-	-	(2,243,789)
Student health services	4,724,039	-	9,021	-	(4,715,018)
Student transportation services	20,916,880	-	43,840	-	(20,873,040)
Operation of plant	31,295,913	-	78,571	-	(31,217,342)
Maintenance of plant	9,453,627	-	252,083	-	(9,201,544)
Community services	269,622	197,280	20,016	-	(52,326)
Food services	<u>6,257,434</u>	<u>2,906,137</u>	<u>3,022,930</u>	<u>-</u>	<u>(328,367)</u>
Total support services	<u>116,598,983</u>	<u>3,103,417</u>	<u>3,893,128</u>	<u>-</u>	<u>(109,602,438)</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u>\$ 384,388,096</u>	<u>\$ 3,878,046</u>	<u>\$ 48,751,274</u>	<u>\$ 12,903,936</u>	<u>(318,854,840)</u>
<b>GENERAL REVENUES</b>					
Local appropriations					170,412,791
State aid					123,907,478
Miscellaneous					<u>1,298,784</u>
Total general revenues					<u>295,619,053</u>
<b>CHANGE IN NET POSITION</b>					(23,235,787)
<b>NET POSITION, BEGINNING OF YEAR</b>					<u>391,828,813</u>
<b>NET POSITION, END OF YEAR</b>					<u>\$ 368,593,026</u>

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2014**

	<u>General</u> <u>Fund</u>	<u>Food</u> <u>Services</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,869,253	\$ 2,063	\$ -	\$ 6,871,316
Accounts receivable	949,976	7,504	259,770	1,217,250
Due from other funds	243,590	1,120	2,322,960	2,567,670
Due from fiduciary fund	-	477,537	-	477,537
Due from primary government	37,378,000	-	1,201,391	38,579,391
Due from other units of government	4,856,393	156,907	479,827	5,493,127
Inventory	429,672	269,575	-	699,247
Other current assets	368,014	-	-	368,014
	<u>51,094,898</u>	<u>914,706</u>	<u>4,263,948</u>	<u>56,273,552</u>
Total assets	<u>\$ 51,094,898</u>	<u>\$ 914,706</u>	<u>\$ 4,263,948</u>	<u>\$ 56,273,552</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 3,146,306	\$ 3,326	\$ 2,168,708	\$ 5,318,340
Accrued salaries and fringes	17,792,266	373,399	-	18,165,665
Accrued health claims	4,590,000	-	-	4,590,000
Accrued expenses	4,311,233	-	-	4,311,233
Due to other funds	2,322,960	243,590	1,120	2,567,670
Due to fiduciary fund	2,537,883	-	86,624	2,624,507
Due to primary government	30,455	-	426,424	456,879
Unearned revenue	431,337	141,953	-	573,290
	<u>35,162,440</u>	<u>762,268</u>	<u>2,682,876</u>	<u>38,607,584</u>
Total liabilities	<u>35,162,440</u>	<u>762,268</u>	<u>2,682,876</u>	<u>38,607,584</u>
<b>FUND BALANCES</b>				
Non-spendable	797,686	269,575	-	1,067,261
Restricted	238,789	-	-	238,789
Committed	-	-	1,581,072	1,581,072
Assigned	3,080,699	-	-	3,080,699
Unassigned	11,815,284	(117,137)	-	11,698,147
	<u>15,932,458</u>	<u>152,438</u>	<u>1,581,072</u>	<u>17,665,968</u>
Total fund balances	<u>15,932,458</u>	<u>152,438</u>	<u>1,581,072</u>	<u>17,665,968</u>
Total liabilities and fund balance	<u>\$ 51,094,898</u>	<u>\$ 914,706</u>	<u>\$ 4,263,948</u>	<u>\$ 56,273,552</u>

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



**BOARD OF EDUCATION OF CARROLL COUNTY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2014**

Total fund balances - governmental funds (page 14) \$ 17,665,968

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$645,505,142, and the accumulated depreciation is \$216,083,868. 429,421,274

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of capital lease obligations \$4,189,410, compensated absences payable \$15,375,292, and net other post-employment obligations \$58,881,226. (78,445,928)

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

**TOTAL NET POSITION, GOVERNMENTAL ACTIVITIES (page 12)** \$ 368,593,026

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2014**

	<b>General Fund</b>	<b>Food Services Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>				
Local sources	\$ 170,363,164	\$ -	\$ 6,808,009	\$ 177,171,173
State sources	158,227,817	90,588	5,449,352	163,767,757
Federal sources	10,608,502	2,843,353	-	13,451,855
Charges for services	971,909	2,906,137	-	3,878,046
Miscellaneous revenues	<u>2,147,914</u>	<u>88,989</u>	<u>646,575</u>	<u>2,883,478</u>
 Total revenues	 <u>342,319,306</u>	 <u>5,929,067</u>	 <u>12,903,936</u>	 <u>361,152,309</u>
<b>EXPENDITURES</b>				
Administration	5,592,772	-	-	5,592,772
Instruction	145,319,910	-	-	145,319,910
Student personnel services	1,750,753	-	-	1,750,753
Student health services	3,631,315	-	-	3,631,315
Student transportation services	20,495,039	-	-	20,495,039
Operation of plant	24,566,776	-	-	24,566,776
Maintenance of plant	7,390,639	-	-	7,390,639
Fixed charges	70,030,320	-	-	70,030,320
Mid-level administration	26,219,002	-	-	26,219,002
Community services	244,861	-	-	244,861
Special education	39,912,249	-	-	39,912,249
Costs of operation - food services	-	6,200,561	-	6,200,561
Capital outlay	<u>858,411</u>	<u>-</u>	<u>14,312,829</u>	<u>15,171,240</u>
 Total expenditures	 <u>346,012,047</u>	 <u>6,200,561</u>	 <u>14,312,829</u>	 <u>366,525,437</u>
 Excess (deficiency) of revenues over expenditures	 <u>(3,692,741)</u>	 <u>(271,494)</u>	 <u>(1,408,893)</u>	 <u>(5,373,128)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in (out)	<u>(60,625)</u>	<u>60,625</u>	<u>-</u>	<u>-</u>
 <b>NET CHANGE IN FUND BALANCES</b>	 <u>(3,753,366)</u>	 <u>(210,869)</u>	 <u>(1,408,893)</u>	 <u>(5,373,128)</u>
<b>FUND BALANCES,</b>				
<b>BEGINNING OF YEAR</b>	<u>19,685,824</u>	<u>363,307</u>	<u>2,989,965</u>	<u>23,039,096</u>
 <b>FUND BALANCES, END OF YEAR</b>	 <u>\$ 15,932,458</u>	 <u>\$ 152,438</u>	 <u>\$ 1,581,072</u>	 <u>\$ 17,665,968</u>

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

**BOARD OF EDUCATION OF CARROLL COUNTY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014**

Total net changes in fund balances - governmental funds (page 16) \$ (5,373,128)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay, which is capitalized \$15,910,619, exceed depreciation expenses, \$16,742,642, in the period. (832,023)

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid within one year). This year vacation and sick leave used exceed the amounts earned by: 1,536,164

The execution of a capital lease agreement provides current financial resources to governmental funds, while the repayment of the lease principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount of principal payments on the capital lease obligation for this year. 708,196

In the Statement of Activities, only the gain or loss on sale of the capital assets is reported. In the governmental funds, however, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed. (3,584,469)

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. (15,690,527)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES (page 13)** \$ (23,235,787)

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**June 30, 2014**

	<b>OPEB Plan Trust</b>	<b>Agency Fund</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ 465,012
Investments	14,430,788	-
Accounts receivable	-	1,440
Due from other funds	-	2,624,507
Prepaid expenses	-	38,562
	14,430,788	38,562
 Total assets	<u>14,430,788</u>	<u>\$ 3,129,521</u>
<b>LIABILITIES</b>		
Accounts payable	-	\$ 188,382
Due to student groups	-	2,463,602
Due to other funds	-	477,537
	-	477,537
 Total liabilities	<u>-</u>	<u>\$ 3,129,521</u>
<b>NET POSITION</b>		
Net position held in trust for benefits	<u>\$ 14,430,788</u>	

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

**BOARD OF EDUCATION OF CARROLL COUNTY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
Year Ended June 30, 2014**

	<u>OPEB Plan Trust</u>
<b>ADDITIONS</b>	
Contributions:	
Employer	\$ 3,911,473
Employee	<u>4,271,946</u>
Total contributions	<u>8,183,419</u>
Investment earnings:	
Net appreciation in fair value of investments	<u>1,945,834</u>
Total additions	10,129,253
<b>DEDUCTIONS</b>	
Benefits paid to plan members	<u>8,083,419</u>
<b>CHANGE IN NET POSITION</b>	2,045,834
<b>NET POSITION, BEGINNING OF YEAR</b>	<u>12,384,954</u>
<b>NET POSITION, END OF YEAR</b>	<u><u>\$ 14,430,788</u></u>

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Financial Reporting Entity**

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

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

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

**Government-Wide and Fund Financial Statements**

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

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

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

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide and Fund Financial Statements (Continued)**

**Statement of Net Position** - The Statement of Net Position is designed to display the financial position of the primary government. The Board reports all capital assets in the government-wide Statement of Net Position and reports depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The Net Position of the Board 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 a format that focuses on the cost of each Board function. The expenses of individual functions are compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants). These directly matched revenues are called program revenues. This format enables the Government-Wide Statement of Activities to reflect both the gross and net cost per functional category (regular instruction, special instruction, pupil transportation, etc.) that are otherwise being supported by general government revenues.

Program revenues must be directly associated with a function and are restricted to meeting the operational or capital requirements of a particular function or activity. Multi-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.

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Government-Wide and Fund Financial Statements (Continued)**

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

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

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

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

Program revenues include several types of transactions. Tuition paid directly by students and parents and sales associated with the Food Service Operation are identified as charges for services. State and federal support for Food Service Operation is identified as operating grants and contributions. Grant-related revenue that is specifically restricted for use by a particular function is separated in the Statement of Activities.

The Board reports the following major governmental funds:

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



**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

Additionally, the Board reports the following fiduciary funds:

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

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

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

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

**Investments**

Investments are reported at fair. OPEB Plan Trust investments consisting of money market and mutual funds are stated at fair value.

**Receivables and Payables**

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

**Inventory**

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Prepaid Items**

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

**Capital Assets**

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

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

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

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

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

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

**Deferred Outflows of Resources**

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until the future period. At June 30, 2014, the Board had no items that should be recognized as deferred outflows of resources.

**Unearned Revenues**

Unearned revenues represent amounts received from grantors in advance of incurrence of eligible expenditures for grants and unused commodities at June 30, 2014, since title does not pass to the Board until the commodities are used.

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Compensated Absences Payable**

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

**School Construction Debt**

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

**Deferred Inflows of Resources**

A deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until the future period. For government-mandated and voluntary non-exchange transactions, a deferred inflow is reported when resources are received before time requirements are met. At June 30, 2014, the Board had no items that should be recognized as deferred inflows of resources.

**Net Position/Fund Equity**

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

*Net Investment in capital assets* - This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.

*Restricted net position* - This category presents net position with external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position/Fund Equity (Continued)**

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

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

*Nonspendable*

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

*Restricted*

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

*Committed*

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

*Assigned*

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

*Unassigned*

All other spendable amounts.

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

**In-kind Contributions**

In-kind contributions represent non-cash transactions for costs of services provided by Carroll County, Maryland, which are primarily for use of facilities (including rent, utilities, insurance and maintenance costs). The fair value of these services was \$1,834,791 for the year ended June 30, 2014. These services are included as in-kind contributions in county revenue and a corresponding amount in the operating expenses of the Board.

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pending Pronouncements**

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

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

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING POLICIES**

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

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

1. Prior to December, the staff accumulates and summarizes data for a proposed operating budget (General Fund).
2. During January, the Superintendent of Schools submits a proposed operating budget to the Board.
3. Public hearings are held to obtain citizens' comments.
4. During February, the Board adopts the proposed budget.
5. On March 1, the budget is submitted to the Carroll County Commissioners for approval.
6. During May, the County Commissioners hold final hearings and adopt the budget which becomes effective July 1.
7. The General Fund budget is adopted on a basis consistent with GAAP except for the inclusion of encumbrances as expenditures and the exclusion of pension payments made by the State on behalf of the Board. Budget comparisons presented in this report are on a non-GAAP budgetary basis. The required supplementary information budgetary comparison schedule reflects the budget as amended.
8. Request for adjustments to major categories must be submitted to the County Commissioners for approval or denial. No action within thirty (30) days of submission constitutes approval.
9. Requests for transfers between major categories must be submitted to the County Commissioners for approval or denial. No action within thirty (30) days of submission constitutes approval.
10. Expenditures may not legally exceed appropriations at the major category level. In addition, all appropriations lapse at year-end.

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING POLICIES (CONTINUED)**

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

Original operating budget approved by the County Commissioners	\$ 329,828,746
Approved supplemental appropriations	<u>1,478,297</u>
<b>Amended operating budget for fiscal year 2014</b>	<b><u><u>\$ 331,307,043</u></u></b>

**NOTE 3 – CASH AND CASH EQUIVALENTS**

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

**Deposits**

At year-end, the carrying value of the Board’s combined deposits was \$7,332,350 and cash on hand was \$3,978. The bank balance of deposits was \$12,288,317. The bank balance was covered either by federal depository insurance or collateral held by the financial institution’s trust department in the Board’s name. Statutes authorize secured time deposits in Maryland banks and requires uninsured deposits to be fully collateralized. Therefore, under the reporting requirements of GASB Statement No.40, the Board’s deposits are not subject to custodial or credit risk at year-end. Because of the short-term maturity and type of the investments there is limited interest rate risk.

**Investments**

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

OPEB Plan Trust investments of \$14,430,788 are invested in the Carroll County Master Retiree Benefit Trust, which consists of money market and mutual funds. The trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 3 – CASH AND CASH EQUIVALENTS (CONTINUED)**

**Investments** (Continued)

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

**Investment Rate Risk**

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

**Custodial Credit Risk**

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

**NOTE 4 – INVENTORY**

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

<b>General Fund</b>	
Custodial supplies	\$ 226,877
Equipment, repair and maintenance supplies	202,795
	<hr/> 429,672
<b>Food Services Fund</b>	
Supplies	27,886
Food	241,689
	<hr/> 269,575
<b>Total inventories</b>	<hr/> <b>\$ 699,247</b> <hr/>

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

<b>Governmental Activities</b>	<b>Balance at June 30, 2013</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at June 30, 2014</b>
<b>Capital assets not being depreciated</b>				
Land and improvements	\$ 15,049,603	\$ -	\$ -	\$ 15,049,603
Construction in progress	<u>2,122,459</u>	<u>8,548,543</u>	<u>(5,395,835)</u>	<u>5,275,167</u>
Total capital assets, not being depreciated	<u>17,172,062</u>	<u>8,548,543</u>	<u>(5,395,835)</u>	<u>20,324,770</u>
<b>Capital assets being depreciated</b>				
Equipment	43,980,791	3,894,794	(7,102,622)	40,772,963
Equipment under capital lease	2,399,329	-	(2,399,329)	-
Building and improvements	<u>580,645,717</u>	<u>8,863,117</u>	<u>(5,101,425)</u>	<u>584,407,409</u>
Total capital assets, being depreciated	<u>627,025,837</u>	<u>12,757,911</u>	<u>(14,603,376)</u>	<u>625,180,372</u>
<b>Less - accumulated depreciation</b>				
Equipment	32,934,712	2,369,186	(5,354,666)	29,949,232
Equipment under capital lease	2,399,329	-	(2,399,329)	-
Building and improvements	<u>175,026,092</u>	<u>14,373,456</u>	<u>(3,264,912)</u>	<u>186,134,636</u>
Total accumulated depreciation	<u>210,360,133</u>	<u>16,742,642</u>	<u>(11,018,907)</u>	<u>216,083,868</u>
Total capital assets being depreciated, net	<u>416,665,704</u>	<u>(3,984,731)</u>	<u>(3,584,469)</u>	<u>409,096,504</u>
<b>Capital assets, net</b>	<u>\$ 433,837,766</u>	<u>\$ 4,563,812</u>	<u>\$ (8,980,304)</u>	<u>\$ 429,421,274</u>

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

Regular education	\$ 14,504,914
Special education	165,290
Administration	20,899
Mid level administration	154,252
Student personnel services	5,572
Student health services	286
Student transportation services	68,782
Operation of plant	911,860
Maintenance of plant	847,203
Food services	<u>63,584</u>
<b>Total depreciation expense - governmental activities</b>	<u>\$ 16,742,642</u>



**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

At June 30, 2014, the Board has construction commitments consisting of the following:

	<b>Future Amounts to be Expended</b>	<b>Future Funding to be Provided</b>
Manchester Elementary HVAC	\$ 4,409,250	\$ 4,409,250
Mechanicsville Elementary Roof	1,361,000	1,361,000
Manchester Elementary Roof	1,270,000	1,270,000
School Safety & Security	1,255,313	1,255,313
Open Space Enclosure - Eldersburg Elementary	1,198,249	1,198,249
Taneytown Elementary Roof	674,330	674,330
Carroll Springs Roof	486,458	486,458
Sykesville Middle Windows	330,000	330,000
Energy Efficiency Lighting Projects (41)	201,922	201,922
Technology Improvements - Wireless Infrastructure	200,000	200,000
<b>Total</b>	<b>\$ 11,386,522</b>	<b>\$ 11,386,522</b>

**NOTE 6 – INTERFUND BALANCES**

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

	<b>Due From</b>	<b>Due To</b>
<b>General Fund</b>		
Food Service	\$ 243,590	\$ -
Capital Projects	-	2,322,960
Agency	-	2,537,883
Total general fund	<u>243,590</u>	<u>4,860,843</u>
<b>Food Service Fund</b>		
General	\$ -	\$ 243,590
Capital Projects	1,120	-
Agency	477,537	-
Total food service fund	<u>478,657</u>	<u>243,590</u>
<b>Capital Projects Fund</b>		
General	2,322,960	-
Food Service	-	1,120
Agency	-	86,624
Total capital projects fund	<u>2,322,960</u>	<u>87,744</u>

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 6 – INTERFUND BALANCES (CONTINUED)**

	<b>Due From</b>	<b>Due To</b>
<b>Agency Fund</b>		
General	\$ 2,537,883	\$ -
Food Service	-	477,537
Capital Projects	86,624	-
Total agency fund	2,624,507	477,537
<b>Total interfund balances</b>	<b>\$ 5,669,714</b>	<b>\$ 5,669,714</b>

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

**NOTE 7 – LONG-TERM DEBT**

Long-term debt at June 30, 2014 consisted of amounts due under capital leases and compensated absences payable as further discussed in Note 1.

During the fiscal year ended June 30, 2014, no new capital leases were entered into by the Board. In October of 2004, the Board entered into a ten-year energy management plan to provide air conditioning to three elementary schools. Additionally, the plan upgraded water and lighting fixtures.

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

<b>Year Ending June 30</b>	<b>Energy Management Equipment</b>
2015	\$ 908,043
2016	935,285
2017	963,343
2018	992,243
2019	844,236
Total future payments	4,643,150
Less interest	(453,740)
<b>Present value of future minimum lease payments</b>	<b>\$ 4,189,410</b>

Interest expense related to capital leases was \$173,399 for the year ended June 30, 2014. This amount was allocated to the maintenance of plant and equipment function.

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

Changes in capital lease obligations for the year ended June 30, 2014 were as follows:

Balance, at June 30, 2013	\$	4,897,606
Additions		-
Reductions		<u>(708,196)</u>
Balance at June 30, 2014		4,189,410
Amounts due within one year		<u>759,714</u>
<b>Capital lease obligations non-current</b>	<b>\$</b>	<b><u>3,429,696</u></b>

Changes in compensated absences payable for the year ended June 30, 2014 were as follows:

Balance, at June 30, 2013	\$	16,911,456
Additions		1,203,231
Reductions		<u>(2,739,395)</u>
Balance at June 30, 2014		15,375,292
Amounts due within one year		<u>2,000,000</u>
<b>Compensated absence non-current portion</b>	<b>\$</b>	<b><u>13,375,292</u></b>

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

**NOTE 8 – PENSION PLAN**

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

**Plan Description**

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

**Funding Policy**

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 8 – PENSION PLAN (CONTINUED)**

**Funding Policy (Continued)**

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

The State makes a substantial portion of the Board's annual required contributions to the State System on behalf of the Board. The State's contributions on behalf of the Board for the years ended June 30, 2014, 2013, and 2012 amounted to \$21,398,054; \$19,040,467; and \$25,068,873, respectively. The fiscal 2014 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the General Fund in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances and are also included as revenues and expenses on the Statement of Activities.

The Board made its share of the required contributions during the years ended June 30, 2014, 2013, and 2012 of \$6,965,590; \$5,755,786; and \$2,138,012, respectively.

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

**NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

**Plan Description and Funding Policy**

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

The Board provides medical benefits to retirees pursuant to two medical benefit plans for retired employees based on negotiated agreements with various bargaining groups. For retirees over the age of 65 who retired prior to September 1, 1988, the percentage of the premium paid by the Board was dependent upon the retiree's years of service and ranged from 10% to 100%. For retirees who retired after September 1, 1988, the percentage of the premium paid by the Board is dependent upon the retiree's years of service and ranges from 0% to 100%. These percentages are applied to premiums established annually by the Board for individual, husband/wife, parent/child, and family coverages. Only Carroll County Board of Education years of service are considered. As of June 30, 2014, 965 eligible participants were receiving benefits.

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 19,744,000
Interest on OPEB obligation	1,728,000
Adjustment to annual required contribution	<u>(1,870,000)</u>
Annual OPEB cost	19,602,000
Contributions made	<u>(3,911,473)</u>
Increase in net OPEB obligation	15,690,527
Net OPEB obligation - beginning of year	<u>43,190,699</u>
<b>Net OPEB obligation - end of year</b>	<b><u>\$ 58,881,226</u></b>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2014 and the two preceding fiscal years are as follows:

Fiscal Year End	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 15,541,000	32.03%	\$ 31,956,508
June 30, 2013	16,556,000	32.14%	43,190,699
June 30, 2014	19,602,000	19.95%	58,881,226

**Funded Status and Funding Progress**

As of July 1, 2013, the most recent actuarial valuation date, the Plan was 5.3% funded. The actuarial accrued liability for benefits was \$231,734,000 and the actuarial value of assets was \$12,385,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$219,349,000. The covered payroll (annual payroll of active employees covered by the plan) was \$199,323,185, and the ratio of the UAAL to the covered payroll was 110.00%.

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

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

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

**Actuarial Methods and Assumptions**

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

In the July 1, 2013, actuarial valuation, the projected unit credit method, with linear pro-ratio to assumed benefit commencement method was used. The actuarial assumptions included a 4.00% investment rate of return, which assumes that benefits will be funded on a pay-as-you-go basis and that General Fund investments earn 4.00% over the long-term. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2014 was 26 years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	July 1, 2013
Actuarial Cost Method	Projected unit method
Amortization Method	Level percentage of projected payroll over a 30-year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	4%
Payroll Growth Rate	3%
Healthcare Cost Trend Rates:	
Pre-65 Medical	7.0% initial / 4.4% ultimate (not applicable to Life)
Post-65 Medical	7.0% initial / 4.4% ultimate (not applicable to Life)

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 10 – FUND BALANCE**

Fund balance at June 30, 2014 consists of the following:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Capital Projects Fund</u>
<b>Fund Balances</b>			
<b>Nonspendable for:</b>			
Inventory	\$ 429,672	\$ 269,575	\$ -
Prepaid expenses	368,014	-	-
Total nonspendable	<u>797,686</u>	<u>269,575</u>	<u>-</u>
<b>Restricted for:</b>			
Regular instruction	48,968	-	-
Operation of plant	-	-	-
Maintenance of plant	147,540	-	-
Mid-level administration	7,040	-	-
Cost of operation - food service	-	-	-
Special education	35,241	-	-
Total restricted	<u>238,789</u>	<u>-</u>	<u>-</u>
<b>Committed for:</b>			
Capital outlay	-	-	1,581,072
<b>Assigned to:</b>			
Administration	27,122	-	-
Regular instruction	1,696,480	-	-
Student personnel	65,343	-	-
Student health services	-	-	-
Student transportation services	1,807	-	-
Operation of plant	567,157	-	-
Maintenance of plant	152,406	-	-
Fixed charges	2,900	-	-
Mid-level administration	142,812	-	-
Special education	400,536	-	-
Cost of operation - food service	-	-	-
Capital outlay	24,136	-	-
Total assigned	<u>3,080,699</u>	<u>-</u>	<u>-</u>
<b>Unassigned</b>	<u>11,815,284</u>	<u>(117,137)</u>	<u>-</u>
<b>Total fund balances</b>	<u>\$ 15,932,458</u>	<u>\$ 152,438</u>	<u>\$ 1,581,072</u>

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 11 – ENCUMBRANCES**

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

Encumbrances at June 30, 2014 are for the following uses:

	<b>General Fund</b>
Administration	\$ 27,122
Regular instruction	1,745,448
Student personnel	65,343
Student transportation services	1,807
Operation of plant	567,157
Maintenance of plant	299,946
Fixed charges	2,900
Mid-level administration	149,852
Special education	435,777
Capital outlay	24,136
<b>Total encumbrances</b>	<b>\$ 3,319,488</b>

**NOTE 12 – LITIGATION AND CONTINGENCIES**

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

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

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



**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 12 – LITIGATION AND CONTINGENCIES (CONTINUED)**

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

Year Ending June 30	Minimum Annual Lease Payments
2015	\$ 263,360
2016	91,198
2017	12,315
<b>Total</b>	<b>\$ 366,873</b>

Operating lease expenditures/expenses for the year ended June 30, 2014 were \$613,789.

**NOTE 13 – RISK MANAGEMENT**

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

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

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At June 30, 2014, liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated by an actuary based on the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The estimate of the claims liability also includes amounts for non-incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example, from salvage or subrogation are another component of the claims liability estimate.

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**NOTE 13 – RISK MANAGEMENT (CONTINUED)**

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

	<u>2014</u>	<u>2013</u>
<b>Accrued health claims:</b>		
Unpaid claims at beginning of year	\$ 5,846,252	\$ 5,793,827
Incurred claims (including IBNR)	48,917,568	46,815,972
Claim payments	<u>(50,173,820)</u>	<u>(46,763,547)</u>
<b>Unpaid claims at end of year</b>	<u>\$ 4,590,000</u>	<u>\$ 5,846,252</u>

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**(NON-GAAP BUDGETARY BASIS)**  
**Year Ended June 30, 2014**

	Original Budget	Final Budget	Non-GAAP Actual	Variances Positive (Negative) Final Budget To Actual
<b>REVENUES</b>				
Local sources	\$ 169,688,603	\$ 170,556,900	\$ 170,412,791	\$ (144,109)
State sources	137,525,127	138,135,127	136,502,894	(1,632,233)
Federal sources	13,437,255	13,437,255	10,437,632	(2,999,623)
Other revenues	<u>2,970,089</u>	<u>2,970,089</u>	<u>3,119,823</u>	<u>149,734</u>
Total revenues	<u>323,621,074</u>	<u>325,099,371</u>	<u>320,473,140</u>	<u>(4,626,231)</u>
<b>EXPENDITURES</b>				
Administration	5,295,507	5,305,645	5,071,153	234,492
Instructional salaries	121,656,457	121,741,518	120,735,140	1,006,378
Student personnel services	1,680,840	1,730,840	1,623,292	107,548
Student health services	3,495,157	3,493,907	3,214,202	279,705
Student transportation services	20,554,823	20,556,073	20,280,550	275,523
Operation of plant	26,005,469	25,555,469	24,815,127	740,342
Maintenance of plant	7,083,614	7,283,614	6,828,381	455,233
Fixed charges	71,029,895	71,037,326	70,027,544	1,009,782
Community services	330,000	330,000	244,861	85,139
Capital outlay	910,340	910,340	756,645	153,695
Mid-level administration	23,705,066	23,708,542	23,435,627	272,915
Special education	37,122,655	37,990,952	36,687,119	1,303,833
Instructional textbooks/supplies	8,233,263	8,861,012	7,701,148	1,159,864
Other instructional costs	<u>2,725,660</u>	<u>2,801,805</u>	<u>2,271,248</u>	<u>530,557</u>
Total expenditures	<u>329,828,746</u>	<u>331,307,043</u>	<u>323,692,037</u>	<u>7,615,006</u>
Excess (deficiency) of revenues over expenditures	<u>(6,207,672)</u>	<u>(6,207,672)</u>	<u>(3,218,897)</u>	<u>2,988,775</u>
<b>OTHER FINANCING SOURCES</b>				
Use of prior year fund balance	6,268,297	6,268,297	-	(6,268,297)
Transfers out	<u>(60,625)</u>	<u>(60,625)</u>	<u>(60,625)</u>	<u>-</u>
Total other financing sources	<u>6,207,672</u>	<u>6,207,672</u>	<u>(60,625)</u>	<u>(6,268,297)</u>
Excess of revenues and other financing sources over expenditures *	<u>\$ -</u>	<u>\$ -</u>	<u>(3,279,522)</u>	<u>\$ (3,279,522)</u>
<b>FUND BALANCE AT JUNE 30, 2013</b>			<u>15,575,309</u>	
<b>FUND BALANCE AT JUNE 30, 2014</b>			<u>\$ 12,295,787</u>	

\* The net change in fund balance includes \$6,268,297 budgeted as an appropriation (i.e., decrease) of fund balance.

**BOARD OF EDUCATION OF CARROLL COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2014**

**NOTE 1 – BUDGETARY BASIS OF ACCOUNTING**

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

**NOTE 2 – BUDGETARY TO GAAP RECONCILIATION**

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

**BUDGETARY GENERAL FUND**

Revenues (non-GAAP budgetary basis)	\$ 320,473,140
Decrease in fiscal year revenues generated by fiscal year changes in encumbrances of expenditure driven grants	448,112
State pension payments	<u>21,398,054</u>
<b>Revenues and other financing sources (GAAP basis)</b>	<b><u>\$ 342,319,306</u></b>
Expenditures (non-GAAP budgetary basis)	\$ 323,692,037
Encumbrance adjustment, net	921,956
State pension payments	<u>21,398,054</u>
<b>Total expenditures (GAAP basis)</b>	<b><u>\$ 346,012,047</u></b>

**BOARD OF EDUCATION OF CARROLL COUNTY  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR OTHER POSTEMPLOYMENT BENEFIT PLAN  
June 30, 2014**

**Schedule of Funding Progress**

<b>Valuation Date</b>	<b>Value of Assets</b>	<b>Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a % of Covered Payroll</b>
July 1, 2008	\$ -	\$ 75,282,000	\$ 75,282,000	0.0%	\$ 205,042,209	36.7%
July 1, 2009	1,500,000	116,797,000	115,297,000	1.3%	204,209,308	56.5%
July 1, 2010	3,722,000	110,803,000	107,081,000	3.4%	200,942,793	53.3%
July 1, 2011	7,369,200	181,428,000	174,058,800	4.1%	187,912,812	92.6%
July 1, 2012	9,277,000	192,349,000	183,072,000	4.8%	198,512,177	92.2%
July 1, 2013	12,385,000	231,734,000	219,349,000	5.3%	199,323,185	110.0%

**Schedule of Employer Contributions**

<b>Year Ended June 30,</b>	<b>Annual Required Contributions</b>	<b>Percentage Contributed</b>	<b>Net OPEB Obligation</b>
2009	\$ 7,558,000	46.27%	\$ 10,758,137
2010	10,211,000	41.65%	16,785,610
2011	9,725,000	53.53%	21,373,441
2012	15,475,000	32.03%	31,956,508
2013	16,499,000	32.14%	43,190,699
2014	19,744,000	19.95%	58,881,226