

THE BOARD OF EDUCATION OF
WICOMICO COUNTY

FINANCIAL REPORT

JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

The Board of Education of Wicomico County
Salisbury, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of The Board of Education of Wicomico County, a component unit of Wicomico County, Maryland, as of and for the year ended June 30, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Board of Education of Wicomico County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of The Board of Education of Wicomico County as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008 on our consideration of The Board of Education of Wicomico County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and required supplementary information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Board of Education of Wicomico County's basic financial statements. The additional supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Trice Geary & Myers LLC

Salisbury, Maryland
September 29, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

The Board of Education of Wicomico County
Salisbury, Maryland

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of The Board of Education of Wicomico County, as of and for the year ended June 30, 2008, which collectively comprise The Board of Education of Wicomico County's basic financial statements and have issued our report thereon dated September 29, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Board of Education of Wicomico County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Board of Education of Wicomico County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Board of Education of Wicomico County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects The Board of Education of Wicomico County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of The Board of Education of Wicomico County's financial statements that is more than inconsequential will not be prevented or detected by The Board of Education of Wicomico County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by The Board of Education of Wicomico County's internal control.

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Board of Education of Wicomico County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of The Board of Education of Wicomico County in a separate letter dated September 29, 2008.

This report is intended solely for the information and use of the board of directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Salisbury, Maryland
September 29, 2008

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management' s Discussion and Analysis Year Ended June 30, 2008

This section of the Board of Education of Wicomico County's (the "Board" or the "District") annual financial report presents our discussion and analysis of the district' s financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the District' s financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year (FY) ended June 30, 2008 include the following:

- Net assets total \$156,715,180, an increase of \$8.8 million, 5.9% increase over the prior year. This increase is attributable to the \$488K increase in our Rate Stabilization Reserve (RSR) for our Healthcare program, the increase in assets restricted for Capital Projects of \$1.6 million and an increase in capital assets net of capital leases and accumulated depreciation of \$7.3 million
- General Fund fund balance equals \$9,902,589, a decrease of \$1.6 million over the prior year. This decrease is largely attributable to: 1) decrease of \$857K in our reserve for encumbrances; 2) \$488K increase in our RSR; 3) \$1.5 million of fund balance appropriated to Operations in FY 2008, of which only \$1.2 was actually used.
- The Unreserved, Designated portion of the General fund fund balance consist of - \$500K that was Designated by the Board last year to recognize the pending Medical Assistance Audit finding {see Factors Bearing on the Districts Future}; and, \$300K Designated (appropriated) to FY 2009 General Fund Operating Budget.
- The undesignated portion of the General Fund fund balance equals \$300,000. This is the amount agreed upon by the County Executive and County Council as the base level for the Board's end of year carryover fund balance to the next budget cycle per the School Construction Savings Plan.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts - Independent Auditor' s Report, required supplementary information which includes the management' s discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District' s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District' s operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-and long-term* financial information about the activities the district operates like *businesses*.
- *Fiduciary funds* statements provide information about the financial relationships in which the District acts as a *trustee/agent* for the benefit of others to whom the resources belong.

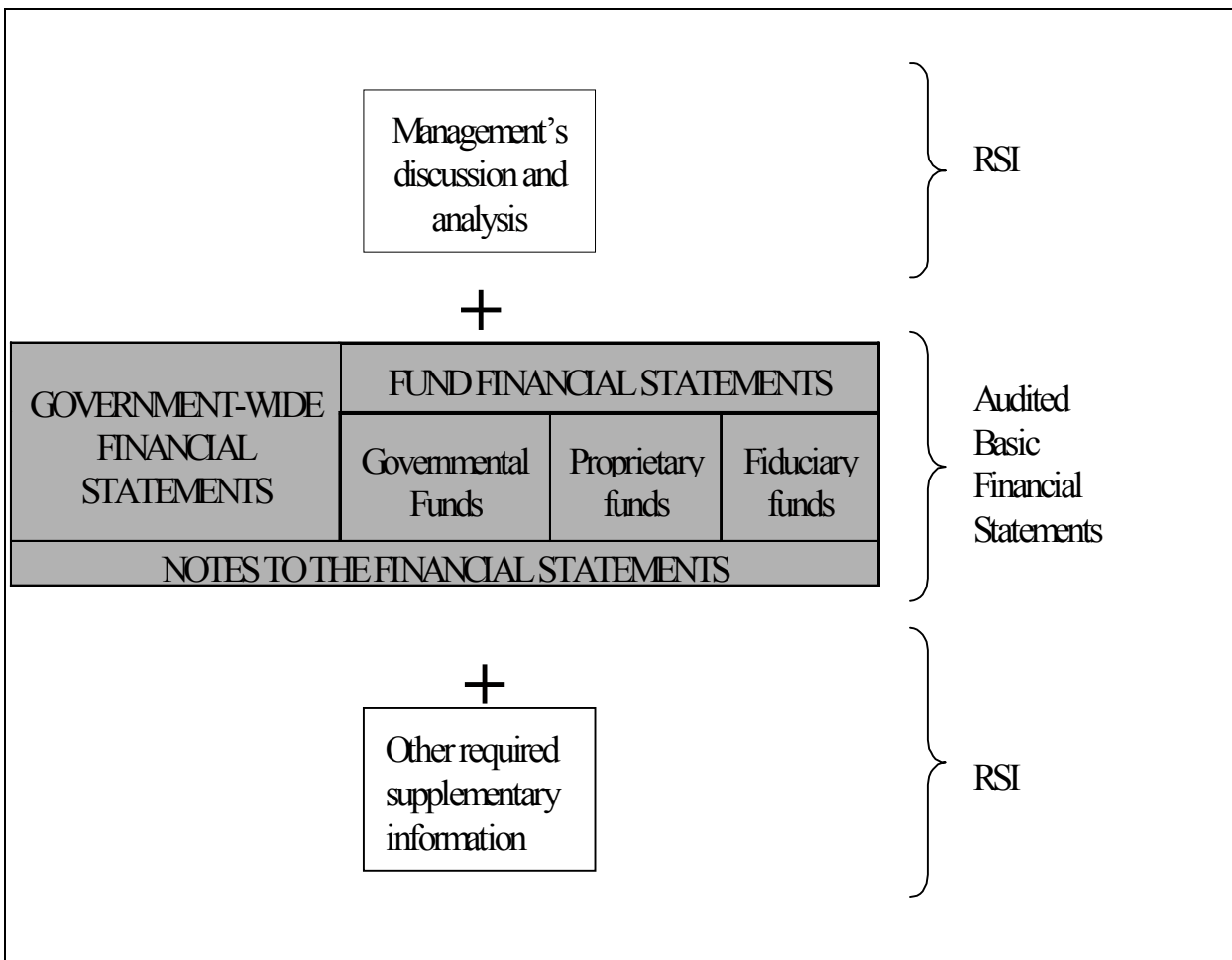
THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Figure 1 discloses how the various parts of this annual report are arranged and related to one another. Figure 2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure 1 -Organization of WCBOE Reports



THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management' s Discussion and Analysis
Year Ended June 30, 2008

Figure 2

Major Features of the District-Wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance, food service, and community education	Activities the district operates similar to private businesses: Food Service Operation	Instances in which the district administers resources on behalf of someone else, such as the retirement plans and Student Activities Fund
Required financial statements	<ul style="list-style-type: none"> * Statements of net assets * Statement of activities 	<ul style="list-style-type: none"> * Balance sheet * Statement of revenue, expenditures and changes in fund balances 	<ul style="list-style-type: none"> * Statement of net assets * Statement of revenue, expenses, and changes in fund net assets * Statement of cash flows 	<ul style="list-style-type: none"> * Statements of Fiduciary net assets * Statement of changes in fiduciary net assets
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon there after; no capital assets or long-term liabilities included.	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.	All additions and dedications during the year, regardless of when cash is received or paid.

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis Year Ended June 30, 2008

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets, which is the difference between the District's assets and liabilities, is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the condition of school buildings and other facilities.

In the district-wide financial statements the District's activities are shown in one category:

- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Local county and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's *funds* - focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law.
- The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (e.g., federal grants).

The District has three kinds of funds.

- *Governmental funds* - Most of the district's basic services are included in governmental funds, which generally focus on (1) *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end 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 District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we have provided additional information to explain the relationship (or differences) between them.
- *Proprietary funds* - The Food Service operation is the only fund accounted for as a proprietary fund. Proprietary funds are reported the same way as district-wide statements.
- *Fiduciary funds* - The District is the trustee, or agent, for assets that belong to others, such as the Employees Retirement Plan and the 401(a) Matching Plan. The Student Activities Fund is also accounted for as a fiduciary fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District's *combined* net assets were \$156,715,180 on June 30, 2008. This is an increase of 5.9% percent from the prior year. (See Table 1.)

Table 1

THE BOARD OF EDUCATION OF WICOMICO COUNTY
STATEMENT OF NET ASSETS
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Board of Ed Total		Total Percentage Change
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008-</u> <u>2007</u>
Current and other assets	\$29.2	\$27.9	\$0.7	\$0.3	\$29.9	\$28.2	6.1%
Capital Assets	<u>\$147.4</u>	<u>\$139.0</u>	<u>\$0.3</u>	<u>\$0.3</u>	<u>\$147.7</u>	<u>\$139.3</u>	<u>6.0%</u>
TOTAL ASSETS	<u>\$176.6</u>	<u>\$166.9</u>	<u>\$1.0</u>	<u>\$0.6</u>	<u>\$177.6</u>	<u>\$167.5</u>	<u>6.0%</u>
Current Liabilities	\$17.2	\$15.7	\$0.1	\$0.2	\$17.3	\$15.9	9.3%
Long-Term Liabilities	<u>\$3.6</u>	<u>\$3.6</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$3.6</u>	<u>\$3.6</u>	<u>-1.7%</u>
TOTAL LIABILITIES	<u>\$20.8</u>	<u>\$19.3</u>	<u>\$0.1</u>	<u>\$0.2</u>	<u>\$20.9</u>	<u>\$19.5</u>	<u>7.2%</u>
Net Assets							
Invested in Capital Assets, Net of Related Debt	\$144.0	\$136.7	\$0.3	\$0.3	\$144.3	\$137.0	5.3%
Restricted	\$9.0	\$7.0	\$0.6	\$0.1	\$9.6	\$7.1	35.0%
Unrestricted	<u>\$2.8</u>	<u>\$3.9</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$2.8</u>	<u>\$3.9</u>	<u>-27.6%</u>
TOTAL NET ASSETS	<u>\$155.8</u>	<u>\$147.6</u>	<u>\$0.9</u>	<u>\$0.4</u>	<u>\$156.7</u>	<u>\$148.0</u>	<u>5.9%</u>

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis Year Ended June 30, 2008

Changes in net assets. The District's total revenues were \$193.1 million for the year ended June 30, 2008 (See Table 2). The county appropriation and state formula aid accounted for approximately 75.7 percent of total revenue for the year. Another 23.9 percent came from program revenues and the remainder from investment earnings.

The total cost of all programs and services was \$184.4 million. The District's expenses are predominantly related to providing direct educational services to students (73.8 percent). The purely administrative activities of the District accounted for approximately 3.2 percent of total expenses. Total revenue exceeded expenses, thereby increasing net assets \$8.7 million over last year.

Table 2

THE BOARD OF EDUCATION OF WICOMICO COUNTY CHANGES IN NET ASSETS (in millions of dollars)

	Governmental Activities		Business-Type Activities		Board of Ed Total		Total Percentage Change
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2007-</u> <u>2006</u>
	Program revenues						
Charges for services	\$1.1	\$1.5	\$1.9	\$2.0	\$3.1	\$3.5	-12.6%
Federal and state grants	\$28.5	\$28.6	\$3.8	\$3.6	\$32.4	\$32.2	0.5%
Capital Contributions	\$10.6	\$17.1	\$0.0	\$0.0	\$10.6	\$17.1	-37.7%
General revenues							
County Appropriation	\$49.4	\$48.3	\$0.0	\$0.0	\$49.4	\$48.3	2.3%
State formula aid	\$96.6	\$80.4	\$0.0	\$0.0	\$96.6	\$80.4	20.2%
Other	<u>\$0.2</u>	<u>\$1.5</u>	<u>\$0.8</u>	<u>\$0.1</u>	<u>\$0.9</u>	<u>\$1.6</u>	<u>-41.8%</u>
TOTAL REVENUE	<u>\$186.6</u>	<u>\$177.4</u>	<u>\$6.5</u>	<u>\$5.7</u>	<u>\$193.1</u>	<u>\$183.1</u>	<u>5.4%</u>
Expenses:							
Instruction & Special Ed	\$136.1	\$125.3	\$0.0	\$0.0	\$136.1	\$125.3	8.6%
Administration	\$6.0	\$5.2	\$0.0	\$0.0	\$6.0	\$5.2	15.4%
Support Services	<u>\$36.2</u>	<u>\$29.0</u>	<u>\$6.1</u>	<u>\$5.9</u>	<u>\$42.3</u>	<u>\$34.9</u>	<u>21.1%</u>
TOTAL EXPENSES	<u>\$178.3</u>	<u>\$159.5</u>	<u>\$6.1</u>	<u>\$5.9</u>	<u>\$184.4</u>	<u>\$165.4</u>	<u>11.5%</u>
Incr. (decr.) in net assets	<u>\$8.3</u>	<u>\$18.0</u>	<u>\$0.4</u>	<u>-\$0.2</u>	<u>\$8.7</u>	<u>\$17.7</u>	<u>-51.0%</u>

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis Year Ended June 30, 2008

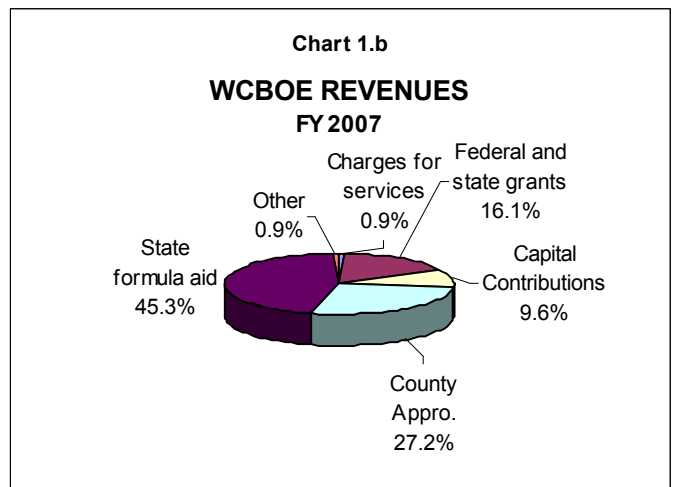
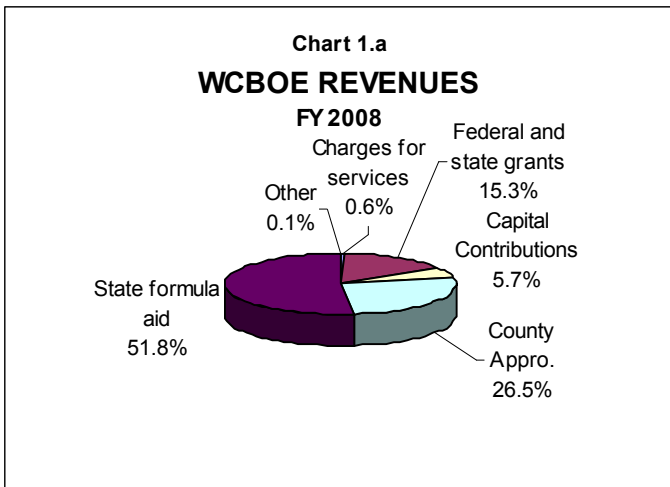
Governmental Activities

- The increase in net assets for governmental activities was \$8,280,496 in FY 2008. This increase was attributable to significant school construction activity resulting in the Investment in Capital Assets, net of capital leases increasing \$8.4 million. The majority of this increase was due to the Prince Street Elementary School renovation project completion and commencement of the James M Bennett renovation project.
- Revenues increased by \$9.1 million in FY 2008. This was attributable to the significant increase in State formula aid, \$16.2 million, or a 20.1% increase. The table below provides the details of this revenue

See Chart 1.a and 1.b below for a breakdown of the District's revenues as a percentage of total revenue for FY 2008 and 2007. As you can clearly see, State formula aid has risen significantly as a percent of the total sources of aid for education. This is attributable to the Bridge to Excellence in Public Schools Act funding (Thornton funding).

<u>REVENUE:</u>	<u>2008</u>
Charges for services	1,143,635
Federal and state grants	28,516,953
Capital Contributions	10,646,255
County Appropriation	49,443,053
State formula aid	96,633,962
Other	<u>183,997</u>
	<u>\$186,567,855</u>

<u>REVENUE:</u>	<u>2007</u>
Charges for services	1,513,882
Federal and state grants	28,560,465
Capital Contributions	17,082,630
County Appropriation	48,329,815
State formula aid	80,408,857
Other	<u>1,540,241</u>
	<u>\$177,435,890</u>



THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

Governmental Activities (continued)

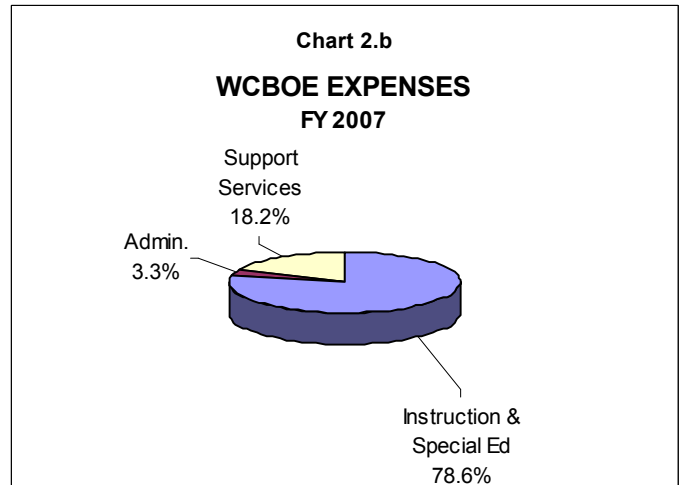
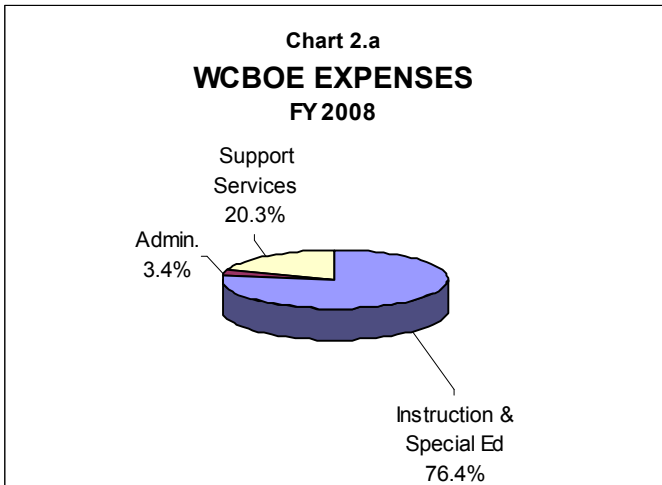
Charts 2.a and 2.b disclose the breakdown of expenses for FY 2008 and 2007 for Governmental Activities. The Charts and expense disclosures reflect the allocation of the category Fixed Charges (insurance and employee benefits) and the State of Maryland's contribution for retirement to all of the other state mandated categories. This allocation is similar to how State Governments report local school board expenditures to the Federal Government.

<u>EXPENSES:*</u>	<u>2008</u>
Instruction & Special Ed	\$136,134,450
Administration	\$5,984,871
Support Services	<u>\$36,168,038</u>
	<u>\$178,287,359</u>

* Fixed Charges Allocated	\$27,860,682
* State of Maryland Retirement Allocated	<u>\$9,495,371</u>
	<u>\$37,356,053</u>

<u>EXPENSES:*</u>	<u>2007</u>
Instruction & Special Ed	\$125,320,429
Administration	\$5,184,504
Support Services	<u>\$28,979,735</u>
	<u>\$159,484,668</u>

* Fixed Charges Allocated	\$24,877,984
* State of Maryland Retirement Allocated	<u>\$7,477,982</u>
	<u>\$32,355,966</u>



Business-type Activities

The District's only business-type activity, the food service operation, had an increase in net assets - FY 2008 (\$405,057) {Refer to Table 1 and 2 for details}. This year's increase was attributable in large part to the Board of Education's increase in the General Fund's support of the food service operation. Commencing with FY 2008, the Board's General Operating Budget will essentially cover the employer's share of Health Care costs for eligible Food Service employees. For FY 2008 the interfund transfer was \$750,000, of which \$638,000 represents the estimated cost of food service employee's health care.

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$13.1 million, a decrease of only \$45K over last year's ending fund balance. Revenues for the District's governmental funds were \$177.5 million, an increase of \$8.7 million. Total expenditures were \$189.9 million for the year, an increase of \$14.5 million.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12, including pupil transportation activities and the maintenance and operation of all school facilities. See Table 3 for a summary of General Fund revenues and expenditures. Revenues increased by \$16 million, in large part to State aid for education. This increase represented the fifth and final year of the five year phased in Bridge to Excellence in Public Schools Act (Thornton Legislation) originally enacted in FY 2003. It is important to note the County Council funded \$996K in excess of maintenance of effort for FY 2008 and enabled the Board to receive the additional state aid. The large influx of state aid was appropriated in accordance with our Comprehensive Master Plan (CMP). Consequently, General Fund expenditures increased \$20.8 million, or 14.2% over FY2007. Certain categories increased at a rate higher than the overall increase as noted below:

Table 3

GENERAL FUND REVENUES

	FY 2008	FY 2007	\$ Incr (Decr)	% Incr. (Decr.)
REVENUES				
Wicomico County Appropriations	\$ 49,443,053	\$ 48,329,815	\$ 1,113,238	2.3%
Other Local Revenue	1,846,820	2,418,267	(571,447)	-23.6%
State of Maryland	103,008,574	89,273,858	13,734,716	15.4%
State of Maryland Share of Retirement	9,495,371	7,477,982	2,017,389	27.0%
Other	502,136	698,857	(196,721)	-28.1%
TOTAL REVENUES	\$164,295,954	\$148,198,779	\$16,097,175	10.9%

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

Table 3 (continued)

GENERAL FUND EXPENDITURES

	FY 2008	FY 2007	\$ Incr (Decr)	% Incr. (Decr.)
EXPENDITURES				
Administration	\$ 3,736,966	\$ 3,101,153	\$ 635,813	20.5%
School Management and Support	10,963,636	10,356,796	606,840	5.9%
Instructional Salaries	62,510,063	58,562,768	3,947,295	6.7%
Textbooks and Instructional Supplies	3,881,968	3,686,330	195,638	5.3%
Other Instruction Costs	1,737,371	1,031,541	705,830	68.4%
Special Education	13,237,528	11,837,201	1,400,327	11.8%
Student Personnel Services	1,871,096	1,560,471	310,625	19.9%
Health Services	1,217,043	1,154,783	62,260	5.4%
Student Transportation	7,606,565	6,541,347	1,065,218	16.3%
Operation of Plant and Equipment	10,297,037	9,312,710	984,327	10.6%
Maintenance of Plant	2,509,869	2,042,952	466,917	22.9%
Fixed Charges	26,876,983	22,858,281	4,018,702	17.6%
Community Services	237,771	105,374	132,397	125.6%
Capital Outlay	10,384,157	6,175,931	4,208,226	68.1%
State of Maryland Share of Retirement	9,495,371	7,477,982	2,017,389	27.0%
TOTAL EXPENDITURES	<u>166,563,424</u>	<u>145,805,620</u>	<u>20,757,804</u>	<u>14.2%</u>
OTHER FINANCING SOURCES (USES)				
Increase in Rate Stabilization Reserve	488,617	1,067,121	(578,504)	-54.2%
Capital Lease Proceeds	2,770,378	1,934,359	836,019	43.2%
Interfund Transfers - Print Shop	(349,851)	(324,885)	(24,966)	7.7%
Interfund Transfers - School Constr Fund	(1,507,455)	(1,087,204)	(420,251)	100.0%
Interfund Transfers - Other	(750,000)	(63,000)	(687,000)	1090.5%
	<u>651,689</u>	<u>1,526,391</u>	<u>(874,702)</u>	<u>-57.3%</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	<u>\$ (1,615,781)</u>	<u>\$ 3,919,550</u>	<u>\$ (5,535,331)</u>	<u>-141.2%</u>

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

Special Revenue Fund (Restricted Grant Funds)

These Funds are used to account for grants from Federal, State and Local sources. Grants provide a major source of revenue for specific educational programs not funded by the General Fund. Programs include initiatives for Special Education students and disadvantaged students. Table 4 below reflects a small decrease in grant funds over the prior year. While Federal funding for specific projects saw a small decrease, state aid for restricted projects realized a significant % increase in comparison to the prior year.

Table 4

<u>RESTRICTED GRANT REVENUE</u>				
	Fiscal Year <u>FY 2008</u>	Fiscal Year <u>FY 2007</u>	Increase (Decrease)	% Incr. (Decr.)
REVENUES				
Federal Through State	\$ 10,797,952	\$ 11,029,854	\$ (231,902)	-2.10%
State of Maryland	1,181,970	1,058,877	123,093	11.62%
Other	<u>542,755</u>	<u>460,026</u>	82,729	17.98%
TOTAL REVENUES	<u>\$ 12,522,677</u>	<u>\$ 12,548,757</u>	<u>\$ (26,080)</u>	<u>-0.21%</u>

Capital Projects Fund

The Board has no legal authority to borrow funds. All funds for school construction come from either the transfer of bond proceeds from our County selling Capital Bonds or from State Aid through the Maryland Public School Construction Program (PSCP). During FY 2008, the Board received county bond proceeds of \$9.8 million and PSCP aid of \$259K. These funds were used predominantly for the James M. Bennett High School renovation project and to finalize the Prince Street Elementary School renovation project. The Capital Projects (School Construction) Fund revenue exceeded expenditures by \$1.6 million. This was totally attributable to the Board's School Construction savings plan transfer from the General Fund Operating budget at year end in the amount of \$1.5 million.

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

Fiduciary Fund

The following funds are accounted for as Fiduciary Funds:

- (1) Pension Trust Funds:
 - Retirement Plan For Employees of the Board of Education of Wicomico County covers all Board employees not eligible for the State Teachers Retirement or Pension Systems. Total assets as of June 30, 2008 were approximately \$15.6 million (see footnote 8 for more detail information).
 - 401(a) Matching Plan is a self-directed defined contribution plan. All employees, 18 years and older, are eligible and Board contributions are based upon employees' contributions to the Board's 403(b) Tax Sheltered Annuity Program. Total assets as of June 30, 2008 were \$1.9 million (see footnote 8 for more detail information).
 - Retiree Health Insurance Plan Trust (OPEB) was established by the Board in June 2006 in order to fund the health care costs of retirees. Total assets as of June 30, 2008 were approximately \$2.2 million (see footnote 6 for more detail information).
- (2) Private Purpose Trust Funds: Funds received for specific purposes such as student scholarships and awards total \$191,178 as of June 30, 2008.
- (3) Agency Funds: During FY 2008 the Board's 24 schools collected revenues and incurred expenditures for various student activities (see Table 5). The Board contracts with an independent Certified Public Accountant to perform an audit of these agency funds on an annual basis. Please refer to the separately issued audited financial statements for the School Activities Fund for specific details.

Table 5

SCHOOL ACTIVITIES FUND

	Fiscal Year FY 2008	Fiscal Year FY 2007	Increase (Decrease)	%
				Incr. (Decr.)
Revenues	\$ 2,787,561	\$ 2,747,950	\$ 39,611	1.44%
Expenditures	2,686,420	2,763,017	(76,597)	-2.77%
Beginning Fund Balance	408,174	423,241	(15,067)	-3.56%
Ending Fund Balance	<u>\$ 509,315</u>	<u>\$ 408,174</u>	<u>\$ 101,141</u>	<u>24.78%</u>

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management' s Discussion and Analysis
Year Ended June 30, 2008

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Board revised the annual operating budget several times. These budget amendments, which received County Council approval for all categorical changes and Board of Education approval for all changes within category, were made for the most part to avoid budget overruns. However, during the year the following major budget amendments were approved:

- Appropriation of Unanticipated Revenue
 - \$26,500 increase in Other – Local revenue: resulted from the award of an “exclusive pouring rights” contract with a local vending company. Appropriation to the category Capital Outlay to be used to upgrade the facilities at the County Stadium.

- Budget Realignment
 - \$638,000 transfer to the category Food Service to provide the allocation for the interfund transfer to the food service operation. This allocation approximates the Board’s share of the food service employees health care costs {\$500,000 from Fixed Charges – Retirement Plan Enhancement; \$138,000 from Instructional Salaries}
 - \$312,000 transfer from Instructional Salaries and Wages, available due to Teacher turnover, to the Category of Student Transportation to help cover cost overruns as a result of escalating fuel costs
 - \$140,000 from Other Instructional Costs to Student Transportation to help cover transportations costs associated with the new CHOICES program and to help cover escalating fuel costs
 - \$60,000 from Other Instructional Costs to Capital Outlay to provide funding for security cameras and other safety and security features as part of the School Climate initiative in our schools
 - \$50,000 from Operation of Plant, available from the utility budget, to the category Maintenance of Plant to help cover the escalating cost of fuel for the Board’s vehicles
 - \$47,500 from Instructional Salaries and Wages to Student Health Services to provide funding to contract for nursing services to ride buses with students requiring constant medical attention

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of FY 2008, the District has invested almost \$209.6 million in a broad range of capital assets, including land, school buildings, athletic facilities, furniture and equipment. (More detailed information about capital assets can be found in Note 5. to the financial statements.) Total depreciation expense for the year was \$6.8 million.

Construction - Next Five Years

Annually, the Board of Education prepares and submits to the State Inter-Agency Committee for School Construction and our local county government a 5-Year Capital Improvement Program. As a result of approval given by the state and county governments, school construction revenue in FY 2009 is estimated to be \$13 million in state aid and \$17.3 million in county aid from the sale of general obligation bonds. The funds from the state represent the second major installment for the James M. Bennett renovation project, while the county funding represents 13.2 million for the James M. Bennett renovation project, 3.6 million to commence the Bennett Middle School relocation project and \$480,000 for the installation of HVAC at Northwestern Elementary School.

Over the next five (5) years, FY 2010 – FY 2014, the Board's Capital Improvement Plan (CIP) requests State and County Bond funds in excess of \$168 million to complete or commence renovation of the following major projects in the order listed below:

- James M. Bennett High School (construction of new facility on existing site)
- Bennett Middle School (relocation and then construction of new facility on new site)
- Parkside mechanical plant renovation
- West Salisbury Elementary renovation
- Mardela Middle/High addition
- Pittsville Elementary/Middle mechanical plant renovations
- Glen Ave. Elementary renovation
- Add HVAC systems to schools without air conditioning (project to be completed by FY 2014)

Long-term Liabilities

At year-end, the District had \$3.6 million for amounts due or payable after one year. This amount consisted of the following:

- \$1,701,969 of accrued compensated absences which is an obligation resulting primarily from accrued annual leave which is due and payable to employees upon termination.
- \$1,876,968 payable on capital leases (see footnote 10 for more details).

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

FACTORS BEARING ON THE DISTRICTS FUTURE

- (1) Due to projected state budget shortfalls for FY 2009, the Governor called a Special Session of the Maryland Legislature. The October 2007 Special Session of the Maryland Legislature resulted in the passage of the Budget Reconciliation Act (BRA) of 2007. An overview of the Act follows:
 - Identified an estimated \$337 million in state general fund savings for FY 2009
 - Required the Governor to reduce projected FY 2009 general fund spending by a total of \$550 million
 - Froze the per pupil funding level used in the major Bridge to Excellence formulas at the fiscal 2008 level for FY 2009 and 2010
 - Established supplemental grants to ensure each local school system received at least a 1% annual increase in education aid during FY 2009 and FY 2010
 - Instituted a phase-in of the geographic cost of education index (GCEI) – a component part of the Bridge to Excellence in Public Schools Act, passed in FY 2003, but never fundedThe Department of Legislative Services estimated that the impact of the BRA on WCBOE would result in much smaller increase in state aid for education. The estimated difference between direct state aid under the Bridge to Excellence (Thornton) versus aid provided by BRA is as follows:
FY 2009 (\$4.6 million) and FY 2010 (\$7.5 million)
- (2) The General Assembly passed the Education Fiscal Accountability and Oversight Act of 2004 (S.B.894). One of the major components of this act required each local school system to undergo a legislative audit. To date, we have met all reporting requirements under this law. A legislative audit has been performed and WCBOE is awaiting issue of the final report. Preliminary meetings with the auditors yielded a few recommendations, but no major findings. The Board will have an opportunity to respond to each of the auditors findings and the response will become a part of the final report.
- (3) Effective July 1, 2007, the WCBOE established an Early Notification Plan (ENP). The primary purpose for the plan is to retain teachers and staff through their normal retirement date by providing a longevity step equal to 10% of the salary per the appropriate negotiated salary scale for up to three (3) years. For FY 2009 approximately 30 additional staff signed up for the plan in addition to the 130 staff members that signed up during FY 2008. The fiscal impact is projected to be within budget.

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

FACTORS BEARING ON THE DISTRICTS FUTURE (continued)

- (4) Effective June 5, 2007, the Wicomico County Council enacted Resolution No. 88-2007. This resolution approved the establishment of the Board's School Construction Savings Plan. The plan established a base level undesignated fund balance of \$300,000. Any amount exceeding this base level, after completion of the Board's annual audit will be transferred to the Board's School Construction Savings Plan. For FY 2008, the amount transferred to the plan equals \$1.5 million compared to a transfer of \$1.1 million in FY 2007. This plan will encourage better utilization of year-end funds and provide an incentive for all departments to save funds to address the Board's on-going back-log of deferred capital projects which per the FY2010 CIP plan totaled \$13.5 million.
- (5) Negative state revenue estimates coupled with a sagging economy will combine for a very tight budget year for FY 2010. The discussion of the state passing the cost of teacher's retirement back to the local school systems has once again hit the newspapers. For WCBOE that could mean a pass-back of in excess of \$10 million for FY 2010. The Superintendent and staff will commence meeting to review strategies to prepare for this possible pass-back, in what ever form it may take. Recommendations will be reviewed with the Board of Education.
- (6) On May 5, 2006 the Board of Education entered into a contract with Sungard Bi-tech for software license agreements and consulting services for a new integrated financial accounting, reporting, human resource and payroll system. This project, which will extend over the next several years, will have a significant impact not only on our staff, but on the Board's ability to accurately account and report on its daily transactions. The project was divided into phases:
1. Phase I - CORE financial modules {complete and operational}
 2. Phase II – Human Resources and Payroll modules - January 1, 2009 go live date
 3. Phase III - Work Order Management, Contract Management, Bid/Quote On-line - go live date has yet to be determined
- The software, which is referred to as IFAS, is a true comprehensive integrated management system written just for public entities. It is used nation-wide by school systems and local governments. IFAS combines the latest software technology developments with the most up-to-date hardware to meet the current and future accounting, reporting, payroll and human resource system needs of the Board.
- (7) WCBOE sponsors a multiple-employer post-retirement medical insurance plan. On June 1, 2007 the Board approved the establishment of an "other post employment benefit" (OPEB) trust and changed its method of accounting for post-retirement benefits to comply with Governmental Accounting Standards Board (GASB) statement #45. The Board of Education recognized the significant impact of GASB #45 on its future operations and upon staff's recommendations became an early implementer of GASB #45. The Board developed a plan which included the hiring of an actuary to calculate the Board's obligation under GASB #45. With that information in hand, the Board then determined a funding plan which included forward funding \$210,000 toward the net OPEB obligation in FY 2007. As part of the Board's FY 2008 budget an additional \$2.0 million was appropriated to continue its funding plan. Please see footnote 6 for additional information.

THE BOARD OF EDUCATION OF WICOMICO COUNTY

Management's Discussion and Analysis
Year Ended June 30, 2008

FACTORS BEARING ON THE DISTRICTS FUTURE (continued)

- (8) WCBOE is a party in a matter pending before an Administrative Law Judge involving the Department of Health and Mental Hygiene (DHMH) and the Maryland State Department of Education (MSDE). The matter involves an audit performed by the federal Office of the Inspector General (OIG) for the period of July 1, 1999 to June 30, 2000 of the school health related billings claimed by Maryland's Medicaid Program on behalf of local school systems. In a report of findings issued on March 31, 2003, the OIG recommended that Maryland refund approximately \$20 million to the Center for Medicare & Medicaid Services (CMS). After an initial appeal made by DHMH and MSDE, the original refund requested by OIG was reduced to \$16.4 million. Of the revised amount requested for refund, MSDE notified WCBOE on April 3, 2008 that our share of the refund was \$719,946. On April 15, 2008, WCBOE filed an appeal with MSDE concerning their request for refund. This appeal was based upon numerous facts as outlined by our attorney. To date, WCBOE has been involved in a pre-hearing conference and has been notified of a hearing on Motion for Summary Judgment for February 12, 2009. No such motion has yet been filed by either party. WCBOE has also been notified of a trial date of May 7, 2009 being set by the Administrative Law Judge pending no action in the February 12, 2009 hearing. WCBOE has designated or deferred certain amounts in anticipation of the potential of our failure to prevail in the appeal before the Administrative Law Judge - \$500,000 designated of General Fund unreserved fund balance; approximately \$250,000 deferred revenue in the Medical Assistance restricted grants account.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance office, Wicomico County Board of Education, 101 Long Ave., Salisbury, MD 21802-1538

FINANCIAL STATEMENTS

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF NET ASSETS
June 30, 2008

	Governmental <u>Activities</u>	Business- Type <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,720,757	\$ 1,335	\$ 2,722,092
Investments	16,756,699	-	16,756,699
Accounts receivable:			
School districts and other	681,330	-	681,330
Accrued interest on investments	57,626	-	57,626
Due from other governmental agencies	3,113,819	183,042	3,296,861
Internal balances	(358,510)	358,510	-
Inventories	-	112,506	112,506
Restricted deposits	5,854,309	-	5,854,309
Prepaid expenses	410,433	-	410,433
Capital assets:			
Construction in progress	3,356,763	-	3,356,763
Land and buildings	182,469,097	-	182,469,097
Furniture, fixtures, and equipment	21,954,870	1,850,460	23,805,330
Less: accumulated depreciation	(60,371,158)	(1,554,780)	(61,925,938)
Total capital assets, net of accumulated depreciation	<u>147,409,572</u>	<u>295,680</u>	<u>147,705,252</u>
TOTAL ASSETS	<u>176,646,035</u>	<u>951,073</u>	<u>177,597,108</u>
LIABILITIES			
Accounts payable:			
Retainage	1,011,813	-	1,011,813
Vendors	1,817,460	13,289	1,830,749
Payroll deductions and withholdings	9,102,311	-	9,102,311
Due to other funds	648,129	-	648,129
Due to other governmental agencies	206,208	57,265	263,473
Accrued salaries	1,646,651	-	1,646,651
Deferred revenue	1,086,056	18,686	1,104,742
Short term portion of long term liabilities:			
Accrued compensated absences	208,491	-	208,491
Capital lease payable	1,486,632	-	1,486,632
Long term liabilities:			
Accrued compensated absences	1,701,969	-	1,701,969
Capital lease payable	1,876,968	-	1,876,968
TOTAL LIABILITIES	<u>20,792,688</u>	<u>89,240</u>	<u>20,881,928</u>
NET ASSETS			
Invested in capital assets, net of related debt	144,045,972	295,680	144,341,652
Restricted for:			
Food service activities	-	566,153	566,153
Rate stabilization reserve	5,854,309	-	5,854,309
Capital projects	3,153,550	-	3,153,550
Unrestricted	2,799,516	-	2,799,516
TOTAL NET ASSETS	<u>\$ 155,853,347</u>	<u>\$ 861,833</u>	<u>\$ 156,715,180</u>

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

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities				
Current:				
Administration	\$ 4,730,878	\$ -	\$ 790,985	\$ -
Instructional services	91,263,616	1,014,472	6,110,256	-
Special education	16,346,962	-	9,322,983	-
Student personnel services	1,877,777	-	4,865	-
Health services	1,227,895	-	6,911	-
Student transportation	7,886,848	-	277,412	-
Operation of plant and equipment	10,801,661	84,759	3,454	-
Maintenance of plant	2,527,515	-	115	-
Fixed charges	27,860,682	-	2,495,754	-
Community services	247,113	44,404	8,847	-
Capital outlay	4,021,041	-	-	10,646,255
State of Maryland share of retirement and pension contribution	9,495,371	-	9,495,371	-
Total Governmental Activities	178,287,359	1,143,635	28,516,953	10,646,255
Business-Type Activities				
Food Services	6,112,423	1,925,846	3,841,634	-
Total Business-Type Activities	6,112,423	1,925,846	3,841,634	-
Totals	\$ 184,399,782	\$ 3,069,481	\$ 32,358,587	\$ 10,646,255

General Revenues

Wicomico County appropriations

State of Maryland

Other revenue

Investment Earnings

Transfers

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

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

Net (Expenses) Revenue
and changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (3,939,893)	\$ -	\$ (3,939,893)
(84,138,888)	-	(84,138,888)
(7,023,979)	-	(7,023,979)
(1,872,912)	-	(1,872,912)
(1,220,984)	-	(1,220,984)
(7,609,436)	-	(7,609,436)
(10,713,448)	-	(10,713,448)
(2,527,400)	-	(2,527,400)
(25,364,928)	-	(25,364,928)
(193,862)	-	(193,862)
6,625,214	-	6,625,214
-	-	-
(137,980,516)	-	(137,980,516)
-	(344,943)	(344,943)
-	(344,943)	(344,943)
(137,980,516)	(344,943)	(138,325,459)
49,443,053	-	49,443,053
96,633,962	-	96,633,962
74,303	-	74,303
859,694	-	859,694
(750,000)	750,000	-
146,261,012	750,000	147,011,012
8,280,496	405,057	8,685,553
147,572,851	456,776	148,029,627
\$ 155,853,347	\$ 861,833	\$ 156,715,180

THE BOARD OF EDUCATION OF WICOMICO COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	GENERAL FUND	RESTRICTED GRANTS	CAPITAL PROJECTS	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 2,720,757	\$ -	\$ -	\$ 2,720,757
Investments	22,611,008	-	-	22,611,008
Accounts receivable:				
School districts and other	639,113	42,217	-	681,330
Accrued interest on investments	57,626	-	-	57,626
Prepaid expenses	433	-	-	433
Due from other governmental agencies	562,019	1,143,077	1,408,723	3,113,819
Due from other funds	-	427,494	2,801,550	3,229,044
TOTAL ASSETS	\$ 26,590,956	\$ 1,612,788	\$ 4,210,273	\$ 32,414,017
LIABILITIES AND FUND BALANCES				
Accounts payable:				
Retainage	\$ -	\$ -	\$ 1,011,813	\$ 1,011,813
Vendors	1,452,224	320,326	44,910	1,817,460
Payroll deductions and withholdings	9,102,311	-	-	9,102,311
Due to other funds	4,235,683	-	-	4,235,683
Accrued salaries and other	1,642,966	3,685	-	1,646,651
Accrued compensated absences	208,491	-	-	208,491
Deferred revenue	46,692	1,039,364	-	1,086,056
Due to other governmental agencies	-	206,208	-	206,208
TOTAL LIABILITIES	16,688,367	1,569,583	1,056,723	19,314,673
COMMITMENTS AND CONTINGENCIES				
FUND BALANCES				
Reserved for rate stabilization	5,854,309	-	-	5,854,309
Reserved for encumbrances	2,948,280	-	-	2,948,280
Reserved for fund purposes	-	43,205	3,153,550	3,196,755
Unreserved, designated for subsequent expenditures:				
From fiscal year 2007	300,000	-	-	300,000
From fiscal year 2007 - MA	500,000	-	-	500,000
Unreserved, undesignated	300,000	-	-	300,000
Total fund balances	9,902,589	43,205	3,153,550	13,099,344
TOTAL LIABILITIES AND FUND BALANCES	\$ 26,590,956	\$ 1,612,788	\$ 4,210,273	\$ 32,414,017

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

THE BOARD OF EDUCATION OF WICOMICO COUNTY

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2008

(continued)

Total Governmental Funds Balances \$ 13,099,344

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

Pre-payment of post-retirement employment benefits 410,000

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the
governmental fund financial statements 147,409,572

Long-term liabilities are not due and payable in the current
period and therefore are not reported in the funds

Accrued compensated absences 1,701,969

Capital lease payable 3,363,600

(5,065,569)

Net Assets of Governmental Activities \$155,853,347

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	GENERAL <u>FUND</u>	RESTRICTED <u>GRANTS</u>	CAPITAL <u>PROJECTS</u>	Total Governmental <u>Funds</u>
REVENUES				
Wicomico County appropriations	\$ 49,443,053	\$ -	\$ -	\$ 49,443,053
Other local revenue	1,846,820	324,195	-	2,171,015
State of Maryland	103,008,574	1,181,970	259,000	104,449,544
State of Maryland retirement and pension contribution	9,495,371	-	-	9,495,371
Federal through state	-	10,797,952	-	10,797,952
Other sources	502,136	218,560	394,087	1,114,783
TOTAL REVENUES	164,295,954	12,522,677	653,087	177,471,718
EXPENDITURES				
Administration	3,736,966	855,044	-	4,592,010
School management and support	10,963,636	128,193	-	11,091,829
Instructional salaries and wages	62,510,063	4,274,032	-	66,784,095
Textbooks and instructional supplies	3,881,968	575,858	-	4,457,826
Other instructional costs	1,737,371	1,132,173	-	2,869,544
Special education	13,237,528	3,095,403	-	16,332,931
Student personnel services	1,871,096	4,865	-	1,875,961
Health services	1,217,043	6,911	-	1,223,954
Student transportation	7,606,565	277,412	-	7,883,977
Operation of plant and equipment	10,297,037	3,454	-	10,300,491
Maintenance of plant	2,509,869	115	-	2,509,984
Fixed charges	26,876,983	2,495,754	-	29,372,737
Community services	237,771	8,847	-	246,618
Capital outlay	10,384,157	-	10,450,302	20,834,459
State of Maryland share of retirement and pension contribution	9,495,371	-	-	9,495,371
TOTAL EXPENDITURES	166,563,424	12,858,061	10,450,302	189,871,787
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,267,470)	(335,384)	(9,797,215)	(12,400,069)
OTHER FINANCING SOURCES (USES)				
Increase in rate stabilization reserve	488,617	-	-	488,617
Capital lease proceeds	2,770,378	-	-	2,770,378
Interfund transfers - print shop	(349,851)	349,851	-	-
Interfund transfers - school construction fund	(1,507,455)	-	1,507,455	-
Interfund transfers - food service	(750,000)	-	-	(750,000)
Transfer of bond proceeds from Wicomico County	-	-	9,846,137	9,846,137
TOTAL OTHER FINANCING SOURCES	651,689	349,851	11,353,592	12,355,132
Net change in fund balances	(1,615,781)	14,467	1,556,377	(44,937)
Fund balances, beginning	11,518,370	28,738	1,597,173	13,144,281
Fund balances, ending	\$ 9,902,589	\$ 43,205	\$ 3,153,550	\$ 13,099,344

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

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2008 (continued)

Net change in fund balances-total Governmental Funds \$ (44,937)

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 their estimated useful lives as depreciation
 expense. This is the amount by which capital outlays
 exceeded depreciation in the current period.

Fixed asset additions	15,181,736	
Current year depreciation	<u>(6,741,045)</u>	
Total		8,440,691

Loss on disposal of assets (39,390)

Some expenses 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.

Increase in accrued compensated absences	(95,562)
Decrease in accrued post-retirement benefits	1,119,000

Capital lease proceeds provide current financial resources to
 governmental funds but increase long-term liabilities in the statement
 of net assets. Repayment of capital lease obligations is an expenditure
 in the governmental funds, but the repayment reduces long-
 term liabilities in the statement of net assets. In the current year, the
 net effect of capital lease borrowings and repayments was:

	<u>(1,099,306)</u>
Change in net assets of Governmental Activities	<u>\$ 8,280,496</u>

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF FUND NET ASSETS
 PROPRIETARY FUNDS

June 30, 2008

	<u>Business-Type Activities</u>
	<u>Food Services</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,335
Due from other funds	358,510
Due from other governments	183,042
Inventories	<u>112,506</u>
Total current assets	<u>655,393</u>
Capital assets, net	<u>295,680</u>
TOTAL ASSETS	<u>951,073</u>
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	13,289
Due to other governmental agencies	57,265
Deferred revenue	<u>18,686</u>
TOTAL LIABILITIES	<u>89,240</u>
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Invested in capital assets	295,680
Unrestricted	<u>566,153</u>
TOTAL NET ASSETS	<u>\$ 861,833</u>

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

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2008

	Business-Type Activities
	<u>Food Services</u>
OPERATING REVENUES	
Food service sales	\$ 1,925,846
OPERATING EXPENSES	
Salaries and wages	2,108,346
Contracted services	38,181
Supplies and materials	2,995,546
Other charges	928,444
Depreciation	41,906
TOTAL OPERATING EXPENSES	<u>6,112,423</u>
OPERATING LOSS	(4,186,577)
NON-OPERATING REVENUES	
State of Maryland:	
Reimbursement of food costs	195,687
Federal through State:	
Reimbursement of food costs	3,325,293
Donation of food commodities	320,654
TOTAL NON-OPERATING REVENUES	<u>3,841,634</u>
Change in net assets before transfers	(344,943)
TRANSFERS IN	<u>750,000</u>
Change in net assets	405,057
Net assets beginning of year	<u>456,776</u>
Net assets end of year	<u>\$ 861,833</u>

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

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2008

CASH FLOWS FROM OPERATIONS:

Cash received from user charges	\$ 1,572,204
Cash payments to employees for services, fringe benefits	(2,368,190)
Cash payments for health and other insurances	(668,600)
Cash payments to suppliers for goods and services	(2,676,637)
Cash payments for facility use and maintenance	(38,181)
Net cash used in operating activities	(4,179,404)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Nonoperating grants received	3,468,580
Interfund transfers	750,000
Repayment of loans from other funds	(54,648)
Net cash provided by noncapital financing activities	4,163,932

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of equipment	(10,546)
Net cash provided by capital and related financing activities	(10,546)

Net decrease in cash	(26,018)
Cash and investments, beginning of year	27,353
Cash and investments, end of year	\$ 1,335

Reconciliation of Operating Loss to Net Cash Used In Operating Activities:

Operating Loss	\$ (4,186,577)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	41,906
Commodities used	320,354
(Increase) decrease in assets:	
Inventories	30,689
Receivables	(353,642)
(Decrease) increase in liabilities:	
Accounts payable	(11)
Deferred revenue and due to other governments	(32,123)
Total adjustments	7,173
Net cash used in operating activities	\$ (4,179,404)

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

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	<u>PENSION TRUST FUNDS</u>			<u>AGENCY FUND</u>		<u>Total</u>
	<u>401(A) Matching Fund</u>	<u>Employees Pension</u>	<u>Private Purpose Trust Fund</u>	<u>Retiree Health Plan Trust</u>	<u>School Activities Fund</u>	
ASSETS						
Cash	\$ -	\$ 3,421,873	\$ -	\$ 773,482	\$ 53,015	\$ 4,248,370
Accounts receivable	372,311	-	-	-	-	372,311
Due from other funds	-	-	191,178	-	456,951	648,129
Trust investments	1,555,366	12,147,714	-	1,407,564	-	15,110,644
Total assets	1,927,677	15,569,587	191,178	2,181,046	509,966	20,379,454
LIABILITIES						
Accounts payable	-	-	1,182	-	649	1,831
Due to school activity groups	-	-	-	-	509,317	509,317
Total liabilities	-	-	1,182	-	509,966	511,148
NET ASSETS						
Held in Trust for:						
Retirement and other benefits	1,927,677	15,569,587	-	2,181,046	-	19,678,310
Scholarships, etc.	-	-	189,996	-	-	189,996
Total net assets	\$ 1,927,677	\$ 15,569,587	\$ 189,996	\$ 2,181,046	\$ -	\$ 19,868,306

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

THE BOARD OF EDUCATION OF WICOMICO COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2008

	<u>PENSION TRUST FUNDS</u>		<u>PRIVATE PURPOSE TRUST FUNDS</u>		<u>Total</u>
	401(A)		Scholarship <u>Memorials</u>	Retiree Health <u>Plan Trust</u>	
	<u>Matching Fund</u>	<u>Employees Pension</u>			
ADDITIONS					
Donations	\$ -	\$ -	\$ 47,110	\$ -	\$ 47,110
Employer contributions	418,239	526,651	-	2,000,000	2,944,890
Employee contributions	-	320,003	-	-	320,003
Interest and dividends	50,441	600,846	9,395	47,501	708,183
Decrease in fair value of investments	(154,325)	(126,372)	-	(71,648)	(352,345)
Total additions	314,355	1,321,128	56,505	1,975,853	3,667,841
DEDUCTIONS					
Scholarships, etc.	-	-	112,558	-	112,558
Pension benefit payments	107,050	876,250	-	-	983,300
Administrative expenses	15,483	91,763	-	4,807	112,053
Total deductions	122,533	968,013	112,558	4,807	1,207,911
Net increase (decrease)	191,822	353,115	(56,053)	1,971,046	2,459,930
Net assets held in trust at July 1, 2007	1,735,855	15,216,472	246,049	210,000	17,408,376
Net assets held in trust at June 30, 2008	\$ 1,927,677	\$ 15,569,587	\$ 189,996	\$ 2,181,046	\$ 19,868,306

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Description of The Board of Education of Wicomico County

The Board of Education of Wicomico County (the “Board”) is empowered by Title 13A of the Code of Maryland Regulations to fulfill the elementary and secondary educational needs of students in Wicomico County, Maryland (the “County”).

Financial Reporting Entity

The Board is the basic level of government which has financial accountability and control over all activities related to public school education in Wicomico County, Maryland. The Board receives funding from local, State and Federal government sources and must comply with the requirements of these funding source entities.

The Board is a component unit of Wicomico County, Maryland and is included in the County’s reporting entity. This conclusion has been reached based on the following criteria: 1) the County is responsible for approving the Board’s budget and establishing spending limitations and 2) the Board cannot issue bonded debt, but the County can and does issue bonds to finance school system operations. In addition, there are no component units which are included in the Board’s reporting entity.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Board has elected not to follow subsequent private-sector guidance. The most significant of the Board’s accounting policies are described below.

A. Basis of Presentation

The Board’s basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include the financial activities of the Board. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Board at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Board’s governmental activities and for business-type activities of the Board. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from general revenues of the Board.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

A. Basis of Presentation (continued)

FUND FINANCIAL STATEMENTS

During the year, the Board segregates transactions related to certain Board functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Board at a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column.

B. Fund Accounting

The Board uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Board's major governmental funds:

General Fund - The General Fund is the general operating fund of the Board. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Restricted Grants Fund - These funds are used to account for revenue sources that are legally restricted to expenditure for a specific purpose, such as federal, state, and local grants. The Print Shop fund is also included as a restricted grant fund.

Capital Projects Fund - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The Board administers the construction and repair of public schools and uses the School Construction Fund to record the revenues from the County and other governmental units and the expenditures in connection therewith.

PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as enterprise.

Enterprise funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Board's major enterprise funds are:

Food service fund - This fund accounts for the financial transactions related to the food service operations of the Board.

FIDUCIARY FUNDS

Agency Fund - The funds of the School Activity Fund are administered by the individual schools in a fiduciary capacity.

Private Purpose Trust Fund - These funds are held by the Board for scholarships and other student awards.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Pension Trust Fund – The Board is the trustee for the assets held in a retirement plan for certain employees of the Board of Education and the assets held in the 401(a) matching plan.

OPEB Trust Fund – The Board is the trustee for the assets held in a other post employment benefit plan for certain employees of the Board of Education.

C. Measurement Focus

Government-wide financial statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Board are included on the statement of net assets.

Fund financial statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Board finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues-Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, include primarily grants. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursable basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

D. Basis of Accounting (continued)

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: interest, tuition, grants, fees and rentals.

Deferred revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Data

The budget is prepared on the budgetary basis of accounting. The budget establishes a limit on the amounts that the Board may appropriate and sets annual limits as to the amount of expenditures at a level of control selected by the Board. The legal level of control has been established by the Board at the category level within each fund.

The budget may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original budget was adopted. The amounts reported in the final budgeted amounts reflect amendments approved by the County government during the year between categories and those approved by the Board within categories.

F. Inventory

On government-wide financial statements and the fund financial statements of proprietary funds, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Food received from the USDA is included at values stated by the USDA but is offset by a deferred credit until consumed.

G. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

G. Capital Assets (continued)

Board maintains a capitalization threshold of one thousand dollars. The Board does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land, land improvements and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 15 years
Vehicles	8 years

H. Compensated Absences

ACCRUED LEAVE

Compensated absences are reported as accrued in the government wide financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

I. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

The Board applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Fund Balance Reserves

The Board reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Board, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

M. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N. Cash and Cash Equivalents

The Board's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the General Fund and Food Service Fund is pooled into one account in order to maximize investment opportunities.

Investments are stated at fair value.

O. Interfund Receivables and Payables and Transfers

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Transfers are fund balance amounts reserved and/or designated in the prior year that received County approval to be spent on capital projects.

P. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbrances are reported as a reservation of fund balance in the governmental fund financial statements. Encumbrances outstanding at June 30, 2008 that were provided for in the current year's budget for the budgetary basis of accounting but will be accounted for under generally accepted accounting principles in the subsequent year totaled \$2,948,277.

Note 3. Cash and Investments

Deposits and Investments Other Than Pension Funds:

The Board is authorized to invest monies for which it has custody or control. The type of investments are in accordance with Section 6-222 of the Maryland State Finance and Procurement Article.

The Board's investment policy for its non-pension funds authorizes its comptroller to invest money in any of the following types of investments:

- a. U.S. Treasury Obligations
- b. Local Government Investment Pool
- c. Repurchase Agreements
- d. Collateralized Certificates of Deposit

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (continued)

The policy requires that the investments be on a short-term (less than one year) basis and establishes maximum portfolio percentages for investments as follows:

Diversification by Instrument	Maximum Percent of Portfolio
U.S. Treasury Obligations	100%
Local Government Investment Pool	100%
Repurchase Agreements (Master Repurchase Agreements Required)	30%
Collateralized Certificates of Deposit (Only Maryland Commercial Banks)	10%

The policy requires collateralization for certificates of deposit and repurchase agreements. Such collateral must be at least 102% of market value of principal and accrued interest. The Annotated Code of Maryland (Article 95, Section 22) requires that deposits with financial institutions by local boards of education be fully collateralized. The Board's policy requires collateral to be held by a custodian in accordance with Section 6-209(c) of the State Finance and Procurement Article of the Annotated Code of Maryland and acceptable collateral as specified under Section 6-202 of the same document.

These collateralization requirements are established to reduce custodial risk which is the risk that in the event of a bank failure, the Board's deposits may not be returned to it.

At June 30, 2008, the Board's non-pension funds were invested as follows:

	Carrying Value	Bank Balance
Cash and cash equivalents	\$ 2,720,757	\$ 4,427,577

The bank balances were exposed to custodial credit risk as follows:

Insured	\$ 100,000
Uninsured and collateral held by pledging bank's trust department in the Board's name	4,327,577
Uninsured and collateral held by pledging bank's trust department not in the Board's name	-
	\$ 4,427,577

The Board invests in the Maryland Local Government Investment Pool (MLGIP) which was created with the passage of Article 94 22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Safe Deposit and Trust Company which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a quarterly basis and provide suggestions to enhance the pool. The MLGIP is rated AAAM by Standard and Poors. The fair value of the pool is the same as the value of the pool shares. Investments are recorded at cost, which approximates market value.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (continued)

Pension and Other Trust Fund Investments:

The Investment policy of the Board's Retirement Plan Trust requires that the pension funds be managed as a balanced account with approximately a 60% equity, 40% government and corporate bond mix. Cash or cash equivalents are to be less than 3% on a long-term basis. The policy also has certain restrictions on types and amounts of investments that may be included in the portfolio, e.g. foreign securities, real estate, industry groups, loans, controlling interests.

The Board's pension investments are held by Investors Bank and Trust, Aetna Insurance Company and Vanguard/Met Life in the Board's name. The Board's Retiree Health Plan Trust investments are held at State Street in the Board's name.

Pension and other trust funds are invested as follows:

	State Street	AETNA	Vanguard/ Met Life	State Street (GASB 45)
Cash and equivalents	\$ 3,421,873	\$ 88,307	\$ 16,642	\$ 773,482
Government bonds	564,852	88,307	-	71,295
Commercial paper (less than 1 year)	-	412,094	-	-
Corporate bonds	1,206,297	2,354,821	606,126	26,441
Common stock	7,433,036	-	932,598	1,309,828
Total	<u>\$ 12,626,058</u>	<u>\$ 2,943,529</u>	<u>\$ 1,555,366</u>	<u>\$ 2,181,046</u>

Corporate bonds held at June 30, 2008 are rated by Standard & Poor's as follows:

	Percent of Corporate Bond Portfolio			
Rating	State Street	AETNA	Vanguard/ Met Life	State Street (GASB 45)
AAA	2.54%		77.10%	
AA-	8.05%	39.73%		
A+	17.26%	40.41%		53.70%
A	25.07%	19.86%	8.90%	46.30%
AA	2.44%		6.10%	
AA1	3.41%			
A-	15.61%			
BBB+	17.22%		7.90%	

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Investments (continued)

State Street:

Corporate bond issues held at June 30, 2008 are as follows:

B- 8.41%

			Due
\$50,000	Aflac Inc.	6.50%	04/15/09
\$100,000	Alltel Corp.	7.88%	07/01/32
\$64,000	American General Finance	5.38%	10/01/12
\$30,000	Bank of America Corp.	4.88%	09/15/12
\$30,000	Catepillar Financial Service Corp	4.50%	06/15/09
\$20,000	Comerica Bank	8.38%	07/15/24
\$25,000	Deere & Company	8.50%	01/09/22
\$25,000	GTE Corp.	6.84%	04/15/18
\$50,000	Global Marine Inc.	7.00%	06/01/28
\$45,000	Home Depot Inc.	5.20%	03/01/11
\$75,000	IBM Corp.	4.25%	09/15/09
\$100,000	Medtronic Inc.	4.75%	09/15/15
\$100,000	PPG Industries Inc.	6.88%	02/15/12
\$30,000	Pharmacia Corp.	8.70%	10/15/21
\$75,000	Pitney Bowes Inc.	4.75%	05/15/18
\$75,000	Pitney Bowes Inc.	4.63%	10/01/12
\$77,000	Prudential Financial Inc.	4.45%	07/15/13
\$80,000	Schering Plough Corp.	5.55%	12/01/13
\$91,000	Tele-Communications Inc.	7.88%	08/01/13
\$12,000	Time Warner Inc.	9.15%	02/01/23

AETNA:

Corporate bond issues held at June 30, 2008 are as follows:

\$30,000 Toyota Motor Credit Corp. 4.35% 12/15/10

	<u>Percent of Holdings</u>
JP Morgan Chase & Co.	23.29%
HSBC Holdings	22.60%
AT&T Inc.	19.86%
Goldman Sachs Group Inc.	17.12%

Vanguard/Met Life:

Corporate bond issues held at June 30, 2008 are as follows:

Province of Quebec 17.12%

	<u>Percent of Holdings</u>
Vanguard Balanced Index Fund	100.00%

NOTES TO FINANCIAL STATEMENTS

Note 4. Interfund Receivables and Payables

At June 30, 2008, the interfund account balances are as follows:

	Due From Other Funds	Due To Other Funds
GOVERNMENTAL ACTIVITIES:		
General Fund		
Due to Food Service Fund	\$ -	\$ 358,510
Due to Restricted Funds	-	427,494
Due to Capital Projects Fund	-	2,801,550
Due to School Activities Fund	-	456,951
Due to Trust Fund	-	191,178
Restricted Grants		
Due from General Fund	427,494	-
Capital Projects Fund		
Due from General Fund	2,801,550	-
BUSINESS-TYPE ACTIVITIES		
Enterprise Fund		
Due from General Fund	358,510	-
FIDUCIARY NET ASSETS		
Due from General Fund	648,129	-
TOTAL ALL FUNDS	\$ 4,235,683	\$ 4,235,683

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Deductions	Transfers	Balance June 30, 2008
Governmental Activities					
Capital Assets, not being depreciated					
Land	\$ 2,024,109	\$ -	\$ -	\$ -	\$ 2,024,109
Construction in progress	15,900,402	8,816,321	(32,610)	(21,327,350)	3,356,763
Total capital assets, not being depreciated	<u>17,924,511</u>	<u>8,816,321</u>	<u>(32,610)</u>	<u>(21,327,350)</u>	<u>5,380,872</u>
Capital assets, being depreciated					
Buildings and improvements	159,791,062	472,498	(1,058,633)	21,240,061	180,444,988
Furniture and equipment	17,089,029	5,722,161	(2,289,035)	87,289	20,609,444
Vehicles	1,268,569	170,756	(93,899)	-	1,345,426
Total capital assets, being depreciated	<u>178,148,660</u>	<u>6,365,415</u>	<u>(3,441,567)</u>	<u>21,327,350</u>	<u>202,399,858</u>
Less accumulated depreciation:					
Buildings and improvements	(45,711,755)	(3,974,319)	1,058,633	-	(48,627,441)
Furniture and equipment	(10,622,773)	(2,631,885)	2,282,255	-	(10,972,403)
Vehicles	(730,372)	(134,841)	93,899	-	(771,314)
Total accumulated depreciation	<u>(57,064,900)</u>	<u>(6,741,045)</u>	<u>3,434,787</u>	<u>-</u>	<u>(60,371,158)</u>
Total capital assets, being depreciated, net	<u>121,083,760</u>	<u>(375,630)</u>	<u>(6,780)</u>	<u>21,327,350</u>	<u>142,028,700</u>
Governmental activities capital assets, net	<u>\$139,008,271</u>	<u>\$ 8,440,691</u>	<u>\$ (39,390)</u>	<u>\$ -</u>	<u>\$147,409,572</u>
Business-type activities					
Equipment	\$ 1,839,914	\$ 10,546	\$ -	\$ -	\$ 1,850,460
Accumulated depreciation	(1,512,874)	(41,906)	-	-	(1,554,780)
Business-type activities capital assets, net	<u>\$ 327,040</u>	<u>\$ (31,360)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 295,680</u>

Depreciation expense was charged to governmental functions as follows:

Administration	\$ 138,868
Instructional services	6,060,322
Special Education	14,031
Student Personnel Services	1,816
Health Services	3,941
Student transportation	2,871
Operation of plant and equipment	501,170
Maintenance of plant	17,531
Community Services	495
Total depreciation expense	<u>\$ 6,741,045</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Health Insurance Reserves

The Board entered into a public entities health care consortium with the City of Salisbury and Wicomico County Council during fiscal year 2003. The purpose of this consortium is to reduce administrative expenses. Each entity has its premium rates adjusted based on its experience and benefits. Beginning in July 2002, each entity agreed to fund a rate stabilization reserve equal to 10% of average annual premiums. The agreement was originally effective through the period ended August 31, 2005 and is currently extended on an annual basis. Each year the health care provider will produce an annual settlement for all entities. If there is an experience loss, funding will come from the entities based on their individual experience. Settlement among the group will occur within four months after August 31st each year.

For the year ended June 30, 2008, the health insurance reserve had the following activity:

Weighted average duration 5 - 10 years

Balance at July 1, 2007	\$ 5,365,692
Subsidy for rate increase	(1,008,822)
Positive settlement - 2007	1,272,777
Interest earned (net of expenditures)	224,662

The consortium's contract with its health insurance carrier requires that actual incurred claims and expenses be compared to actual premiums paid to determine whether a deposit premium deficit has been incurred each year. Under the contract, the health insurance carrier can only require payment against the deficit of up to 5% of the actual monthly premiums paid in the current fiscal year. The health insurance contract is based on a fiscal year of September 1st through August 31st. For the period ended August 31, 2007, the Board's share of the consortium's settlement was a surplus of \$1,272,777, which was included as an other financing source during the year ended June 30, 2008.

Note 6. Post-Retirement Health Care Benefits

During the year ended June 30, 2007, the Board changed its method of accounting for post-employment benefits other than pensions by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions*.

For the fiscal year ended June 30, 2008, the Board funded 55% of the individual health care insurance costs for retirees who were qualified to retire on or after July 17, 2007 based on the rules of their respective pension; and who had accumulated at least 10 years of service with the Board prior to their retirement. The Board previously funded 55% of the individual health care insurance costs for eligible retirees who had accumulated at least 15 years of service with the Board prior to retirement (before July 17, 2007). Approximately 520 retirees who have worked for at least five years are eligible to participate in the post-retirement benefit program.

Plan Description

During the year ended June 30, 2007, Wicomico County and the Board of Education jointly set up the 'Retiree Health Insurance Plan Trust of the Board of Education of Wicomico County and Wicomico County' ("the trust"). A Board of Trustees ("the Board") oversees the trust.

The Plan is an agent multiple-employer plan with combined administrative functions for efficiency and each agent employer remains responsible for financing benefits of its own individual plan. Each agent employer also remains individually responsible for its own separate actuarial valuations, and expenses and obligations are measured like those of sole employers. The assets of the two entities are segregated within the trust.

The plan provides medical, prescription, dental, and vision benefits to eligible retirees and their spouses and dependents, if any.

NOTES TO FINANCIAL STATEMENTS

Note 6. Post-Retirement Health Care Benefits (continued)

Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to pre-fund benefits as determined annually. For the current fiscal year, the Board contributed \$3.713 million to the plan, including \$1.652 million for current claim costs (approximately 55% of total premiums); an additional \$2,000,000 to pre-fund benefits and an estimated retiree subsidy of \$61,000. Plan members receiving benefits contributed approximately 45% of the total claim costs premiums, through their required contributions of \$244 per month for retirees-only coverage (if under 65), \$197 per month for retirees-only coverage (if 65 or older) and \$957 for retiree and spouse coverage.

Annual OPEB Cost and Net OPEB Obligation

The Board's annual other post-retirement benefit (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 30 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.

Balance at June 20, 2008		<u>\$ 5,854,309</u>
Annual required contribution	\$ 2,541,000	
Interest on net OPEB obligation	53,000	
Adjustment to annual required contribution	-	
Annual OPEB cost (expense)	<u>2,594,000</u>	
Contributions made	<u>(3,713,000)</u>	
Net OPEB obligation (asset)	(1,119,000)	
Net OPEB obligation at beginning of year	<u>709,000</u>	

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation (asset) was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/2007	\$ 2,432,000	70.80%	\$ 709,000
06/30/2008	2,594,000	143.10%	(410,000)

Funding Status and Funding Progress

As of July 1, 2007, the most recent actuarial valuation date, the plan was .1% funded. The actuarial accrued liability for benefits was \$32,079,000 and the actuarial value of assets was \$210,000 resulting in an unfunded actuarial accrued liability (UAAL) of \$31,689,000.

NOTES TO FINANCIAL STATEMENTS

Note 6. Post-Retirement Health Care Benefits (continued)

Funding Status and Funding Progress (continued)

In fiscal year 2007 the Board prefunded \$210,000. In fiscal year 2008, the Board made a contribution of \$2,000,000 plus \$61,000 in retiree subsidies.

	<u>June 30, 2007</u>	<u>June 30, 2008</u>
Actuarial Accrued Liabilities	\$ 30,475,000	\$ 32,079,000
Actuarial Value of plan assets	210,000	2,181,000
Unfunded AAL (asset)	30,265,000	29,898,000
Funded ratio as of actuarial value dates		6.80%

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 multiyear 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 substantive plan (the plan as understood by the employer and the plan members) and includes the type of benefits provided at the time of each valuation and the historical pattern of sharing the 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, 2007 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 7.5% 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 at July 1, 2007 was 30 years.

Note 7. 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; injuries to employees; and natural disasters. The Board has joined the Maryland Association of Boards of Education Workers' Compensation Group Insurance Fund (the "Fund"), a public entity risk pool currently providing workers compensation coverage for participating boards of education in the State of Maryland. The Board pays an annual premium to the Fund each year which is calculated based on projected payroll. The agreement for the Fund provides that it will be self-sustaining through member premiums and will reinsure through commercial companies for claims which exceed coverage limits as specified in the agreement. Should the Fund encounter deficits in the workers compensation claims fund, this deficit may be made up from additional assessments of boards participating in the fund. The Board has also joined the Maryland Association

NOTES TO FINANCIAL STATEMENTS

Note 7. Risk Management (continued)

of Board of Education's Group Insurance Pool (the Pool) on July 1, 2000. The Pool is a public entity risk pool providing property and casualty insurance coverage for its participating members, who are also boards of education in the State of Maryland. The Board pays an annual premium to the Pool, based on student enrollment, vehicle inventory, insurable value of board property and insurance claims experience from previous years. The agreement for the Pool provides that it will be self sustaining through member premiums and will reinsure through commercial companies for claims that exceed coverage limits for legal liability, property, and crime exposures specified in the agreement. Should the Pool encounter deficits in either the property or casualty fund, this deficit may be made up from additional assessments of boards participating in Pool. The Board continues to carry commercial insurance for other risks, including pollution liability, retirement plan fiduciary liability, employee health and life insurance. Settled claims have not exceeded insurance coverage for each of the past three fiscal years.

Note 8. Pension Plans

Substantially all of the Board's employees are covered by one of three pension plans.

Teachers Retirement System and the Teachers Pension System

General Plan Policies

Teachers and related occupations are covered by the Teachers Retirement System or the Teachers Pension System of the State of Maryland, both of which are cost-sharing, multiple-employer public employee retirement systems. Except for restricted programs as described below, the State pays virtually all of the employer's annual contribution. Total contributions paid by the State to the Plan for the year ended June 30, 2008 were \$9,495,371. For teachers and other employees whose retirement expense is reimbursed from Federal Restricted Grants, the Board remits monthly payments to the State which represent the amount of retirement expense charged to these restricted programs. The Board has no contingent liability for funding deficits in the system should such occur. The contribution and percentage of contribution for the past three years are as follows:

Year Ended June 30,	Annual Contribution	Percentage Contributed
2006	\$ 508,066	100%
2007	\$ 524,381	100%
2008	\$ 634,040	100%

The Teachers Retirement System of the State of Maryland was established on August 1, 1927 and is administered in accordance with Article 73B of the Annotated Code of Maryland for the purpose of providing retirement allowances and other benefits to teachers in the State. In addition, on January 1, 1980, the Teachers Pension System of the State of Maryland was established. In this regard, teachers hired on or after January 1, 1980 become members of the Teachers Pension System, unless they elect to join an optional retirement program. Existing members of the Teachers Retirement System have the option of remaining in the Teachers Retirement System or transferring to the Teachers Pension System.

Significant Plan Benefits and Policies

The following is a general description of the significant plan benefits and related contribution requirements for the Teachers Retirement System and the Teachers Pension System:

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans (continued)

Teachers Retirement System and the Teachers Pension System (continued)

Teachers Retirement System

Retirement Benefits:

A member may retire with full benefits after attaining the age of 60, or after completing 30 years of creditable service regardless of age. The annual retirement allowance is equal to 1/55 of a member's average final compensation (i.e. average of the member's three highest years of annual earnable compensation) multiplied by the number of years of creditable service. A member may retire with reduced benefits after completing 25 years of creditable service regardless of age.

Vested Allowance:

A member terminating employment before attaining retirement age but after completing 5 years of creditable service becomes eligible for a vested retirement allowance, provided the member lives to the age of 60 and does not withdraw his or her accumulated contributions. Members terminating employment before attaining retirement age and before completing 5 years of creditable service are refunded their accumulated contributions plus earned interest.

Employee and Employer Contributions:

Members of the Teachers Retirement System are required to contribute to the systems a fixed percentage of their regular salaries and wages (e.g. 7% or 5%, depending on the allowance option selected). The contributions are deducted from each member's salary and wage payment and are remitted to the systems on a regular, periodic basis.

The State of Maryland makes virtually all of the nonemployee contributions in amounts required by State statutes.

Teachers Pension System

Retirement Benefits:

A member may retire with full benefits after completing 30 years of eligibility service regardless of age, or at age 62 or older with specified years of eligibility service. On retirement from service, a member shall receive an annual service retirement allowance. The annual retirement allowance is equal to 1.2% of average compensation for the three highest consecutive years as an employee for years of creditable service before June 30, 1998 and 1.8% of average compensation for the three highest consecutive years as an employee for years of creditable service after June 30, 1998.

Vested Allowance:

A member terminating employment before attaining retirement age, but after completing 5 years of eligibility service, becomes eligible for a vested retirement allowance provided the member lives to age 62. Members terminating employment before attaining retirement age and before completing 5 years of eligibility service are refunded their accumulated contributions plus earned interest.

Employee and Employer Contributions:

Members of the Teachers Pension System are required to contribute to the systems 4% of their regular salaries and wages up to the social security wage base in the year ending June 30, 2008. The contributions are deducted from each member's salary and wage payments and are remitted to the systems on a regular, periodic basis.

The State of Maryland makes virtually all of the nonemployee contributions in amounts required by State statutes.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans (continued)

Teachers Retirement System and the Teachers Pension System (continued)

Employer's Payroll Covered Under the Plan

The employer's payroll for the year ended June 30, 2008 and payroll covered under the Teachers Retirement and Pension Systems is as follows:

Net OPEB obligation (asset) at end of year	<u>\$ (410,000)</u>
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Additional information and ten year historical trend information can be obtained from the separately issued State Retirement and Pension System of Maryland Annual Financial Report.

Retirement Plan for Employees of the Board of Education of Wicomico County

General Plan Policies

Employees not covered by the Teachers Retirement System or the Teachers Pension System of Maryland are covered by the Retirement Plan for Employees at the Board of Education of Wicomico County, a defined benefit plan. Effective January 1, 1994, this plan was merged with the Wicomico County plan to become the retirement plan for employees of Wicomico County and the Board of Education of Wicomico County. Plan provisions remained relatively unchanged.

Significant Plan Benefits and Policies

The following is a summary of significant plan benefits and policies:

- 1) Eligibility – Employees are eligible if they are at least 18 years of age.
- 2) Employees Contributions – Each year an employee is required to contribute 2% of his earnings up to \$4,800 plus 4% of his earnings in excess of \$4,800. Interest is credited at 5% per year.
- 3) Retirement:
 - a. Normal retirement is available for employees who are age 65 and over and have obtained 5 years of service.
 - b. Early retirement is available for employees with five years or more experience and who are age 55 or older and are within 10 years of normal retirement date.
- 4) Benefits at Retirement:
 - a. For normal retirement, the member will receive a benefit equal to 1 2/3% of final average earnings times the years and months of service after age 18.
 - b. Early retirement benefits are determined in the same manner as the normal retirement benefits but based on service and salary accrued or earned up to date of early retirement and reduced by the appropriate early retirement factors.
- 5) Vesting – A participant is 100% vested after five years of continuous service with the employer.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans (continued)

Retirement Plan for Employees of the Board of Education of Wicomico County (continued)

Employee's Payroll Covered Under the Plan

The employee's payroll for the year ended June 30, 2008 and payroll covered under the Plan is as follows:

Total payroll	\$106,846,353
Payroll covered under the plans	\$ 8,770,976

Year Ended June 30,	Annual Contribution	Percentage Contributed
1998	\$ 157,937	100%
1999	\$ 101,350	100%
2000	\$ 142,195	100%
2001	\$ 242,949	100%
2002	\$ 254,142	100%
2003	\$ 418,903	89%
2004	\$ 479,018	80%
2005	\$ 460,582	92%
2006	\$ 481,038	98%
2007	\$ 446,222	100%
2008	\$ 416,267	123%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2007
Actuarial cost method	Frozen Initial Entry Age
Amortization method	Level Percent
Remaining amortization period	30 Years
Asset valuation method	Market
Actuarial assumptions:	

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans (continued)

Retirement Plan for Employees of the Board of Education of Wicomico County (continued)

Annual Pension Cost and Net Pension Obligation

The Board's annual pension cost and net pension obligation for the current year were as follows:

Projected salary increases 4.50%

Annual required contribution	\$ 400,027
Adjustment to annual required contribution	16,240
Annual pension cost	416,267
Contributions made	513,514
Net pension obligation at end of year	\$ (97,247)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
07/01/97	\$ 8,854,185	\$ 8,597,270	\$ (256,915)	102.99%	\$ 3,944,900	-6.51%
07/01/98	9,544,099	8,519,778	(1,024,321)	112.02%	4,225,210	-24.24%
07/01/99	9,832,269	9,042,973	(789,296)	108.73%	4,725,072	-16.70%
07/01/00	9,801,306	9,610,680	(190,626)	101.98%	4,831,638	-3.95%
07/01/01	10,513,887	10,125,989	(387,898)	103.83%	5,418,831	-7.16%
07/01/02	9,889,757	10,932,388	1,042,631	90.46%	5,677,963	18.36%
07/01/03	10,066,394	11,637,837	1,571,443	86.50%	5,951,447	26.40%
07/01/04	11,230,846	12,556,267	1,325,421	89.44%	6,353,085	20.86%
07/01/05	12,113,245	13,883,815	1,770,570	87.25%	6,708,737	26.39%
07/01/06	13,375,529	14,610,973	1,235,444	91.54%	7,034,996	17.56%
07/01/07	15,284,191	15,820,246	536,055	96.61%	7,538,827	7.11%

401(a) Matching Plan

Effective July 1, 2001, the Board implemented a defined contribution plan. The employer's contribution is determined annually by the Board and is based on eligible participant's contributions to the 403(b) plan. Eligible employees must be 18 years of age and become fully vested after five years of service. During the year ended June 30, 2008, there were 1,111 eligible participants for whom the Board contributed a total of \$372,311.

NOTES TO FINANCIAL STATEMENTS

Note 9. Capital Leases

The Board of Education has entered into several lease agreements as lessee for financing the acquisition of computers, software, and vehicles. These lease agreements qualify as a capital lease for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is an analysis of equipment currently being leased under capital leases as of June 30, 2008:

	Capital Assets
Vehicles	\$ 628,361
Computers:	
2005	383,950
2006	1,281,964
2007	1,761,739
2008	2,614,938
Total	\$ 6,670,952

Approximate future minimum lease commitments are as follows:

Fiscal Year Ending	Computers			Vehicles	Total
	2008	2007	2006		
June 30, 2009	\$ 691,689	\$ 467,000	\$ 335,266	\$ 122,916	\$ 1,616,871
June 30, 2010	691,689	467,000	-	87,000	1,245,689
June 30, 2011	691,689	-	-	41,250	732,939
	2,075,067	934,000	335,266	251,166	3,595,499
Less: amount representing interest	(151,817)	(53,824)	(10,050)	(16,208)	(231,899)
Present value of future minimum lease payments	\$ 1,923,250	\$ 880,176	\$ 325,216	\$ 234,958	\$ 3,363,600

Note 10. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008 was as follows:

GOVERNMENTAL ACTIVITIES	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued compensated absences	\$ 1,789,897	\$ 302,967	\$ 182,404	\$ 1,910,460	\$ 208,491
Capital leases	2,264,294	2,770,378	1,671,072	3,363,600	1,486,632
Total	\$ 4,054,191	\$ 3,073,345	\$ 1,853,476	\$ 5,274,060	\$ 1,695,123

NOTES TO FINANCIAL STATEMENTS

Note 11. Deferred Revenue – Restricted Grants

Deferred revenue in the restricted grant fund consists of federal and state grants and other revenues that have not been expended by June 30, 2008. Deferred revenue at June 30, 2008 consists of the following:

Medical assistance provider payments	\$ 882,366
Various other state and federal programs	156,998
	<u>\$ 1,039,364</u>

Note 12. Commitments and Contingencies

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. The Board has signed contracts for the renovation of James M. Bennett High School in the amount of \$77,478,365. At June 30, 2008, \$3,187,250 had been expended. The Board also has signed contracts for the HVAC renovation of Northwestern Elementary in the amount of \$39,770. At June 30, 2008, \$37,490 had been expended.

The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. 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 rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2008 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Board is a party in a matter pending before an Administrative Law Judge involving the Department of Health and Mental Hygiene (DHMH) and the Maryland State Department of Education (MSDE). The matter involves an audit performed by the federal Office of the Inspector General (OIG) for the period of July 1, 1999 to June 30, 2000 of the school health related billings claimed by Maryland's Medicaid Program on behalf of local school systems. In a report of findings issued on March 31, 2003, the OIG recommended that Maryland refund approximately \$20 million to the Center for Medicare & Medicaid Services (CMS). After an initial appeal made by DHMH and MSDE, the original refund requested by OIG was reduced to \$16.4 million. Of the revised amount requested for refund, MSDE notified the Board on April 3, 2008 that their share of the refund was \$719,946. On April 15, 2008, WCBOE filed an appeal with MSDE concerning their request for refund. This appeal was based upon numerous facts as outlined by their attorney. To date, WCBOE has been involved in a pre-hearing conference and has been notified of a hearing on Motion for Summary Judgment for February 12, 2009. No such motion has yet been filed by either party. WCBOE has also been notified of a trial date of May 7, 2009 being set by the Administrative Law Judge pending no action in the February 12, 2009 hearing. The Board has designated or deferred certain amounts in anticipation of our potential failure to prevail in the appeal before the Administrative Law Judge - \$500,000 designated of General Fund unreserved fund balance; approximately \$250,000 deferred revenue in the Medical Assistance restricted grants account.

The Board is a defendant in various lawsuits. After considering all relevant facts and the opinion of legal counsel, it is management's opinion that such litigation will not have a material adverse effect on the financial position of the Board.

REQUIRED SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL
 GENERAL FUND
 Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
County appropriation	\$ 49,443,053	\$ 49,443,053	\$ 49,443,053	\$ -
Other local:				
Tuition - Delaware nonresident pupils	815,000	815,000	715,026	(99,974)
Tuition - other	25,000	25,000	51,925	26,925
Student payments/fees	12,200	12,200	14,443	2,243
Earnings on investments	875,000	875,000	859,694	(15,306)
Rental of school facilities	90,000	90,000	129,163	39,163
Miscellaneous	41,000	67,500	76,569	9,069
Total other local	1,858,200	1,884,700	1,846,820	(37,880)
State of Maryland revenues:				
Current expense aid	62,575,483	62,575,483	62,575,481	(2)
Guaranteed tax base	4,251,187	4,251,187	4,251,187	-
Special education	5,717,580	5,717,580	5,717,580	-
Transportation	4,362,759	4,362,759	4,349,008	(13,751)
Miscellaneous	10,000	10,000	19,606	9,606
Non-public placement	250,000	250,000	204,394	(45,606)
Aging schools	147,430	147,430	147,032	(398)
Limited English proficient	1,410,746	1,410,746	1,410,746	-
Compensatory education	24,333,540	24,333,540	24,333,540	-
Total State of Maryland revenues	103,058,725	103,058,725	103,008,574	(50,151)
Other sources:				
Out of county living	180,000	180,000	233,078	53,078
Administrative costs reimbursements	225,000	225,000	269,058	44,058
Total other sources	405,000	405,000	502,136	97,136
TOTAL REVENUES	154,764,978	154,791,478	154,800,583	9,105
EXPENDITURES				
Administration	3,897,300	3,903,783	3,626,667	277,116
School management and support	11,091,778	11,092,963	10,953,441	139,522
Instructional salaries	63,356,840	62,795,706	62,510,063	285,643
Textbooks and instructional supplies	3,962,227	4,059,282	3,812,756	246,526
Other instruction costs	2,753,638	2,281,030	1,964,326	316,704
Student personnel services	1,868,045	1,884,045	1,860,825	23,220
Health services	1,179,171	1,221,542	1,219,681	1,861
Student transportation	7,135,738	7,622,047	7,593,817	28,230
Operation of plant and equipment	10,553,085	10,473,719	10,217,277	256,442
Maintenance of plant	2,542,557	2,592,557	2,500,313	92,244
Fixed charges	27,186,357	26,891,353	26,890,940	413
Community services	216,162	216,162	202,519	13,643
Capital outlay	7,175,751	7,260,427	7,155,769	104,658
Special education	13,281,561	13,294,094	13,281,966	12,128
Food service	112,000	750,000	750,000	-
TOTAL EXPENDITURES	\$ 156,312,210	\$ 156,338,710	\$ 154,540,360	\$ 1,798,350

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL
 GENERAL FUND
 Year Ended June 30, 2008
 (Continued)

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	\$ (1,547,232)	\$ (1,547,232)	\$ 260,223	\$ 1,807,455
<hr/>				
OTHER FINANCING SOURCES (USES)				
Appropriation to school construction fund	-	-	(1,507,455)	1,507,455
Appropriation from June 30, 2007 fund balance	1,000,000	1,000,000	1,000,000	-
Appropriation from June 30, 2006 fund balance	547,232	547,232	547,232	-
TOTAL OTHER FINANCING SOURCES (USES)	1,547,232	1,547,232	39,777	1,507,455
<hr/>				
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	\$ -	\$ -	\$ 300,000	\$ 300,000
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NOTES TO BUDGETARY COMPARISON SCHEDULE

Note 1. Summary of Significant Accounting Policies

The original budget, subsequent supplements and major transfers are approved by the Wicomico County Council. Appropriations are for one year and lapse at year end.

A legally adopted budget is prepared for the General Fund only. Amendments to the budget can be made with approval from Wicomico County and the Board for intercategory transfers, and by approval of the Board for intracategory transfers. By law, actual expenditures for each category and for each account within categories may not exceed budgeted expenditures. The budgeted amounts presented include all budget revisions. A budget is adopted for the Food Service Fund for internal purposes only.

The Board of Education prepares its budget and accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). Thus, there are two statements of revenues and expenditures for the general fund in these statements; the first is prepared in accordance with GAAP and the second is prepared on the budgetary basis in order to compare revenues and expenditures with budget. One of the differences between the two statements is that increases (decreases) in asset account balances for prepaid expenditures and inventories are accounted for as expenditure reductions or sources (increases or uses) on the GAAP basis financial statements, but not on the budgetary financial statements. In addition, the appropriation from prior year fund balance is accounted for as additional sources for budgetary purposes. Encumbrances are recorded as expenditures for budgetary purposes but as a reservation of fund balance in the GAAP basis financial statements. Finally, the State's share of the pension and retirement fund contribution is recorded as revenue and expenditures on the GAAP basis financial statements, but is not included on the budgetary financial statements.

Adjustments necessary to convert the results of operations and fund balances at the end of the year on the GAAP basis to the budgetary basis are as follows:

	Revenues	Expenditures	Other Financing Sources (Uses)
	General	General	General
	June 30, 2008	June 30, 2008	June 30, 2008
GAAP Basis	\$ 164,295,954	\$ 166,563,424	\$ 651,689
Changes in asset account balances not accounted for on Budgetary Statement:			
Increase in Rate Stabilization Reserve	-	-	(488,617)
Appropriation to June 30, 2009	-	-	-
Appropriation from June 30, 2007 and 2006	-	-	1,547,232
Transfers to other funds recorded as budgetary expenditures	-	1,099,851	1,099,851
Encumbrances recorded as expenditures:			
Established in current year	-	2,948,280	-
Reversed from prior year	-	(3,805,446)	-
State share of retirement and pension contribution	(9,495,371)	(9,495,371)	-
Capital outlay funded by capital leases	-	(2,770,378)	(2,770,378)
	\$ 154,800,583	\$ 154,540,360	\$ 39,777
Budgetary Basis			

NOTES TO BUDGETARY COMPARISON SCHEDULE

Note 2. Budget Calendar

The following calendar reflects the general sequence of events for the preparation and adoption of the operating budget of The Board of Education of Wicomico County:

Approximate Date	Procedure Performed
Early December	Department heads review and submit requests based upon needs as outlined in the Board's comprehensive master plan
Early January	Review compilation of departmental budget requests with the Superintendent, Asst Superintendent and Directors, and establish priority listing
Late January	Public meeting to review proposed budget
February	Board meets with supervisors and staff to review all requests and develop priority lists
Mid-March	Regular meeting - Board meets for final adoption of the proposed budget
March	Submission of proposed budget to county council
Late May	County council notifies Board of appropriation for education
June	Board works on revised budget based on actual appropriation
Early June	Public meeting held to review actual budget allocations
June	Board adopts budget

SUPPLEMENTARY INFORMATION

THE BOARD OF EDUCATION OF WICOMICO COUNTY
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
GENERAL FUND - BUDGETARY BASIS
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Administration:				
Salaries and wages	\$ 2,702,956	\$ 2,750,779	\$ 2,723,429	\$ 27,350
Contracted services	670,790	669,550	586,674	82,876
Supplies and materials	218,138	159,815	90,244	69,571
Other charges	150,805	166,628	146,663	19,965
Equipment	91,500	90,500	30,839	59,661
Transfers	63,111	66,511	48,818	17,693
Total administration	3,897,300	3,903,783	3,626,667	277,116
School management and support:				
Salaries and wages	9,737,258	9,738,459	9,734,800	3,659
Contracted services	680,436	734,736	624,274	110,462
Supplies and materials	129,790	135,098	128,022	7,076
Other charges	501,100	445,476	442,910	2,566
Equipment	14,200	10,200	452	9,748
Transfers	28,994	28,994	22,983	6,011
Total school management and support	11,091,778	11,092,963	10,953,441	139,522
Instructional salaries and wages	63,356,840	62,795,706	62,510,063	285,643
Textbooks and instructional supplies	3,962,227	4,059,282	3,812,756	246,526
Other instructional costs:				
Contracted services	1,817,414	1,331,830	1,076,645	255,185
Other charges	353,852	355,868	342,637	13,231
Equipment	155,698	174,937	168,803	6,134
Transfers	426,674	418,395	376,241	42,154
Total other instructional costs	2,753,638	2,281,030	1,964,326	316,704
Special education:				
Salaries and wages	12,094,052	12,415,214	12,415,214	-
Contracted services	98,280	160,537	157,513	3,024
Supplies and materials	202,813	199,558	192,898	6,660
Other charges	66,435	81,804	79,360	2,444
Equipment	7,815	815	815	-
Transfers	812,166	436,166	436,166	-
Total special education	\$ 13,281,561	\$ 13,294,094	\$ 13,281,966	\$ 12,128

THE BOARD OF EDUCATION OF WICOMICO COUNTY
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
GENERAL FUND - BUDGETARY BASIS
Year Ended June 30, 2008
(Continued)

	Budgeted Amounts			Variance With Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Student personnel services:				
Salaries and wages	\$ 1,243,898	\$ 1,303,898	\$ 1,297,084	\$ 6,814
Contracted services	569,445	519,715	509,111	10,604
Supplies and materials	24,925	24,925	23,353	1,572
Other charges	22,690	22,525	18,295	4,230
Equipment	-	3,995	3,995	-
Transfers	7,087	8,987	8,987	-
Total student personnel services	1,868,045	1,884,045	1,860,825	23,220
Health services				
Salaries and wages	1,079,813	1,091,492	1,090,862	630
Contracted services	29,221	79,688	79,475	213
Supplies and materials	44,525	47,175	46,192	983
Other charges	2,254	1,503	1,471	32
Equipment	21,471	-	-	-
Transfers	1,887	1,684	1,681	3
Total health services	1,179,171	1,221,542	1,219,681	1,861
Student transportation:				
Salaries and wages	345,928	383,552	383,540	12
Contracted services	6,523,073	6,970,184	6,961,078	9,106
Supplies and materials	54,420	43,335	34,244	9,091
Other charges	197,395	191,834	185,774	6,060
Equipment	10,000	29,220	27,126	2,094
Transfers	4,922	3,922	2,055	1,867
Total pupil transportation	7,135,738	7,622,047	7,593,817	28,230
Operation of plant:				
Salaries and wages	4,815,662	4,961,662	4,956,440	5,222
Contracted services	611,766	556,808	544,773	12,035
Supplies and materials	580,323	610,122	595,626	14,496
Other charges	4,483,415	4,267,783	4,044,470	223,313
Equipment	54,895	70,320	70,320	-
Transfers	7,024	7,024	5,648	1,376
Total operation of plant	10,553,085	10,473,719	10,217,277	256,442
Maintenance of plant:				
Salaries and wages	1,196,147	1,219,147	1,218,353	794
Contracted services	583,290	466,911	438,563	28,348
Supplies and materials	693,028	834,528	772,503	62,025
Other charges	14,032	15,911	15,852	59
Equipment	56,060	56,060	55,042	1,018
Total maintenance of plant	\$ 2,542,557	\$ 2,592,557	\$ 2,500,313	\$ 92,244

THE BOARD OF EDUCATION OF WICOMICO COUNTY
STATEMENT OF APPROPRIATIONS AND EXPENDITURES
GENERAL FUND - BUDGETARY BASIS
Year Ended June 30, 2008
(Continued)

	Budgeted Amounts		Actual	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Fixed charges:				
Insurance and employee benefits	\$ 27,186,357	\$ 26,891,353	\$ 26,890,940	\$ 413
Community services:				
Salaries and wages	28,743	29,243	29,236	7
Contracted services	75,027	60,200	56,797	3,403
Supplies and materials	12,476	18,303	18,302	1
Other charges	49,916	49,916	42,516	7,400
Equipment	50,000	58,500	55,668	2,832
Total community services	216,162	216,162	202,519	13,643
Capital outlay:				
Salaries and wages	623,175	623,175	524,944	98,231
Contracted services	1,821,268	1,806,844	1,806,833	11
Supplies and materials	462,450	462,450	459,309	3,141
Equipment	4,268,858	4,367,958	4,364,683	3,275
Total capital outlay	7,175,751	7,260,427	7,155,769	104,658
Food service:				
Transfers	112,000	750,000	750,000	-
 TOTAL APPROPRIATIONS AND EXPENDITURES	 \$ 156,312,210	 \$ 156,338,710	 \$ 154,540,360	 \$ 1,798,350

THE BOARD OF EDUCATION OF WICOMICO COUNTY

STATEMENT OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL
 FOOD SERVICES FUND - BUDGETARY BASIS
 Year Ended June 30, 2008

	<u>Budget</u>	<u>Actual</u>	Variance With Final Budget Favorable <u>(Unfavorable)</u>
REVENUES			
Local sources	2,047,000	\$ 1,926,147	\$ (120,853)
State sources	195,000	195,687	687
Federal sources	3,481,378	3,645,647	164,269
	<hr/>		
TOTAL REVENUES	5,723,378	5,767,481	44,103
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EXPENDITURES			
Salaries and wages	2,225,821	2,108,346	117,475
Contracted services	47,000	38,232	8,768
Supplies and materials	2,968,039	2,999,479	(31,440)
Other charges	994,942	928,444	66,498
Capital outlay	50,000	10,546	39,454
	<hr/>		
TOTAL EXPENSES	6,285,802	6,085,047	200,755
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OPERATING INCOME (LOSS)	(562,424)	(317,566)	244,858
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OTHER RESOURCES			
Interfund Transfer	750,000	750,000	-
	<hr/>		
EXCESS OF REVENUES AND OTHER RESOURCES OVER EXPENDITURES	\$ 187,576	\$ 432,434	\$ 244,858
	<hr/> <hr/>		