

St. Mary's County Public Schools

Financial Report
June 30, 2012

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Independent Auditor's Report

Members of the Board of Education of
St. Mary's County Public Schools
Leonardtown, 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 St. Mary's County Public Schools (School System), a component unit of St. Mary's County, Maryland, as of and for the year ended June 30, 2012, which collectively comprise the School System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the St. Mary's County Public Schools' 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School System's internal control over financial reporting. Accordingly, we express no such opinion. 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 St. Mary's County Public Schools, as of June 30, 2012, and the respective changes in financial position and the 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 24, 2012 on our consideration of the St. Mary's County Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information – Combined State Retirement and Pension System of Maryland and St. Mary's County Public Schools OPEB Plan Schedules of Funding Progress on pages 3 through 13 and page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Mary's County Public Schools basic financial statements. The Budgetary Comparison Schedule – General Fund on page 40 is not a required part of the basic financial statements but is supplementary information also required by the Governmental Accounting Standards Board. The financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on pages 51 through 56 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

McGladrey LLP

Frederick, Maryland
September 24, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2012

This section of St. Mary's County Public Schools' (School System) annual financial report presents its discussion and analysis of the School System's financial performance during the fiscal year ended June 30, 2012. Please read it in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- The financial status of the School System decreased this year. Net assets decreased by \$11.1 million (see page 15). Substantial portion of overall decrease in net assets is due to the increase of the net OPEB obligation by \$6.1 million.
- The unassigned Fund Balance fell from \$5,715,579 to \$4,752,610. The net change to all Fund Balance accounts was \$(3,383,158) (see pages 16 and 18).
- The net assets for business type activities (Food Services) decreased by \$162,276 (see page 21).

Overview of Financial Statements

This report consists of several sections: Independent auditor's report, management's discussion and analysis, the basic financial statements, required supplemental information, and supplemental information. The basic financial statements include two kinds of statements that present different views of the School System's financial operations/condition.

- The first two statements are system-wide financial statements that provide both short-term and long-term information about the School System's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School System's operations. These statements report operations in greater detail than the system-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 is available for future spending.
 - Proprietary fund statements offer short and long-term financial information about activities that are operated like businesses – Food Services.
 - Fiduciary funds statements provide information about financial relationships in which the School System acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison to the School System's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Organization of SMCPS Annual Financial Report

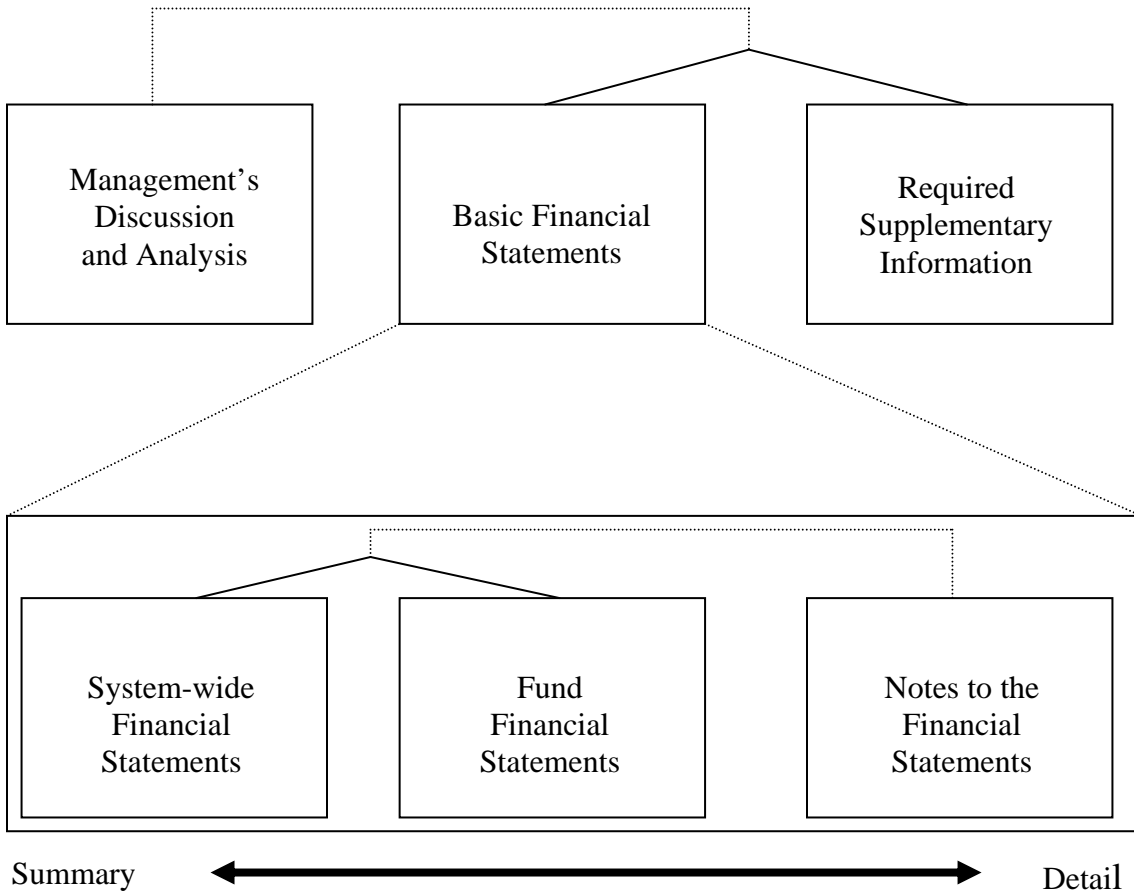


Figure A-2 summarizes the major features of the School System's financial statements, including the portion of the School System's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

| Figure A-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 system that are not proprietary or fiduciary, such as special education and building maintenance | Activities the system operates similar to private businesses: food services | Instances in which the system administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | Statement of net assets Statement of activities | Balance sheet Statement of revenues, expenditures, and changes in fund balances | Statement of net assets Statement of revenues, expenses, and changes in net assets Statement of cash flows | Statement 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 and liabilities that come due during the year or soon thereafter; 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/outflow information | All revenues and expenses during the 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 and 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 deductions during the year, regardless of when cash is received or paid |

System-wide Statements

The system-wide statements report information about the School System as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School System'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 system-wide statements report the School System's net assets and how they have changed. Net assets – the difference between the School System's assets and liabilities – is one way to measure the School System's financial health or position.

- Over time, increases or decreases in the School System's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the School System's overall health, one needs to consider additional non-financial factors such as changes to the county's property tax base and the condition of school buildings and facilities.

In the School System-wide financial statements, the School System's activities are divided into two categories:

- **Governmental activities:** Most of the School System's basic services are included here, such as regular and special education, transportation, and administration. County appropriation and state formula aid finance most of these activities.
- **Business-type activities:** The School System charges a fee to cover the costs of certain services it supplies. This is where our Food Service activities will be reported.

Fund Financial Statements

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

- Some funds are required by state law.
- The School System establishes other funds to control and manage money for particular purposes (such as repaying long-term debts) or to show that it is properly using certain revenues such as federal grants.

The School System has three kinds of funds:

- **Governmental funds:** Most of the School System's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in future fiscal years to finance School System based programs or new initiatives. Because this information does not encompass the additional long-term focus of the system-wide statements, additional information at the bottom of the governmental funds statement explains the relationship, or difference, between them.

- Proprietary fund: Services for which the School System charges a fee are generally reported in proprietary funds. The School System's enterprise funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows. Food Services is the only Enterprise Fund of the School System.
- Fiduciary funds: The School System is the trustee, or fiduciary, for assets that belong to others, such as scholarship funds and student activities funds. The School System 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. The School System excludes these funds from the system-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the School System as a Whole

The School System's combined net assets decreased \$11.1M net of related debt, or -4.9% which came predominately from the School System's increase in its net OPEB obligation of \$8,933,577. Additionally, pages 19 and 30 explain the change in Capital Assets (Net Capital Assets \$1,965,763 less book value of disposals -\$115,219 = \$1,850,544 or \$1.9M rounded).

Figure A-3
Condensed Statement of Net Assets (in millions of dollars)

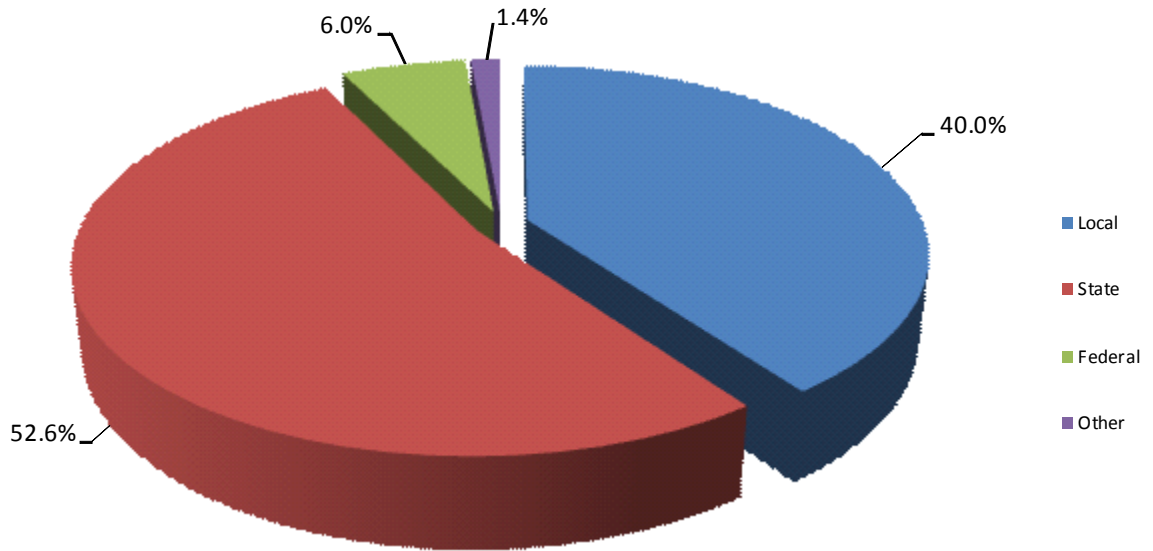
| | Governmental Activities | | Business-type Activities | | Total School System | | Total % Change |
|--|----------------------------|-----------------|-----------------------------|---------------|------------------------|-----------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | |
| Current and other assets | \$ 30.5 | \$ 37.8 | \$ 1.4 | \$ 1.6 | \$ 31.9 | \$ 39.4 | -19.0% |
| Capital assets | 236.7 | 237.1 | 0.6 | 0.6 | 237.3 | 237.7 | -0.2% |
| Total assets | 267.2 | 274.9 | 2.0 | 2.2 | 269.2 | 277.1 | -2.9% |
| Long-term debt outstanding | 29.0 | 23.1 | 0.1 | 0.1 | 29.1 | 23.2 | 25.4% |
| Other liabilities | 21.0 | 23.6 | 0.5 | 0.5 | 21.5 | 24.1 | -10.8% |
| Total liabilities | 50.0 | 46.7 | 0.6 | 0.6 | 50.6 | 47.3 | 7.0% |
| Net assets | | | | | | | |
| Invested in capital assets, net of related debt | 236.7 | 237.1 | 0.6 | 0.6 | 237.3 | 237.7 | -0.2% |
| Restricted | 0.1 | 0.2 | - | - | 0.1 | 0.2 | -50.0% |
| Unrestricted | (19.6) | (9.1) | 0.8 | 1.0 | (18.8) | (8.1) | 132.1% |
| Total net assets | \$ 217.2 | \$ 228.2 | \$ 1.4 | \$ 1.6 | \$ 218.6 | \$ 229.8 | -4.9% |

Figure A-4

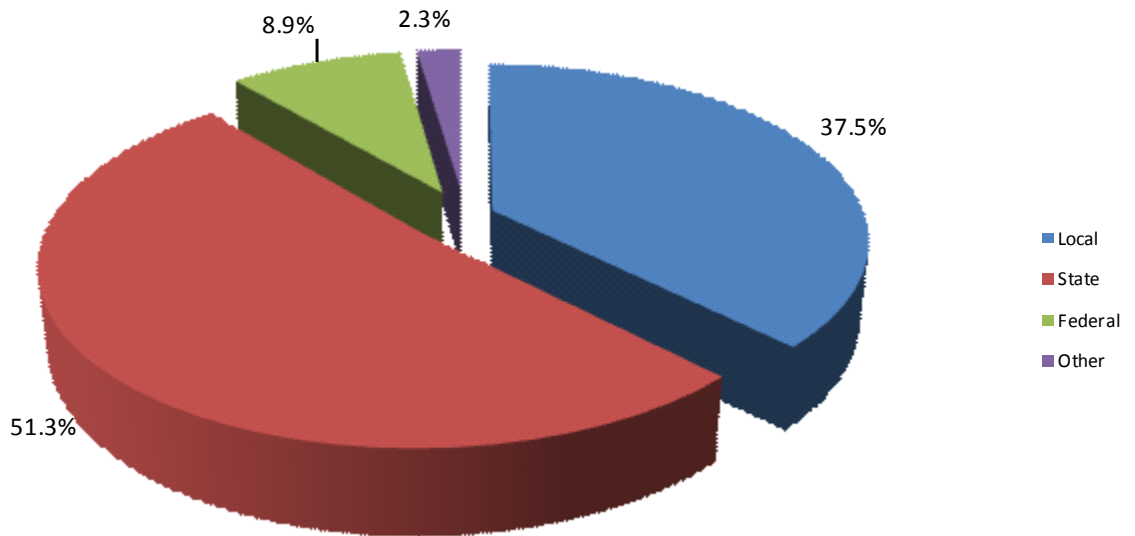
Condensed Statement of Net Activities (in millions of dollars)

| | Governmental Activities | | Business-type Activities | | Total School System | | Total % Change |
|-------------------------------------|----------------------------|------------------|-----------------------------|---------------|------------------------|-----------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | |
| Revenues | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 0.5 | \$ 0.4 | \$ 3.1 | \$ 3.4 | \$ 3.6 | \$ 3.8 | -5.3% |
| Operating grants & contributions | 35.0 | 44.3 | 3.5 | 3.4 | 38.5 | 47.7 | -19.3% |
| Capital grants & contributions | 8.3 | 10.1 | - | - | 8.3 | 10.1 | -17.8% |
| General revenues: | | | | | | | |
| County | 77.0 | 76.0 | - | - | 77.0 | 76.0 | 1.3% |
| State | 80.4 | 76.4 | - | - | 80.4 | 76.4 | 5.2% |
| Federal | 2.8 | 2.6 | - | - | 2.8 | 2.6 | 7.7% |
| Other | 3.8 | 2.8 | - | - | 3.8 | 2.8 | 35.7% |
| Total revenues | 207.8 | 212.6 | 6.6 | 6.8 | 214.4 | 219.4 | -2.3% |
| Expenses | | | | | | | |
| Administrative | 18.6 | 19.1 | - | - | 18.6 | 19.1 | -2.6% |
| Instruction | 76.6 | 78.4 | - | - | 76.6 | 78.4 | -2.3% |
| Special education | 20.2 | 20.1 | - | - | 20.2 | 20.1 | 0.5% |
| Student personnel & health services | 3.0 | 2.9 | - | - | 3.0 | 2.9 | 3.4% |
| Transportation | 15.0 | 14.6 | - | - | 15.0 | 14.6 | 2.7% |
| Operations & maintenance | 25.6 | 26.8 | - | - | 25.6 | 26.8 | -4.5% |
| Fixed charges | 59.8 | 61.0 | - | - | 59.8 | 61.0 | -2.0% |
| Other | - | - | 6.8 | 6.4 | 6.8 | 6.4 | 6.2% |
| Total expenses | 218.8 | 222.9 | 6.8 | 6.4 | 225.6 | 229.3 | -1.6% |
| Change in net assets | \$ (11.0) | \$ (10.3) | \$ (0.2) | \$ 0.4 | \$ (11.2) | \$ (9.9) | 13.1% |

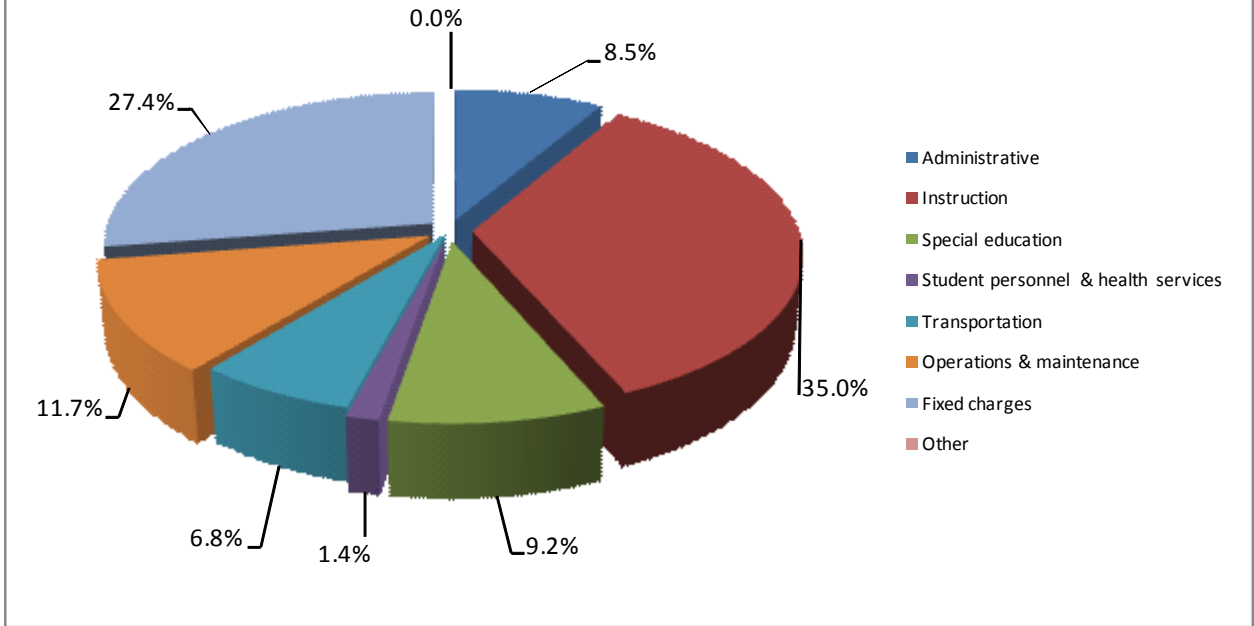
**Figure A-5: Sources of Revenues FY-2012
Governmental Activities**



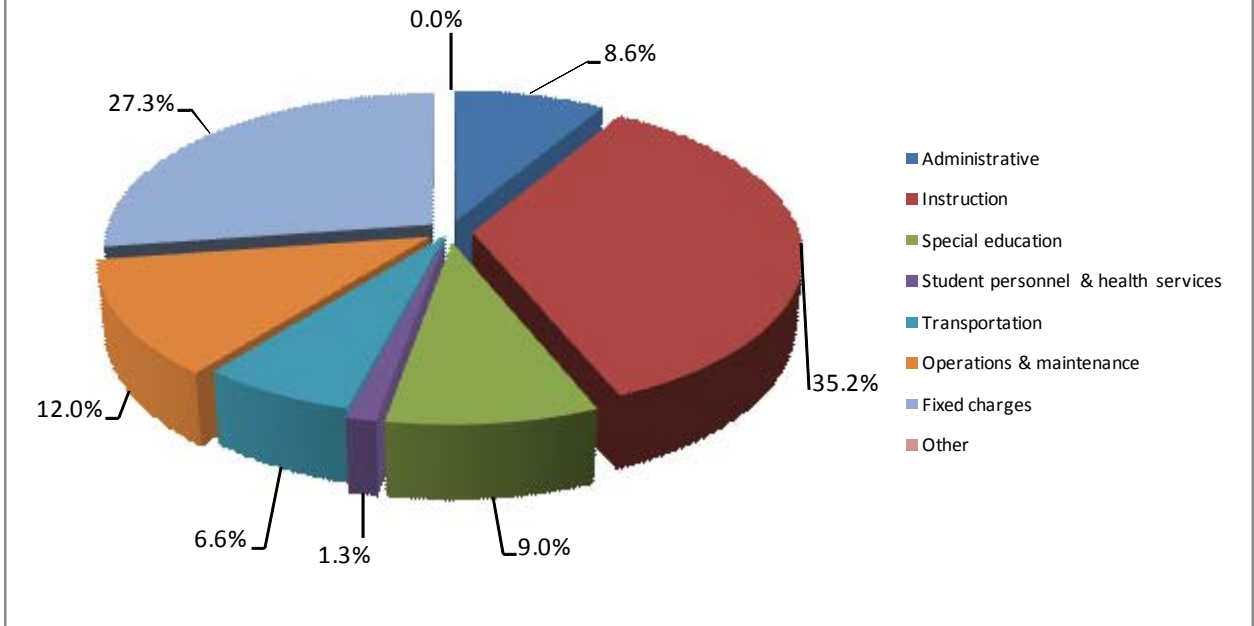
**Figure A-6: Sources of Revenues FY-2011
Governmental Activities**



**Figure A-7: Expenses FY-2012
Governmental Activities**



**Figure A-8: Expenses FY-2011
Governmental Activities**



Governmental Activities:

Variations between budgeted Revenues and Expenses and actual Revenues and Expenses can be attributed to:

- Negatives:
 - Interest Income – Continued National economic factors affecting the banking industry keep interest income low and banking fees high for corporate/business accounts.
 - Fund Balance - Continued heavy reliance on Fund Balance to balance the budget.
 - Increased Expenditures - Significant increased expenditures for Special Education, Health, Transportation, and Fixed Charges.
- Positives:
 - Funding - Slight increases in Local, State, and Federal funding.
 - Health Insurance Refund – HealthCare refund expected again.
 - Reduced Expenditures - Able to reduce costs in several categories from cost saving measures.

Figure A-9
Net Cost of Governmental Activities (in millions of dollars)

| | Total Cost of Services | | | Net Cost of Services | | |
|-------------------------------------|------------------------|-----------------|--------------|----------------------|-----------------|-------------|
| | 2012 | 2011 | % Change | 2012 | 2011 | % Change |
| Administrative | \$ 18.6 | \$ 19.1 | -2.6% | \$ 17.5 | \$ 18.9 | -7.4% |
| Instruction | 76.6 | 78.4 | -2.3% | 72.8 | 74.3 | -2.0% |
| Special education | 20.2 | 20.1 | 0.5% | 12.2 | 10.2 | 19.6% |
| Student personnel & health services | 3.0 | 2.9 | 3.4% | 2.8 | 2.5 | 12.0% |
| Transportation | 15.0 | 14.6 | 2.7% | 8.4 | 8.1 | 3.7% |
| Operations & maintenance | 25.6 | 26.8 | -4.5% | 17.0 | 15.7 | 8.3% |
| Fixed charges | 59.8 | 61.0 | -2.0% | 44.2 | 38.3 | 15.4% |
| Total | \$ 218.8 | \$ 222.9 | -1.8% | \$ 174.9 | \$ 168.0 | 4.1% |

Business-Type Activities

- Net assets for Food Service decreased by \$162,682.

Financial Analysis of the School System’s Funds

The financial performance of the School System as a whole is reflected in its governmental funds as well. The final budget report for FY-2012 General Fund shows a deficit of \$3.5M expenditures over revenues (page 18).

Capital Projects amounted to \$8,349,934 for the year ended June 30, 2012 (page 18). As discussed later, these expenditures were for a full array of capital projects.

General Fund Budgetary Highlights

Expenses exceeded revenues by \$3.6M. Although there were slight increases in all categories of revenues and we controlled costs to the extent possible while still maintaining a high level of service to our students and staff, we had to utilize a large portion of fund balance to balance out the difference between revenues and expenditures.

Over the course of the fiscal year, the School System revised the annual operating budget several times. These budget amendments fall into two categories:

- Shifts within a category to realign the budget to meet emerging needs
- Shifts between categories to cover program changes, or significant price increases
-

Capital Asset and Debt Administration

Capital Assets

During FY-2012, the School System invested \$7,591,108 (prior to depreciation) in a broad range of capital assets, including school buildings, vehicles, and equipment. More information can be found in Note 4 to the basic Financial Statements (page 30).

Figure A-10
Capital Assets (net of depreciation, in millions of dollars)

| | Governmental Activities | | Business-type Activities | | Total School System | | Total % Change |
|----------------------------------|----------------------------|-----------------|-----------------------------|---------------|------------------------|-----------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | |
| Land | \$ 2.5 | \$ 2.5 | \$ - | \$ - | \$ 2.5 | \$ 2.5 | 0.0% |
| Facilities under construction | 4.6 | 0.6 | - | - | 4.6 | 0.6 | 666.7% |
| Buildings | 226.7 | 230.9 | - | - | 226.7 | 230.9 | -1.8% |
| Equipment | 2.8 | 3.0 | 0.6 | 0.6 | 3.4 | 3.6 | -5.6% |
| Total capital assets, net | \$ 236.6 | \$ 237.0 | \$ 0.6 | \$ 0.6 | \$ 237.2 | \$ 237.6 | -0.2% |

Long-term Debt

The long-term debt is expected to grow substantially over the next several years as funding for OPEB remains bleak. Additional information on long-term debt can be found in Note 7 to the basic Financial Statements (page 32).

Figure A-11
Outstanding Long-term Debt (in millions of dollars)

| | Governmental Activities | | Business-type Activities | | Total School System | | Total % Change |
|-----------------------------|----------------------------|----------------|-----------------------------|---------------|------------------------|----------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | |
| Compensated absences | \$ 4.0 | \$ 4.1 | \$ 0.1 | \$ 0.1 | \$ 4.1 | \$ 4.2 | -2.4% |
| Net OPEB obligation | 25.0 | 18.9 | - | - | 25.0 | 18.9 | 32.3% |
| Total long-term debt | \$ 29.0 | \$ 23.0 | \$ 0.1 | \$ 0.1 | \$ 29.1 | \$ 23.1 | 26.0% |

Factors bearing on the School System's Future

At the time these financial statements were prepared and audited, the School System was aware of six items that could significantly affect the financial health in the future:

- The State of Maryland continues to struggle with its budget. Federal ARRA, RTTT, and other programs are offering some financial relief, but only for a short time period. Long term economic health of the State will severely impact all school systems within Maryland.
- GASB 45 requires St. Mary's County Public Schools to recognize the liability associated with post employment benefits. This adds approximately \$9M annually to our operating budget if fully funded. Presently, it is a voluntary requirement, but if we do not fund the liability, it will grow and impact future budgets. We are currently \$25M short of being fully funded as of June 30, 2012.
- The costs of fossil based fuels can rise at any time and will impact several areas of the budget but most noticeably in Transportation and Operations. All of our bus contracts have an escalation clause whereby contractors can pass the additional cost of diesel fuel on to the school system. The electric company supplying electricity to the school system will increase rates depending on the service provided and usage.
- While we continue to experience favorable rates and claims, the trend in healthcare costs is up. With the increase of both additional employees due to population growth and retirees, our medical insurance expenditures will continue to grow as a percent of the budget as a whole. Although we expect a refund for 2012, we have changed our contract with Carefirst to a pay-go method more commonly practiced by most governmental agencies. As such no more refunds will be planned as we will be paying on actual claims and not premiums during the year.
- Funding for the retirement of staff members currently enrolled in the Teacher's Pension System is now being pushed back to the local school systems starting in fiscal year 2013. Time will tell how the shifting of revenues, MOE and other things will impact us for this new requirement but in the long run we expect this to be a burden for the LEA's and county governments.
- Funding levels continue to remain at a level insufficient to hire and maintain adequate staffing levels for several areas. We have identified areas that are susceptible to internal control weaknesses that if not addressed could lead to errors, lateness, fraud or even theft of school system assets.

Contacting SMCPs' Financial Management

This financial report is designed to provide the School System's citizens, stakeholders, elected officials, and the financial market with a general overview of the School System's finances and to demonstrate accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Assistant Superintendent of Fiscal Services and Human Resources, St. Mary's County Public Schools, 23160 Moakley Street, Leonardtown, Maryland 20650.

BASIC FINANCIAL STATEMENTS

St. Mary's County Public Schools

**Statement Of Net Assets
June 30, 2012**

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|-----------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 23,340,715 | \$ 453,128 | \$ 23,793,843 |
| Certificate of deposit | 81,837 | - | 81,837 |
| Due from other governments | 4,471,570 | 115,670 | 4,587,240 |
| Internal balances | (555,666) | 555,666 | - |
| Other receivables, net | 3,092,474 | 57,588 | 3,150,062 |
| Inventory, at cost | - | 237,971 | 237,971 |
| Prepaid items | 48,883 | - | 48,883 |
| Capital Assets: | | | |
| Land | 2,545,293 | - | 2,545,293 |
| Buildings and improvements | 334,040,066 | - | 334,040,066 |
| Furniture and equipment | 7,822,138 | 1,617,164 | 9,439,302 |
| Construction in process | 4,633,825 | - | 4,633,825 |
| Less accumulated depreciation | (112,344,499) | (1,028,955) | (113,373,454) |
| Total assets | 267,176,636 | 2,008,232 | 269,184,868 |
| Liabilities | | | |
| Accounts payable | 4,782,728 | 17,950 | 4,800,678 |
| Accrued salaries and related costs | 14,577,101 | 287,324 | 14,864,425 |
| Due to other governments | 258,320 | - | 258,320 |
| Deferred revenue | 1,311,168 | 121,770 | 1,432,938 |
| Long-term liabilities: | | | |
| Due within one year: | | | |
| Compensated absences | 545,704 | 10,231 | 555,935 |
| Due after one year: | | | |
| Compensated absences | 3,457,367 | 123,320 | 3,580,687 |
| Net OPEB obligation | 25,033,380 | - | 25,033,380 |
| Total liabilities | 49,965,768 | 560,595 | 50,526,363 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 236,696,823 | 588,209 | 237,285,032 |
| Restricted for: | | | |
| Capital projects | 79,776 | - | 79,776 |
| Unrestricted | (19,565,731) | 859,428 | (18,706,303) |
| Total net assets | \$ 217,210,868 | \$ 1,447,637 | \$ 218,658,505 |

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Activities
Year Ended June 30, 2012**

| Function/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue And Changes In Net Assets | | |
|---|-----------------------|-------------------------|--|--|--|---------------------------------|-----------------------|
| | | Charges For Services | Operating Grants And Contributions | Capital Grants And Contributions | Governmental Activities | Business- Type Activities | Total |
| Governmental activities: | | | | | | | |
| Administration | \$ 3,994,801 | \$ - | \$ 957,256 | \$ - | \$ (3,037,545) | \$ - | \$ (3,037,545) |
| Mid-level administration | 14,579,308 | - | 125,971 | - | (14,453,337) | - | (14,453,337) |
| Instructional salaries | 72,252,816 | - | 2,599,480 | - | (69,653,336) | - | (69,653,336) |
| Instructional textbooks and supplies | 2,965,917 | 221,345 | 547,716 | - | (2,196,856) | - | (2,196,856) |
| Other instructional costs | 1,380,087 | - | 423,857 | - | (956,230) | - | (956,230) |
| Special education | 20,240,613 | - | 8,027,478 | - | (12,213,135) | - | (12,213,135) |
| Student personnel services | 1,160,759 | - | 106,669 | - | (1,054,090) | - | (1,054,090) |
| Student health services | 1,867,610 | - | 32,919 | - | (1,834,691) | - | (1,834,691) |
| Student transportation services | 14,982,419 | - | 6,547,744 | - | (8,434,675) | - | (8,434,675) |
| Operation of plant | 20,337,179 | 241,137 | 32,860 | 8,349,934 | (11,713,248) | - | (11,713,248) |
| Maintenance of plant | 5,293,441 | - | 38,104 | - | (5,255,337) | - | (5,255,337) |
| Community services | 10,388 | - | 10,388 | - | - | - | - |
| Fixed charges | 59,774,973 | - | 15,596,067 | - | (44,178,906) | - | (44,178,906) |
| Total governmental activities | 218,840,311 | 462,482 | 35,046,509 | 8,349,934 | (174,981,386) | - | (174,981,386) |
| Business-type activities: | | | | | | | |
| Food services | 6,843,280 | 3,148,110 | 3,532,488 | - | - | (162,682) | (162,682) |
| Total business-type activities | 6,843,280 | 3,148,110 | 3,532,488 | - | - | (162,682) | (162,682) |
| Total primary government | \$ 225,683,591 | \$ 3,610,592 | \$ 38,578,997 | \$ 8,349,934 | (174,981,386) | (162,682) | (175,144,068) |
| General revenues: | | | | | | | |
| Unrestricted grants and contributions: | | | | | | | |
| Local | | | | | 77,045,860 | - | 77,045,860 |
| State | | | | | 80,412,905 | - | 80,412,905 |
| Federal | | | | | 2,842,899 | - | 2,842,899 |
| Investment earnings | | | | | 7,752 | 406 | 8,158 |
| Other | | | | | 3,773,541 | - | 3,773,541 |
| Total general revenues | | | | | 164,082,957 | 406 | 164,083,363 |
| Change in net assets | | | | | (10,898,429) | (162,276) | (11,060,705) |
| Net assets: | | | | | | | |
| Beginning | | | | | 228,109,297 | 1,609,913 | 229,719,210 |
| Ending | | | | | \$ 217,210,868 | \$ 1,447,637 | \$ 218,658,505 |

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Balance Sheet - Governmental Funds
June 30, 2012**

| | General Fund | Capital Projects Fund | Total Governmental Funds |
|--|----------------------|--------------------------|--------------------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 23,320,217 | \$ 20,498 | \$ 23,340,715 |
| Certificate of deposit | - | 81,837 | 81,837 |
| Due from other governments | 2,907,517 | 1,564,053 | 4,471,570 |
| Due from other funds | 65,194 | - | 65,194 |
| Other receivables | 3,090,879 | - | 3,090,879 |
| Prepaid items | 48,883 | - | 48,883 |
| Total assets | \$ 29,432,690 | \$ 1,666,388 | \$ 31,099,078 |
| Liabilities And Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 3,325,957 | \$ 1,439,056 | \$ 4,765,013 |
| Accrued salaries and related costs | 14,577,101 | - | 14,577,101 |
| Due to other governments | 258,320 | - | 258,320 |
| Due to other funds | 573,381 | 63,599 | 636,980 |
| Deferred revenue | 3,016,728 | 83,957 | 3,100,685 |
| Total liabilities | 21,751,487 | 1,586,612 | 23,338,099 |
| Fund Balances: | | | |
| Non-spendable | 48,883 | - | 48,883 |
| Restricted | - | 79,776 | 79,776 |
| Committed | 1,000,000 | - | 1,000,000 |
| Assigned | 1,879,710 | - | 1,879,710 |
| Unassigned | 4,752,610 | - | 4,752,610 |
| Total fund balances | 7,681,203 | 79,776 | 7,760,979 |
| Total liabilities and fund balances | \$ 29,432,690 | \$ 1,666,388 | \$ 31,099,078 |

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Reconciliation Of The Governmental Funds Balance Sheet
To The Statement Of Net Assets
June 30, 2012**

| | |
|--|--------------|
| Total fund balances - governmental funds | \$ 7,760,979 |
|--|--------------|

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

| | | |
|--------------------------|----------------------|-------------|
| Cost of capital assets | \$ 349,041,322 | |
| Accumulated depreciation | <u>(112,344,499)</u> | 236,696,823 |

| | |
|---|-----------|
| Retrospective insurance premium refund will be collected subsequent to June 30, 2012, but is not available soon enough to pay for the current period's expenditures, and therefore is deferred in the general fund. | 1,789,517 |
|---|-----------|

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

| | | |
|----------------------|-------------------|---------------------|
| Compensated absences | 4,003,071 | |
| Net OPEB obligation | <u>25,033,380</u> | <u>(29,036,451)</u> |

| | |
|---|------------------------------|
| Total net assets - governmental activities | <u>\$ 217,210,868</u> |
|---|------------------------------|

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Revenues, Expenditures, And Changes In Fund Balances -
Governmental Funds
Year Ended June 30, 2012**

| | General Fund | Capital Projects Fund | Total Governmental Funds |
|--------------------------------------|---------------------|--------------------------|--------------------------------|
| Revenues: | | | |
| Local | \$ 77,045,860 | \$ 6,080,747 | \$ 83,126,607 |
| State of Maryland | 107,094,973 | 2,269,187 | 109,364,160 |
| Federal government | 12,526,312 | - | 12,526,312 |
| Tuition | 182,413 | - | 182,413 |
| Investment income | 7,731 | 21 | 7,752 |
| Other | 3,879,056 | - | 3,879,056 |
| | <u>200,736,345</u> | <u>8,349,955</u> | <u>209,086,300</u> |
| Expenditures: | | | |
| Current: | | | |
| Administration | 3,965,791 | - | 3,965,791 |
| Mid-level administration | 14,570,995 | - | 14,570,995 |
| Instructional salaries | 72,252,816 | - | 72,252,816 |
| Instructional textbooks and supplies | 2,965,917 | - | 2,965,917 |
| Other instructional costs | 1,305,439 | - | 1,305,439 |
| Special education | 20,239,122 | - | 20,239,122 |
| Student personnel services | 1,160,077 | - | 1,160,077 |
| Student health services | 1,867,610 | - | 1,867,610 |
| Student transportation services | 14,956,319 | - | 14,956,319 |
| Operation of plant | 12,928,766 | - | 12,928,766 |
| Maintenance of plant | 3,386,948 | - | 3,386,948 |
| Community services | 10,388 | - | 10,388 |
| Fixed charges | 53,792,116 | - | 53,792,116 |
| Capital outlay | 717,220 | 8,349,934 | 9,067,154 |
| | <u>204,119,524</u> | <u>8,349,934</u> | <u>212,469,458</u> |
| Net change in fund balances | (3,383,179) | 21 | (3,383,158) |
| Fund balance at beginning of year | 11,064,382 | 79,755 | 11,144,137 |
| Fund balance at end of year | <u>\$ 7,681,203</u> | <u>\$ 79,776</u> | <u>\$ 7,760,979</u> |

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

Reconciliation Of The Governmental Funds Statement Of Revenues, Expenditures, And Changes In Fund Balances To The Statement Of Activities Year Ended June 30, 2012

| | |
|--|----------------|
| Total net change in fund balances - governmental funds | \$ (3,383,158) |
|--|----------------|

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation of \$7,934,978 exceeds capital outlays of \$7,542,997 for the period. (391,981)

Because the retrospective insurance premium refund will not be collected for several months after the School System's fiscal year ends, it is not considered "available" revenue in the governmental funds. Deferred revenue decreased by this amount this year. (1,140,433)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave amounts paid of \$294,622, exceeded amounts earned of \$172,316. 122,306

In the statement of activities, OPEB costs are measured by the amounts earned during the year as actuarially computed. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, accrued OPEB benefits earned of \$12,481,000, exceeded amounts contributed of \$6,375,837. (6,105,163)

Change in net assets of governmental activities

\$ (10,898,429)

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Net Assets - Proprietary Fund
June 30, 2012**

| | Enterprise Fund |
|---|----------------------------|
| Assets | |
| Current Assets: | |
| Cash and cash equivalents | \$ 453,128 |
| Due from other governments | 115,670 |
| Due from other funds | 555,666 |
| Accounts receivable, net | 57,588 |
| Inventory, at cost | 237,971 |
| | <u>1,420,023</u> |
| Noncurrent Assets: | |
| Food service equipment | 1,617,164 |
| Less accumulated depreciation | <u>(1,028,955)</u> |
| | 588,209 |
| Total assets | <u><u>2,008,232</u></u> |
| Liabilities | |
| Current Liabilities: | |
| Accounts payable | 17,950 |
| Accrued salaries and related costs | 287,324 |
| Deferred revenue | 121,770 |
| Compensated absences | 10,231 |
| | <u>437,275</u> |
| Noncurrent Liabilities: | |
| Compensated absences | <u>123,320</u> |
| Total liabilities | <u>560,595</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 588,209 |
| Unrestricted | 859,428 |
| Total net assets | <u><u>\$ 1,447,637</u></u> |

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Revenues, Expenses, And Changes in Fund Net Assets -
Proprietary Fund
Year Ended June 30, 2012**

| | Enterprise Fund |
|-------------------------------------|---------------------|
| <hr/> | |
| Operating revenues: | |
| Food service sales | \$ 3,148,110 |
| Federal grants and commodities | 3,318,665 |
| State matching and other | 213,823 |
| Total operating revenue | <u>6,680,598</u> |
| | |
| Operating expenses: | |
| Payroll costs | 3,468,328 |
| Professional and contract services | 42,343 |
| Supplies and materials | 2,952,055 |
| Depreciation | 102,913 |
| Other operating costs | 277,641 |
| Total operating expenses | <u>6,843,280</u> |
| | |
| Operating loss | <u>(162,682)</u> |
| | |
| Non-operating revenues: | |
| Interest income | 406 |
| | <u>406</u> |
| | |
| Change in net assets | (162,276) |
| | |
| Total net assets, beginning of year | 1,609,913 |
| Total net assets, end of year | <u>\$ 1,447,637</u> |

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Cash Flows - Proprietary Fund
Year Ended June 30, 2012**

| | Enterprise Fund |
|--|--------------------|
| <hr/> | |
| Cash Flows From Operating Activities | |
| Cash received from user charges | \$ 3,260,878 |
| Operating grants and subsidies received | 3,238,855 |
| Payments to employees for services | (3,435,100) |
| Payments to suppliers for goods and services | (2,673,654) |
| Payments for other operating expenses | (319,984) |
| Net provided by operating activities | <u>70,995</u> |
| Cash Flows From Non-Capital Financing Activities | |
| Internal activity - net payments to other funds | (114,776) |
| Net cash used in non-capital financing activities | <u>(114,776)</u> |
| Cash Flows From Capital And Related Financing Activities | |
| Acquisition of capital assets | (48,111) |
| Net cash used in capital and related financing activities | <u>(48,111)</u> |
| Cash Flows From Investing Activities | |
| Interest received on investments | 406 |
| Net cash provided by investing activities | <u>406</u> |
| Net decrease in cash and cash equivalents | (91,486) |
| Cash And Cash Equivalents: | |
| Beginning | 544,614 |
| Ending | <u>\$ 453,128</u> |
| Reconciliation Of Operating Loss To Net Cash Provided By Operating Activities | |
| Operating loss | \$ (162,682) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation | 102,913 |
| Changes in assets and liabilities: | |
| Due from other governments | 63,710 |
| Receivables | 87,270 |
| Inventory | 37,391 |
| Accounts payable | (116,333) |
| Accrued salaries and related costs | 4,749 |
| Deferred revenue | 25,498 |
| Compensated absences | 28,479 |
| Net cash provided by operating activities | <u>\$ 70,995</u> |

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

Statement Of Fiduciary Net Assets - Fiduciary Funds
June 30, 2012

| | Private-Purpose Trust Fund | Agency Funds |
|---------------------------|-------------------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 102,205 | \$ 1,417,572 |
| Due from other funds | - | 17,715 |
| Total assets | <u>102,205</u> | <u>\$ 1,435,287</u> |
| Liabilities | | |
| Due to other funds | 1,595 | \$ - |
| Due to student groups | - | 1,435,287 |
| Total liabilities | <u>1,595</u> | <u>\$ 1,435,287</u> |
| Net Assets | | |
| Reserved for scholarships | <u>\$ 100,610</u> | |

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Changes In Fiduciary Net Assets -
Private-Purpose Trust Fund
Year Ended June 30, 2012**

| | |
|-----------------------------|-----------------------------------|
| Additions | |
| Investment and other income | <u>\$ 103</u> |
| Deductions | |
| Scholarships awarded | <u> 1,550</u> |
| Change in net assets | (1,447) |
| Net Assets | |
| Beginning | <u> 102,057</u> |
| Ending | <u><u>\$ 100,610</u></u> |

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 1. Overview And Summary Of Significant Accounting Policies

In Maryland, public schools are part of a statewide system of county school boards. The school boards' political boundaries conform to the county boundaries. The purpose of St. Mary's County Public Schools ("School System") is to operate the local public school system in accordance with state and community standards.

The School System does not have the authority to levy any taxes or incur debt. Schools are funded with local, state and federal monies. St. Mary's County, Maryland has oversight responsibility for approval and partial funding of the School System's operating budget.

The School System is a component unit of St. Mary's, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the School System.

The School System's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB), issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. Although the School System has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the School System has chosen not to do so. The more significant policies of the School System are described below:

A. Government-Wide Financial Statements

The government-wide financial statements report information on all of the non-fiduciary activities of the School System as a whole and categorize primary activities as either governmental or business-type. The School System's food service program is classified as a business-type activity.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School System's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The School System first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reduces gross expenses by directly related program revenues. Program revenues include: (1) charges to students or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational requirements of a particular function. Other income including investment income and grants and contributions that are not restricted to meeting the operational requirements of a particular function are instead reported as general revenues. The School System does not allocate indirect costs.

B. Fund Financial Statements

The financial transactions of the School System are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. School System resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The emphasis in the fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. GASB Statement No. 34, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The various funds are grouped, in the financial statements in this report, into five generic fund types and three broad fund categories as follows:

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 1. Overview And Summary Of Significant Accounting Policies (Continued)

Governmental Funds:

General Fund: The General Fund is the general operating fund of the School System. It is used to account for all financial resources except those required to be accounted for in another fund. This fund includes appropriations and grants.

Capital Projects Fund: The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Both the General and Capital Projects Funds have been classified as major funds in the accompanying fund financial statements.

Proprietary Fund:

Enterprise Fund: The Enterprise Fund is used to account for the operations of the food service program. The Enterprise Fund is presented in the business-type activities column in the government-wide financial statements.

The Proprietary Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods or services in connection with a proprietary fund's ongoing operations. Operating revenue of the Enterprise Fund consists of fees charged to users of food services along with state and federal subsidies and grants received for providing such services. Operating expenses of the Enterprise Fund consist of employee salaries and benefits, supplies, materials, administrative costs, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Fiduciary Funds:

Agency Funds: Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School Activity Fund accounts for the funds of other persons or organizations which are the direct responsibility of the principals of the respective schools.

Private Purpose Trust Fund: The Private Purpose Trust Fund accounts for the assets donated to the School System to finance memorial scholarships, which are limited to revenues earned.

Since by definition Fiduciary Funds assets are being held for the benefit of a third party and cannot be used to satisfy obligations of the School System, they are not incorporated into the government-wide financial statements.

C. Basis Of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. United States Department of Agriculture (USDA) food commodities are recorded as revenue and expense when they are consumed.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 1. Overview And Summary Of Significant Accounting Policies (Continued)

The governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School System considers revenues to be available if they are collected within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include debt service expenditures, and expenditures related to compensated absences which are recorded only when payment is due.

D. Cash And Cash Equivalents

The School System's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less. Short-term investments are stated at fair value, and consist of investments in the Maryland Local Government Investment Pool (MLGIP). Fair value generally approximates cost.

E. Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation in the government-wide financial statements. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as internal balances. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

F. Accounts Receivable

Food services are accounted for in the Enterprise Fund. Receivables are carried at original invoice less an estimate for doubtful accounts. It is management's policy to provide an allowance for all balances greater than one year old. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

G. Inventory

Inventory is valued at the lower of cost, determined by using the first-in, first-out method of accounting, or market. Inventory in the Enterprise Fund consists of expendable food and supplies held for consumption. The cost is recorded as an asset at the time individual inventory items are purchased. As inventory is consumed, the cost is charged to expenses.

H. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Library books are expensed at the time they are purchased. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset, are capitalized. Other costs incurred for repairs and maintenance is expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|----------------------------|---------------|
| Buildings and improvements | 20 – 50 years |
| Furniture and equipment | 5 – 15 years |

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 1. Overview And Summary Of Significant Accounting Policies (Continued)

I. Long-Term Debt

The School System is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the county and state governments. The authorization for expenditures related to debt service for school construction is in the County's Operating Budget. The County, not the School System, reflects annual debt service expenditures for school construction in their annual financial statements. However, the School System does reflect long-term debt in their financial statements for financing agreement obligations for the purchase and construction of its central office facility, buses, vehicles, computer equipment, and compensated absences.

J. Compensated Absences

The School System accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30. The accrual of sick leave is based on payment upon retirement or death of a maximum of \$1,750 for each non-certificated employee and a maximum of \$3,200 for each professional employee at the regular daily rate of pay if the employee has worked for the school system for 10 years. Sick leave is estimated to be earned once an employee has attained either 55 years of age with 10 years of service in the School System, or 25 years of service with the School System, or 20 years of service in the State of Maryland regardless of age.

For governmental funds, the amount of accumulated unpaid vacation and sick leave which is payable from available resources, is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations. As of June 30, 2012, no accumulated unpaid vacation or sick leave had matured, resulting in them being maintained separately and being a reconciling item between the fund and government-wide financial statement presentations.

K. Post Employment Benefits

By terms of a negotiated contract with employee associations, the School System partially supports the group insurance plan for retired employees who have been employed by the School System for ten (10) or more years. Effective July 1, 2007, these negotiated agreements provide that the Board will contribute from 45 percent to 65 percent of a retirees' group health insurance premium for years of experience ranging from 10 years to 30 or more years, respectively. Historically these expenditures were expected to be financed on a pay-as-you-go basis; however in conjunction with the adoption of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the School System has elected to partially fund the actuarially determined costs for future periods as further discussed in Note 11.

L. Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

M. Fund Balances

The School System was required to adopt GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended June 30, 2012. The categories of fund balance presented in the School System's financial statements have changed as a result of implementing this Statement, see Note 8 for further details. The Board of Education must approve a motion in order to establish a fund balance commitment or assignment and only needs to approve the elimination of a fund balance commitment. The School System first considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. When unrestricted amounts are considered to have been spent, the School System considers committed amounts first, then assigned, and finally unassigned when a expenditure is incurred for which amounts in any of those unrestricted fund balance classifications could be used.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 1. Overview And Summary Of Significant Accounting Policies (Continued)

N. 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 invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School System or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. Subsequent Events

The School System evaluated subsequent events through September 24, 2012, which represents the date the financial statements were available to be issued.

Note 2. Cash And Cash Equivalents And Certificate Of Deposit

Deposits:

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the School System's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the School System must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2012, all of the School System's deposits, including the certificate of deposit, were either covered by federal depository insurance or were covered by collateral held by the School System's agent in the School System's name.

Short-term Investments:

Maryland State Law authorizes the School System to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations, the State's sponsored investment pool, or interest bearing accounts in any bank. At June 30, 2012, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value of such investments were \$16,607,943, \$405,384, and \$783,850 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

Long-term Investment:

As of June 30, 2012, the School System's long term investment consisted of a certificate of deposit which matures as follows:

| | Fair Value | Investment Maturities | | | |
|---------------------------------|------------|-----------------------|--------------|---------------|--------------------|
| | | Less Than 1 Year | 1 To 5 Years | 6 To 10 Years | More Than 10 Years |
| Governmental Activities: | | | | | |
| Certificate of deposit | \$ 81,837 | \$ 81,837 | \$ - | \$ - | \$ - |

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 3. Receivables And Payables

Receivables and payables at June 30, 2012, consist of the following:

| | Governmental Activities | | Business-Type Activities | Total |
|---|-------------------------|---------------------|-----------------------------|---------------------|
| | General | Capital Projects | | |
| Due from other governments: | | | | |
| Local | \$ 39,605 | \$ 1,209,453 | \$ - | \$ 1,249,058 |
| State | 262,531 | 354,600 | 32,914 | 650,045 |
| Federal | 2,605,381 | - | 82,756 | 2,688,137 |
| | <u>\$ 2,907,517</u> | <u>\$ 1,564,053</u> | <u>\$ 115,670</u> | <u>\$ 4,587,240</u> |
| Other receivables: | | | | |
| Account | \$ 296,568 | \$ - | \$ 57,588 | \$ 354,156 |
| Chesapeake Public Charter School | 494,311 | - | - | 494,311 |
| Retrospective insurance refund | 2,300,000 | - | - | 2,300,000 |
| Due from Fiduciary Funds to General Fund reclassified in Statement of Net Assets | 1,595 | - | - | 1,595 |
| | <u>\$ 3,092,474</u> | <u>\$ -</u> | <u>\$ 57,588</u> | <u>\$ 3,150,062</u> |
| Accounts payable: | | | | |
| Vendors | \$ 2,490,436 | \$ 1,198,986 | \$ 17,950 | \$ 3,707,372 |
| Insurance refund due employees | 835,521 | - | - | 835,521 |
| Contractor retainages | - | 240,070 | - | 240,070 |
| Due from General Fund to Fiduciary Funds reclassified in Statement of Net Assets | 17,715 | - | - | 17,715 |
| | <u>\$ 3,343,672</u> | <u>\$ 1,439,056</u> | <u>\$ 17,950</u> | <u>\$ 4,800,678</u> |
| Due to other governments: | | | | |
| Local | \$ 258,320 | \$ - | \$ - | \$ 258,320 |

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2012, is as follows:

| | Balance, June 30, 2011 | Additions | Deletions / Transfers | Balance, June 30, 2012 |
|--|---------------------------|---------------------|--------------------------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,545,293 | \$ - | \$ - | \$ 2,545,293 |
| Construction in process | 648,894 | 6,279,997 | (2,295,066) | 4,633,825 |
| | <u>3,194,187</u> | <u>6,279,997</u> | <u>(2,295,066)</u> | <u>7,179,118</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 330,879,336 | 865,664 | 2,295,066 | 334,040,066 |
| Furniture and equipment | 7,590,226 | 397,336 | (165,424) | 7,822,138 |
| | <u>338,469,562</u> | <u>1,263,000</u> | <u>2,129,642</u> | <u>341,862,204</u> |
| Accumulated depreciation for: | | | | |
| Buildings and improvements | (99,974,248) | (7,333,375) | - | (107,307,623) |
| Furniture and equipment | (4,600,697) | (601,603) | 165,424 | (5,036,876) |
| | <u>(104,574,945)</u> | <u>(7,934,978)</u> | <u>165,424</u> | <u>(112,344,499)</u> |
| Governmental activities capital assets, net | <u>\$ 237,088,804</u> | <u>\$ (391,981)</u> | <u>\$ -</u> | <u>\$ 236,696,823</u> |

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 4. Capital Assets (Continued)

| | Balance June 30, 2011 | Additions | Deletions / Transfers | Balance June 30, 2012 |
|---|--------------------------|--------------------|--------------------------|--------------------------|
| Business-type activities: | | | | |
| Capital assets being depreciated: | | | | |
| Furniture and equipment | \$ 1,569,053 | \$ 48,111 | \$ - | \$ 1,617,164 |
| Accumulated depreciation for: | | | | |
| Furniture and equipment | (926,042) | (102,913) | - | (1,028,955) |
| Business-type activities capital assets, net | \$ 643,011 | \$ (54,802) | \$ - | \$ 588,209 |

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2012, as follows:

| | |
|----------------------------------|---------------------|
| Governmental activities: | |
| Administration | \$ 100,020 |
| Mid-level administration | 22,429 |
| Other instructional costs | 152,826 |
| Special education | 8,796 |
| Student personnel services | 682 |
| Student transportation services | 131,858 |
| Operation of plant | 7,513,344 |
| Maintenance of plant | 5,023 |
| | <u>\$ 7,934,978</u> |
| Business-type activities: | |
| Food services | <u>\$ 102,913</u> |

Note 5. Deferred Revenue

General Fund: Deferred revenue primarily consists of the retrospective insurance premium refund totaling \$1,789,517 and MABE insurance claim of \$8,658 which will be collected subsequent to June 30, 2012, but is not available soon enough to pay for the current period's expenditures, and therefore is deferred. The remaining deferred revenue consists of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2012 of \$1,203,903, and summer school tuition \$14,650, which is collected in advance of the corresponding expenditures which do not occur until the following fiscal year.

Capital Projects Fund: Deferred revenue primarily consists of funds received for a removal security to be used either towards the purchase of, or removal of an installed solar generating facility upon the expiration of a solar power purchase agreement in the amount of \$81,837. The remaining deferred revenue consists of revenue received in advance from the County for expenditures associated with relocatable classrooms of \$2,120.

Enterprise Fund: Deferred revenue of \$121,770 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2013.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 6. Interfund Balances

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

| Payable Fund | Receivable Fund | | |
|-----------------------|------------------|-------------------|------------------|
| | General | Enterprise | Agency |
| General | \$ - | \$ 555,666 | \$ 17,715 |
| Capital Projects | 63,599 | - | - |
| Private-Purpose Trust | 1,595 | - | - |
| | <u>\$ 65,194</u> | <u>\$ 555,666</u> | <u>\$ 17,715</u> |

The above balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund receivables and payables are non interest-bearing and are normally settled in the subsequent period.

Note 7. Long-Term Liabilities

General long-term debt at June 30, 2012, consists of accumulated compensated absences payable and net OPEB obligation. The following is a summary of changes in the School System's general long-term liabilities for the year ended June 30, 2012:

| | Balance, June 30, 2011 | Additions | Deductions | Balance, June 30, 2012 | Amounts Due Within One Year |
|----------------------------------|---------------------------|----------------------|-----------------------|---------------------------|--------------------------------|
| Governmental activities: | | | | | |
| Compensated absences | \$ 4,125,379 | \$ 172,314 | \$ (294,622) | \$ 4,003,071 | \$ 545,704 |
| Net OPEB obligation | 18,928,217 | 12,481,000 | (6,375,837) | 25,033,380 | - |
| | <u>\$ 23,053,596</u> | <u>\$ 12,653,314</u> | <u>\$ (6,670,459)</u> | <u>\$ 29,036,451</u> | <u>\$ 545,704</u> |
| Business-type activities: | | | | | |
| Compensated absences | \$ 105,072 | \$ 32,261 | \$ (3,782) | \$ 133,551 | \$ 10,231 |

The compensated absences liability attributable to the governmental activities will be liquidated solely by the General Fund.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 8. Governmental Fund Balances

Governmental fund balances at June 30, 2012, are summarized as follows:

| | General Fund | Capital Projects | Total |
|-------------------------------------|---------------------|---------------------|---------------------|
| Non-spendable: | | | |
| Prepaid items | \$ 48,883 | \$ - | \$ 48,883 |
| Restricted for: | | | |
| Capital Projects | - | 79,776 | 79,776 |
| Committed to: | | | |
| Insurance call | 1,000,000 | - | 1,000,000 |
| Assigned to: | | | |
| Fund balance usage | 1,000,000 | - | 1,000,000 |
| Administrative | 24,186 | - | 24,186 |
| Instruction | 189,501 | - | 189,501 |
| Special education | 298 | - | 298 |
| Transportation | 194,666 | - | 194,666 |
| Building operations and maintenance | 446,858 | - | 446,858 |
| Other | 24,201 | - | 24,201 |
| | <u>1,879,710</u> | <u>-</u> | <u>1,879,710</u> |
| Unassigned | <u>4,752,610</u> | <u>-</u> | <u>4,752,610</u> |
| Total fund balances | <u>\$ 7,681,203</u> | <u>\$ 79,776</u> | <u>\$ 7,760,979</u> |

Note 9. Risk Management

The School System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disasters. The School System is one of seventeen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Group Insurance Pool (the Pool), a public entity risk pool organized as a trust. The School System pays an annual premium to the Pool for its property, liability, and automobile coverage. Such premiums are actuarially calculated for the Pool as a whole, based on loss data, and are allocated to members based on student enrollment and number and type of vehicles as well as experience modification factors. The Pool is reinsured on a claims-made basis for legal liability, covering claims aggregating \$5 million per district per year.

Additionally, the School System is one of sixteen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Workers' Compensation Group Self-Insurance Fund (the Fund). The Fund was established to provide workers' compensation indemnity and medical benefits coverage for participating school boards. The Fund is operated under regulations promulgated by the State's Workers' Compensation Commission (COMAR 14.09.02). Each Fund participant pays an annual premium calculated on its payroll, according to the standard classifications, with an experience modification applied. Although premiums billed to the Fund members are determined on an actuarial basis, ultimate liability for claims remains with the respective members and accordingly, the insurance risks are not transferred to the Fund. Six months following the end of the Fund's fiscal year, the Fund's trustees declare unneeded funds as surplus and distribute as dividends to the Fund members. This dividend distribution is made no sooner than one year after the close of that fiscal year. The Fund carries an excess insurance policy providing specific excess and employer liability protection coverages, thus reducing the potential of assessment against Fund members. The Fund provides coverage for up to a maximum of \$400,000 for each worker's compensation claim.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 9. Risk Management (Continued)

Settled claims from these risks have not exceeded the planned coverage during any of the past three years.

The School System is under a modified retrospective billing arrangement with a commercial insurance carrier to provide group health coverage. Under this arrangement, the insurance carrier assesses an initial charge paid by the School System through monthly premiums. At the end of the coverage period, there is a settlement of the difference between the billed premium and the actual claims and expenses. A deficiency in the billed premium represents the callable margin, which is owed by the School System, up to a maximum of 5 percent. If the actual claims and expenses are less than the billed premium, the School System would be entitled to a refund. For the year ended June 30, 2012, management has accrued an estimated refund of \$2,300,000. Under a teacher's agreement, the teachers are entitled to a portion of the refund attributable to the portion of premiums paid by the teachers. As such, the School System netted the refund amount against the accounts payable due to teachers of \$474,307 resulting in \$1,789,517 being included in deferred revenue in the General Fund since it will not be received soon enough to pay for the current period's expenditures. The remaining portion of the refund of \$36,176 was accrued and recognized in the Enterprise Fund.

Note 10. Pension Plans

Plan Description

The employees of the School System are covered by one of the following pension plans affiliated with the State Retirement and Pension System of Maryland, an agent multiple-employer public employee retirement system administered by the State Retirement Agency:

- The Teachers' Retirement System of the State of Maryland,
- The Employees' Retirement System of the State of Maryland,
- The Pension System for Teachers of the State of Maryland, or
- The Pension System for Employees of the State of Maryland.

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the "Pension System for Teachers of the State of Maryland" and the "Pension System for Employees of the State of Maryland". Prior to this date, all teachers and related positions were required to be members of the "Teachers' Retirement System of the State of Maryland", and non-certificated positions were members of the "Employees' Retirement System of the State of Maryland". All School System employees who were members of the "Retirement System" may remain in that System, or they may elect to join the "Pension System". All teachers hired within the State after December 31, 1979, must join the "Pension System for Teachers". All non-certificated employees hired within the State after December 31, 1979, must join the "Pension System for Employees". The "Employees' Retirement System" and the "Pension System for Employees" cover those employees not covered by the teachers' plans. These employees are principally custodial, maintenance, and food service employees.

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension System. Benefits generally vest after 5 years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 410-625-5555.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 10. Pension Plans (Continued)

Funding Policy

Both the "Retirement System" and the "Pension System" for teachers and non-certificated employees are jointly contributory. Under the "Retirement System" employees contribute 5 percent or 7 percent of their earnable compensation and under the "Pension System" employees contribute 7 percent of their earnable compensation. Effective, July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the individual entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

Annual Pension Cost

St. Mary's County School System contributions totaling \$1,428,621 or 1.2 percent of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$14,905,956 or 13.0 percent of covered payroll for fiscal year 2012, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2010. Significant actuarial assumptions used, include (a) a rate of return on the investment of 7.75 percent per year compounded annually, (b) projected salary increases of 3.5 percent compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00 percent to 8.5 percent per year, attributable to seniority/merit, (d) post-retirement benefit increases ranging from 2.75 percent to 3.5 percent per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from June 30, 2003 through June 30, 2006, and (f) an increase in the aggregate active member payroll is assumed to increase by 3.5 percent annually.

The actuarial value of assets is measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method explicitly recognizes each year's investment gain or loss over a 5-year period with the final actuarial value not less than 80 percent or more than 120 percent of the market value of assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of payroll, in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation, is being amortized over the remaining 8-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000, is being amortized in separate annual layers over a 25-year period. A three year trend of the School System's annual pension cost, is as follows:

| Fiscal Year Ended June 30, | Total Annual Pension Cost (APC) | APC Contributed By School System | APC Contributed By State | Percentage Of APC Contributed | Net Pension Obligation |
|----------------------------|---------------------------------|----------------------------------|--------------------------|-------------------------------|------------------------|
| 2010 | \$ 13,942,472 | \$ 911,235 | \$ 13,031,237 | 100% | \$ - |
| 2011 | 16,070,915 | 1,386,017 | 14,684,898 | 100% | - |
| 2012 | 16,334,577 | 1,428,621 | 14,905,956 | 100% | - |

The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by GASB Statement No. 24.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 11. Post-Employment Healthcare And Life Insurance Plan

Plan Description

In addition to providing the pension benefits described above, the School System provides post-employment health care and life insurance benefits (OPEB) to employees, former employees, or beneficiaries who meet retirement eligibility requirements of the pension plans. Effective July 1, 2007, by terms of a negotiated contract with employee associations, the School System partially supports the group insurance plan for retired employees who have been employed by the School System for ten (10) or more years. These negotiated agreements provide that the School System will contribute from 45 percent to 65 percent of a retirees' group health insurance premium for years of experience ranging from 10 years to 30 or more years, respectively. In addition, the School System pays 100 percent of life insurance premiums based upon 50 percent of final salary coverage.

In March 2009, the School System established the Retiree Benefit Trust of the Board of Education of St. Mary's County (Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Trust is administered by the Maryland Association of Boards of Education Pooled OPEB Investment Trust. The School System reserves the right to establish and amend the provisions of the trust with respect to participants, any benefit provided there under, or its participation therein, in whole or in part at any time, by resolution of its governing body and upon advance written notice to the Trustees.

Funding Policy

The School System is required to contribute the annual *required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 7.15 percent of annual covered payroll. The ARC consisted of the normal cost of \$5,563,000 and the amortization of unfunded accrued liability of \$6,778,000. The School System contributed \$6,375,838 for the year ended June 30, 2012, including \$3,703,838 towards current healthcare and life insurance premiums and an additional \$2,672,000 to prefund future benefits.

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed as of May 1, 2010 to determine the funded status of the plan as of that date as well as the School System's ARC for the fiscal year ended June 30, 2012. The annual OPEB cost (expense) for the year ended June 30, 2012 was \$12,481,000, which was comprised of the ARC of \$12,341,000 discussed above, plus net interest on the net OPEB obligation. A historical trend of the School System's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation is as follows:

| Fiscal Year Ended June 30, | Annual OPEB Cost | Percentage Of Annual OPEB | |
|----------------------------|---------------------|------------------------------|------------------------|
| | | Cost Contributed | Net OPEB Obligation |
| 2010 | \$ 13,197,000 | 44.16% | \$ 9,994,640 |
| 2011 | 14,054,000 | 36.43% | 18,928,217 |
| 2012 | 12,481,000 | 51.08% | 25,033,380 |

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 11. Post-Employment Healthcare And Life Insurance Plan (Continued)

Funded Status And Funding Progress

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 School System 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 information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods And Assumptions

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

In the May 1, 2010 actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used, include (a) a rate of return on the investment of 6.0 percent per year compounded annually, (b) projected salary increases of 3.5 percent compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 4.31 percent to 10.76 percent per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 8.02 percent initially, reduced annually to arrive at an ultimate healthcare cost trend of 4.1 percent, (e) rates of mortality based upon RP-2000 Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.0 percent to 15.0 percent, (g) disablement rates based on age, ranging from 0.03 percent to 0.54 percent, (h) retirement rates based on age, sex, and length of service, ranging from 1.0 percent to 24.0 percent, and (i) medical claims including prescription drugs are based on actual experience during the period from April 1, 2008 through March 31, 2010, and were projected with annual increases of 9 percent for medical claims and 12 percent for prescription drug claims. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 27 years for the year ended June 30, 2012.

Note 12. Commitments And Contingencies

Legal Proceedings: In the normal course of operations, the School System is subject to lawsuits and claims. In the opinion of management, the disposition of such lawsuits and claims will not have a material effect on the School System's financial position or results of operations.

School Construction: As of June 30, 2012, the School System had entered into various school construction commitments which are not reflected in the Statement of Net Assets or Balance Sheet – Governmental Funds, since they will be funded by the State of Maryland or County bond issues, totaling approximately \$1,807,000.

Grant Program: The School System participates in a number of state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for the current year. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 13. New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2012, that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the School System:

- GASB Statement Number 60, *Accounting and Financial Reporting for Service Concession Arrangements*, will be effective for the School System beginning with its year ending June 30, 2013. This Statement requires governments to account for and report Service Concession Arrangements in the same manner by establishing recognition, measurement and disclosure requirements for both transferors and governmental operators.
- GASB Statement Number 61, *The Financial Reporting Entity – Omnibus – An Amendment of GASB Statements No. 14 and No. 34*, will be effective for the School System beginning with its year ending June 30, 2013. This Statement addresses reporting entity issues that have arisen since the issuance of GASB Statements No. 14 and No. 34 to improve financial reporting for a governmental financial reporting entity. This Statement modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. It applies to financial reporting by primary governments and other stand-alone governments, and to the separately issued financial statements of governmental component units. In addition, this Statement should be applied to nongovernmental component units when they are included in a governmental financial reporting entity.
- GASB Statement Number 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the School System beginning with its year ending June 30, 2013. This statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20 thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.
- GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will be effective for the School System beginning with its year ending June 30, 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, which introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Additionally, this Statement amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 13. New Governmental Accounting Standards Board Standards (Continued)

- GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the School System beginning with its year ending June 30, 2014. Concepts Statement No. 4, *Elements of Financial Statements* specified that the use of deferred outflows and inflows should be limited to instances identified in authoritative pronouncements. Consequently, this Statement provides guidance to define which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to definitions in Concepts Statement No. 4. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.
- GASB Statement Number 66, *Technical Corrections—2012*, will be effective for the School System beginning with its year ending June 30, 2014. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.
- GASB Statement No. 67, *Financial Reporting for Pension Plans*, will be effective for the School System beginning with its year ending June 30, 2014. This Statement replaces the requirements of GASB Statement No. 25 and No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. It requires enhanced note disclosures and required supplementary information for both defined benefit and defined contribution pension plans. In addition, it requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.
- GASB Statement No. 68, *Accounting for Pensions by State and Local Governmental Employers*, will be effective for the School System beginning with its year ending June 30, 2015. This Statement replaces the requirements of GASB Statement No. 27 and No. 50, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement calls for immediate recognition of more pension expense than is currently required. Cost-sharing employers will now be required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. The Statement will improve the comparability and consistency of how governments calculate the pension liabilities and expense. It also requires employers to present more extensive note disclosures and RSI, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability.

REQUIRED SUPPLEMENTARY INFORMATION

St. Mary's County Public Schools

**Budgetary Comparison Schedule -
General Fund
Year Ended June 30, 2012**

| | Budgeted Amounts | | Actual (Budgetary Basis) | Variance With Amended Budget Favorable (Unfavorable) |
|---|--------------------|--------------------|--------------------------------|---|
| | Original | Amended | | |
| Revenues: | | | | |
| Local | \$ 77,045,860 | \$ 77,045,860 | \$ 77,045,860 | \$ - |
| State of Maryland | 92,622,774 | 92,649,354 | 92,189,017 | (460,337) |
| Federal government | 14,387,953 | 14,639,373 | 12,526,312 | (2,113,061) |
| Tuition | 206,015 | 206,215 | 182,413 | (23,802) |
| Investment income | 40,500 | 6,000 | 7,731 | 1,731 |
| Other | 10,048,076 | 14,190,664 | 14,774,405 | 583,741 |
| | <u>194,351,178</u> | <u>198,737,466</u> | <u>196,725,738</u> | <u>(2,011,728)</u> |
| Expenditures: | | | | |
| Administration | 4,522,904 | 4,620,638 | 4,241,713 | 378,925 |
| Mid-level administration | 14,764,386 | 14,684,686 | 14,538,747 | 145,939 |
| Instructional salaries | 71,098,963 | 72,639,936 | 72,252,816 | 387,120 |
| Instructional textbooks and supplies | 3,701,013 | 3,536,013 | 2,961,180 | 574,833 |
| Other instructional costs | 4,836,759 | 5,033,549 | 4,410,841 | 622,708 |
| Special education | 21,561,962 | 21,724,983 | 20,212,136 | 1,512,847 |
| Student personnel services | 1,231,007 | 1,240,590 | 1,160,421 | 80,169 |
| Student health services | 1,858,585 | 1,884,764 | 1,870,506 | 14,258 |
| Student transportation services | 15,365,353 | 15,387,831 | 15,127,298 | 260,533 |
| Operation of plant | 13,773,821 | 13,733,568 | 13,109,912 | 623,656 |
| Maintenance of plant | 3,794,206 | 3,861,485 | 3,599,524 | 261,961 |
| Fixed charges | 37,019,552 | 39,556,149 | 38,887,483 | 668,666 |
| Community services | 30,508 | 30,508 | 10,388 | 20,120 |
| Capital outlay | 792,159 | 802,766 | 733,609 | 69,157 |
| | <u>194,351,178</u> | <u>198,737,466</u> | <u>193,116,574</u> | <u>5,620,892</u> |
| Net change in fund balance | | | 3,609,164 | |
| Adjustments to conform with generally accepted accounting principles | | | (6,992,343) | |
| Fund balance at beginning of year | | | <u>11,064,382</u> | |
| Fund balance at end of year | | | <u>\$ 7,681,203</u> | |

See Notes To Required Supplementary Information And Basic Financial Statements.

St. Mary's County Public Schools

**Required Supplementary Information
(Unaudited – See Accompanying Independent Auditor's Report)**

**Combined State Retirement And Pension System
Of Maryland Schedule Of Funding Progress**

(Expressed in Thousands)

| Actuarial Valuation Date June 30, | Actuarial Value Of Assets a | Actuarial Accrued Liability (AAL) b | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll c | UAAL As A Percentage Of Covered Payroll [(b-a) / c] |
|---|-----------------------------------|--|-----------------------------------|----------------------------|-------------------------|--|
| 2009 | \$ 34,284,569 | \$ 52,729,171 | \$ 18,444,602 | 65.02% | \$ 10,714,241 | 172.15% |
| 2010 | 34,688,346 | 54,085,081 | 19,396,735 | 64.14% | 10,657,944 | 181.99% |
| 2011 | 36,177,656 | 55,917,543 | 19,739,887 | 64.70% | 10,478,800 | 188.38% |

**St. Mary's County Public Schools OPEB Plan
Schedule Of Funding Progress**

| Actuarial Valuation Date | Actuarial Value Of Assets a | Actuarial Accrued Liability (AAL) b | Unfunded AAL (UAAL) (b - a) | Funded Ratio (a / b) | Covered Payroll c | UAAL As A Percentage Of Covered Payroll [(b-a) / c] |
|-----------------------------|-----------------------------------|--|-----------------------------------|----------------------------|-------------------------|--|
| July 1, 2009 | \$ 11,607,000 | \$ 153,381,000 | \$ 141,774,000 | 7.57% | \$ 114,877,552 | 123.41% |
| July 1, 2010 | 13,330,545 | 168,590,000 | 155,259,455 | 7.91% | 118,024,654 | 131.55% |
| July 1, 2011 | 17,077,262 | 145,876,000 | 128,798,738 | 11.71% | 114,323,669 | 112.66% |

See Notes To Required Supplementary Information And Basic Financial Statements.

St. Mary's County Public Schools

Notes To Required Supplementary Information

Note 1. Budgets And Budgetary Accounting

The School System generally follows these procedures in establishing the budgetary data reflected in the required supplementary information:

Operating Budget

- 1) Subsequent to December 31, the School System submits a proposed operating budget to the St. Mary's County Commissioners for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and revenues.
- 2) The approved appropriation is generally returned to the School System by the County Commissioners on or before June 1.
- 3) Formal budgetary integration is employed as a management control device during the year for the General Fund and the Enterprise Fund.
- 4) Budgets are adopted on a basis consistent with GAAP except for: (1) the inclusion of encumbrances and operating transfers as expenditures, (2) annual debt service requirements on financing agreements which are recognized as a current expense rather than as debt service expense in the General Fund, (3) financing agreement proceeds and corresponding acquisition costs which are not recognized as another financing source and current expense, (4) the inclusion of the previous years' unexpended budgetary appropriations as revenue, (5) retirement contributions made by the State on behalf of the School System are not recognized as revenue and current expense, and (6) value of donated capital assets is not recognized as revenue and current expense.
- 5) Reallocation of the appropriation between budget categories requires the approval of both the Board of Education and the Board of County Commissioners. Reallocations of appropriations of federal programs administered by the state must have state approval. The Superintendent has the authority to make necessary transfers of funds between and within object appropriations.

Budgetary comparisons presented in the required supplementary information are on a non-GAAP budgetary basis.

Capital Budget

School construction is budgeted on a project basis with funds primarily provided by the State of Maryland and St. Mary's County bonds. Revenues from the bond proceeds and grants are earned when all significant terms of the proceeds have been met. Such terms are generally met at the time of expenditure. Annual budgetary comparisons to actual expenditures are not presented in the required supplementary information for the Capital Projects Fund.

St. Mary's County Public Schools

Notes To Required Supplementary Information

Note 2. Reconciliation Of Budgetary Basis To GAAP

Actual results of operations are presented in the Budgetary Comparison Schedule on the budget basis of accounting, in order to provide a meaningful comparison of actual results with budget estimates. Under the budget basis, encumbrances are recorded as the equivalent of expenditures, as opposed to only a reservation of fund balance as on a GAAP basis. With respect to financing agreements, the School System recognizes the annual debt service requirements as a current expense for budget purposes. Financing agreement proceeds and the corresponding acquisition expense are not recognized on the budget basis. Additionally, the previous year's unexpended budgetary appropriation is recognized as revenue on the budget basis. Also, retirement contributions made by the State on behalf of the School System, and donations of capital assets received are not recognized as revenue and current expense on the budget basis.

Adjustments necessary to convert the results of operations and fund balance for the General Fund for fiscal year 2012 from the budget basis to the GAAP basis, are as follows:

| | Revenues | Expenditures And Encumbrances | Current Year Effect On Fund Balance |
|--|-----------------------|-------------------------------------|---|
| General Fund - budgetary basis | \$ 196,725,738 | \$ 193,116,574 | \$ 3,609,164 |
| Budget to GAAP reconciliation: | | | |
| Prior year encumbrances outstanding, 6/30/11 | - | 389,975 | (389,975) |
| Prior year encumbrances canceled | - | (42,481) | 42,481 |
| Interfund transfers | (3,370,790) | (3,370,790) | - |
| Current year encumbrances outstanding, 6/30/12 | - | (879,710) | 879,710 |
| State retirement contribution | 14,905,956 | 14,905,956 | - |
| Fund balance usage | (7,524,559) | - | (7,524,559) |
| | <u>4,010,607</u> | <u>11,002,950</u> | <u>(6,992,343)</u> |
| General Fund - GAAP basis | <u>\$ 200,736,345</u> | <u>\$ 204,119,524</u> | <u>\$ (3,383,179)</u> |

SUPPLEMENTARY INFORMATION

St. Mary's County Public Schools

**Statement Of Revenues, Expenses, And Changes In Fund Net Assets -
Proprietary Fund - Budget Vs. Actual
Year Ended June 30, 2012**

| | Amended Budget | Actual | Variance with Amended Budget Favorable (Unfavorable) |
|-------------------------------------|-------------------|---------------------|---|
| Revenues: | | | |
| Food service sales | \$ 3,328,305 | \$ 3,148,110 | \$ (180,195) |
| Federal grants and commodities | 3,155,000 | 3,318,665 | 163,665 |
| State matching and other | 227,000 | 213,823 | (13,177) |
| Interest income | 2,500 | 406 | (2,094) |
| | <u>6,712,805</u> | <u>6,681,004</u> | <u>(31,801)</u> |
| Expenses: | | | |
| Payroll costs | 3,479,339 | 3,468,328 | 11,011 |
| Professional and contract services | 50,000 | 42,343 | 7,657 |
| Supplies and materials | 2,737,966 | 2,952,055 | (214,089) |
| Depreciation | 120,000 | 102,913 | 17,087 |
| Other operating costs | 325,500 | 277,641 | 47,859 |
| | <u>6,712,805</u> | <u>6,843,280</u> | <u>(130,475)</u> |
| Change in net assets | <u>\$ -</u> | <u>(162,276)</u> | <u>\$ (162,276)</u> |
| Total net assets, beginning of year | | <u>1,609,913</u> | |
| Total net assets, end of year | | <u>\$ 1,447,637</u> | |

St. Mary's County Public Schools

**Schedule Of Changes In School Activity Funds - Agency Fund
Year Ended June 30, 2012**

| | School Activity Accounts Balance, July 1, 2011 | Additions | Deductions | School Activity Accounts Balance, June 30, 2012 |
|--|--|-----------|-------------|---|
| School - Checking: | | | | |
| Benjamin Banneker Elementary | \$ 13,852 | \$ 89,512 | \$ (87,199) | \$ 16,165 |
| Chesapeake Public Charter School | 13,797 | 123,302 | (113,386) | 23,713 |
| Chopticon High School | 46,928 | 581,374 | (571,419) | 56,883 |
| Dr. James A. Forrest Career & Technology Center | 68,523 | 363,217 | (341,601) | 90,139 |
| Dynard Elementary | 10,606 | 74,859 | (66,078) | 19,387 |
| Esperanza Middle | 44,217 | 117,519 | (110,758) | 50,978 |
| Evergreen Elementary | 16,635 | 85,014 | (81,563) | 20,086 |
| Fairlead Academy | 926 | 4,999 | (3,202) | 2,723 |
| G.W. Carver Elementary | 4,553 | 35,952 | (35,595) | 4,910 |
| Great Mills High School | 49,411 | 465,049 | (419,956) | 94,504 |
| Green Holly Elementary | 447 | 44,125 | (36,279) | 8,293 |
| Greenview Knolls Elementary | 3,377 | 72,563 | (73,424) | 2,516 |
| Hollywood Elementary | 4,794 | 59,241 | (60,663) | 3,372 |
| L.M. Dent Elementary | 12,910 | 108,423 | (101,691) | 19,642 |
| LBO-Sunshine Fund | 1,888 | 100 | (811) | 1,177 |
| Leonardtown Elementary | 9,049 | 104,843 | (101,140) | 12,752 |
| Leonardtown High School | 13,898 | 644,078 | (593,221) | 64,755 |
| Leonardtown Middle | 38,296 | 96,808 | (110,770) | 24,334 |
| Lexington Park Elementary | 10,164 | 54,741 | (59,172) | 5,733 |
| Loveville Bd. Office | 1,385 | 1,104 | (1,268) | 1,221 |
| Margaret Brent Middle | 19,032 | 157,433 | (171,977) | 4,488 |
| Mechanicsville Elementary | 8,273 | 65,248 | (60,896) | 12,625 |
| MGA-MUN | 3,450 | 2,817 | (2,102) | 4,165 |
| Oakville Elementary | 10,116 | 22,117 | (19,927) | 12,306 |
| Park Hall Elementary | 4,164 | 35,386 | (37,880) | 1,670 |
| Piney Point Elementary | 17,076 | 62,298 | (57,308) | 22,066 |
| Pupil Services | 4,776 | 5,123 | (6,908) | 2,991 |
| Ridge Elementary | 7,861 | 27,955 | (27,730) | 8,086 |
| SMASC | 3,740 | 365 | (714) | 3,391 |
| Spring Ridge Middle | 25,109 | 231,748 | (226,850) | 30,007 |
| Town Creek Elementary | 6,850 | 36,067 | (34,363) | 8,554 |
| White Marsh Elementary | 5,361 | 55,252 | (54,311) | 6,302 |
| | 481,464 | 3,828,632 | (3,670,162) | 639,934 |

(Continued)

St. Mary's County Public Schools

Schedule Of Changes In School Activity Funds - Agency Fund (Continued)
Year Ended June 30, 2012

| | School Activity Accounts Balance, July 1, 2011 | Additions | Deductions | School Activity Accounts Balance, June 30, 2012 |
|--|--|---------------------|-----------------------|---|
| School - Savings: | | | | |
| Chopticon High School | 25,374 | 236 | - | 25,610 |
| Dr. James A. Forrest Career & Technology Center | 70,000 | - | - | 70,000 |
| Park Hall Elementary | - | 417 | (34) | 383 |
| | <u>95,374</u> | <u>653</u> | <u>(34)</u> | <u>95,993</u> |
| School - MLGIP (Maryland Local Government Investment Pool): | | | | |
| Benjamin Banneker Elementary | 2,617 | 3 | - | 2,620 |
| Chopticon High School | 173,473 | 174 | - | 173,647 |
| Dr. James A. Forrest Career & Technology Center | 37,026 | 37 | - | 37,063 |
| Dynard Elementary | 5,091 | 5 | - | 5,096 |
| Esperanza Middle | 6,215 | 6 | - | 6,221 |
| G.W. Carver Elementary | 1,860 | 2 | - | 1,862 |
| Great Mills High School | 170,514 | 171 | - | 170,685 |
| Green Holly | 2,355 | 2 | - | 2,357 |
| Greenview Knolls Elementary | 8,151 | 10,011 | - | 18,162 |
| Hollywood Elementary | 12,513 | 13 | - | 12,526 |
| L.M. Dent Elementary | 1,418 | 1 | - | 1,419 |
| Leonardtown Elementary | 7,297 | 6 | (2,000) | 5,303 |
| Leonardtown High School | 165,881 | 149 | (20,000) | 146,030 |
| Leonardtown Middle | 15,354 | 15 | - | 15,369 |
| Margaret Brent Middle | 46,454 | 47 | - | 46,501 |
| Mechanicsville Elementary | 294 | - | - | 294 |
| MGA-MUN | 2,621 | 3 | - | 2,624 |
| Oakville Elementary | 1,257 | 1 | - | 1,258 |
| Park Hall Elementary | 5,189 | 5 | - | 5,194 |
| Piney Point Elementary | 8,261 | 8 | - | 8,269 |
| Shoe Fund | 314 | - | - | 314 |
| SMASC | 262 | - | - | 262 |
| Spring Ridge Middle | 11,453 | 12 | (265) | 11,200 |
| Town Creek Elementary | 3,091 | 3 | - | 3,094 |
| White Marsh Elementary | 4,271 | 4 | - | 4,275 |
| | <u>693,232</u> | <u>10,678</u> | <u>(22,265)</u> | <u>681,645</u> |
| Total | <u>\$ 1,270,070</u> | <u>\$ 3,839,963</u> | <u>\$ (3,692,461)</u> | <u>\$ 1,417,572</u> |

SINGLE AUDIT



**Independent Auditor's 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**

Members of the Board of Education of
St. Mary's County Public Schools
Leonardtown, Maryland

We have audited the financial statements of St. Mary's County Public Schools (School System) as of and for the year ended June 30, 2012, and have issued our report thereon dated September 24, 2012. 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

Management of the School System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. 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 School System'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*.

This report is intended solely for the information and use of management, the audit committee, others within the School System, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey LLP

Frederick, Maryland
September 24, 2012



**Independent Auditor's Report On Compliance With
Requirements That Could Have A Direct And Material Effect
On Each Major Program And On Internal Control Over
Compliance In Accordance With OMB Circular A-133**

Members of the Board of Education of
St. Mary's County Public Schools
Leonardtown, Maryland

Compliance

We have audited St. Mary's County Public Schools' (School System) compliance with the types of compliance requirements described in OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on the School System's major federal programs for the year ended June 30, 2012. The School System's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School System's management. Our responsibility is to express an opinion on the School System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School System's compliance with those requirements.

In our opinion, the School System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the School System is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School System's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School System's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the School System's management, the audit committee, 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.

McGladrey LLP

Frederick, Maryland
September 24, 2012

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards
Year Ended June 30, 2012

| Grant Name | CFDA Number | Grant Number | Project Period | Grant Award | Accrued/ (Deferred) 6/30/11 | Cash Received FY 2012 | FY '12 Revenue Recognized & Expenditures | Refunded To MSDE/ (Write Off) | Accrued/ (Deferred) 6/30/12 |
|---|-------------|--------------|-------------------------|------------------|-----------------------------|-----------------------|--|-------------------------------|-----------------------------|
| <u>U.S. Department of Agriculture:</u> | | | | | | | | | |
| Passed through the Maryland State Dept. of Education: | | | | | | | | | |
| USDA Commodities | 10.555 | | 07/01/2011 - 06/30/2012 | \$ 360,000 | \$ - | \$ 357,343 | \$ 357,343 | \$ - | \$ - |
| Summer Food Program | 10.559 | | 07/01/2011 - 06/30/2012 | 10,000 | 2,184 | 2,184 | - | - | - |
| Summer Food Program | 10.559 | | 07/01/2011 - 06/30/2012 | 10,000 | - | 8,457 | 8,457 | - | - |
| Breakfast | 10.553 | | 07/01/2011 - 06/30/2012 | 638,000 | - | 757,754 | 780,859 | - | 23,105 |
| Breakfast | 10.553 | | 07/01/2010 - 06/30/2011 | 600,000 | 42,624 | 42,624 | - | - | - |
| Lunch (Sec 4 & 11) | 10.555 | | 07/01/2011 - 06/30/2012 | 2,100,000 | - | 2,034,706 | 2,089,029 | - | 54,323 |
| Lunch (Sec 4 & 11) | 10.555 | | 07/01/2011 - 06/30/2012 | 1,800,000 | 114,639 | 114,639 | - | - | - |
| Federal Snack Program | 10.555 | | 07/01/2011 - 06/30/2012 | 22,000 | - | 19,989 | 20,245 | - | 256 |
| Federal Snack Program | 10.555 | | 07/01/2011 - 06/30/2012 | 30,000 | 1,343 | 1,343 | - | - | - |
| Total Child Nutrition Cluster | | | | 5,570,000 | 160,790 | 3,339,039 | 3,255,933 | - | 77,684 |
| Team Nutrition Refresh Grant | 10.574 | 124135.01 | 07/01/2011 - 08/31/2012 | 24,398 | - | 24,398 | 24,398 | - | - |
| Fresh Fruit & Vegetable Program | 10.582 | | 07/01/2011 - 06/30/2012 | 25,000 | - | 33,262 | 38,334 | - | 5,072 |
| Total Department of Agriculture | | | | 5,619,398 | 160,790 | 3,396,699 | 3,318,665 | - | 82,756 |
| <u>U.S. Department of Defense:</u> | | | | | | | | | |
| Direct Program: | | | | | | | | | |
| ROTC Navy | 12.000 | | 07/01/2011 - 06/30/2012 | 46,000 | - | 50,002 | 68,751 | - | 18,749 |
| ROTC Navy | 12.000 | | 07/01/2010 - 06/30/2011 | 40,000 | 18,751 | 18,751 | - | - | - |
| ROTC Air Force | 12.000 | | 07/01/2011 - 06/30/2012 | 54,000 | - | 60,602 | 66,688 | - | 6,086 |
| ROTC Air Force | 12.000 | | 07/01/2010 - 06/30/2011 | 54,000 | 6,093 | 6,093 | - | - | - |
| ROTC Army | 12.000 | | 07/01/2011 - 06/30/2012 | 40,000 | - | 22,549 | 23,755 | - | 1,206 |
| ROTC Army | 12.000 | | 07/01/2010 - 06/30/2011 | 33,000 | 2,377 | 2,377 | - | - | - |
| Total Program | | | | 267,000 | 27,221 | 160,374 | 159,194 | - | 26,041 |
| Public Law 102-484 | 12.558 | | 07/01/2011 - 06/30/2012 | 410,000 | - | - | 493,974 | - | 493,974 |
| Public Law 102-484 | 12.558 | | 07/01/2010 - 06/30/2011 | 330,000 | 434,969 | 434,969 | - | - | - |
| Total Program | | | | 740,000 | 434,969 | 434,969 | 493,974 | - | 493,974 |

(Continued)

St. Mary's County Public Schools

**Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2012**

| Grant Name | CFDA Number | Grant Number | Project Period | Grant Award | Accrued/ (Deferred) 6/30/11 | Cash Received FY 2012 | FY '12 Revenue Recognized & Expenditures | Refunded To MSDE/ (Write Off) | Accrued/ (Deferred) 6/30/12 |
|--|-------------|------------------|-------------------------|------------------|-----------------------------|-----------------------|--|-------------------------------|-----------------------------|
| Naval Air Warfare Center AD (PAX) | 12.330 | N000421-10-1-008 | 08/15/2011 - 08/31/2012 | 22,700 | - | - | 14,950 | - | 14,950 |
| Naval Air Warfare Center AD (PAX) | 12.330 | N000421-10-1-006 | 09/17/2010 - 09/16/2011 | 44,855 | 41,285 | 44,855 | 3,570 | - | - |
| | | | | 67,555 | 41,285 | 44,855 | 18,520 | - | 14,950 |
| Total U.S. Department of Defense | | | | 1,074,555 | 503,475 | 640,198 | 671,688 | - | 534,965 |
| <u>U.S. Department of Justice:</u> | | | | | | | | | |
| <u>Direct Program:</u> | | | | | | | | | |
| Mentoring Programs | 16.726 | 2009-JU-FX-OO15 | 08/01/2009 - 07/31/2013 | 251,956 | 68,660 | 103,479 | 85,323 | - | 50,504 |
| <u>Passed through the Juvenile Drug Court:</u> | | | | | | | | | |
| Mentoring Programs | 16.726 | 2010-DC-BX-0007 | 10/01/2010 - 09/30/2013 | 23,367 | 2,809 | 2,672 | 20,558 | - | 20,695 |
| Total U.S. Department of Justice | | | | 275,323 | 71,469 | 106,151 | 105,881 | - | 71,199 |
| <u>U.S. Department of Education:</u> | | | | | | | | | |
| <u>Passed through the Maryland State Dept. of Education:</u> | | | | | | | | | |
| Adult Education & Lit Services | 84.002 | POPB1400081.03 | 07/01/2010 - 09/30/2011 | 39,707 | 6,893 | 6,893 | - | - | - |
| Adult Education & Lit Services | 84.002 | POPB1400081.04 | 07/01/2010 - 09/30/2011 | 4,072 | 968 | 968 | - | - | - |
| Adult Education & Lit Services | 84.002 | POPB1400081.06 | 07/01/2010 - 09/30/2011 | 7,638 | - | - | - | - | - |
| Adult Education & Lit Services | 84.002 | POOB1400081.07 | 07/01/2010 - 09/30/2011 | 1,109 | - | 1,109 | 1,109 | - | - |
| Adult Education & Lit Services | 84.002A | POOB24000055.03 | 07/01/2011 - 06/30/2012 | 38,697 | - | 27,834 | 38,660 | - | 10,826 |
| Adult Education & Lit Services | 84.002A | POOB24000055.04 | 07/01/2011 - 06/30/2012 | 3,941 | - | 2,309 | 3,647 | - | 1,338 |
| Adult Education & Lit Services | 84.002A | POOB24000055.05 | 07/01/2011 - 06/30/2012 | 4,962 | - | 3,383 | 2,984 | - | (399) |
| Adult Education & Lit Services | 84.002A | POOB24000055.06 | 07/01/2011 - 06/30/2012 | 7,378 | - | 4,974 | 7,370 | - | 2,396 |
| Total Program | | | | 107,504 | 7,861 | 47,470 | 53,770 | - | 14,161 |
| E.C.I.A. Title I | 84.010 | 124364.01 | 07/01/2011 - 09/30/2011 | 3,796 | - | 3,796 | 3,796 | - | - |
| E.C.I.A. Title I | 84.010 | 124541.01 | 07/01/2011 - 06/30/2013 | 2,348,658 | - | 1,705,278 | 2,092,682 | - | 387,404 |
| E.C.I.A. Title I | 84.010 | 104806.01 | 07/01/2009 - 06/30/2011 | 2,181,340 | 90,780 | 90,780 | - | - | - |
| E.C.I.A. Title I | 84.010 | 114452.01 | 07/01/2010 - 06/30/2012 | 2,152,110 | 95,381 | 216,129 | 126,458 | - | 5,710 |
| Green Holly MSPRP | 84.010 | 116250.01 | 02/15/2011 - 06/30/2011 | 1,867 | 1,441 | 1,441 | - | - | - |
| ESEA Title I - ARRA | 84.389 | 104366.01 | 07/01/2009 - 06/30/2011 | 1,352,959 | 120,848 | 120,848 | - | - | - |
| Total Title I, Part A Cluster | | | | 8,040,730 | 308,450 | 2,138,272 | 2,222,936 | - | 393,114 |

(Continued)

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2012

| Grant Name | CFDA Number | Grant Number | Project Period | Grant Award | Accrued/ (Deferred) 6/30/11 | Cash Received FY 2012 | FY '12 Revenue Recognized & Expenditures | Refunded To MSDE/ (Write Off) | Accrued/ (Deferred) 6/30/12 |
|--|-------------|--------------|-------------------------|-------------------|-----------------------------|-----------------------|--|-------------------------------|-----------------------------|
| Assistance to the State for Educating Students with Disabilities | 84.027 | 105841.01 | 07/01/2009 - 09/30/2010 | 4,000 | (37) | - | - | 37 | - |
| SPEC Pass Thru Carry Over | 84.027 | 125487.01 | 10/01/2011 - 06/30/2012 | 93,367 | - | 31,188 | 93,367 | - | 62,179 |
| SPEC Pass Thru Carry Over | 84.027 | 125487.02 | 10/01/2011 - 06/30/2012 | 47,188 | - | 42,188 | 47,188 | - | 5,000 |
| SPED Pass Thru | 84.027 | 124260.01 | 07/01/2011 - 09/30/2012 | 3,274,524 | - | 2,172,969 | 3,149,326 | - | 976,357 |
| SPED Pass Thru | 84.027 | 124260.02 | 07/01/2011 - 09/30/2012 | 40,579 | - | 39,164 | 39,164 | - | - |
| SPED Pass Thru | 84.027 | 114633.01 | 07/01/2010 - 09/30/2011 | 3,306,556 | 245,238 | 360,748 | 22,142 | 93,368 | - |
| SPED Pass Thru | 84.027 | 114633.02 | 07/01/2010 - 09/30/2011 | 47,188 | (22,650) | - | - | 22,650 | - |
| SPED CSPD | 84.027 | 124260.08 | 07/01/2011 - 09/30/2012 | 14,083 | - | 7,488 | 11,504 | - | 4,016 |
| SPED CSPD | 84.027 | 114633.06 | 07/01/2010 - 09/30/2011 | 16,886 | (1,958) | 575 | 1,959 | 574 | - |
| SPED Transition | 84.027 | 114632.01 | 07/01/2010 - 09/30/2011 | 49,038 | 212 | 18,666 | 18,454 | - | - |
| SPED Partners for Success | 84.027 | 124260.05 | 07/01/2011 - 09/30/2012 | 10,000 | - | 5,158 | 6,298 | - | 1,140 |
| SPED Partners for Success | 84.027 | 114633.07 | 07/01/2010 - 09/30/2011 | 10,000 | (675) | 2,369 | 3,044 | - | - |
| SPED SEAC | 84.027 | 124260.06 | 07/01/2011 - 09/30/2012 | 2,500 | - | 704 | 329 | - | (375) |
| SPED SEAC | 84.027 | 114633.08 | 07/01/2010 - 09/30/2011 | 2,500 | (369) | 1,341 | 1,710 | - | - |
| SPED Transition | 84.027 | 124260.07 | 07/01/2011 - 09/30/2012 | 6,000 | - | 1,468 | 2,477 | - | 1,009 |
| SPED Transition | 84.027 | 114633.05 | 07/01/2010 - 09/30/2011 | 6,000 | 385 | 2,408 | 2,023 | - | - |
| SPED Discretionary AYP | 84.027 | 114630.01 | 07/01/2010 - 09/30/2011 | 81,947 | (12,207) | 40,281 | 52,488 | - | - |
| SPED ALT-MSA | 84.027 | 114629.01 | 07/01/2010 - 09/30/2011 | 22,000 | (553) | - | 533 | 20 | - |
| SPED ALT-MSA | 84.027 | 124604.01 | 07/01/2011 - 09/30/2012 | 23,168 | - | 12,985 | 13,838 | - | 853 |
| Building Bridges | 84.027 | 125368.01 | 09/01/2011 - 09/30/2012 | 47,586 | - | 7,138 | 7,522 | - | 384 |
| Disproportionality | 84.027 | 114631.01 | 07/01/2010 - 09/30/2011 | 48,940 | (2,594) | 23,711 | 26,305 | - | - |
| Maryland Model for School Readiness | 84.173 | 125109.02 | 07/01/2011 - 09/30/2012 | 12,021 | - | 1,803 | 3,401 | - | 1,598 |
| Maryland Model for School Readiness | 84.173 | 114545.02 | 07/01/2010 - 09/30/2011 | 12,021 | (1,662) | 7,631 | 9,293 | - | - |
| IDEA Pre-school | 84.173 | 124260.03 | 07/01/2011 - 09/30/2012 | 109,600 | - | 78,070 | 105,356 | - | 27,286 |
| IDEA Pre-school | 84.173 | 124260.04 | 07/01/2011 - 09/30/2012 | 1,661 | - | 1,461 | 1,661 | - | 200 |
| IDEA Pre-school | 84.173 | 114633.03 | 07/01/2010 - 09/30/2011 | 109,780 | 8,713 | 12,157 | 3,444 | - | - |
| IDEA Pre-school | 84.173 | 114633.04 | 07/01/2010 - 09/30/2011 | 1,729 | (778) | - | - | 778 | - |
| ARRA Passthrough | 84.391 | 104327.01 | 06/15/2009 - 09/30/2011 | 3,686,604 | 144,468 | 839,493 | 695,025 | - | - |
| ARRA Parentally Placed Passthrough | 84.391 | 104327.03 | 07/01/2009 - 09/30/2011 | 26,884 | - | 20,595 | 20,595 | - | - |
| ARRA Passthrough Preschool | 84.392 | 104327.02 | 06/15/2009 - 09/30/2011 | 157,396 | 17,319 | 94,039 | 76,720 | - | - |
| ARRA Parentally Placed Preschl Passthrough | 84.392 | 104327.04 | 07/01/2009 - 09/30/2011 | 1,418 | - | - | - | - | - |
| Passed through the | | | | | | | | | |
| <u>St. Mary's County Health Dept:</u> | | | | | | | | | |
| Health Dept I&T | 84.027 | MOU | 07/01/2011 - 09/30/2012 | 36,670 | - | 14,646 | 26,433 | - | 11,787 |
| Health Dept I&T | 84.027 | MOU | 07/01/2010 - 09/30/2011 | 41,107 | 15,211 | 15,211 | - | - | - |
| Total Special Education Cluster (IDEA) | | | | 11,350,941 | 388,063 | 3,855,655 | 4,441,599 | 117,427 | 1,091,434 |

(Continued)

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2012

| Grant Name | CFDA Number | Grant Number | Project Period | Grant Award | Accrued/ (Deferred) 6/30/11 | Cash Received FY 2012 | FY '12 Revenue Recognized & Expenditures | Refunded To MSDE/ (Write Off) | Accrued/ (Deferred) 6/30/12 |
|---|-------------|--------------|-------------------------|----------------|-----------------------------|-----------------------|--|-------------------------------|-----------------------------|
| <u>Direct Program:</u> | | | | | | | | | |
| Impact Aid | 84.041 | | 07/01/2011 - 06/30/2012 | 1,800,000 | - | 2,134,478 | 2,189,731 | - | 55,253 |
| Passed through the Maryland State Dept. of Education: | | | | | | | | | |
| Perkins (Program Improvement) | 84.048 | 114668.01 | 07/01/2010 - 06/30/2011 | 169,166 | 19,068 | 19,068 | - | - | - |
| Perkins (Program Improvement) | 84.048 | 124721.01 | 07/01/2011 - 06/30/2012 | 157,895 | - | 123,366 | 152,677 | - | 29,311 |
| CT Program Improvement | 84.048 | 105617.01 | 07/01/2009 - 06/30/2010 | 152,534 | (4,892) | (4,892) | - | - | - |
| Total Program | | | | 479,595 | 14,176 | 137,542 | 152,677 | - | 29,311 |
| Summer Youth Employment | 84.126 | 125791.01 | 06/18/2012 - 08/30/2012 | 10,294 | - | - | 501 | - | 501 |
| Safe & Drug Free Schools | 84.186 | 104299.01 | 07/01/2009 - 06/30/2011 | 48,853 | 273 | 273 | - | - | - |
| Homeless Education | 84.196a | 124427.01 | 07/01/2011 - 09/30/2012 | 11,000 | - | 3,900 | 11,000 | - | 7,100 |
| Homeless Education | 84.196a | 116256.01 | 07/01/2010 - 09/30/2011 | 15,000 | 10,122 | 12,750 | 2,628 | - | - |
| Total Program | | | | 26,000 | 10,122 | 16,650 | 13,628 | - | 7,100 |
| <u>Direct Program:</u> | | | | | | | | | |
| USDE STEM | 84.215 | U215K080141 | 10/01/2008 - 09/30/2011 | 478,492 | 33,403 | 90,622 | 57,219 | - | - |
| Passed through the Maryland State Dept. of Education: | | | | | | | | | |
| MD Seamless Transition Collaboration | 84.235 | 125206.01 | 10/01/2011 - 09/30/2012 | 75,000 | - | - | 31,721 | - | 31,721 |
| MD Seamless Transition Collaboration | 84.235 | 105939.01 | 04/01/2010 - 09/30/2011 | 75,000 | 11,842 | 51,774 | 39,932 | - | - |
| Total Program | | | | 150,000 | 11,842 | 51,774 | 71,653 | - | 31,721 |
| Perkins (Tech Prep) | 84.243 | 124721.02 | 07/01/2011 - 06/30/2012 | 854 | - | 854 | 854 | - | - |
| 21st Century Learning Centers | 84.287 | 116155.01 | 07/01/2010 - 09/30/2011 | 5,000 | 725 | 3,079 | 2,354 | - | - |
| Bright Futures | 84.287 | 114555.01 | 07/01/2010 - 09/30/2011 | 280,707 | (7,129) | 29,391 | 35,914 | - | (606) |
| 21st Century Learning Centers | 84.287 | 124683.02 | 07/01/2011 - 09/30/2012 | 318,750 | - | 204,479 | 261,186 | - | 56,707 |
| 21st Century Learning Centers | 84.287 | 114790.01 | 07/01/2010 - 09/30/2011 | 375,000 | 6,638 | 15,885 | 9,247 | - | - |
| Total Program | | | | 979,457 | 234 | 252,834 | 308,701 | - | 56,101 |

(Continued)

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2012

| Grant Name | CFDA Number | Grant Number | Project Period | Grant Award | Accrued/ (Deferred) 6/30/11 | Cash Received FY 2012 | FY '12 Revenue Recognized & Expenditures | Refunded To MSDE/ (Write Off) | Accrued/ (Deferred) 6/30/12 |
|--|-------------|--------------|-------------------------|------------------|-----------------------------|-----------------------|--|-------------------------------|-----------------------------|
| Enhancing Ed thru Tech - Title II Part D | 84.318 | 105005.01 | 07/01/2009 - 06/30/2011 | 19,920 | 14,413 | 14,413 | - | - | - |
| Passed through the <u>Anne Arundel County Public Schools:</u> | | | | | | | | | |
| ARRA Enhancing Education Through Technology | 84.386 | MOU | 07/01/2009 - 09/30/2011 | 314,178 | 1,568 | 230,844 | 229,276 | - | - |
| Total Educational Technology State Grants Cluster | | | | 334,098 | 15,981 | 245,257 | 229,276 | - | - |
| Passed through the <u>Maryland State Dept. of Education:</u> | | | | | | | | | |
| Title III | 84.365A | 124298.01 | 07/01/2011 - 09/30/2013 | 26,038 | - | 10,804 | 13,727 | - | 2,923 |
| Title III English Language (Immigrant) | 84.365A | 115172.02 | 07/01/2010 - 09/30/2012 | 6,179 | - | - | - | - | - |
| Title III English Language | 84.365A | 104630.01 | 07/01/2009 - 09/30/2011 | 25,378 | - | - | - | - | - |
| Title III English Language | 84.365A | 115172.01 | 07/01/2010 - 09/30/2012 | 28,490 | 1,947 | 16,757 | 14,810 | - | - |
| Total Program | | | | 86,085 | 1,947 | 27,561 | 28,537 | - | 2,923 |
| Title II Part A | 84.367 | 124216.01 | 07/01/2011 - 06/30/2013 | 627,002 | - | 194,390 | 266,264 | - | 71,874 |
| Title II Part A | 84.367 | 114284.01 | 07/01/2010 - 06/30/2012 | 736,129 | 120,810 | 323,961 | 233,304 | - | 30,153 |
| Total Program | | | | 1,363,131 | 120,810 | 518,351 | 499,568 | - | 102,027 |
| Passed through the <u>St. Mary's County Health Dept.:</u> | | | | | | | | | |
| ARRA Infants & Toddlers (Additional IFSP) | 84.393 | MOU | 07/01/2009 - 09/30/2011 | 15,000 | - | 6,944 | 6,944 | - | - |
| ARRA Infants & Toddlers | 84.393 | MOU | 07/01/2009 - 09/30/2011 | 12,000 | 341 | 341 | - | - | - |
| Total Early Intervention Services (IDEA) Cluster | | | | 27,000 | 341 | 7,285 | 6,944 | - | - |
| Passed through the <u>Maryland State Dept. of Education:</u> | | | | | | | | | |
| RTTT - EEA / TIA | 84.395 | 124638.01 | 07/01/2011 - 09/30/2011 | 29,750 | - | 29,750 | 29,375 | 375 | - |
| RTTT - EEA / TIA | 84.395 | 124638.02 | 07/01/2011 - 09/30/2011 | 8,199 | - | 8,199 | 8,199 | - | - |
| RTTT - EEA / TIA | 84.395 | 124638.04 | 07/01/2011 - 09/30/2011 | 3,750 | - | 3,750 | 3,750 | - | - |
| RTTT - Teacher/Principal Evaluation | 84.395 | 125250.01 | 10/21/2011 - 09/30/2012 | 17,479 | - | - | 17,479 | - | 17,479 |
| RTTT: ESOL Incentives | 84.395 | 125382.01 | 10/01/2011 - 09/30/2012 | 20,000 | - | - | 10,000 | - | 10,000 |
| RTTT: ESOL Incentives | 84.395 | 125382.02 | 10/01/2011 - 09/30/2012 | 12,500 | - | - | - | - | - |
| RTTT - 11/29 | 84.395 | 125714.01 | 06/01/2012 - 06/30/2013 | 208,000 | - | - | - | - | - |
| Race to the Top | 84.395 | 115755.01 | 08/25/2010 - 09/30/2012 | 1,060,000 | - | 888,015 | 967,308 | - | 79,293 |
| Race to the Top | 84.395 | 115755.02 | 08/25/2010 - 09/30/2012 | 45,216 | - | 8,723 | 9,398 | - | 675 |
| Race to the Top | 84.395 | 115755.99 | 08/25/2010 - 09/30/2014 | 497,604 | - | - | - | - | - |
| Total Program | | | | 1,902,498 | - | 938,437 | 1,045,509 | 375 | 107,447 |

(Continued)

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards (Continued)

Year Ended June 30, 2012

| Grant Name | CFDA Number | Grant Number | Project Period | Grant Award | Accrued/ (Deferred) 6/30/11 | Cash Received FY 2012 | FY '12 Revenue Recognized & Expenditures | Refunded To MSDE/ (Write Off) | Accrued/ (Deferred) 6/30/12 |
|---|-------------|--------------|-------------------------|----------------------|-----------------------------|-----------------------|--|-------------------------------|-----------------------------|
| Education Jobs Fund | 84.410 | 125609.01 | 08/10/2010 - 09/30/2012 | 51,420 | - | 51,420 | 51,420 | - | - |
| Total U.S. Department of Education | | | | 27,236,952 | 913,503 | 10,514,735 | 11,374,523 | 117,802 | 1,891,093 |
| <u>U.S. Department of Health and Human Services:</u> | | | | | | | | | |
| Passed through the <u>Maryland State Dept. of Education:</u> | | | | | | | | | |
| Medical Assistance | 93.778 | N/A | 07/01/2011 - 06/30/2012 | 689,725 | (583,313) | 664,626 | 336,116 | - | (911,823) |
| Total U.S. Department of Health and Human Services | | | | 689,725 | (583,313) | 664,626 | 336,116 | - | (911,823) |
| <u>Corporation for National and Community Services:</u> | | | | | | | | | |
| Passed through the <u>Maryland State Dept. of Education:</u> | | | | | | | | | |
| Serve America | 94.004 | 114387.01 | 07/01/2010 - 06/30/2011 | 9,965 | 6,333 | 6,333 | - | - | - |
| Total Corporation for National and Community Services | | | | 9,965 | 6,333 | 6,333 | - | - | - |
| <u>U.S. Homeland Security:</u> | | | | | | | | | |
| Passed through the <u>St. Mary's County Health Dept.:</u> | | | | | | | | | |
| Emergency Campus Phones (GMHS/ CHS) | 97.067 | PO 039911 | 09/20/2011 - 04/30/2012 | 36,000 | - | 36,000 | 35,931 | 69 | - |
| Emergency Generator Transfer Switch (LHS) | 97.073 | PO 039921 | 08/01/2010 - 04/30/2013 | 25,000 | - | - | 2,173 | - | 2,173 |
| Total U.S. Department of Homeland Security | | | | 61,000 | - | 36,000 | 38,104 | 69 | 2,173 |
| Total Expenditures of Federal Awards | | | | \$ 34,966,918 | \$ 1,072,257 | \$ 15,364,742 | \$ 15,844,977 | \$ 117,871 | \$ 1,670,363 |

St. Mary's County Public Schools

Notes To The Schedule Of Expenditures Of Federal Awards

Note 1. Single Audit Overview

The Single Audit is the performance of a uniform audit of all the School System's federal grants in conjunction with the annual audit of the basic financial statements. The adoption of such a procedure was formalized by the Federal Office of Management and Budget (OMB) in Circular A-133. The Single Audit fulfills all the Federal agencies' audit requirements which include financial, compliance and the adequacy of internal control.

Note 2. Fiscal Period Audited

Single audit testing procedures were performed for transactions occurring during the fiscal year ended June 30, 2012.

Note 3. Summary Of Significant Accounting Policies

a. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the modified accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when expenditures are made in accordance with the requirements of the respective grants.

b. Accrued and Deferred Reimbursement

Various reimbursement procedures are used for federal awards received by the School System. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and end of the fiscal year. Accrued balances at year-end represent an excess of reimbursable expenditures over cash receipts to date. Deferred balances at year-end represent an excess of cash receipts over reimbursable expenditures to date. Generally, accrued or deferred balances caused by differences in the timing of cash receipts and expenditures will be reversed in the remaining grant period or subsequent fiscal year.

Note 4. Program Exclusions

Medical assistance received under CFDA No. 93.778 has been included in the accompanying Schedule of Expenditures of Federal Awards but is not subject to single audit testing since funding is received under a vendor-type relationship.

St. Mary's County Public Schools

**Schedule Of Findings And Questioned Costs
Year Ended June 30, 2012**

Section I – Summary Of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of Major Programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|------------------------------------|---|
| 12.558 | Public Law 102-484 |
| 84.367 | Improving Teacher Quality |
| 84.027, 84.173, 84.391, and 84.392 | Special Education Cluster (IDEA) |
| 84.395 | Race To The Top |
| 84.318, and 84.386 | Educational Technology State Grants Cluster |

Dollar threshold used to distinguish between Type A and Type B programs: \$ 465,266

Auditee qualified as low-risk auditee? X Yes No

Section II – Financial Statement Findings

No matters were reported.

Section III – Findings And Questioned Costs For Federal Awards

No matters were reported.

St. Mary's County Public Schools

**Summary Schedule Of Prior Audit Findings
June 30, 2012**

No matters were reported in the prior year.