

St. Mary's County Public Schools

Financial Report
June 30, 2011

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Single Audit

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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, 2011, 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, 2011, 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 21, 2011 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.

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 40 are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Mary's County Public Schools basic financial statements. The Budgetary Comparison Schedule – General Fund on page 39 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 50 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

Frederick, Maryland
September 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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, 2011. 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 \$9.9 million (see page 15). Overall decrease in net assets is primarily due to the increase of the net OPEB obligation by \$8.9 million.
- The unassigned Fund Balance fell from \$6,177,234 to \$5,715,579. The net change to all Fund Balance accounts was \$(4,721,806) (see pages 16 and 18).
- The net assets for business type activities (Food Services) increased by \$348,057 (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**

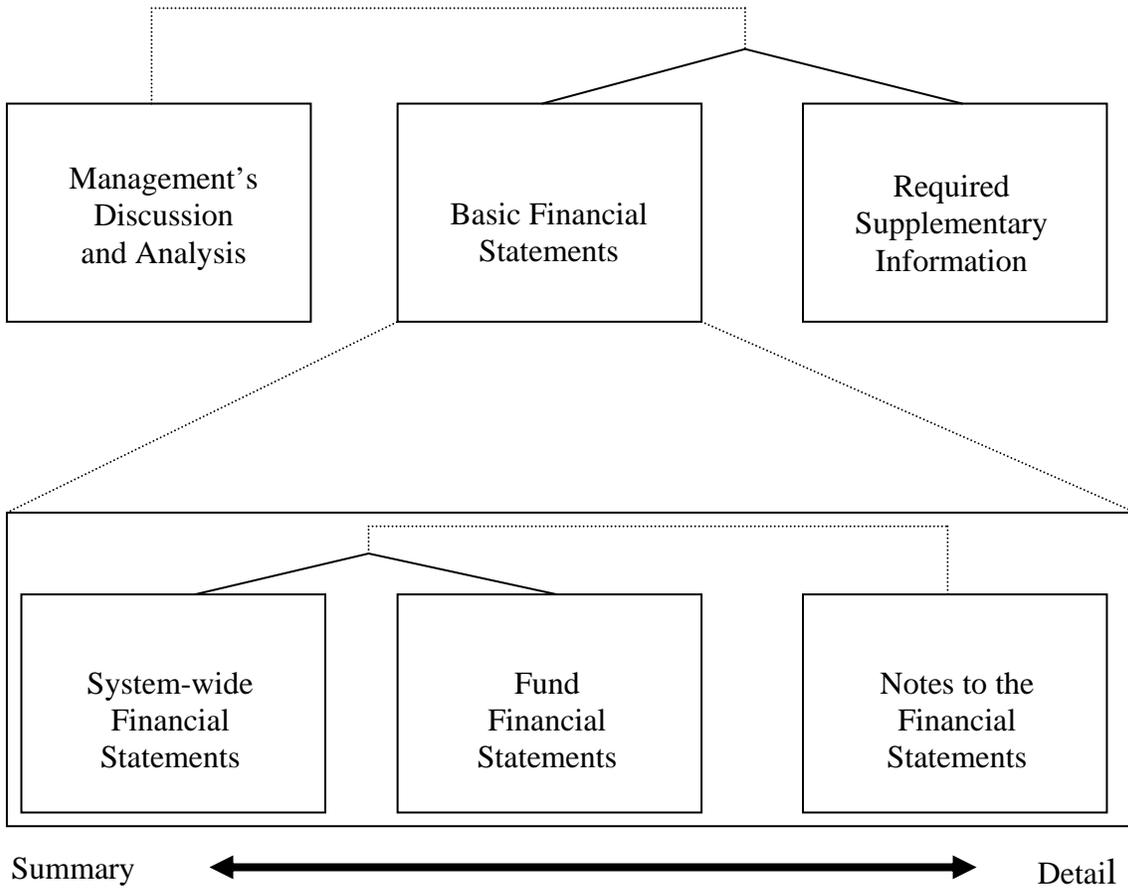


Figure A-2 summarizes the major features of the School System's financial statements, including the portion of the School System's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and 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 \$9.9M net of related debt, or -4.1% 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).

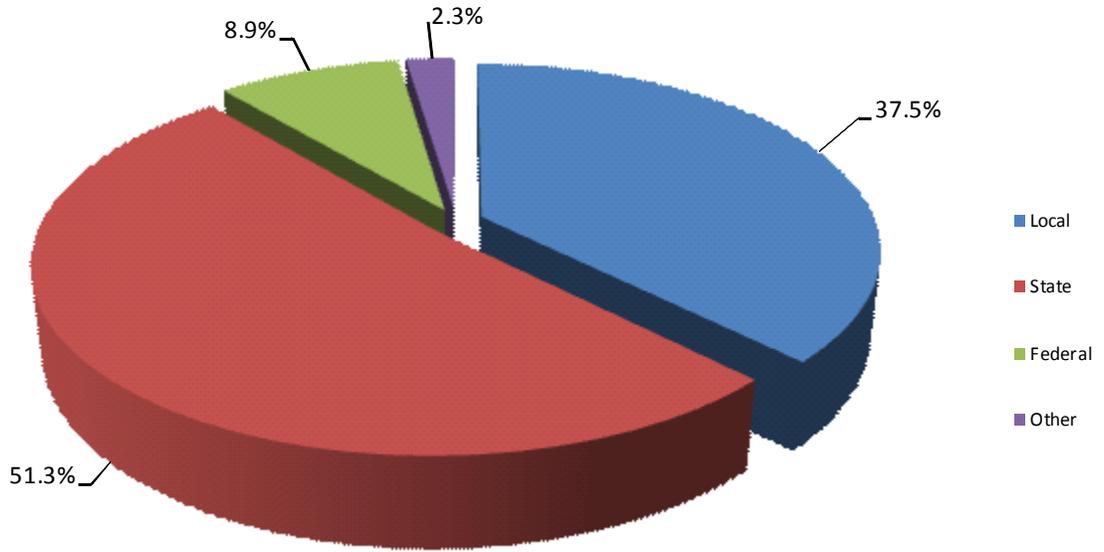
Figure A-3
Condensed Statement of Net Assets (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2011	2010	2011	2010	2011	2010	
Current and other assets	\$ 37.8	\$ 36.7	\$ 1.6	\$ 1.1	\$ 39.4	\$ 37.8	4.2%
Capital assets	237.1	235.2	0.6	0.7	237.7	235.9	0.8%
Total assets	274.9	271.9	2.2	1.8	277.1	273.7	1.2%
Long-term debt outstanding	23.1	13.9	0.1	0.1	23.2	14.0	65.7%
Other liabilities	23.6	19.6	0.5	0.5	24.1	20.1	19.9%
Total liabilities	46.7	33.5	0.6	0.6	47.3	34.1	38.7%
Net assets							
Invested in capital assets, net of related debt	237.1	235.2	0.6	0.6	237.7	235.8	0.8%
Restricted	0.2	0.1	-	-	0.2	0.1	100.0%
Unrestricted	(9.1)	3.1	1.0	0.6	(8.1)	3.7	-318.9%
Total net assets	\$ 228.2	\$ 238.4	\$ 1.6	\$ 1.2	\$ 229.8	\$ 239.6	-4.1%

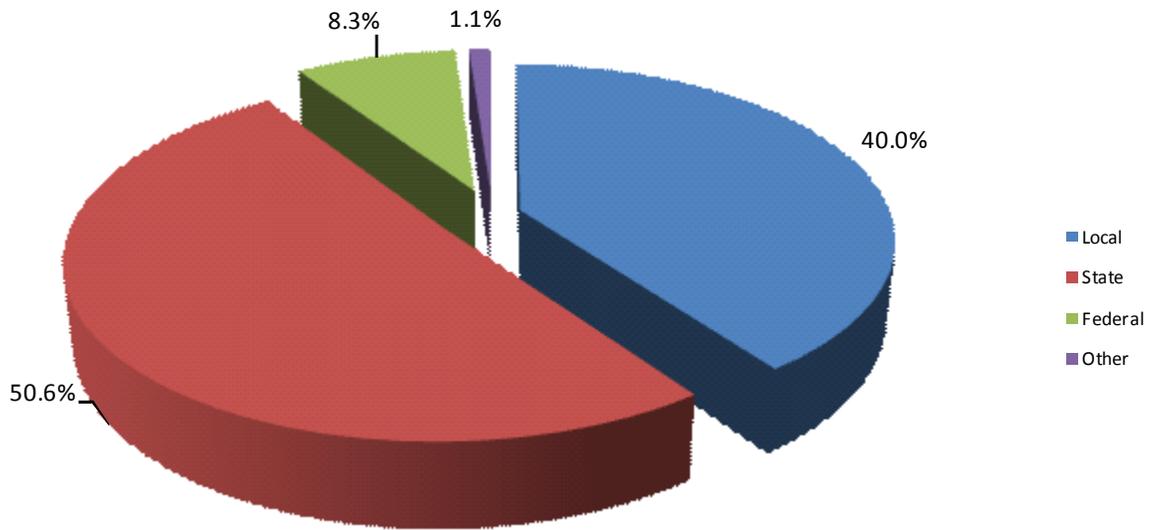
Figure A-4
Condensed Statement of Net Activities (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2011	2010	2011	2010	2011	2010	
Revenues							
Program revenues:							
Charges for services	\$ 0.4	\$ 0.4	\$ 3.4	\$ 3.3	\$ 3.8	\$ 3.7	2.7%
Operating grants & contributions	44.3	45.1	3.4	3.1	47.7	48.2	-1.0%
Capital grants & contributions	10.1	8.1	-	0.2	10.1	8.3	21.7%
General revenues:							
County	76.0	76.6	-	-	76.0	76.6	-0.8%
State	76.4	76.9	-	-	76.4	76.9	-0.7%
Federal	2.6	2.2	-	-	2.6	2.2	18.2%
Other	2.8	0.9	-	-	2.8	0.9	211.1%
Total revenues	212.6	210.2	6.8	6.6	219.4	216.8	1.2%
Expenses							
Administrative	19.1	17.0	-	-	19.1	17.0	12.4%
Instruction	78.4	81.9	-	-	78.4	81.9	-4.3%
Special education	20.1	21.7	-	-	20.1	21.7	-7.4%
Student personnel & health services	2.9	2.9	-	-	2.9	2.9	0.0%
Transportation	14.6	13.7	-	-	14.6	13.7	6.6%
Operations & maintenance	26.8	26.8	-	-	26.8	26.8	0.0%
Fixed charges	61.0	56.8	-	-	61.0	56.8	7.4%
Other	-	-	6.4	6.1	6.4	6.1	4.9%
Total expenses	222.9	220.8	6.4	6.1	229.3	226.9	1.1%
Change in net assets	\$ (10.3)	\$ (10.6)	\$ 0.4	\$ 0.5	\$ (9.9)	\$ (10.1)	-2.0%

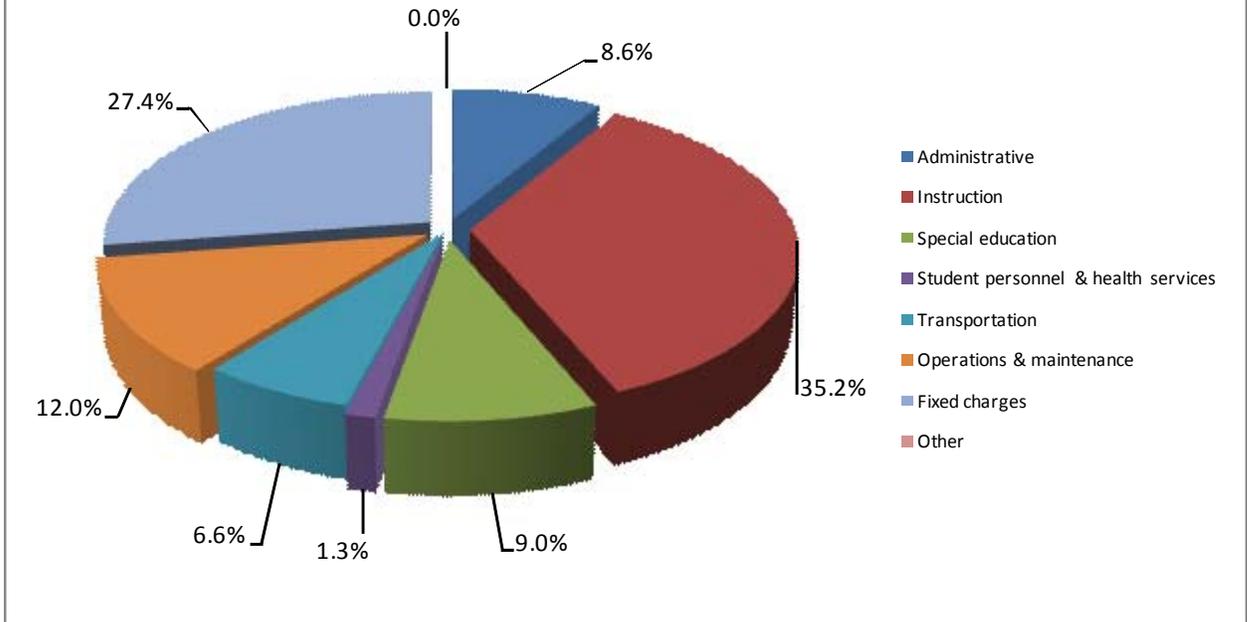
**Figure A-5: Sources of Revenues FY-2011
Governmental Activities**



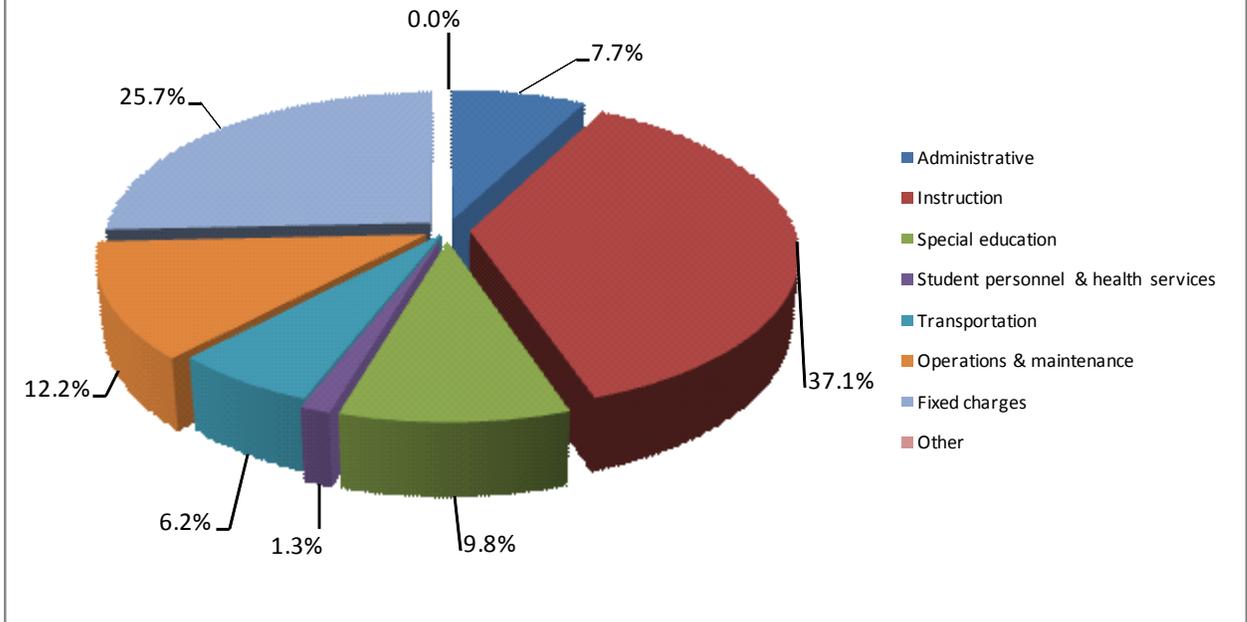
**Figure A-6: Sources of Revenues FY-2010
Governmental Activities**



**Figure A-7: Expenses FY-2011
Governmental Activities**



**Figure A-8: Expenses FY-2010
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.
 - State/Local Revenue – Overall funding levels dropped for local and state sources.
- Positives:
 - Federal Revenue – ARRA funding helped offset the loss of local/state funding.
 - HealthCare Refund – Better than expected refund.

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

	Total Cost of Services			Net Cost of Services		
	2011	2010	% Change	2011	2010	% Change
Administrative	\$ 19.1	\$ 17.0	12.4%	\$ 18.9	\$ 16.6	13.9%
Instruction	78.4	81.9	-4.3%	74.3	73.6	1.0%
Special education	20.1	21.7	-7.4%	10.2	9.8	4.1%
Student personnel & health services	2.9	2.9	0.0%	2.5	2.5	0.0%
Transportation	14.6	13.7	6.6%	8.1	7.4	9.5%
Operations & maintenance	26.8	26.8	0.0%	15.7	17.5	-10.3%
Fixed charges	61.0	56.8	7.4%	38.3	39.8	-3.8%
Total	\$ 222.9	\$ 220.8	1.0%	\$ 168.0	\$ 167.2	0.5%

Business-Type Activities

- Net assets for Food Service increased by \$348,057.

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-2011 General Fund shows a deficit of \$4.7M expenditures over revenues (page 18).

Capital Projects amounted to \$10,097,891 for the year ended June 30, 2011 (page 30). As discussed later, these expenditures were for a full array of capital projects.

General Fund Budgetary Highlights

Expenses exceeded revenues by \$4.7M. Revenues from all sources except from the federal programs, specifically ARRA, were down and forced us to use fund balance reserves to essentially break-even. Expenses were kept in check for the most part with a notable increase for the retirement incentive payoff.

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-2011, the School System invested \$9,690,834 (prior to depreciation) in a broad range of capital assets, including school buildings, buses, 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
	2011	2010	2011	2010	2011	2010	
Land	\$ 2.5	\$ 2.5	\$ -	\$ -	\$ 2.5	\$ 2.5	0.0%
Facilities under construction	0.6	2.4	-	-	0.6	2.4	-75.0%
Buildings	326.3	227.3	-	-	326.3	227.3	43.6%
Equipment	7.6	3.0	0.6	0.7	8.2	3.7	121.6%
Total capital assets, net	\$ 337.0	\$ 235.2	\$ 0.6	\$ 0.7	\$ 337.6	\$ 235.9	43.1%

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
	2011	2010	2011	2010	2011	2010	
Compensated absences	\$ 4.1	\$ 3.9	\$ 0.1	\$ 0.1	\$ 4.2	\$ 4.0	5.0%
Net OPEB obligation	18.9	10.0	-	-	18.9	10.0	89.0%
Total long-term debt	\$ 23.0	\$ 13.9	\$ 0.1	\$ 0.1	\$ 23.1	\$ 14.0	65.0%

Factors Bearing on the School System's Future

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

- The State of Maryland continues to struggle with a budget deficit. Federal ARRA, RTTT, and other programs are offering some financial relief, but only for a short time period. This deficit, if not addressed, 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 \$19M short of being fully funded as of June 30, 2011.
- 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.
- Funding for the retirement of staff members currently enrolled in the Teacher's Pension System is a hot topic and it is viewed by many that some of that will be pushed back to the local schools and counties to cover.

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 Chief 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, 2011**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 31,048,011	\$ 544,614	\$ 31,592,625
Due from other governments	2,738,604	179,380	2,917,984
Internal balances	(440,890)	440,890	-
Other receivables, net	4,381,743	144,858	4,526,601
Inventory, at cost	-	275,362	275,362
Prepaid items	34,459	-	34,459
Capital Assets:			
Land	2,545,293	-	2,545,293
Buildings and improvements	330,879,336	-	330,879,336
Furniture and equipment	7,590,226	1,569,053	9,159,279
Construction in process	648,894	-	648,894
Less accumulated depreciation	(104,574,945)	(926,042)	(105,500,987)
Total assets	274,850,731	2,228,115	277,078,846
Liabilities			
Accounts payable	4,358,249	134,283	4,492,532
Accrued salaries and related costs	15,437,317	282,575	15,719,892
Due to other governments	296,391	-	296,391
Deferred revenue	3,595,881	96,272	3,692,153
Long-term liabilities:			
Due within one year:			
Compensated absences	492,698	8,606	501,304
Due after one year:			
Compensated absences	3,632,681	96,466	3,729,147
Net OPEB obligation	18,928,217	-	18,928,217
Total liabilities	46,741,434	618,202	47,359,636
Net Assets			
Invested in capital assets, net of related debt	237,088,804	643,011	237,731,815
Restricted for:			
Capital projects	79,755	-	79,755
Unrestricted	(9,059,262)	966,902	(8,092,360)
Total net assets	\$ 228,109,297	\$ 1,609,913	\$ 229,719,210

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Activities
Year Ended June 30, 2011**

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	\$ 3,682,924	\$ -	\$ -	\$ -	\$ (3,682,924)	\$ -	\$ (3,682,924)
Mid-level administration	15,415,173	-	247,492	-	(15,167,681)	-	(15,167,681)
Instructional salaries	73,878,741	-	2,688,343	-	(71,190,398)	-	(71,190,398)
Instructional textbooks and supplies	3,201,128	212,049	637,381	-	(2,351,698)	-	(2,351,698)
Other instructional costs	1,299,669	-	560,595	-	(739,074)	-	(739,074)
Special education	20,145,486	-	9,915,523	-	(10,229,963)	-	(10,229,963)
Student personnel services	1,039,161	-	59,931	-	(979,230)	-	(979,230)
Student health services	1,846,261	-	189,327	-	(1,656,934)	-	(1,656,934)
Student transportation services	14,617,483	-	6,566,534	-	(8,050,949)	-	(8,050,949)
Operation of plant	21,263,779	237,855	725,593	10,097,801	(10,202,530)	-	(10,202,530)
Maintenance of plant	5,509,129	-	-	-	(5,509,129)	-	(5,509,129)
Community services	17,170	-	17,170	-	-	-	-
Fixed charges	60,999,929	-	22,699,084	-	(38,300,845)	-	(38,300,845)
Total governmental activities	222,916,033	449,904	44,306,973	10,097,801	(168,061,355)	-	(168,061,355)
Business-type activities:							
Food services	6,384,908	3,378,542	3,353,696	-	-	347,330	347,330
Total business-type activities	6,384,908	3,378,542	3,353,696	-	-	347,330	347,330
Total primary government	\$ 229,300,941	\$ 3,828,446	\$ 47,660,669	\$ 10,097,801	(168,061,355)	347,330	(167,714,025)
General revenues:							
Unrestricted grants and contributions:							
Local					76,000,000	-	76,000,000
State					76,391,834	-	76,391,834
Federal					2,597,118	-	2,597,118
Investment earnings					13,013	727	13,740
Other					2,788,144	-	2,788,144
Total general revenues					157,790,109	727	157,790,836
Change in net assets					(10,271,246)	348,057	(9,923,189)
Net assets:							
Beginning					238,380,543	1,261,856	239,642,399
Ending					\$ 228,109,297	\$ 1,609,913	\$ 229,719,210

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Balance Sheet - Governmental Funds
June 30, 2011**

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 31,027,534	\$ 20,477	\$ 31,048,011
Due from other governments	1,835,394	903,210	2,738,604
Due from other funds	1,595	307,410	309,005
Other receivables	4,380,148	-	4,380,148
Prepaid items	34,459	-	34,459
Total assets	\$ 37,279,130	\$ 1,231,097	\$ 38,510,227
Liabilities And Fund Balances			
Liabilities:			
Accounts payable	\$ 3,192,817	\$ 1,147,717	\$ 4,340,534
Accrued salaries and related costs	15,437,317	-	15,437,317
Due to other governments	296,391	-	296,391
Due to other funds	766,015	-	766,015
Deferred revenue	6,522,208	3,625	6,525,833
Total liabilities	26,214,748	1,151,342	27,366,090
Fund Balances:			
Non-spendable	34,459	-	34,459
Restricted	-	79,755	79,755
Committed	1,000,000	-	1,000,000
Assigned	4,314,344	-	4,314,344
Unassigned	5,715,579	-	5,715,579
Total fund balances	11,064,382	79,755	11,144,137
Total liabilities and fund balances	\$ 37,279,130	\$ 1,231,097	\$ 38,510,227

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, 2011**

Total fund balances - governmental funds \$ 11,144,137

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	\$ 341,663,749	
Accumulated depreciation	<u>(104,574,945)</u>	237,088,804

Retrospective insurance premium refund will be collected subsequent to June 30, 2011, but is not available soon enough to pay for the current period's expenditures, and therefore is deferred in the general fund. 2,929,952

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	4,125,379	
Net OPEB obligation	<u>18,928,217</u>	<u>(23,053,596)</u>

Total net assets - governmental activities \$ 228,109,297

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, 2011**

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Local	\$ 76,000,000	\$ 3,685,300	\$ 79,685,300
State of Maryland	103,241,558	5,912,501	109,154,059
Federal government	18,352,190	500,000	18,852,190
Tuition	194,565	-	194,565
Investment income	12,976	37	13,013
Other	3,035,247	-	3,035,247
	<u>200,836,536</u>	<u>10,097,838</u>	<u>210,934,374</u>
Expenditures:			
Current:			
Administration	3,592,880	-	3,592,880
Mid-level administration	15,384,057	-	15,384,057
Instructional salaries	73,878,741	-	73,878,741
Instructional textbooks and supplies	3,201,128	-	3,201,128
Other instructional costs	1,237,392	-	1,237,392
Special education	20,143,321	-	20,143,321
Student personnel services	1,038,477	-	1,038,477
Student health services	1,846,261	-	1,846,261
Student transportation services	14,687,696	-	14,687,696
Operation of plant	14,121,075	-	14,121,075
Maintenance of plant	3,811,047	-	3,811,047
Community services	17,170	-	17,170
Fixed charges	51,889,532	-	51,889,532
Capital outlay	709,602	10,097,801	10,807,403
	<u>205,558,379</u>	<u>10,097,801</u>	<u>215,656,180</u>
Other financing sources (uses):			
Transfer in	6,408	-	6,408
Transfer out	-	(6,408)	(6,408)
	<u>6,408</u>	<u>(6,408)</u>	<u>-</u>
Net change in fund balances	(4,715,435)	(6,371)	(4,721,806)
Fund balance at beginning of year	15,779,817	86,126	15,865,943
Fund balance at end of year	<u>\$ 11,064,382</u>	<u>\$ 79,755</u>	<u>\$ 11,144,137</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, 2011

Total net change in fund balances - governmental funds	\$ (4,721,806)
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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 capital outlays of \$9,690,834 exceeds depreciation of \$7,725,071 for the period. 1,965,763

In the statement of activities, only the gain/loss on the disposition of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balances by costs of the capital assets of \$120,219 disposed, less any accumulated depreciation of \$5,000. (115,219)

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 increased by this amount this year. 1,710,413

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 earned of \$757,553, exceeded amounts paid of \$580,733. (176,820)

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 \$14,054,000, exceeded amounts contributed of \$5,120,423. (8,933,577)

Change in net assets of governmental activities

\$ (10,271,246)

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Net Assets - Proprietary Fund
June 30, 2011**

	Enterprise Fund
Assets	
Current Assets:	
Cash and cash equivalents	\$ 544,614
Due from other governments	179,380
Due from other funds	440,890
Accounts receivable, net	144,858
Inventory, at cost	275,362
	<u>1,585,104</u>
Noncurrent Assets:	
Food service equipment	1,569,053
Less accumulated depreciation	<u>(926,042)</u>
	643,011
Total assets	<u><u>2,228,115</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	134,283
Accrued salaries and related costs	282,575
Deferred revenue	96,272
Compensated absences	8,606
	<u>521,736</u>
Noncurrent Liabilities:	
Compensated absences	<u>96,466</u>
Total liabilities	<u>618,202</u>
Net Assets	
Invested in capital assets, net of related debt	643,011
Unrestricted	966,902
Total net assets	<u><u>\$ 1,609,913</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, 2011**

	Enterprise Fund
<hr/>	
Operating revenues:	
Food service sales	\$ 3,378,542
Federal grants and commodities	3,143,764
State matching and other	209,932
Total operating revenue	<u>6,732,238</u>
Operating expenses:	
Payroll costs	3,248,868
Professional and contract services	44,085
Supplies and materials	2,637,984
Depreciation	100,164
Other operating costs	353,807
Total operating expenses	<u>6,384,908</u>
Operating income	<u>347,330</u>
Non-operating revenues:	
Interest income	<u>727</u>
Change in net assets	348,057
Total net assets, beginning of year	1,261,856
Total net assets, end of year	<u>\$ 1,609,913</u>

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Cash Flows - Proprietary Fund
Year Ended June 30, 2010**

	Enterprise Fund
<hr/>	
Cash Flows From Operating Activities	
Cash received from user charges	\$ 3,408,738
Operating grants and subsidies received	2,961,739
Payments to employees for services	(3,250,805)
Payments to suppliers for goods and services	(2,206,945)
Payments for other operating expenses	(397,892)
Net provided by operating activities	<u>514,835</u>
 Cash Flows From Non-Capital Financing Activities	
Internal activity - net payments to other funds	(497,167)
Net cash used in non-capital financing activities	<u>(497,167)</u>
 Cash Flows From Capital And Related Financing Activities	
Acquisition of capital assets	(37,785)
Net cash used in capital and related financing activities	<u>(37,785)</u>
 Cash Flows From Investing Activities	
Interest received on investments	727
Net cash provided by investing activities	<u>727</u>
 Net decrease in cash and cash equivalents	(19,390)
 Cash And Cash Equivalents:	
Beginning	564,004
Ending	<u>\$ 544,614</u>
 Reconciliation Of Operating Loss To Net Cash Provided By Operating Activities	
Operating income	\$ 347,330
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	100,164
Changes in assets and liabilities:	
Due from other governments	33,137
Receivables	23,657
Inventory	(46,515)
Accounts payable	52,460
Accrued salaries and related costs	(5,148)
Deferred revenue	6,539
Compensated absences	3,211
Net cash provided by operating activities	<u>\$ 514,835</u>

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

Statement Of Fiduciary Net Assets - Fiduciary Funds
June 30, 2011

	Private-Purpose Trust Fund	Agency Funds
Assets		
Cash and cash equivalents	\$ 103,652	\$ 1,270,070
Due from other funds	-	17,715
Total assets	<u>103,652</u>	<u>1,287,785</u>
Liabilities		
Due to other funds	1,595	-
Due to student groups	-	1,287,785
Total liabilities	<u>1,595</u>	<u>1,287,785</u>
Net Assets		
Reserved for scholarships	<u>\$ 102,057</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, 2011**

Additions	
Investment and other income	<u>\$ 936</u>
Deductions	
Scholarships awarded	<u> 3,423</u>
Change in net assets	(2,487)
Net Assets	
Beginning	<u> 104,544</u>
Ending	<u><u> \$ 102,057</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 \$1,550 for each non-certificated employee and a maximum of \$3,000 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, 2011, 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, 2011. 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 2. Cash And Cash Equivalents

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, 2011, all of the School System's deposits 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, or the State's sponsored investment pool. At June 30, 2011, 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 \$18,564,470, \$404,979, and \$796,884 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

Note 3. Receivables And Payables

Receivables and payables at June 30, 2011, consist of the following:

	Governmental Activities			Business-Type Activities	Total
	General	Capital Projects			
Due from other governments:					
Local	\$ 8,820	\$ 444,197	\$ -	\$ 453,017	
State	163,924	459,013	18,591	641,528	
Federal	1,662,650	-	160,789	1,823,439	
	<u>\$ 1,835,394</u>	<u>\$ 903,210</u>	<u>\$ 179,380</u>	<u>\$ 2,917,984</u>	
Other receivables:					
Account	\$ 87,826	\$ -	\$ 144,858	\$ 232,684	
Chesapeake Public Charter School	528,322	-	-	528,322	
Retrospective insurance refund	3,764,000	-	-	3,764,000	
Due from Fiduciary Funds to General Fund reclassified in Statement of Net Assets	1,595	-	-	1,595	
	<u>\$ 4,381,743</u>	<u>\$ -</u>	<u>\$ 144,858</u>	<u>\$ 4,526,601</u>	

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 3. Receivables And Payables (Continued)

	Governmental Activities			Total
	General	Capital Projects	Business-Type Activities	
Accounts payable:				
Vendors	\$ 1,931,748	\$ 603,456	\$ 134,283	\$ 2,669,487
Insurance refund due employees	1,261,069	-	-	1,261,069
Contractor retainages	-	544,261	-	544,261
Due from General Fund to Fiduciary Funds reclassified in Statement of Net Assets	17,715	-	-	17,715
	<u>\$ 3,210,532</u>	<u>\$ 1,147,717</u>	<u>\$ 134,283</u>	<u>\$ 4,492,532</u>
Due to other governments:				
Local	\$ 296,391	\$ -	\$ -	\$ 296,391

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2011, is as follows:

	Balance, June 30, 2010	Additions	Deletions / Transfers	Balance, June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,545,293	\$ -	\$ -	\$ 2,545,293
Construction in process	2,370,104	582,899	(2,304,109)	648,894
	<u>4,915,397</u>	<u>582,899</u>	<u>(2,304,109)</u>	<u>3,194,187</u>
Capital assets being depreciated:				
Buildings and improvements	320,179,628	10,814,927	(115,219)	330,879,336
Furniture and equipment	6,998,109	597,117	(5,000)	7,590,226
	<u>327,177,737</u>	<u>11,412,044</u>	<u>(120,219)</u>	<u>338,469,562</u>
Accumulated depreciation for:				
Buildings and improvements	(92,840,732)	(7,133,516)	-	(99,974,248)
Furniture and equipment	(4,014,142)	(591,555)	5,000	(4,600,697)
	<u>(96,854,874)</u>	<u>(7,725,071)</u>	<u>5,000</u>	<u>(104,574,945)</u>
Governmental activities capital assets, net	<u>\$ 235,238,260</u>	<u>\$ 4,269,872</u>	<u>\$ (2,419,328)</u>	<u>\$ 237,088,804</u>
Business-type activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,531,268	\$ 37,785	\$ -	\$ 1,569,053
Accumulated depreciation for:				
Furniture and equipment	(825,878)	(100,164)	-	(926,042)
Business-type activities capital assets, net	<u>\$ 705,390</u>	<u>\$ (62,379)</u>	<u>\$ -</u>	<u>\$ 643,011</u>

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 4. Capital Assets (Continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2011, as follows:

Governmental activities:	
Administration	\$ 90,044
Mid-level administration	31,116
Other instructional costs	147,036
Special education	9,885
Student personnel services	684
Student transportation services	126,079
Operation of plant	7,316,240
Maintenance of plant	3,987
	<u>\$ 7,725,071</u>
 Business-type activities:	
Food services	<u>\$ 100,164</u>

Note 5. Deferred Revenue

General Fund: Deferred revenue primarily consists of Fiscal Year 2012 funding received in advance from Maryland State Department of Education under the Budget Financing and Reconciliation Act of 2011 totaling \$2,746,913 along with the retrospective insurance premium refund totaling \$2,929,952 which will be collected subsequent to June 30, 2011, but is not available soon enough to pay for the current period's expenditures, and therefore is deferred, along with. The remaining deferred revenue consists of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2011 of \$824,493, and summer school tuition \$20,850, which is collected in advance of the corresponding expenditures which do not occur until the following fiscal year.

Capital Projects Fund: Deferred revenue consists of revenue received in advance from the County for expenditures associated with relocatable classrooms of \$3,625.

Enterprise Fund: Deferred revenue of \$96,272 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2012.

Note 6. Interfund Balances

The composition of interfund balances as of June 30, 2011, is as follows:

Payable Fund	Receivable Fund			
	General	Capital Projects	Enterprise	Agency
General	\$ -	\$ 307,410	\$ 440,890	\$ 17,715
Private-Purpose Trust	1,595	-	-	-
	<u>\$ 1,595</u>	<u>\$ 307,410</u>	<u>\$ 440,890</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.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 7. Long-Term Liabilities

General long-term debt at June 30, 2011, 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, 2011:

	Balance, June 30, 2010	Additions	Deductions	Balance, June 30, 2011	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 3,948,559	\$ 757,553	\$ (580,733)	\$ 4,125,379	\$ 492,698
Net OPEB obligation	9,994,640	14,054,000	(5,120,423)	18,928,217	-
	13,943,199	14,811,553	(5,701,156)	23,053,596	492,698
	<u>\$ 13,943,199</u>	<u>\$ 14,811,553</u>	<u>\$ (5,701,156)</u>	<u>\$ 23,053,596</u>	<u>\$ 492,698</u>
Business-type activities:					
Compensated absences	\$ 101,861	\$ 11,891	\$ (8,680)	\$ 105,072	\$ 8,606

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

Note 8. Governmental Fund Balances

Governmental fund balances at June 30, 2011, are summarized as follows:

	General Fund	Capital Projects	Total
Non-spendable:			
Prepaid expenditures	\$ 34,459	\$ -	\$ 34,459
Restricted for:			
Capital Projects	-	79,755	79,755
Committed to:			
Insurance call	1,000,000	-	1,000,000
Assigned to:			
Fund balance usage	3,924,369	-	3,924,369
Administrative	56,757	-	56,757
Instruction	193,061	-	193,061
Special education	27,707	-	27,707
Transportation	23,687	-	23,687
Building operations and maintenance	85,509	-	85,509
Other	3,254	-	3,254
	<u>4,314,344</u>	<u>-</u>	<u>4,314,344</u>
Unassigned	5,715,579	-	5,715,579
Total fund balances	<u>\$ 11,064,382</u>	<u>\$ 79,755</u>	<u>\$ 11,144,137</u>

St. Mary's County Public Schools

Notes To Basic Financial Statements

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.

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, 2011, management has accrued an estimated refund of \$3,764,000. 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 \$781,347 resulting in \$2,929,952 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 \$52,701 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.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 10. Pension Plans (Continued)

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.

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 2 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 \$1,386,017 or 1.2 percent of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$14,684,898 or 12.4 percent of covered payroll for fiscal year 2011, 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 10-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:

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 10. Pension Plans (Continued)

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
2009	\$ 11,710,668	\$ 874,571	\$ 10,836,097	100%	\$ -
2010	13,942,472	911,235	13,031,237	100%	-
2011	16,070,915	1,386,017	14,684,898	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.

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 \$7,221,000 and the amortization of unfunded accrued liability of \$6,798,000. The School System contributed \$5,120,423 for the year ended June 30, 2011, including \$3,820,423 towards current healthcare and life insurance premiums and an additional \$1,300,000 to prefund future benefits.

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed as of July 1, 2006 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, 2010. The annual OPEB cost (expense) for the year ended June 30, 2011 was \$14,054,000, which was comprised of the ARC of \$14,019,000 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:

St. Mary's County Public Schools

Notes To Basic Financial Statements

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

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage Of	Net OPEB Obligation
		Annual OPEB Cost Contributed	
2009	\$ 10,333,000	91.12%	\$ 2,625,870
2010	13,197,000	44.16%	9,994,640
2011	14,054,000	36.43%	18,928,217

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 July 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 4.75 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 28 years for year ended June 30, 2011.

St. Mary's County Public Schools

Notes To Basic Financial Statements

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, 2011, 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 \$1,550,000.

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.

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, 2011, that have effective dates that may impact future financial presentations.

Management has not currently determined what, if any, impact implementation of the following statement 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.

St. Mary's County Public Schools

Notes To Basic Financial Statements

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

- 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.
- GASB Statement Number 64, *Derivative Instruments – Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53*, will be effective for the School System beginning with its year ending June 30, 2012. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider and whether hedge accounting should continue to be applied.

REQUIRED SUPPLEMENTARY INFORMATION

St. Mary's County Public Schools

**Budgetary Comparison Schedule -
General Fund
Year Ended June 30, 2011**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Favorable (Unfavorable)
	Original	Amended		
Revenues:				
Local	\$ 76,000,000	\$ 76,000,000	\$ 76,000,000	\$ -
State of Maryland	91,913,844	89,050,478	88,556,660	(493,818)
Federal government	20,061,377	20,563,378	18,352,190	(2,211,188)
Tuition	210,357	210,357	194,565	(15,792)
Investment income	95,000	45,000	12,976	(32,024)
Other	11,782,541	12,167,996	14,093,514	1,925,518
	<u>200,063,119</u>	<u>198,037,209</u>	<u>197,209,905</u>	<u>(827,304)</u>
Expenditures:				
Administration	3,711,616	3,906,538	3,692,686	213,852
Mid-level administration	15,391,744	15,744,408	15,438,910	305,498
Instructional salaries	73,826,076	74,340,050	73,878,741	461,309
Instructional textbooks and supplies	3,558,418	3,654,591	3,382,870	271,721
Other instructional costs	4,606,471	4,759,576	4,191,926	567,650
Special education	22,074,758	21,919,758	20,161,962	1,757,796
Student personnel services	1,091,659	1,090,779	1,038,477	52,302
Student health services	1,901,843	1,920,991	1,846,314	74,677
Student transportation services	14,593,287	14,571,777	14,489,075	82,702
Operation of plant	13,840,672	14,110,242	14,046,603	63,639
Maintenance of plant	3,700,660	3,701,066	3,661,297	39,769
Fixed charges	40,985,044	37,560,712	37,204,634	356,078
Community services	27,853	27,853	17,170	10,683
Capital outlay	753,018	728,868	712,579	16,289
	<u>200,063,119</u>	<u>198,037,209</u>	<u>193,763,244</u>	<u>4,273,965</u>
Other Financing Sources:				
Transfer in			<u>6,408</u>	
Net change in fund balance			3,453,069	
Adjustments to conform with generally accepted accounting principles			(8,168,504)	
Fund balance at beginning of year			<u>15,779,817</u>	
Fund balance at end of year			<u>\$ 11,064,382</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]
2008	\$ 39,504,284	\$ 50,244,047	\$ 10,739,763	78.62%	\$ 10,542,806	101.87%
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%

**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, 2008	\$ 4,238,000	\$ 110,233,686	\$ 105,995,686	3.84%	\$ 111,916,732	94.71%
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%

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 2010 from the budget basis to the GAAP basis, are as follows:

	Revenues	Expenditures And Encumbrances	Other Financing Sources	Current Year Effect On Fund Balance
General Fund - budgetary basis	\$ 197,209,905	\$ 193,763,244	\$ 6,408	\$ 3,453,069
Budget to GAAP reconciliation:				
Prior year encumbrances outstanding, 6/30/10	-	576,863	-	(576,863)
Prior year encumbrances canceled	-	(18,384)	-	18,384
Interfund transfers	(3,058,267)	(3,058,267)	-	-
Current year encumbrances outstanding, 6/30/11	-	(389,975)	-	389,975
State retirement contribution	14,684,898	14,684,898	-	-
Fund balance usage	(8,000,000)	-	-	(8,000,000)
	<u>3,626,631</u>	<u>11,795,135</u>	<u>-</u>	<u>(8,168,504)</u>
General Fund - GAAP basis	<u>\$ 200,836,536</u>	<u>\$ 205,558,379</u>	<u>\$ 6,408</u>	<u>\$ (4,715,435)</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, 2011**

	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:			
Food service sales	\$ 3,500,000	\$ 3,378,542	\$ (121,458)
Federal grants and commodities	2,865,100	3,143,764	278,664
State matching and other	211,900	209,932	(1,968)
Interest income	1,500	727	(773)
	<u>6,578,500</u>	<u>6,732,965</u>	<u>154,465</u>
Expenses:			
Payroll costs	3,504,100	3,248,868	255,232
Professional and contract services	46,000	44,085	1,915
Supplies and materials	2,591,056	2,637,984	(46,928)
Depreciation	94,300	100,164	(5,864)
Other operating costs	343,044	353,807	(10,763)
	<u>6,578,500</u>	<u>6,384,908</u>	<u>193,592</u>
Change in net assets	<u>\$ -</u>	348,057	<u>\$ 348,057</u>
Total net assets, beginning of year		<u>1,261,856</u>	
Total net assets, end of year		<u>\$ 1,609,913</u>	

St. Mary's County Public Schools

**Schedule Of Changes In School Activity Funds - Agency Fund
Year Ended June 30, 2011**

	School Activity Accounts Balance, July 1, 2010	Additions	Deductions	School Activity Accounts Balance, June 30, 2011
School - Checking:				
Benjamin Banneker Elementary	\$ 8,009	\$ 106,327	\$ (100,484)	\$ 13,852
Chesapeake Public Charter School	21,752	81,172	(89,127)	13,797
Chopticon High School	23,329	507,381	(483,782)	46,928
Dr. James A. Forrest Career & Technology Center	53,353	411,875	(396,705)	68,523
Dynard Elementary	12,884	68,690	(70,968)	10,606
Esperanza Middle	34,167	121,105	(111,055)	44,217
Evergreen Elementary	10,344	73,780	(67,489)	16,635
Fairlead Academy	429	5,608	(5,111)	926
G.W. Carver Elementary	6,465	40,256	(42,168)	4,553
Great Mills High School	64,870	354,440	(369,899)	49,411
Green Holly Elementary	4,248	39,022	(42,823)	447
Greenview Knolls Elementary	5,849	52,476	(54,948)	3,377
Hollywood Elementary	9,889	63,984	(69,079)	4,794
L.M. Dent Elementary	14,071	88,006	(89,167)	12,910
LBO-Sunshine Fund	1,502	1,332	(946)	1,888
Leonardtown Elementary	6,541	100,359	(97,851)	9,049
Leonardtown High School	3,132	622,900	(612,134)	13,898
Leonardtown Middle	37,660	92,374	(91,738)	38,296
Lexington Park Elementary	9,324	53,121	(52,281)	10,164
Loveville Bd. Office	789	1,272	(676)	1,385
Margaret Brent Middle	10,323	215,548	(206,839)	19,032
Mechanicsville Elementary	9,203	57,933	(58,863)	8,273
MGA-MUN	3,192	1,907	(1,649)	3,450
Oakville Elementary	13,673	28,361	(31,918)	10,116
Park Hall Elementary	5,734	46,577	(48,147)	4,164
Piney Point Elementary	8,218	68,861	(60,003)	17,076
Pupil Services	12,345	3,767	(11,336)	4,776
Ridge Elementary	2,899	31,748	(26,786)	7,861
SMASC	4,020	805	(1,085)	3,740
Spring Ridge Middle	20,549	218,637	(214,077)	25,109
Town Creek Elementary	4,812	30,081	(28,043)	6,850
White Marsh Elementary	9,917	65,472	(70,028)	5,361
	433,492	3,655,177	(3,607,205)	481,464

(Continued)

St. Mary's County Public Schools

Schedule Of Changes In School Activity Funds - Agency Fund (Continued)
Year Ended June 30, 2011

	School Activity Accounts Balance, July 1, 2010	Additions	Deductions	School Activity Accounts Balance, June 30, 2011
School - Savings:				
Chopticon High School	25,130	244	-	25,374
Dr. James A. Forrest Career & Technology Center	70,000	-	-	70,000
	<u>95,130</u>	<u>244</u>	<u>-</u>	<u>95,374</u>
School - MLGIP (Maryland Local Government Investment Pool):				
Benjamin Banneker Elementary	2,612	5	-	2,617
Chopticon High School	183,159	314	(10,000)	173,473
Dr. James A. Forrest Career & Technology Center	36,960	66	-	37,026
Dynard Elementary	5,082	9	-	5,091
Esperanza Middle	6,204	11	-	6,215
G.W. Carver Elementary	1,857	3	-	1,860
Great Mills High School	170,208	306	-	170,514
Green Holly	5,345	10	(3,000)	2,355
Greenview Knolls Elementary	8,136	15	-	8,151
Hollywood Elementary	12,491	22	-	12,513
L.M. Dent Elementary	1,415	3	-	1,418
Leonardtown Elementary	7,284	13	-	7,297
Leonardtown High School	175,582	299	(10,000)	165,881
Leonardtown Middle	15,326	28	-	15,354
Margaret Brent Middle	46,371	83	-	46,454
Mechanicsville Elementary	293	1	-	294
MGA-MUN	2,616	5	-	2,621
Oakville Elementary	1,255	2	-	1,257
Park Hall Elementary	7,178	11	(2,000)	5,189
Piney Point Elementary	8,246	15	-	8,261
Shoe Fund	313	1	-	314
SMASC	262	-	-	262
Spring Ridge Middle	12,216	21	(784)	11,453
Town Creek Elementary	3,085	6	-	3,091
White Marsh Elementary	6,263	8	(2,000)	4,271
	<u>719,759</u>	<u>1,257</u>	<u>(27,784)</u>	<u>693,232</u>
Total	<u>\$ 1,248,381</u>	<u>\$ 3,656,678</u>	<u>\$ (3,634,989)</u>	<u>\$ 1,270,070</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, 2011, and have issued our report thereon dated September 21, 2011. 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 & Pullen, LLP

Frederick, Maryland
September 21, 2011



**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, 2011. 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, 2011.

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 & Pullen, LLP

Frederick, Maryland
September 21, 2011

St. Mary's County Public Schools

**Schedule Of Expenditures Of Federal Awards
Year Ended June 30, 2011**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/10	Cash Received FY 2011	FY '11 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/11
<u>U.S. Department of Agriculture:</u>									
Passed through the Maryland State Dept. of Education:									
USDA Commodities	10.555		07/01/2010 - 06/30/2011	\$ 400,000	\$ -	\$ 425,094	\$ 425,094	\$ -	\$ -
Summer Food Program	10.559		07/01/2010 - 06/30/2011	10,000	-	8,988	11,172	-	2,184
Breakfast	10.553		07/01/2009 - 06/30/2010	550,000	41,857	41,857	-	-	-
Breakfast	10.553		07/01/2010 - 06/30/2011	600,000	-	627,541	670,165	-	42,624
Lunch (Sec 4 & 11)	10.555		07/01/2009 - 06/30/2010	1,686,000	117,055	117,055	-	-	-
Lunch (Sec 4 & 11)	10.555		07/01/2010 - 06/30/2011	1,800,000	-	1,854,189	1,968,828	-	114,639
Federal Snack Program	10.555		07/01/2009 - 06/30/2010	28,000	1,085	1,085	-	-	-
Federal Snack Program	10.555		07/01/2010 - 06/30/2011	30,000	-	36,569	37,912	-	1,343
Total Child Nutrition Cluster				5,104,000	159,997	3,112,378	3,113,171	-	160,790
School Breakfast Contest	10.560		07/01/2010 - 06/30/2011	100	-	100	100	-	-
Fresh Fruit & Vegetable Program	10.582		07/01/2010 - 06/30/2011	25,000	14,811	45,304	30,493	-	-
Total Department of Agriculture				5,129,100	174,808	3,157,782	3,143,764	-	160,790
<u>U.S. Department of Defense:</u>									
<u>Direct Program:</u>									
ROTC Navy	12.000		07/01/2009 - 06/30/2010	60,000	18,426	18,426	-	-	-
ROTC Navy	12.000		07/01/2010 - 06/30/2011	40,000	-	49,456	68,207	-	18,751
ROTC Air Force	12.000		07/01/2009 - 06/30/2010	58,000	5,930	5,930	-	-	-
ROTC Air Force	12.000		07/01/2010 - 06/30/2011	54,000	-	59,871	65,964	-	6,093
ROTC Army	12.000		07/01/2009 - 06/30/2010	25,000	2,343	2,343	-	-	-
ROTC Army	12.000		07/01/2010 - 06/30/2011	33,000	-	23,600	25,977	-	2,377
Total Program				270,000	26,699	159,626	160,148	-	27,221
Public Law 102-484	12.000		07/01/2009 - 06/30/2010	330,000	412,326	412,326	-	-	-
Public Law 102-484	12.000		07/01/2010 - 06/30/2011	330,000	-	-	434,969	-	434,969
Total Program				660,000	412,326	412,326	434,969	-	434,969
Naval Air Warfare Center AD (PAX)	12.330	N000421-10-1-006	09/17/2010 - 09/16/2011	44,855	-	-	41,285	-	41,285
Total U.S. Department of Defense				974,855	439,025	571,952	636,402	-	503,475
<u>U.S. Department of Justice:</u>									
<u>Direct Program:</u>									
Mentoring Programs	16.726	2009-JU-FX-OO15	08/01/2009 - 07/31/2012	251,956	8,965	33,423	93,118	-	68,660
<u>Passed through the Juvenile Drug Court</u>									
Mentoring Programs	16.726	2010-DC-BX-0007	10/01/2010 - 09/30/2011	2,809	-	-	2,809	-	2,809
Total U.S. Department of Justice				254,765	8,965	33,423	95,927	-	71,469

(Continued)

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards (Continued)

Year Ended June 30, 2011

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/10	Cash Received FY 2011	FY '11 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/11
<u>U.S. Department of Energy:</u>									
Passed through the <u>Maryland Energy Administration:</u>									
Project Sunburst - ARRA	81.041	2010-08-5161F1 DE-EE0000097	07/01/2009 - 06/30/2011	500,000	-	500,000	500,000	-	-
Total U.S. Department of Energy				500,000	-	500,000	500,000	-	-
<u>U.S. Department of Education:</u>									
Passed through the <u>Maryland State Dept. of Education:</u>									
Adult Education & Lit Services	84.002	PO400026.03	07/01/2009 - 06/30/2010	68,264	10,047	10,047	-	-	-
Adult Education & Lit Services	84.002	PO400026.04	07/01/2009 - 06/30/2010	5,030	4,275	4,275	-	-	-
Adult Education & Lit Services	84.002	PO400026.05	07/01/2009 - 06/30/2010	29,354	4,547	4,547	-	-	-
Adult Education & Lit Services	84.002	PO400026.07	07/01/2009 - 09/30/2010	4,266	4,266	4,266	-	-	-
Adult Education & Lit Services	84.002	POPB1400081.03	07/01/2010 - 06/30/2011	39,707	-	32,814	39,707	-	6,893
Adult Education & Lit Services	84.002	POPB1400081.04	07/01/2010 - 06/30/2011	4,072	-	3,103	4,071	-	968
Adult Education & Lit Services	84.002	POPB1400081.05	07/01/2010 - 06/30/2011	4,962	-	4,962	4,962	-	-
Adult Education & Lit Services	84.002	POPB1400081.06	07/01/2010 - 06/30/2011	7,638	-	7,638	7,638	-	-
Total Program				163,293	23,135	71,652	56,378	-	7,861
E.C.I.A. Title I	84.010	900613.01	07/01/2008 - 06/30/2010	2,145,199	102,241	102,241	-	-	-
E.C.I.A. Title I	84.010	104806.01	07/01/2009 - 06/30/2011	2,181,340	272,269	401,451	219,962	-	90,780
E.C.I.A. Title I	84.010	114452.01	07/01/2010 - 06/30/2012	2,152,110	-	1,930,271	2,025,652	-	95,381
Green Holly MSPRP	84.010	105881.01	02/01/2010 - 06/30/2010	2,000	(500)	(500)	-	-	-
Green Holly MSPRP	84.010	116250.01	02/15/2011 - 06/30/2011	1,867	-	280	1,721	-	1,441
ESEA Title I - ARRA	84.389	104366.01	07/01/2009 - 06/30/2011	1,352,959	43,287	228,092	305,653	-	120,848
Total Title I, Part A Cluster				7,835,475	417,297	2,661,835	2,552,988	-	308,450

(Continued)

St. Mary's County Public Schools

**Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2011**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/10	Cash Received FY 2011	FY '11 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/11
Assistance for Educating Students w/Disabilities	84.027	105841.01	07/01/2009 - 09/30/2010	4,000	(37)	-	-	-	(37)
Assistance for Educating Students w/Disabilities	84.027	104841.01	07/01/2009 - 09/30/2010	37,074	6,918	16,899	9,981	-	-
SPED Pass Thru	84.027	104249.01	07/01/2009 - 09/30/2010	3,285,859	521,595	734,505	212,910	-	-
SPED Pass Thru	84.027	114332.01	07/20/2010 - 08/31/2010	161,495	161,495	161,495	-	-	-
SPED Pass Thru	84.027	114633.01	07/01/2010 - 09/30/2011	3,306,556	-	2,945,807	3,191,045	-	245,238
SPED Pass Thru	84.027	114633.02	07/01/2010 - 09/30/2011	47,188	-	22,650	-	-	(22,650)
SPED CSPD	84.027	104249.02	07/01/2009 - 09/30/2010	17,414	(2,135)	2,902	5,037	-	-
SPED CSPD	84.027	114633.06	07/01/2010 - 09/30/2011	16,886	-	7,602	5,644	-	(1,958)
SPED Transition	84.027	104752.01	07/01/2009 - 09/30/2010	41,485	2,265	11,499	9,234	-	-
SPED Transition	84.027	114632.01	07/01/2010 - 09/30/2011	49,038	-	29,474	29,686	-	212
SPED Transition	84.027	900521.01	07/01/2008 - 09/30/2009	30,213	198	198	-	-	-
SPED Partners for Success	84.027	104249.03	07/01/2009 - 09/30/2010	10,000	647	3,838	3,191	-	-
SPED Partners for Success	84.027	114633.07	07/01/2010 - 09/30/2011	10,000	-	7,059	6,384	-	(675)
SPED SEAC	84.027	104249.04	07/01/2009 - 09/30/2010	2,500	140	2,125	1,985	-	-
SPED SEAC	84.027	114633.08	07/01/2010 - 09/30/2011	2,500	-	617	248	-	(369)
SPED Transition	84.027	104249.05	07/01/2009 - 09/30/2010	6,000	394	3,616	3,222	-	-
SPED Transition	84.027	114633.05	07/01/2010 - 09/30/2011	6,000	-	3,236	3,621	-	385
SPED LRE	84.027	104249.06	07/01/2009 - 09/30/2010	46,910	795	28,266	27,471	-	-
SPED Discretionary AYP	84.027	104246.01	07/01/2009 - 09/30/2010	36,054	(1,590)	11,771	13,361	-	-
SPED Discretionary AYP	84.027	114630.01	07/01/2010 - 09/30/2011	81,947	-	39,289	27,082	-	(12,207)
SPED ALT-MSA	84.027	900298.01	07/01/2008 - 09/30/2009	11,260	49	-	(49)	-	-
SPED ALT-MSA	84.027	114629.01	07/01/2010 - 09/30/2011	22,000	-	22,000	21,447	-	(553)
SPED ALT-MSA	84.027	104248.01	07/01/2009 - 09/30/2010	29,020	(1,809)	4,360	6,169	-	-
H S A	84.027	104247.01	07/01/2009 - 09/30/2010	81,700	4,163	7,529	3,366	-	-
Disproportionality	84.027	114631.01	07/01/2010 - 09/30/2011	48,940	-	20,745	18,151	-	(2,594)
Maryland Model for School Readiness	84.173	104830.02	07/01/2009 - 09/30/2010	8,015	1,213	3,925	2,712	-	-
Maryland Model for School Readiness	84.173	901281.02	07/01/2008 - 09/30/2009	13,357	(3,273)	-	-	3,273	-
Maryland Model for School Readiness	84.173	114545.02	07/01/2010 - 09/30/2011	12,021	-	3,606	1,944	-	(1,662)
IDEA Pre-school	84.173	104249.07	07/01/2009 - 09/30/2010	112,591	18,550	19,389	839	-	-
IDEA Pre-school	84.173	114633.03	07/01/2010 - 09/30/2011	109,780	-	97,623	106,336	-	8,713
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	761,723	1,424,494	807,239	-	144,468
ARRA Parentally Placed Passthrough	84.391	104327.03	07/01/2009 - 09/30/2011	26,884	-	-	-	-	-
ARRA Passthrough Preschool	84.392	104327.02	06/15/2009 - 09/30/2011	157,396	35,960	48,128	29,487	-	17,319
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	07/01/2009 - 09/30/2010	48,005	38,446	38,446	-	-	-
Health Dept I&T	84.027	MOU	07/01/2010 - 09/30/2011	41,107	-	25,896	41,107	-	15,211
Total Special Education Cluster (IDEA)				11,610,946	1,545,707	5,749,767	4,588,850	3,273	388,063
<u>Direct Program:</u>									
Impact Aid	84.041		07/01/2010 - 06/30/2011	1,500,000	-	2,002,001	2,002,001	-	-

(Continued)

St. Mary's County Public Schools

**Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2011**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/10	Cash Received FY 2011	FY '11 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/11
Passed through the <u>Maryland State Dept. of Education:</u>									
Perkins (Program Improvement)	84.048	114668.01	07/01/2010 - 06/30/2011	169,166	-	149,562	168,630	-	19,068
CT Program Improvement	84.048	105617.01	07/01/2009 - 06/30/2010	152,534	12,236	12,236	(4,892)	-	(4,892)
Total Program				321,700	12,236	161,798	163,738	-	14,176
<u>Direct Program:</u>									
Mentoring Programs	84.184B	Q184B080081-09	04/01/2009 03/31/2010	184,825	45,443	81,950	36,507	-	-
Total Program				184,825	45,443	81,950	36,507	-	-
Passed through the <u>Maryland State Dept. of Education:</u>									
Safe & Drug Free Schools	84.186	104299.01	07/01/2009 06/30/2011	48,853	10,144	23,472	13,601	-	273
Safe & Drug Free Schools	84.186	900427.02	07/01/2008 - 06/30/2010	49,562	3,339	3,339	-	-	-
Total Program				98,415	13,483	26,811	13,601	-	273
Homeless Education	84.196a	105839.01	07/01/2009 - 09/30/2010	15,000	7,837	7,837	-	-	-
Homeless Education	84.196a	116256.01	07/01/2010 - 09/30/2011	15,000	-	2,250	12,372	-	10,122
Total Program				30,000	7,837	10,087	12,372	-	10,122
<u>Direct Program</u>									
USDE STEM	84.215	U215K080141	10/01/2008 09/30/2011	478,492	66,798	143,953	110,558	-	33,403
Passed through the <u>Maryland State Dept. of Education:</u>									
MD Seamless Transition Collaboration	84.235	105939.01	04/01/2010 - 09/30/2011	75,000	-	7,171	19,013	-	11,842
Perkins (Tech Prep)	84.243	114668.02	07/01/2010 - 06/30/2011	18,889	-	18,889	18,889	-	-
21st Century Learning Centers	84.287	116155.01	07/01/2010 - 09/30/2011	5,000	-	1,921	2,646	-	725
Bright Futures	84.287	106143.01	07/01/2009 09/30/2010	36,200	17,413	36,200	18,787	-	-
Bright Futures	84.287	105564.01	07/01/2009 09/30/2010	330,224	81,943	128,524	46,581	-	-
Bright Futures	84.287	114555.01	07/01/2010 - 09/30/2011	280,707	-	251,316	244,187	-	(7,129)
21st Century Learning Centers	84.287	104487.01	07/01/2009 09/30/2010	375,000	63,120	92,357	29,237	-	-
21st Century Learning Centers	84.287	114790.01	07/01/2010 - 09/30/2011	375,000	-	359,115	365,753	-	6,638
Total Program				1,402,131	162,476	869,433	707,191	-	234
Enhancing Ed thru Tech - Title II Part D	84.318	105005.01	07/01/2009 - 06/30/2011	19,920	610	1,707	15,510	-	14,413
Enhancing Ed thru Tech - Title II Part D	84.318	900819.01	07/01/2008 - 06/30/2010	19,614	7,286	7,286	-	-	-
Passed through the <u>Anne Arundel County Public Schools</u>									
ARRA Enhancing Ed through Technology	84.386	MOU	07/01/2009 09/30/2011	308,957	51,242	72,055	22,381	-	1,568
Total Educational Technology State Grants Cluster				348,491	59,138	81,048	37,891	-	15,981

(Continued)

St. Mary's County Public Schools

**Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2011**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/10	Cash Received FY 2011	FY '11 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/11
Passed through the <u>Maryland State Dept. of Education:</u>									
Title III English Language (Immigrant)	84.365A	900553.02	07/01/2008 - 06/30/2010	24,465	346	346	-	-	-
Title III English Language (Immigrant)	84.365A	115172.02	07/01/2010 - 09/30/2012	6,179	-	4,864	4,864	-	-
Title III English Language	84.365A	104630.01	07/01/2009 - 06/30/2011	25,378	2,180	10,520	8,340	-	-
Title III English Language	84.365A	115172.01	07/01/2010 - 09/30/2012	28,490	-	11,733	13,680	-	1,947
Total Program				84,512	2,526	27,463	26,884	-	1,947
Title II Part A	84.367	104608.01	07/01/2009 - 06/30/2011	725,504	232,949	345,716	112,767	-	-
Title II Part A	84.367	900566.01	07/01/2008 - 06/30/2010	734,061	782	782	-	-	-
Title II Part A	84.367	114284.01	07/01/2010 - 06/30/2012	736,129	-	382,015	502,825	-	120,810
Total Program				2,195,694	233,731	728,513	615,592	-	120,810
Passed through the <u>St. Mary's County Health Dept.:</u>									
ARRA Infants & Toddlers	84.393	MOU	07/01/2009 - 09/30/2011	12,000	10,751	10,751	341	-	341
Total Early Intervention Services (IDEA) Cluster				12,000	10,751	10,751	341	-	341
Passed through the <u>Maryland State Dept. of Education:</u>									
ARRA - State Stabilization Funds (SFSF)	84.394	104348.01	07/01/2009 - 09/30/2011	149,811	-	-	-	-	-
ARRA - State Stabilization Funds (SFSF)	84.394	104348.02	07/01/2009 - 09/30/2011	2,250,260	1,288,775	1,288,775	-	-	-
ARRA - State Stabilization Funds (SFSF)	84.394	104348.03	07/01/2009 - 09/30/2011	338,200	-	-	-	-	-
ARRA - State Stabilization Funds (SFSF)	84.394	104348.04	07/01/2009 - 09/30/2011	15,778	-	-	-	-	-
ARRA - State Stabilization Funds (SFSF)	84.394	104348.06	07/01/2009 - 09/30/2011	417,899	-	-	-	-	-
ARRA - State Stabilization Funds (SFSF)	84.394	114084.01	07/01/2010 - 09/30/2011	153,649	-	153,649	153,649	-	-
ARRA - State Stabilization Funds (SFSF)	84.394	114084.02	07/01/2010 - 09/30/2011	1,387,593	-	1,387,593	1,387,593	-	-
ARRA - State Stabilization Funds (SFSF)	84.394	114084.03	07/01/2010 - 09/30/2011	861,109	-	861,109	861,109	-	-
ARRA - State Stabilization Funds (SFSF)	84.394	114084.04	07/01/2010 - 09/30/2011	-	-	-	-	-	-
ARRA - State Stabilization Funds (SFSF)	84.394	114084.06	07/01/2010 - 09/30/2011	498,037	-	498,037	498,037	-	-
Total Program				6,072,336	1,288,775	4,189,163	2,900,388	-	-
RTTT: Incentives for Teachers Who Obtain ESOL C	84.395	116170.01	10/01/2010 - 06/30/2012	20,000	-	-	-	-	-
Race to the Top	84.395	115755.01	08/25/2010 - 09/30/2011	-	-	-	-	-	-
Race to the Top	84.395	115755.02	08/25/2010 - 09/30/2011	16,640	-	-	-	-	-
Total Program				36,640	-	-	-	-	-
Education Jobs Fund - ARRA	84.410	115733.01	08/10/2010 - 09/30/2012	3,473,582	-	3,473,582	3,473,582	-	-
Total U.S. Department of Education				35,942,421	3,889,333	20,315,867	17,336,764	3,273	913,503

(Continued)

St. Mary's County Public Schools

**Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2011**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/10	Cash Received FY 2011	FY '11 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/11
<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	07/01/2010 - 06/30/2011	690,053	(157,676)	697,512.24	271,875	-	(583,313)
Total U.S. Department of Health and Human Services				690,053	(157,676)	697,512	271,875	-	(583,313)
<u>Corporation for National and Community Services:</u>									
Passed through the <u>Maryland State Dept. of Education:</u>									
Serve America	94.004	105729.01	07/01/2009 - 08/31/2010	9,910	3,722	4,977	1,255	-	-
Serve America	94.004	114387.01	07/01/2010 - 06/30/2011	9,965	-	3,632	9,965	-	6,333
Total Corporation for National and Community Services				19,875	3,722	8,609	11,220	-	6,333
Total Expenditures of Federal Awards				\$ 43,511,069	\$ 4,358,177	\$ 25,285,145	\$ 21,995,952	\$ 3,273	\$ 1,072,257

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, 2011.

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, 2011**

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?
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?

_____ Yes X No
_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?

_____ Yes X No
_____ 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:

CFDA Number(s)

84.041
84.410
81.041

Name of Federal Program or Cluster

Impact Aid
Education Jobs Fund
State Energy Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 651,722

Auditee qualified as low-risk auditee?

 X Yes _____ No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings And Questioned Costs

No matters were reported.

St. Mary's County Public Schools

**Summary Schedule Of Prior Audit Findings
June 30, 2011**

No matters were reported in the prior year.