

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Financial Statements Together with
Reports of Independent Public Accountants**

For the Year Ended June 30, 2026

ST. MARY'S COUNTY PUBLIC SCHOOLS

Financial Statements Together with Reports of Independent Public Accountants

JUNE 30, 2026

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

Report on the Audit of the Financial Statements

Opinions

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 St. Mary's County Public Schools (the School System), a component unit of St. Mary's County, Maryland, as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the School System's basic financial statements, as listed in the table of contents.

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 School System, as of June 30, 2026, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the School System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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



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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the proportionate share of the net pension liability – Maryland Statement Retirement and Pension System, schedule of school system contributions to Maryland State Retirement and Pension System, schedule of changes in the school system's net OPEB liability and related ratios, schedule of school system's contributions – OPEB, schedule of investment returns – OPEB, budgetary comparison schedule – general fund, and the notes to required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School System's basic financial statements. The combining budgetary comparison schedule – general fund – unrestricted funds and restricted funds, combining budgetary comparison schedule – general fund – unrestricted funds, statement of revenues, expenses, and changes in net position – proprietary fund – budget vs. actual, and the schedule of changes in cash and cash equivalents – school activities, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining budgetary comparison schedule – general fund – unrestricted funds and restricted funds, combining budgetary comparison schedule – general fund – unrestricted funds, statement of revenues, expenses, and changes in net position – proprietary fund – budget vs. actual, and the schedule of changes in cash and cash equivalents – school activities, are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining budgetary



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comparison schedule – general fund – unrestricted funds and restricted funds, combining budgetary comparison schedule – general fund – unrestricted funds, statement of revenues, expenses, and changes in net position – proprietary fund – budget vs. actual, and the schedule of changes in cash and cash equivalents – school activities, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2026, on our consideration of the School System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the School System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School System's internal control over financial reporting and compliance.

Owings Mills, Maryland
September 28, 2026

SB & Company, LLC

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

As management of St. Mary's County Public Schools (the School System), we offer the residents and other readers of the School System's financial statements this management discussion and analysis (MD&A). The MD&A provides a narrative overview and analysis of the financial statements of the School System for the fiscal year ended June 30, 2026, focusing on why amounts changed from the prior year. This section should be read in conjunction with the financial statements, which immediately follow this section.

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 Deputy Superintendent of Fiscal and Supporting Services, St. Mary's County Public Schools, 23160 Moakley Street, Leonardtown, Maryland 20650.

Overview of the 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 detailed 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 general fund budget and actual for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Management's Discussion and Analysis

June 30, 2026

Figure A-1
Organization of SMCPS Annual Financial Report



ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Overview of the Financial Statements (continued)

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 System-wide and Fund Financial Statements				
	System-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire System (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
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net position • Statement of revenues, expenses, and changes in net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement	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; does not include capital assets or long-term liabilities	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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Overview of the Financial Statements (continued)

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 position 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 position and how they have changed. Net position - the difference between the School System's assets, deferred outflows of resources, liabilities, and deferred inflows of resources - is one way to measure the School System's financial health or position.

- Over time, increases or decreases in the School System's net position 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Overview of the Financial Statements (continued)

Fund Financial Statements (continued)

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 the 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. 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Financial Summary

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

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2026	2025	2026	2025	2026	2025	
Current and other assets	\$ 62.3	\$ 63.5	\$ 3.9	\$ 5.4	\$ 66.2	\$ 68.9	-3.9%
Capital assets, net	326.0	318.2	2.0	0.7	328.0	318.9	2.9%
Total Assets	388.3	381.7	5.9	6.1	394.2	387.8	1.7%
Deferred outflows	62.3	89.1	-	-	62.3	89.1	-30.1%
Liabilities							
Long-term outstanding	192.6	194.1	0.2	0.2	192.8	194.3	-0.8%
Other liabilities	45.2	42.4	1.1	0.8	46.3	43.2	7.2%
Total Liabilities	237.8	236.5	1.3	1.0	239.1	237.5	0.7%
Deferred inflows	213.5	276.2	-	-	213.5	276.2	-22.7%
Net Position							
Net investment in capital assets	325.1	316.4	2.0	0.7	327.1	317.1	3.2%
Restricted	0.1	0.1	-	-	0.1	0.1	0.0%
Unrestricted	(325.8)	(358.4)	2.6	4.4	(323.2)	(354.0)	-8.7%
Total Net Position	\$ (0.6)	\$ (41.9)	\$ 4.6	\$ 5.1	\$ 4.0	\$ (36.8)	-110.9%

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

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2026	2025	2026	2025	2026	2025	
Revenue							
Program revenues:							
Charges for services	\$ 0.1	\$ 0.1	\$ 2.7	\$ 2.6	\$ 2.8	\$ 2.7	3.7%
Operating grants and contributions	60.3	63.3	7.5	7.4	67.8	70.7	-4.1%
Capital grants and contributions	21.9	31.3	-	-	21.9	31.3	-30.0%
General revenues:							
County	139.0	134.4	-	-	139.0	134.4	3.4%
State	124.5	120.9	-	-	124.5	120.9	3.0%
Federal	1.3	1.6	-	-	1.3	1.6	-18.8%
Other	4.9	6.6	-	-	4.9	6.6	-25.8%
Total Revenue	352.0	358.2	10.2	10.0	362.2	368.2	-1.6%
Expenses							
Administrative	27.4	28.0	-	-	27.4	28.0	-2.1%
Instruction	115.3	117.6	-	-	115.3	117.6	-2.0%
Special education	30.7	29.3	-	-	30.7	29.3	4.8%
Student personnel & health services	7.4	7.2	-	-	7.4	7.2	2.8%
Transportation	26.0	24.8	-	-	26.0	24.8	4.8%
Operations & maintenance	48.5	37.6	-	-	48.5	37.6	29.0%
Fixed charges	51.7	47.6	-	-	51.7	47.6	8.6%
Other	3.7	3.7	10.7	10.4	14.4	14.1	2.1%
Total Expenses	310.7	295.8	10.7	10.4	321.4	306.2	5.0%
Change in Net Position	\$ 41.3	\$ 62.4	\$ (0.5)	\$ (0.4)	\$ 40.8	\$ 62.0	-34.2%

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Detailed Analysis

Overall financial results. As of June 30, 2026, the School System reported combined net position of \$4.0 million, compared with a deficit of \$36.8 million as of June 30, 2025. The \$40.8 million improvement consisted of a \$41.3 million increase in governmental activities, partially offset by a \$0.5 million decrease in business-type activities. The year-end governmental activities deficit narrowed to \$0.6 million from \$41.9 million, while business-type activities ended with positive net position of \$4.6 million.

The improvement in government-wide net position should not be interpreted as an equivalent increase in spendable resources. Government-wide results include capital assets, and long-term liabilities such as net pension liability and net other post-employment benefit (OPEB) liability, while governmental fund statements focus on current financial resources. In FY 2026, governmental funds reported a \$4.1 million decrease in fund balance even though governmental activities increased by \$41.3 million. The principal reconciling items were a \$35.3 million favorable change in OPEB-related deferred outflows and inflows, a \$2.1 million reduction in the net OPEB liability, and \$7.9 million of capital outlays exceeding current-year depreciation and amortization, partially offset by the \$4.1 million fund-balance decline and a \$1.2 million increase in the net pension liability.

Financial position. Total assets increased by \$6.4 million, or 1.7%, to \$394.2 million. Net capital assets grew \$9.1 million to \$328.0 million, more than offsetting a \$2.7 million decline in current and other assets. Deferred outflows decreased \$26.8 million, while deferred inflows decreased \$62.7 million, primarily reflecting OPEB-related actuarial amounts. Total liabilities increased modestly by \$1.6 million, or 0.7%, to \$239.1 million; other liabilities increased \$3.1 million, while long-term liabilities decreased \$1.5 million.

Net investment in capital assets increased \$10.0 million to \$327.1 million. Unrestricted net position remained at a deficit of \$323.2 million but improved by \$30.8 million. This deficit is principally associated with recognition of pension and OPEB obligations and related deferred amounts; it does not indicate that the School System lacks resources to meet current-year obligations.

Governmental fund balance. Total governmental fund balance decreased from \$21.2 million to \$17.1 million. The General Fund decreased \$6.0 million to \$15.1 million, while the Capital Projects Fund increased \$1.9 million to \$2.0 million. Of the General Fund balance, \$14.8 million was assigned and only \$0.3 million was unassigned. Assigned amounts included \$5.0 million for health care, \$5.0 million for the FY 2027 adopted budget, and \$2.2 million for school activity accounts.

The \$2,190,854 assigned for school activity accounts reflects GASB Statement No. 84. Because the School System exercises administrative control through monitoring, internal review, and enforcement of Board policies and regulations, these resources are reported in governmental funds rather than fiduciary funds. This amount is restricted in purpose at the school level and is not available for general operations.

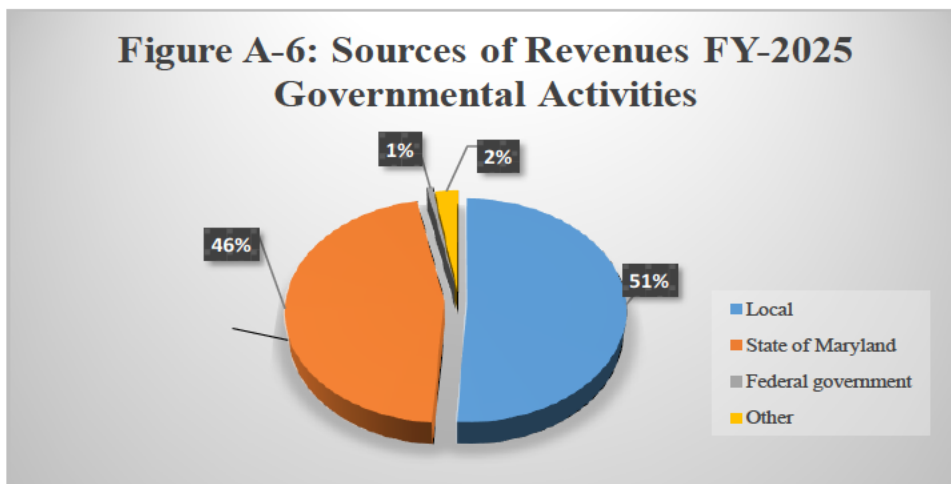
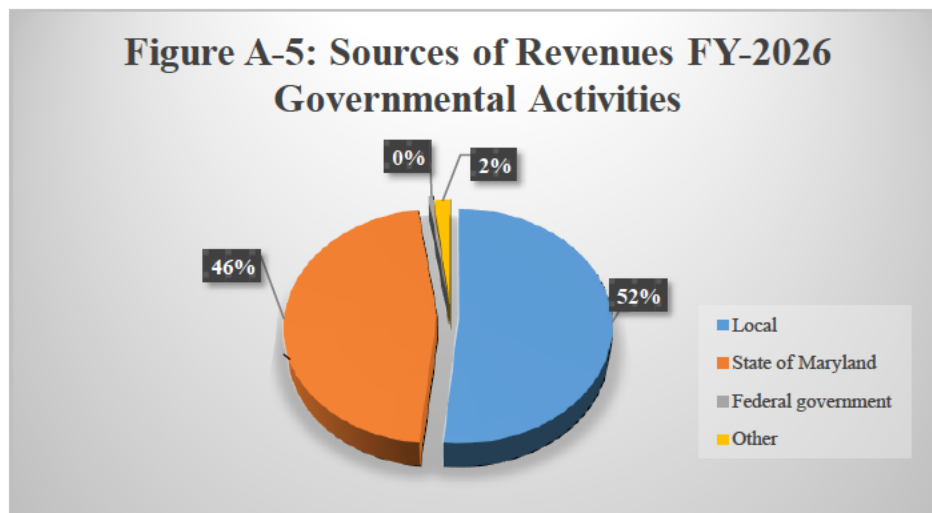
ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Detailed Analysis (continued)

Revenue analysis. Governmental activities revenue totaled \$352.0 million in FY 2026, a decrease of \$6.2 million, or 1.7%, from FY 2025. Local revenue increased \$4.6 million to \$139.0 million and unrestricted state revenue increased \$3.6 million to \$124.5 million. These gains were more than offset by a \$9.4 million decrease in capital grants and contributions, a \$3.0 million decrease in operating grants and contributions, and a \$1.7 million decrease in other general revenue. Federal general revenue also declined by \$0.3 million.

Local and state sources remained the School System's principal sources of governmental revenue, representing approximately 52% and 46%, respectively, of general revenue in FY 2026. The mix shifted only modestly from FY 2025; however, the reduction in capital and operating grants contributed to the overall decline in revenue and increased the net cost supported by general revenues.



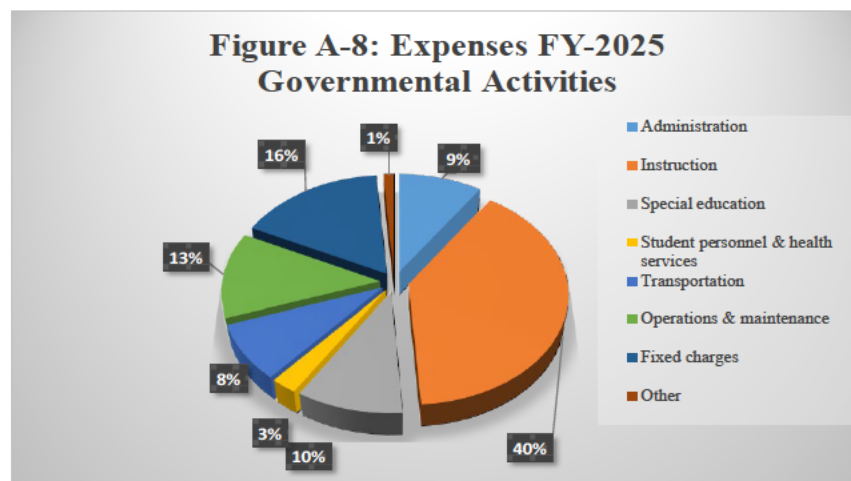
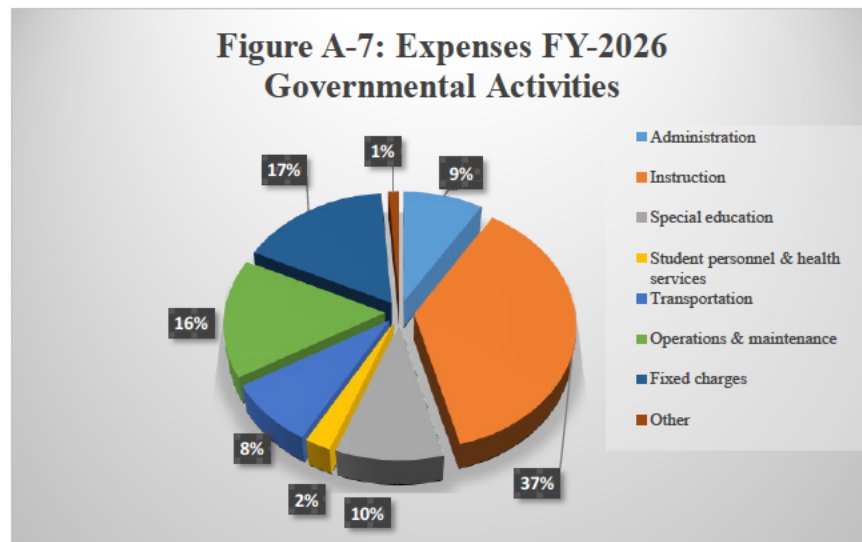
ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Detailed Analysis (continued)

Expense analysis. Governmental activities expenses increased \$14.9 million, or 5.0%, to \$310.7 million. Operations and maintenance expense was the largest driver, increasing \$10.9 million, or 29.0%, to \$48.5 million, primarily reflecting higher operation-of-plant costs and depreciation associated with facilities placed in service. Fixed charges increased \$4.1 million, or 8.6%, to \$51.7 million. Transportation and special education each increased \$1.2 million, or approximately 4.8%. These increases were partly offset by decreases of \$2.3 million in instruction and \$0.6 million in administration.

Instruction remained the largest functional expense at \$115.3 million, or approximately 37% of governmental activities expenses. Fixed charges represented about 17%, operations and maintenance 16%, special education 10%, administration 9%, and transportation 8%. Compared with FY 2025, the largest change in the composition of expenses was the increase in operations and maintenance from approximately 13% to 16%.



ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Detailed Analysis (continued)

Governmental Activities

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

	Total Cost of Services			Net Cost (Benefit) of Services		
	2026	2025	% Change	2026	2025	% Change
Administrative	\$ 27.4	\$ 28.0	-2%	\$ 25.8	\$ 25.7	0%
Instruction	115.3	117.6	-2%	110.7	109.6	1%
Special education	30.7	29.3	5%	13.9	13.6	2%
Student personnel & health services	7.4	7.2	3%	5.4	5.1	6%
Transportation	26.0	24.8	5%	16.4	15.5	6%
Operations & maintenance	48.5	37.6	29%	47.5	35.9	32%
Fixed charges	51.7	47.6	9%	8.9	(4.3)	-307%
Student activity/other	3.7	3.7	0%	0.2	0.1	0%
Total	\$ 310.7	\$ 295.8	5%	\$ 228.8	\$ 201.2	14%

The net cost of governmental activities increased \$27.7 million, or 13.7%, to \$228.9 million because expenses rose while program revenues declined. Operations and maintenance produced the largest increase in net cost, rising \$11.6 million to \$47.5 million. Fixed charges shifted from a \$4.3 million net program benefit in FY 2025 to a \$9.0 million net cost in FY 2026, a \$13.2 million change, as related operating and capital grants were lower relative to expense. Instruction's net cost increased \$1.1 million to \$110.7 million despite a decline in gross expense because related program revenues also decreased.

Business-Type Activities

The Food Service Fund reported a \$0.5 million decrease in net position, compared with a \$0.4 million decrease in FY 2025. Operating revenue was \$10.2 million and operating expenses were \$10.8 million, producing an operating loss of \$0.5 million. Food service sales increased to \$2.7 million and federal grants and commodities totaled \$7.0 million. Payroll costs were \$4.2 million and supplies and materials were \$4.5 million, together accounting for approximately 80% of operating expenses. Ending net position was \$4.6 million, including \$2.6 million of unrestricted net position.

Food Service generated a \$0.3 million operating cash outflow but received \$2.0 million from interfund activity and invested \$1.4 million in capital assets. Cash and cash equivalents therefore increased \$0.3 million to \$0.9 million even though the fund reported an operating loss.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Detailed Analysis (continued)

Financial Analysis of the School System's Funds

The General Fund reported a \$6.0 million decrease in fund balance on the GAAP basis. Revenues and other financing sources were \$330.9 million, while expenditures and other financing uses were \$336.9 million. The decrease was planned in part through the amended budget's use of \$9.7 million of fund balance for nonrecurring capital projects, air scrubbers, and dehumidifiers. The ending General Fund balance of \$15.1 million was \$6.0 million below the prior-year balance of \$21.1 million.

On the budgetary basis, the General Fund generated a \$3.8 million positive change in fund balance because actual expenditures were \$14.7 million below the final budget, exceeding the \$11.0 million revenue shortfall. Unrestricted revenues were 99.8% of the amended budget and unrestricted expenditures were 98.6% of budget. Federal revenues were below budget principally because of reduced Impact Aid associated with changing student demographics and enrollment. Salary savings from vacancies, personnel changes, and position realignments contributed to favorable expenditure variances, while the operating plant budget was increased for utilities and snow removal.

The Capital Projects Fund incurred \$23.0 million of expenditures and received \$21.9 million of revenue. A \$2.9 million transfer from the General Fund produced a \$1.9 million increase in Capital Projects fund balance, bringing the year-end balance to \$2.0 million. Combining the \$6.0 million General Fund decrease with the \$1.9 million Capital Projects increase resulted in the \$4.1 million decrease in total governmental fund balance.

Significant Capital Asset and Long-term Financing Activity

Capital Assets

During FY 2026, the School System invested \$24.1 million (prior to depreciation/amortization) in a broad range of capital assets, including school buildings, vehicles, and equipment. More information can be found in Note 4 to the basic Financial Statements (page 38).

Figure A-10
Capital Assets (Net of Depreciation/Amortization, in Millions of Dollars)

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2026	2025	2026	2025	2026	2025	
Land	\$ 3.7	\$ 3.7	\$ -	\$ -	\$ 3.7	\$ 3.7	0%
Facilities under construction	17.3	39.5	-	-	17.3	39.5	-56%
Buildings and improvements	288.0	255.9	1.1	-	289.1	255.9	13%
Furniture and equipment	16.0	17.6	0.9	0.7	16.9	18.3	-8%
Right-to-use leased assets	0.5	0.7	-	-	0.5	0.7	-29%
Right-to-use subscription assets	0.5	0.8	-	-	0.5	0.8	-39%
Total Capital Assets, Net	\$ 326.0	\$ 318.2	\$ 2.0	\$ 0.7	\$ 328.0	\$ 318.9	3%

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Significant Capital Asset and Long-term Financing Activity (continued)

Long-term Debt

The General Fund reported a \$6.0 million decrease in fund balance on the GAAP basis. Revenues and other financing sources were \$330.9 million, while expenditures and other financing uses were \$336.9 million. The decrease was planned in part through the amended budget's use of \$9.7 million of fund balance for nonrecurring capital projects, air scrubbers, and dehumidifiers. The ending General Fund balance of \$15.1 million was \$6.0 million below the prior-year balance of \$21.1 million.

On the budgetary basis, the General Fund generated a \$3.8 million positive change in fund balance because actual expenditures were \$14.7 million below the final budget, exceeding the \$11.0 million revenue shortfall. Unrestricted revenues were 99.8% of the amended budget and unrestricted expenditures were 98.6% of budget. Federal revenues were below budget principally because of reduced Impact Aid associated with changing student demographics and enrollment. Salary savings from vacancies, personnel changes, and position realignments contributed to favorable expenditure variances, while the operating plant budget was increased for utilities and snow removal.

The Capital Projects Fund incurred \$23.0 million of expenditures and received \$21.9 million of revenue. A \$2.9 million transfer from the General Fund produced a \$1.9 million increase in Capital Projects fund balance, bringing the year-end balance to \$2.0 million. Combining the \$6.0 million General Fund decrease with the \$1.9 million Capital Projects increase resulted in the \$4.1 million decrease in total governmental fund balance.

Figure A-11
Outstanding Long-term Debt (in Millions of Dollars)

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2026	2025	2026	2025	2026	2025	
Lease liability	\$ 0.5	\$ 0.8	\$ -	\$ -	\$ 0.5	\$ 0.8	-38%
SBITA liability	0.3	0.9	-	-	0.3	0.9	-67%
Total Long-Term Debt	\$ 0.8	\$ 1.7	\$ -	\$ -	\$ 0.8	\$ 1.7	-53%

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2026

Currently Known Facts, Decisions or Conditions

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

- GASB 75 replaced GASB 45, which requires the School System to recognize the entire unfunded accrued liability associated with post-employment benefits. The School System's net liability is \$164.3 million as of June 30, 2026. This liability will keep the government-wide net position in a negative position for the foreseeable future.
- GASB 68 requires the School System to recognize a long-term pension liability of \$21.6 million for the year ending June 30, 2026. All Boards of Education are now responsible for reporting the net unfunded pension liability for participants in the Employees' Pension Systems.
- The implementation of the Blueprint for Maryland's Future has resulted in funding previously being deemed as unrestricted, becoming restricted in nature as the per pupil allocation is being directed by COMAR to be used to support specific instructional purposes. This is a new resource allocation modeling that will drive additional resources to schools with a higher concentration of poverty.
- The Blueprint for Maryland's Future imposes several mandates on local school districts, including expanded early childhood education, increased educator compensation, and enhanced college and career readiness initiatives. These mandates represent significant operational and financial constraints. Although the State has committed to funding support, the School System may face funding gaps if appropriations fall short of implementation costs. Current law reflects a reduction of per pupil funding allocated to the Blueprint funded programs of Compensatory Education, Transitional Supplemental Education, and an overall reduction in the School System's funding for Comparable Wage Index and the Blueprint Transition grant.
- The School System receives a substantial portion of its funding from the State of Maryland. Due to ongoing fiscal challenges at the state level, including slower revenue growth and increased expenditures, there is a risk of reduced state aid. A material reduction in state funding could adversely affect the district's ability to maintain current educational programs and meet operational obligations. Recent impacts included an increase in the pass back of a portion of previously state funded pension costs to the County Government for fiscal year 2026, which is expected to carryforward into future fiscal years.
- The State of Maryland enacted the Child Victims Act which eliminated the statute of limitations for civil claims related to child sexual abuse. This legislation may expose the School System to legal claims for historical incidents. The number and nature of potential claims are currently unknown. Any resulting litigation could lead to significant financial liabilities and legal costs.
- The Time to Care Act mandates paid family and medical leave for eligible employees. The School System anticipates increased costs related to employee leave coverage and administrative compliance. These requirements may constrain staffing flexibility and increase personnel expenditures beginning in fiscal year 2028.
- The School System continues to monitor these developments and will adjust its financial planning and risk management strategies accordingly.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Net Position As of June 30, 2026

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 48,204,845	\$ 884,355	\$ 49,089,200
Certificate of deposit	99,386	-	99,386
Due from other governments	14,710,043	689,523	15,399,566
Due from fiduciary funds	1,095	-	1,095
Internal balances	(1,875,730)	1,875,730	-
Other receivables, net	1,137,692	230,257	1,367,949
Inventory	-	239,667	239,667
Prepaid items	4,930	-	4,930
Capital assets			
Land	3,734,759	-	3,734,759
Building and improvements	517,287,459	1,134,769	518,422,228
Furniture and equipment	29,395,160	2,746,643	32,141,803
Right-to-use leased assets	996,829	-	996,829
Right-to-use subscription assets	1,162,763	-	1,162,763
Construction in process	17,301,306	-	17,301,306
Accumulated depreciation/amortization	(243,866,455)	(1,885,363)	(245,751,818)
Total Assets	388,294,082	5,915,581	394,209,663
Deferred Outflows			
Deferred outflows related to pensions	8,259,335	-	8,259,335
Deferred outflows related to OPEB	54,086,900	-	54,086,900
Total Deferred Outflows	62,346,235	-	62,346,235
Liabilities			
Accounts payable	11,167,486	308,486	11,475,972
Accrued salaries and related costs	23,501,842	487,801	23,989,643
Due to other governments	32,832	-	32,832
Unearned revenue	10,477,637	293,300	10,770,937
Long-term liabilities			
Due within one year:			
Compensated absences	735,160	19,596	754,756
Lease liability	209,876	-	209,876
SBITA liability	153,618	-	153,618
Due after one year:			
Compensated absences	5,075,860	190,158	5,266,018
Lease liability	337,216	-	337,216
SBITA liability	172,343	-	172,343
Net pension liability	21,631,018	-	21,631,018
Net OPEB liability	164,256,499	-	164,256,499
Total Liabilities	237,751,387	1,299,341	239,050,728
Deferred Inflows			
Deferred inflows related to pension	319,098	-	319,098
Deferred inflows related to OPEB	213,187,027	-	213,187,027
Total Deferred Inflows	213,506,125	-	213,506,125
Net Position			
Net investment in capital assets	325,138,768	1,996,049	327,134,817
Restricted - capital projects	101,150	-	101,150
Unrestricted (deficit)	(325,857,113)	2,620,191	(323,236,922)
Total Net Position	\$ (617,195)	\$ 4,616,240	\$ 3,999,045

The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Activities For the Year Ended June 30, 2026

Functions/Programs	Program Revenue				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities:							
Administration	\$ 5,436,026	\$ -	\$ 640,388	\$ -	\$ (4,795,638)	\$ -	\$ (4,795,638)
Mid-level administration	21,999,429	-	970,349	-	(21,029,080)	-	(21,029,080)
Instructional salaries	104,510,193	-	2,915,772	-	(101,594,421)	-	(101,594,421)
Instructional textbooks and supplies	6,490,817	37,622	1,096,074	-	(5,357,121)	-	(5,357,121)
Other instructional costs	4,279,757	-	538,553	-	(3,741,204)	-	(3,741,204)
Special education	30,666,291	-	16,789,743	-	(13,876,548)	-	(13,876,548)
Student personnel services	3,741,423	-	1,876,477	-	(1,864,946)	-	(1,864,946)
Student health services	3,694,216	-	198,940	-	(3,495,276)	-	(3,495,276)
Student transportation services	26,013,414	-	9,586,645	-	(16,426,769)	-	(16,426,769)
Operation of plant	40,394,919	53,760	955,037	-	(39,386,122)	-	(39,386,122)
Maintenance of plant	8,092,099	-	-	-	(8,092,099)	-	(8,092,099)
Community services	723,984	-	723,997	-	13	-	13
Fixed charges	51,656,278	-	20,797,450	21,915,136	(8,943,692)	-	(8,943,692)
Capital outlay	-	-	337,833	-	337,833	-	337,833
Student activity	2,749,092	-	2,831,684	-	82,592	-	82,592
Interest on long-term debt	235,512	-	-	-	(235,512)	-	(235,512)
Total Governmental Activities	310,683,450	91,382	60,258,942	21,915,136	(228,417,990)	-	(228,417,990)
Business-type activities							
Food services	10,752,509	2,717,411	7,515,898	-	-	(519,200)	(519,200)
Total Government	\$ 321,435,959	\$ 2,808,793	\$ 67,774,840	\$ 21,915,136	(228,417,990)	(519,200)	(228,937,190)
General revenue							
Unrestricted grants and contributions:							
Local					139,031,921	-	139,031,921
State					124,459,612	-	124,459,612
Federal					1,299,980	-	1,299,980
Investment earnings					2,133,693	19,842	2,153,535
Other					2,761,518	1,500	2,763,018
Total General Revenue					269,686,724	21,342	269,708,066
Change in Net Position					41,268,734	(497,858)	40,770,876
Net position, beginning of year					(41,885,929)	5,114,098	(36,771,831)
Net Position, End of Year					\$ (617,195)	\$ 4,616,240	\$ 3,999,045

The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Balance Sheet – Governmental Funds As of June 30, 2026

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 48,178,765	\$ 26,080	\$ 48,204,845
Certificate of deposit	-	99,386	99,386
Due from other governments	6,863,072	7,846,971	14,710,043
Due from other funds	197,001	-	197,001
Other receivables	1,137,692	-	1,137,692
Prepaid items	4,930	-	4,930
Total Assets	\$ 56,381,460	\$ 7,972,437	\$ 64,353,897
Liabilities			
Liabilities			
Accounts payable	\$ 7,249,457	\$ 3,918,029	\$ 11,167,486
Accrued salaries and related costs	23,501,842	-	23,501,842
Due to other governments	32,832	-	32,832
Due to other funds	1,875,730	195,906	2,071,636
Unearned revenue	8,587,997	1,889,640	10,477,637
Total Liabilities	41,247,858	6,003,575	47,251,433
Fund balances			
Nonspendable	4,930	-	4,930
Restricted	-	101,150	101,150
Committed	-	1,867,712	1,867,712
Assigned	14,790,829	-	14,790,829
Unassigned	337,843	-	337,843
Total Fund Balance	15,133,602	1,968,862	17,102,464
Total Liabilities and Fund Balance	\$ 56,381,460	\$ 7,972,437	\$ 64,353,897

The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position As of June 30, 2026

Total Fund Balances - Governmental Funds	\$ 17,102,464
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Amounts reported for governmental activities in the statement of net position are different because:

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

Cost of capital assets	\$ 569,878,276	
Accumulated depreciation/amortization	<u>(243,866,455)</u>	326,011,821

Long-term liabilities including net pension liability and related deferred inflow and outflow and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Compensated absences	(5,811,020)	
Lease liability	(547,092)	
SBITA liability	(325,961)	
Net OPEB liability	(164,256,499)	
Net pension liability	(21,631,018)	
Deferred outflows/inflows - related to pension	7,940,237	
Deferred outflows/inflows - related to OPEB	<u>(159,100,127)</u>	<u>(343,731,480)</u>

Total Net Position - Governmental Activities	\$ <u>(617,195)</u>
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The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Year Ended June 30, 2026

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenue			
St. Mary's County	\$ 139,031,921	\$ 15,035,368	\$ 154,067,289
State of Maryland	168,983,321	6,879,768	175,863,089
Federal government	14,452,208	-	14,452,208
Tuition	71,545	-	71,545
Investment income	2,130,103	3,590	2,133,693
Student activities	2,831,684	-	2,831,684
Other	2,781,355	-	2,781,355
Total Revenue	330,282,137	21,918,726	352,200,863
Expenditures			
Current			
Administration	5,404,824	-	5,404,824
Mid-level administration	21,823,145	-	21,823,145
Instructional salaries	104,510,193	-	104,510,193
Instructional textbooks and supplies	6,490,817	-	6,490,817
Other instructional costs	2,734,151	-	2,734,151
Special education	30,664,738	-	30,664,738
Student personnel services	3,739,190	-	3,739,190
Student health services	3,669,259	-	3,669,259
Student transportation services	25,860,140	-	25,860,140
Operation of plant	25,358,208	-	25,358,208
Maintenance of plant	7,746,622	-	7,746,622
Fixed charges	89,180,932	-	89,180,932
Community services	723,984	-	723,984
Student activities	2,749,092	-	2,749,092
Capital outlay	2,211,998	22,959,001	25,170,999
Debt service			
Principal	862,921	-	862,921
Interest	235,512	-	235,512
Total Expenditures	333,965,726	22,959,001	356,924,727
Excess of revenues over expenditures	(3,683,589)	(1,040,275)	(4,723,864)
Other financing sources (uses)			
Transfers in (out)	(2,908,990)	2,908,990	-
Proceeds from lease	283,946	-	283,946
Proceeds from SBITAs	330,296	-	330,296
Total	(2,294,748)	2,908,990	614,242
Net Change in Fund Balances	(5,978,337)	1,868,715	(4,109,622)
Fund balance, beginning of year	21,111,939	100,147	21,212,086
Fund Balance, End of Year	\$ 15,133,602	\$ 1,968,862	\$ 17,102,464

* \$14,790,829 of the total fund balance is considered assigned fund balance.

The accompanying notes are an integral part of this financial statement.

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 For the Year Ended June 30, 2026

Total net change in fund balances - governmental funds	\$ (4,109,622)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation/amortization expense.	7,853,702
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Certain expenses reported in the statement of activities do not
require the use of current financial resources and,
therefore, are not reported as expenditures in governmental funds:

Compensated absences	(184,957)
Lease liability	274,791
SBITA liability	588,130
Net OPEB liability	2,101,690
Net pension liability	(1,241,918)
Deferred outflows and inflows of resources related to pension	730,016
Deferred outflows and inflows of resources related to OPEB	<u>35,256,902</u>

Change in Net Position of Governmental Activities	<u>\$ 41,268,734</u>
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The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Net Position – Proprietary Fund As of June 30, 2026

Assets

Current assets

Cash and cash equivalents	\$ 884,355
Due from other governments	689,523
Due from other funds	1,875,730
Accounts receivable	230,257
Inventory, at cost	239,667
Total current assets	<u>3,919,532</u>

Noncurrent assets

Food service building	1,134,769
Food service equipment	2,746,643
Accumulated depreciation	(1,885,363)
Property and equipment, net	<u>1,996,049</u>
Total Assets	<u>5,915,581</u>

Liabilities

Current liabilities

Accounts payable	308,486
Accrued salaries and related costs	487,801
Unearned revenue	293,300
Compensated absences	19,596
	<u>1,109,183</u>

Noncurrent liabilities

Compensated absences	<u>190,158</u>
Total Liabilities	<u>1,299,341</u>

Net Position

Net investment in capital assets	1,996,049
Unrestricted	<u>2,620,191</u>
Total Net Position	<u>\$ 4,616,240</u>

The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund For the Year Ended June 30, 2026

Operating revenue	
Food service sales	\$ 2,717,411
Federal grants and commodities	7,021,200
State matching and other	494,698
Donations	1,500
Total Operating Revenue	<u>10,234,809</u>
Operating expenses	
Payroll costs	4,183,864
Professional and contract services	166,129
Supplies and materials	4,458,227
Depreciation	79,784
Other operating costs	1,864,505
Total Operating Expenses	<u>10,752,509</u>
Operating Loss	<u>(517,700)</u>
Non-operating revenue	
Interest income	19,842
Total Non-Operating Revenue	<u>19,842</u>
Change in net position	(497,858)
Net position, beginning of year	5,114,098
Net Position, End of Year	<u>\$ 4,616,240</u>

The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Cash Flows – Proprietary Fund For the Year Ended June 30, 2026

Cash Flows From Operating Activities

Cash received from user charges	\$ 2,635,700
Operating grants and subsidies received	7,502,504
Donations received	1,500
Payments to employees for services	(4,132,795)
Payments to suppliers for goods and services	(4,475,720)
Payments for other operating expenses	(1,864,505)
Net Cash From Operating Activities	(333,316)

Cash Flows From Non-Capital Financing Activities

Internal activity - net receipts from other funds	2,015,420
Net Cash From Non-Capital Financing Activities	2,015,420

Cash Flows From Capital and Related Financing Activities

Acquisition and construction of capital assets	(1,409,381)
Net Cash From Capital and Related Financing Activities	(1,409,381)

Cash Flows From Investing Activities

Interest received on investments	19,842
Net Cash From Investing Activities	19,842

Net Change in Cash and Cash Equivalents 292,565

Cash and cash equivalents

Beginning	591,790
Ending	\$ 884,355

Reconciliation of Operating Loss to Net Cash From Operating Activities:

Operating loss	\$ (517,700)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	79,784
Changes in assets and liabilities:	
Due from other governments	(28,376)
Receivables	(81,711)
Inventory	(51,516)
Accounts payable	200,152
Accrued salaries and related costs	12,140
Unearned revenue	14,982
Compensated absences	38,929
Net Cash From Operating Activities	\$ (333,316)

The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Fiduciary Net Position – Fiduciary Funds As of June 30, 2026

	Private-Purpose Trust Fund	Retiree Benefit Trust Fund (OPEB)
Assets		
Cash and cash equivalents	\$ 120,610	\$ -
Investments held in MABE Trust	-	103,474,210
Total Assets	120,610	103,474,210
Liabilities		
Due to primary government	1,095	-
Total Liabilities	1,095	-
Net Position		
Reserved for scholarships	\$ 119,515	
Held in trust for retiree benefits		\$ 103,474,210

The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Changes in Fiduciary Net Position – Fiduciary Funds For the Year Ended June 30, 2026

	<u>Private-Purpose Trust Fund</u>	<u>Retiree Benefit Trust Fund (OPEB)</u>
Additions		
Investment income and other income, net of administrative fees	\$ 4,641	\$ 13,446,467
Employer contributions	-	2,000,000
Deductions		
Scholarships awarded	<u>50</u>	<u>-</u>
Change in Net Position	<u>4,591</u>	<u>15,446,467</u>
Net position		
Beginning of year	<u>114,924</u>	<u>88,027,743</u>
End of Year	<u><u>\$ 119,515</u></u>	<u><u>\$ 103,474,210</u></u>

The accompanying notes are an integral part of this financial statement.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

1. 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 (the 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 (county), state and federal monies. St. Mary's County, Maryland (the County) has oversight responsibility for approval and partial funding of the School System's operating budget.

The School System is a component unit of the County 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 the Codification of Governmental Accounting and Financial Reporting Standards (the Codification) as promulgated by the Governmental Accounting Standards Board (GASB). The more significant policies of the School System are described below.

Reporting Entity

The main criterion used in determining the entity for financial reporting purposes is whether the School System is financially accountable for any governmental department, agency, institution, commission, public authority, or other organization. As part of that criterion, the following factors were considered:

- Financial benefit or burden
- Appoints a voting majority of the component unit board
- Designation of management
- Ability to impose its will
- Fiscally dependent

Based on these factors, no other organizations exist that should have been included in these financial statements.

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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide Financial Statements (continued)

In the government-wide statement of net position, 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 position is reported in three parts - net investment in capital assets; restricted net position; and unrestricted net position. 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 or capital 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.

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 expenses - 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. The Codification 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 six generic fund types and three broad fund categories as follows:

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 for both restricted and unrestricted purposes. The operations of the Chesapeake Public Charter School are also accounted for in the General Fund.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements (continued)

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. While the fund does not meet the criteria set forth by the Codification, the School System has elected to present the Capital Projects Fund as a major fund, due to public interest.

Proprietary Funds:

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:

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 (additions).

Retiree Benefit Trust Fund: The Retiree Benefit Trust Fund (OPEB) consists of contributions of the School System to establish a reserve to pay for health and welfare benefits of future retirees. Contributions to the Trust qualify as contributions and are reported as additions using the economic resource measurement focus and the accrual basis of accounting, under which expenses (deduction) are recorded when the liability is incurred, or benefits are paid.

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, and are, therefore, not incorporated into the government-wide financial statements.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses/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.

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 general long-term liabilities. As such, debt service expenditures, expenditures related to compensated absences and future pension and other retirement obligations are recorded only when payment is due.

Cash and Cash Equivalents

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

Interfund Activity

Interfund activity is reported as 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 are 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

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

The School System has four items that meet this criterion; contributions made to a pension plan in the current fiscal year, the net difference between projected and actual investment earnings on pension plan assets, net difference in actual and expected experience in OPEB plan activity, and changes in actuarial assumptions.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued Salaries

Teachers' salaries are considered earned at the completion of the school year and are recognized as expenses/expenditures over the school year. Teachers are paid their ten-month salary over twelve months. The accrued salaries are paid within the first two months of the succeeding fiscal year.

Long-Term Debt

The School System is not obligated to repay principal or interest on any bonds or loans issued for school construction. Such bonds or 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 incurred by the School System for the lease-purchase of certain office and computer equipment.

Compensated Absences

The School System recognizes accumulated unpaid vacation and, in order to promote and reward responsible use of sick leave, an end-of-service pay and associated employee related costs when earned or estimated to be earned by the employee. The recognition of vacation leave is based upon individual salary rates in effect as of June 30. The recognition of end-of-service pay associated with responsible sick leave usage is based on payment upon retirement or death of a maximum of \$3,250 for each non-exempt employee and \$6,200 for each exempt employee, based on sick leave balances if the employee has worked for the School System for 10 years. End-of-service pay 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 30 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 end-of-service pay, 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, 2026, no accumulated unpaid vacation or end-of-service pay had matured, resulting in them being maintained separately and being a reconciling item between the fund and government-wide financial statement presentations.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The School System is a lessee for noncancellable leases of multiple printers. The School System recognizes lease liabilities and intangible right-to-use assets (lease assets) in the government-wide financial statements. At the commencement of a lease, the School System initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Key estimates and judgments related to leases include how the County determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments. The School System monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-to-use asset in a similar economic environment with similar terms, security and conditions.

Subscription-Based Information Technology Arrangements

The School System is an end user for noncancellable subscription-based information technology arrangements (SBITA). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

The School System initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the sum of the initial amount of the subscription liability, payments made to the SBITA vendor before commencement of the subscription term and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying asset. The School System recognizes subscription liabilities and right-to-use subscription assets in the government-wide financial statements and proprietary fund financial statements.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subscription-Based Information Technology Arrangements (continued)

Key estimates and judgments related to SBITAs include how the School System determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

The School System monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The School System has three items that meet this criterion as of June 30, 2026; the net difference between projected and actual investment earnings on OPEB plan assets, changes in actuarial assumptions, and the net difference in actual and expected experience in pension plan activity.

Fund Balances

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 an expenditure is incurred for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position

Net position equals assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net position, net investment in capital assets, consists of capital assets, net of accumulated depreciation/amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position, net investment in capital assets, excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School System or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or more years. These negotiated agreements provide that the Board will contribute from 60% to 85% of a retirees' group health insurance premium for years of experience ranging from 10 years to 30 or more years, respectively. The School System has elected to partially fund the actuarially determined costs for future periods as further discussed in Note 11.

Use of 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.

2. DEPOSITS AND INVESTMENTS

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, 2026, all of the School System's deposits, including the certificate of deposit, were either covered by federal depository insurance or were covered by collateral held by the School System's agent in the School System's name. As of June 30, 2026, the carrying amount of the School System's deposits was \$10,052,846 and the bank balance was \$10,605,961.

Short-Term Investments

Maryland State Law authorizes the School System to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations, the state's sponsored investment pool, or interest-bearing accounts in any bank. As of June 30, 2026, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The School System has no policy on credit risk.

The carrying amount and market value of such investments were \$38,619,964, 515,776, and \$120,610, for governmental activities, business-type activity, and fiduciary responsibilities, respectively.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

2. DEPOSITS AND INVESTMENTS (continued)

Short-Term Investments (continued)

The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is under the administration of the State Treasurer. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value. The pool is managed in a "Rule 2(a)-7 like" manner and is reported at amortized cost pursuant to Rule 2(a)-7 under the Investment Company Act of 1940, which is MLGIP's share price.

The School System is not subject to any limitations or restrictions on withdrawals of its investments in MLGIP.

Long-Term Investments

As of June 30, 2026, the Capital Projects Fund's long-term investment consisted of a certificate of deposit which had a maturity of greater than one year but less than five years.

The Retiree Benefit Trust Fund's (OPEB) investments are invested in the Maryland Association of Board of Educations Pooled OPEB Trust (MABE Trust). The MABE Trust is administered by the Maryland Association of Board of Education and is a wholly-owned instrumentality of its members. The nine members who are the sole contributors to the MABE Trust are the boards of education of the following counties in Maryland: Allegany, Caroline, Cecil, Charles, Harford, Kent, Prince George's, St. Mary's, and Washington.

The investments of the MABE Trust are stated at fair value and are managed by Wells Fargo Advisors and consist of money market funds, U.S. government and agency fixed income and asset backed securities, equity securities, mutual funds and exchange traded funds, and corporate bonds and corporate asset backed securities. The MABE Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Although all of the investments in the MABE Trust are considered Level 1 and Level 2, the School Systems membership investment in the MABE Trust is considered Level 2. As of June 30, 2026, the pooled net position of the MABE Trust was \$894,386,807, in total, of which the School System's allocated investment balance was \$103,474,210. The School System places no limits on the amount they may be invested with any one issuer. The School System may terminate its membership in the MABE Trust and withdrawal its allocated investment balance by providing written notice six months prior to the intended date of withdrawal.

The MABE Trust financial statements can be obtained by sending a request to the following address: Administrator of the MABE Pooled Investment Trust, 621 Ridgely Road, Suite 300, Annapolis, Maryland 21401-1112.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

3. RECEIVABLES AND PAYABLES

Receivables and payables as of June 30, 2026 consist of the following:

	Governmental Activities		Business-Type Activities	Total
	General	Capital Projects		
Due from other governments				
Local	\$ 223,563	\$ 5,739,717	\$ 143	\$ 5,963,423
State	3,985,744	2,107,254	206,215	6,299,213
Federal	2,653,765	-	483,165	3,136,930
	<u>\$ 6,863,072</u>	<u>\$ 7,846,971</u>	<u>\$ 689,523</u>	<u>\$ 15,399,566</u>
Other receivables				
Accounts	\$ 1,137,692	\$ -	\$ 230,257	\$ 1,367,949
	<u>\$ 1,137,692</u>	<u>\$ -</u>	<u>\$ 230,257</u>	<u>\$ 1,367,949</u>
Accounts payable				
Vendors	\$ 7,249,457	\$ 3,918,029	\$ 308,486	\$ 11,475,972
	<u>\$ 7,249,457</u>	<u>\$ 3,918,029</u>	<u>\$ 308,486</u>	<u>\$ 11,475,972</u>
Due to other governments				
Local	\$ 32,832	\$ -	\$ -	\$ 32,832

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2026 is as follows:

	Balance, June 30, 2025	Additions	Deletions/ Transfers	Balance, June 30, 2026
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 3,734,759	\$ -	\$ -	\$ 3,734,759
Construction in process	39,489,993	12,379,274	(34,567,961)	17,301,306
	<u>43,224,752</u>	<u>12,379,274</u>	<u>(34,567,961)</u>	<u>21,036,065</u>
Capital assets being depreciated/amortized				
Buildings and improvements	476,933,436	44,227,797	(3,873,774)	517,287,459
Furniture and equipment	28,406,476	1,412,370	(423,686)	29,395,160
Right-to-use leased assets - equipment	821,883	283,946	(109,000)	996,829
Right-to-use subscription assets	1,637,572	330,296	(805,105)	1,162,763
	<u>507,799,367</u>	<u>46,254,409</u>	<u>(5,211,565)</u>	<u>548,842,211</u>
Accumulated depreciation/amortization for				
Building and improvements	(221,019,281)	(11,863,708)	3,555,665	(229,327,324)
Furniture and equipment	(10,822,149)	(2,940,662)	403,422	(13,359,389)
Right-to-use leased assets - equipment	(212,112)	(386,070)	54,537	(543,645)
Right-to-use subscription assets	(812,458)	(504,039)	680,400	(636,097)
	<u>(232,866,000)</u>	<u>(15,694,479)</u>	<u>4,694,024</u>	<u>(243,866,455)</u>
Governmental Activities Capital Assets, Net	<u>\$ 318,158,119</u>	<u>\$ 42,939,204</u>	<u>\$ (35,085,502)</u>	<u>\$ 326,011,821</u>

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

4. CAPITAL ASSETS (continued)

	Balance, June 30, 2025	Additions	Deletions/ Transfers	Balance, June 30, 2026
Business-Type Activities				
Capital assets being depreciated				
Building	\$ -	\$ 1,134,769	\$ -	\$ 1,134,769
Furniture and equipment	2,539,041	274,612	(67,010)	2,746,643
	<u>2,539,041</u>	<u>1,409,381</u>	<u>(67,010)</u>	<u>3,881,412</u>
Accumulated depreciated for				
Furniture and equipment	(1,872,589)	(79,784)	67,010	(1,885,363)
	<u>(1,872,589)</u>	<u>(79,784)</u>	<u>67,010</u>	<u>(1,885,363)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 666,452</u>	<u>\$ 1,329,597</u>	<u>\$ -</u>	<u>\$ 1,996,049</u>

Depreciation and amortization expense that was charged in the statement of activities for the year ended June 30, 2026 was as follows:

Governmental Activities

Administration	\$ 31,202
Mid-level administration	176,284
Other instructional costs	1,545,606
Special education	1,553
Student personnel services	2,233
Student health services	24,957
Student transportation services	153,274
Operation of plant	13,413,893
Maintenance of plant	345,477
	<u>\$ 15,694,479</u>

Business-Type Activities

Food service	<u>\$ 79,784</u>
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5. UNEARNED REVENUE

General Fund: Unearned revenue primarily consists of payments received under restricted programs in excess of the expenses/expenditures incurred to date under those programs as of June 30, 2026 of \$8,587,997.

Capital Projects Fund: Unearned revenue consists of prefunding in the amount of \$1,889,640 for construction projects for Safety and Security Initiatives.

Enterprise Fund: Unearned revenue of \$293,300 represents student lunch ticket sales collected in advance which will be consumed by students in next fiscal year.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

6. INTERFUND BALANCES

The composition of interfund balances as of June 30, 2026 was as follows:

Receivable Fund	Payable Fund			
	General fund	Capital projects fund	Private-purpose trust fund	Total
General fund	\$ -	\$ 195,906	\$ 1,095	\$ 197,001
Enterprise fund	1,875,730	-	-	1,875,730
	<u>\$ 1,875,730</u>	<u>\$ 195,906</u>	<u>\$ 1,095</u>	<u>\$ 2,072,731</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.

7. LONG-TERM LIABILITIES

Long-term debt as of June 30, 2026 consists of equipment financing obligations, accumulated compensated absences payable, net OPEB obligation, and net pension liability. The following is a summary of changes in the School System's long-term liabilities for the year ended June 30, 2026:

	Balance, June 30, 2025	Additions	Deductions	Balance, June 30, 2026	Amounts Due Within One Year
Governmental Activities					
Lease liability	\$ 821,883	\$ -	\$ 274,791	\$ 547,092	\$ 209,876
SBITA liability	914,091	-	588,130	325,961	153,618
Compensated absences	5,626,063	184,957	-	5,811,020	735,160
Net OPEB liability	166,358,189	-	2,101,690	164,256,499	-
Net pension liability	20,389,100	1,241,918	-	21,631,018	-
	<u>\$ 194,109,326</u>	<u>\$ 1,426,875</u>	<u>\$ 2,964,611</u>	<u>\$ 192,571,590</u>	<u>\$ 1,098,654</u>
Business-Type Activities					
Compensated absences	<u>\$ 170,825</u>	<u>\$ 38,929</u>	<u>\$ -</u>	<u>\$ 209,754</u>	<u>\$ 19,596</u>

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

Lease Liability

The School System has entered into various five-year lease agreements as lessee. As of June 30, 2026, the value of the lease liability was \$547,092. The School System is required to make quarterly or monthly principal and interest payments ranging from \$2,750 to \$21,600. The lease agreements have interest rates ranging from 6.5% to 7.5%. The equipment has a five-year estimated useful life. The value of the right-to-use assets as of the end of the current fiscal year was \$996,829 and had accumulated amortization of \$543,645.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

7. LONG-TERM LIABILITIES (continued)

Lease Liability (continued)

The future principal and interest lease payments as of June 30, 2026 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2027	\$ 209,876	\$ 33,759	\$ 243,635
2028	223,369	17,515	240,884
2029	113,847	2,468	116,315
Total	\$ 547,092	\$ 53,742	\$ 600,834

SBITA Liability

The School System uses software under a subscription basis. When the term of the subscription exceeds one year, the arrangements are reported as intangible assets known as SBITAs, with corresponding SBITA liabilities that represent the payment obligations under the subscription contract. SBITAs used by the School System have service terms varying from 34 months to 5 years, including anticipated renewals.

The future principal and interest payments for SBITA as of June 30, 2026 were as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2027	\$ 153,618	\$ 13,271	\$ 166,889
2028	172,343	4,931	177,274
Total	\$ 325,961	\$ 18,202	\$ 344,163

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

8. GOVERNMENTAL FUND BALANCES

Governmental fund balances as of June 30, 2026 are summarized as follows:

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Total</u>
Nonspendable			
Prepaid items	\$ 4,930	\$ -	\$ 4,930
Restricted for			
Capital projects	-	101,150	101,150
Committed for			
Capital projects	-	1,867,712	1,867,712
Assigned to			
Purchase orders:			
Administration	4,500	-	4,500
Instructional textbooks and supplies	9,147	-	9,147
Special education	6,033	-	6,033
Operation of plant	8,340	-	8,340
Total purchase orders	28,020	-	28,020
Healthcare	5,041,175	-	5,041,175
Wellness – restricted fund	224,789	-	224,789
CPCS	347,853	-	347,853
FY27 CPCS adopted budget	224,548	-	224,548
FY27 adopted budget	5,030,088	-	5,030,088
Fuel	500,000	-	500,000
Snow / emergency	500,000	-	500,000
Teacher apprentices	703,502	-	703,502
Student activity	2,190,854	-	2,190,854
Total Assigned	<u>14,790,829</u>	<u>-</u>	<u>14,790,829</u>
Unassigned	337,843	-	337,843
Total Fund Balances	<u>\$ 15,133,602</u>	<u>\$ 1,968,862</u>	<u>\$ 17,102,464</u>

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 19 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

9. RISK MANAGEMENT (continued)

Additionally, the School System is one of 17 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 \$500,000 for each worker's compensation claim. The School System carries commercial insurance on all other risks of loss.

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

10. PENSION PLANS

Plan Description, Benefits, and Funding Policy

Plan Description: The employees of the School System are covered by one of the following pension plans (Pension Plans) affiliated with the State Retirement and Pension System of Maryland (SRPS), a cost-sharing multiple-employer public employee retirement system administered by the State Retirement Agency (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
- The Pension System for Employees of the State of Maryland

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the "Pension System for Teachers of the State of Maryland" and the "Pension System for Employees of the State of Maryland." Prior to this date, all teachers and related positions were required to be members of the "Teachers' Retirement System of the State of Maryland," and non-certificated positions were members of the "Employees' Retirement System of the State of Maryland." All School System employees who were members of the "Retirement System" may remain in that system, or they may elect to join the "Pension System."

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

10. PENSION PLANS (continued)

Plan Description, Benefits, and Funding Policy (continued)

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.

In addition to the Pension Plans discussed above, the SRPS is also comprised of the State Police Retirement System, Judges' Retirement System, and the Law Enforcement Officers' Pension System. The State of Maryland is the statutory guarantor for the payment of all pensions, annuities, retirement allowances, refunds, reserves, and other benefits of the System. The Agency is legally authorized to use all assets accumulated for the payment of benefits to pay such obligations to any plan member or beneficiary as defined by the terms of the plan. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 67, Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25. Additionally, the SRPS is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies, and administrative budget. Accordingly, the SRPS is included in the State's reporting entity and disclosed in its financial statements as a pension trust fund. Additionally, the Agency issues an Annual Comprehensive Financial Report (ACFR) for the SRPS. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, by calling 410-625-5555, or online at <http://www.sra.state.md.us/>.

Benefits: These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement Systems, and as early as age 55 and 15 years of service from the Pension Systems. Benefits generally vest after ten years of service.

Funding Policy: Contributions to the SRPS are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. The State Personnel and Pensions Article requires both active members and their respective employers to make contributions to the respective Systems. Rates for required contributions by active members are established by law. Under the "Retirement System," employees contribute 7% of their earnable compensation depending upon the retirement option selected, and under the "Pension System" employees contribute 7% 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

10. PENSION PLANS (continued)

Plan Description, Benefits, and Funding Policy (continued)

Contribution rates for employer and other non-employer contributing entities (including the State of Maryland) are established by annual actuarial valuations 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. The School System made required contributions totaling \$10,354,643 or 6.01% of current covered payroll, the County made contributions totaling \$1,562,014 or 0.91% of current covered payroll and the State of Maryland made contributions on behalf of the School System totaling \$16,618,784 or 9.64% of current covered payroll for fiscal year 2026. The contributions made by the County and the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by the GASB Codification.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The 24 Boards of Education in the State of Maryland have a special funding situation as defined within GASB 68. Because the State of Maryland pays the unfunded liability and the local jurisdictions pay the normal costs for the Teachers' Pension Systems, the local Boards of Education are not required to record their share of the unfunded pension liability associated with the Teachers' Pension Systems, but instead, that liability is recorded by the State of Maryland. However, Boards of Education are responsible for any net unfunded pension liability for participants in the Employees' Pension Systems.

Because the State of Maryland must record the liability for the Boards of Education and because the State of Maryland and the Boards of Education did not fully contribute their normal and past service costs for the Teachers' Pension Systems, the net proportionate share calculation has been adjusted to account for total contributions to ensure the Boards of Education's liability was not improperly allocated to other participating government units. Actual employer contributions billed to participating government units for the year ended June 30, 1899 are used as the basis for determining each employer's proportionate share of the net pension liability. As of June 30, 2026, the School System reported a liability of \$21,631,018 of the SRPS total liability of \$25,705,821,000. As of June 30, 2026, the School System's proportionate share of the SRPS was 0.084%, an increase of 0.006% from the prior year.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

10. PENSION PLANS (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2026, the School System recognized pension expense of approximately \$511,903. As of June 30, 2026, the School System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2026 Contributions	\$ 2,929,052	\$ -
Change in assumptions	878,607	-
Change in proportion	1,643,631	-
Actual and expected experience	2,808,045	299,508
Net difference in investment earnings	-	19,590
Total	\$ 8,259,335	\$ 319,098

\$2,929,052 reported as deferred outflows of resources related to pensions resulting from School System contributions to the employees' pension system subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	Total
2027	\$ 1,187,237
2028	1,699,633
2029	1,137,211
2030	742,893
2031	244,211
Total	\$ 5,011,185

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

10. PENSION PLANS (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Actuarial Methods and Assumptions: The total pension liability of the SRPS in the June 30, 1999 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5% general, 3% wage
Salary increases	3% to 22.5%, including wage inflation
Investment rate of return	6.80%
Mortality	Various versions of the Pub-2010 Mortality Tables with projected generational mortality improvements based on the MP-2021 fully generational mortality improvements scale for males and females.

Investments: The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the system's investment consultant(s) and actuary(s).

For each major asset class that is included in the system's target asset allocation, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public equity	34%	5.9%
Private equity	16%	8.5%
Rate sensitive	20%	3.0%
Credit opportunity	9%	5.4%
Real assets	15%	5.9%
Absolute return	6%	3.8%
	<u>100%</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

10. PENSION PLANS (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The above was the Pension Systems' Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 1899. For the year ended June 30, 1899, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 9.83%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate: A single discount rate of 6.80% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 6.8%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate.

Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability: Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the School System's proportionate share of the net pension liability, calculated using a single discount rate of 6.80%, as well as what the School System's proportionate share of the net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher.

	1% Decrease to 5.80%	Current Discount	1% Increase to 7.80%
School System's proportionate share of the net pension liability	\$ 32,161,376	\$ 21,631,018	\$ 12,853,901

Detailed information about the SRPS' fiduciary net position is available in the separately issued ACFR by the Agency which may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, by calling 410-625-5555, or online at <http://www.sra.state.md.us/>.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

11. POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN

Plan Description: In addition to providing the pension benefits described in Note 10, the School System provides post-employment health care and life insurance benefits (OPEB Plan) to employees, former employees, or beneficiaries who meet retirement eligibility requirements of the pension plans. 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 or more years. These negotiated agreements provide that the School System will contribute from 60% to 85% 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% of life insurance premiums based upon 50% 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 (Benefit Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Benefit Trust established a trust account with, and became a member of, the Maryland Association of Boards of Education Pooled OPEB Investment Trust (MABE Trust). The School System reserves the right to establish and amend the provisions of its relationship with the MABE 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 of the MABE Trust.

The MABE Trust was established to pool assets of its member Boards of Education for investment purposes only. Each member of the Investment Trust is required to designate a member trustee who is a trustee of the member trust. The member trustees of the MABE Trust shall ensure that the MABE Trust keep such records as are necessary in order to maintain a separation of the assets of the MABE Trust from the assets of trusts maintained by other governmental employers. Assets of the member trusts are reported in their respective financial statements using the economic resources measurement focus and the accrual basis of accounting, under which expenses are recorded when the liability is incurred.

Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, if available.

The MABE Trust issues a publicly available audited GAAP-basis report that includes financial statements and required supplementary information for the Investment Trust. This report may be obtained by writing to the Trust Administrator, Maryland Association of Boards of Education, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401-1112, or calling 410-841-5414.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

11. POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (continued)

Membership of the OPEB Plan currently enrolled in medical/drug coverage consisted of the following as of July 1, 2024, the date of the actuarial valuation:

Number of Participants

Active employees	1,616
Retirees - pre-medicare*	220
Retirees - post-medicare*	1,021
Total	<u>2,857</u>

Contribution: The School System contributes the pay as you go portion, along with an annually budgeted prefunding amount of the annual determined contribution (ADC) of the employer, an amount actuarially determined in accordance with the parameters of the GASB Codification. The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ADC rate is 5.87% of annual covered payroll. The School System contributed \$10,119,365 for the year ended June 30, 2026, consisting of contributions towards current healthcare and life insurance premiums accounted for in the general fund with \$2,000,000 in additional contributions during the current year to prefund future benefits to the retirement benefit trust fund.

Investment

Investment policy: The School System's policy in regard to the allocation of invested assets is established and may be amended by the School System board by a majority vote of its members. It is the policy of the board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The School System's target asset allocation policy was 100% in the MABE Trust as of June 30, 2026.

Rate of return: For the year ended June 30, 2026, the annual money-weighted rate of return on investments, net of investment expense, was 15.27%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

11. POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (continued)

Net OPEB Liability

The components of the net OPEB liability of the School System as of June 30, 2026 were as follows:

Total OPEB liability	\$ 267,730,709
Plan fiduciary net position	(103,474,210)
Net OPEB liability	<u>\$ 164,256,499</u>

Plan fiduciary net position as a percentage of the total OPEB liability	38.65%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of July 1, 2024, using the following actuarial assumptions below, applied to all periods included in the measurement, unless otherwise specified.

Actuarial assumptions used in the latest actuarial valuation were:

Inflation rate	2.60%
Salary increases	3.50%
Investment rate of return	7.00%
Healthcare cost trend rate	7.00%, ultimate trend rate of 4.04%
Mortality	Pub-2010, MP 2021

The actuarial assumptions used in the July 1, 2024 valuation were based on the results of an actuarial experience study for the period January 1, 2023 to December 31, 2024.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return, expected returns, net of investment expense and inflation are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the MABE Trust as of June 30, 2026 was 15.27%.

Discount rate. The discount rate used to measure the total OPEB liability was 7.00 percent, based on a 20-year municipal bond rate average of AA/Aa or higher. The projection of cash flow used to determine the discount rate assumed that the School System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

11. POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (continued)

Net OPEB Liability (continued)

Sensitivity of the net OPEB liability to changes in the discount rate.

The following presents the net OPEB liability of the School System, as well as what the School System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current discount rate:

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Net OPEB liability	\$ 201,782,285	\$ 164,256,499	\$ 131,239,494

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate.

The following presents the net OPEB liability of the School System, as well as what the School System's net OPEB liability would be if it were calculated using healthcare cost trend rate that is 1-percentage-point lower (3.04%) or 1-percentage-point higher (5.04%) than the current healthcare cost trend rate:

	1% Decrease 3.04%	Healthcare Cost Trend Rates 4.04%	1% Increase 5.04%
Net OPEB liability	\$ 126,756,119	\$ 164,256,499	\$ 208,763,139

OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. For the year ended June 30, 2026, the School System recognized OPEB expense of (\$27,257,558). As of June 30, 2026, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 34,865,894	\$ 70,439,893
Changes in assumptions	19,221,006	136,160,715
Net difference between projected and actual earnings on OPEB plan investments	-	6,586,419
Total	\$ 54,086,900	\$ 213,187,027

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

11. POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (continued)

Net OPEB Liability (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources to OPEB will be recognized in OPEB expense as follows:

<u>Years Ending June 30:</u>	<u>Total</u>
2027	\$ (46,216,140)
2028	(46,948,110)
2029	(36,937,352)
2030	(28,809,660)
2031	(188,865)
Total	\$ (159,100,127)

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, 2024 actuarial valuation, the entry age normal method was used. Significant actuarial assumptions used, include (a) a rate of return on the investment of 7.00% per year compounded annually, (b) projected salary increases of 3.50, (c) additional projected salary increases ranging from 3.00% to 10.50% per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 7.50% initially, reduced annually to arrive at an ultimate healthcare cost trend of 4.04%, (e) rates of mortality based upon RP 2021 Combined Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.25% to 21.00%, (g) disablement rates based on age, ranging from 0.03% to 0.33%, (h) retirement rates based on age, sex, and length of service, ranging from 0.00% to 100.00%, and (i) medical claims including prescription drugs are based on actual experience during the period from January 1, 2022 through December 31, 2024 for pre-Medicare participants and January 1, 2023 through December 31, 2024 for Medicare participants. 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 14 years for the year ended June 30, 2025.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2026

11. POST-EMPLOYMENT HEALTHCARE AND LIFE INSURANCE PLAN (continued)

Changes in the net OPEB liability.

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance as of June 30, 2024	\$ 254,385,932	\$ 88,027,743	\$ 166,358,189
Changes for the year:			
Service cost	4,779,576	-	4,779,576
Interest	17,817,746	-	17,817,746
Contributions - employer	-	10,119,365	(10,119,365)
Net investment income	-	13,459,411	(13,459,411)
Administrative expenses	-	(12,944)	12,944
Differences between expected and actual experience	(1,133,180)	-	(1,133,180)
Benefit payments	(8,119,365)	(8,119,365)	-
Net Changes	13,344,777	15,446,467	(2,101,690)
Balance as of June 30, 2025	\$ 267,730,709	\$ 103,474,210	\$ 164,256,499

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, 2026, the School System had entered into various school construction commitments which are not reflected in the statement of net position or balance sheet - governmental funds. They will be funded by the State of Maryland or County bond issues, totaling approximately \$39.9 million.

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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.

Health Insurance: 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. If there is a deficit, the School System is required to pay the callable margin, which is calculated as 5% of total premiums billed during the current period. Any remaining deficit amount is carried-forward to the next billing period, to be offset by any future surplus. 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, 2026, no refund was due.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2026

13. GOVERNMENTAL ACCOUNTING STANDARDS BOARD

Statement No. 103, *Financial Reporting Model*: The requirements of this Statement will improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for periods beginning after June 15, 2025 (FY 2026). The School System adopted this standard in FY 2026 and it did not have a material effect on the financial statements.

Statement No. 104, *Disclosure of Certain Capital Assets*: This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires additional disclosures for capital assets held for sale. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025 (FY 2026). The School System adopted this standard in FY 2026 and it did not have a material effect on the financial statements.

14. NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD

GASB has issued several pronouncements prior to the year ended June 30, 2026 that have effective dates that may impact future financial presentations. Management will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

Statement No. 105, *Subsequent Events*: This Statement clarifies the subsequent events that constitute recognized and nonrecognized events and establishes specific note disclosure requirements for nonrecognized events. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026 (FY 2027). The School System is currently evaluating the effect of implementation of this Statement.

REQUIRED SUPPLEMENTARY INFORMATION

ST. MARY'S COUNTY PUBLIC SCHOOLS

Schedule of the Proportionate Share of the Net Pension Liability – Maryland State Retirement and Pension System June 30, 2026

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
School System's proportion of the net pension liability	0.084%	0.078%	0.076%	0.075%	0.073%	0.067%	0.064%	0.062%	0.054%	0.056%
School System's proportionate share of the ERS net pension liability	\$ 21,631,018	\$ 20,389,100	\$ 17,521,533	\$ 15,076,525	\$ 11,026,407	\$ 15,058,899	\$ 13,253,801	\$ 12,920,066	\$ 11,668,499	\$ 13,229,614
School System's proportionate share of the TRS net pension liability	204,252,327	219,307,804	185,091,579	156,142,046	127,317,680	191,071,692	180,294,375	188,110,615	189,998,229	215,427,373
	<u>\$ 225,883,345</u>	<u>\$ 239,696,904</u>	<u>\$ 202,613,112</u>	<u>\$ 171,218,571</u>	<u>\$ 138,344,087</u>	<u>\$ 206,130,591</u>	<u>\$ 193,548,176</u>	<u>\$ 201,030,681</u>	<u>\$ 201,666,728</u>	<u>\$ 228,656,987</u>
School System's covered-payroll	\$ 172,392,187	\$ 165,772,732	\$ 161,986,452	\$ 150,931,539	\$ 154,998,548	\$ 145,451,909	\$ 130,613,111	\$ 127,901,817	\$ 125,980,783	\$ 121,123,057
School System's proportionate share of the net pension liability as a percentage of its covered-payroll	12.548%	12.299%	10.817%	9.989%	7.114%	10.353%	10.147%	10.102%	9.262%	10.922%
Plan fiduciary net position as a percentage of the total pension liability	74.020%	72.080%	73.810%	76.270%	81.840%	70.720%	72.340%	71.180%	69.380%	65.790%

ST. MARY'S COUNTY PUBLIC SCHOOLS

Schedule of School System Contributions to Maryland State Retirement and Pension System June 30, 2026

	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contributions	\$ 11,916,657	\$ 9,281,216	\$ 8,729,086	\$ 8,376,039	\$ 6,902,094	\$ 6,740,929	\$ 6,517,606	\$ 6,299,724	\$ 6,172,196	\$ 5,879,367
Less: actual contributions made:										
Employee systems	2,929,052	2,480,233	2,029,510	1,855,536	1,719,727	1,619,548	1,428,552	1,319,557	1,227,914	1,098,302
Teacher system - County portion	1,562,014	-	-	-	-	-	-	-	-	-
Teacher system - School System portion	7,425,591	6,800,983	6,699,576	6,520,503	5,182,367	5,121,381	5,089,054	4,980,167	4,944,282	4,781,065
	<u>11,916,657</u>	<u>9,281,216</u>	<u>8,729,086</u>	<u>8,376,039</u>	<u>6,902,094</u>	<u>6,740,929</u>	<u>6,517,606</u>	<u>6,299,724</u>	<u>6,172,196</u>	<u>5,879,367</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School System's covered-payroll	\$ 172,392,187	\$ 165,772,732	\$ 161,986,452	\$ 150,931,539	\$ 154,998,548	\$ 145,451,909	\$ 130,613,111	\$ 127,901,817	\$ 125,980,783	\$ 121,123,057
Contributions as a percentage of covered-payroll	6.913%	5.599%	5.389%	5.550%	4.453%	4.634%	4.990%	4.925%	4.899%	4.854%

ST. MARY'S COUNTY PUBLIC SCHOOLS

Schedule of Changes in the School System's Net OPEB Liability and Related Ratios June 30, 2026

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Total OPEB Liability										
Service cost	\$ 4,779,576	\$ 7,160,638	\$ 10,815,493	\$ 14,466,088	\$ 23,929,592	\$ 18,243,733	\$ 14,414,143	\$ 13,007,551	\$ 12,676,617	\$ 12,238,000
Interest	17,817,746	15,203,921	18,965,986	16,057,537	12,255,956	11,427,554	12,356,164	13,206,282	12,506,803	11,001,955
Changes in benefit terms	-	1,397,496	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(1,133,180)	(98,487,647)	(1,250,793)	47,157,065	(2,636)	57,886,115	828,873	(28,094,872)	310,034	3,131,014
Changes of assumptions	-	(56,087,061)	(8,650,431)	(103,078,579)	(173,773,959)	13,991,398	52,424,340	36,659,739	(2,558,940)	(56,209,000)
Benefit payments	<u>(8,119,365)</u>	<u>(8,277,860)</u>	<u>(9,675,369)</u>	<u>(9,346,861)</u>	<u>(8,053,267)</u>	<u>(8,165,280)</u>	<u>(8,195,190)</u>	<u>(4,811,441)</u>	<u>(7,300,000)</u>	<u>(6,696,969)</u>
Net change in total OPEB liability	13,344,777	(139,090,513)	10,204,886	(34,744,750)	(145,644,314)	93,383,520	71,828,330	29,967,259	15,634,514	(36,535,000)
Total OPEB liability - beginning	<u>254,385,932</u>	<u>393,476,445</u>	<u>383,271,559</u>	<u>418,016,309</u>	<u>563,660,623</u>	<u>470,277,103</u>	<u>398,448,773</u>	<u>368,481,514</u>	<u>352,847,000</u>	<u>389,382,000</u>
Total OPEB liability - ending (a)	<u>\$ 267,730,709</u>	<u>\$ 254,385,932</u>	<u>\$ 393,476,445</u>	<u>\$ 383,271,559</u>	<u>\$ 418,016,309</u>	<u>\$ 563,660,623</u>	<u>\$ 470,277,103</u>	<u>\$ 398,448,773</u>	<u>\$ 368,481,514</u>	<u>\$ 352,847,000</u>
Plan Fiduciary Net Position										
Contributions - employer	\$ 10,119,365	\$ 12,277,860	\$ 13,675,369	\$ 11,346,861	\$ 12,041,416	\$ 10,165,280	\$ 8,952,732	\$ 5,811,441	\$ 8,300,000	\$ 6,696,969
Net investment income	13,459,411	6,289,590	5,352,465	5,437,086	(9,488,199)	12,580,464	1,434,223	3,293,993	3,088,016	4,215,949
Benefit payments	(8,119,365)	(8,277,860)	(9,675,369)	(9,346,861)	(8,053,267)	(8,165,280)	(8,195,190)	(4,811,441)	(7,300,000)	(6,696,969)
Administrative expense	<u>(12,944)</u>	<u>(13,132)</u>	<u>(13,107)</u>	<u>(12,633)</u>	<u>(12,687)</u>	<u>(12,586)</u>	<u>(12,761)</u>	<u>(12,650)</u>	<u>(12,942)</u>	<u>(15,243)</u>
Net change in plan fiduciary net position	15,446,467	10,276,458	9,339,358	7,424,453	(5,512,737)	14,567,878	2,179,004	4,281,343	4,075,074	4,200,706
Plan fiduciary net position - beginning	<u>88,027,743</u>	<u>77,751,285</u>	<u>68,411,927</u>	<u>60,987,474</u>	<u>66,500,211</u>	<u>51,932,333</u>	<u>49,753,329</u>	<u>45,471,986</u>	<u>41,396,912</u>	<u>37,196,206</u>
Plan fiduciary net position - ending (b)	<u>\$ 103,474,210</u>	<u>\$ 88,027,743</u>	<u>\$ 77,751,285</u>	<u>\$ 68,411,927</u>	<u>\$ 60,987,474</u>	<u>\$ 66,500,211</u>	<u>\$ 51,932,333</u>	<u>\$ 49,753,329</u>	<u>\$ 45,471,986</u>	<u>\$ 41,396,912</u>
School System's net OPEB liability (a) - (b)	<u>\$ 164,256,499</u>	<u>\$ 166,358,189</u>	<u>\$ 315,725,160</u>	<u>\$ 314,859,632</u>	<u>\$ 357,028,835</u>	<u>\$ 497,160,412</u>	<u>\$ 418,344,770</u>	<u>\$ 348,695,444</u>	<u>\$ 323,009,528</u>	<u>\$ 311,450,088</u>
Plan fiduciary net position as a percentage of the total OPEB liability	38.65%	34.60%	19.76%	17.85%	14.59%	11.80%	11.04%	12.49%	12.34%	11.73%
Covered-payroll	\$ 172,392,187	\$ 165,772,732	\$ 161,986,452	\$ 150,931,539	\$ 154,998,548	\$ 145,451,909	\$ 130,613,111	\$ 127,901,817	\$ 125,980,783	\$ 121,123,057
School System's net OPEB liability as a percentage of covered-payroll	95.28%	100.35%	194.91%	208.61%	230.34%	341.80%	320.29%	272.63%	256.40%	257.14%

ST. MARY'S COUNTY PUBLIC SCHOOLS

Schedule of School System's Contributions - OPEB June 30, 2026

	2026	2025	2024	2023	2022	2021	2020	2019	2018	2017
Actuarial determined contribution	\$ 20,422,960	\$ 19,235,756	\$ 24,592,000	\$ 22,930,000	\$ 18,654,000	\$ 18,056,000	\$ 15,045,000	\$ 14,099,000	\$ 14,401,000	\$ 13,846,000
Less: contributions in relation to the actuarially determined contribution	10,119,365	12,277,860	13,675,369	11,346,861	12,041,416	10,165,280	8,952,732	5,811,441	8,300,000	6,696,969
Contribution deficiency	<u>\$ 10,303,595</u>	<u>\$ 6,957,896</u>	<u>\$ 10,916,631</u>	<u>\$ 11,583,139</u>	<u>\$ 6,612,584</u>	<u>\$ 7,890,720</u>	<u>\$ 6,092,268</u>	<u>\$ 8,287,559</u>	<u>\$ 6,101,000</u>	<u>\$ 7,149,031</u>
Covered-employee payroll	\$ 172,392,187	\$ 165,772,732	\$ 161,986,452	\$ 150,931,539	\$ 154,998,548	\$ 145,451,909	\$ 130,613,111	\$ 127,901,817	\$ 125,980,783	\$ 121,123,057
Contributions as a percentage of covered- payroll	5.87%	7.41%	8.44%	7.52%	7.77%	6.99%	6.85%	4.54%	6.59%	5.53%

ST. MARY’S COUNTY PUBLIC SCHOOLS

Schedule of Investment Returns – OPEB
June 30, 2026

	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	15.28%	8.07%	7.80%	8.89%	-14.29%	24.20%	2.86%	7.21%	7.43%	11.29%

ST. MARY'S COUNTY PUBLIC SCHOOLS

Budgetary Comparison Schedule – General Fund June 30, 2026

	Budgeted Amounts		Variance With Original Budget - Over (Under)	Actual (Budgetary Basis)	Variance With Final Budget Over (Under)
	Original	Final	Final Budget		Actual
Revenues					
Local	\$ 137,502,907	\$ 137,541,862	\$ 38,955	\$ 137,541,807	\$ (55)
State of Maryland	153,548,149	152,749,016	(799,133)	152,364,536	(384,480)
Federal government	23,441,224	20,870,814	(2,570,410)	14,452,210	(6,418,604)
Tuition	13,000	13,000	-	9,090	(3,910)
Investment income	2,319,392	2,319,392	-	2,130,103	(189,289)
Utilization of fund balance					
Unassigned	7,859,432	9,746,552	1,887,120	9,746,552	-
Other	6,692,038	6,742,862	50,824	2,771,904	(3,970,958)
	<u>331,376,142</u>	<u>329,983,498</u>	<u>(1,392,644)</u>	<u>319,016,202</u>	<u>(10,967,296)</u>
Expenditures					
Administration	6,528,786	6,267,181	(261,605)	5,409,319	857,862
Mid-level administration	22,263,225	22,475,636	212,411	21,823,139	652,497
Instructional salaries	109,451,287	107,897,046	(1,554,241)	104,510,185	3,386,861
Instructional textbooks and supplies	9,107,772	8,126,539	(981,233)	6,499,965	1,626,574
Other instructional costs	4,845,952	3,509,542	(1,336,410)	2,734,151	775,391
Special education	33,023,512	33,233,127	209,615	30,670,764	2,562,363
Student personnel services	4,325,769	4,463,652	137,883	3,739,181	724,471
Student health services	3,962,690	3,887,555	(75,135)	3,669,260	218,295
Student transportation services	26,107,926	26,135,203	27,277	25,860,224	274,979
Operation of plant	25,008,762	26,698,844	1,690,082	25,366,541	1,332,303
Maintenance of plant	6,152,686	6,152,686	-	6,045,576	107,110
Fixed charges	76,689,596	75,551,366	(1,138,230)	73,678,596	1,872,770
Community services	977,243	855,237	(122,006)	723,997	131,240
Capital outlays	2,930,936	4,729,884	1,798,948	4,506,747	223,137
	<u>331,376,142</u>	<u>329,983,498</u>	<u>(1,392,644)</u>	<u>315,237,645</u>	<u>14,745,853</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,778,557</u>	<u>\$ 3,778,557</u>
Adjustments to conform with generally accepted accounting principles				(9,756,894)	
Fund balance					
Beginning				21,111,939	
Ending				<u>\$ 15,133,602</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to Required Supplementary Information June 30, 2026

1. BUDGETS AND BUDGETARY ACCOUNTING

The St. Mary's County Public Schools (the School System) generally follows these procedures in establishing the budgetary data reflected in the required supplementary information:

Operating Budget (General Fund)

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 are 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 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 June 30, 2026

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 an assignment 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 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 2026 from the budget basis to the GAAP basis are as follows:

	Revenues and Other Funding Sources	Expenditures, Encumbrances, and Transfers	Current Year Effect on Fund Balances
General fund - budgetary basis	\$ 319,016,202	\$ 315,237,645	\$ 3,778,557
Budget to GAAP reconciliation			
Purchase orders	-	92,934	(92,934)
State retirement contribution	16,618,789	16,618,789	-
County retirement contribution	1,562,014	1,562,014	-
Fund balance usage	(9,746,552)	-	(9,746,552)
Student activity	2,831,684	2,749,092	82,592
Leases/SBITAS	614,242	614,242	-
	11,880,177	21,637,071	(9,756,894)
General Fund - GAAP basis	\$ 330,896,379	\$ 336,874,716	\$ (5,978,337)

3. GENERAL FUND BUDGETARY HIGHLIGHTS

Overall, revenues came in at 99.8% of the unrestricted fund amended budget. The fiscal year (FY) 2026 year end budgetary expenditure balance of \$4,238,392 reflected a spending of 98.6% of the unrestricted fund budget.

Over the course of the fiscal year, the School System revised the annual operating budget on a categorical basis and within categorical adjustments. Noteworthy budget amendments fell into two categories:

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to Required Supplementary Information June 30, 2026

3. GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

- Adjustments outside a category to include recognizing a planned use of fund balance and approval to utilize restricted grants.
- Adjustments within a category and outside a category to realign the budget to meet emerging needs, such as increased utility costs and snow removal costs.

Final Budget Compared to Actual Results

	<u>Unrestricted Fund Over/(Under)</u>
BUDGETARY REVENUES	
Differences - original budget to final budget	
The original budget was amended to utilize fund balance for capital projects and the purchase of air scrubbers and dehumidifiers at various sites.	\$ 1,887,120
Differences - final budget to actual	
Federal revenues were below budgeted levels due to a decrease in Impact Aid funding. Impact Aid revenue has declined due to shifting student demographics and a decline in the School System student population.	(1,406,020)
BUDGETARY EXPENDITURES	
Differences - original budget to final budget	
The original "operation of plant" expenditure budget was amended to account for the increased utility costs and for snow removal costs experienced during the fiscal year 2026.	1,043,859
The original "capital outlays" expenditure budget was amended for the use of available unassigned fund balance on capital projects.	1,775,120
Differences - final budget to actual	
The School System experienced salary savings in "instructional salaries" expenditures as a result of personnel changes, vacancies, and positional realignments.	(1,920,456)

SUPPLEMENTARY INFORMATION

ST. MARY'S COUNTY PUBLIC SCHOOLS

Combining Budgetary Comparison Schedule – General Fund – Unrestricted Funds and Restricted Funds June 30, 2026

	Unrestricted Fund				Restricted Funds				Total Combined General Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Over (Under) Actual	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Over (Under) Actual	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Over (Under) Actual
	Original	Final			Original	Final			Original	Final		
Revenues												
Local	\$ 137,469,907	\$ 137,469,907	\$ 137,469,907	\$ -	\$ 33,000	\$ 71,955	\$ 71,900	\$ (55)	\$ 137,502,907	\$ 137,541,862	\$ 137,541,807	\$ (55)
State of Maryland	146,576,785	146,576,785	147,126,290	549,505	6,971,364	6,172,231	5,238,246	(933,985)	153,548,149	152,749,016	152,364,536	(384,480)
Federal government	2,706,000	2,706,000	1,299,980	(1,406,020)	20,735,224	18,164,814	13,152,230	(5,012,584)	23,441,224	20,870,814	14,452,210	(6,418,604)
Tuition	13,000	13,000	9,090	(3,910)	-	-	-	-	13,000	13,000	9,090	(3,910)
Investment income	2,319,392	2,319,392	2,130,103	(189,289)	-	-	-	-	2,319,392	2,319,392	2,130,103	(189,289)
Utilization of fund balance	7,859,432	9,746,552	9,746,552	-	-	-	-	-	7,859,432	9,746,552	9,746,552	-
Other	1,126,700	1,126,700	1,716,579	589,879	5,565,338	5,616,162	1,055,325	(4,560,837)	6,692,038	6,742,862	2,771,904	(3,970,958)
	<u>298,071,216</u>	<u>299,958,336</u>	<u>299,498,501</u>	<u>(459,835)</u>	<u>33,304,926</u>	<u>30,025,162</u>	<u>19,517,701</u>	<u>(10,507,461)</u>	<u>331,376,142</u>	<u>329,983,498</u>	<u>319,016,202</u>	<u>(10,967,296)</u>
Expenditures												
Administration	5,001,804	5,001,804	4,768,933	232,871	1,526,982	1,265,377	640,386	624,991	6,528,786	6,267,181	5,409,319	857,862
Mid-level administration	21,294,257	21,294,257	20,852,790	441,467	968,968	1,181,379	970,349	211,030	22,263,225	22,475,636	21,823,139	652,497
Instructional salaries	103,821,728	103,514,869	101,594,413	1,920,456	5,629,559	4,382,177	2,915,772	1,466,405	109,451,287	107,897,046	104,510,185	3,386,861
Instructional textbooks and supplies	5,491,364	5,491,364	5,403,891	87,473	3,616,408	2,635,175	1,096,074	1,539,101	9,107,772	8,126,539	6,499,965	1,626,574
Other instructional costs	2,702,322	2,402,322	2,195,598	206,724	2,143,630	1,107,220	538,553	568,667	4,845,952	3,509,542	2,734,151	775,391
Special education	25,951,034	25,951,034	25,806,409	144,625	7,072,478	7,282,093	4,864,355	2,417,738	33,023,512	33,233,127	30,670,764	2,562,363
Student personnel services	1,862,980	1,862,980	1,862,704	276	2,462,789	2,600,672	1,876,477	724,195	4,325,769	4,463,652	3,739,181	724,471
Student health services	3,595,242	3,595,242	3,470,320	124,922	367,448	292,313	198,940	93,373	3,962,690	3,887,555	3,669,260	218,295
Student transportation services	25,697,113	25,697,113	25,638,962	58,151	410,813	438,090	221,262	216,828	26,107,926	26,135,203	25,860,224	274,979
Operation of plant	23,397,160	24,441,019	24,411,504	29,515	1,611,602	2,257,825	955,037	1,302,788	25,008,762	26,698,844	25,366,541	1,332,303
Maintenance of plant	6,152,686	6,152,686	6,045,576	107,110	-	-	-	-	6,152,686	6,152,686	6,045,576	107,110
Fixed charges	70,635,938	70,310,938	69,499,930	811,008	6,053,658	5,240,428	4,178,666	1,061,762	76,689,596	75,551,366	73,678,596	1,872,770
Community services	-	-	-	-	977,243	855,237	723,997	131,240	977,243	855,237	723,997	131,240
Capital outlay	2,467,588	4,242,708	4,168,914	73,794	463,348	487,176	337,833	149,343	2,930,936	4,729,884	4,506,747	223,137
	<u>\$ 298,071,216</u>	<u>\$ 299,958,336</u>	<u>295,719,944</u>	<u>\$ 4,238,392</u>	<u>\$ 33,304,926</u>	<u>\$ 30,025,162</u>	<u>19,517,701</u>	<u>\$ 10,507,461</u>	<u>\$ 331,376,142</u>	<u>\$ 329,983,498</u>	<u>315,237,645</u>	<u>\$ 14,745,853</u>
Net Change in Fund Balances			3,778,557				-				3,778,557	
Adjustments to conform with generally accepted accounting principles			(9,756,894)				-				(9,756,894)	
Fund balance												
Beginning			20,886,373				225,566				21,111,939	
Ending			<u>\$ 14,908,036</u>				<u>\$ 225,566</u>				<u>\$ 15,133,602</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

Combining Budgetary Comparison Schedule – General Fund – Unrestricted Funds June 30, 2026

	Unrestricted Fund (Excluding Charter School by Category)				Unrestricted Funds (Charter School Only)				Total Combined Unrestricted Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Over (Under) Actual	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Over (Under) Actual	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Final Budget Over (Under) Actual
	Original	Final			Original	Final			Original	Final		
Revenues												
Local	\$ 137,469,907	\$ 137,469,907	\$ 137,469,907	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 137,469,907	\$ 137,469,907	\$ 137,469,907	\$ -
State of Maryland	146,576,785	146,576,785	147,126,290	549,505	-	-	-	-	146,576,785	146,576,785	147,126,290	549,505
Federal government	2,706,000	2,706,000	1,299,980	(1,406,020)	-	-	-	-	2,706,000	2,706,000	1,299,980	(1,406,020)
Tuition	13,000	13,000	9,090	(3,910)	-	-	-	-	13,000	13,000	9,090	(3,910)
Investment income	2,319,392	2,319,392	2,130,103	(189,289)	-	-	-	-	2,319,392	2,319,392	2,130,103	(189,289)
Utilization of fund balance	7,559,887	9,447,007	9,447,007	-	299,545	299,545	299,545	-	7,859,432	9,746,552	9,746,552	-
Other	1,126,700	1,126,700	1,716,579	589,879	-	-	-	-	1,126,700	1,126,700	1,716,579	589,879
	<u>297,771,671</u>	<u>299,658,791</u>	<u>299,198,956</u>	<u>(459,835)</u>	<u>299,545</u>	<u>299,545</u>	<u>299,545</u>	<u>-</u>	<u>298,071,216</u>	<u>299,958,336</u>	<u>299,498,501</u>	<u>(459,835)</u>
Expenditures												
Administration	5,001,804	5,001,804	4,768,933	232,871	-	-	-	-	5,001,804	5,001,804	4,768,933	232,871
Mid-level administration	20,513,141	20,513,141	20,076,598	436,543	781,116	781,116	776,192	4,924	21,294,257	21,294,257	20,852,790	441,467
Instructional salaries	100,490,446	100,188,287	98,412,665	1,775,622	3,331,282	3,326,582	3,181,748	144,834	103,821,728	103,514,869	101,594,413	1,920,456
Instructional textbooks and supplies	5,408,084	5,403,384	5,315,695	87,689	83,280	87,980	88,196	(216)	5,491,364	5,491,364	5,403,891	87,473
Other instructional costs	2,700,322	2,400,322	2,195,448	204,874	2,000	2,000	150	1,850	2,702,322	2,402,322	2,195,598	206,724
Special education	25,396,876	25,396,876	25,333,038	63,838	554,158	554,158	473,371	80,787	25,951,034	25,951,034	25,806,409	144,625
Student personnel services	1,858,860	1,858,860	1,857,703	1,157	4,120	4,120	5,001	(881)	1,862,980	1,862,980	1,862,704	276
Student health services	3,498,381	3,498,381	3,373,471	124,910	96,861	96,861	96,849	12	3,595,242	3,595,242	3,470,320	124,922
Student transportation services	25,283,813	25,283,813	25,256,004	27,809	413,300	413,300	382,958	30,342	25,697,113	25,697,113	25,638,962	58,151
Operation of plant	22,590,342	23,634,201	23,605,191	29,010	806,818	806,818	806,313	505	23,397,160	24,441,019	24,411,504	29,515
Maintenance of plant	6,152,686	6,152,686	6,045,576	107,110	-	-	-	-	6,152,686	6,152,686	6,045,576	107,110
Fixed charges	69,418,266	69,093,266	68,367,954	725,312	1,217,672	1,217,672	1,131,976	85,696	70,635,938	70,310,938	69,499,930	811,008
Community services	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	2,467,588	4,242,708	4,168,914	73,794	-	-	-	-	2,467,588	4,242,708	4,168,914	73,794
	<u>290,780,609</u>	<u>292,667,729</u>	<u>288,777,190</u>	<u>3,890,539</u>	<u>7,290,607</u>	<u>7,290,607</u>	<u>6,942,754</u>	<u>347,853</u>	<u>298,071,216</u>	<u>299,958,336</u>	<u>295,719,944</u>	<u>4,238,392</u>
Net Change in Fund Balances	<u>\$ 6,991,062</u>	<u>\$ 6,991,062</u>	<u>10,421,766</u>	<u>\$ 3,430,704</u>	<u>\$ (6,991,062)</u>	<u>\$ (6,991,062)</u>	<u>(6,643,209)</u>	<u>\$ (347,853)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,778,557</u>	<u>\$ 3,778,557</u>
Adjustments to conform with generally accepted accounting principles			(9,457,349)				(299,545)				(9,756,894)	
Charter School funding			(6,991,062)				6,991,062				-	
Fund balance												
Beginning			20,524,622				361,751				20,886,373	
Ending			<u>\$ 14,497,977</u>				<u>\$ 410,059</u>				<u>\$ 14,908,036</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund – Budget vs. Actual June 30, 2026

	Final Budget	Actual	Variance With Final Budget Over (Under) Actual
Revenues			
Food service sales	\$ 5,990,270	\$ 2,717,411	\$ (3,272,859)
Federal grants and commodities	7,354,507	7,021,200	(333,307)
State matching and other	575,000	494,698	(80,302)
Donations	2,500	1,500	(1,000)
Interest income	24,530	19,842	(4,688)
	<u>13,946,807</u>	<u>10,254,651</u>	<u>(3,692,156)</u>
Expenses			
Payroll costs	4,473,581	4,183,864	289,717
Professional and contract services	84,868	166,129	(81,261)
Supplies and materials	4,576,310	4,458,227	118,083
Depreciation	76,857	79,784	(2,927)
Equipment	2,913,596	-	2,913,596
Fixed charges	1,711,445	1,724,894	(13,449)
Other operating costs	110,150	139,611	(29,461)
	<u>13,946,807</u>	<u>10,752,509</u>	<u>3,194,298</u>
Change in Net Position	<u>\$ -</u>	<u>(497,858)</u>	<u>\$ (497,858)</u>
Net position			
Beginning		<u>5,114,098</u>	
Ending		<u>\$ 4,616,240</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

Schedule of Changes in Cash and Cash Equivalents - School Activities June 30, 2026

	School Activity Accounts Balance July 30, 2025		Additions	Deductions	School Activity Accounts Balance June 30, 2026	
School - Checking						
Benjamin Banneker Elementary	\$	65,008	\$	51,943	\$	(48,093) \$ 68,858
Capt. Walter Francis Duke Elementary		47,212		69,636		(61,139) 55,709
Chesapeake Public Charter School		67,405		128,850		(108,902) 87,353
Dynard Elementary		41,192		25,307		(32,305) 34,194
Evergreen Elementary		23,995		36,960		(37,648) 23,307
George Washington Carver Elementary		8,004		12,124		(16,748) 3,380
Green Holly School		23,690		14,077		(13,211) 24,556
Greenview Knolls Elementary		18,381		30,978		(19,524) 29,835
Hollywood Elementary		16,874		31,461		(25,780) 22,555
Leonardtown Elementary		8,008		14,139		(12,447) 9,700
Lettie Marshall Dent Elementary		36,805		34,937		(31,606) 40,136
Lexington Park Elementary		7,285		17,209		(17,021) 7,473
Mechanicsville Elementary		15,598		29,400		(32,004) 12,994
Oakville Elementary		40,651		39,841		(40,690) 39,802
Park Hall Elementary		5,845		14,389		(15,883) 4,351
Piney Point Elementary		31,377		57,770		(66,480) 22,667
Ridge Elementary		27,139		28,320		(17,350) 38,109
Town Creek Elementary		11,759		12,630		(13,705) 10,684
White Marsh Elementary		34,094		22,416		(17,603) 38,907
Esperanza Middle		36,048		88,816		(79,211) 45,653
Leonardtown Middle		122,907		106,215		(123,379) 105,743
Margaret Brent Middle		13,834		90,235		(78,789) 25,280
Spring Ridge Middle		52,810		86,792		(75,910) 63,692
Chopticon High		297,558		399,814		(415,296) 282,076
Great Mills High		57,755		496,569		(414,298) 140,026
Leonardtown High		243,498		676,900		(733,912) 186,486
Dr. J. A. Forrest Career & Tech Ctr		35,933		189,200		(200,158) 24,975
Fairlead Academy I		9,607		-		- 9,607
	\$	1,400,272	\$	2,806,928	\$	(2,749,092) \$ 1,458,108

ST. MARY'S COUNTY PUBLIC SCHOOLS

Schedule of Changes in Cash and Cash Equivalents - School Activities June 30, 2026

	School Activity Accounts Balance June 30, 2025			Additions	Deductions	School Activity Accounts Balance June 30, 2026		
School - Savings								
Benjamin Banneker Elem	\$	2,761	\$	3	\$	-	\$	2,764
Chopticon High		108,150		2,663		-		110,813
Dr. J. A. Forrest Career & Tech Ctr		45,299		14		-		45,313
	\$	156,210	\$	2,680	\$	-	\$	158,890

	School Activity Accounts Balance June 30, 2025			Additions	Deductions	School Activity Accounts Balance June 30, 2026		
School - MLGIP (Maryland Local Government Investment Pool)								
Dynard Elem	\$	6,235	\$	249	\$	-	\$	6,484
Green Holly School		9,632		385		-		10,017
Greenview Knolls Elem		6,201		248		-		6,449
Hollywood Elem		12,883		515		-		13,398
Leonardtown Elem		2,689		108		-		2,797
Oakville Elem		1,539		62		-		1,601
ParkHall Elem		5,159		206		-		5,365
Piney Point Elem		10,115		405		-		10,520
Esperanza Middle		7,612		305		-		7,917
Leonardtown Middle		18,802		752		-		19,554
Margaret Brent Middle		28,589		1,144		-		29,733
Spring Ridge Middle		9,509		381		-		9,890
Great Mills High		208,817		8,354		-		217,171
Leonardtown High		178,654		7,148		-		185,802
Dr. J. A. Forrest Career & Tech Ctr		45,344		1,814		-		47,158
	\$	551,780	\$	22,076	\$	-	\$	573,856
Total	\$	2,108,262	\$	2,831,684	\$	(2,749,092)	\$	2,190,854

**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
St. Mary's County Public Schools
Leonardtown, Maryland

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of St. Mary's County Public Schools (the School System), as of and for the year ended June 30, 2026, and the related notes to the financial statements, which collectively comprise the School System's basic financial statements, and have issued our report thereon dated September 28, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School System's internal control. Accordingly, we do not express an opinion on the effectiveness of the School System's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



SB & Company
CPAs and Business Advisors

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School System's financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Owings Mills, Maryland
September 28, 2026

SB & Company, LLC