

St. Mary's County Public Schools

Financial Report
June 30, 2016

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RSM US LLP

Independent Auditor's Report

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

Report on the Financial Statements

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, 2016, 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of St. Mary's County Public Schools, as of June 30, 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and the Required Supplementary Information – St. Mary's County Public Schools OPEB Plan Schedule of Funding Progress (OPEB Funding), Schedule of the Proportionate Share of the Net Pension Liability Maryland State Retirement and Pension System (Pension Liability), Schedule of School System Contributions to Maryland State Retirement and Pension System (Pension Contributions), and the Budgetary Comparison Schedule – General Fund on pages 3 through 13 and 45 through 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, OPEB Funding, Pension Liability, and Pension Contributions 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. The Budgetary Comparison Schedule – General Fund 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 Budgetary Comparison Schedule – General Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other 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 financial information listed as supplementary information in the table of contents on pages 51 through 55 is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards on pages 60 through 64 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedules and information discussed in the preceding paragraph are the responsibility of management and were derived from and relate 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 schedules and information 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, 2016, 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 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 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.

RSM US LLP

Frederick, Maryland
September 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

This section of St. Mary's County Public Schools' (School System) annual financial report presents its discussion and analysis of the School System's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- The financial status of the School System increased this year. Net change in fund balance of the Governmental Funds increased by \$4 million. (see page 18). This \$4 million has been earmarked for onetime costs of the negotiated agreement in the amount of \$1.5 million and reading textbooks in the amount of \$2.5 million.
- The net investments in capital assets has increased by \$2.8 million.
- Budgetary savings were recognized in the unrestricted funds due to utility/fuel savings, an increase in MSDE reimbursement for non-public placements, and an accrual of the FY16 healthcare reimbursement, due to increased timeliness of reporting by our vendor.

Overview of Financial Statements

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

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

The financial statements also include notes that explain some of the information in the statements and provide more detail data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison to the School System's 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.

**Figure A-1
Organization of SMCPS Annual Financial Report**

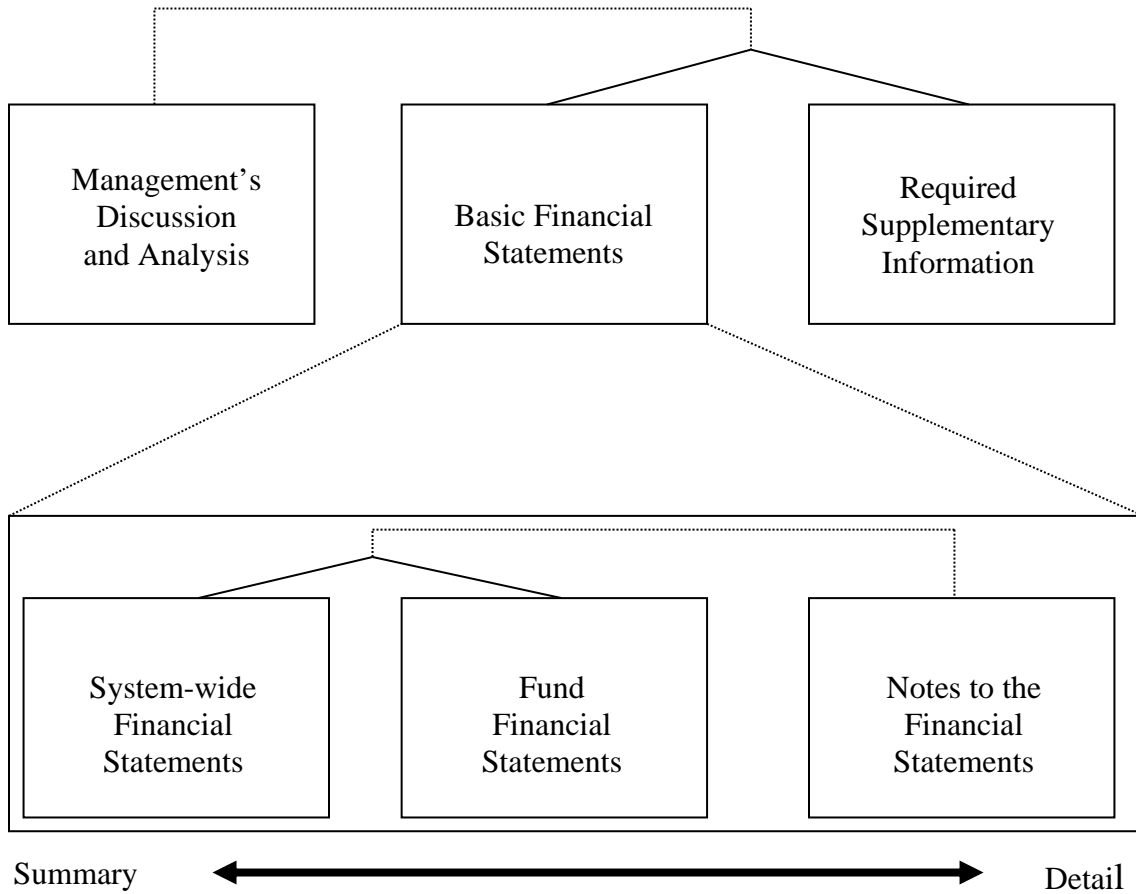


Figure A-2 summarizes the major features of the School System's financial statements, including the portion of the School System's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and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

Figure A-2				
Major Features of the District-wide and Fund Financial Statements				
	District-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the system that are not proprietary or fiduciary, such as special education and building maintenance	Activities the system operates similar to private businesses: food services	Instances in which the system administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	Statement of net 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 focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities; both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods and services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

System-wide Statements

The system-wide statements report information about the School System as a whole using accounting methods similar to those used by private-sector companies. The statement of net 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.

The School System has three kinds of funds:

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

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

Financial Analysis of the School System as a Whole

The School System's combined net position decreased \$5.1 million, decreasing by 2.4%, which came predominately from an increase in OPEB and pension liabilities (see page 19).

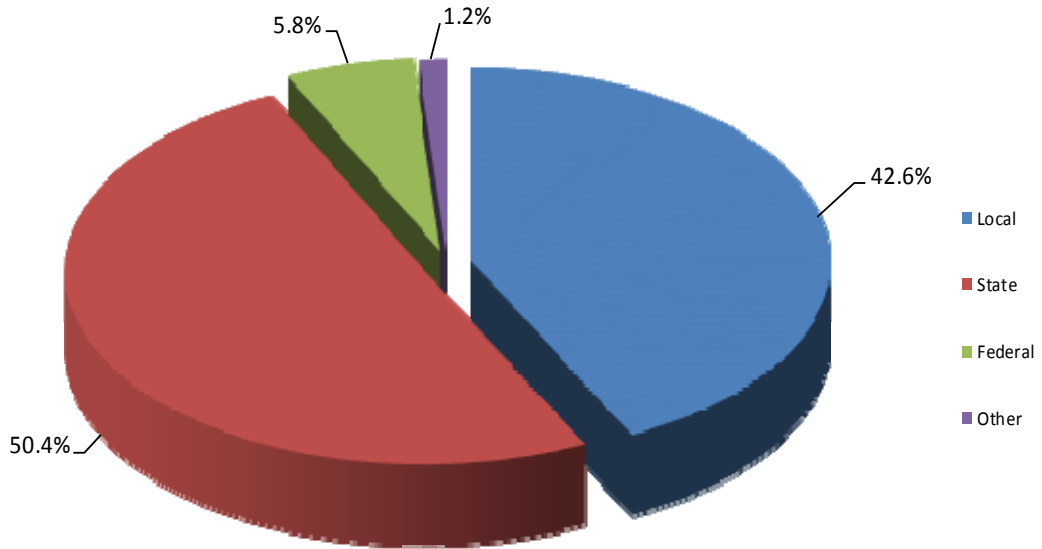
Figure A-3
Condensed Statement of Net Position (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2016	2015	2016	2015	2016	2015	
Current and other assets	\$ 40.5	\$ 36.9	\$ 1.9	\$ 1.9	\$ 42.4	\$ 38.8	9.3%
Capital assets	263.8	263.0	0.5	0.6	264.3	263.6	0.3%
Total assets	304.3	299.9	2.4	2.5	306.7	302.4	1.4%
Deferred outflows	2.9	1.4	-	-	2.9	1.4	107.1%
Long-term debt outstanding	69.5	58.0	0.2	0.2	69.7	58.2	19.8%
Other liabilities	27.8	28.3	0.5	0.5	28.3	28.8	-1.7%
Total liabilities	97.3	86.3	0.7	0.7	98.0	87.0	12.6%
Deferred inflows	1.0	1.1	-	-	1.0	1.1	0.0%
Net Position							
Net investment in capital assets	263.0	260.1	0.6	0.6	263.6	260.7	1.1%
Restricted	0.1	0.1	-	-	0.1	0.1	0.0%
Unrestricted	(54.2)	(46.3)	1.1	1.2	(53.1)	(45.1)	17.7%
Total net position	\$ 208.9	\$ 213.9	\$ 1.7	\$ 1.8	\$ 210.6	\$ 215.7	-2.4%

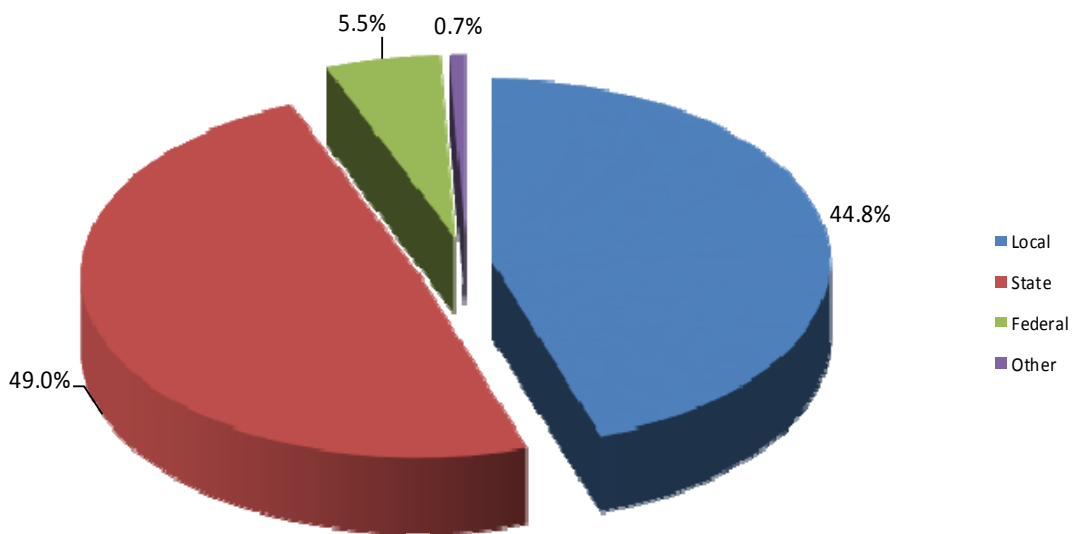
Figure A-4
Condensed Statement of Net Activities (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2016	2015	2016	2015	2016	2015	
Revenues							
Program revenues:							
Charges for services	\$ 0.2	\$ 0.7	\$ 2.7	\$ 2.8	\$ 2.9	\$ 3.5	-17.1%
Operating grants & contributions	39.7	37.6	4.3	4.2	44.0	41.8	5.3%
Capital grants & contributions	11.4	31.1	-	0.2	11.4	31.3	-63.6%
General revenues:							
County	98.0	93.9	-	-	98.0	93.9	4.4%
State	86.9	85.8	-	-	86.9	85.8	1.3%
Federal	2.6	2.2	-	-	2.6	2.2	18.2%
Other	0.7	1.2	-	-	0.7	1.2	-41.7%
Total revenues	239.5	252.5	7.0	7.2	246.5	259.7	-5.1%
Expenses							
Administrative	18.4	19.0	-	-	18.4	19.0	-3.2%
Instruction	85.2	79.6	-	-	85.2	79.6	7.0%
Special education	21.3	21.1	-	-	21.3	21.1	0.9%
Student personnel & health services	3.7	3.4	-	-	3.7	3.4	8.8%
Transportation	15.2	15.5	-	-	15.2	15.5	-1.9%
Operations & maintenance	28.7	26.2	-	-	28.7	26.2	9.5%
Fixed charges	71.6	62.8	-	-	71.6	62.8	14.0%
Other	0.4	0.4	7.1	6.9	7.5	7.3	2.7%
Total expenses	244.5	228.0	7.1	6.9	251.6	234.9	7.1%
Change in net position	\$ (5.0)	\$ 24.5	\$ (0.1)	\$ 0.3	\$ (5.1)	\$ 24.8	-120.6%

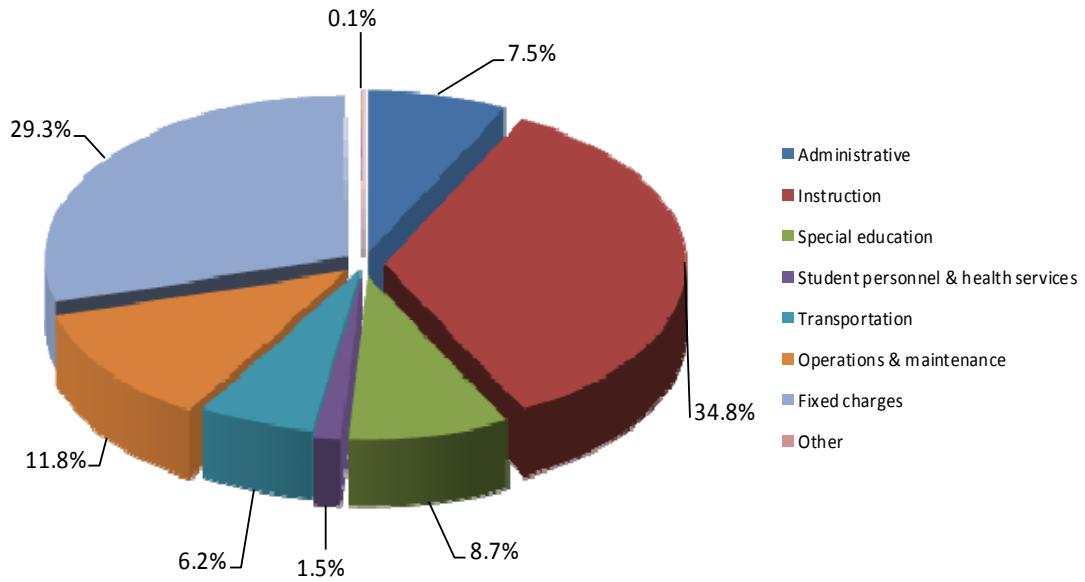
**Figure A-5: Sources of Revenues FY-2016
Governmental Activities**



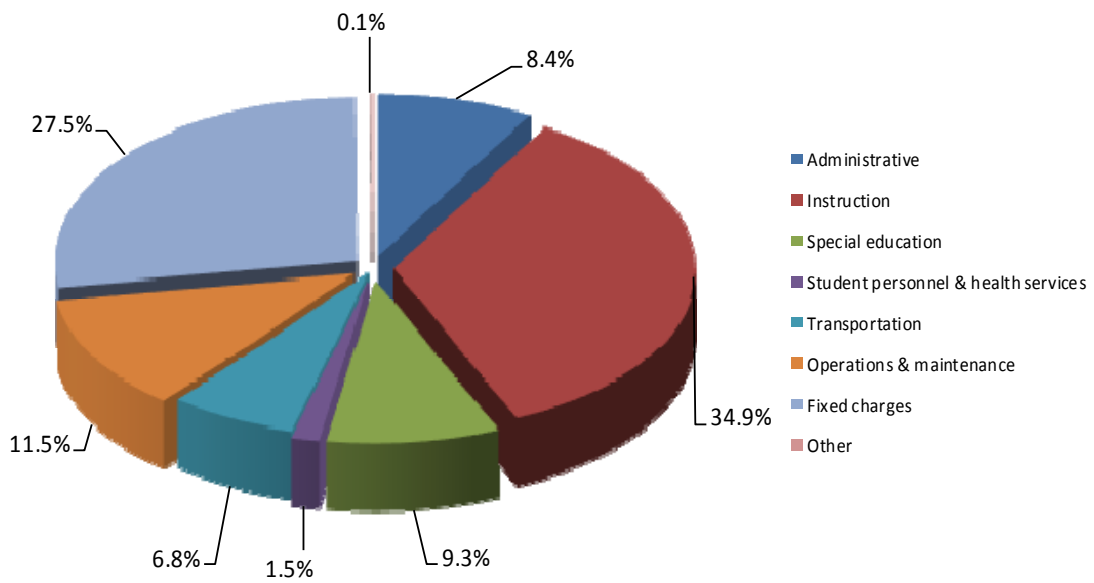
**Figure A-6: Sources of Revenues FY-2015
Governmental Activities**



**Figure A-7: Expenses FY-2016
Governmental Activities**



**Figure A-8: Expenses FY-2015
Governmental Activities**



Governmental Activities

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

- Negatives:
 - Federal Impact Aid – Funding came in less than budgeted for in FY-2016.
- Positives:
 - Non-Public Tuition - Increased revenue – Non-Public tuition (due to the timing of the MSDE reconciliation).
 - Health Insurance Rebate - Increased revenue Health insurance provider's ability to more timely estimate drug rebates, the current year refund net of the year-end accrual.
 - Utility/Fuel Savings – Reduced expenditures due to favorable rates and mild temperatures.

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

	Total Cost of Services			Net Cost of Services		
	2016	2015	% Change	2016	2015	% Change
Administrative	\$ 18.4	\$ 19.0	-3.2%	\$ 17.9	\$ 18.4	-2.7%
Instruction	85.2	79.6	7.0%	80.4	74.4	8.1%
Special education	21.3	21.1	0.9%	11.9	12.4	-4.0%
Student personnel & health services	3.7	3.4	8.8%	3.5	3.2	9.4%
Transportation	15.2	15.5	-1.9%	7.4	8.0	-7.5%
Operations & maintenance	28.7	26.2	9.5%	17.2	(5.2)	-430.8%
Fixed charges	71.6	62.8	14.0%	54.9	47.3	16.1%
Other	0.4	0.4	0.0%	0.1	0.1	0.0%
Total	\$ 244.5	\$ 228.0	7.2%	\$ 193.3	\$ 158.6	21.9%

Business-Type Activities

- Net position for Food Service decreased by \$75,821.

Financial Analysis of the School System's Funds

The financial performance of the School System's general operations is reflected in its governmental funds. For FY-2016 the General Fund shows \$4.1M of revenues over expenditures and other financing sources (page 18) predominately due to; utility savings of \$1.2M, healthcare rebate of \$1.3M, and an additional \$500k of revenue from non-public tuition placement payments.

Capital Projects expenditures amounted to \$11.4M for the year ended June 30, 2016 (page 18). As discussed later, these expenditures were for a full array of capital projects. Most of the expenditures were for the Spring Ridge Middle School renovation project.

General Fund Budgetary Highlights

Current year sources of revenue exceeded expenditures on the budgetary basis by \$4,874,892. Revenues increased roughly 4% compared to FY-2015.

Over the course of the fiscal year, the School System revised the annual operating budget three times, on a categorical basis and several times for within categorical adjustments. These budget amendments fall into two categories:

- Shifts within a category to realign the budget to meet emerging needs.
- Shifts outside a category. For 2016 those were to recognize the \$1.9M of fund balance usage, Charter School adjustment, and coverage for leave payoffs.

Capital Asset and Debt Administration

Capital Assets

During FY-2016, the School System invested \$10,699,809 (prior to depreciation) in a broad range of capital assets, including school buildings, vehicles, and equipment. More information can be found in Note 4 to the basic Financial Statements (page 31).

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

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2016	2015	2016	2015	2016	2015	
Land	\$ 3.6	\$ 2.9	\$ -	\$ -	\$ 3.6	\$ 2.9	24.1%
Facilities under construction	21.5	38.7	-	-	21.5	38.7	-44.4%
Buildings	233.8	215.6	-	-	233.8	215.6	8.4%
Equipment	4.9	5.8	-	0.6	4.9	6.4	-23.4%
Total capital assets, net	\$ 263.8	\$ 263.0	\$ -	\$ 0.6	\$ 263.8	\$ 263.6	0.1%

Long-term Debt

The long-term debt is expected to grow over time as funding for OPEB remains at less than desirable amounts. For FY '16 there was no payment made to the OPEB trust and the liability for OPEB increased over \$10M in the current year. GASB 68 required us to record an additional increase in pension liability for FY'16 of \$2.8M. Additional information on long-term debt can be found in Note 7 to the basic Financial Statements (page 33).

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

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2016	2015	2016	2015	2016	2015	
Equipment financing agreements	\$ 0.8	\$ 2.8	\$ -	\$ -	\$ 0.8	\$ 2.8	-71.4%
Compensated absences	4.9	4.5	0.2	0.2	5.1	4.7	8.5%
Net OPEB obligation	51.3	41.0	-	-	51.3	41.0	25.1%
Net pension obligation	12.5	9.6	-	-	12.5	9.6	30.2%
Total long-term debt	\$ 69.5	\$ 57.9	\$ 0.2	\$ 0.2	\$ 69.7	\$ 58.1	20.0%

Factors bearing on the School System's Future

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

- GASB 45 requires St. Mary's County Public Schools to recognize the liability associated with post employment benefits. This adds approximately \$10 million annually to our operating budget if fully funded. Presently, it is a voluntary requirement, but if we do not fund the liability, it will grow and impact future budgets and net positions. We are currently \$51 million short of being fully funded as of June 30, 2016.
- GASB 68 requires St. Mary's County Public Schools to recognize a long term pension liability of \$12.5 million for the year ending June 30, 2016. All Boards of Education are now responsible for reporting the net unfunded pension liability for participants in the Employees' Pension Systems. This amount will adjust annually and reduce the overall net position of the School System.
- The amount of revenue over expenses in FY-2016 allowed the School System to assign fund balances for: a \$2M textbook adoption, and \$500k for deferred maintenance projects.
- GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and will be effective for the St. Mary's County Public School beginning with its year ending June 30, 2018. Similar to GASB 68 for pensions, GASB 75 will require St. Mary's County Public School to report a liability on the face of the financial statements which will have a significant impact to the financial statements.

Contacting SMCPs' Financial Management

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

BASIC FINANCIAL STATEMENTS

St. Mary's County Public Schools

Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 32,443,684	\$ 781,172	\$ 33,224,856
Certificate of deposit	85,217	-	85,217
Due from other governments	8,258,208	156,770	8,414,978
Internal balances	(400,149)	400,149	-
Other receivables, net	137,367	386,217	523,584
Inventory	-	174,066	174,066
Prepaid items	200	-	200
Capital assets			
Land	3,636,073	-	3,636,073
Buildings and improvements	372,265,361	-	372,265,361
Furniture and equipment	8,990,363	1,848,816	10,839,179
Equipment leased under financing agreements	6,676,139	-	6,676,139
Construction in process	21,529,772	-	21,529,772
Less accumulated depreciation	(149,320,877)	(1,289,832)	(150,610,709)
Total assets	304,301,358	2,457,358	306,758,716
Deferred Outflows			
Pension related deferred outflows:			
Current year contributions to the employees' system pension plan	1,092,326	-	1,092,326
Net difference between projected and actual investment earnings.	1,102,276	-	1,102,276
Changes in actuarial assumptions	731,048	-	731,048
Total deferred outflows	2,925,650	-	2,925,650
Liabilities			
Accounts payable	4,460,243	115,576	4,575,819
Accrued salaries and related costs	16,346,659	265,747	16,612,406
Retrospective insurance premium call payable	232,047	-	232,047
Due to other governments	2,174	-	2,174
Unearned revenue	6,718,027	156,576	6,874,603
Long-term liabilities			
Due within one year:			
Compensated absences	504,608	14,027	518,635
Financing agreements payable	460,534	-	460,534
Due after one year:			
Compensated absences	4,425,257	171,802	4,597,059
Financing agreements payable	304,915	-	304,915
Net pension obligation	12,514,609	-	12,514,609
Net OPEB obligation	51,302,049	-	51,302,049
Total liabilities	97,271,122	723,728	97,994,850
Deferred Inflows			
Pension related deferred inflows:			
Net difference between actual and expected experience	256,288	-	256,288
Net difference between projected and actual investment earnings	791,413	-	791,413
Total deferred inflows	1,047,701	-	1,047,701
Net Position			
Net investment in capital assets	263,011,382	558,984	263,570,366
Restricted – capital projects	104,673	-	104,673
Unrestricted (deficit)	(54,207,870)	1,174,646	(53,033,224)
Total net position	\$ 208,908,185	\$ 1,733,630	\$ 210,641,815

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Statement of Activities
Year Ended June 30, 2016**

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities							
Administration	\$ 3,282,128	\$ -	\$ 74,991	\$ -	\$ (3,207,137)	\$ -	\$ (3,207,137)
Mid-level administration	15,137,157	-	459,678	-	(14,677,479)	-	(14,677,479)
Instructional salaries	76,911,005	-	3,268,356	-	(73,642,649)	-	(73,642,649)
Instructional textbooks and supplies	5,739,939	77,347	730,686	-	(4,931,906)	-	(4,931,906)
Other instructional costs	2,511,089	-	655,834	-	(1,855,255)	-	(1,855,255)
Special education	21,331,383	-	9,454,391	-	(11,876,992)	-	(11,876,992)
Student personnel services	1,533,693	-	139,352	-	(1,394,341)	-	(1,394,341)
Student health services	2,182,736	-	80,235	-	(2,102,501)	-	(2,102,501)
Student transportation services	15,198,194	-	7,792,335	-	(7,405,859)	-	(7,405,859)
Operation of plant	23,284,300	112,213	70,266	11,353,203	(11,748,618)	-	(11,748,618)
Maintenance of plant	5,453,548	-	13,755	-	(5,439,793)	-	(5,439,793)
Community services	312,741	-	312,741	-	-	-	-
Fixed charges	71,600,280	-	16,669,084	-	(54,931,196)	-	(54,931,196)
Interest on long-term debt	24,522	-	-	-	(24,522)	-	(24,522)
Total governmental activities	244,502,715	189,560	39,721,704	11,353,203	(193,238,248)	-	(193,238,248)
Business-Type Activities							
Food services	7,136,287	2,728,159	4,323,355	8,166	-	(76,607)	(76,607)
Total business-type activities	7,136,287	2,728,159	4,323,355	8,166	-	(76,607)	(76,607)
Total primary government	\$ 251,639,002	\$ 2,917,719	\$ 44,045,059	\$ 11,361,369	(193,238,248)	(76,607)	(193,314,855)
General Revenues							
Unrestricted grants and contributions:							
Local					98,015,001	-	98,015,001
State					86,904,352	-	86,904,352
Federal					2,564,398	-	2,564,398
Investment earnings					44,877	786	45,663
Other					706,208	-	706,208
Total general revenues					188,234,836	786	188,235,622
Change in net position					(5,003,412)	(75,821)	(5,079,233)
Net Position							
Beginning					213,911,597	1,809,451	215,721,048
Ending					\$ 208,908,185	\$ 1,733,630	\$ 210,641,815

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Balance Sheet – Governmental Funds
June 30, 2016**

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 32,423,098	\$ 20,586	\$ 32,443,684
Certificate of deposit	-	85,217	85,217
Due from other governments	5,485,229	2,772,979	8,258,208
Due from other funds	1,595	3,732,832	3,734,427
Other receivables	135,772	-	135,772
Prepaid items	200	-	200
Total assets	\$ 38,045,894	\$ 6,611,614	\$ 44,657,508
Liabilities			
Liabilities			
Accounts payable	\$ 2,041,418	\$ 2,401,110	\$ 4,442,528
Accrued salaries and related costs	16,346,659	-	16,346,659
Retrospective insurance call	232,047	-	232,047
Due to other governments	2,174	-	2,174
Due to other funds	4,150,696	-	4,150,696
Unearned revenue	2,612,196	4,105,831	6,718,027
Total liabilities	25,385,190	6,506,941	31,892,131
Fund Balances			
Non-spendable	200	-	200
Restricted	-	104,673	104,673
Assigned	11,628,301	-	11,628,301
Unassigned	1,032,203	-	1,032,203
Total fund balances	12,660,704	104,673	12,765,377
Total liabilities and fund balances	\$ 38,045,894	\$ 6,611,614	\$ 44,657,508

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016**

Total Fund Balances – Governmental Funds		\$ 12,765,377
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	\$ 413,097,708	
Accumulated depreciation	<u>(149,320,877)</u>	263,776,831
Pension related deferred outflows of resources:		
Current year contributions to the employees' system pension plan	1,092,326	
Net difference between projected and actual investment earnings	1,102,276	
Changes in actuarial assumptions	<u>731,048</u>	2,925,650
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Compensated absences	(4,929,865)	
Financing agreements payable	(765,449)	
Net OPEB obligation	(51,302,049)	
Net pension obligation	<u>(12,514,609)</u>	(69,511,972)
Deferred inflows of resources related to pension actuarial calculations:		
Net difference between actual and expected experience	(256,288)	
Net difference between projected and actual investment earnings	<u>(791,413)</u>	(1,047,701)
Total net position – governmental activities		<u>\$ 208,908,185</u>

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
Year Ended June 30, 2016**

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues			
St. Mary's County	\$ 98,015,001	\$ 4,014,260	\$ 102,029,261
State of Maryland	113,412,476	7,338,943	120,751,419
Federal government	13,786,028	-	13,786,028
Tuition	68,997	-	68,997
Investment income	43,801	1,076	44,877
Other	2,822,468	-	2,822,468
Total revenue	228,148,771	11,354,279	239,503,050
Expenditures			
Current			
Administration	3,256,680	-	3,256,680
Mid-level administration	15,140,057	-	15,140,057
Instructional salaries	76,911,005	-	76,911,005
Instructional textbooks and supplies	5,739,939	-	5,739,939
Other instructional costs	1,631,440	-	1,631,440
Special education	21,324,514	-	21,324,514
Student personnel services	1,533,011	-	1,533,011
Student health services	2,182,736	-	2,182,736
Student transportation services	15,350,316	-	15,350,316
Operation of plant	14,778,557	-	14,778,557
Maintenance of plant	3,497,971	-	3,497,971
Community services	312,741	-	312,741
Fixed charges	59,512,806	-	59,512,806
Capital outlay	679,869	11,353,834	12,033,703
Debt service			
Principal	2,060,224	-	2,060,224
Interest	72,332	-	72,332
Total expenditures	223,984,198	11,353,834	235,338,032
Net change in fund balances	4,164,573	445	4,165,018
Fund Balance			
Beginning	8,496,131	104,228	8,600,359
Ending	\$ 12,660,704	\$ 104,673	\$ 12,765,377

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2016**

Total net change in fund balances – governmental funds	\$ 4,165,018
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$10,879,144 exceed depreciation of \$10,048,945 for the period.	830,199
In the statement of activities, only the gain/loss on the disposition of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by costs of the capital assets of \$179,334 disposed, less any accumulated depreciation of \$160,145.	(19,189)
Repayment of financing agreement principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,060,224
In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave amounts earned of \$994,158, was more than amounts paid of \$561,072.	(433,086)
In the statement of activities, OPEB costs are measured by the amounts earned during the year as actuarially computed. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, accrued OPEB benefits earned of \$16,413,000, exceeded amounts contributed of \$6,108,261.	(10,304,739)
In the statement of activities, non-teacher pension costs are measured by the amounts earned during the year as actuarially computed, along with the effects of changes in actuarial assumptions and differences between projected and actual investment earnings on pension plan assets. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, accrued non-teacher pension benefits earned of \$2,441,975, were higher than amounts contributed of \$1,092,326.	(1,349,649)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, thus requiring the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the result of accrued interest on the financing agreements. Accrued interest decreased by this amount this year.	47,810
Change in net position of governmental activities	\$ (5,003,412)

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Statement of Net Position – Proprietary Fund
June 30, 2016**

	Enterprise Fund
Assets	
Current Assets	
Cash and cash equivalents	\$ 781,172
Due from other governments	156,770
Due from other funds	400,149
Accounts receivable, net	386,217
Inventory, at cost	174,066
	<u>1,898,374</u>
Noncurrent Assets	
Food service equipment	1,848,816
Less accumulated depreciation	<u>(1,289,832)</u>
	<u>558,984</u>
Total assets	<u>2,457,358</u>
Liabilities	
Current Liabilities	
Accounts payable	115,576
Accrued salaries and related costs	265,747
Unearned revenue	156,576
Compensated absences	14,027
	<u>551,926</u>
Noncurrent Liabilities	
Compensated absences	<u>171,802</u>
Total liabilities	<u>723,728</u>
Net Position	
Net investment in capital assets	558,984
Unrestricted	<u>1,174,646</u>
Total net position	<u>\$ 1,733,630</u>

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Fund
Year Ended June 30, 2016**

	Enterprise Fund
Operating Revenues	
Food service sales	\$ 2,728,159
Federal grants and commodities	4,075,803
State matching and other	247,552
Total operating revenue	<u>7,051,514</u>
Operating Expenses	
Payroll costs	3,664,265
Professional and contract services	57,049
Supplies and materials	3,256,121
Depreciation	92,983
Other operating costs	65,869
Total operating expenses	<u>7,136,287</u>
Operating loss	<u>(84,773)</u>
Non-Operating Revenues	
Interest income	786
Local capital contribution	8,166
	<u>8,952</u>
Change in net position	(75,821)
Total Net Position	
Beginning	<u>1,809,451</u>
Ending	<u>\$ 1,733,630</u>

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Statement of Cash Flows – Proprietary Fund
Year Ended June 30, 2016**

	Enterprise Fund
<hr/>	
Cash Flows From Operating Activities	
Cash received from user charges	\$ 2,778,809
Operating grants and subsidies received	3,977,805
Payments to employees for services	(3,658,415)
Payments to suppliers for goods and services	(2,789,208)
Payments for other operating expenses	(122,918)
Net cash provided by operating activities	<u>186,073</u>
Cash Flows From Non-Capital Financing Activities	
Internal activity – net repayment to other funds	(209,163)
Net cash used in non-capital financing activities	<u>(209,163)</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	(18,292)
Capital contributions received	8,166
Net cash used in capital and related financing activities	<u>(10,126)</u>
Cash Flows From Investing Activities	
Interest received on investments	786
Net cash provided by investing activities	<u>786</u>
Net decrease in cash and cash equivalents	(32,430)
Cash and Cash Equivalents	
Beginning	<u>813,602</u>
Ending	<u><u>\$ 781,172</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ (84,773)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	92,983
Changes in assets and liabilities:	
Due from other governments	102,355
Receivables	31,999
Inventory	44,010
Accounts payable	(25,002)
Accrued salaries and related costs	(28,243)
Unearned revenue	18,651
Compensated absences	34,093
Net cash provided by operating activities	<u>\$ 186,073</u>

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Statement of Fiduciary Net Position – Fiduciary Funds
June 30, 2016**

	Private-Purpose Trust Fund	Retiree Benefit Trust Fund (OPEB)	School Activity Funds
Assets			
Cash and cash equivalents	\$ 97,723	\$ -	\$ 1,644,676
Investments held in MABE Trust	-	37,196,206	-
Due from other funds	-	-	17,715
	<u>97,723</u>	<u>37,196,206</u>	<u>\$ 1,662,391</u>
Total assets			
	<u>97,723</u>	<u>37,196,206</u>	<u>\$ 1,662,391</u>
Liabilities			
Due to other funds	1,595	-	\$ -
Due to student groups	-	-	1,662,391
	<u>1,595</u>	<u>-</u>	<u>\$ 1,662,391</u>
Total liabilities			
	<u>1,595</u>	<u>-</u>	<u>\$ 1,662,391</u>
Net Position			
Reserved for scholarships	<u>\$ 96,128</u>		
Held in trust for retiree benefits		<u>\$ 37,196,206</u>	

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

**Statement of Changes in Fiduciary Net Position – Fiduciary Funds
Year Ended June 30, 2016**

	Private-Purpose Trust Fund	Retiree Benefit Trust Fund (OPEB)
<hr/>		
Additions		
Investment and other income (loss), net of administrative fees	\$ 189	\$ (399,452)
Deductions		
Scholarships awarded	<u>1,050</u>	<u>-</u>
Change in net position	(861)	(399,452)
Net Position		
Beginning	<u>96,989</u>	<u>37,595,658</u>
Ending	<u><u>\$ 96,128</u></u>	<u><u>\$ 37,196,206</u></u>

See Notes to Basic Financial Statements.

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 1. Overview and Summary of Significant Accounting Policies

In Maryland, public schools are part of a statewide system of county school boards. The school boards' political boundaries conform to the county boundaries. The purpose of St. Mary's County Public Schools (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 has oversight responsibility for approval and partial funding of the School System's operating budget.

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

The School System's financial statements are prepared in accordance with 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:

A. 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.

B. Government-Wide Financial Statements

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

In the government-wide statement of net 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.

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

C. 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 purpose. The operations of the Chesapeake Public Charter School are also accounted for in the General Fund.

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 Fund:

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

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

Fiduciary Funds:

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

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

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

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.

D. 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.

E. 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.

F. 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.

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

G. 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.

H. 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.

I. Capital Assets

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

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

J. 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 three items that meet this criterion at June 30, 2016; contributions made to a pension plan in the current fiscal year, the net difference between projected and actual investment earnings on pension plan assets, and changes in actuarial assumptions.

K. 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.

L. Long-Term Debt

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

M. Compensated Absences

The School System accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30. The accrual of sick leave is based on payment upon retirement or death of a maximum of \$3,250 for each non-exempt employee and \$6,200 for each exempt employee, at the regular daily rate of pay if the employee has worked for the school system for 10 years. Sick leave is estimated to be earned once an employee has attained either 55 years of age with 10 years of service in the School System, or 25 years of service with the School System, or 20 years of service in the State of Maryland regardless of age.

Note 1. Overview and Summary of Significant Accounting Policies (Continued)

For governmental funds, the amount of accumulated unpaid vacation and sick leave which is payable from available resources, is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations. As of June 30, 2016, no accumulated unpaid vacation or sick leave had matured, resulting in them being maintained separately and being a reconciling item between the fund and government-wide financial statement presentations.

N. 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 two items that meets this criterion at June 30, 2016; the net difference between projected and actual investment earnings on pension plan assets and the difference in actual and expected experience in pension plan activity.

O. 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.

P. 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, 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.

Q. 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. Effective July 1, 2007, these negotiated agreements provide that the Board will contribute from 45% to 65% 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.

R. 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.

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 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, 2016, all of the School System's deposits, including the certificate of deposit, were either covered by federal depository insurance or were covered by collateral held by the School System's agent in the School System's name.

Short-Term Investments:

Maryland State Law authorizes the School System to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations, the State's sponsored investment pool, or interest bearing accounts in any bank. At June 30, 2016, 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 \$16,048,112, \$407,111, and \$599,051 for governmental activities, business-type activity, and fiduciary responsibilities, respectively.

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, 2016, 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 (OPEB)'s 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. At June 30, 2016, the pooled net position of the MABE Trust was \$234,355,905 in total, of which the School System's allocated investment balance was \$37,196,206. 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.

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 2. Deposits (Continued)

The MABE Trust is audited annually by an independent CPA firm. Since 2010, Arthur Bell and Associates of Hunt Valley, Maryland has performed this service. The audit report is usually issued by September 1st each year, a copy of which 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.

Note 3. Receivables and Payables

Receivables and payables at June 30, 2016, consist of the following:

	Governmental Activities			Total
	General	Capital Projects	Business-Type Activities	
Due from other governments				
Local	\$ 25,150	\$ 1,739,663	\$ -	\$ 1,764,813
State	356,944	1,033,316	16,827	1,407,087
Federal	5,103,135	-	139,943	5,243,078
	<u>\$ 5,485,229</u>	<u>\$ 2,772,979</u>	<u>\$ 156,770</u>	<u>\$ 8,414,978</u>
Other receivables				
Accounts	\$ 135,772	\$ -	\$ 386,217	\$ 521,989
Due from Fiduciary Funds to General Fund reclassified in statement of net position	1,595	-	-	1,595
	<u>\$ 137,367</u>	<u>\$ -</u>	<u>\$ 386,217</u>	<u>\$ 523,584</u>
Accounts payable				
Vendors	\$ 2,041,418	\$ 1,430,356	\$ 115,576	\$ 3,587,350
Contractor retainages	-	970,754	-	970,754
Due from General Fund to Fiduciary Funds reclassified in statement of net position	17,715	-	-	17,715
	<u>\$ 2,059,133</u>	<u>\$ 2,401,110</u>	<u>\$ 115,576</u>	<u>\$ 4,575,819</u>
Due to other governments				
Local	\$ 2,174	\$ -	\$ -	\$ 2,174

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2016, is as follows:

	Balance, June 30, 2015	Additions	Deletions/ Transfers	Balance, June 30, 2016
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,862,240	\$ 773,833	\$ -	\$ 3,636,073
Construction in process	38,670,956	11,873,367	(29,014,551)	21,529,772
	<u>41,533,196</u>	<u>12,647,200</u>	<u>(29,014,551)</u>	<u>25,165,845</u>
Capital assets being depreciated				
Buildings and improvements	345,869,521	26,395,840	-	372,265,361
Furniture and equipment	8,319,043	850,655	(179,335)	8,990,363
Equipment leased under financing agreements	6,676,139	-	-	6,676,139
	<u>360,864,703</u>	<u>27,246,495</u>	<u>(179,335)</u>	<u>387,931,863</u>
Accumulated depreciation for				
Buildings and improvements	(130,220,543)	(8,223,793)	-	(138,444,336)
Furniture and equipment	(9,211,535)	(1,825,152)	160,146	(10,876,541)
	<u>(139,432,078)</u>	<u>(10,048,945)</u>	<u>160,146</u>	<u>(149,320,877)</u>
Governmental activities capital assets, net	<u>\$ 262,965,821</u>	<u>\$ 29,844,750</u>	<u>\$ (29,033,740)</u>	<u>\$ 263,776,831</u>

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 4. Capital Assets (Continued)

	Balance June 30, 2015	Additions	Deletions/ Transfers	Balance June 30, 2016
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,851,824	\$ 18,292	\$ (21,300)	\$ 1,848,816
Accumulated depreciation for				
Furniture and equipment	(1,218,149)	(92,983)	21,300	(1,289,832)
Business-type activities capital assets, net	\$ 633,675	\$ (74,691)	\$ -	\$ 558,984

Depreciation expense was charged in the statement of activities for the year ended June 30, 2016, as follows:

Governmental activities	
Administration	\$ 25,448
Mid-level administration	29,726
Other instructional costs	952,742
Special education	6,869
Student personnel services	682
Student transportation services	103,642
Operation of plant	8,915,760
Maintenance of plant	14,076
	<u>\$ 10,048,945</u>
Business-type activities	
Food services	<u>\$ 92,983</u>

Note 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 at June 30, 2016, of \$2,612,196.

Capital Projects Fund: Unearned revenue consists of prefunding in the amount of \$4,000,000 for construction projects at Spring Ridge Middle School, \$23,994 for funding related to an energy efficient lighting project, and funds received for a removal security deposit to be used either towards the purchase of, or removal of an installed solar generating facility upon the expiration of a solar power purchase agreement in the amount of \$81,837.

Enterprise Fund: Unearned revenue of \$156,576 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2017.

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 6. Interfund Balances

The composition of interfund balances as of June 30, 2016, is as follows:

<u>Payable Fund</u>	Receivable Fund			
	General	Capital Projects	Enterprise	Agency
General	\$ -	\$ 3,732,832	\$ 400,149	\$ 17,715
Capital Projects	-	-	-	-
Private-Purpose Trust	1,595	-	-	-
	<u>\$ 1,595</u>	<u>\$ 3,732,832</u>	<u>\$ 400,149</u>	<u>\$ 17,715</u>

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

Note 7. Long-Term Liabilities

Long-term debt at June 30, 2016, 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, 2016:

	Balance, June 30, 2015	Additions	Deductions	Balance, June 30, 2016	Amounts Due Within One Year
Governmental activities					
Equipment financing agreements	\$ 2,825,673	\$ -	\$ (2,060,224)	\$ 765,449	\$ 460,534
Compensated absences	4,496,779	994,158	(561,072)	4,929,865	504,608
Net OPEB obligation	40,997,310	16,413,000	(6,108,261)	51,302,049	-
Net pension obligation	9,640,511	2,874,098	-	12,514,609	-
	<u>\$ 57,960,273</u>	<u>\$ 20,281,256</u>	<u>\$ (8,729,557)</u>	<u>\$ 69,511,972</u>	<u>\$ 965,142</u>
Business-type activities					
Compensated absences	\$ 151,736	\$ 46,102	\$ (12,009)	\$ 185,829	\$ 14,027

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

During previous years, the School System entered into various lease-purchase agreements to acquire certain office equipment and various student, teacher and administrative computers. These agreements have varying terms consisting of combined monthly payments of \$47,810 and quarterly payments of \$1,824, at interest rates ranging from 3.74% to 7.88%, expiring through April 2020. All items purchased under the lease-purchase agreements are pledged as collateral under the agreements. Principal and interest payments for lease-purchase agreements are recorded as expenditures of the General Fund when due. Principal payments are reported as reductions of long-term obligations in the government-wide financial statements.

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 7. Long-Term Liabilities (Continued)

The future minimum lease payments and the net present value of the minimum lease payments as of June 30, 2016, under these equipment financing agreements are as follows:

Year Ending June 30,

2017	\$	481,160
2018		126,106
2019		103,654
2020		86,379
		<u>797,299</u>
Less amount representing interest		<u>(31,850)</u>
Present value of minimum lease payments	\$	<u>765,449</u>

Note 8. Governmental Fund Balances

Governmental fund balances at June 30, 2016, are summarized as follows:

	General Fund	Capital Projects	Total
Non-spendable			
Prepaid items	\$ 200	\$ -	\$ 200
Restricted for			
Capital projects	-	104,673	104,673
Assigned to			
Purchase orders:			
Administration	426	-	426
Mid-level administration	10,809	-	10,809
Instructional textbooks and supplies	276,589	-	276,589
Other instructional costs	26,309	-	26,309
Student transportation	408,187	-	408,187
Operation of plant	388,484	-	388,484
Maintenance of plant	142,160	-	142,160
Fixed charges	35,339	-	35,339
Total purchase orders	<u>1,288,303</u>	-	<u>1,288,303</u>
Healthcare	4,000,000	-	4,000,000
Wellness – Restricted Fund	1,339,998	-	1,339,998
FY 17 adopted budget	1,500,000	-	1,500,000
FY 17 proposed budget amendment – reading textbooks	2,000,000	-	2,000,000
FY 17 proposed budget amendment – maintenance projects	500,000	-	500,000
Fuel	500,000	-	500,000
Snow / Emergency	500,000	-	500,000
	<u>11,628,301</u>	-	<u>11,628,301</u>
Unassigned, including \$57,566 of the Chesapeake Public Charter School	1,032,203	-	1,032,203
Total fund balances	<u>\$ 12,660,704</u>	<u>\$ 104,673</u>	<u>\$ 12,765,377</u>

Note 9. Risk Management

The School System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disasters. The School System is one of 17 Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Group Insurance Pool (the Pool), a public entity risk pool organized as a trust. The School System pays an annual premium to the Pool for its property, liability, and automobile coverage. Such premiums are actuarially calculated for the Pool as a whole, based on loss data, and are allocated to members based on student enrollment and number and type of vehicles as well as experience modification factors. The Pool is reinsured on a claims-made basis for legal liability, covering claims aggregating \$5 million per district per year.

Additionally, the School System is one of 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 \$475,000 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.

Note 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." 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.

Note 10. Pension Plans (Continued)

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 a Comprehensive Annual Financial Report (CAFR) 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 5% or 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.

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 \$5,726,545 or 4.73% of current covered payroll, and the State of Maryland made contributions on behalf of the School System totaling \$13,152,926 or 10.86% of current covered payroll for fiscal year 2015. The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by 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 Educations' liability was not improperly allocated to other participating government units. Actual employer contributions billed to participating government units for the year ending June 30, 2015, are used as the basis for determining each employer's proportionate share of the net pension liability. At June 30, 2016, the School System reported a liability of \$12,514,609 or 0.06% of the total liability of \$20,781,712,000.

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 10. Pension Plans (Continued)

The School System recognized deferred outflows of resources, deferred inflows of resources, and expense related to pensions as of and for the year ended June 30, 2016, as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
Prior year employees' system pension contributions reversed out of deferred outflows	\$ -	\$ -	\$ 1,269,260
Current year employees' system pension contributions	1,092,326	-	-
Changes in actuarial assumptions	626,455	-	(626,455)
Net difference between projected and actual investment earnings on pension plan assets	1,102,276	-	(1,102,276)
Difference between actual and expected experience	-	256,288	256,288
Net increase in net pension liability from prior year to current year	-	-	2,874,098
Amortization of previous year's changes in actuarial assumptions	(34,864)	-	34,864
Amortization of previous year's difference between projected and actual investment earnings	-	(263,804)	(263,804)
Current year teachers' system pension contributions	-	-	4,634,220
	2,786,193	(7,516)	7,076,195
Previous years unamortized deferred outflows and inflows	139,457	1,055,217	-
	\$ 2,925,650	\$ 1,047,701	\$ 7,076,195

\$1,092,326 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 decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending June 30,	2015 Balance Amortization			2014 Balance Amortization	
	Deferred Outflows		Deferred Inflows	Deferred Outflows	Deferred Inflows
	Net Difference in Investment Earnings	Changes in Assumptions	Actual and Expected Experience	Changes in Assumptions	Net Difference in Investment Earnings
2017	\$ 275,569	\$ 128,636	\$ (52,626)	\$ 34,864	\$ (263,804)
2018	275,569	128,636	(52,626)	34,864	(263,804)
2019	275,569	128,636	(52,626)	34,865	(263,805)
2020	275,569	128,636	(52,626)	-	-
2021	-	111,911	(45,784)	-	-
	\$ 1,102,276	\$ 626,455	\$ (256,288)	\$ 104,593	\$ (791,413)

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 10. Pension Plans (Continued)

Actuarial Methods and Assumptions: The total pension liability of the SRPS in the June 30, 2015, actuarial valuation was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement:

Actuarial	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	In the 2012 actuarial valuation: eight years remaining as of June 30, 2012 for prior UAAL existing on June 30, 2000 and 25 years from each subsequent valuation date for each year's additional UAAL for the State systems and ECS Muni. 27 years for LEOPS Muni, and 34 years for CORS Muni. In the 2013 actuarial valuation: 25 years for the State Systems, 26 years for LEOPS Muni, and 32 years for COR Muni. FOR ECS Muni: seven years remaining for prior UAAL existing on June 30, 2000. 25 years from each subsequent valuation date for each year's additional UAAL.
Asset Valuation Method	Five-year smoothed market; 20% collar
Inflation	In the 2012 actuarial valuation, 3.00% general, 3.5% wage. In the 2013 actuarial valuation 2.95% general, 3.45% wage.
Salary Increases	In the 2012 actuarial valuation, 3.5% to 10.75% including inflation. In the 2013 actuarial valuation, 3.45% to 10.7% including inflation.
Investment Rate of Return	In the 2012 actuarial valuation, 7.75%. In the 2013 actuarial valuation, 7.70%
Discount Rate	7.55%
Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the 2015 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calibrated to MSRPS experience.

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:

St. Mary's County Public Schools

Notes to Basic Financial Statements

Note 10. Pension Plans (Continued)

<u>Asset Class</u>	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	35%	6.3%
Fixed Income	10%	0.6%
Credit Opportunity	10%	3.2%
Real Return	14%	1.8%
Absolute Return	10%	4.2%
Private Equity	10%	7.2%
Real Estate	10%	4.4%
Cash	1%	0.0%
	<u>100%</u>	

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, 2015. For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 2.71%. 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 7.55% 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 7.55%. 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 7.55%, 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 6.65%	Current Discount	1% Increase to 8.65%
School System's proportionate share of the net pension liability	\$ 17,687,481	\$ 12,514,609	\$ 8,225,268

Detailed information about the SRPS' fiduciary net position is available in the separately issued CAFR 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 Basic Financial Statements

Note 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. Effective July 1, 2007, by terms of a negotiated contract with employee associations, the School System partially supports the group insurance plan for retired employees who have been employed by the School System for ten or more years. These negotiated agreements provide that the School System will contribute from 45% to 65% 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.

Membership of the OPEB Plan currently enrolled in medical / drug coverage consisted of the following at July 1, 2014, the date of the actuarial valuation:

Number of Participants

Active employees	1,573
Retirees – pre-medicare*	270
Retirees – post-medicare*	474
	<u>2,317</u>

* Does not include 193 participants who are not enrolled in medical/drug coverage but have life insurance coverage.

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

Funding Policy: The School System contributes the pay as you go portion, along with an annually budgeted prefunding amount of the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of the GASB Codification. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC rate is 13.62% of annual covered payroll. The ARC consisted of the normal cost of \$7,743,000 and the amortization of unfunded accrued liability of \$8,760,000. The School System contributed \$6,108,261 for the year ended June 30, 2016, entirely consisting of contributions towards current healthcare and life insurance premiums accounted for in the general fund with no additional contributions in the current year to prefund future benefits to the retirement benefit trust fund.

Annual OPEB Cost and Net OPEB Obligation: The School System had an actuarial valuation performed as of July 1, 2014, to determine the funded status of the plan as of that date as well as the School System's ARC for the fiscal year ended June 30, 2016. The annual OPEB cost (expense) for the year ended June 30, 2016, was \$16,413,000, which was comprised of the ARC of \$16,503,000 discussed above, less net interest on the net OPEB obligation. A historical trend of the School System's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation is as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 12,515,000	62.48%	\$ 35,641,970
2015	13,550,000	60.48%	40,997,310
2016	16,413,000	37.22%	51,302,049

Funded Status and Funding Progress: As of July 1, 2015, the plan was 19.84% funded. The actuarially accrued liability for benefits was \$199,826,000, and the actuarial value of assets was \$39,645,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$160,181,000. The covered payroll (annual payroll of active employees covered by the plan) was \$121,123,057, and the ratio of UAAL to the covered payroll was 132.25%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the School System are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

In the July 1, 2014, actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used, include (a) a rate of return on the investment of 5.25% per year compounded annually, (b) projected salary increases of 3.50% compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 4.31% to 10.76% per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 8.00% initially, reduced annually to arrive at an ultimate healthcare cost trend of 4.00%, (e) rates of mortality based upon RP 2000 Combined Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.00% to 18.00%, (g) disablement rates based on age, ranging from 0.03% to 0.49%, (h) retirement rates based on age, sex, and length of service, ranging from 2.00% to 45.00%, and (i) medical claims including prescription drugs are based on actual experience during the period from July 1, 2012 through June 30, 2014, and were projected with annual increases of 8.00% for medical claims and 8.00% for prescription drug claims. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 23 years for the year ended June 30, 2016.

Note 12. Commitments and Contingencies

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

School Construction: As of June 30, 2016, 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 \$4,590,976.

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. A deficiency in the billed premium represents the callable margin, which is owed by the School System, up to a maximum of 5%. 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, 2016, management anticipates a net callable margin of \$232,047.

Note 13. New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2016, that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the School System:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and will be effective for the School System beginning with its year ending June 30, 2017. This Statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and will be effective for the School System beginning with its year ending June 30, 2018. Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units*—an amendment of GASB Statement No. 14, is effective for the School System beginning with its year ending June 30, 2017. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, is effective for the School System beginning with its year ending June 30, 2018, and should be applied retroactively. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

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

- GASB Statement No. 82, *Pension Issues*—an amendment of GASB Statements No. 67, No. 68, and No. 73 Effective Date, is effective for the School System beginning with its year ending June 30, 2018. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

REQUIRED SUPPLEMENTARY INFORMATION

St. Mary's County Public Schools

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

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

Actuarial Valuation Date	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b-a) / c]
July 1, 2013	\$ 25,002,000	\$ 146,045,000	\$ 121,043,000	17.12%	\$ 118,651,284	102.02%
July 1, 2014	34,714,382	188,006,000	153,291,618	18.46%	115,255,917	133.00%
July 1, 2015	39,645,000	199,826,000	160,181,000	19.84%	121,123,057	132.25%

See Notes to Required Supplementary Information and Basic Financial Statements.

St. Mary's County Public Schools

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

**Schedule of the Proportionate Share of the Net Pension Liability
Maryland State Retirement and Pension System**

Last Two Fiscal Years **

	2016	2015
School System's proportion of the net pension liability	0.060%	0.054%
Other participating government units' proportion of the net pension liability	5.932%	5.376%
State of Maryland's proportion of the net pension liability	94.008%	94.570%
	<u>100.000%</u>	<u>100.000%</u>
School System's proportionate share of the net pension liability	\$ 12,514,609	\$ 9,640,511
Other participating government units' proportionate share of the net pension liability	1,232,864,730	954,011,441
State of Maryland's proportionate share of the net pension liability	19,536,332,661	16,783,079,048
	<u>\$ 20,781,712,000</u>	<u>\$ 17,746,731,000</u>
School System's covered-employee payroll	\$ 115,255,917	\$ 118,651,284
School System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	10.858%	8.125%
Plan fiduciary net position as a percentage of the total pension liability	68.780%	71.870%

** The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30. In accordance with GASB 68, the above information is not required to be presented retroactively. This schedule will not present 10 years' worth of information until fiscal year 2024.

See Notes to Required Supplementary Information and Basic Financial Statements.

St. Mary's County Public Schools

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

**Schedule of School System Contributions to
Maryland State Retirement and Pension System
Last Five Fiscal Years ****

	2016	2015	2014	2013	2012
Contractually required contributions	\$ 5,726,546	\$ 5,299,971	\$ 4,416,608	\$ 3,626,191	\$ 1,428,621
Actual contributions made:					
Employee systems	1,092,326	1,269,260	1,265,916	1,140,494	1,428,621
Teacher systems	4,634,220	4,030,711	3,150,692	2,485,697	-
	<u>5,726,546</u>	<u>5,299,971</u>	<u>4,416,608</u>	<u>3,626,191</u>	<u>1,428,621</u>
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -
School System's covered- employee payroll	\$ 121,123,057	\$ 115,255,917	\$ 118,651,284	\$ 116,191,213	\$ 114,323,669
Contributions as a percentage of covered-employee payroll	4.728%	4.598%	3.722%	3.121%	1.250%

** In accordance with GASB 68, the above information is not required to be presented retroactively. This schedule will not present 10 years' worth of information until fiscal year 2021.

See Notes to Required Supplementary Information and Basic Financial Statements.

St. Mary's County Public Schools

**Budgetary Comparison Schedule –
General Fund
Year Ended June 30, 2016**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget
	Original	Amended		Favorable (Unfavorable)
Revenues				
Local	\$ 98,015,001	\$ 98,015,001	\$ 98,015,001	\$ -
State of Maryland	99,935,147	99,935,147	100,259,550	324,403
Federal government	17,849,640	17,849,640	13,786,028	(4,063,612)
Tuition	108,161	108,161	68,997	(39,164)
Investment income	8,900	8,900	43,801	34,901
Utilization of fund balance				
Unassigned	-	1,900,000	1,900,000	-
Other	2,214,745	2,214,745	2,913,591	698,846
	<u>218,131,594</u>	<u>220,031,594</u>	<u>216,986,968</u>	<u>(3,044,626)</u>
Expenditures				
Administration	3,343,161	3,378,161	3,318,806	59,355
Mid-level administration	15,382,906	15,414,906	15,133,614	281,292
Instructional salaries	78,006,026	78,164,026	76,911,005	1,253,021
Instructional textbooks and supplies	4,623,567	6,060,591	5,675,530	385,061
Other instructional costs	3,642,006	3,709,690	3,206,201	503,489
Special education	22,407,216	22,407,216	21,322,084	1,085,132
Student personnel services	1,642,062	1,643,787	1,525,888	117,899
Student health services	2,234,659	2,234,659	2,180,332	54,327
Student transportation services	16,325,506	16,325,506	15,601,987	723,519
Operation of plant	16,308,265	16,727,957	15,063,399	1,664,558
Maintenance of plant	3,786,339	3,796,339	3,458,383	337,956
Fixed charges	49,192,076	48,930,951	46,382,239	2,548,712
Community services	526,974	526,974	312,741	214,233
Capital outlay	710,831	710,831	679,869	30,962
	<u>218,131,594</u>	<u>220,031,594</u>	<u>210,772,078</u>	<u>9,259,516</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	6,214,890	<u>\$ 6,214,890</u>
Adjustments to conform with generally accepted accounting principles			(2,050,317)	
Fund Balance				
Beginning			<u>8,496,131</u>	
Ending			<u>\$ 12,660,704</u>	

See Notes to Required Supplementary Information and Basic Financial Statements.

St. Mary's County Public Schools

Notes to Required Supplementary Information

Note 1. Budgets and Budgetary Accounting

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

Operating Budget (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 is not recognized as revenue and current expense.
- 5) Reallocation of the appropriation between budget categories requires the approval of both the Board of Education and the Board of County Commissioners. Reallocations of appropriations of federal programs administered by the state must have state approval. The Superintendent has the authority to make necessary transfers of funds between and within object appropriations.

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

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

St. Mary's County Public Schools

Notes to Required Supplementary Information

Note 2. Reconciliation of Budgetary Basis to GAAP

Actual results of operations are presented in the Budgetary Comparison Schedule on the budget basis of accounting, in order to provide a meaningful comparison of actual results with budget estimates. Under the budget basis, encumbrances are recorded as the equivalent of expenditures, as opposed to only 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 2016 from the budget basis to the GAAP basis, are as follows:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Current Year Effect on Fund Balance
General Fund – budgetary basis	\$ 216,986,968	\$ 210,772,078	\$ -	\$ 6,214,890
Budget to GAAP reconciliation				
Prior year encumbrances outstanding, 6/30/15	-	1,492,074	-	(1,492,074)
Prior year encumbrances canceled	-	(53,454)	-	53,454
Interfund transfers	(91,123)	(91,123)	-	-
Current year encumbrances outstanding, 6/30/16	-	(1,288,303)	-	1,288,303
State retirement contribution	13,152,926	13,152,926	-	-
Fund balance usage	(1,900,000)	-	-	(1,900,000)
	<u>11,161,803</u>	<u>13,212,120</u>	<u>-</u>	<u>(2,050,317)</u>
General Fund – GAAP basis	<u>\$ 228,148,771</u>	<u>\$ 223,984,198</u>	<u>\$ -</u>	<u>\$ 4,164,573</u>

SUPPLEMENTARY INFORMATION

St. Mary's County Public Schools

Combining Budgetary Comparison Schedule – General Fund –
Unrestricted Fund and Restricted Funds
Year Ended June 30, 2016

	Unrestricted Fund				Restricted Funds				Total Combined General Fund			
	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
	Original	Amended	(Budgetary	Budget	Original	Amended	(Budgetary	Budget	Original	Amended	(Budgetary	Budget
			Basis)	Favorable			Basis)	Favorable			Basis)	Favorable
			(Unfavorable)				(Unfavorable)				(Unfavorable)	
Revenues												
Local	\$ 98,015,001	\$ 98,015,001	\$ 98,015,001	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,015,001	\$ 98,015,001	\$ 98,015,001	\$ -
State of Maryland	98,960,950	98,960,950	99,507,078	546,128	974,197	974,197	752,472	(221,725)	99,935,147	99,935,147	100,259,550	324,403
Federal government	2,725,000	2,725,000	2,564,398	(160,602)	15,124,640	15,124,640	11,221,630	(3,903,010)	17,849,640	17,849,640	13,786,028	(4,063,612)
Tuition	50,000	50,000	28,206	(21,794)	58,161	58,161	40,791	(17,370)	108,161	108,161	68,997	(39,164)
Investment income	8,900	8,900	43,801	34,901	-	-	-	-	8,900	8,900	43,801	34,901
Utilization of fund balance												
Unassigned	-	1,900,000	1,900,000	-	-	-	-	-	-	1,900,000	1,900,000	-
Other	697,915	697,915	718,305	20,390	1,516,830	1,516,830	2,195,286	678,456	2,214,745	2,214,745	2,913,591	698,846
	<u>200,457,766</u>	<u>202,357,766</u>	<u>202,776,789</u>	<u>419,023</u>	<u>17,673,828</u>	<u>17,673,828</u>	<u>14,210,179</u>	<u>(3,463,649)</u>	<u>218,131,594</u>	<u>220,031,594</u>	<u>216,986,968</u>	<u>(3,044,626)</u>
Expenditures												
Administration	3,118,279	3,153,279	3,152,692	587	224,882	224,882	166,114	58,768	3,343,161	3,378,161	3,318,806	59,355
Mid-level administration	14,768,025	14,800,025	14,673,936	126,089	614,881	614,881	459,678	155,203	15,382,906	15,414,906	15,133,614	281,292
Instructional salaries	73,485,578	73,643,578	73,642,649	929	4,520,448	4,520,448	3,268,356	1,252,092	78,006,026	78,164,026	76,911,005	1,253,021
Instructional textbooks and supplies	3,481,460	4,918,484	4,904,053	14,431	1,142,107	1,142,107	771,477	370,630	4,623,567	6,060,591	5,675,530	385,061
Other instructional costs	2,583,688	2,651,372	2,550,367	101,005	1,058,318	1,058,318	655,834	402,484	3,642,006	3,709,690	3,206,201	503,489
Special education	17,841,745	17,841,745	17,674,519	167,226	4,565,471	4,565,471	3,647,565	917,906	22,407,216	22,407,216	21,322,084	1,085,132
Student personnel services	1,438,195	1,439,920	1,386,536	53,384	203,867	203,867	139,352	64,515	1,642,062	1,643,787	1,525,888	117,899
Student health services	2,100,417	2,100,417	2,100,097	320	134,242	134,242	80,235	54,007	2,234,659	2,234,659	2,180,332	54,327
Student transportation services	15,135,466	15,135,466	14,605,552	529,914	1,190,040	1,190,040	996,435	193,605	16,325,506	16,325,506	15,601,987	723,519
Operation of plant	15,820,984	16,240,676	14,880,920	1,359,756	487,281	487,281	182,479	304,802	16,308,265	16,727,957	15,063,399	1,664,558
Maintenance of plant	3,762,419	3,772,419	3,444,628	327,791	23,920	23,920	13,755	10,165	3,786,339	3,796,339	3,458,383	337,956
Fixed charges	46,210,679	45,949,554	44,206,079	1,743,475	2,981,397	2,981,397	2,176,160	805,237	49,192,076	48,930,951	46,382,239	2,548,712
Community services	-	-	-	-	526,974	526,974	312,741	214,233	526,974	526,974	312,741	214,233
Capital outlay	710,831	710,831	679,869	30,962	-	-	-	-	710,831	710,831	679,869	30,962
	<u>200,457,766</u>	<u>202,357,766</u>	<u>197,901,897</u>	<u>4,455,869</u>	<u>17,673,828</u>	<u>17,673,828</u>	<u>12,870,181</u>	<u>4,803,647</u>	<u>218,131,594</u>	<u>220,031,594</u>	<u>210,772,078</u>	<u>9,259,516</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>4,874,892</u>	<u>\$ 4,874,892</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,339,998</u>	<u>\$ 1,339,998</u>	<u>\$ -</u>	<u>\$ -</u>	<u>6,214,890</u>	<u>\$ 6,214,890</u>
Adjustments to Conform With Generally Accepted Accounting Principles			(2,050,317)								(2,050,317)	
Fund Balance												
Beginning			<u>8,496,131</u>				<u>-</u>				<u>8,496,131</u>	
Ending			<u>\$ 11,320,706</u>				<u>\$ 1,339,998</u>				<u>\$ 12,660,704</u>	

St. Mary's County Public Schools

Combining Budgetary Comparison Schedule – General Fund –
Unrestricted Fund
Year Ended June 30, 2016

	Unrestricted Fund (excluding Charter School by category)				Unrestricted Fund (Charter School only)				Total Combined Unrestricted Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Favorable (Unfavorable)	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Favorable (Unfavorable)	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Favorable (Unfavorable)
	Original	Amended			Original	Amended			Original	Amended		
Revenues												
Local	\$ 98,015,001	\$ 98,015,001	\$ 98,015,001	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 98,015,001	\$ 98,015,001	\$ 98,015,001	\$ -
State of Maryland	98,960,950	98,960,950	99,507,078	546,128	-	-	-	-	98,960,950	98,960,950	99,507,078	546,128
Federal government	2,725,000	2,725,000	2,564,398	(160,602)	-	-	-	-	2,725,000	2,725,000	2,564,398	(160,602)
Tuition	50,000	50,000	28,206	(21,794)	-	-	-	-	50,000	50,000	28,206	(21,794)
Investment income	8,900	8,900	43,801	34,901	-	-	-	-	8,900	8,900	43,801	34,901
Utilization of fund balance												
Unassigned	-	1,900,000	1,900,000	-	-	-	-	-	-	1,900,000	1,900,000	-
Other	697,915	697,915	718,305	20,390	-	-	-	-	697,915	697,915	718,305	20,390
	<u>200,457,766</u>	<u>202,357,766</u>	<u>202,776,789</u>	<u>419,023</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,457,766</u>	<u>202,357,766</u>	<u>202,776,789</u>	<u>419,023</u>
Expenditures												
Administration	3,118,279	3,153,279	3,152,692	587	-	-	-	-	3,118,279	3,153,279	3,152,692	587
Mid-level administration	14,399,583	14,399,583	14,291,034	108,549	368,442	400,442	382,902	17,540	14,768,025	14,800,025	14,673,936	126,089
Instructional salaries	71,671,681	71,894,681	71,868,243	26,438	1,813,897	1,748,897	1,774,406	(25,509)	73,485,578	73,643,578	73,642,649	929
Instructional textbooks and supplies	3,442,502	4,879,526	4,869,883	9,643	38,958	38,958	34,170	4,788	3,481,460	4,918,484	4,904,053	14,431
Other instructional costs	2,575,828	2,643,512	2,544,557	98,955	7,860	7,860	5,810	2,050	2,583,688	2,651,372	2,550,367	101,005
Special education	17,579,445	17,579,445	17,441,886	137,559	262,300	262,300	232,633	29,667	17,841,745	17,841,745	17,674,519	167,226
Student personnel services	1,438,195	1,438,195	1,385,451	52,744	-	1,725	1,085	640	1,438,195	1,439,920	1,386,536	53,384
Student health services	2,048,371	2,048,371	2,048,053	318	52,046	52,046	52,044	2	2,100,417	2,100,417	2,100,097	320
Student transportation services	14,995,466	14,995,466	14,468,302	527,164	140,000	140,000	137,250	2,750	15,135,466	15,135,466	14,605,552	529,914
Operation of plant	15,275,564	15,670,856	14,322,390	1,348,466	545,420	569,820	558,530	11,290	15,820,984	16,240,676	14,880,920	1,359,756
Maintenance of plant	3,762,419	3,762,419	3,439,214	323,205	-	10,000	5,414	4,586	3,762,419	3,772,419	3,444,628	327,791
Fixed charges	45,574,242	45,316,242	43,582,529	1,733,713	636,437	633,312	623,550	9,762	46,210,679	45,949,554	44,206,079	1,743,475
Community services	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	710,831	710,831	679,869	30,962	-	-	-	-	710,831	710,831	679,869	30,962
	<u>196,592,406</u>	<u>198,492,406</u>	<u>194,094,103</u>	<u>4,398,303</u>	<u>3,865,360</u>	<u>3,865,360</u>	<u>3,807,794</u>	<u>57,566</u>	<u>200,457,766</u>	<u>202,357,766</u>	<u>197,901,897</u>	<u>4,455,869</u>
Net change in fund balances	<u>\$ 3,865,360</u>	<u>\$ 3,865,360</u>	<u>8,682,686</u>	<u>\$ 4,817,326</u>	<u>\$ (3,865,360)</u>	<u>\$ (3,865,360)</u>	<u>\$ (3,807,794)</u>	<u>\$ 57,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>4,874,892</u>	<u>\$ 4,874,892</u>
Adjustments to Conform With Generally Accepted Accounting Principles			(2,050,317)				-				(2,050,317)	
Charter School funding			(3,865,360)				3,865,360				-	
Fund Balance												
Beginning			<u>8,496,131</u>				<u>-</u>				<u>8,496,131</u>	
Ending			<u>\$ 11,263,140</u>				<u>\$ 57,566</u>				<u>\$ 11,320,706</u>	

St. Mary's County Public Schools

**Statement of Revenues, Expenses, and Changes in Net Position –
Proprietary Fund – Budget vs. Actual
Year Ended June 30, 2016**

	Amended Budget	Actual	Variance With Amended Budget Favorable (Unfavorable)
Revenues			
Food service sales	\$ 3,338,522	\$ 2,728,159	\$ (610,363)
Federal grants and commodities	3,925,000	4,075,803	150,803
State matching and other	256,000	247,552	(8,448)
Local contribution	-	8,166	8,166
Interest income	1,000	786	(214)
	<u>7,520,522</u>	<u>7,060,466</u>	<u>(460,056)</u>
Expenses			
Payroll costs	3,886,337	3,664,265	222,072
Professional and contract services	47,000	57,049	(10,049)
Supplies and materials	3,287,045	3,256,121	30,924
Depreciation	80,000	92,983	(12,983)
Other operating costs	220,140	65,869	154,271
	<u>7,520,522</u>	<u>7,136,287</u>	<u>384,235</u>
Change in net position	<u>\$ -</u>	<u>(75,821)</u>	<u>\$ (75,821)</u>
Net Position			
Beginning		<u>1,809,451</u>	
Ending		<u>\$ 1,733,630</u>	

St. Mary's County Public Schools

**Schedule of Changes in Cash and Cash Equivalents –
School Activity Funds
Year Ended June 30, 2016**

	School Activity Accounts Balance, July 1, 2015	Additions	Deductions	School Activity Accounts Balance, June 30, 2016
School – Checking				
Benjamin Banneker Elementary	\$ 6,649	\$ 100,248	\$ (92,230)	\$ 14,667
Capt. W.F. Duke Elementary	255	96,926	(73,604)	23,577
Chesapeake Public Charter School	37,845	80,100	(85,737)	32,208
Chopticon High School	188,608	637,406	(621,579)	204,435
Dr. James A. Forrest Career & Technology Center	52,949	234,401	(243,782)	43,568
Dynard Elementary	29,739	43,885	(39,393)	34,231
Esperanza Middle	58,840	102,302	(93,902)	67,240
Evergreen Elementary	31,770	79,646	(70,126)	41,290
Fairlead Academy	1,517	14,168	(13,389)	2,296
G.W. Carver Elementary	12,683	41,202	(37,323)	16,562
Great Mills High School	52,005	377,134	(401,710)	27,429
Green Holly Elementary	8,828	36,548	(33,016)	12,360
Greenview Knolls Elementary	10,925	48,851	(46,932)	12,844
Hollywood Elementary	616	61,068	(60,096)	1,588
L.M. Dent Elementary	27,114	110,576	(113,454)	24,236
LBO-Sunshine Fund	1,416	372	(797)	991
Leonardtown Elementary	13,471	77,260	(83,321)	7,410
Leonardtown High School	80,080	661,255	(622,622)	118,713
Leonardtown Middle	37,035	111,288	(121,318)	27,005
Lexington Park Elementary	9,122	36,703	(33,110)	12,715
Loveville Bd. Office	732	967	(1,193)	506
Margaret Brent Middle	29,488	108,439	(111,051)	26,876
Mechanicsville Elementary	17,664	80,992	(74,994)	23,662
MGA-MUN	3,768	2,002	(1,732)	4,038
Oakville Elementary	13,722	29,380	(22,733)	20,369
Park Hall Elementary	5,124	53,636	(53,339)	5,421
Piney Point Elementary	53,358	87,056	(69,853)	70,561
Pupil Services	3,321	3,684	(4,145)	2,860
Ridge Elementary	7,788	41,446	(31,986)	17,248
SMASC	3,728	170	-	3,898
Spring Ridge Middle	28,760	217,491	(207,504)	38,747
TLPD-LMS Sunshine Fund	-	945	(553)	392
Town Creek Elementary	14,126	18,093	(19,215)	13,004
White Marsh Elementary	13,379	49,436	(44,800)	18,015
	856,425	3,645,076	(3,530,539)	970,962

(Continued)

St. Mary's County Public Schools

**Schedule of Changes in Cash and Cash Equivalents –
School Activity Funds (Continued)
Year Ended June 30, 2016**

	School Activity Accounts Balance, July 1, 2015	Additions	Deductions	School Activity Accounts Balance, June 30, 2016
School – Savings				
Benjamin Banneker Elementary	\$ 2,726	\$ 3	\$ -	\$ 2,729
G.W. Carver Elementary	-	300	-	300
Chopticon High School	97,963	536	-	98,499
Dr. James A. Forrest Career & Technology Center	70,000	379	(379)	70,000
Park Hall Elementary	844	14	-	858
	<u>171,533</u>	<u>1,232</u>	<u>(379)</u>	<u>172,386</u>
School – MLGIP (Maryland Local Government Investment Pool)				
Benjamin Banneker Elementary	-	-	-	-
Dr. James A. Forrest Career & Technology Center	37,150	72	-	37,222
Dynard Elementary	5,108	10	-	5,118
Esperanza Middle	6,236	12	-	6,248
G.W. Carver Elementary	1,867	-	(1,868)	(1)
Great Mills High School	171,085	331	-	171,416
Green Holly	4,363	2,012	-	6,375
Greenview Knolls Elementary	18,204	35	-	18,239
Hollywood Elementary	12,556	21	(2,000)	10,577
L.M. Dent Elementary	1,423	3	-	1,426
Leonardtown Elementary	5,315	10	-	5,325
Leonardtown High School	146,373	283	-	146,656
Leonardtown Middle	15,406	30	-	15,436
Margaret Brent Middle	41,599	81	-	41,680
MGA-MUN	2,630	5	-	2,635
Oakville Elementary	1,261	2	-	1,263
Park Hall Elementary	5,205	10	-	5,215
Piney Point Elementary	8,288	16	-	8,304
Shoe Fund	816	2	-	818
SMASC	262	1	-	263
Spring Ridge Middle	9,992	19	(300)	9,711
Town Creek Elementary	3,102	6	-	3,108
White Marsh Elementary	4,286	8	-	4,294
	<u>502,527</u>	<u>2,969</u>	<u>(4,168)</u>	<u>501,328</u>
Total	\$ 1,530,485	\$ 3,649,277	\$ (3,535,086)	\$ 1,644,676

SINGLE AUDIT

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance With *Government Auditing Standards***

Members of the Board of Education
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, 2016, 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, 2016.

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.

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.

RSM US LLP

Frederick, Maryland
September 28, 2016

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited St. Mary's County Public School's (the School System) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the School System's major federal programs for the year ended June 30, 2016. The School System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the School System's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the School System's compliance.

Opinion on Each Major Federal Program

In our opinion, the School System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the School System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the School System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School System's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Frederick, Maryland
September 28, 2016

St. Mary's County Public Schools

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/15	Cash Received FY 2016	FY '16 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/16
<u>U.S. Department of Agriculture:</u>									
Passed through the <u>Maryland State Dept of Education:</u>									
USDA Commodities	10.555		7/1/2015 - 6/30/2016	\$ 400,000	\$ -	\$ 447,905	\$ 447,905	\$ -	\$ -
Summer Food Program	10.559		7/1/2014 - 6/30/2015	26,000	3,934	3,934	-	-	-
Summer Food Program	10.559		7/1/2015 - 6/30/2016	25,000	-	35,924	44,618	-	8,694
Breakfast	10.553		7/1/2014 - 6/30/2015	975,000	69,916	69,916	-	-	-
Breakfast	10.553		7/1/2015 - 6/30/2016	975,000	-	1,018,602	1,060,650	-	42,048
Lunch (Sec 4 & 11)	10.555		7/1/2014 - 6/30/2015	2,500,000	157,413	157,413	-	-	-
Lunch (Sec 4 & 11)	10.555		7/1/2015 - 6/30/2016	2,500,000	-	2,395,203	2,484,201	-	88,998
Federal Snack Program	10.555		7/1/2014 - 6/30/2015	30,000	436	436	-	-	-
Federal Snack Program	10.555		7/1/2015 - 6/30/2016	25,000	-	36,227	36,429	-	202
Total Child Nutrition Cluster				7,456,000	231,699	4,165,560	4,073,803	-	139,942
Team Nutrition Grant	10.574		7/1/2013 - 9/30/2014	2,000	-	2,000	2,000	-	-
Total U.S. Department of Agriculture				7,458,000	231,699	4,167,560	4,075,803	-	139,942
<u>U.S. Department of Defense:</u>									
<u>Direct Program:</u>									
ROTC Navy	12.357		7/1/2014 - 6/30/2015	70,000	19,426	19,426	-	-	-
ROTC Navy	12.357		7/2/2015 - 6/30/2016	70,000	-	52,808	72,936	-	20,128
ROTC Air Force	12.357		7/1/2014 - 6/30/2015	43,000	-	-	-	-	-
ROTC Air Force	12.357		7/1/2015 - 6/30/2016	43,000	-	56,005	56,005	-	-
Total Program				226,000	19,426	128,239	128,941	-	20,128
Public Law 102-484	12.558		7/1/2014 - 6/30/2015	412,000	298,675	298,675	-	-	-
Public Law 102-484	12.558		7/1/2015 - 6/30/2016	412,000	-	-	429,495	-	429,495
Total Program				824,000	298,675	298,675	429,495	-	429,495
STEM - Project Based Learning	12.556	HE1254-12-1-0043	9/25/2012 - 8/31/2016	2,500,000	388,960	406,924	23,689	-	5,725
Total U.S. Department of Defense				3,550,000	707,061	833,838	582,125	-	455,348
<u>U.S. Department of Justice:</u>									
Passed through the <u>Juvenile Drug Court</u>									
Mentoring Programs	16.726	2010-DC-BX-0007	10/1/2010 - 6/30/2014	44,442	6,039	6,039	-	-	-

(Continued)

St. Mary's County Public Schools

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2016

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/15	Cash Received FY 2016	FY '16 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/16
U.S. Department of Education:									
Passed through the Maryland State Dept. of Education:									
Adult Education & Lit Services (ABE/ESL) (343)	84.002A	POOP4400146.03	7/1/2013 - 6/30/2014	\$ 37,912	\$ 9,184	\$ 9,482	\$ -	\$ 298	\$ -
Adult Education & Lit Services (ASE) (344)	84.002A	POOP4400146.04	7/1/2013 - 6/30/2014	4,676	600	1,928	-	1,328	-
Adult Education & Lit Services (Local Ins.) (348)	84.002A	POOP4400146.05	7/1/2013 - 6/30/2014	4,622	282	859	-	577	-
Adult Education & Lit Services (FL) (345)	84.002A	POOP4400146.06	7/1/2013 - 6/30/2014	6,847	282	1,785	-	1,503	-
Total Program				54,057	10,348	14,054	-	3,706	-
E.C.I.A. Title I	84.010	144473.01	7/1/2013 - 6/30/2015	2,301,122	42,650	42,650	-	-	-
E.C.I.A. Title I	84.010	154369.01	7/1/2014 - 6/30/2016	2,421,571	464,384	863,721	563,183	-	163,846
E.C.I.A. Title I	84.010	165606.01	7/1/2014 - 9/30/2016	1,318	-	-	-	-	-
E.C.I.A. Title I	84.010	165107.01	7/1/2015 - 6/30/2017	2,395,240	-	1,115,128	1,911,028	-	795,900
E.C.I.A. Title I Approaching Target	84.010	154985.01	7/1/2014 - 10/31/2015	19,520	1,477	9,825	8,389	-	41
E.C.I.A. Title I Focus	84.010	144803.01	7/1/2013 - 10/31/2014	150,950	(22)	-	-	22	-
E.C.I.A. Title I Focus	84.010	154924.01	7/1/2014 - 10/31/2015	22,643	-	-	-	-	-
E.C.I.A. Title I Focus	84.010	154998.01	7/1/2014 - 10/31/2015	128,308	29,867	69,500	39,618	-	(15)
E.C.I.A. Title I Focus	84.010	165152.01	7/1/2015 - 6/30/2017	240,000	-	83,693	95,291	-	11,598
Total Program				7,680,672	538,356	2,184,517	2,617,509	22	971,370
SPED Pass Thru	84.027	154206.01	7/1/2014 - 9/30/2015	3,280,351	1,062,901	1,171,148	108,247	-	-
SPED Pass Thru	84.027	164700.01	7/1/2015 - 9/30/2017	3,242,991	-	1,531,382	3,242,991	-	1,711,609
SPED Pass Thru Parent Placed	84.027	154206.02	7/1/2014 - 9/30/2015	42,129	2,865	2,000	-	-	865
SPED Pass Thru Parent Placed	84.027	164700.02	7/1/2015 - 9/30/2017	52,599	-	51,891	52,599	-	708
SPED One-Time Supplemental	84.027	145367.01	5/15/2014 - 8/31/2015	39,107	1,804	1,941	137	-	-
Local Flexibility	84.027	154206.06	7/1/2014 - 9/30/2015	107,243	4,756	19,307	14,551	-	-
Local Flexibility	84.027	164700.04	7/1/2015 - 9/30/2016	113,085	-	84,274	102,130	-	17,856
SPED SEAC	84.027	144268.05	7/1/2013 - 9/30/2014	2,500	(363)	-	-	363	-
SPED SEAC	84.027	154206.05	7/1/2014 - 9/30/2015	2,500	515	1,885	1,370	-	-
SPED SEAC	84.027	164700.03	7/1/2015 - 9/30/2016	2,500	-	1,081	1,885	-	804
NASDE	84.027	164699.03	7/1/2015 - 8/31/2016	600	-	540	600	-	60
National Center & State Collaborative	84.027	155539.01	3/31/2015 - 8/31/2015	14,207	(2,200)	5,143	7,343	-	-
R4K Preschool	84.027	155407.01	1/7/2015 - 9/30/2015	10,125	(613)	6,510	7,123	-	-
Infants & Toddlers Program	84.027	144231.05	7/1/2013 - 6/30/2015	80,815	774	774	-	-	-
Infants & Toddlers Program	84.027	154242.02	7/1/2014 - 6/30/2016	56,869	2,959	45,693	45,380	-	2,646
Infants & Toddlers Program	84.027	164436.01	7/1/2015 - 9/30/2016	51,542	-	812	820	-	8
Infants & Toddlers Program	84.027	164439.01	7/1/2015 - 8/31/2016	25,163	-	19,177	20,569	-	1,392
Infants & Toddlers Program Supplement	84.027A	164954.01	9/1/2015 - 12/31/2015	10,000	-	10,000	10,000	-	-
IDEA Discretionary One - Time Supplemental	84.027	145289.01	5/15/2014 - 8/31/2015	19,092	2,176	6,228	4,052	-	-
IDEA Discretionary One - Time Supplemental (3 to 21)	84.027	164699.01	7/1/2015 - 8/31/2016	38,645	-	30,730	31,206	-	476
IDEA Discretionary One - Time Supplemental (3 to K)	84.027	164699.02	7/1/2015 - 8/31/2016	19,339	-	12,685	16,049	-	3,364
NCSC Assessments	84.027	PO ROOP5402335	3/11/2015 - 7/31/2015	11,800	296	6,055	5,759	-	-

(Continued)

St. Mary's County Public Schools

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2016

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/15	Cash Received FY 2016	FY '16 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/16
IDEA Pre-school	84.173	154206.03	7/1/2014 - 9/30/2015	\$ 108,771	\$ 21,899	\$ 39,030	\$ 17,131	\$ -	\$ -
IDEA Pre-school	84.173	164697.01	7/1/2015 - 9/30/2017	109,734	-	66,647	109,734	-	43,087
R4K Preschool	84.173	155407.02	1/7/2015 - 9/30/2015	10,125	(1,519)	1,497	3,016	-	-
Infants & Toddlers Program	84.173	144231.03	7/1/2013 - 6/30/2015	7,000	2,000	2,000	-	-	-
Infants & Toddlers Program	84.173	154242.03	7/1/2014 - 6/30/2016	7,000	(1,420)	3,104	6,320	-	1,796
Infants & Toddlers Program	84.173	164437.01	7/1/2015 - 9/30/2016	7,000	-	831	2,142	-	1,311
Infants & Toddlers Program	84.173	164437.02	7/1/2015 - 9/30/2016	4,199	-	2,014	4,199	-	2,185
Total Special Education Cluster (IDEA)				7,477,031	1,096,830	3,124,379	3,815,353	363	1,788,167
<u>Direct Program:</u>									
Impact Aid	84.041		7/1/2014 - 6/30/2015	2,200,000	-	-	-	-	-
Impact Aid	84.041		7/1/2015 - 6/30/2016	2,200,000	-	2,005,962	2,005,962	-	-
Total Program				4,400,000	-	2,005,962	2,005,962	-	-
Passed through the Maryland State Dept. of Education:									
Perkins (Program Improvement)	84.048	154672.01	7/1/2014 - 6/30/2015	148,861	12,490	12,490	-	-	-
Perkins (Program Improvement)	84.048	165085.01	7/1/2015 - 6/30/2016	145,839	-	113,716	139,196	-	25,480
Perkins (Program Improvement)	84.048	165011.01	7/1/2015 - 6/30/2016	8,948	-	8,948	8,948	-	-
Total Program				303,648	12,490	135,154	148,144	-	25,480
Summer Job Experiences	84.126	164344.01	7/1/2015 - 8/30/2015	10,000	-	7,411	7,411	-	-
Summer Job Experiences	84.126	165665.01	5/15/2016 - 8/01/2016	13,535	-	-	1,393	-	1,393
Total Program				23,535	-	7,411	8,804	-	1,393
Infants & Toddlers Program	84.181	144231.01	7/1/2013 - 6/30/2015	91,900	900	900	-	-	-
Infants & Toddlers Program	84.181	154242.01	7/1/2014 - 6/30/2016	98,836	46,361	65,761	19,250	-	(150)
Infants & Toddlers Program	84.181	164435.01	7/1/2015 - 9/30/2016	108,374	-	26,856	108,374	-	81,518
Infants & Toddlers Program	84.181	164435.02	7/1/2015 - 9/30/2017	10,000	-	-	-	-	-
Total Program				309,110	47,261	93,517	127,624	-	81,368
Homeless Education	84.196a	155372.01	7/1/2014 - 12/31/2015	60,170	14,768	51,145	36,377	-	-
Homeless Education	84.196a	165250.01	7/1/2015 - 12/31/2016	59,137	-	14,500	39,271	-	24,771
Total Program				119,307	14,768	65,645	75,648	-	24,771
21st Century Learning Centers	84.287	155012.01	7/1/2014 - 9/30/2015	121,884	37,791	76,432	38,641	-	-
21st Century Learning Centers	84.287	155386.01	2/1/2015 - 8/30/2015	143,476	22,013	102,000	89,134	-	9,147
21st Century Learning Centers	84.287	155235.01	7/1/2014 - 8/30/2015	292,400	24,241	37,906	13,665	-	-
21st Century Learning Centers	84.287	165203.01	9/1/2015 - 8/30/2016	121,884	-	58,258	104,940	-	46,682
21st Century Learning Centers	84.287	165509.01	9/1/2015 - 8/31/2016	22,911	-	22,911	22,911	-	-
21st Century Learning Centers	84.287	165199.01	9/1/2015 - 8/30/2016	212,241	-	50,151	118,695	-	68,544
21st Century Learning Centers	84.287	165201.01	9/1/2015 - 8/30/2016	384,261	-	250,325	360,898	-	110,573
Total Program				1,299,057	84,045	597,983	748,884	-	234,946

(Continued)

St. Mary's County Public Schools

Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2016

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/15	Cash Received FY 2016	FY '16 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/16
Title III	84.365A	144591.01	7/1/2013 - 9/30/2015	\$ 25,592	\$ 12,113	\$ 15,696	\$ 3,583	\$ -	\$ -
Title III	84.365A	154438.01	7/1/2014 - 9/30/2016	31,627	(6,914)	10,363	29,829	-	12,552
Title III	84.365A	164306.01	7/1/2015 - 9/30/2017	34,423	-	-	22,089	-	22,089
Title III Supplemental	84.365B	164269.01	7/1/2015 - 9/30/2016	28,337	-	28,005	28,337	-	332
Title III (Immigrant)	84.365A	144591.02	7/1/2013 - 9/30/2015	5,465	465	465	-	-	-
Title III (Immigrant)	84.365A	154438.02	7/1/2014 - 9/30/2016	5,062	(2,938)	-	-	-	(2,938)
Title III (Immigrant)	84.365A	164306.02	7/1/2015 - 9/30/2017	4,997	-	-	4,997	-	4,997
Total Program				135,503	2,726	54,529	88,835	-	37,032
Title II Part A	84.367	144776.01	7/1/2013 - 6/30/2015	601,447	346,934	346,934	-	-	-
Title II Part A	84.367	154946.01	7/1/2014 - 6/30/2016	600,139	(71,729)	54,657	397,077	-	270,691
Title II Part A	84.367	165272.01	7/1/2015 - 6/30/2017	598,290	-	-	321,032	-	321,032
Title II Part A	84.367	164761.01	7/1/2015 - 6/30/2016	194	-	194	194	-	-
Total Program				1,800,070	275,205	401,785	718,303	-	591,723
ARRA RTTT - Assessment System	84.395	154639.01	10/11/2013 9/30/2014	281,711	151,975	151,975	-	-	-
ARRA RTTT - College and Career Readiness	84.395	155622.01	2/1/2015 3/31/2015	12,854	7,704	12,854	5,150	-	-
Total Program				294,565	159,679	164,829	5,150	-	-
ARRA RTTT - R4K Preschool	84.412	155407.03	1/7/2015 - 10/31/2015	6,750	-	4,854	4,854	-	-
Judy Center Expansion	84.419B	164582.01	7/1/2015 - 6/30/2016	50,662	-	26,855	50,662	-	23,807
Preschool Development	84.419B	165735.01	6/1/2016 - 6/30/2017	146,880	-	-	-	-	-
Total Program				197,542	-	26,855	50,662	-	23,807
Total U.S. Department of Education:				24,100,847	2,241,708	8,881,474	10,415,732	4,091	3,780,057
U.S. Department of Health and Human Services:									
Passed through the Maryland State Dept. of Education:									
Judy Center Expansion	93.575	165841.01	7/1/2015 - 9/30/2016	114,338	-	-	17,743	-	17,743
<u>Direct Program</u>									
Office of Head Start	93.600	03CH3375/04	7/1/2013 - 6/30/2018	2,249,443	-	-	575,525	-	575,525
Office of Head Start	93.600	03CH3375/03	7/1/2013 - 6/30/2018	2,249,443	634,043	2,238,823	1,604,780	-	-
Office of Head Start	93.600	03CH3375/02	7/1/2013 - 6/30/2018	2,249,443	638,576	638,576	-	-	-
Office of Head Start	93.600	03CH3375/01	7/1/2013 - 6/30/2018	1,553,643	-	-	-	-	-
Office of Head Start	93.600	03CH3375/01	6/1/2013 - 6/30/2018	97,338	-	-	-	-	-
Total Program				8,399,310	1,272,619	2,877,399	2,180,305	-	575,525

(Continued)

St. Mary's County Public Schools

**Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2016**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/15	Cash Received FY 2016	FY '16 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/16
Passed through the Maryland State Dept. of Education:									
Medical Assistance	93.778	N/A	7/1/2015 - 6/30/2016	\$ 1,441,445	\$ (1,257,427)	\$ 986,328	\$ 590,123	\$ -	\$ (1,653,632)
Total U.S. Department of Health and Human Services				9,955,093	15,192	3,863,727	2,788,171	-	(1,060,364)
Total Expenditures of Federal Awards				\$ 45,108,382	\$ 3,201,699	\$ 17,752,638	\$ 17,861,831	\$ 4,091	\$ 3,314,983

See Notes to the Schedule of Expenditures of Federal Awards.

St. Mary's County Public Schools

Notes to the Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes all of the federal grant activity for St. Mary's County Public Schools (the School System) under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School System, it is not intended to and does not present the financial position, changes in net position or cash flows of the School System

Note 2. Summary of Significant Accounting Policies

The Schedule has been prepared on the modified accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when expenditures are made in accordance with the requirements of the respective grants. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Certain grants are subject to indirect cost allocations. Under 2 CFR 200.414, entities are allowed to use a 10% de minimis indirect cost rate. However, the School System was required to use an indirect allocation rate of 0.97% for the year ended June 30, 2016 which was approved by the Maryland State Department of Education.

Note 3. Program Exclusions

Medical assistance received under CFDA No. 93.778 has been included in the Schedule but is not subject to single audit testing as funding is received under a vendor-type relationship, thus is excluded from major program determination.

St. Mary's County Public Schools

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiency(es) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(es) identified? Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516 (a)? Yes X No

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.041	Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X Yes No

Section II – Financial Statement Findings

No matters were reported.

Section III – Findings and Questioned Costs for Federal Awards

No matters were reported.

St. Mary's County Public Schools

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016**

No matters were reported in the prior year.