

ST. MARY'S COUNTY PUBLIC SCHOOLS

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

For the Year Ended June 30, 2017



JUNE 30, 2017

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

Report on the 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, 2017, 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

The School System's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.



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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, 2017, 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 - Schedule of the Proportionate Share of the Net Pension Liability - Maryland State Retirement and Pension System, Schedule of School System Contributions to Maryland State Retirement and Pension System, Schedule of Funding Progress – OPEB Plan, Schedule of Changes in the School System's Net OPEB Liability and Related Ratios, Schedule of School System's Contributions - OPEB, Schedule of Investment Returns - OPEB, and Notes to the Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. 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 64 through 68 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 73 through 77 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 27, 2017, 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.

Hunt Valley, Maryland
September 27, 2017

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2017

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, 2017. This is to be read in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- The financial status of the School System increased slightly this year. Net change in fund balance of the Governmental Funds increased by \$37,993 (see page 20).
- The net investments in capital assets decreased by \$6.0 million.
- Budgetary savings were recognized in the unrestricted funds due to utility/fuel savings, an increase in MSDE reimbursement for non-public placements, and a pharmaceutical rebate of approximately \$1 million.

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.

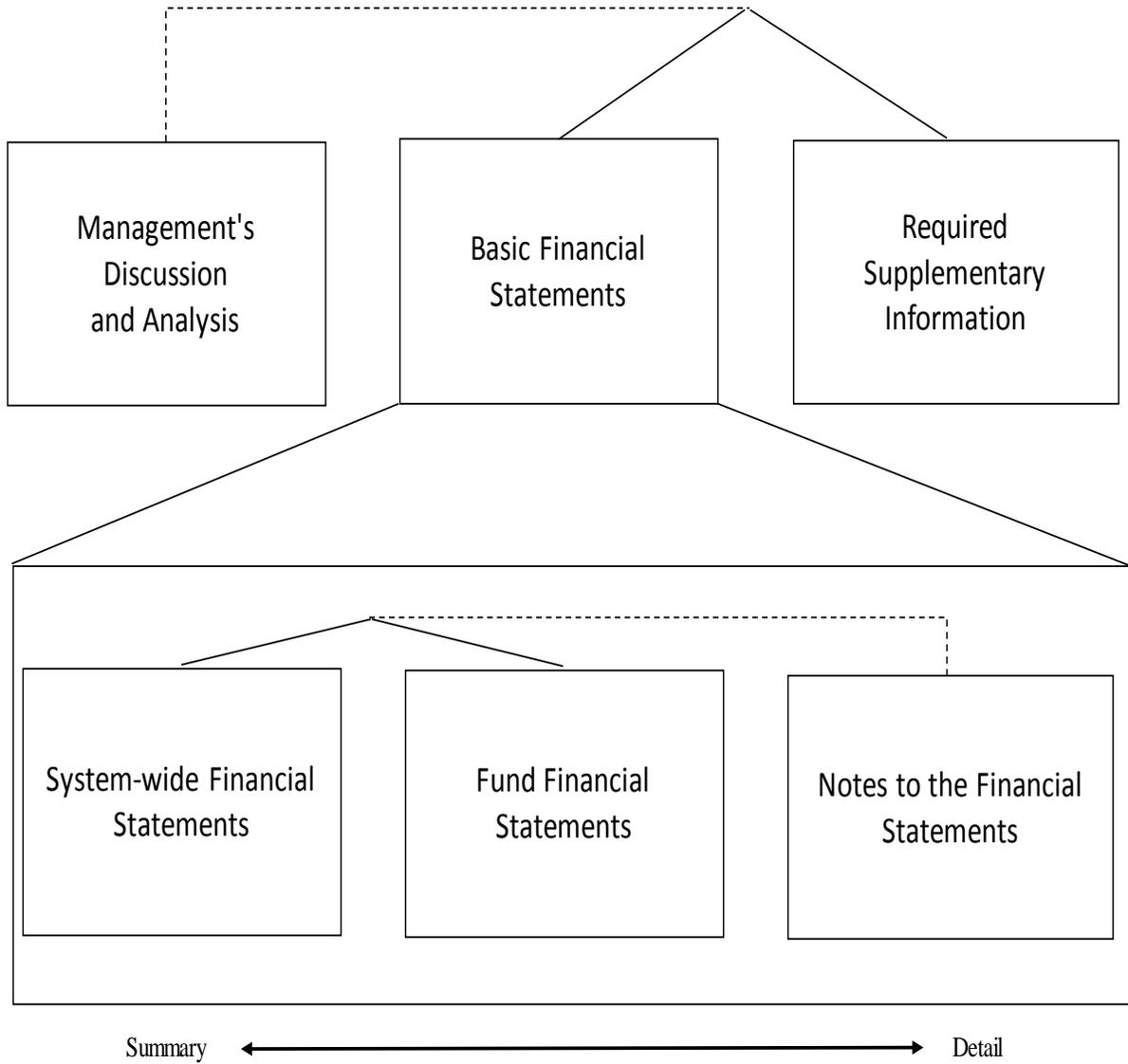
- The first two statements are system-wide financial statements that provide both short-term and long-term information about the School System's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School System's operations. These statements 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Management's Discussion and Analysis
June 30, 2017**

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



ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2017

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	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	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses, and changes in net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities includes	All assets and liabilities; both financial and capital, and short-term and long-term	All assets and liabilities; both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods and services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2017

System-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2017

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 \$20.9 million, or 10%, which came predominantly from an increase in OPEB liabilities (see page 17).

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2017

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

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2017	2016	2017	2016	2017	2016	
Current and other assets	\$ 39.3	\$ 40.5	\$ 2.0	\$ 1.9	\$ 41.2	\$ 42.4	-2.8%
Capital assets	257.8	263.8	0.5	0.5	258.3	264.3	-2.3%
Total Assets	297.1	304.3	2.5	2.4	299.5	306.7	-2.3%
Deferred outflows	3.3	2.9	-	-	3.3	2.9	13.0%
Liabilities							
Long-term outstanding	85.5	69.5	0.2	0.2	85.7	69.7	22.9%
Other liabilities	26.5	27.8	0.6	0.5	27.0	28.3	-4.6%
Total Liabilities	112.0	97.3	0.7	0.7	112.7	98.0	15.0%
Deferred inflows	0.3	1.0	-	-	0.3	1.0	-65.1%
Net Position							
Net investment in capital assets	257.5	263.0	0.5	0.6	258.0	263.6	-2.1%
Restricted	0.1	0.1	-	-	0.1	0.1	5.8%
Unrestricted	(69.6)	(54.2)	1.2	1.1	(68.3)	(53.1)	28.7%
Total Net Position	\$ 188.0	\$ 208.9	\$ 1.7	\$ 1.7	\$ 189.7	\$ 210.6	-9.9%

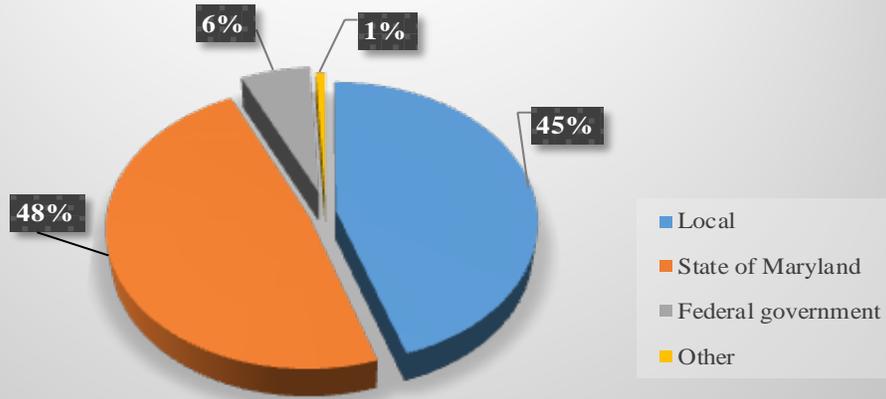
**Figure A-4
Condensed Statement of Net Activities (in millions of dollars)**

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2017	2016	2017	2016	2017	2016	
Revenue							
Program revenues:							
Charges for services	\$ 0.2	\$ 0.2	\$ 2.5	\$ 2.7	\$ 2.7	\$ 2.9	-7.4%
Operating grants and contributions	39.6	39.7	4.3	4.3	43.8	44.0	-0.4%
Capital grants and contributions	5.3	11.4	-	-	5.3	11.4	-53.1%
General revenues:							
County	102.7	98.0	-	-	102.7	98.0	4.8%
State	88.0	86.9	-	-	88.0	86.9	1.3%
Federal	2.7	2.6	-	-	2.7	2.6	3.5%
Other	1.0	0.7	-	-	1.0	0.7	43.1%
Total Revenue	239.5	239.5	6.7	7.0	246.3	246.5	-0.1%
Expenses							
Administrative	20.2	18.4	-	-	20.2	18.4	10.0%
Instruction	90.4	85.2	-	-	90.4	85.2	6.1%
Special education	22.1	21.3	-	-	22.1	21.3	3.8%
Student personnel & health services	4.0	3.7	-	-	4.0	3.7	7.8%
Transportation	15.9	15.2	-	-	15.9	15.2	4.8%
Operations & maintenance	29.1	28.7	-	-	29.1	28.7	1.5%
Fixed charges	78.1	71.6	-	-	78.1	71.6	9.1%
Other	0.6	0.4	6.8	7.1	7.3	7.5	-2.5%
Total Expenses	260.4	244.5	6.8	7.1	267.2	251.6	6.2%
Change in Net Position	\$ (20.9)	\$ (5.0)	\$ (0.0)	\$ (0.1)	\$ (20.9)	\$ (5.1)	310.4%

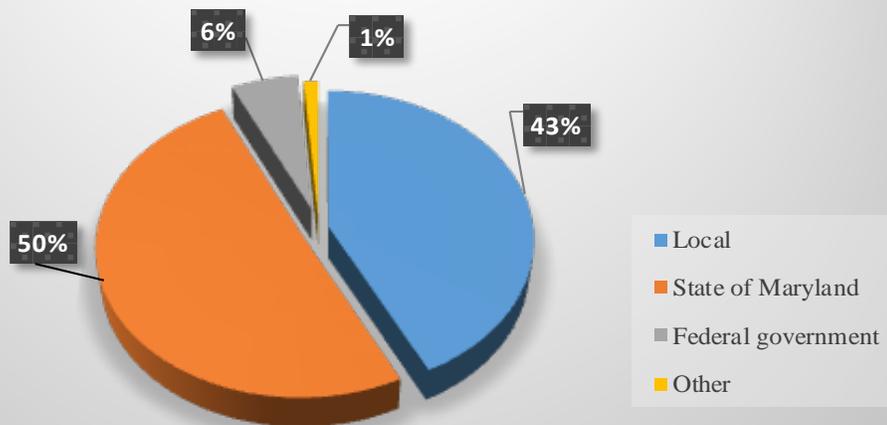
ST. MARY'S COUNTY PUBLIC SCHOOLS

**Management's Discussion and Analysis
June 30, 2017**

**Figure A-5: Sources of Revenues FY-2017
Governmental Activities**



**Figure A-6: Sources of Revenues FY-2016
Governmental Activities**



ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis
June 30, 2017

Figure A-7: Expenses FY-2017 Governmental Activities

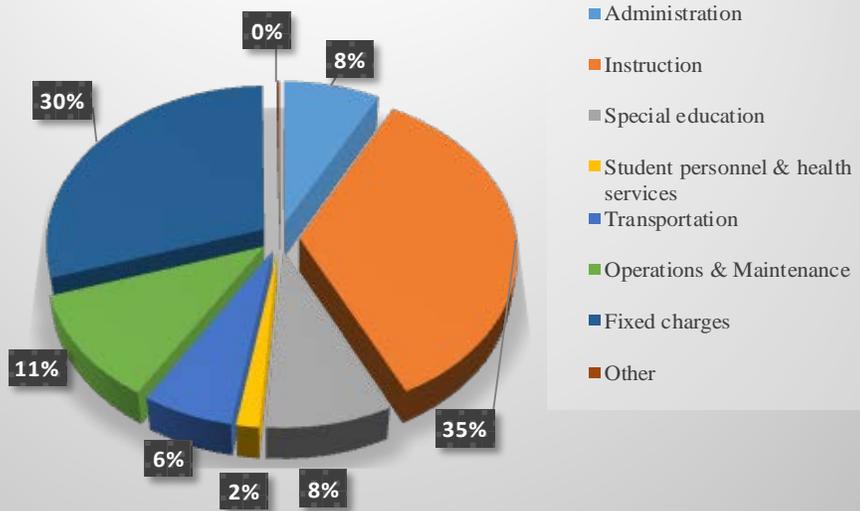
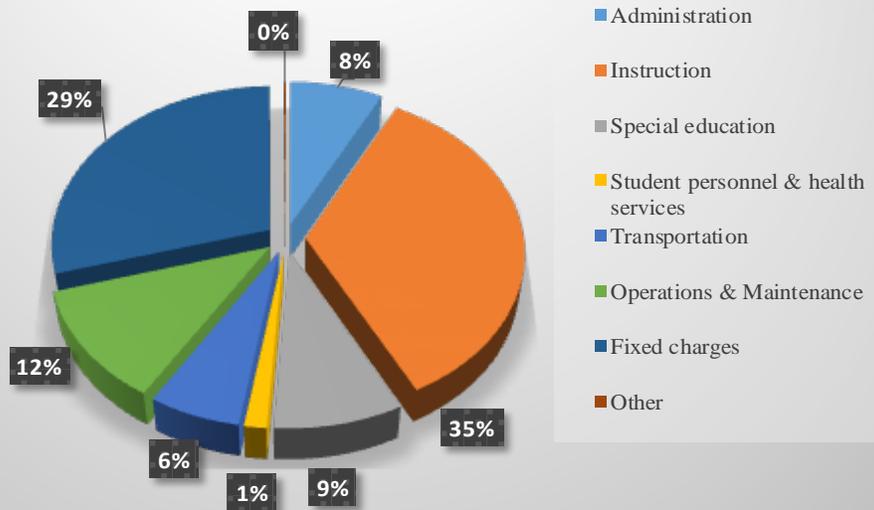


Figure A-8: Expenses FY-2016 Governmental Activities



ST. MARY'S COUNTY PUBLIC SCHOOLS

**Management's Discussion and Analysis
June 30, 2017**

Governmental Activities

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

- Negatives:
 - None.

- Positives:
 - Non-Public Tuition - Increased revenue - Non-Public tuition (due to the timing of the MSDE reconciliation).
 - Health Insurance Rebate – Pharmaceutical rebate of \$1 million.
 - Impact Aid payments came in sooner than usual.
 - Interest rates produced higher than budgeted returns on investments.
 - 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		
	2017	2016	% change	2017	2016	% change
Administrative	\$ 20.2	\$ 18.4	10%	\$ 19.6	\$ 17.9	10%
Instruction	90.4	85.2	6%	85.3	80.4	6%
Special education	22.1	21.3	4%	13.2	11.9	11%
Student personnel & health services	4.0	3.7	8%	3.8	3.5	8%
Transportation	15.9	15.2	5%	8.0	7.4	8%
Operations & maintenance	29.1	28.7	1%	23.1	17.2	35%
Fixed charges	78.1	71.6	9%	62.3	54.9	14%
Other	0.5	0.4	25%	(0.1)	0.1	-170%
Total	\$ 260.4	\$ 244.5	6%	\$ 215.3	\$ 193.3	11%

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2017

Business-Type Activities

- Net position for Food Service decreased by \$6,987. The costs associated with the implementation of a one hour lunch program at the high school level was subsidized by the unrestricted fund.

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 2017 the General Fund shows \$36,820 of revenues over expenditures and other financing sources (page 20).

Capital Projects expenditures amounted to \$5.3M for the year ended June 30, 2017 (page 20). 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

Overall revenues were nearly identical to FY-2016, but did exceed the budget by .44%. Expenditures came in under budget by 1.73%

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

- Adjustments outside a category were to recognize the \$2.5M of fund balance usage, and coverage for leave payoffs.
- Adjustments within a category to realign the budget to meet emerging needs.

Capital Asset and Debt Administration

Capital Assets

During FY 2017, the School System invested \$5.3M (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 36).

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Management's Discussion and Analysis
June 30, 2017**

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

	Governmental		Business-type		Total		Total % Change
	Activities		Activities		School System		
	2017	2016	2017	2016	2017	2016	
Land	\$ 3.7	\$ 3.6	\$ -	\$ -	\$ 3.7	\$ 3.6	3%
Facilities under construction	25.1	21.5	-	-	25.1	21.5	17%
Buildings	225.5	233.8	-	-	225.5	233.8	-4%
Equipment	3.5	4.8	0.5	0.6	4.0	5.3	-26%
Total Capital Assets, net	\$ 257.8	\$ 263.8	\$ 0.5	\$ 0.6	\$ 258.3	\$ 264.3	-2%

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 2017 there was no payment made to the OPEB trust and the liability for OPEB increased \$16M in the current year. GASB 68 required the School System to record an additional increase in pension liability for FY 2017 of \$0.7M. Additional information on long-term debt can be found in Note 7 to the basic Financial Statements (page 38).

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

	Governmental		Business-type		Total		Total % Change
	Activities		Activities		School System		
	2017	2016	2017	2016	2017	2016	
Equipment financing agreements	\$ 0.3	\$ 0.8	\$ -	\$ -	\$ 0.3	\$ 0.8	\$ (0.6)
Compensated absences	4.9	4.9	0.2	0.2	5.1	5.1	(0.0)
Net OPEB obligation	67.1	51.3	-	-	67.1	51.3	0.3
Net pension liability	13.2	12.5	-	-	13.2	12.5	0.1
Total long-term debt	\$ 85.5	\$ 69.5	\$ 0	\$ 0.2	\$ 85.7	\$ 69.7	23%

Factors bearing on the School System's Future

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

- GASB 45 requires St. Mary's County Public Schools to recognize the liability associated with post-employment benefits. This is the last year for GASB 45 reporting as GASB 75 will replace it for the FY 2018 statements and beyond. The School System is currently \$67 million short of being fully funded as of June 30, 2017.
- GASB 68 requires St. Mary's County Public Schools to recognize a long term pension liability of \$13.2 million for the year ending June 30, 2017. 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Management's Discussion and Analysis June 30, 2017

Factors bearing on the School System's Future (continued)

- 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 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Net Position As of June 30, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 34,813,256	\$ 481,108	\$ 35,294,364
Certificate of deposit	86,285	-	86,285
Due from other governments	5,469,008	143,764	5,612,772
Internal balances	(1,176,019)	1,176,019	-
Other receivables, net	63,996	14,861	78,857
Inventory	-	143,987	143,987
Capital assets			
Land	3,742,759	-	3,742,759
Building and improvements	372,906,801	-	372,906,801
Furniture and equipment	9,092,372	1,882,102	10,974,474
Equipment leased under financing agreements	6,676,139	-	6,676,139
Construction in process	25,099,603	-	25,099,603
less accumulated depreciation	(159,718,494)	(1,388,998)	(161,107,492)
Total assets	297,055,706	2,452,843	299,508,549
Deferred Outflows			
Pension related deferred outflows:			
Current year contributions of the employees' system pension plan	1,098,302	-	1,098,302
Net difference between projected and actual investment earnings	1,611,382	-	1,611,382
Changes in actuarial assumptions	567,547	-	567,547
Total deferred outflows	3,277,231	-	3,277,231
Liabilities			
Accounts payable	5,592,450	81,931	5,674,381
Accrued salaries and related costs	16,295,439	299,083	16,594,522
Due to other governments	15,498	-	15,498
Unearned revenue	4,549,770	169,471	4,719,241
Long-term liabilities			
Due within one year:			
Compensated absences	510,215	12,486	522,701
Financing agreements payable	123,519	-	123,519
Due after one year:			
Compensated absences	4,396,952	163,229	4,560,181
Financing agreements payable	183,167	-	183,167
Net pension liability	13,229,614	-	13,229,614
Net OPEB obligation	67,065,049	-	67,065,049
Total Liabilities	111,961,673	726,200	112,687,873
Deferred Inflows			
Pension related deferred inflows:			
Net difference between actual and expected experience	348,613	-	348,613
Total deferred inflows	348,613	-	348,613
Net Position			
Net investment in capital assets	257,492,494	493,104	257,985,598
Restricted - capital projects	105,845	-	105,845
Unrestricted (deficit)	(69,575,688)	1,233,539	(68,342,149)
Total Net Position	\$ 188,022,651	\$ 1,726,643	\$ 189,749,294

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Statement of Activities
For the Year Ended June 30, 2017**

Functions/Programs	Program Revenue				Change in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital grants and contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Administration	\$ 3,365,358	\$ -	\$ 283,611	\$ -	\$ (3,081,747)	\$ -	\$ (3,081,747)
Mid-level administration	16,873,345	-	333,034	-	(16,540,311)	-	(16,540,311)
Instructional salaries	79,477,427	-	2,894,999	-	(76,582,428)	-	(76,582,428)
Instructional textbooks and supplies	8,066,668	83,221	859,197	-	(7,124,250)	-	(7,124,250)
Other instructional costs	2,826,796	-	1,238,886	-	(1,587,910)	-	(1,587,910)
Special education	22,104,829	-	8,882,656	-	(13,222,173)	-	(13,222,173)
Student personnel services	1,681,568	-	141,246	-	(1,540,322)	-	(1,540,322)
Student health services	2,307,452	-	75,152	-	(2,232,300)	-	(2,232,300)
Student transportation services	15,936,703	-	7,930,342	-	(8,006,361)	-	(8,006,361)
Operation of plant	24,832,789	143,732	470,256	5,343,863	(18,874,938)	-	(18,874,938)
Maintenance of plant	4,292,031	-	25,142	-	(4,266,889)	-	(4,266,889)
Community services	536,000	-	626,879	-	90,879	-	90,879
Fixed charges	78,108,425	-	15,796,486	-	(62,311,939)	-	(62,311,939)
Interest on long-term debt	20,573	-	-	-	(20,573)	-	(20,573)
Total Governmental Activities	260,429,964	226,953	39,557,886	5,343,863	(215,301,262)	-	(215,301,262)
Business-type Activities							
Food services	6,753,277	2,458,790	4,252,097	33,286	-	(9,104)	(9,104)
Total Government	267,183,241	2,685,743	43,809,983	5,377,149	(215,301,262)	(9,104)	(215,310,366)
General Revenue							
Unrestricted grants and contributions:							
Local					102,690,393	-	102,690,393
State					88,032,201	-	88,032,201
Federal					2,691,762	-	2,691,762
Investment earnings					128,094	-	128,094
Other					873,278	2,117	875,395
Total General Revenue					194,415,728	2,117	194,417,845
Change in Net Position					(20,885,534)	(6,987)	(20,892,521)
Net position, beginning of year					208,908,185	1,733,630	210,641,815
Net Position, End of Year					\$ 188,022,651	\$ 1,726,643	\$ 189,749,294

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Balance Sheet – Governmental Funds As of June 30, 2017

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$ 34,792,563	\$ 20,693	\$ 34,813,256
Certificate of deposit	-	86,285	86,285
Due from other governments	4,718,919	750,089	5,469,008
Due from other funds	-	1,715,132	1,715,132
Other receivables	63,996	-	63,996
Total assets	<u>\$ 39,575,478</u>	<u>\$ 2,572,199</u>	<u>\$ 42,147,677</u>
Liabilities			
Liabilities			
Accounts payable	\$ 3,969,893	\$ 1,622,557	\$ 5,592,450
Accrued salaries and related costs	16,295,439	-	16,295,439
Due to other governments	15,498	-	15,498
Due to other funds	2,891,151	-	2,891,151
Unearned revenue	3,705,973	843,797	4,549,770
Total liabilities	<u>26,877,954</u>	<u>2,466,354</u>	<u>29,344,308</u>
Fund balances			
Restricted	-	105,845	105,845
Assigned	7,396,870	-	7,396,870
Unassigned	5,300,654	-	5,300,654
Total fund balance	<u>12,697,524</u>	<u>105,845</u>	<u>12,803,369</u>
Total liabilities and fund balance	<u>\$ 39,575,478</u>	<u>\$ 2,572,199</u>	<u>\$ 42,147,677</u>

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
As of June 30, 2017**

Total Fund Balances - Governmental Funds \$ 12,803,369

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	\$ 417,517,674	
Accumulated depreciation	<u>(159,718,494)</u>	257,799,180

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

Compensated absences	\$ (4,907,167)	
Financing agreements payable	(306,686)	
Net OPEB obligation	(67,065,049)	
Net pension Liability	(13,229,614)	
Deferred outflows/inflows	<u>2,928,618</u>	(82,579,898)

Total net position - governmental activities \$ 188,022,651

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2017**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenue			
St. Mary's County	\$ 102,690,393	\$ 4,676,368	\$ 107,366,761
State of Maryland	114,926,437	667,495	115,593,932
Federal government	14,613,881	-	14,613,881
Tuition	74,386	-	74,386
Investment income	126,921	1,173	128,094
Other	1,767,376	-	1,767,376
Total revenue	<u>234,199,394</u>	<u>5,345,036</u>	<u>239,544,430</u>
Expenditures			
Current			
Administration	3,345,110	-	3,345,110
Mid-level administration	15,952,590	-	15,952,590
Instructional salaries	79,477,427	-	79,477,427
Instructional textbooks and supplies	8,066,668	-	8,066,668
Other instructional costs	1,776,866	-	1,776,866
Special education	22,097,267	-	22,097,267
Student personnel services	1,680,817	-	1,680,817
Student health services	2,307,452	-	2,307,452
Student transportation services	15,797,546	-	15,797,546
Operation of plant	14,473,591	-	14,473,591
Maintenance of plant	4,275,691	-	4,275,691
Community services	536,000	-	536,000
Fixed charges	63,162,549	-	63,162,549
Capital outlay	733,664	5,343,863	6,077,527
Debt service			
Principal	458,763	-	458,763
Interest	20,573	-	20,573
Total expenditures	<u>234,162,574</u>	<u>5,343,863</u>	<u>239,506,437</u>
Net change in fund balances	36,820	1,173	37,993
Fund balance, beginning of year	12,660,704	104,672	12,765,376
Fund Balance, End of Year	<u>\$ 12,697,524</u>	<u>\$ 105,845</u>	<u>\$ 12,803,369</u>

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Year Ended June 30, 2017

Total net change in fund balances - governmental funds	\$ 37,993
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	
However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.	(5,977,651)
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.	
	458,762
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated absences	22,698
Net OPEB current year expense	(15,763,000)
Net pension liabilities	(715,005)
Deferred outflows and inflows of resources related to pensions	<u>1,050,669</u>
Change in net position of governmental activities	<u>\$ (20,885,534)</u>

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Statement of Net Position – Proprietary Fund
As of June 30, 2017**

Assets

Current assets

Cash and cash equivalents	\$	481,108
Due from other governments		143,764
Due from other funds		1,176,019
Accounts receivable, net		14,861
Inventory, at cost		143,987
		<u>1,959,739</u>

Noncurrent Assets

Food service equipment		1,882,102
Less accumulated depreciation		<u>(1,388,998)</u>
		493,104

Total assets

2,452,843

Liabilities

Current liabilities

Accounts payable	\$	81,931
Accrued salaries and related costs		299,083
Unearned revenue		169,471
Compensated absences		12,486
		<u>562,971</u>

Noncurrent liabilities

Compensated absences		<u>163,229</u>
Total liabilities		<u>726,200</u>

Net Position

Net investment in capital assets		493,104
Unrestricted		<u>1,233,539</u>
Total Net Position	\$	<u>1,726,643</u>

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund For the Year Ended June 30, 2017

Operating Revenue	
Food service sales	\$ 2,458,790
Federal grants and commodities	4,012,612
State matching and other	239,485
Total operating revenue	<u>6,710,887</u>
 Operating Expenses	
Payroll costs	3,013,780
Professional and contract services	63,595
Supplies and materials	3,479,547
Depreciation	99,166
Other operating costs	97,189
Total operating expenses	<u>6,753,277</u>
 Operating loss	(42,390)
 Non-Operating Revenue	
Interest income	2,117
Local capital contribution	33,286
	<u>35,403</u>
 Change in net position	(6,987)
Net position, beginning of year	1,733,630
Net Position, End of Year	<u>\$ 1,726,643</u>

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Statement of Cash Flows – Proprietary Fund
For the Year Ended June 30, 2017**

Cash Flows from Operating Activities	
Cash received from user charges	\$ 2,830,146
Operating grants and subsidies received	4,277,998
Payments to employees for services	(3,037,002)
Payments to suppliers for goods and services	(3,500,264)
Payments for other operating expenses	<u>(97,189)</u>
Net cash provided by operating activities	<u>473,689</u>
Cash Flows From Non-Capital Financing Activities	
Internal activity - net repayment to other funds	<u>(775,870)</u>
Net cash used in non-capital financing activities	<u>(775,870)</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	(33,286)
Capital contributions received	<u>33,286</u>
Net cash used in capital and related financing activities	<u>-</u>
Cash Flows From Investing Activities	
Interest received on investments	<u>2,117</u>
Net cash provided by investing activities	<u>2,117</u>
Net decrease in cash and cash equivalents	(300,064)
Cash and Cash Equivalents	
Beginning	<u>781,172</u>
Ending	<u>\$ 481,108</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Loss	\$ (42,390)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	99,166
Changes in assets and liabilities:	
Due from other governments	13,006
Receivables	371,356
Inventory	30,079
Accounts payable	(33,645)
Accrued salaries and related costs	33,336
Unearned revenue	12,895
Compensated absences	<u>(10,114)</u>
Net Cash from Operating Activities	<u>\$ 473,689</u>

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Statement of Fiduciary Net Position – Fiduciary Funds
As of June 30, 2017**

	<u>Private-Purpose Trust Fund</u>	<u>Retiree Benefit Trust Fund (OPEB)</u>	<u>School Activity Funds</u>
Assets			
Cash and cash equivalents	\$ 96,673	\$ -	\$ 1,652,047
Investments held in MABE Trust	-	41,396,912	-
Total assets	<u>96,673</u>	<u>41,396,912</u>	<u>\$ 1,652,047</u>
Liabilities			
Accounts payable	1,095	-	\$ -
Due to student groups	-	-	1,652,047
Total liabilities	<u>1,095</u>	<u>-</u>	<u>\$ 1,652,047</u>
Net Position			
Reserved for scholarships	<u>\$ 95,578</u>		
Held in trust for retiree benefits		<u>\$ 41,396,912</u>	

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Statement of Changes in Fiduciary Net Position – Fiduciary Funds
For the Year Ended June 30, 2017**

	<u>Private-Purpose Trust Fund</u>	<u>Retiree Benefit Trust Fund (OPEB)</u>
Additions		
Investment and other income (loss), net of administrative fees	\$ 500	\$ 4,200,706
Deductions		
Scholarships awarded	<u>1,050</u>	<u>-</u>
Change in net position	<u>(550)</u>	<u>4,200,706</u>
Net position		
Beginning of year	<u>96,128</u>	<u>37,196,206</u>
End of Year	<u>\$ 95,578</u>	<u>\$ 41,396,912</u>

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The School System does not have the authority to levy any taxes or incur debt. Schools are funded with local (county), state and federal monies. St. Mary's County, Maryland 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:

Reporting Entity

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

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

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

Government-Wide Financial Statements

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-Wide Financial Statements (continued)

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

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

Fund Financial Statements

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

The emphasis in the fund financial statements is on the major funds in either the governmental or business-type activities categories. Non-major funds by category are summarized into a single column. The Codification sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of either fund category or the governmental and enterprise combined) for the determination of major funds. The various funds are grouped, in the financial statements in this report, into six generic fund types and three broad fund categories as follows:

Governmental Funds:

General Fund: The General Fund is the general operating fund of the School System. It is used to account for all financial resources except those required to be accounted for in another fund. This fund includes appropriations and grants for both restricted and unrestricted purpose. The operations of the Chesapeake Public Charter School are also accounted for in the General Fund.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements (continued)

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

Both the General and Capital Projects Funds have been classified as major funds in the accompanying fund financial statements. While the fund does not meet the criteria set forth by the Codification, the School System has elected to present the Capital Projects Fund as a major fund, due to public interest.

Proprietary Funds:

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

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

Fiduciary Funds:

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).

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

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

Interfund Activity

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

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable

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

Inventory

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

Capital Assets

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

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, 2017; 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.

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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Debt

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

Compensated Absences

The School System 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, based on sick leave balances 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 30 years of service with the School System, or 20 years of service in the State of Maryland regardless of age.

For governmental funds, the amount of accumulated unpaid vacation and 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, 2017, 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.

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 meet this criterion at June 30, 2017; 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balances

The Board of Education must approve a motion in order to establish a fund balance commitment or assignment and only needs to approve the elimination of a fund balance commitment. The School System first considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. When unrestricted amounts are considered to have been spent, the School System considers committed amounts first, then assigned, and finally unassigned when an expenditure is incurred for which amounts in any of those unrestricted fund balance classifications could be used.

Net Position

Net position equals assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net position, net investment in capital assets, consists of capital assets, net of accumulated depreciation, 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, granters 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.

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.

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 the Financial Statements

June 30, 2017

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, 2017, 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, 2017, 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 \$14,424,047, \$409,227, and \$586,111 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, 2017, 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

2. DEPOSITS AND INVESTMENTS (continued)

Long-Term Investments (continued)

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, 2017, the pooled net position of the MABE Trust was \$292,672,933 in total, of which the School System's allocated investment balance was \$41,396,912. The School System places no limits on the amount they may be invested with any one issuer. The School System may terminate its membership in the MABE Trust and withdrawal its allocated investment balance by providing written notice six months prior to the intended date of withdrawal.

The MABE Trust 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Notes to the Financial Statements
June 30, 2017**

3. RECEIVABLES AND PAYABLES

Receivables and payables at June 30, 2017, consist of the following:

	<u>Governmental Activities</u>			<u>Total</u>
	<u>General</u>	<u>Capital Projects</u>	<u>Business-Type Activities</u>	
Due from other governments				
Local	\$ 1,101,727	\$ 330,129	\$ 15,371	\$ 1,447,227
State	337,208	419,960	2,922	760,090
Federal	3,279,984	-	125,471	3,405,455
	<u>\$ 4,718,919</u>	<u>\$ 750,089</u>	<u>\$ 143,764</u>	<u>\$ 5,612,772</u>
Other receivables				
Accounts	63,996	\$ -	14,861	\$ 78,857
	<u>\$ 63,996</u>	<u>\$ -</u>	<u>\$ 14,861</u>	<u>\$ 78,857</u>
Accounts payable				
Vendors	\$ 3,969,893	\$ 580,492	\$ 81,931	\$ 4,632,316
Contractor retainages	-	1,042,065	-	1,042,065
	<u>\$ 3,969,893</u>	<u>\$ 1,622,557</u>	<u>\$ 81,931</u>	<u>\$ 5,674,381</u>
Due to other governments				
Local	\$ 15,498	\$ -	\$ -	\$ 15,498

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, is as follows:

	<u>Balance, June 30, 2016</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance, June 30, 2017</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 3,636,073	\$ 106,686	\$ -	\$ 3,742,759
Construction in process	21,529,772	3,890,491	(320,660)	25,099,603
	<u>25,165,845</u>	<u>3,997,177</u>	<u>(320,660)</u>	<u>28,842,362</u>
Capital assets being depreciated				
Buildings and improvements	372,265,361	641,440	-	372,906,801
Furniture and equipment	8,990,363	691,133	(589,124)	9,092,372
Equipment leased under financing agreements	6,676,139	-	-	6,676,139
	<u>387,931,863</u>	<u>1,332,573</u>	<u>(589,124)</u>	<u>388,675,312</u>
Accumulated depreciated for				
Building and improvements	(138,444,336)	(8,992,955)	-	(147,437,291)
Furniture and equipment	(10,876,541)	(1,957,237)	552,575	(12,281,203)
	<u>(149,320,877)</u>	<u>(10,950,192)</u>	<u>552,575</u>	<u>(159,718,494)</u>
Governmental activities capital assets, net	<u>\$ 263,776,831</u>	<u>\$ (5,620,442)</u>	<u>\$ (357,209)</u>	<u>\$ 257,799,180</u>

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Notes to the Financial Statements
June 30, 2017**

4. CAPITAL ASSETS (continued)

	<u>Balance, June 30, 2016</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance, June 30, 2017</u>
Business-type activities				
Capital assets being depreciated				
Furniture and equipment	\$ 1,848,816	\$ 33,286	\$ -	\$ 1,882,102
	<u>1,848,816</u>	<u>33,286</u>	<u>-</u>	<u>1,882,102</u>
Accumulated depreciated for				
Furniture and equipment	(1,289,832)	(99,166)	-	(1,388,998)
	<u>(1,289,832)</u>	<u>(99,166)</u>	<u>-</u>	<u>(1,388,998)</u>
Business-type activities capital assets, net	<u>\$ 558,984</u>	<u>\$ (65,880)</u>	<u>\$ -</u>	<u>\$ 493,104</u>

Depreciation expense that was charged in the statement of activities for the year ended June 30, 2017, was as follows:

Governmental activities	
Administration	\$ 18,392
Mid-level administration	836,358
Other instructional costs	953,693
Special education	6,869
Student personnel services	682
Student transportation services	126,402
Operation of plant	8,992,955
Maintenance of plant	14,841
	<u>\$ 10,950,192</u>
Business-type activities	
Food service	<u>\$ 99,166</u>

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, 2017, of \$3,705,973.

Capital Projects Fund: Unearned revenue consists of prefunding in the amount of \$761,960 for construction projects at Spring Ridge Middle School 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 \$12,486 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 the Financial Statements
June 30, 2017**

6. INTERFUND BALANCES

The composition of interfund balances as of June 30, 2017, was as follows:

<u>Payable Fund</u>	<u>Receivable Fund</u>	
	<u>Capital Projects</u>	<u>Enterprise</u>
General	\$ 1,715,132	\$ 1,176,019

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

7. LONG-TERM LIABILITIES

Long-term debt at June 30, 2017, 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, 2017:

	<u>Balance, June 30, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2017</u>	<u>Amounts Due Within one Year</u>
Governmental activities					
Equipment financing agreements	\$ 765,449	\$ -	\$ (458,763)	\$ 306,686	\$ 123,519
Compensated absences	4,929,865	565,004	(587,702)	4,907,167	510,215
Net OPEB obligation	51,302,049	22,393,000	(6,630,000)	67,065,049	-
Net pension liability	12,514,609	715,005	-	13,229,614	-
	<u>\$ 69,511,972</u>	<u>\$ 23,673,009</u>	<u>\$ (7,676,465)</u>	<u>\$ 85,508,516</u>	<u>\$ 633,734</u>
Business-type activities					
Compensated absences	<u>\$ 185,829</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,829</u>	<u>\$ 12,486</u>

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 the Financial Statements
June 30, 2017**

7. LONG-TERM LIABILITIES (continued)

The future minimum lease payments and the net present value of the minimum lease payments as of June 30, 2017, under these equipment financing agreements are as follows:

<u>Years Ending June 30,</u>		
	2018	\$ 131,756
	2019	103,654
	2020	86,380
		321,790
Less amount representing interest		(15,104)
Present value of minimum lease payments		\$ 306,686

8. GOVERNMENTAL FUND BALANCES

Governmental fund balances at June 30, 2017, are summarized as follows:

	General Fund	Capital Projects	Total
Restricted for			
Capital projects	\$ -	\$ 105,845	\$ 105,845
Assigned to			
Purchase orders:			
Administration	96,456	-	96,456
Instructional textbooks and supplies	461,133	-	461,133
Other instructional costs	122	-	122
Student transportation services	23,809	-	23,809
Operation of plant	28,300	-	28,300
Maintenance of plant	22,916	-	22,916
Fixed charges	1,451	-	1,451
Total purchase orders	634,187	-	634,187
Healthcare	4,000,000	-	4,000,000
Wellness - Restricted Fund	1,305,117	-	1,305,117
FY18 CPCS adopted budget	57,566	-	57,566
Lease - Building Purchase Option	400,000	-	400,000
Fuel	500,000	-	500,000
Snow / Emergency	500,000	-	500,000
	7,396,870	-	7,396,870
Unassigned	5,300,654	-	5,300,654
Total fund balances	\$ 12,697,524	\$ 105,845	\$ 12,803,369

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

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.

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/>.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

10. PENSION PLANS (continued)

Plan Description, Benefits, and Funding Policy (continued)

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 \$5,879,367 or 4.67% of current covered payroll, and the State of Maryland made contributions on behalf of the School System totaling \$13,102,614 or 10.40% of current covered payroll for fiscal year 2016. 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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Notes to the Financial Statements
June 30, 2017**

10. PENSION PLANS (continued)

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

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, 2016, are used as the basis for determining each employer's proportionate share of the net pension liability. At June 30, 2017, the School System reported a liability of \$13,229,614 of the total liability of \$23,594,027,003.

At June 30, 2017, the School System's proportion was 0.056 percent, which was a decrease of 0.004 from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the School System recognized pension expense of approximately \$1,518,726. At June 30, 2017, the School System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017 Contributions	\$ 1,098,302	\$ -
Change in assumptions	567,547	-
Actual and expected experience	-	348,613
Difference in investment earnings	1,611,231	-
Total	<u>\$ 3,277,080</u>	<u>\$ 348,613</u>

\$1,098,302 reported as deferred outflows of resources related to pensions resulting from School System contributions to the employees' pension system subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2018	\$ 421,719
2019	421,720
2020	650,660
2021	365,208
2022	(29,142)

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Notes to the Financial Statements
June 30, 2017**

10. PENSION PLANS (continued)

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

Actuarial Methods and Assumptions: The total pension liability of the SRPS in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.70% general, 3.20% wage
Salary increases	3.30% to 9.20%, including wage inflation
Investment rate of return	7.55%
Mortality	RP-2014 Mortality Tables with generational mortality projections using scale MP-2014, calculated 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	7%
Private Equity	10%	7%
Rate Sensitive	20%	1%
Credit Opportunity	9%	4%
Real Assets	15%	5%
Absolute Return	9%	4%
	<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, 2016. For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 1.10%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2017

10. PENSION PLANS (continued)

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

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 6.55%	Current Discount	1% Increase to 8.55%
School System's proportionate share of the net pension liability	\$ 18,172,018	\$ 13,229,614	\$ 9,116,787

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/>.

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.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

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

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, 2016, the date of the actuarial valuation:

Number of Participants

Active employees	1,621
Retirees - pre-medicare*	236
Retirees - post-medicare*	739
Total	<u><u>2,596</u></u>

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements June 30, 2017

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

Contribution: The School System contributes the pay as you go portion, along with an annually budgeted prefunding amount of the annual required contribution (ARC) of the employer, 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 18.17% of annual covered payroll. The ARC consisted of the normal cost of \$11,002,000 and the amortization of unfunded accrued liability of \$11,889,000. The School System contributed \$6,630,000 for the year ended June 30, 2017, 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.

Investments.

Investment policy: The school System's policy in regard to the allocation of invested assets is established and may be amended by the School System board by a majority vote of its members. It is the policy of the board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The School System's target asset allocation policy was 100% in the MABE Trust as of June 30, 2017.

Rate of return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 11.29 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability.

The components of the net OPEB liability of the School System at June 30, 2017, were as follows:

Total OPEB liability	\$ 352,847,000
Plan fiduciary net position	<u>(41,396,912)</u>
Net OPEB liability	<u>\$ 311,450,088</u>

Plan fiduciary net position as a percentage of the total OPEB liability	11.73%
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Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions below, applied to all periods included in the measurement, unless otherwise specified.

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Notes to the Financial Statements
June 30, 2017**

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

Actuarial assumptions used in the latest actuarial valuation were:

Inflation rate	2.40%
Salary increases	2.00 to 6.50%
Investment rate of return	4.00%
Discount rate	3.58%
Healthcare cost trend rate	5.40% initially reduced annually to an ultimate rate of 3.90% attained in 2077
Mortality	RP 2014 fully generational

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2013 to December 31, 2016.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the MABE Trust as of June 30, 2017 was 3.58%.

Discount rate. The discount rate used to measure the total OPEB liability was 3.58 percent. The projection of cash flow used to determine the discount rate assumed that the School System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Notes to the Financial Statements
June 30, 2017**

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

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

The following presents the net OPEB liability of the School System, as well as what the School System's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate:

	1% Decrease 2.58%	Discount Rate 3.58%	1% Increase 4.58%
Net OPEB liability	\$ 390,791,088	\$ 311,450,088	\$ 250,731,088

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

The following presents the net OPEB liability of the School System, as well as what the School System's net OPEB liability would be if it were calculated using healthcare cost trend rate that is 1-percentage-point lower (2.90%) or 1-percentage-point higher (4.90%) than the current healthcare cost trend rate:

	1% Decrease 2.90%	Healthcare Cost Trend Rates 3.90%	1% Increase 4.90%
Net OPEB liability	\$ 247,895,088	\$ 311,450,088	\$ 397,586,088

Annual OPEB Cost and Net OPEB Obligation: The School System had an actuarial valuation performed as of July 1, 2016, 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, 2017. The annual OPEB cost (expense) for the year ended June 30, 2017, was \$22,393,000, which was comprised of the ARC of \$22,891,000 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:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
2015	\$ 13,550,000	60.48%	\$ 40,997,310
2016	16,413,000	37.22%	51,302,049
2017	22,393,000	29.61%	67,065,049

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

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

Funded Status and Funding Progress: As of July 1, 2016, the plan was 13.46% funded. The actuarially accrued liability for benefits was \$276,400,000, and the actuarial value of assets was \$37,196,206, resulting in an unfunded actuarial accrued liability (UAAL) of \$239,203,794. The covered payroll (annual payroll of active employees covered by the plan) was \$125,980,783 and the ratio of UAAL to the covered payroll was 189.87%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the School System are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2016, actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used, include (a) a rate of return on the investment of 4.00% per year compounded annually, (b) projected salary increases of 3.50% compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 2.00% to 6.50% per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 5.40% initially, reduced annually to arrive at an ultimate healthcare cost trend of 3.90%, (e) rates of mortality based upon RP 2014 Combined Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.00% to 18.00%, disablement rates based on age, ranging from 0.03% to 0.46%, (h) retirement rates based on age, sex, and length of service, ranging from 1.00% to 33.00%, and (i) medical claims including prescription drugs are based on actual experience during the period from July 1, 2013 through December 31, 2016, and were projected with annual increases of 5.00% for medical claims and 5.00% 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 22 years for the year ended June 30, 2017.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

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, 2017, 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 \$3,609,442.

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 granters 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, 2017, management anticipates a refund in the amount of \$1,074,673.

13. NEW GOVERNMENTAL ACCOUNTING BOARD STANDARDS

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2017, that have effective dates that may impact future financial presentations. Management will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

- GASB Statement No. 83, *Certain Asset Retirement Obligations*, and will be effective for the School System beginning with its year ending June 30, 2019. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs.

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to the Financial Statements

June 30, 2017

13. NEW GOVERNMENTAL ACCOUNTING BOARD STANDARDS (continued)

- GASB Statement No. 84, *Fiduciary Activities*, and will be effective for the School System beginning with its year ending June 30, 2020. This statement establishes criteria for identifying fiduciary activities of all state and local governments.
- GASB Statement No. 85, *Omnibus*, and will be effective for the School System beginning with its year ending June 30, 2018. This statement addresses practice issues that have been identified during implementation and application of certain GASB statements.
- GASB Statement No. 86, *Certain Debt Retirement Issues*, and will be effective for the School System beginning with its year ending June 30, 2018. This statement addresses in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets are placed in irrevocable trust for the sole purpose of extinguishing debt.
- GASB Statement No. 87, *Leases*, and will be effective for the School System beginning with its year ending June 30, 2021. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

GASB has also issued Statement No. 75 entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will be required to be implemented by the School System for the year ended June 30, 2018. The School System has begun analyzing the effect of this pronouncement and plans to implement by the effective date. GASB Statement No. 75 is expected to have a material effect on the School System's financial statement once implemented. The School System expects implementation of GASB Statement No. 75, to reduce the beginning net position by approximately \$245 million in fiscal year 2018.

REQUIRED SUPPLEMENTARY INFORMATION

ST. MARY'S COUNTY PUBLIC SCHOOLS

Schedule of the Proportionate Share of the Net Pension Liability – Maryland State Retirement and Pension System June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
School System's proportion of the net pension liability	0.056%	0.060%	0.054%
School System's proportionate share of the ERS net pension liability	\$ 13,229,614	\$ 12,514,609	\$ 9,640,511
School System's proportionate share of the TRS net pension liability	57,905,405	49,876,109	42,592,154
	<u>\$ 71,135,019</u>	<u>\$ 62,390,718</u>	<u>\$ 52,232,665</u>
School System's covered- employee payroll	\$ 125,980,783	\$ 121,123,057	\$ 115,255,917
School System's proportionate share of the net pension liability as a percentage of its covered- employee payroll	10.501%	10.332%	8.364%
Plan fiduciary net position as a percentage of the total pension liability	65.790%	68.780%	71.870%

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of School System Contributions to
Maryland State Retirement and Pension System
June 30, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contributions	\$ 5,879,367	\$ 5,726,546	\$ 5,299,971	\$ 4,416,608	\$ 3,626,191	\$ 1,428,621
Actual contributions made:						
Employee systems	1,098,302	1,092,326	1,269,260	1,265,916	1,140,494	1,428,621
Teacher system	4,781,065	4,634,220	4,030,711	3,150,692	2,485,697	-
	<u>5,879,367</u>	<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	<u>\$ -</u>					
School system's covered- employee payroll	\$125,980,783	\$121,123,057	\$115,255,917	\$118,651,284	\$116,191,213	\$114,323,669
Contributions as a percentage of covered-employee payroll	4.667%	4.728%	4.598%	3.722%	3.121%	1.250%

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of Funding Progress – OPEB Plan
June 30, 2017**

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, 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%
July 1, 2016	37,196,206	276,400,000	239,203,794	13.46%	125,980,783	189.87%

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of Changes in the School System's
Net OPEB Liability and Related Ratios
June 30, 2017**

	Fiscal Year 2017
Total OPEB Liability	
Service cost	\$ 12,238,000
Interest	11,001,955
Changes of benefit terms	-
Differences between expected and actual experience	3,131,014
Changes of assumptions	(56,209,000)
Benefit payments	(6,696,969)
Net change in total OPEB liability	(36,535,000)
Total OPEB liability - beginning	389,382,000
Total OPEB liability - ending (a)	<u>\$ 352,847,000</u>
 Plan Fiduciary Net Position	
Contributions - employer	\$ -
Net investment income	4,215,949
Benefit payments	-
Administrative expense	(15,243)
Net change in plan fiduciary net position	4,200,706
Plan fiduciary net position - beginning	37,196,206
Plan fiduciary net position - ending (b)	<u>\$ 41,396,912</u>
 School System's net OPEB liability (a) - (b)	 <u>\$ 311,450,088</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 11.73%
 Covered-employee payroll	 \$ 125,980,783
 School System's net OPEB liability as a percentage of covered-employee payroll	 247.22%

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of School System's Contributions - OPEB
June 30, 2017**

	<u>Fiscal Year</u> <u>2017</u>
Actuarial determined contribution	\$ 22,393,000
Contributions in relation to the actuarially determined contribution	<u>6,630,000</u>
Contribution deficiency	<u>\$ 15,763,000</u>
Covered-employee payroll	\$ 125,980,783
Contributions as a percentage of covered employee payroll	5.26%

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of Investment Returns – OPEB
June 30, 2017**

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	11.29%

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Budgetary Comparison Schedule – General Fund
June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance With Amended Budget Favorable</u>
	<u>Original</u>	<u>Amended</u>		<u>(Unfavorable)</u>
Revenues				
Local	\$ 102,690,393	\$ 102,690,393	\$ 102,690,393	\$ -
State of Maryland	101,615,533	101,615,533	101,823,822	(208,289)
Federal government	17,896,877	17,896,877	14,613,881	3,282,996
Tuition	96,850	96,850	74,387	22,463
Investment income	8,300	8,300	126,921	(118,621)
Utilization of fund balance				
Unassigned	1,500,000	4,000,000	4,000,000	-
Other	2,910,229	2,910,229	1,767,376	1,142,853
	<u>226,718,182</u>	<u>229,218,182</u>	<u>225,096,780</u>	<u>4,121,402</u>
Expenditures				
Administration	3,557,888	3,557,888	3,441,566	116,322
Mid-level administration	16,346,389	16,346,389	15,952,591	393,798
Instructional salaries	80,916,797	80,916,797	79,477,409	1,439,388
Intructional textbooks and supplies	6,791,907	8,791,907	8,527,817	264,090
Other instructional costs	2,394,611	2,394,611	1,776,987	617,624
Special education	23,101,730	23,101,730	22,097,268	1,004,462
Student personnel services	1,601,560	1,715,267	1,680,821	34,446
Student health services	2,373,196	2,373,196	2,307,454	65,742
Student transportation services	16,445,519	16,445,519	15,821,355	624,164
Operation of plant	16,224,733	16,224,733	14,981,221	1,243,512
Maintenance of plant	3,904,102	4,404,102	4,298,604	105,498
Fixed charges	51,659,403	51,545,696	48,895,431	2,650,265
Community services	626,879	626,879	536,001	90,878
Capital outlays	773,468	773,468	733,664	39,804
	<u>226,718,182</u>	<u>229,218,182</u>	<u>220,528,189</u>	<u>8,689,993</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	4,568,591	<u>\$ (4,568,591)</u>
Adjustments to conform with generally accepted accounting principles			(4,531,771)	
Fund Balance				
Beginning			<u>12,660,704</u>	
Ending			<u>\$ 12,697,524</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

Notes to Required Supplementary Information June 30, 2017

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
June 30, 2017**

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 2017 from the budget basis to the GAAP basis, are as follows:

	Revenues	Expenditures and Encumbrances	Other Financing Sources (Uses)	Current Year Effect on Fund Balances
General Fund - budgetary basis	\$ 225,096,780	\$ 220,528,189	\$ -	\$ 4,568,591
Budget to GAAP reconciliation				
Prior year encumbrances outstanding, 6/30/16	-	1,288,303	-	(1,288,303)
Prior year encumbrances canceled	-	(122,344)	-	122,344
Current year encumbrances outstanding, 6/30/17	-	(634,188)	-	634,188
State retirement contribution	13,102,614	13,102,614	-	-
Fund balance usage	(4,000,000)	-	-	(4,000,000)
	<u>9,102,614</u>	<u>13,634,385</u>	<u>-</u>	<u>(4,531,771)</u>
General Fund - GAAP basis	<u>\$ 234,199,394</u>	<u>\$ 234,162,574</u>	<u>\$ -</u>	<u>\$ 36,820</u>

SUPPLEMENTARY INFORMATION

ST. MARY'S COUNTY PUBLIC SCHOOLS

Combining Budgetary Comparison Schedule – General Fund – Unrestricted Funds and Restricted Funds June 30, 2017

	Unrestricted Fund				Restricted Funds				Total Combined General 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	\$ 102,690,393	\$ 102,690,393	\$ 102,690,393	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 102,690,393	\$ 102,690,393	\$ 102,690,393	\$ -
States of Maryland	100,801,453	100,801,453	100,958,591	(157,138)	814,080	814,080	865,231	-	101,615,533	101,615,533	101,823,822	(208,289)
Federal government	2,205,000	2,205,000	2,691,762	(486,762)	15,691,877	15,691,877	11,922,119	-	17,896,877	17,896,877	14,613,881	3,282,996
Tuition	20,000	20,000	18,182	1,818	76,850	76,850	56,205	-	96,850	96,850	74,387	22,463
Investment Income	8,300	8,300	126,921	(118,621)	-	-	-	-	8,300	8,300	126,921	(118,621)
Utilization of fund balance												
Unassigned	1,500,000	4,000,000	4,000,000	-	-	-	-	-	1,500,000	4,000,000	4,000,000	-
Other	712,600	712,600	873,281	(160,681)	2,197,629	2,197,629	894,095	-	2,910,229	2,910,229	1,767,376	1,142,853
	<u>207,937,746</u>	<u>210,437,746</u>	<u>211,359,130</u>	<u>(921,384)</u>	<u>18,780,436</u>	<u>18,780,436</u>	<u>13,737,650</u>	<u>-</u>	<u>226,718,182</u>	<u>229,218,182</u>	<u>225,096,780</u>	<u>4,121,402</u>
Expenditures												
Administration	3,274,277	3,274,277	3,251,617	22,660	283,611	283,611	189,949	93,662	3,557,888	3,557,888	3,441,566	116,322
Mid-level administration	15,545,426	15,545,426	15,321,883	223,543	800,963	800,963	630,708	170,255	16,346,389	16,346,389	15,952,591	393,798
Instructional Salaries	76,152,182	76,152,182	75,873,888	278,294	4,764,615	4,764,615	3,603,521	1,161,094	80,916,797	80,916,797	79,477,409	1,439,388
Instructional textbooks and supplies	5,892,210	7,892,210	7,860,881	31,329	899,697	899,697	666,936	232,761	6,791,907	8,791,907	8,527,817	264,090
Other instructional costs	1,147,725	1,147,725	1,003,891	143,834	1,246,886	1,246,886	773,096	473,790	2,394,611	2,394,611	1,776,987	617,624
Special education	18,847,243	18,847,243	18,581,452	265,791	4,254,487	4,254,487	3,515,816	738,671	23,101,730	23,101,730	22,097,268	1,004,462
Student personnel services	1,457,314	1,571,021	1,569,374	1,647	144,246	144,246	111,447	32,799	1,601,560	1,715,267	1,680,821	34,446
Student health services	2,245,248	2,245,248	2,224,841	20,407	127,948	127,948	82,613	45,335	2,373,196	2,373,196	2,307,454	65,742
Student transportation services	15,253,956	15,253,956	15,010,998	242,958	1,191,563	1,191,563	810,357	381,206	16,445,519	16,445,519	15,821,355	624,164
Operation of plant	15,179,053	15,179,053	14,776,842	402,211	1,045,680	1,045,680	204,379	841,301	16,224,733	16,224,733	14,981,221	1,243,512
Maintenance of plant	3,878,960	4,378,960	4,284,136	94,824	25,142	25,142	14,468	10,674	3,904,102	4,404,102	4,298,604	105,498
Fixed charges	48,290,684	48,176,977	46,297,074	1,879,903	3,368,719	3,368,719	2,598,357	770,362	51,659,403	51,545,696	48,895,431	2,650,265
Community services	-	-	-	-	626,879	626,879	536,001	90,878	626,879	626,879	536,001	90,878
Capital outlay	773,468	773,468	733,664	39,804	-	-	-	-	773,468	773,468	733,664	39,804
	<u>207,937,746</u>	<u>210,437,746</u>	<u>206,790,541</u>	<u>3,647,205</u>	<u>18,780,436</u>	<u>18,780,436</u>	<u>13,737,648</u>	<u>5,042,788</u>	<u>226,718,182</u>	<u>229,218,182</u>	<u>220,528,189</u>	<u>8,689,993</u>
Net change in fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>4,568,589</u>	<u>\$ (4,568,589)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>2</u>	<u>\$ (5,042,788)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>4,568,591</u>	<u>\$ (4,568,591)</u>
Adjustments to Conform With Generally Accepted Accounting Principles			(4,531,771)								(4,531,771)	
Fund Balance												
Beginning			<u>11,320,706</u>				<u>1,339,998</u>				<u>12,660,704</u>	
Ending			<u>\$ 11,357,524</u>				<u>\$ 1,340,000</u>				<u>\$ 12,697,524</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Combining Budgetary Comparison Schedule – General Fund –
Unrestricted Funds
June 30, 2017**

	Unrestricted Fund (excluding Charter School by category)				Unrestricted Funds (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	\$102,690,393	\$102,690,393	\$102,690,393	\$ -	\$ -	\$ -	\$ -	\$ -	\$102,690,393	\$102,690,393	\$102,690,393	\$ -
States of Maryland	100,801,453	100,801,453	100,958,591	(157,138)	-	-	-	-	100,801,453	100,801,453	100,958,591	(157,138)
Federal government	2,205,000	2,205,000	2,691,762	(486,762)	-	-	-	-	2,205,000	2,205,000	2,691,762	(486,762)
Tuition	20,000	20,000	18,182	1,818	-	-	-	-	20,000	20,000	18,182	1,818
Investment Income	8,300	8,300	126,921	(118,621)	-	-	-	-	8,300	8,300	126,921	(118,621)
Utilization of fund balance												
Unassigned	1,500,000	4,000,000	4,000,000	-	-	-	-	-	1,500,000	4,000,000	4,000,000	-
Other	712,600	712,600	873,281	(160,681)	-	-	-	-	712,600	712,600	873,281	(160,681)
	<u>207,937,746</u>	<u>210,437,746</u>	<u>211,359,130</u>	<u>(921,384)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,937,746</u>	<u>210,437,746</u>	<u>211,359,130</u>	<u>(921,384)</u>
Expenditures												
Administration	3,274,277	3,274,277	3,251,617	22,660	-	-	-	-	3,274,277	3,274,277	3,251,617	22,660
Mid-level administration	15,077,497	15,077,497	14,852,849	224,648	467,929	467,929	469,034	(1,105)	15,545,426	15,545,426	15,321,883	223,543
Instructional Salaries	74,282,566	74,282,566	73,972,106	310,460	1,869,616	1,869,616	1,901,782	(32,166)	76,152,182	76,152,182	75,873,888	278,294
Instructional textbooks and supplies	5,851,710	7,851,710	7,821,821	29,889	40,500	40,500	39,060	1,440	5,892,210	7,892,210	7,860,881	31,329
Other instructional costs	1,139,725	1,139,725	989,952	149,773	8,000	8,000	13,939	(5,939)	1,147,725	1,147,725	1,003,891	143,834
Special education	18,579,186	18,579,186	18,327,997	251,189	268,057	268,057	253,455	14,602	18,847,243	18,847,243	18,581,452	265,791
Student personnel services	1,454,314	1,568,021	1,568,021	-	3,000	3,000	1,353	1,647	1,457,314	1,571,021	1,569,374	1,647
Student health services	2,192,452	2,192,452	2,170,973	21,479	52,796	52,796	53,868	(1,072)	2,245,248	2,245,248	2,224,841	20,407
Student transportation services	15,128,956	15,128,956	14,862,008	266,948	125,000	125,000	148,990	(23,990)	15,253,956	15,253,956	15,010,998	242,958
Operation of plant	14,603,629	14,603,629	14,217,221	386,408	575,424	575,424	559,621	15,803	15,179,053	15,179,053	14,776,842	402,211
Maintenance of plant	3,878,960	4,378,960	4,284,136	94,824	-	-	-	-	3,878,960	4,378,960	4,284,136	94,824
Fixed charges	47,615,837	47,502,130	45,653,007	1,849,123	674,847	674,847	644,067	30,780	48,290,684	48,176,977	46,297,074	1,879,903
Community services	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	773,468	773,468	733,664	39,804	-	-	-	-	773,468	773,468	733,664	39,804
	<u>203,852,577</u>	<u>206,352,577</u>	<u>202,705,372</u>	<u>3,647,205</u>	<u>4,085,169</u>	<u>4,085,169</u>	<u>4,085,169</u>	<u>-</u>	<u>207,937,746</u>	<u>210,437,746</u>	<u>206,790,541</u>	<u>3,647,205</u>
Net change in fund balances	<u>\$ 4,085,169</u>	<u>\$ 4,085,169</u>	<u>8,653,758</u>	<u>\$ (4,568,589)</u>	<u>\$ (4,085,169)</u>	<u>\$ (4,085,169)</u>	<u>(4,085,169)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>4,568,589</u>	<u>\$ (4,568,589)</u>
Adjustments to Conform With Generally Accepted Accounting Principles			(4,531,771)								(4,531,771)	
Charter School funding			(4,085,169)				4,085,169				-	
Fund Balance												
Beginning			<u>11,263,140</u>				<u>57,566</u>				<u>11,320,706</u>	
Ending			<u>\$ 11,299,958</u>				<u>\$ 57,566</u>				<u>\$ 11,357,524</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund –
Budget vs. Actual
June 30, 2017**

	Amended Budget	Actual	Variance With Amended Budget Favorable (Unfavorable)
Revenues			
Food service sales	\$ 3,266,703	\$ 2,458,790	\$ (807,913)
Federal grants and commodities	4,107,000	4,012,612	(94,388)
State matching and other	276,000	239,485	(36,515)
Local contribution	-	33,286	33,286
Interest income	1,000	2,117	1,117
	<u>7,650,703</u>	<u>6,746,290</u>	<u>(904,413)</u>
Expenses			
Payroll Costs	3,941,203	3,013,780	(927,423)
Professional and contract services	60,000	63,595	3,595
Supplies and materials	3,453,500	3,479,547	26,047
Depreciation	80,000	99,166	19,166
Other operating costs	116,000	97,189	(18,811)
	<u>7,650,703</u>	<u>6,753,277</u>	<u>(897,426)</u>
Change in net position	<u>\$ -</u>	<u>(6,987)</u>	<u>\$ (6,987)</u>
Net Position			
Beginning		<u>1,733,630</u>	
Ending		<u>\$ 1,726,643</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Statement of Changes in Cash and Cash Equivalents – School Activity Funds
June 30, 2017**

	School Activity			School Activity	
	Accounts Balance	Additions	Deductions	Accounts Balance	
	July 1, 2016			June 30, 2017	
School - Checking					
Benjamin Banneker Elementary	\$ 14,667	\$ 89,495	\$ (70,475)	\$ 33,687	
Capt. Walter Francis Duke Elementary	23,577	83,908	(72,780)	34,705	
Chesapeake Public Charter School	32,208	94,156	(89,126)	37,239	
Dynard Elementary	34,231	31,632	(40,715)	25,148	
Evergreen Elementary	41,290	62,810	(71,907)	32,193	
George Washington Carver Elementary	16,561	45,511	(46,949)	15,124	
Green Holly School	12,359	35,358	(33,936)	13,781	
Greenview Knolls Elementary	12,845	42,291	(49,846)	5,290	
Hollywood Elementary	1,588	56,585	(49,355)	8,819	
Leonardtown Elementary	7,409	75,035	(75,847)	6,598	
Lettie Marshall Dent Elementary	24,236	104,741	(101,609)	27,368	
Lexington Park Elementary	12,715	30,904	(32,490)	11,129	
Mechanicsville Elementary	23,662	71,339	(72,303)	22,698	
Oakville Elementary	20,369	42,858	(49,367)	13,860	
Park Hall Elementary	5,421	41,958	(39,784)	7,595	
Piney Point Elementary	70,562	62,741	(103,877)	29,426	
Ridge Elementary	17,248	29,756	(32,643)	14,361	
Town Creek Elementary	13,004	19,328	(24,057)	8,275	
White Marsh Elementary	18,015	52,032	(51,694)	18,353	
Esperanza Middle	67,240	99,568	(109,896)	56,911	
Leonardtown Middle	27,006	102,874	(96,235)	33,644	
Margaret Brent Middle	26,876	104,644	(108,095)	23,425	
Spring Ridge Middle	38,746	236,808	(221,109)	54,445	
Chopticon High	204,435	650,808	(636,557)	218,686	
Great Mills High	27,429	369,711	(350,031)	47,109	
Leonardtown High	118,712	591,201	(571,984)	137,930	
Dr. J. A. Forrest Career & Tech Ctr	43,568	248,865	(252,233)	40,200	
Fairlead Academy	1,288	12,117	(10,459)	2,947	
Fairlead Academy II	1,008	4,560	(3,724)	1,844	
LBO-Sunshine Fund	991	245	(1,236)	-	
DSS - Sunshine Fund	506	1,150	(1,657)	-	
TLPD-LMS - Sunshine Fund	392	855	(1,247)	-	
MGA-MUN	4,039	4,874	(8,912)	-	
SMASC	3,898	434	(4,331)	-	
Pupil Services Shoe Fund	2,860	8,058	(4,737)	6,181	
	<u>970,962</u>	<u>3,509,212</u>	<u>(3,491,204)</u>	<u>988,970</u>	

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Statement of Changes in Cash and Cash Equivalents – School Activity Funds (continued)
June 30, 2017**

	School Activity Accounts Balance			School Activity Accounts Balance
	July 1, 2016	Additions	Deductions	June 30, 2017
School - Savings				
Benjamin Banneker Elem	\$ 2,730	\$ 3	\$ -	\$ 2,732
Carver Elem	300	-	-	300
Park Hall Elem	858	-	(860)	(2)
Chopticon High	98,499	389	-	98,888
Forrest Career & Tech Center	70,000	-	-	70,000
	<u>172,386</u>	<u>392</u>	<u>(860)</u>	<u>171,918</u>

	School Activity Accounts Balance			School Activity Accounts Balance
	July 1, 2016	Additions	Deductions	June 30, 2017
School - MLGIP (Maryland Local Government Investment Pool)				
Dynard Elem	\$ 5,118	\$ 27	\$ -	\$ 5,145
Green Holly School	6,375	2,043	-	8,418
Greenview Knolls Elem	18,239	79	(5,000)	13,317
Hollywood Elem	10,576	55	-	10,631
Leonardtwn Elem	5,325	28	-	5,352
Lettie Marshall Dent Elementary	1,425	7	(1,432)	-
Oakville Elem	1,263	7	-	1,270
Park Hall Elem	5,215	27	-	5,242
Piney Point Elem	8,304	43	-	8,347
Town Creek Elem	3,107	16	-	3,124
White Marsh Elem	4,294	25	(4,320)	-
Esperanza Middle	6,248	32	-	6,281
Leonardtwn Middle	15,435	80	-	15,515
Margaret Brent Middle	41,679	217	-	41,896
Spring Ridge Middle	9,712	51	(285)	9,478
Chopticon High	-	-	-	-
Great Mills High	171,417	891	-	172,308
Leonardtwn High	146,656	762	-	147,419
Forrest Career & Tech Center	37,222	194	-	37,415
MGA-MUN	2,635	6	(2,641)	-
SMASC	263	1	(264)	-
Pupil Services	819	1	(819)	-
	<u>501,328</u>	<u>4,591</u>	<u>(14,761)</u>	<u>491,158</u>
Total	<u>\$ 1,644,677</u>	<u>\$ 3,514,195</u>	<u>\$ (3,506,825)</u>	<u>\$ 1,652,047</u>



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**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, 2017, 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 27, 2017.

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.



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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.

Hunt Valley, Maryland
September 27, 2017

A handwritten signature in black ink that reads "S.B. & Company, LLC". The signature is written in a cursive, flowing style.



SB & COMPANY, LLC
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR 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 Schools' (the School System) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect School System's major federal programs for the year ended June 30, 2017. The School System's major Federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 (CFR) 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, 2017.

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.

Hunt Valley, Maryland
September 27, 2017

A handwritten signature in black ink that reads "SB & Company, LLC".

ST. MARY'S COUNTY PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards June 30, 2017

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/16	Cash received FY 2017	FY '17 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/17
<u>U.S. Department of Agriculture:</u>									
Passed through the Maryland State Dept. of Education:									
USDA Commodities	10.555		7/1/2016 - 6/30/2017	\$ 400,000	\$ -	\$ 435,355	\$ 435,355	\$ -	\$ -
Summer Food Program	10.559		7/1/2015 - 6/30/2016	25,000	8,694	8,694	-	-	-
Summer Food Program	10.559		7/1/2016 - 6/30/2017	32,000	-	30,272	34,886	-	4,615
Breakfast	10.553		7/1/2015 - 6/30/2016	975,000	42,048	42,048	-	-	-
Breakfast	10.553		7/1/2016 - 6/30/2017	1,050,000	-	1,043,520	1,080,380	-	36,860
Lunch (Sec 4 & 11)	10.555		7/1/2015 - 6/30/2016	2,500,000	88,998	88,998	-	-	-
Lunch (Sec 4 & 11)	10.555		7/1/2016 - 6/30/2017	2,600,000	-	2,375,134	2,452,942	-	77,808
Federal Snack Program	10.555		7/1/2015 - 6/30/2016	25,000	202	202	-	-	-
Federal Snack Program	10.555		7/1/2016 - 6/30/2017	25,000	-	32,960	33,063	-	103
Professional Standards for School Nutrition Employees	10.560		5/1/2017 - 9/30/2017	7,241	-	-	6,085	-	6,085
Child Nut-Hunger-Free Kids Meal Pattern	10.560		7/1/2016 - 8/30/2016	787	-	787	787	-	-
Total Child Nutrition Cluster				7,640,028	139,942	4,057,969	4,043,498	-	125,471
Team Nutrition Grant	10.574		7/1/2016 - 6/30/2017	4,000	-	4,000	4,000	-	-
Child and Adult Care Food Program	10.558		4/1/2017 - 7/1/2017	2,475	-	5,505	5,505	-	-
Total Department of Agriculture				7,646,503	139,942	4,067,475	4,053,003	-	125,471
<u>U.S. Department of Defense:</u>									
Direct Program:									
ROTC Navy	12.000		7/1/2015 - 6/30/2016	70,000	20,128	20,128	-	-	-
ROTC Navy	12.000		7/2/2016 - 6/30/2017	70,000	-	74,799	74,799	-	-
ROTC Air Force	12.000		7/1/2015 - 6/30/2016	43,000	-	-	-	-	-
ROTC Air Force	12.000		7/1/2016 - 6/30/2017	56,000	-	45,837	49,009	-	3,172
Total Program				239,000	20,128	140,764	123,808	-	3,172
Public Law 102-484	12.000		7/1/2015 - 6/30/2016	412,000	429,495	429,495	-	-	-
Public Law 102-484	12.000		7/1/2016 - 6/30/2017	299,000	-	-	407,460	-	407,460
Total Program				711,000	429,495	429,495	407,460	-	407,460
STEM - Project Based Learning	12.556	HE1254-12-1-0043	9/25/2012 - 8/31/2016	2,500,000	5,725	63,235	57,510	-	-
Total U.S. Department of Defense				3,450,000	455,348	633,495	588,778	-	410,633

ST. MARY'S COUNTY PUBLIC SCHOOLS

Schedule of Expenditures of Federal Awards (continued) June 30, 2017

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/16	Cash received FY 2017	FY '17 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/17
<u>U.S. Department of Education:</u>									
Passed through the Maryland State Dept. of Education:									
E.C.I.A. Title I	84.010	154369.01	7/1/2014 - 6/30/2016	2,421,571	163,846	163,846	-	-	-
E.C.I.A. Title I	84.010	165606.01	7/1/2014 - 9/30/2016	1,318	-	1,318	1,318	-	-
E.C.I.A. Title I	84.010	165107.01	7/1/2015 - 6/30/2017	2,395,240	795,900	1,193,253	484,212	-	86,860
E.C.I.A. Title I	84.010	170927.01	7/1/2016 - 6/30/2018	2,970,717	-	1,766,730	2,240,642	-	473,912
E.C.I.A. Title I Approaching Target	84.010	154985.01	7/1/2014 - 1/31/2016	19,520	41	41	-	-	-
E.C.I.A. Title I Focus	84.010	154998.01	7/1/2014 - 10/31/2015	128,308	(15)	-	-	15	-
E.C.I.A. Title I Focus	84.010	165152.01	7/1/2015 - 6/30/2017	240,000	11,598	102,267	119,818	13,257	42,405
E.C.I.A. Title I Focus	84.010	171325.01	7/1/2016 - 10/31/2017	120,000	-	87,888	116,768	-	28,880
Total Program				8,296,674	971,369	3,315,343	2,962,758	13,272	632,056
SPED Pass Thru	84.027	164700.01	7/1/2015 - 9/30/2017	3,242,991	1,711,609	1,711,609	-	-	-
SPED Pass Thru	84.027	170286.01	7/1/2016 - 9/30/2018	3,364,046	-	2,461,451	3,324,389	-	862,938
SPED Pass Thru Parent Placed	84.027	154206.02	7/1/2014 - 9/30/2015	42,129	865	865	-	-	-
SPED Pass Thru Parent Placed	84.027	164700.02	7/1/2015 - 9/30/2017	52,599	708	708	-	-	-
SPED Pass Thru Parent Placed	84.027	170286.02	7/1/2016 - 9/30/2018	52,555	-	51,884	52,769	-	885
Early Connections	84.027	170286.06	7/1/2016 - 9/30/2017	34,832	-	27,001	27,470	-	469
Local Flexibility	84.027	170286.04	7/1/2016 - 9/30/2017	97,750	-	84,671	91,361	-	6,690
Local Flexibility	84.027	164700.04	7/1/2015 - 9/30/2016	113,085	17,856	28,811	10,955	-	-
SPED SEAC	84.027	144268.05	7/1/2013 - 9/30/2014	2,500	(0)	-	-	-	-
SPED SEAC	84.027	164700.03	7/1/2015 - 9/30/2016	2,500	805	1,419	615	-	-
SPED SEAC	84.027	170286.03	7/1/2016 - 9/30/2017	2,500	-	59	1,541	-	1,482
NASDE	84.027	164699.03	7/1/2015 - 8/31/2016	600	60	60	-	-	-
NASDE	84.027	170286.05	7/1/2016 - 9/30/2017	600	-	-	-	-	-
Infants & Toddlers Program	84.027	154242.02	7/1/2014 - 6/30/2016	56,869	2,647	2,647	-	-	-
Infants & Toddlers Program	84.027	164436.01	7/1/2015 - 6/30/2017	51,542	8	43,354	50,722	-	7,376
Infants & Toddlers Program	84.027	164439.01	7/1/2015 - 8/31/2016	25,163	1,393	5,986	4,594	-	0
Infants & Toddlers Program	84.027	170122.01	7/1/2016 - 9/30/2017	55,202	-	22,085	29,444	-	7,360
IDEA Discretionary One - Time Supplemental (3 to 21)	84.027	164699.01	7/1/2015 - 8/31/2016	38,645	476	7,912	7,436	-	-
IDEA Discretionary One - Time Supplemental (3 to K)	84.027	164699.02	7/1/2015 - 8/31/2016	19,339	3,364	5,763	2,398	-	-
IDEA Pre-school	84.173	164697.01	7/1/2015 - 9/30/2017	109,734	43,087	27,443	-	-	15,644
IDEA Pre-school	84.173	170285.01	7/1/2016 - 9/30/2018	109,734	-	85,429	109,734	-	24,305
Infants & Toddlers Program	84.173	154242.03	7/1/2014 - 6/30/2016	7,000	1,796	1,796	-	-	-
Infants & Toddlers Program	84.173	164437.01	7/1/2015 - 6/30/2017	7,000	1,312	5,157	4,858	-	1,012
Infants & Toddlers Program	84.173	170214.01	7/1/2016 - 9/30/2017	7,000	-	427	434	-	7
Infants & Toddlers Program	84.173	164437.02	7/1/2015 - 9/30/2016	4,199	2,185	2,185	-	-	-
Infants & Toddlers Program	84.173	170214.02	7/1/2016 - 9/30/2017	4,498	-	3,039	4,498	-	1,459
Total Special Education Cluster (IDEA)				7,504,612	1,788,170	4,581,761	3,723,218	-	929,627

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of Expenditures of Federal Awards (continued)
June 30, 2017**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/16	Cash received FY 2017	FY '17 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/17
<u>Direct Program:</u>									
Impact Aid	84.041		7/1/2015 - 6/30/2016	2,200,000	-	-	-	-	-
Impact Aid	84.041		7/1/2016 - 6/30/2017	1,780,000	-	1,767,684	2,160,493	-	392,809
Total Program				3,980,000	-	1,767,684	2,160,493	-	392,809
<u>Passed through the Maryland State Dept. of Education:</u>									
Perkins (Program Improvement)	84.048	165085.01	7/1/2015 - 6/30/2016	145,839	25,479	25,479	-	-	-
Perkins (Program Improvement)	84.048	170534.01	7/1/2016 - 6/30/2017	161,284	-	115,251	159,456	-	44,205
Perkins (Program Improvement)	84.048	170718.01	7/1/2016 - 6/30/2017	35,401	-	34,716	33,510	-	(1,206)
Total Program				342,524	25,479	175,446	192,966	-	42,999
Summer Job Experiences	84.126	165665.01	5/15/2016 - 8/1/2016	13,535	1,393	10,576	9,183	-	-
Vocational Rehabilitation	84.126	171481.01	5/15/2017 - 8/31/2017	11,764	-	-	321	-	321
				25,299	1,393	10,576	9,504	-	321
Infants & Toddlers Program	84.181	154242.01	7/1/2014 - 6/30/2016	98,836	(150)	568	-	-	(718)
Infants & Toddlers Program	84.181	164435.01	7/1/2015 - 9/30/2016	108,374	81,518	81,518	-	-	-
Infants & Toddlers Program	84.181	164435.02	7/1/2015 - 9/30/2017	10,000	-	1,450	10,000	-	8,550
Infants & Toddlers Program	84.181	170252.02	7/1/2016 - 9/30/2017	122,404	-	91,568	87,274	-	(4,294)
Total Program				339,614	81,368	175,104	97,274	-	3,538
Homeless Education	84.196a	165250.01	7/1/2015 - 12/31/2016	59,137	24,771	44,637	19,866	-	-
Homeless Education	84.196a	171072.01	7/1/2016 - 12/31/2017	69,903	-	35,765	49,199	-	13,434
Total Program				129,040	24,771	80,402	69,065	-	13,434
21st Century Learning Centers	84.287	155386.01	2/1/2015 - 9/30/2015	143,476	9,148	9,148	-	-	-
21st Century Learning Centers	84.287	165203.01	9/1/2015 - 8/30/2016	121,776	46,682	53,602	6,920	-	-
21st Century Learning Centers	84.287	171359.01	7/1/2016 - 9/30/2017	108	-	108	108	-	-
21st Century Learning Centers	84.287	165509.01	9/1/2015 - 8/31/2016	22,911	-	-	-	-	-
21st Century Learning Centers	84.287	165199.01	9/1/2015 - 8/30/2016	122,640	68,544	43,764	(24,780)	-	-
21st Century Learning Centers	84.287	171360.01	7/1/2016 - 9/30/2017	89,601	-	89,601	89,601	-	-
21st Century Learning Centers	84.287	165201.01	9/1/2015 - 8/30/2016	377,088	110,573	114,456	3,884	-	-
21st Century Learning Centers	84.287	171357.01	7/1/2016 - 9/30/2017	7,173	-	7,173	7,173	-	-
21st Century Learning Centers	84.287	170904.01	9/1/2016 - 9/30/2017	103,156	-	59,703	65,531	-	5,828
21st Century Learning Centers	84.287	170903.01	9/1/2016 - 9/30/2017	358,141	-	237,099	340,784	-	103,685
21st Century Learning Centers	84.287	170902.01	9/1/2016 - 9/30/2017	183,483	-	98,912	118,833	-	19,921
Total Program				1,529,554	234,947	713,565	608,054	-	129,434

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of Expenditures of Federal Awards (continued)
June 30, 2017**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/16	Cash received FY 2017	FY '17 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/17
Title III	84.365A	154438.01	7/1/2014 - 9/30/2016	31,627	12,552	13,117	565	-	-
Title III	84.365A	164306.01	7/1/2015 - 9/30/2017	34,423	22,089	33,814	12,334	574	1,183
Title III	84.365A	170667.01	7/1/2016 - 9/30/2018	33,848	-	29,463	19,218	9,877	(368)
Title III Supplemental	84.365B	164269.01	7/1/2015 - 9/30/2016	28,337	333	333	-	-	-
Title III (Immigrant)	84.365A	154438.02	7/1/2014 - 9/30/2016	5,062	(2,937)	1,939	4,877	-	-
Title III (Immigrant)	84.365A	164306.02	7/1/2015 - 9/30/2017	4,997	4,997	4,997	-	-	-
Title III (Immigrant)	84.365A	170667.02	7/1/2016 - 9/30/2018	5,372	-	541	550	-	8
Total Program				143,666	37,033	84,205	37,544	10,451	823
Title II Part A	84.367	154946.01	7/1/2014 - 6/30/2016	600,139	270,690	270,690	-	-	-
Title II Part A	84.367	165272.01	7/1/2015 - 6/30/2017	598,290	321,032	479,567	277,258	-	118,723
Title II Part A	84.367	171219.01	7/1/2016 - 6/30/2018	591,355	-	363,316	415,643	18,975	71,302
Title II Part A - PreK-2 Symposium	84.367	171534.01	4/4/2017 - 9/30/2017	2,290	-	-	128	-	128
Total Program				1,792,074	591,722	1,113,572	693,029	18,975	190,154
Judy Center Expansion	84.419B	164582.01	7/1/2015 - 6/30/2016	50,662	23,807	23,807	-	-	-
Judy Center Expansion	84.419	165841.01	7/1/2015 - 12/31/2016	114,338	17,743	114,338	96,595	-	-
Preschool Development	84.419B	165735.01	6/1/2016 - 6/30/2017	146,880	-	104,789	142,425	-	37,636
Preschool Development	84.419	170635.01	7/1/2016 - 9/30/2017	165,000	-	119,450	144,913	-	25,463
				476,880	41,550	362,384	383,933	-	63,098
Total U.S. Department of Education:				24,559,936	3,797,802	12,380,042	10,937,838	42,698	2,398,293
<u>U.S. Department of Health and Human Services:</u>									
<u>Direct Program</u>									
Office of Head Start	93.600	03CH3375/05	7/1/2013 - 6/30/2018	2,289,555	-	272,791	650,088	-	377,297
Office of Head Start	93.600	03CH3375/04	7/1/2013 - 6/30/2018	2,249,443	575,525	2,249,443	1,673,918	-	-
Office of Head Start	93.600	03CH3375/03	7/1/2013 - 6/30/2018	2,249,443	-	-	-	-	-
Office of Head Start	93.600	03CH3375/02	7/1/2013 - 6/30/2018	2,249,443	-	-	-	-	-
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				10,688,865	575,525	2,522,234	2,324,006	-	377,297

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of Expenditures of Federal Awards (continued)
June 30, 2017**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/16	Cash received FY 2017	FY '17 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/17
<u>Passed through the St. Mary's County Health Department:</u>									
School and Child Care Center Wellness Activity	93.758	FHF09PHS	7/1/2016 - 6/30/2017	15,000	-	15,000	14,984	-	(16)
<u>Passed through the Maryland State Dept. of Education:</u>									
Medical Assistance	93.778	N/A	7/1/2016 - 6/30/2017	1,426,064	(1,653,633)	1,122,144	748,279	-	(2,027,498)
Total U.S. Department of Health and Human Services				12,129,929	(1,078,107)	3,659,378	3,087,269	-	(1,650,217)
Total Expenditures of Federal Awards				\$ 47,786,368	\$ 3,314,985	\$ 20,740,388	\$ 18,666,888	\$ 42,698	\$ 1,284,180

ST. MARY’S COUNTY PUBLIC SCHOOLS

**Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All Federal grant operations of the Saint Mary’s County Public Schools (the School System) are included in the scope of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Single Audit) for the year ended June 30, 2017. The Single Audit was performed in accordance with the provisions of the U.S. Office of Budget and Management (OMB) Compliance Supplement (the Compliance Supplement). Compliance testing of all requirements, as described in the Compliance Supplement, was performed for the major grant programs noted below. The programs on the schedule of expenditures of Federal awards represent all Federal award programs for fiscal year 2017 cash or non-cash expenditure activities to ensure coverage of at least 20% of federally granted funds. Our actual coverage was 34%.

Expenditures reported on the schedule of expenditures of Federal awards (the Schedule) are reported on the accrual basis of accounting. Such expenditures are recognized following 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. The School System did not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance. The School System was required to use an indirect allocation rate of 1.56% for the year ended June 30, 2017 which was approved by the Maryland State Department of Education.

Federal Grantor/Pass Through Grantor/ Program Title	CFDA Number	Federal Program Expenditures
U.S. Department of Health and Human Services		
Direct Program		
Office of Head Start	93.600	\$ 2,324,006
U.S. Department of Agriculture:		
Pass through from Maryland Department of Education	10.553/10.555/	
Child Nutrition Cluster	10.559	4,036,626
Total		<u><u>\$ 6,360,632</u></u>

2. BASIS OF PRESENTATION

The accompanying schedule of expenditures of Federal awards is presented on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

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
June 30, 2017**

Section I – Summary of Independent Public Account’s Results

Financial Statements

Type of Independent Public Accountants’ report issued	Unmodified
Internal control over financial reporting: Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Type of Independent Public Accountants’ report issued on compliance for major programs	Unmodified
Internal control over major programs: Material weakness identified?	No
Significant deficiency identified that is not considered to be a material weakness?	None reported
Audit findings disclosed that are required to be reported in accordance with section 200.516(a) of the Uniform Guidance?	No

Identification of Major Programs:

Federal Grantor/Pass Through Grantor/ Program Title	CFDA Number	Federal Program Expenditures
U.S. Department of Health and Human Services		
Direct Program		
Office of Head Start	93.600	\$ 2,324,006
U.S. Department of Agriculture:		
Pass through from Maryland Department of Education	10.553/10.555/	
Child Nutrition Cluster	10.559	4,036,626
Total		<u><u>\$ 6,360,632</u></u>
Threshold for distinguishing between Type A and B programs		\$ 750,000
Did the School System qualify as a low risk auditee?		Yes

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of Findings and Questioned Costs
June 30, 2017**

Section II – Financial Statement Findings

None

Section III – Federal Award Findings

None

ST. MARY'S COUNTY PUBLIC SCHOOLS

**Schedule of Prior Year Findings and Questioned Costs
June 30, 2017**

No findings were reported during the prior year.