

St. Mary's County Public Schools

Financial Report
June 30, 2013

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Single Audit

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activity, 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, 2013, and the related notes to the financial statements, which collectively comprise the School System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

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 activity, each major fund, and the aggregate remaining fund information of St. Mary's County Public Schools, as of June 30, 2013, 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 and the Required Supplementary Information – Combined State Retirement and Pension System of Maryland and St. Mary's County Public Schools OPEB Plan Schedules of Funding Progress on pages 3 through 13 and 43 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.

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 Budgetary Comparison Schedule – General Fund on page 42 is presented for purposes of additional analysis as required by the Governmental Accounting Standards Board, and is not a required part of the basic financial statements. The financial information listed as supplementary information in the table of contents is presented for purposes of additional analysis, and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on pages 53 through 58 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements.

The schedules and information discussed in the preceding paragraph is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules and information is 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, 2013 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the 2012 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.



Frederick, Maryland
September 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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, 2013. Please read it in conjunction with the financial statements, which immediately follow this section.

Financial Highlights

- The financial status of the School System decreased this year. Net position decreased by \$13.5 million (see page 15). Substantial portion of overall decrease in net position is due to the increase of the net OPEB obligation by \$5.9 million and equipment financing lease agreements by \$3.5 million and its recording of the Outstanding Claims Liability for 2013 of \$1.9 million.
- The unassigned Fund Balance of the General Fund fell from \$4,752,610 to \$2,033,470. The net change to the General Fund's Fund Balance was \$(1,489,053) (see pages 16 and 18).
- The net position for business type activities (Food Services) increased by \$16,651 (see page 21).

Overview of Financial Statements

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

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

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

Figure A-1
Organization of SMCPS Annual Financial Report

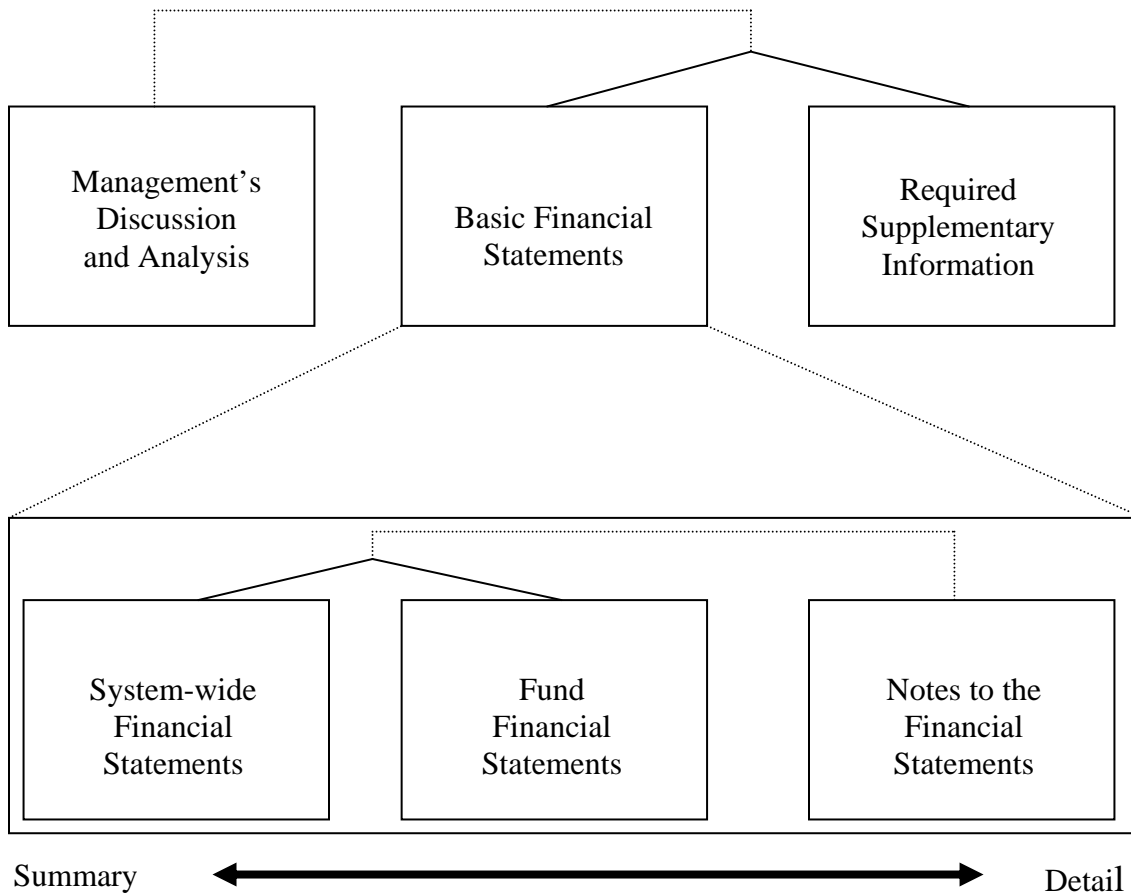


Figure A-2 summarizes the major features of the School System's financial statements, including the portion of the School System's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and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

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

System-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The School System has three kinds of funds:

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

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

Financial Analysis of the School System as a Whole

The School System's combined net position decreased \$13.5M net of related debt, or -6.2% which came predominately from the School System's increase in its net OPEB obligation of \$5.9M and its use of equipment leasing of \$3.5M and its recording of the Outstanding Claims Liability for 2013 of \$1.9M.

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

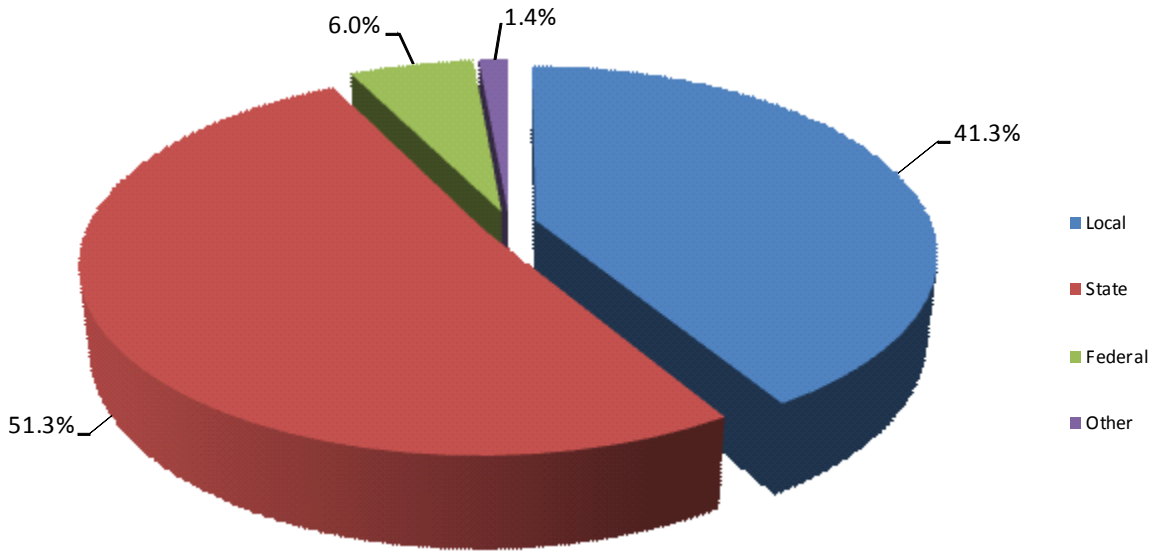
	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2013	2012	2013	2012	2013	2012	
Current and other assets	\$ 29.4	\$ 30.5	\$ 1.6	\$ 1.4	\$ 31.0	\$ 31.9	-2.8%
Capital assets	235.7	236.7	0.5	0.6	236.2	237.3	-0.5%
Total assets	265.1	267.2	2.1	2.0	267.2	269.2	-0.7%
Long-term debt outstanding	38.5	29.0	0.2	0.1	38.7	29.1	33.0%
Other liabilities	22.9	21.0	0.4	0.5	23.3	21.5	8.4%
Total liabilities	61.4	50.0	0.6	0.6	62.0	50.6	22.5%
Net Position							
Invested in capital assets, net of related debt	232.3	236.7	0.5	0.6	232.8	237.3	-1.9%
Restricted	0.1	0.1	-	-	0.1	0.1	0.0%
Unrestricted	(28.7)	(19.6)	1.0	0.8	(27.7)	(18.8)	47.3%
Total net position	\$ 203.7	\$ 217.2	\$ 1.5	\$ 1.4	\$ 205.2	\$ 218.6	-6.1%

Figure A-4

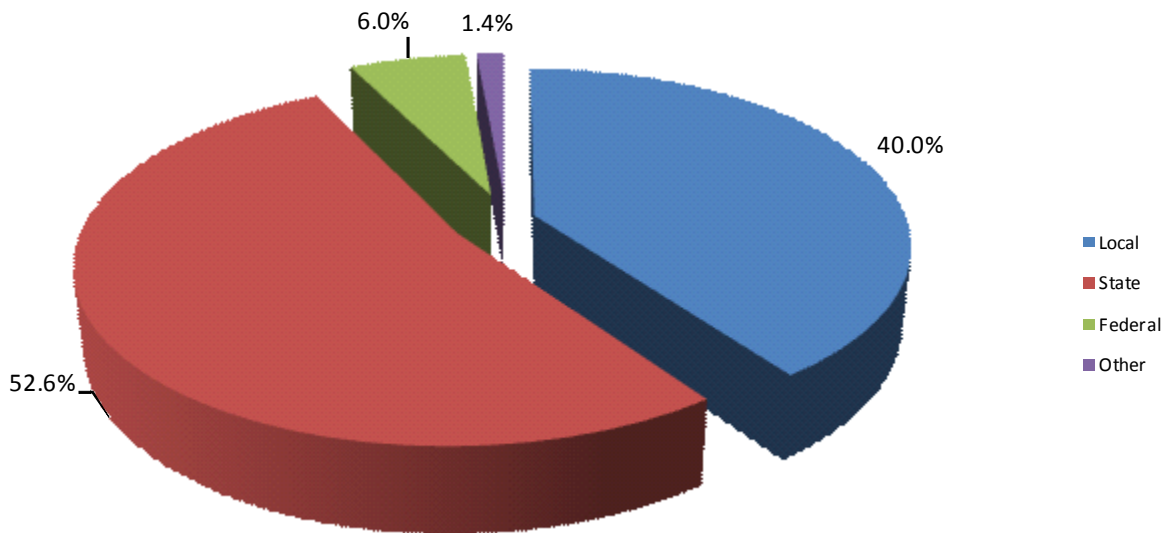
Condensed Statement of Net Activities (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2013	2012	2013	2012	2013	2012	
Revenues							
Program revenues:							
Charges for services	\$ 0.5	\$ 0.5	\$ 3.1	\$ 3.1	\$ 3.6	\$ 3.6	0.0%
Operating grants & contributions	34.9	35.0	3.7	3.5	38.6	38.5	0.3%
Capital grants & contributions	3.9	8.3	-	-	3.9	8.3	-53.0%
General revenues:							
County	85.7	77.0	-	-	85.7	77.0	11.3%
State	82.3	80.4	-	-	82.3	80.4	2.4%
Federal	2.9	2.8	-	-	2.9	2.8	3.6%
Other	4.2	3.8	-	-	4.2	3.8	10.5%
Total revenues	214.4	207.8	6.8	6.6	221.2	214.4	3.2%
Expenses							
Administrative	19.0	18.6	-	-	19.0	18.6	2.2%
Instruction	80.6	76.6	-	-	80.6	76.6	5.2%
Special education	20.4	20.2	-	-	20.4	20.2	1.0%
Student personnel & health services	3.2	3.0	-	-	3.2	3.0	6.7%
Transportation	15.3	15.0	-	-	15.3	15.0	2.0%
Operations & maintenance	26.3	25.6	-	-	26.3	25.6	2.7%
Fixed charges	62.7	59.8	-	-	62.7	59.8	4.8%
Other	0.4	-	6.8	6.8	7.2	6.8	5.9%
Total expenses	227.9	218.8	6.8	6.8	234.7	225.6	4.0%
Change in net position	\$ (13.5)	\$ (11.0)	\$ -	\$ (0.2)	\$ (13.5)	\$ (11.2)	20.5%

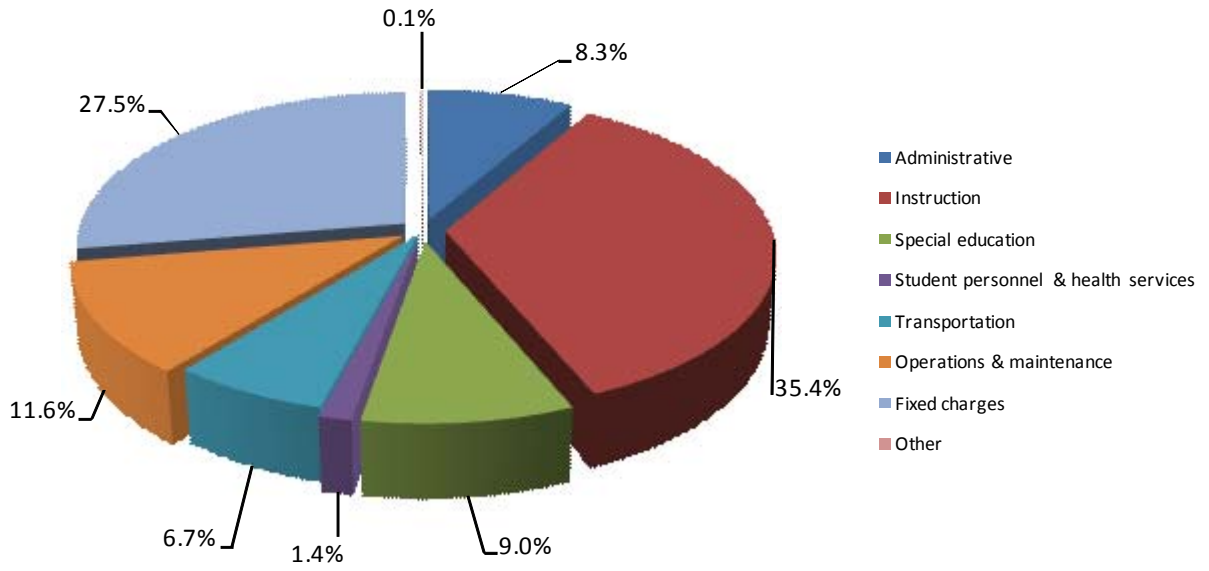
**Figure A-5: Sources of Revenues FY-2013
Governmental Activities**



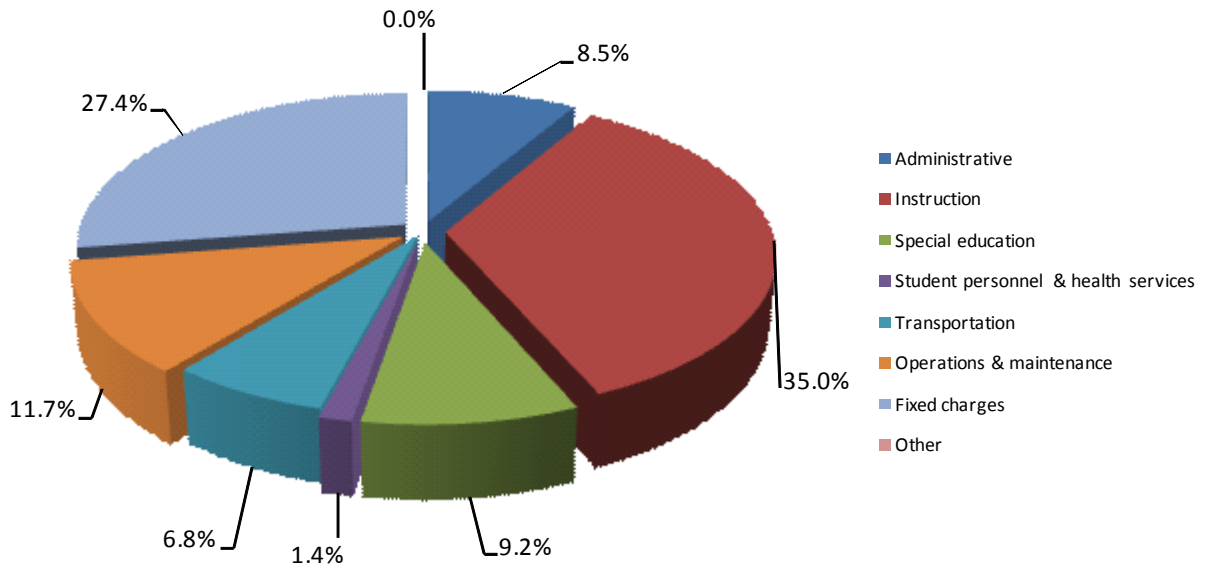
**Figure A-6: Sources of Revenues FY-2012
Governmental Activities**



**Figure A-7: Expenses FY-2013
Governmental Activities**



**Figure A-8: Expenses FY-2012
Governmental Activities**



Governmental Activities

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

- Negatives:
 - Interest Income – Continued National economic factors affecting the banking industry keep interest income low and banking fees high for corporate/business accounts.
 - Fund Balance – Continued heavy reliance on Fund Balance to balance the budget.
 - Increased Expenditures – Significant increased expenditures for Fixed Charges and Instruction.
 - A major accounting change was implemented in FY 2013 with moving away from premium based payments to actual claims paid (or Pay-Go) with our health care provider. Fiscal Year 2013 took a one time hit to record the year end Outstanding Claims Liability (OCL) of \$1,925,000. Moving forward we will only have to recognize the difference between this number and the expected OCL number as provided by our health care provider.
- Positives:
 - Funding – Slight increases in Local, State and Federal funding.
 - Health Insurance Refund – Final HealthCare refund received.

Figure A-9

Net Cost of Governmental Activities (in millions of dollars)

	Total Cost of Services			Net Cost of Services		
	2013	2012	% Change	2013	2012	% Change
Administrative	\$ 19.0	\$ 18.6	2.2%	\$ 18.1	\$ 17.5	3.4%
Instruction	80.6	76.6	5.2%	75.9	72.8	4.3%
Special education	20.4	20.2	1.0%	12.3	12.2	0.8%
Student personnel & health services	3.2	3.0	6.7%	3.1	2.8	10.7%
Transportation	15.3	15.0	2.0%	8.6	8.4	2.4%
Operations & maintenance	26.3	25.6	2.7%	22.1	17.0	30.0%
Fixed charges	62.7	59.8	4.8%	48.4	44.2	9.5%
Other	0.4	-	-	0.1	-	-
Total	\$ 227.9	\$ 218.8	4.2%	\$ 188.6	\$ 174.9	7.8%

Business-Type Activities

- Net position for Food Service increased by \$16,651.

Financial Analysis of the School System's Funds

The financial performance of the School System as a whole is reflected in its governmental funds as well. For FY-2013 General Fund shows a deficit of \$1.5M expenditures over revenues (page 18) predominately due to first year recognition of accrued estimated health care claims incurred but not reported as of June 30, 2013.

Capital Projects amounted to \$3,900,706 for the year ended June 30, 2013 (page 18). As discussed later, these expenditures were for a full array of capital projects.

General Fund Budgetary Highlights

Expenses exceeded revenues by \$1.2M. Although there were slight increases in all categories of revenues and we controlled costs to the extent possible while still maintaining a high level of service to our students and staff, we had to utilize a large portion of fund balance to balance out the difference between revenues and expenditures.

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

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

Capital Asset and Debt Administration

Capital Assets

During FY-2013, the School System invested \$7,975,735 (prior to depreciation) in a broad range of capital assets, including school buildings, vehicles, and equipment. More information can be found in Note 4 to the basic Financial Statements (page 31).

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

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2013	2012	2013	2012	2013	2012	
Land	\$ 2.5	\$ 2.5	\$ -	\$ -	\$ 2.5	\$ 2.5	0.0%
Facilities under construction	3.6	4.6	-	-	3.6	4.6	-21.7%
Buildings	223.2	226.7	-	-	223.2	226.7	-1.5%
Equipment	6.3	2.8	0.5	0.6	6.8	3.4	100.0%
Total capital assets, net	\$ 235.6	\$ 236.6	\$ 0.5	\$ 0.6	\$ 236.1	\$ 237.2	-0.5%

Long-term Debt

The long-term debt is expected to grow over the next several years as funding for OPEB remains at less than desirable amounts. Our new computer and copier leases have also added to our long term debt obligation. Additional information on long-term debt can be found in Note 7 to the basic Financial Statements (page 33).

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

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2013	2012	2013	2012	2013	2012	
Equipment financing agreements	\$ 3.5	\$ -	\$ -	\$ -	\$ 3.5	\$ -	-
Compensated absences	4.1	4.0	0.2	0.1	4.3	4.1	4.9%
Net OPEB obligation	30.9	25.0	-	-	30.9	25.0	23.6%
Total long-term debt	\$ 38.5	\$ 29.0	\$ 0.2	\$ 0.1	\$ 38.7	\$ 29.1	33.0%

Factors bearing on the School System's Future

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

- The State of Maryland continues to struggle with its budget. Federal ARRA, RTTT, and other programs are offering some financial relief, but have all but ended this year. Long term economic health of the State will severely impact all school systems within Maryland.
- GASB 45 requires St. Mary's County Public Schools to recognize the liability associated with post employment benefits. This adds approximately \$9M annually to our operating budget if fully funded. Presently, it is a voluntary requirement, but if we do not fund the liability, it will grow and impact future budgets. We are currently \$31M short of being fully funded as of June 30, 2013.
- The costs of fossil based fuels can rise at any time and will impact several areas of the budget but most noticeably in Transportation and Operations. All of our bus contracts have an escalation clause whereby contractors can pass the additional cost of diesel fuel on to the school system. The electric company supplying electricity to the school system will increase rates depending on the service provided and usage.
- While we continue to experience decent rates and claims, the trend in healthcare costs is up. With the increase of both additional employees due to population growth and retirees, our medical insurance expenditures will continue to grow as a percent of the budget as a whole.
- Funding for the retirement of staff members currently enrolled in the Teacher's Pension System is now being pushed back to the local school systems which started in fiscal year 2013. Time will tell how the shifting of revenues, MOE and other things will impact us for this new requirement but in the long run we expect this to be a burden for the LEA's and county governments.
- Funding levels continue to remain at a level insufficient to hire and maintain adequate staffing levels for several areas. We have identified areas that are susceptible to internal control weaknesses that if not addressed could lead to errors, lateness, fraud or even theft of school system assets.

Contacting SMCPs' Financial Management

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

BASIC FINANCIAL STATEMENTS

St. Mary's County Public Schools

**Statement Of Net Position
June 30, 2013**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 23,987,058	\$ 488,679	\$ 24,475,737
Certificate of deposit	82,517	-	82,517
Due from other governments	5,475,941	227,257	5,703,198
Internal balances	(545,106)	545,106	-
Other receivables, net	303,018	98,861	401,879
Inventory, at cost	-	204,909	204,909
Prepaid items	10,520	-	10,520
Capital Assets:			
Land	2,545,293	-	2,545,293
Buildings and improvements	338,004,986	-	338,004,986
Furniture and equipment	8,151,387	1,664,196	9,815,583
Equipment leased under financing agreements	4,472,501	-	4,472,501
Construction in process	3,639,276	-	3,639,276
Less accumulated depreciation	(121,075,658)	(1,125,883)	(122,201,541)
Total assets	265,051,733	2,103,125	267,154,858
Liabilities			
Accounts payable	3,532,098	67,826	3,599,924
Accrued salaries and related costs	15,371,815	280,844	15,652,659
Accrued estimated health insurance claims incurred but not reported	1,925,000	-	1,925,000
Accrued interest	59,737	-	59,737
Due to other governments	257,873	-	257,873
Unearned revenue	1,704,530	128,902	1,833,432
Long-term liabilities:			
Due within one year:			
Compensated absences	481,438	12,340	493,778
Financing agreements payable	965,649	-	965,649
Due after one year:			
Compensated absences	3,650,272	148,925	3,799,197
Financing agreements payable	2,496,482	-	2,496,482
Net OPEB obligation	30,945,928	-	30,945,928
Total liabilities	61,390,822	638,837	62,029,659
Net Position			
Invested in capital assets, net of related debt	232,275,654	538,313	232,813,967
Restricted for:			
Capital projects	80,482	-	80,482
Unrestricted	(28,695,225)	925,975	(27,769,250)
Total net position	\$ 203,660,911	\$ 1,464,288	\$ 205,125,199

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Activities
Year Ended June 30, 2013**

Function/Programs	Expenses	Program Revenues			Net (Expense) Revenue And Changes In Net Position		
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Governmental Activities	Business- Type Activities	Total
Governmental activities:							
Administration	\$ 3,566,286	\$ -	\$ 736,116	\$ -	\$ (2,830,170)	\$ -	\$ (2,830,170)
Mid-level administration	15,451,975	-	176,723	-	(15,275,252)	-	(15,275,252)
Instructional salaries	73,650,146	-	1,923,030	-	(71,727,116)	-	(71,727,116)
Instructional textbooks and supplies	4,431,940	208,742	1,730,763	-	(2,492,435)	-	(2,492,435)
Other instructional costs	2,537,129	-	877,725	-	(1,659,404)	-	(1,659,404)
Special education	20,439,931	-	8,132,250	-	(12,307,681)	-	(12,307,681)
Student personnel services	1,320,621	-	112,546	-	(1,208,075)	-	(1,208,075)
Student health services	1,901,960	-	16,144	-	(1,885,816)	-	(1,885,816)
Student transportation services	15,298,363	-	6,666,406	-	(8,631,957)	-	(8,631,957)
Operation of plant	20,857,132	277,218	28,832	3,900,706	(16,650,376)	-	(16,650,376)
Maintenance of plant	5,473,786	-	53,405	-	(5,420,381)	-	(5,420,381)
Community services	164,576	-	164,576	-	-	-	-
Fixed charges	62,728,991	-	14,302,872	-	(48,426,119)	-	(48,426,119)
Interest on long-term debt	131,183	-	-	-	(131,183)	-	(131,183)
Total governmental activities	227,954,019	485,960	34,921,388	3,900,706	(188,645,965)	-	(188,645,965)
Business-type activities:							
Food services	6,838,837	3,115,823	3,719,953	19,200	-	16,139	16,139
Total business-type activities	6,838,837	3,115,823	3,719,953	19,200	-	16,139	16,139
Total primary government	\$ 234,792,856	\$ 3,601,783	\$ 38,641,341	\$ 3,919,906	(188,645,965)	16,139	(188,629,826)
General revenues:							
Unrestricted grants and contributions:							
Local					85,697,709	-	85,697,709
State					82,274,948	-	82,274,948
Federal					2,902,328	-	2,902,328
Investment earnings					9,693	512	10,205
Other					4,211,330	-	4,211,330
Total general revenues					175,096,008	512	175,096,520
Change in net position					(13,549,957)	16,651	(13,533,306)
Net position:							
Beginning					217,210,868	1,447,637	218,658,505
Ending					\$ 203,660,911	\$ 1,464,288	\$ 205,125,199

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Balance Sheet - Governmental Funds
June 30, 2013**

	General Fund	Capital Projects Fund	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 23,966,534	\$ 20,524	\$ 23,987,058
Certificate of deposit	-	82,517	82,517
Due from other governments	4,211,578	1,264,363	5,475,941
Due from other funds	1,595	158,047	159,642
Other receivables	301,423	-	301,423
Prepaid items	10,520	-	10,520
Total assets	\$ 28,491,650	\$ 1,525,451	\$ 30,017,101
Liabilities And Fund Balances			
Liabilities:			
Accounts payable	\$ 2,401,251	\$ 1,113,132	\$ 3,514,383
Accrued salaries and related costs	15,371,815	-	15,371,815
Accrued estimated health insurance claims incurred but not reported	1,925,000	-	1,925,000
Due to other governments	257,873	-	257,873
Due to other funds	720,868	-	720,868
Unearned revenue	1,622,693	81,837	1,704,530
Total liabilities	22,299,500	1,194,969	23,494,469
Fund Balances:			
Non-spendable	10,520	-	10,520
Restricted	-	80,482	80,482
Committed	1,000,000	250,000	1,250,000
Assigned	3,148,160	-	3,148,160
Unassigned	2,033,470	-	2,033,470
Total fund balances	6,192,150	330,482	6,522,632
Total liabilities and fund balances	\$ 28,491,650	\$ 1,525,451	\$ 30,017,101

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Reconciliation Of The Governmental Funds Balance Sheet
To The Statement Of Net Position
June 30, 2013**

Total fund balances - governmental funds \$ 6,522,632

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	\$ 356,813,443	
Accumulated depreciation	<u>(121,075,658)</u>	235,737,785

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

Compensated absences	4,131,710	
Financing agreements payable	3,462,131	
Net OPEB obligation	30,945,928	
Accrued interest on the financing agreements	59,737	<u>(38,599,506)</u>

Total net position - governmental activities \$ 203,660,911

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Revenues, Expenditures, And Changes In Fund Balances -
Governmental Funds
Year Ended June 30, 2013**

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenues:			
Local	\$ 85,697,709	\$ 2,860,136	\$ 88,557,845
State of Maryland	108,972,201	1,040,570	110,012,771
Federal government	12,909,130	-	12,909,130
Tuition	175,977	-	175,977
Investment income	8,987	706	9,693
Other	4,529,399	-	4,529,399
	<u>212,293,403</u>	<u>3,901,412</u>	<u>216,194,815</u>
Expenditures:			
Current:			
Administration	5,093,697	-	5,093,697
Mid-level administration	16,012,917	-	16,012,917
Instructional salaries	73,650,146	-	73,650,146
Instructional textbooks and supplies	4,431,940	-	4,431,940
Other instructional costs	3,944,093	-	3,944,093
Special education	20,458,157	-	20,458,157
Student personnel services	1,319,939	-	1,319,939
Student health services	1,901,960	-	1,901,960
Student transportation services	15,274,382	-	15,274,382
Operation of plant	13,425,255	-	13,425,255
Maintenance of plant	3,782,623	-	3,782,623
Community services	164,576	-	164,576
Fixed charges	56,687,804	-	56,687,804
Capital outlay	775,652	3,900,706	4,676,358
Debt service:			
Principal	1,010,370	-	1,010,370
Interest	71,446	-	71,446
	<u>218,004,957</u>	<u>3,900,706</u>	<u>221,905,663</u>
Excess (deficiency) of revenues over expenditures	<u>(5,711,554)</u>	<u>706</u>	<u>(5,710,848)</u>
Other financing sources (uses):			
Capital lease financing	4,472,501	-	4,472,501
Transfer in	-	250,000	250,000
Transfer out	(250,000)	-	(250,000)
	<u>4,222,501</u>	<u>250,000</u>	<u>4,472,501</u>
Net change in fund balances	<u>(1,489,053)</u>	<u>250,706</u>	<u>(1,238,347)</u>
Fund balance at beginning of year	7,681,203	79,776	7,760,979
Fund balance at end of year	<u>\$ 6,192,150</u>	<u>\$ 330,482</u>	<u>\$ 6,522,632</u>

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Reconciliation Of The Governmental Funds Statement Of Revenues, Expenditures,
And Changes In Fund Balances To The Statement Of Activities
Year Ended June 30, 2013**

Total net change in fund balances - governmental funds	\$	(1,238,347)
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation of \$8,881,630 exceeds capital outlays of \$7,923,603 for the period.		(958,027)
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In the statement of activities, only the gain/loss on the disposition of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by costs of the capital assets of \$151,482 disposed, less any accumulated depreciation of \$150,471.		(1,011)
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Some of the capital assets acquired this year were through financing agreements. The amount funded by the agreements is reported in the governmental funds as a source of financing. On the other hand, the financing agreements are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net position.		(4,472,501)
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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.		1,010,370
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Because the previous retrospective insurance premium refund was not collected for several months after the School System's prior fiscal year ended, it was not considered "available" revenue in the governmental funds. Unearned revenue decreased by this amount this year.		(1,789,517)
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In the statement of activities, compensated absences are measured by the amounts earned during the year. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave amounts earned of \$688,345, was greater than amounts paid of \$559,706.		(128,639)
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In the statement of activities, OPEB costs are measured by the amounts earned during the year as actuarially computed. In governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, accrued OPEB benefits earned of \$11,911,000, exceeded amounts contributed of \$5,998,452.		(5,912,548)
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Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, thus requiring the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the result of accrued interest on the financing agreements. Accrued interest increased by this amount this year.		(59,737)
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Change in net position of governmental activities	\$	(13,549,957)
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See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Net Position - Proprietary Fund
June 30, 2013**

	Enterprise Fund
Assets	
Current Assets:	
Cash and cash equivalents	\$ 488,679
Due from other governments	227,257
Due from other funds	545,106
Accounts receivable, net	98,861
Inventory, at cost	204,909
	<u>1,564,812</u>
Noncurrent Assets:	
Food service equipment	1,664,196
Less accumulated depreciation	<u>(1,125,883)</u>
	<u>538,313</u>
Total assets	<u><u>2,103,125</u></u>
Liabilities	
Current Liabilities:	
Accounts payable	67,826
Accrued salaries and related costs	280,844
Unearned revenue	128,902
Compensated absences	12,340
	<u>489,912</u>
Noncurrent Liabilities:	
Compensated absences	<u>148,925</u>
Total liabilities	<u>638,837</u>
Net Position	
Invested in capital assets, net of related debt	538,313
Unrestricted	925,975
Total net position	<u><u>\$ 1,464,288</u></u>

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Revenues, Expenses, And Changes in Fund Net Position -
Proprietary Fund
Year Ended June 30, 2013**

	Enterprise Fund
<hr/>	
Operating revenues:	
Food service sales	\$ 3,115,823
Federal grants and commodities	3,511,503
State matching and other	208,450
Total operating revenue	<u>6,835,776</u>
Operating expenses:	
Payroll costs	3,453,486
Professional and contract services	57,043
Supplies and materials	2,969,979
Depreciation	100,782
Other operating costs	256,301
Total operating expenses	<u>6,837,591</u>
Operating loss	<u>(1,815)</u>
Non-operating revenues (expenses):	
Interest income	512
Local capital contribution	19,200
Loss on disposition of equipment	(1,246)
	<u>18,466</u>
Change in net position	16,651
Total net position, beginning of year	<u>1,447,637</u>
Total net position, end of year	<u>\$ 1,464,288</u>

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Cash Flows - Proprietary Fund
Year Ended June 30, 2013**

	Enterprise Fund
<hr/>	
Cash Flows From Operating Activities	
Cash received from user charges	\$ 3,081,682
Operating grants and subsidies received	3,217,564
Payments to employees for services	(3,432,252)
Payments to suppliers for goods and services	(2,496,239)
Payments for other operating expenses	(313,344)
Net cash provided by operating activities	<u>57,411</u>
Cash Flows From Non-Capital Financing Activities	
Internal activity - net borrowings from other funds	10,560
Net cash provided by non-capital financing activities	<u>10,560</u>
Cash Flows From Capital And Related Financing Activities	
Nonoperating grants received	19,200
Acquisition of capital assets	(52,132)
Net cash used in capital and related financing activities	<u>(32,932)</u>
Cash Flows From Investing Activities	
Interest received on investments	512
Net cash provided by investing activities	<u>512</u>
Net increase in cash and cash equivalents	35,551
Cash And Cash Equivalents:	
Beginning	453,128
Ending	<u>\$ 488,679</u>
Reconciliation Of Operating Loss To Net Cash Provided By Operating Activities	
Operating loss	\$ (1,815)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	100,782
Changes in assets and liabilities:	
Due from other governments	(111,587)
Receivables	(41,273)
Inventory	33,062
Accounts payable	49,876
Accrued salaries and related costs	(6,480)
Unearned revenue	7,132
Compensated absences	27,714
Net cash provided by operating activities	<u>\$ 57,411</u>

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Fiduciary Net Position - Fiduciary Funds
June 30, 2013**

	Private-Purpose Trust Fund	Retiree Benefit Trust Fund	School Activity Funds
Assets			
Cash and cash equivalents	\$ 100,783	\$ -	\$ 1,499,331
Investments held in MABE Trust	-	25,803,850	-
Due from other funds	-	-	17,715
Total assets	<u>100,783</u>	<u>25,803,850</u>	<u>\$ 1,517,046</u>
Liabilities			
Due to other funds	1,595	-	\$ -
Due to student groups	-	-	1,517,046
Total liabilities	<u>1,595</u>	<u>-</u>	<u>\$ 1,517,046</u>
Net Position			
Reserved for scholarships	<u>\$ 99,188</u>		
Held in trust for retiree benefits		<u>\$ 25,803,850</u>	

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

**Statement Of Changes In Fiduciary Net Position - Fiduciary Funds
Year Ended June 30, 2013**

	Private-Purpose Trust Fund	Retiree Benefit Trust Fund
Additions:		
Contributions	\$ -	\$ 4,520,250
Investment and other income, net of administrative fees	128	1,691,981
Total additions	<u>128</u>	<u>6,212,231</u>
Deductions:		
Scholarships awarded	<u>1,550</u>	<u>-</u>
Change in net position	<u>(1,422)</u>	<u>6,212,231</u>
Net Position:		
Beginning, as previously reported	100,610	-
Restatement, Note 14	<u>-</u>	<u>19,591,619</u>
Beginning, as restated	<u>100,610</u>	<u>19,591,619</u>
Ending	<u>\$ 99,188</u>	<u>\$ 25,803,850</u>

See Notes To Basic Financial Statements.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 1. Overview And Summary Of Significant Accounting Policies

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

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

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

The School System's financial statements are prepared in accordance with the Codification of Governmental Accounting and Financial Reporting Standards (Codification) as promulgated by the Governmental Accounting Standards Board (GASB). The more significant policies of the School System are described below:

A. Reporting Entity

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

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

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

B. Government-Wide Financial Statements

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

In the government-wide Statement of Net Position, both the governmental and business-type activities columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School System's net position is reported in three parts – invested in capital assets, net of related debt; 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 requirements of a particular function. Other income including investment income and grants and contributions that are not restricted to meeting the operational requirements of a particular function are instead reported as general revenues. The School System does not allocate indirect costs.

St. Mary's County Public Schools

Notes To Basic Financial Statements

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

C. Fund Financial Statements

The financial transactions of the School System are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and 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.

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

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

Proprietary Fund:

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

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

Fiduciary Funds:

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

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

Retiree Benefit Trust Fund: The Retiree Benefit Trust Fund 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 using the economic resource measurement focus and the accrual basis of accounting, under which expenses are recorded when the liability is incurred.

St. Mary's County Public Schools

Notes To Basic Financial Statements

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

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

D. Basis Of Accounting

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

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

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

E. Cash And Cash Equivalents

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

F. Interfund Activity

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

G. Accounts Receivable

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

H. Inventory

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

St. Mary's County Public Schools

Notes To Basic Financial Statements

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

I. Capital Assets

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

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

J. Deferred Outflows

Deferred outflows are the consumption of net position by the School System that is applicable to a future period. The School System had no deferred outflows at June 30, 2013.

K. Accrued Salaries

Teachers' salaries are considered earned at the completion of the school year. Teachers who are eligible may elect to be paid their ten month salary over twelve months. The salaries are paid within the first two months of the succeeding fiscal year.

L. Health Insurance And Estimated Claims Incurred But Not Reported

The School System participates in a claims made policy with CareFirst BlueCross BlueShield for its healthcare insurance plan. The policy includes a stop-loss provision for claims in excess of \$200,000. The School System has provided an accrual for estimated claims incurred for the current fiscal year but not reported.

M. Long-Term Debt

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

N. Compensated Absences

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

For governmental funds, the amount of accumulated unpaid vacation and sick leave which is payable from available resources, is recorded as a liability of the respective fund only if they have matured, for example, as a result of employee retirements and resignations. As of June 30, 2013, 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.

O. Deferred Inflows

Deferred inflows are the acquisition of net position by the School System that is applicable to a future reporting period. The School System had no deferred inflows at June 30, 2013.

St. Mary's County Public Schools

Notes To Basic Financial Statements

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

P. 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.

Q. 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.

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

S. Net Position

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

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

T. Subsequent Events

The School System evaluated subsequent events through September 27, 2013, which represents the date the financial statements were available to be issued.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 2. Cash 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, 2013, 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, 2013, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value of such investments were \$14,846,398, \$405,896, and \$783,930 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.

Long-term Investments:

As of June 30, 2013, the Capital Projects Fund's long term investment consisted of a certificate of deposit which had a maturity of less than a year.

The Retiree Benefit Trust Fund'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 contributions to the MABE Trust are the boards of education of the following counties in Maryland: Allegany, Carroll, Cecil, Charles, Harford, Kent, Prince George's, St. Mary's, and Washington.

The assets of the MABE Trust 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. At June 30, 2013, the pooled net position of the MABE Trust was \$108,072,526 in total, of which the School System's share was \$25,803,850. 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, MD 21401-1112.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 3. Receivables And Payables

Receivables and payables at June 30, 2013, consist of the following:

	Governmental Activities		Business-Type Activities	Total
	General	Capital Projects		
Due from other governments:				
Local	\$ -	\$ 839,684	\$ -	\$ 839,684
State	331,657	424,679	19,571	775,907
Federal	3,879,921	-	207,686	4,087,607
	<u>\$ 4,211,578</u>	<u>\$ 1,264,363</u>	<u>\$ 227,257</u>	<u>\$ 5,703,198</u>
Other receivables:				
Account	\$ 301,423	\$ -	\$ 98,861	\$ 400,284
Due from Fiduciary Funds to General Fund reclassified in Statement of Net Position	1,595	-	-	1,595
	<u>\$ 303,018</u>	<u>\$ -</u>	<u>\$ 98,861</u>	<u>\$ 401,879</u>
Accounts payable:				
Vendors	\$ 2,092,103	\$ 1,034,137	\$ 67,826	\$ 3,194,066
Insurance refund due employees	309,148	-	-	309,148
Contractor retainages	-	78,995	-	78,995
Due from General Fund to Fiduciary Funds reclassified in Statement of Net Position	17,715	-	-	17,715
	<u>\$ 2,418,966</u>	<u>\$ 1,113,132</u>	<u>\$ 67,826</u>	<u>\$ 3,599,924</u>
Due to other governments:				
Local	\$ 257,873	\$ -	\$ -	\$ 257,873

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2013, is as follows:

	Balance, June 30, 2012	Additions	Deletions / Transfers	Balance, June 30, 2013
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,545,293	\$ -	\$ -	\$ 2,545,293
Construction in process	4,633,825	2,466,828	(3,461,377)	3,639,276
	<u>7,179,118</u>	<u>2,466,828</u>	<u>(3,461,377)</u>	<u>6,184,569</u>
Capital assets being depreciated:				
Buildings and improvements	334,040,066	503,543	3,461,377	338,004,986
Furniture and equipment	7,822,138	480,731	(151,482)	8,151,387
Equipment leased under financing agreements	-	4,472,501	-	4,472,501
	<u>341,862,204</u>	<u>5,456,775</u>	<u>3,309,895</u>	<u>350,628,874</u>
Accumulated depreciation for:				
Buildings and improvements	(107,307,623)	(7,456,955)	-	(114,764,578)
Furniture and equipment	(5,036,876)	(1,424,675)	150,471	(6,311,080)
	<u>(112,344,499)</u>	<u>(8,881,630)</u>	<u>150,471</u>	<u>(121,075,658)</u>
Governmental activities capital assets, net	<u>\$ 236,696,823</u>	<u>\$ (958,027)</u>	<u>\$ (1,011)</u>	<u>\$ 235,737,785</u>

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 4. Capital Assets (Continued)

	Balance June 30, 2012	Additions	Deletions / Transfers	Balance June 30, 2013
Business-type activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,617,164	\$ 52,132	\$ (5,100)	\$ 1,664,196
Accumulated depreciation for:				
Furniture and equipment	(1,028,955)	(100,782)	3,854	(1,125,883)
Business-type activities capital assets, net	\$ 588,209	\$ (48,650)	\$ (1,246)	\$ 538,313

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2013, as follows:

Governmental activities:	
Administration	\$ 447,105
Mid-level administration	149,546
Other instructional costs	473,390
Special education	13,915
Student personnel services	682
Student transportation services	138,635
Operation of plant	7,652,712
Maintenance of plant	5,645
	<u>\$ 8,881,630</u>
Business-type activities:	
Food services	<u>\$ 100,782</u>

Note 5. Unearned Revenue

General Fund: Unearned revenue primarily consists of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2013 of \$1,611,943, and summer school tuition \$10,750, which is collected in advance of the corresponding expenditures which do not occur until the following fiscal year.

Capital Projects Fund: Unearned revenue consists of funds received for a removal security to be used either towards the purchase of, or removal of an installed solar generating facility upon the expiration of a solar power purchase agreement in the amount of \$81,837.

Enterprise Fund: Unearned revenue of \$128,902 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2014.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 6. Interfund Balances

The composition of interfund balances as of June 30, 2013, is as follows:

Payable Fund	Receivable Fund			
	General	Capital Projects	Enterprise	Agency
General	\$ -	\$ 158,047	\$ 545,106	\$ 17,715
Capital Projects	-	-	-	-
Private-Purpose Trust	1,595	-	-	-
	<u>\$ 1,595</u>	<u>\$ 158,047</u>	<u>\$ 545,106</u>	<u>\$ 17,715</u>

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

Note 7. Long-Term Liabilities

General long-term debt at June 30, 2013, consists of accumulated compensated absences payable and net OPEB obligation. The following is a summary of changes in the School System's general long-term liabilities for the year ended June 30, 2013:

	Balance, June 30, 2012	Additions	Deductions	Balance, June 30, 2013	Amounts Due Within One Year
Governmental activities:					
Equipment financing agreements	\$ -	\$ 4,472,501	\$ (1,010,370)	\$ 3,462,131	\$ 965,649
Compensated absences	4,003,071	688,345	(559,706)	4,131,710	481,438
Net OPEB obligation	25,033,380	11,911,000	(5,998,452)	30,945,928	-
	<u>\$ 29,036,451</u>	<u>\$ 17,071,846</u>	<u>\$ (7,568,528)</u>	<u>\$ 38,539,769</u>	<u>\$ 1,447,087</u>
Business-type activities:					
Compensated absences	\$ 133,551	\$ 33,200	\$ (5,486)	\$ 161,265	\$ 12,340

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

During the year ended June 30, 2013, 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 \$38,818, quarterly payments of \$1,824, and annual payments of \$623,929 at interest rates ranging from 3.74% to 7.69% expiring through April 2018. 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. Principal payments are reported as reductions of long-term obligations in the government-wide financial statements. Total lease payments, including interest, under these agreements for the year ended June 30, 2013 was \$1,081,817.

On August 21, 2013, the School System entered into another lease-purchase agreement to acquire additional computer equipment in the amount of \$1,715,090. The terms of the agreement provide for four annual payments of \$445,646, including interest at 3.59% and one final payment of \$26,464 due August 2017.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 7. Long-Term Liabilities

The future minimum lease payments and the net present value of the minimum lease payments as of June 30, 2013 under these agreements are as follows:

Years Ending June 30,

2014	\$ 1,091,388
2015	1,097,038
2016	1,097,038
2017	427,904
2018	23,417
	<u>3,736,785</u>
Less amount representing interest	(274,654)
Present value of minimum lease payments	<u><u>\$ 3,462,131</u></u>

Note 8. Governmental Fund Balances

Governmental fund balances at June 30, 2013, are summarized as follows:

	General Fund	Capital Projects	Total
Non-spendable:			
Prepaid items	\$ 10,520	\$ -	\$ 10,520
Restricted for:			
Capital projects	-	80,482	80,482
Committed to:			
Facility security upgrades	-	250,000	250,000
Insurance call	1,000,000	-	1,000,000
	<u>1,000,000</u>	<u>250,000</u>	<u>1,250,000</u>
Assigned to:			
Fund balance usage	2,525,000	-	2,525,000
Administrative	3,308	-	3,308
Instruction	55,886	-	55,886
Special education	13,306	-	13,306
Transportation	2,864	-	2,864
Building operations and maintenance	545,323	-	545,323
Other	2,473	-	2,473
	<u>3,148,160</u>	<u>-</u>	<u>3,148,160</u>
Unassigned	<u>2,033,470</u>	<u>-</u>	<u>2,033,470</u>
Total fund balances	<u><u>\$ 6,192,150</u></u>	<u><u>\$ 330,482</u></u>	<u><u>\$ 6,522,632</u></u>

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 9. Risk Management

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

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

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

Note 10. Pension Plans

Plan Description

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

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

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

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 10. Pension Plans (Continued)

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

Funding Policy

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

Annual Pension Cost

St. Mary's County School System contributions totaling \$1,140,494 or 0.98% of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$14,300,829 or 12.31% of covered payroll for fiscal year 2013, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2012. Significant actuarial assumptions used, include (a) a rate of return on investments of 7.75% compounded annually, (b) projected salary increases of 3.50% to 12.00% compounded annually, attributable to inflation, (c) post-retirement benefit increases ranging from 2.75% to 3.50% for service prior to July 1, 2011 and 1.70% to 3.50% for service after June 30, 2011 per year based on the system and provisions, and (d) rates of mortality, termination of service, disablement and retirement based on actual experience during the period from 2006 through 2010.

The actuarial value of assets is measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method explicitly recognizes each year's investment gain or loss over a 5-year period with the final actuarial value not less than 80% or more than 120% of the market value of assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of payroll, in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation, is being amortized over the remaining 7-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000, is being amortized in separate annual layers over a 25-year period. A three year trend of the School System's annual pension cost, is as follows:

Fiscal Year Ended June 30,	Total Annual Pension Cost (APC)	APC Contributed By School System	APC Contributed By State	Percentage Of APC Contributed	Net Pension Obligation
2011	\$ 16,070,915	\$ 1,386,017	\$ 14,684,898	100%	\$ -
2012	16,334,577	1,428,621	14,905,956	100%	-
2013	15,441,323	1,140,494	14,300,829	100%	-

The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by the GASB Codification.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 11. Post-Employment Healthcare And Life Insurance Plan

Plan Description

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

In March 2009, the School System established the Retiree Benefit Trust of the Board of Education of St. Mary's County (Benefit Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Benefit Trust is administered by 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 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.

The MABE Trust was established to pool assets of the 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, or calling 410-841-5414.

Funding Policy

The School System is required to contribute the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of 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 thirty years. The current ARC rate is 4.75% of annual covered payroll. The ARC consisted of the normal cost of \$5,433,000 and the amortization of unfunded accrued liability of \$6,336,000. The School System contributed \$5,998,452 for the year ended June 30, 2012, including \$1,478,202 towards current healthcare and life insurance premiums and an additional \$4,520,250 to prefund future benefits.

St. Mary's County Public Schools

Notes To Basic Financial Statements

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

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed as of July 1, 2012 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, 2013. The annual OPEB cost (expense) for the year ended June 30, 2013 was \$11,911,000, which was comprised of the ARC of \$11,769,000 discussed above, plus net interest on the net OPEB obligation. A historical trend of the School System's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation is as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage Of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 14,054,000	36.43%	\$ 18,928,217
2012	12,481,000	51.08%	25,033,380
2013	11,911,000	50.36%	30,945,928

Funded Status And Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the School System are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods And Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used, include (a) a rate of return on the investment of 6.00% per year compounded annually, (b) projected salary increases of 3.50% compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 4.31% to 10.76% per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 8.00% initially, reduced annually to arrive at an ultimate healthcare cost trend of 3.40%, (e) rates of mortality based upon RP-2000 Fully Generational Combined Healthy Table, (f) termination of service rates based upon age and sex, ranging from 1.00% to 15.00%, (g) disablement rates based on age, ranging from 0.03% to 0.55%, (h) retirement rates based on age, sex, and length of service, ranging from 2.00% to 24.00%, and (i) medical claims including prescription drugs are based on actual experience during the period from July 1, 2010 through June 30, 2012, and were projected with annual increases of 9.00% for medical claims and 9.00% 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 26 years for the year ended June 30, 2013.

St. Mary's County Public Schools

Notes To Basic Financial Statements

Note 12. Commitments And Contingencies

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

School Construction: As of June 30, 2013, 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, since they will be funded by the State of Maryland or County bond issues, totaling approximately \$4,100,877.

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

Health Insurance: The School System has a claims made policy with CareFirst BlueCross BlueShield of Maryland for health insurance coverage. The School System underwrites between 80% - 90% of the cost of health insurance based on an estimate and the employees contribute between 10% - 20%, depending upon which of the 3 different type plans employees participate. The actual contribution by the School System may vary based on actual claims experience. The policy includes a stop-loss provision for claims in excess of \$200,000. The School System has accrued a liability in the General Fund in the amount of \$1,925,000 for estimated claims incurred but not reported as of June 30, 2013.

Note 13. New Governmental Accounting Standards Board Standards

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the year ended June 30, 2013, that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the School System:

- GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the School System beginning with its year ending June 30, 2014. Concepts Statement No. 4, *Elements of Financial Statements* specified that the use of deferred outflows and inflows should be limited to instances identified in authoritative pronouncements. Consequently, this Statement provides guidance to define which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to definitions in Concepts Statement No. 4. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources.

St. Mary's County Public Schools

Notes To Basic Financial Statements

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

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

St. Mary's County Public Schools

Notes To Basic Financial Statements

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

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, will be effective for the School System beginning with its year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations (such as mergers, acquisitions, and transfers) and disposals of government operations. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. For government acquisitions, this Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Additionally, this Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, will be effective for the School System beginning with its year ending June 30, 2014. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

Note 14. Retiree Benefit Trust Fund Restatement

As discussed in Note 11, the School System participates in the Maryland Association of Boards of Education (MABE) Pooled OPEB Investment Trust (MABE Trust) which is administered by MABE. The School System partially funds its actuarially calculated OPEB by making contributions directly to the MABE Trust. Since the MABE Trust is an external pool administered by MABE, the School System has never reported its portion of the net position of the MABE Trust in the School Systems financial statements. However, in order to become a member of the MABE Trust, the School System was required to establish a separate legal trust which it did effective June 1, 2008, the Retiree Benefit Trust of the Board of Education of St. Mary's County (Benefit Trust) and the Benefit Trust became the legal member of the MABE Trust. As such, management has determined that the Benefit Trust should be reflected in the School System's fiduciary activities and the beginning net position of the Retiree Benefit Trust Fund in the accompanying Statement of Changes In Fiduciary Net Position – Fiduciary Funds is being restated to reflect the School System's portion of the net position of the MABE Trust as of July 1, 2012 of \$19,591,619.

REQUIRED SUPPLEMENTARY INFORMATION

St. Mary's County Public Schools

**Budgetary Comparison Schedule -
General Fund
Year Ended June 30, 2013**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Favorable (Unfavorable)
	Original	Amended		
Revenues:				
Local	\$ 85,697,709	\$ 85,697,709	\$ 85,697,709	\$ -
State of Maryland	94,973,307	95,079,807	94,671,372	(408,435)
Federal government	14,945,492	15,557,492	12,909,130	(2,648,362)
Tuition	400,380	400,380	175,977	(224,403)
Investment income	5,000	5,000	8,987	3,987
Other	5,062,154	10,095,612	10,160,738	65,126
	<u>201,084,042</u>	<u>206,836,000</u>	<u>203,623,913</u>	<u>(3,212,087)</u>
Expenditures:				
Administration	3,758,886	3,889,866	3,752,067	137,799
Mid-level administration	16,064,378	15,636,757	15,447,157	189,600
Instructional salaries	73,086,145	74,305,580	73,650,146	655,434
Instructional textbooks and supplies	4,791,909	5,015,165	4,296,277	718,888
Other instructional costs	5,603,551	6,179,097	5,870,606	308,491
Special education	21,633,532	21,852,607	20,445,923	1,406,684
Student personnel services	1,350,924	1,359,724	1,320,939	38,785
Student health services	1,876,084	1,916,084	1,900,510	15,574
Student transportation services	15,482,670	15,165,160	15,082,580	82,580
Operation of plant	14,263,079	13,898,119	13,686,706	211,413
Maintenance of plant	3,814,768	3,647,258	3,615,139	32,119
Fixed charges	38,275,184	42,629,161	42,386,975	242,186
Community services	268,920	268,920	164,576	104,344
Capital outlay	814,012	822,502	768,891	53,611
	<u>201,084,042</u>	<u>206,586,000</u>	<u>202,388,492</u>	<u>4,197,508</u>
Excess of revenues over expenditures	-	250,000	1,235,421	985,421
Other Financing Uses:				
Transfer out	-	(250,000)	(250,000)	-
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	985,421	<u>\$ 985,421</u>
Adjustments to conform with generally accepted accounting principles			(2,474,474)	
Fund balance at beginning of year			<u>7,681,203</u>	
Fund balance at end of year			<u>\$ 6,192,150</u>	

See Notes To Required Supplementary Information And Basic Financial Statements.

St. Mary's County Public Schools

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

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

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value Of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL As A Percentage Of Covered Payroll [(b-a) / c]
2010	\$ 34,688,346	\$ 54,085,081	\$ 19,396,735	64.14%	\$ 10,657,944	181.99%
2011	36,177,656	55,917,543	19,739,887	64.70%	10,478,800	188.38%
2012	37,248,401	57,869,145	20,620,744	64.37%	10,336,537	199.49%

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

Actuarial Valuation Date	Actuarial Value Of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL As A Percentage Of Covered Payroll [(b-a) / c]
July 1, 2010	\$ 13,330,545	\$ 168,590,000	\$ 155,259,455	7.91%	\$ 118,024,654	131.55%
July 1, 2011	17,077,262	145,876,000	128,798,738	11.71%	114,323,669	112.66%
July 1, 2012	19,591,619	136,749,000	117,157,381	14.33%	116,191,213	100.83%

See Notes To Required Supplementary Information And Basic Financial Statements.

St. Mary's County Public Schools

Notes To Required Supplementary Information

Note 1. Budgets And Budgetary Accounting

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

Operating Budget

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

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

Capital Budget

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

St. Mary's County Public Schools

Notes To Required Supplementary Information

Note 2. Reconciliation Of Budgetary Basis To GAAP

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

Adjustments necessary to convert the results of operations and fund balance for the General Fund for fiscal year 2013 from the budget basis to the GAAP basis, are as follows:

	Revenues	Expenditures And Encumbrances	Other Financing Sources (Uses)	Current Year Effect On Fund Balance
General Fund - budgetary basis	\$ 203,623,913	\$ 202,388,492	\$ (250,000)	\$ 985,421
Budget to GAAP reconciliation:				
Prior year encumbrances outstanding, 6/30/12	-	879,710	-	(879,710)
Prior year encumbrances canceled	-	(32,076)	-	32,076
Interfund transfers	(3,381,339)	(3,381,339)	-	-
Current year encumbrances outstanding, 6/30/13	-	(623,160)	-	623,160
State retirement contribution	14,300,829	14,300,829	-	-
Fund balance usage	(2,250,000)	-	-	(2,250,000)
Financing agreement proceeds	-	-	4,472,501	4,472,501
Equipment acquired under financing agreements	-	4,472,501	-	(4,472,501)
	<u>8,669,490</u>	<u>15,616,465</u>	<u>4,472,501</u>	<u>(2,474,474)</u>
General Fund - GAAP basis	<u>\$ 212,293,403</u>	<u>\$ 218,004,957</u>	<u>\$ 4,222,501</u>	<u>\$ (1,489,053)</u>

SUPPLEMENTARY INFORMATION

St. Mary's County Public Schools

**Statement Of Revenues, Expenses, And Changes In Fund Net Position -
Proprietary Fund - Budget Vs. Actual
Year Ended June 30, 2013**

	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:			
Food service sales	\$ 3,385,833	\$ 3,115,823	\$ (270,010)
Federal grants and commodities	3,430,000	3,511,503	81,503
State matching and other	220,000	208,450	(11,550)
Local contribution	-	19,200	19,200
Interest income	1,000	512	(488)
	<u>7,036,833</u>	<u>6,855,488</u>	<u>(181,345)</u>
Expenses:			
Payroll costs	3,585,333	3,453,486	131,847
Professional and contract services	65,000	57,043	7,957
Supplies and materials	2,901,000	2,969,979	(68,979)
Depreciation	120,000	100,782	19,218
Other operating costs	365,500	256,301	109,199
Loss on disposition of equipment	-	1,246	(1,246)
	<u>7,036,833</u>	<u>6,838,837</u>	<u>197,996</u>
Change in net position	<u>\$ -</u>	16,651	<u>\$ 16,651</u>
Total net position, beginning of year		<u>1,447,637</u>	
Total net position, end of year		<u>\$ 1,464,288</u>	

St. Mary's County Public Schools

**Schedule Of Changes In School Activity Funds - Agency Fund
Year Ended June 30, 2013**

	School Activity Accounts Balance, July 1, 2012	Additions	Deductions	School Activity Accounts Balance, June 30, 2013
School - Checking:				
Benjamin Banneker Elementary	\$ 16,165	\$ 85,667	\$ (90,485)	\$ 11,347
Chesapeake Public Charter School	23,713	122,324	(116,161)	29,876
Chopticon High School	56,883	593,921	(590,847)	59,957
Dr. James A. Forrest Career & Technology Center	90,139	280,192	(305,380)	64,951
Dynard Elementary	19,387	70,257	(58,737)	30,907
Esperanza Middle	50,978	113,588	(112,447)	52,119
Evergreen Elementary	20,086	81,234	(80,678)	20,642
Fairlead Academy	2,723	6,041	(5,968)	2,796
G.W. Carver Elementary	4,910	36,402	(29,427)	11,885
Great Mills High School	94,504	400,933	(408,754)	86,683
Green Holly Elementary	8,293	32,952	(30,834)	10,411
Greenview Knolls Elementary	2,516	69,250	(65,812)	5,954
Hollywood Elementary	3,372	55,687	(56,352)	2,707
L.M. Dent Elementary	19,642	105,219	(106,594)	18,267
LBO-Sunshine Fund	1,177	598	(559)	1,216
Leonardtown Elementary	12,752	104,255	(106,662)	10,345
Leonardtown High School	64,755	726,580	(701,552)	89,783
Leonardtown Middle	24,334	102,665	(91,513)	35,486
Lexington Park Elementary	5,733	45,839	(39,907)	11,665
Loveville Bd. Office	1,221	1,844	(2,052)	1,013
Margaret Brent Middle	4,488	164,223	(143,492)	25,219
Mechanicsville Elementary	12,625	67,725	(71,381)	8,969
MGA-MUN	4,165	1,403	(1,511)	4,057
Oakville Elementary	12,306	34,307	(28,935)	17,678
Park Hall Elementary	1,670	47,059	(44,145)	4,584
Piney Point Elementary	22,066	72,056	(59,540)	34,582
Pupil Services	2,991	13,860	(13,681)	3,170
Ridge Elementary	8,086	30,065	(31,364)	6,787
SMASC	3,391	310	(553)	3,148
Spring Ridge Middle	30,007	197,618	(199,376)	28,249
Town Creek Elementary	8,554	30,673	(27,012)	12,215
White Marsh Elementary	6,302	61,246	(54,363)	13,185
	639,934	3,755,993	(3,676,074)	719,853

(Continued)

St. Mary's County Public Schools

Schedule Of Changes In School Activity Funds - Agency Fund (Continued)
Year Ended June 30, 2013

	School Activity Accounts Balance, July 1, 2012	Additions	Deductions	School Activity Accounts Balance, June 30, 2013
School - Savings:				
Chopticon High School	25,610	221	-	25,831
Dr. James A. Forrest Career & Technology Center	70,000	-	-	70,000
Park Hall Elementary	383	117	-	500
	<u>95,993</u>	<u>338</u>	<u>-</u>	<u>96,331</u>
School - MLGIP (Maryland Local Government Investment Pool):				
Benjamin Banneker Elementary	2,620	3	-	2,623
Chopticon High School	173,647	220	-	173,867
Dr. James A. Forrest Career & Technology Center	37,063	47	-	37,110
Dynard Elementary	5,096	6	-	5,102
Esperanza Middle	6,221	9	-	6,230
G.W. Carver Elementary	1,862	3	-	1,865
Great Mills High School	170,685	216	-	170,901
Green Holly	2,357	3	-	2,360
Greenview Knolls Elementary	18,162	22	-	18,184
Hollywood Elementary	12,526	16	-	12,542
L.M. Dent Elementary	1,419	2	-	1,421
Leonardtown Elementary	5,303	6	-	5,309
Leonardtown High School	146,030	185	-	146,215
Leonardtown Middle	15,369	19	-	15,388
Margaret Brent Middle	46,501	53	(5,000)	41,554
Mechanicsville Elementary	294	1	-	295
MGA-MUN	2,624	3	-	2,627
Oakville Elementary	1,258	2	-	1,260
Park Hall Elementary	5,194	5	-	5,199
Piney Point Elementary	8,269	10	-	8,279
Shoe Fund	314	6,001	-	6,315
SMASC	262	-	-	262
Spring Ridge Middle	11,200	145	(485)	10,860
Town Creek Elementary	3,094	4	-	3,098
White Marsh Elementary	4,275	6	-	4,281
	<u>681,645</u>	<u>6,987</u>	<u>(5,485)</u>	<u>683,147</u>
Total	<u>\$ 1,417,572</u>	<u>\$ 3,763,318</u>	<u>\$ (3,681,559)</u>	<u>\$ 1,499,331</u>

SINGLE AUDIT



**Independent Auditor's Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of
Financial Statements Performed In Accordance With
Government Auditing Standards**

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

We have audited, 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 activity, each major fund, and the aggregate remaining fund information of St. Mary's County Public Schools (School System), as of and for the year ended June 30, 2013, 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, 2013 which contained an emphasis of matter paragraph for a restatement of the prior year financial statements.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned Costs, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described in finding 2013-01 in the accompanying schedule of findings and questioned costs to be a material weakness.

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. We consider the deficiency described in finding 2013-02 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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*.

School System's Response to Findings

The School System's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The School System's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Frederick, Maryland
September 27, 2013



**Independent Auditor's Report On Compliance For
Each Major Federal Program And Report On Internal Control Over
Compliance Required By OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited St. Mary's County Public School's (School System) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School System's major federal programs for the year ended June 30, 2013. The School System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion 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, 2013.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School System's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

McGladrey LLP

Frederick, Maryland
September 27, 2013

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards
Year Ended June 30, 2013

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/12	Cash received FY 2013	FY '13 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/13
<u>U.S. Department of Agriculture:</u>									
Passed through the Maryland State Dept. of Education:									
USDA Commodities	10.555		07/01/2012 - 06/30/2013	\$ 360,000	\$ -	\$ 390,802	\$ 390,802	\$ -	\$ -
Summer Food Program	10.559		07/01/2012 - 06/30/2013	17,000	-	16,446	21,940	-	5,494
Breakfast	10.553		07/01/2011 - 06/30/2012	638,000	23,105	23,105	-	-	-
Breakfast	10.553		07/01/2012 - 06/30/2013	825,000	-	801,598	840,125	-	38,527
Lunch (Sec 4 & 11)	10.555		07/01/2011 - 06/30/2012	2,100,000	54,323	54,323	-	-	-
Lunch (Sec 4 & 11)	10.555		07/01/2012 - 06/30/2013	2,200,000	-	2,070,384	2,233,758	-	163,374
Federal Snack Program	10.555		07/01/2011 - 06/30/2012	22,000	256	256	-	-	-
Federal Snack Program	10.555		07/01/2012 - 06/30/2013	26,000	-	22,587	22,878	-	291
Total Child Nutrition Cluster				6,188,000	77,684	3,379,501	3,509,503	-	207,686
Team Nutrition Refresh Grant	10.574		07/01/2012 - 09/30/2012	2,000	-	2,000	2,000	-	-
Fresh Fruit & Vegetable Program	10.582		07/01/2011 - 06/30/2012	25,000	5,072	5,072	-	-	-
Total Department of Agriculture				6,215,000	82,756	3,386,573	3,511,503	-	207,686
<u>U.S. Department of Defense:</u>									
<u>Direct Program:</u>									
ROTC Navy	12.000		07/01/2011 - 06/30/2012	46,000	18,749	18,749	-	-	-
ROTC Navy	12.000		07/01/2012 - 06/30/2013	46,000	-	69,993	69,993	-	-
ROTC Air Force	12.000		07/01/2011 - 06/30/2012	54,000	6,086	6,086	-	-	-
ROTC Air Force	12.000		07/01/2012 - 06/30/2013	54,000	-	37,699	43,096	-	5,397
ROTC Army	12.000		07/01/2011 - 06/30/2012	40,000	1,206	1,206	-	-	-
Total Program				240,000	26,041	133,733	113,089	-	5,397
Naval Air Warfare Center AD (PAX)	12.330	N00421-13-1-0005	03/15/2013 - 02/28/2014	20,000	-	-	-	-	-
Naval Air Warfare Center AD (PAX)	12.330	N00421-11-1-0008	08/15/2011 - 08/31/2012	22,700	14,950	22,695	7,745	-	-
Total Program				42,700	14,950	22,695	7,745	-	-

(Continued)

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2013

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/12	Cash received FY 2013	FY '13 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/13
DOD Education Activity	12.556	HE1254-12-1-0043	09/25/2012 - 08/31/2015	2,500,000	-	15,216	1,410,555	-	1,395,339
Public Law 102-484	12.558		07/01/2011 - 06/30/2012	410,000	493,974	493,974	-	-	-
Public Law 102-484	12.558		07/01/2012 - 06/30/2013	412,000	-	-	469,884	-	469,884
Total Program				822,000	493,974	493,974	469,884	-	469,884
Total U.S. Department of Defense				3,604,700	534,965	665,618	2,001,273	-	1,870,620
<u>U.S. Department of Justice:</u>									
<u>Direct Program:</u>									
Mentoring Programs	16.726	2009-JU-FX-OO15	08/01/2009 - 07/31/2013	251,956	50,504	50,504	43,567	-	43,567
<u>Passed through the Juvenile Drug Court</u>									
Mentoring Programs	16.726	2010-DC-BX-0007	10/01/2010 - 09/30/2013	44,442	20,695	24,800	21,075	-	16,970
Total U.S. Department of Justice				296,398	71,199	75,304	64,642	-	60,537
<u>U.S. Department of Education:</u>									
Passed through the									
<u>Maryland State Dept. of Education:</u>									
Adult Education & Lit Services (ABE/ESL) (343)	84.002a	POOP3400006.03	07/01/2012 - 06/30/2013	41,004	-	41,004	41,004	-	-
Adult Education & Lit Services (ASE) (344)	84.002a	POOP3400006.04	07/01/2012 - 06/30/2013	5,727	-	995	4,996	-	4,001
Adult Education & Lit Services (Local Ins.) (348)	84.002a	POOP3400006.05	07/01/2012 - 06/30/2013	4,962	-	1,707	3,898	-	2,191
Adult Education & Lit Services (FL) (345)	84.002a	POOP3400006.06	07/01/2012 - 06/30/2013	7,363	-	3,922	2,322	-	(1,600)
Adult Education & Lit Services (347)	84.002a	POOP3400006.07	07/01/2012 - 06/30/2013	1,195	-	-	289	-	289
Adult Education & Lit Services	84.002A	POOB24000055.03	07/01/2011 - 06/30/2012	38,697	10,826	10,826	-	-	-
Adult Education & Lit Services	84.002A	POOB24000055.04	07/01/2011 - 06/30/2012	3,941	1,338	1,338	-	-	-
Adult Education & Lit Services	84.002A	POOB24000055.05	07/01/2011 - 06/30/2012	4,962	(399)	(399)	-	-	-
Adult Education & Lit Services	84.002A	POOB24000055.06	07/01/2011 - 06/30/2012	7,378	2,396	2,396	-	-	-
Total Program				115,229	14,161	61,789	52,509	-	4,881

(Continued)

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards (Continued)
 Year Ended June 30, 2013

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/12	Cash received FY 2013	FY '13 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/13
E.C.I.A. Title I	84.010	134405.01	07/01/2012 - 06/30/2014	2,325,810	-	1,332,429	1,965,145	-	632,716
E.C.I.A. Title I	84.010	114452.01	07/01/2010 - 06/30/2012	2,152,110	5,710	5,710	-	-	-
E.C.I.A. Title I	84.010	124541.01	07/01/2011 - 06/30/2013	2,348,658	387,404	626,734	255,833	-	16,503
E.C.I.A. Title I Focus	84.010	135002.02	07/01/2012 - 10/31/2013	147,950	-	27,467	80,924	-	53,457
E.C.I.A. Title I Focus Summer School	84.010	135276.01	07/01/2012 - 09/30/2013	100,120	-	15,018	7,411	-	(7,607)
Total Title I, Part A Cluster				7,074,648	393,114	2,007,358	2,309,313	-	695,069
SPEC Pass Thru Carry Over	84.027	125487.01	10/01/2011 - 06/30/2012	93,367	62,179	62,179	-	-	-
SPEC Pass Thru Carry Over	84.027	125487.02	10/01/2011 - 06/30/2012	47,188	5,000	5,000	-	-	-
SPED Pass Thru	84.027	124260.01	07/01/2011 - 09/30/2012	3,274,524	976,357	1,101,559	125,202	-	-
SPED Pass Thru Parent Placed	84.027	124260.02	07/01/2011 - 09/30/2012	40,579	-	1,415	1,415	-	-
SPED Pass Thru	84.027	134275.01	07/01/2012 - 09/30/2013	3,323,527	-	2,200,334	3,039,728	-	839,394
SPED Pass Thru Parent Placed	84.027	134275.02	07/01/2012 - 09/30/2013	31,215	-	936	31,215	-	30,279
SPED ALT-MSA	84.027	124604.01	07/01/2011 - 09/30/2012	23,168	853	5,866	5,013	-	-
Local Flexibility	84.027	134275.08	07/01/2012 - 09/30/2013	79,770	-	67,980	61,905	-	(6,075)
SPED CSPD	84.027	124260.08	07/01/2011 - 09/30/2012	14,083	4,016	5,770	1,754	-	-
Building Bridges	84.027	125368.01	09/01/2011 - 09/30/2012	47,586	384	33,023	32,639	-	-
SPED Partners for Success	84.027	124260.05	07/01/2011 - 09/30/2012	10,000	1,140	4,842	3,702	-	-
SPED SEAC	84.027	124260.06	07/01/2011 - 09/30/2012	2,500	(375)	1,610	1,985	-	-
SPED Partners for Success	84.027	134275.05	07/01/2012 - 09/30/2013	15,000	-	6,941	7,850	-	909
SPED Transition	84.027	124260.07	07/01/2011 - 09/30/2012	6,000	1,009	4,470	3,461	-	-
SPED SEAC	84.027	134275.06	07/01/2012 - 09/30/2013	2,500	-	575	2,226	-	1,651
SPED Transition	84.027	134275.07	07/01/2012 - 09/30/2013	10,000	-	7,073	6,715	-	(358)
IDEA Pre-school	84.173	134275.03	07/01/2012 - 09/30/2013	110,144	-	60,262	63,674	-	3,412
IDEA Pre-school Parent Placed	84.173	134275.04	07/01/2012 - 09/30/2013	910	-	410	910	-	500
Building Bridges	84.173	134797.03	08/15/2012 - 09/30/2013	23,582	-	3,537	-	-	(3,537)
Maryland Model for School Readiness	84.173	134534.03	07/01/2012 - 09/30/2013	5,452	-	1,705	1,606	-	(99)
Maryland Model for School Readiness	84.173	125109.02	07/01/2011 - 09/30/2012	12,021	1,598	7,340	5,742	-	-
IDEA Pre-school	84.173	124260.03	07/01/2011 - 09/30/2012	109,600	27,286	31,530	4,244	-	-
IDEA Pre-school Parent Placed	84.173	124260.04	07/01/2011 - 09/30/2012	1,661	200	200	-	-	-
Building Bridges	84.181	134797.01	08/15/2012 - 09/30/2013	100,000	-	50,603	71,384	-	20,781

(Continued)

St. Mary's County Public Schools

**Schedule Of Expenditures Of Federal Awards (Continued)
Year Ended June 30, 2013**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/12	Cash received FY 2013	FY '13 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/13
Passed through the									
<u>St. Mary's County Health Dept:</u>									
Health Dept I&T	84.027	MOU	07/01/2012 - 09/30/2013	32,986	-	-	23,263	-	23,263
Health Dept I&T	84.027	MOU	07/01/2011 - 09/30/2012	36,670	11,787	20,841	9,054	-	-
Total Special Education Cluster (IDEA)				7,454,033	1,091,434	3,686,001	3,504,687	-	910,120
<u>Direct Program:</u>									
Impact Aid	84.041		07/01/2011 - 06/30/2012	1,800,000	55,253	55,253	-	-	-
Impact Aid	84.041		07/01/2012 - 06/30/2013	2,112,000	-	2,285,175	2,285,175	-	-
Total Program				3,912,000	55,253	2,340,428	2,285,175	-	-
Passed through the									
<u>Maryland State Dept. of Education:</u>									
Perkins (Program Improvement)	84.048	124721.01	07/01/2011 - 06/30/2012	157,895	29,311	29,311	-	-	-
Perkins (Program Improvement)	84.048	134777.01	07/01/2012 - 06/30/2013	148,697	-	115,286	135,267	-	19,981
Total Program				306,592	29,311	144,597	135,267	-	19,981
Summer Youth Employment	84.126	125791.01	06/18/2012 - 08/30/2012	10,294	501	4,431	3,930	-	-
Homeless Education	84.196a	124427.01	07/01/2011 - 09/30/2012	11,000	7,100	7,100	-	-	-
Homeless Education	84.196a	135026.01	07/01/2012 - 09/30/2013	7,000	-	1,050	7,000	-	5,950
Total Program				18,000	7,100	8,150	7,000	-	5,950
MD Seamless Transition Collaboration	84.235	125206.01	10/01/2011 - 06/30/2013	75,000	31,721	31,721	41,267	-	41,267
Bright Futures	84.287	114555.01	07/01/2010 - 09/30/2011	280,707	(606)	(606)	-	-	-
21st Century Learning Centers	84.287	124683.02	07/01/2011 - 09/30/2012	318,750	56,707	114,271	57,564	-	-
21st Century Learning Centers	84.287	134810.01	07/01/2012 - 08/31/2013	344,000	-	260,021	321,746	-	61,725
Total Program				943,457	56,101	373,686	379,310	-	61,725

(Continued)

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards (Continued)
 Year Ended June 30, 2013

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/12	Cash received FY 2013	FY '13 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/13
RTTT - CPCS	84.282A	134352.01	08/01/2012 - 08/30/2014	50,000	-	42,727	49,026	-	6,299
Title III	84.365A	124298.01	07/01/2011 - 09/30/2013	26,038	2,923	15,043	12,311	-	191
Title III	84.365A	134223.01	07/01/2012 - 09/30/2014	24,786	-	6,197	5,425	-	(772)
Title III (Immigrant)	84.365A	134223.02	07/01/2012 - 09/30/2014	5,248	-	2,485	2,521	-	36
Title III English Language (Immigrant)	84.365A	115172.02	07/01/2010 - 09/30/2012	6,179	-	-	-	-	-
Total Program				62,251	2,923	23,725	20,257	-	(545)
Title II Part A	84.367	134600.02	07/01/2012 - 06/30/2014	625,786	-	233,892	149,101	-	(84,791)
Title II Part A	84.367	134600.01	07/01/2012 - 06/30/2013	4,766	-	715	4,766	-	4,051
Title II Part A	84.367	124216.01	07/01/2011 - 06/30/2013	627,002	71,874	371,501	360,738	-	61,111
Title II Part A	84.367	114284.01	07/01/2010 - 06/30/2012	736,129	30,153	30,153	-	-	-
Total Program				1,993,683	102,027	636,261	514,605	-	(19,629)
ARRA RTTT - EEA / TIA	84.395	125629.01	04/01/2012 - 09/30/2012	57,317	-	57,317	57,317	-	-
ARRA RTTT - EEA / TIA	84.395	125629.02	04/01/2012 - 09/30/2012	2,250	-	2,250	2,250	-	-
ARRA RTTT - Teacher/Principal Evaluation	84.395	125250.01	10/21/2011 - 09/30/2012	17,479	17,479	17,479	-	-	-
ARRA RTTT: ESOL Incentives	84.395	125382.01	10/01/2011 - 09/30/2012	20,000	10,000	10,000	-	-	-
ARRA RTTT: ESOL Incentives	84.395	125382.02	10/01/2011 - 09/30/2012	12,500	-	12,500	12,500	-	-
ARRA RTTT - 11/29	84.395	125714.01	06/01/2012 - 06/30/2013	208,000	-	192,794	208,000	-	15,206
ARRA Race to the Top	84.395	115755.01	08/25/2010 - 09/30/2013	1,495,423	79,293	571,985	528,115	-	35,423
ARRA Race to the Top	84.395	115755.02	08/25/2010 - 09/30/2013	46,915	675	2,034	1,697	-	338
ARRA Race to the Top	84.395	115755.99	08/25/2010 - 09/30/2014	60,482	-	-	-	-	-
Total Program				1,920,366	107,447	866,359	809,879	-	50,967
Education Jobs Fund	84.410	134322.01	08/10/2010 - 09/30/2012	3,112	-	3,112	3,112	-	-
Total U.S. Department of Education:				23,938,665	1,891,093	10,230,345	10,115,337	-	1,776,085

(Continued)

St. Mary's County Public Schools

Schedule Of Expenditures Of Federal Awards (Continued)

Year Ended June 30, 2013

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Deferred) 6/30/12	Cash received FY 2013	FY '13 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Deferred) 6/30/13
<u>U.S. Department of Health and Human Services:</u>									
<u>Direct Program</u>									
Office of Head Start	93.60	03CH3375/01	06/01/2013 - 06/30/2018	97,338	-	-	1,368	-	1,368
Passed through the <u>Maryland State Dept. of Education:</u>									
ARRA RTTT-ELC: Local Early Childhood Council	93.708	135125.01	01/25/2013 - 08/31/2013	3,000	-	-	2,328	-	2,328
Medical Assistance	93.778	N/A	07/01/2012 - 06/30/2013	954,703	(911,823)	921,956	636,597	-	(1,197,182)
Total U.S. Department of Health and Human Services				1,055,041	(911,823)	921,956	640,293	-	(1,193,486)
<u>U.S. Homeland Security:</u>									
<u>Direct Program</u>									
FEMA - Public Assistance	97.036		11/12/2012 - 05/20/2014	12,444	-	12,444	12,444	-	-
FEMA - Public Assistance	97.036		11/12/2012 - 05/20/2013	2,588	-	2,588	2,588	-	-
FEMA - Public Assistance	97.036		11/12/2012 - 05/20/2013	17,173	-	17,173	17,173	-	-
FEMA - Public Assistance	97.036		11/12/2012 - 05/20/2014	1,976	-	1,976	1,976	-	-
Total Program				34,181	-	34,181	34,181	-	-
Passed through the <u>St. Mary's County Health Dept:</u>									
Emergency generator transfer switch (GMHS/LHS)	97.073	PO 042797	08/01/2010 - 04/30/2013	63,180	-	-	31,515	-	31,515
Emergency generator transfer switch (LHS)	97.073	PO 039921	08/01/2010 - 04/30/2013	25,000	2,173	24,063	21,890	-	-
Total Program				88,180	2,173	24,063	53,405	-	31,515
Total U.S. Department of Homeland Security:				122,361	2,173	58,244	87,586	-	31,515
Total Expenditures of Federal Awards				\$ 35,232,165	\$ 1,670,363	\$ 15,338,040	\$ 16,420,634	\$ -	\$ 2,752,957

St. Mary's County Public Schools

Notes To The Schedule Of Expenditures Of Federal Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes all the federal grant activity for the School System under programs of the federal government for the year ended June 30, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the School System, it is not intended to and does not present the financial position, changes in net position or cash flows of the School System

Note 2. Summary Of Significant Accounting Policies

The Schedule has been prepared on the modified accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when expenditures are made in accordance with the requirements of the respective grants. Various reimbursement procedures are used for federal awards received by the School System. Consequently, timing differences between expenditures and program reimbursements can exist at the beginning and end of the fiscal year. Accrued balances at year-end represent an excess of reimbursable expenditures over cash receipts to date. Deferred balances at year-end represent an excess of cash receipts over reimbursable expenditures to date. Generally, accrued or deferred balances caused by differences in the timing of cash receipts and expenditures will be reversed in the remaining grant period or subsequent fiscal year.

Note 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 since funding is received under a vendor-type relationship, thus is excluded from major program determination.

St. Mary's County Public Schools

**Schedule Of Findings And Questioned Costs
Year Ended June 30, 2013**

Section I – Summary Of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X No

Federal Awards:

Internal control over major programs:

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

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

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

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
12.556	Promoting K-12 Student Achievement – Military Connected Schools
84.010	Title I, Part A Cluster
84.395	Race To The Top

Dollar threshold used to distinguish between Type A and Type B programs: \$ 473,521

Auditee qualified as low-risk auditee? X Yes No

St. Mary's County Public Schools

Schedule Of Findings And Questioned Costs (Continued) Year Ended June 30, 2013

Section II – Financial Statement Findings

Internal Control

Finding 2013-01: Missing Transactions – Material Weakness

Criteria: A key element in internal controls is the design, implementation, and maintenance of controls to ensure all transactions are properly reflected in the financial statements including nonrecurring transactions.

Condition: In prior years the School System established a formalized trust in order to facilitate the partial funding of the actuarially calculated OPEB liability. The cumulative contributions to the trust and changes in net position has never been reflected in the School System's trial balance or reported as a fiduciary fund in the annual financial statements. Additionally, during the year ended June 30, 2013 the School System entered into several lease-purchase agreements to acquire certain office equipment and computers. However, the capital assets and associated long-term liabilities were not recorded in the School System's trial balance.

Context: During our current year audit testing we noted a separate legal trust which is the legal member of the MABE Trust. Upon review of the separate audited financial statements of the MABE Trust, it was noted the School System's net position as of the start of the year was \$19,591,619 and had a total change of net position of \$6,212,231 for the year ended June 30, 2013 resulting in an ending net position of \$25,803,850. Additionally, during our current year audit testing we noted new lease-purchase agreements with a net present value and cost of equipment of \$4,472,501. The School System made principal curtailments of \$1,010,370 resulting in an ending outstanding obligation of \$3,462,131.

Effect: Prior year's financial statements were restated to reflect the beginning net position of \$19,591,619 in the Fiduciary Fund. Audit adjustments were recorded to reflect the change in net position and ending net position of \$6,212,231 and \$25,803,850, respectively. Additionally, audit adjustments were recorded to reflect capital lease proceeds and equipment expenditures of \$4,472,501, principal payments of \$1,010,370 and ending outstanding capital lease obligations of \$3,462,131. An audit adjustment was also recorded to reflect depreciation expense of \$823,688 for the year ended June 30, 2013 on the capital lease equipment.

Cause: Non-routine transactions are not always communicated to the accounting department for evaluation for proper recording in the trial balance.

Recommendation: We recommend greater scrutiny of all legal documents be performed to evaluate the effects on financial reporting and recommend the implementation of procedures to ensure all non-routine transactions are properly recorded in the School System's trial balance in a timely manner.

Views of Responsible Officials and Planned Corrective Actions: Management acknowledges the breakdown of controls associated with these non-routine transactions. Management concurs with the auditor's recommendation and the Assistant Superintendent of Fiscal Services and Human Resources will establish controls to ensure that all non-routine transactions are closely scrutinized and communicated timely to the accounting department for evaluation and proper recording in the School System's general ledger.

St. Mary's County Public Schools

**Schedule Of Findings And Questioned Costs (Continued)
Year Ended June 30, 2013**

Finding 2013-02: Review of Year End Journal Entries – Significant Deficiency

Criteria: Year-end journal entries prepared by the Coordinator of Accounting should be reviewed and approved by an independent party with the appropriate skills, knowledge and expertise.

Condition: The spreadsheet utilized to calculate and record year end accrued compensated absences contained an improper pay rate obtained from the payroll system.

Context: During our current year audit testing we noted a specific individual on the accrued leave report that reflected an unusually large accrued leave value of \$212,555 due to an improperly manually inputted rate in the payroll system. The corrected rate resulted in a compensated absence value of \$8,823.

Effect: An audit adjustment was recorded to reduce the accrued compensated absences liability by \$203,732 along with employer related taxes of \$15,585.

Cause: An effective review of the year end journal entry and supporting documentation for accrued compensated absences prepared by the Coordinator of Accounting was not properly performed.

Recommendation: We recommend that all journal entries, in particular year end entries, prepared should be subject to the same level of review, scrutiny and approval throughout the year.

Views of Responsible Officials and Planned Corrective Actions: Management acknowledges the breakdown of controls associated with this non-routine, year-end journal entry. Management concurs with the auditor's recommendation and the Assistant Superintendent of Fiscal Services and Human Resources will establish controls to ensure that all non-routine journal entries are closely reviewed and scrutinized to ensure proper recording in the School System's general ledger.

Compliance

No matters were reported.

Section III – Findings And Questioned Costs For Federal Awards

No matters were reported.

St. Mary's County Public Schools

**Summary Schedule Of Prior Audit Findings
June 30, 2013**

No matters were reported in the prior year.