

# **St. Mary's County Public Schools**

Financial Report  
June 30, 2014

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of St. Mary's County Public Schools (the School System), a component unit of St. Mary's County, Maryland, as of and for the year ended June 30, 2014, 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 activities, each major fund, and the aggregate remaining fund information of St. Mary's County Public Schools, as of June 30, 2014, 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 – St. Mary's County Public Schools OPEB Plan Schedule of Funding Progress, and the Budgetary Comparison Schedule – General Fund on pages 3 through 13 and 41 through 44 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 Management's Discussion and Analysis and St. Mary's County Public Schools OPEB Plan Schedule of Funding Progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The Budgetary Comparison Schedule – General Fund has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule – General Fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School System's basic financial statements. The financial information listed as supplementary information in the table of contents on pages 45 through 49 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 54 through 59 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 29, 2014, 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.

*McGladrey LLP*

Frederick, Maryland  
September 29, 2014

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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, 2014. 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 \$4.8 million (see page 15).
- The unassigned Fund Balance of the General Fund fell from \$2,033,470 to \$480,726.
- The net position for business type activities (Food Services) increased by \$91,754 (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**

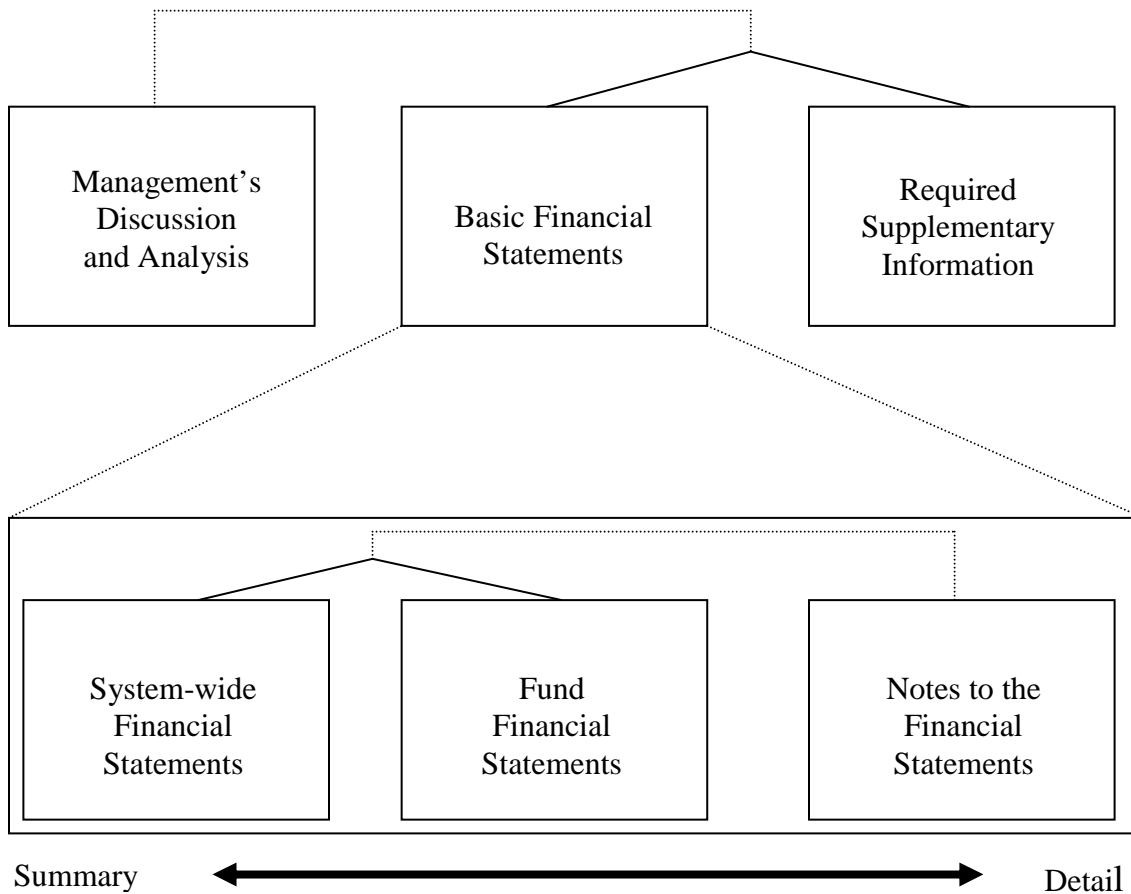




Figure A-2 summarizes the major features of the School System's financial statements, including the portion of the School System's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and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

<b>Figure A-2</b>				
<b>Major Features of the District-wide and Fund Financial Statements</b>				
	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 \$4.8M, decreasing by -2.3%, which came predominately from the increase in its net OPEB obligation.

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

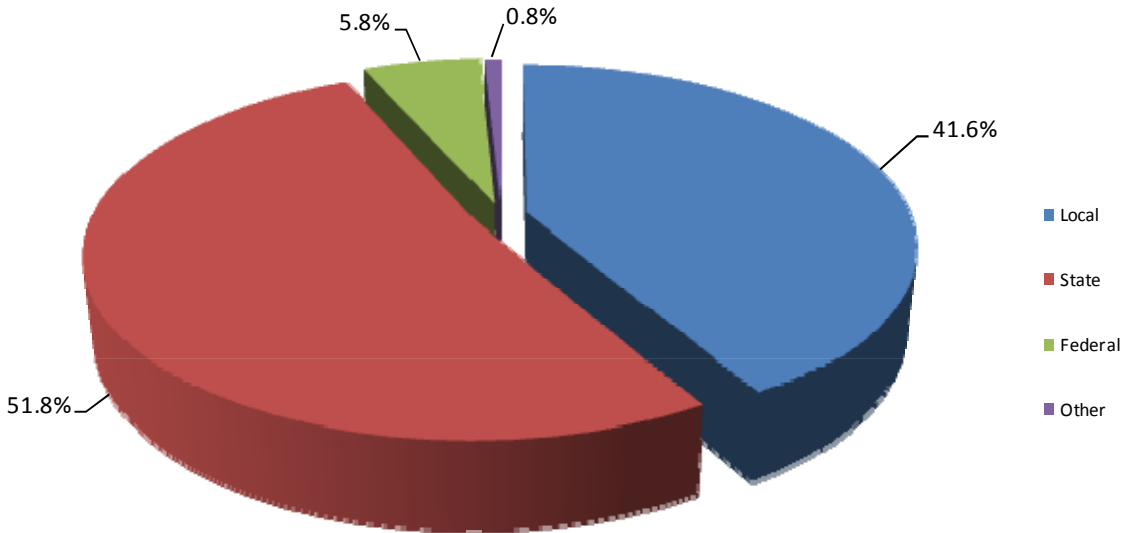
	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2014	2013	2014	2013	2014	2013	
Current and other assets	\$ 25.1	\$ 29.4	\$ 1.8	\$ 1.6	\$ 26.9	\$ 31.0	-13.2%
Capital assets	242.0	235.6	0.5	0.5	242.5	236.1	2.7%
<b>Total assets</b>	<b>267.1</b>	<b>265.0</b>	<b>2.3</b>	<b>2.1</b>	<b>269.4</b>	<b>267.1</b>	<b>0.9%</b>
Long-term debt outstanding	44.1	38.5	0.2	0.2	44.3	38.7	14.5%
Other liabilities	24.2	22.9	0.5	0.4	24.7	23.3	6.0%
<b>Total liabilities</b>	<b>68.3</b>	<b>61.4</b>	<b>0.7</b>	<b>0.6</b>	<b>69.0</b>	<b>62.0</b>	<b>11.3%</b>
<b>Net Position</b>							
Net investment in capital assets	238.3	232.3	0.5	0.5	238.8	232.8	2.6%
Restricted	0.1	0.1	-	-	0.1	0.1	0.0%
Unrestricted	(39.6)	(28.8)	1.1	1.0	(38.5)	(27.8)	38.5%
<b>Total net position</b>	<b>\$ 198.8</b>	<b>\$ 203.6</b>	<b>\$ 1.6</b>	<b>\$ 1.5</b>	<b>\$ 200.4</b>	<b>\$ 205.1</b>	<b>-2.3%</b>

Figure A-4

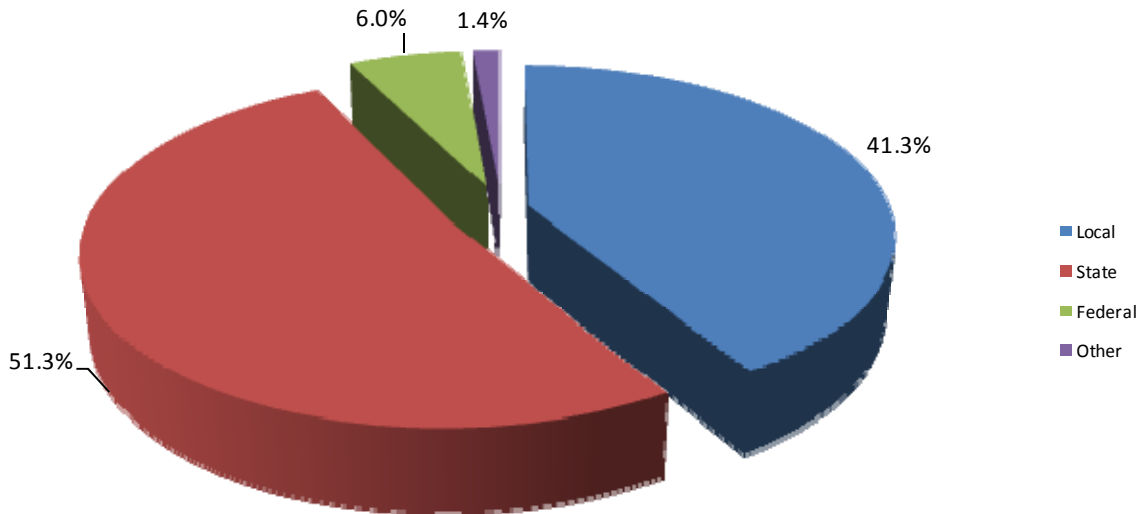
Condensed Statement of Net Activities (in millions of dollars)

	Governmental Activities		Business-type Activities		Total School System		Total % Change
	2014	2013	2014	2013	2014	2013	
<b>Revenues</b>							
Program revenues:							
Charges for services	\$ 0.6	\$ 0.5	\$ 3.1	\$ 3.1	\$ 3.7	\$ 3.6	2.8%
Operating grants & contributions	36.0	34.9	3.9	3.7	39.9	38.6	3.4%
Capital grants & contributions	14.6	3.9	-	-	14.6	3.9	274.4%
General revenues:							
County	89.9	85.7	-	-	89.9	85.7	4.9%
State	82.6	82.3	-	-	82.6	82.3	0.4%
Federal	2.4	2.9	-	-	2.4	2.9	-17.2%
Other	1.2	4.2	-	-	1.2	4.2	-71.4%
<b>Total revenues</b>	<b>227.3</b>	<b>214.4</b>	<b>7.0</b>	<b>6.8</b>	<b>234.3</b>	<b>221.2</b>	<b>5.9%</b>
<b>Expenses</b>							
Administrative	19.4	19.0	-	-	19.4	19.0	2.1%
Instruction	80.5	80.6	-	-	80.5	80.6	-0.1%
Special education	21.0	20.4	-	-	21.0	20.4	2.9%
Student personnel & health services	3.4	3.2	-	-	3.4	3.2	6.2%
Transportation	15.6	15.3	-	-	15.6	15.3	2.0%
Operations & maintenance	27.0	26.3	-	-	27.0	26.3	2.7%
Fixed charges	64.8	62.7	-	-	64.8	62.7	3.3%
Other	0.5	0.4	6.9	6.8	7.4	7.2	2.8%
<b>Total expenses</b>	<b>232.2</b>	<b>227.9</b>	<b>6.9</b>	<b>6.8</b>	<b>239.1</b>	<b>234.7</b>	<b>1.9%</b>
<b>Change in net position</b>	<b>\$ (4.9)</b>	<b>\$ (13.5)</b>	<b>\$ 0.1</b>	<b>\$ -</b>	<b>\$ (4.8)</b>	<b>\$ (13.5)</b>	<b>-64.4%</b>

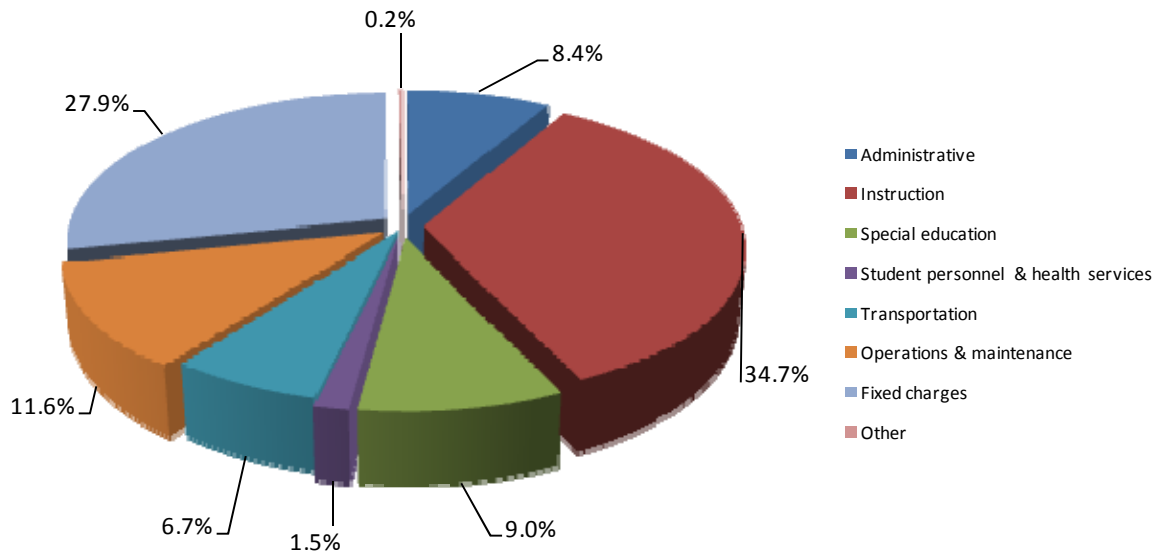
**Figure A-5: Sources of Revenues FY-2014  
Governmental Activities**



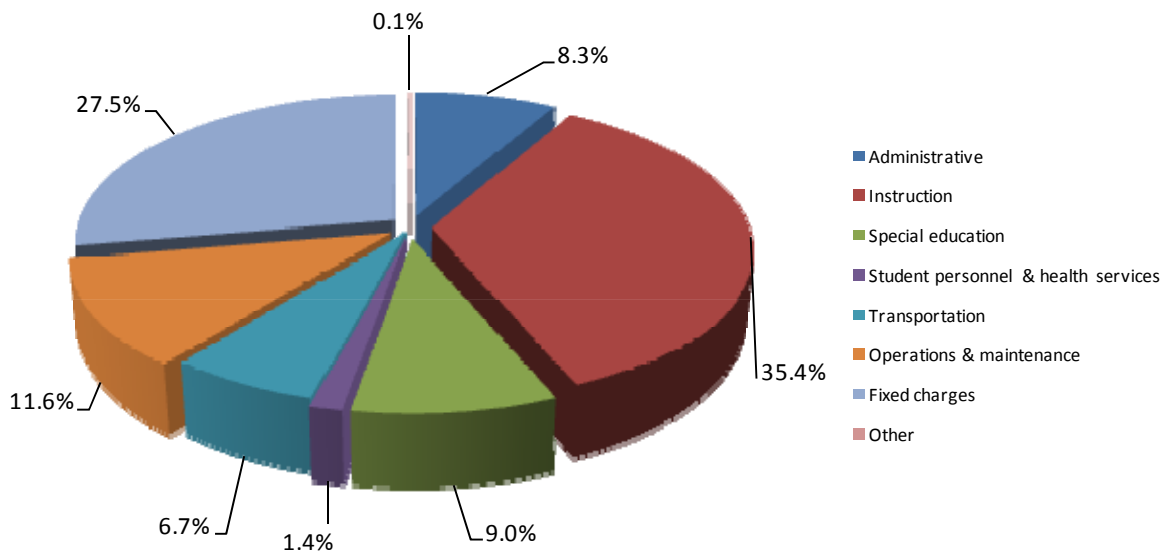
**Figure A-6: Sources of Revenues FY-2013  
Governmental Activities**



**Figure A-7: Expenses FY-2014  
Governmental Activities**



**Figure A-8: Expenses FY-2013  
Governmental Activities**



## Governmental Activities

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

- Negatives:
  - Weather Related Costs – Above average number of snowfalls significantly increased the snow removal costs incurred by the school system.
  - Fund Balance – Fund Balance was nearly depleted to a remaining amount of \$480,726 of unassigned fund balance to carry over to 2015.
  - Increased Healthcare Expenditures – Significant differences occurred between budgeted amounts and actual expenditures for healthcare charges.
  - Program reductions – Hiring freezes, reduction of purchases of materials of instruction, etc., were necessary to cover the budgetary shortfall.
- Positives:
  - Funding – Additional funding received from Federal Impact Aid.
  - Funding – A planned change in the healthcare plan for Fiscal Year 2015 resulted in the return of a \$594k hospital escrow.

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

	Total Cost of Services			Net Cost of Services		
	2014	2013	% Change	2014	2013	% Change
Administrative	\$ 19.4	\$ 19.0	2.1%	\$ 18.9	\$ 18.1	4.4%
Instruction	80.5	80.6	-0.1%	75.8	75.9	-0.1%
Special education	21.0	20.4	2.9%	12.6	12.3	2.4%
Student personnel & health services	3.4	3.2	6.2%	3.2	3.1	3.2%
Transportation	15.6	15.3	2.0%	8.6	8.6	0.0%
Operations & maintenance	27.0	26.3	2.7%	12.0	22.1	-45.7%
Fixed charges	64.8	62.7	3.3%	49.8	48.4	2.9%
Other	0.5	0.4	25.0%	0.1	0.1	0.0%
<b>Total</b>	<b>\$ 232.2</b>	<b>\$ 227.9</b>	<b>1.9%</b>	<b>\$ 181.0</b>	<b>\$ 188.6</b>	<b>-4.0%</b>

## Business-Type Activities

- Net position for Food Service increased by \$91,574.

## Financial Analysis of the School System's Funds

The financial performance of the School System's general operations is reflected in its governmental funds. For FY-2014 the General Fund shows \$5.5M of expenditures over revenues and other financing sources (page 18) predominately due to the usage of fund balance for an unplanned level of healthcare costs.

Capital Projects expenditures amounted to \$14,740,665 for the year ended June 30, 2014 (page 18). As discussed later, these expenditures were for a full array of capital projects.

## General Fund Budgetary Highlights

Expenditures exceeded current year sources of revenue on the budgetary by \$5,284,466. Revenues were essential flat compared to 2013 except for a major increase of Capital Projects Revenue. Most of the remaining amount of fund balance was utilized to balance out the difference between revenues and expenditures.

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

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

## Capital Asset and Debt Administration

### Capital Assets

During FY-2014, the School System invested \$15,882,731 (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
	2014	2013	2014	2013	2014	2013	
Land	\$ 2.5	\$ 2.5	\$ -	\$ -	\$ 2.5	\$ 2.5	0.0%
Facilities under construction	13.5	3.6	-	-	13.5	3.6	275.0%
Buildings	219.1	223.2	-	-	219.1	223.2	-1.8%
Equipment	6.9	6.3	0.5	0.5	7.4	6.8	8.8%
<b>Total capital assets, net</b>	<b>\$ 242.0</b>	<b>\$ 235.6</b>	<b>\$ 0.5</b>	<b>\$ 0.5</b>	<b>\$ 242.5</b>	<b>\$ 236.1</b>	<b>2.7%</b>

### 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
	2014	2013	2014	2013	2014	2013	
Equipment financing agreements	\$ 3.8	\$ 3.5	\$ -	\$ -	\$ 3.8	\$ 3.5	8.6%
Compensated absences	4.7	4.1	0.2	0.2	4.9	4.3	14.0%
Net OPEB obligation	35.6	30.9	-	-	35.6	30.9	15.2%
<b>Total long-term debt</b>	<b>\$ 44.1</b>	<b>\$ 38.5</b>	<b>\$ 0.2</b>	<b>\$ 0.2</b>	<b>\$ 44.3</b>	<b>\$ 38.7</b>	<b>14.5%</b>



### **Factors bearing on the School System's Future**

At the time these financial statements were prepared and audited, the School System was aware of seven 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 which offered some financial relief, have all but ended. 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 \$35M short of being fully funded as of June 30, 2014.
- 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.
- The trend in healthcare costs is up. With the increase of additional members to the plan, 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.
- SMCPs is returning to a modified retrospective health care plan. To be properly prepared for a call position, funds over the next several years will need to be earmarked for this potential.
- SMCPs having depleted its fund balance to cover its 2014 operating costs will need to build up its fund balance reserves to assist with cash flows and to be properly prepared for any unexpected expenses.

### **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, 2014**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 17,145,487	\$ 766,224	\$ 17,911,711
Certificate of deposit	83,143	-	83,143
Due from other governments	8,122,287	183,149	8,305,436
Internal balances	(359,187)	359,187	-
Other receivables, net	23,837	370,157	393,994
Inventory	-	169,156	169,156
Prepaid items	8,620	-	8,620
Capital assets			
Land	2,545,293	-	2,545,293
Buildings and improvements	341,538,351	-	341,538,351
Furniture and equipment	8,374,574	1,671,642	10,046,216
Equipment leased under financing agreements	6,205,592	-	6,205,592
Construction in process	13,492,440	-	13,492,440
Less accumulated depreciation	(130,127,808)	(1,202,130)	(131,329,938)
<b>Total assets</b>	<b>267,052,629</b>	<b>2,317,385</b>	<b>269,370,014</b>
<b>Liabilities</b>			
Accounts payable	4,281,161	177,290	4,458,451
Accrued salaries and related costs	15,374,887	273,348	15,648,235
Accrued estimated health insurance claims incurred but not reported	2,519,790	-	2,519,790
Accrued interest	79,082	-	79,082
Due to other governments	187,462	-	187,462
Unearned revenue	1,786,849	126,165	1,913,014
Long-term liabilities			
Due within one year:			
Compensated absences	580,306	6,407	586,713
Financing agreements payable	1,411,407	-	1,411,407
Due after one year:			
Compensated absences	4,070,131	178,133	4,248,264
Financing agreements payable	2,369,390	-	2,369,390
Net OPEB obligation	35,641,970	-	35,641,970
<b>Total liabilities</b>	<b>68,302,435</b>	<b>761,343</b>	<b>69,063,778</b>
<b>Net Position</b>			
Net investment in capital assets	238,247,645	469,512	238,717,157
Restricted – capital projects	81,120	-	81,120
Unrestricted	(39,578,571)	1,086,530	(38,492,041)
<b>Total net position</b>	<b>\$ 198,750,194</b>	<b>\$ 1,556,042</b>	<b>\$ 200,306,236</b>

See Notes to Basic Financial Statements.

**St. Mary's County Public Schools**

**Statement of Activities  
Year Ended June 30, 2014**

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
<b>Governmental Activities</b>							
Administration	\$ 3,157,261	\$ -	\$ 40,000	\$ -	\$ (3,117,261)	\$ -	\$ (3,117,261)
Mid-level administration	16,288,105	-	542,681	-	(15,745,424)	-	(15,745,424)
Instructional salaries	74,806,893	-	2,577,140	-	(72,229,753)	-	(72,229,753)
Instructional textbooks and supplies	3,026,977	352,309	848,035	-	(1,826,633)	-	(1,826,633)
Other instructional costs	2,651,503	-	955,733	-	(1,695,770)	-	(1,695,770)
Special education	21,038,888	-	8,399,776	-	(12,639,112)	-	(12,639,112)
Student personnel services	1,379,977	-	115,226	-	(1,264,751)	-	(1,264,751)
Student health services	2,038,606	-	82,633	-	(1,955,973)	-	(1,955,973)
Student transportation services	15,563,614	-	7,003,564	-	(8,560,050)	-	(8,560,050)
Operation of plant	21,553,695	277,270	56,186	14,620,516	(6,599,723)	-	(6,599,723)
Maintenance of plant	5,470,833	-	41,080	-	(5,429,753)	-	(5,429,753)
Community services	259,552	-	259,552	-	-	-	-
Fixed charges	64,811,671	-	15,031,093	-	(49,780,578)	-	(49,780,578)
Interest on long-term debt	153,255	-	-	-	(153,255)	-	(153,255)
<b>Total governmental activities</b>	<b>232,200,830</b>	<b>629,579</b>	<b>35,952,699</b>	<b>14,620,516</b>	<b>(180,998,036)</b>	<b>-</b>	<b>(180,998,036)</b>
<b>Business-Type Activities</b>							
Food services	6,955,892	3,118,583	3,928,833	-	-	91,524	91,524
<b>Total business-type activities</b>	<b>6,955,892</b>	<b>3,118,583</b>	<b>3,928,833</b>	<b>-</b>	<b>-</b>	<b>91,524</b>	<b>91,524</b>
<b>Total primary government</b>	<b>\$ 239,156,722</b>	<b>\$ 3,748,162</b>	<b>\$ 39,881,532</b>	<b>\$ 14,620,516</b>	<b>(180,998,036)</b>	<b>91,524</b>	<b>(180,906,512)</b>
<b>General Revenues</b>							
Unrestricted grants and contributions:							
Local					89,910,979	-	89,910,979
State					82,595,366	-	82,595,366
Federal					2,365,425	-	2,365,425
Investment earnings					4,938	230	5,168
Other					1,210,611	-	1,210,611
<b>Total general revenues</b>					<b>176,087,319</b>	<b>230</b>	<b>176,087,549</b>
<b>Change in net position</b>					<b>(4,910,717)</b>	<b>91,754</b>	<b>(4,818,963)</b>
Net Position							
Beginning					203,660,911	1,464,288	205,125,199
Ending					<b>\$ 198,750,194</b>	<b>\$ 1,556,042</b>	<b>\$ 200,306,236</b>

See Notes to Basic Financial Statements.

**St. Mary's County Public Schools**

**Balance Sheet – Governmental Funds  
June 30, 2014**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 17,124,950	\$ 20,537	\$ 17,145,487
Certificate of deposit	-	83,143	83,143
Due from other governments	5,775,101	2,347,186	8,122,287
Due from other funds	3,095	209	3,304
Other receivables	20,742	-	20,742
Prepaid items	8,620	-	8,620
	<u>22,932,508</u>	<u>2,451,075</u>	<u>25,383,583</u>
<b>Total assets</b>	<b>\$ 22,932,508</b>	<b>\$ 2,451,075</b>	<b>\$ 25,383,583</b>
<b>Liabilities and Fund Balances</b>			
Liabilities			
Accounts payable	\$ 2,105,179	\$ 2,158,267	\$ 4,263,446
Accrued salaries and related costs	15,374,887	-	15,374,887
Accrued estimated health insurance claims incurred but not reported	2,519,790	-	2,519,790
Due to other governments	187,462	-	187,462
Due to other funds	377,111	-	377,111
Unearned revenue	1,705,012	81,837	1,786,849
Compensated absences payable	-	-	-
	<u>22,269,441</u>	<u>2,240,104</u>	<u>24,509,545</u>
<b>Total liabilities</b>	<b>22,269,441</b>	<b>2,240,104</b>	<b>24,509,545</b>
Fund Balances			
Non-spendable	8,620	-	8,620
Restricted	-	81,120	81,120
Committed	-	129,851	129,851
Assigned	173,721	-	173,721
Unassigned	480,726	-	480,726
	<u>663,067</u>	<u>210,971</u>	<u>874,038</u>
<b>Total fund balances</b>	<b>663,067</b>	<b>210,971</b>	<b>874,038</b>
	<u>22,932,508</u>	<u>2,451,075</u>	<u>25,383,583</u>
<b>Total liabilities and fund balances</b>	<b>\$ 22,932,508</b>	<b>\$ 2,451,075</b>	<b>\$ 25,383,583</b>

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, 2014**

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Total Fund Balances – Governmental Funds	\$	874,038
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Amounts reported for governmental activities in the statement of net position are different because:

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

Cost of capital assets	\$ 372,156,250	
Accumulated depreciation	<u>(130,127,808)</u>	242,028,442

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	4,650,437	
Financing agreements payable	3,780,797	
Net OPEB obligation	35,641,970	
Accrued interest on the financing agreements	<u>79,082</u>	<u>(44,152,286)</u>

<b>Total net position – governmental activities</b>	<b>\$</b>	<b><u><u>198,750,194</u></u></b>
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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, 2014**

	General Fund	Capital Projects Fund	Total Governmental Funds
<b>Revenues</b>			
Local	\$ 89,910,979	\$ 4,768,394	\$ 94,679,373
State of Maryland	107,827,887	9,852,122	117,680,009
Federal government	13,118,784	-	13,118,784
Tuition	320,786	-	320,786
Investment income	4,300	638	4,938
Other	1,517,500	-	1,517,500
<b>Total revenue</b>	<b>212,700,236</b>	<b>14,621,154</b>	<b>227,321,390</b>
<b>Expenditures</b>			
Current			
Administration	3,205,288	-	3,205,288
Mid-level administration	16,970,901	-	16,970,901
Instructional salaries	74,806,893	-	74,806,893
Instructional textbooks and supplies	3,026,977	-	3,026,977
Other instructional costs	2,312,827	-	2,312,827
Special education	21,030,327	-	21,030,327
Student personnel services	1,379,295	-	1,379,295
Student health services	2,038,606	-	2,038,606
Student transportation services	15,463,068	-	15,463,068
Operation of plant	14,203,344	-	14,203,344
Maintenance of plant	3,395,108	-	3,395,108
Community services	259,552	-	259,552
Fixed charges	59,596,902	-	59,596,902
Capital outlay	724,987	14,740,665	15,465,652
Debt service			
Principal	1,414,425	-	1,414,425
Interest	133,910	-	133,910
<b>Total expenditures</b>	<b>219,962,410</b>	<b>14,740,665</b>	<b>234,703,075</b>
<b>Deficiency of revenues over expenditures</b>	<b>(7,262,174)</b>	<b>(119,511)</b>	<b>(7,381,685)</b>
<b>Other Financing Sources (Uses)</b>			
Capital lease financing	1,733,091	-	1,733,091
	<b>1,733,091</b>	<b>-</b>	<b>1,733,091</b>
<b>Net change in fund balances</b>	<b>(5,529,083)</b>	<b>(119,511)</b>	<b>(5,648,594)</b>
<b>Fund Balance</b>			
Beginning	6,192,150	330,482	6,522,632
Ending	<b>\$ 663,067</b>	<b>\$ 210,971</b>	<b>\$ 874,038</b>

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, 2014**

Total net change in fund balances – governmental funds	\$ (5,648,594)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$15,875,285 exceed depreciation of \$9,562,678 for the period.	6,312,607
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 \$532,478 disposed, less any accumulated depreciation of \$510,528.	(21,950)
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.	(1,733,091)
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.	1,414,425
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 \$850,717, was greater than amounts paid of \$331,990.	(518,727)
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 \$12,515,000, exceeded amounts contributed of \$7,818,958.	(4,696,042)
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.	(19,345)
	<u>(19,345)</u>
<b>Change in net position of governmental activities</b>	<b>\$ (4,910,717)</b>

See Notes to Basic Financial Statements.



**St. Mary's County Public Schools**

**Statement of Net Position – Proprietary Fund  
June 30, 2014**

	Enterprise Fund
<b>Assets</b>	
Current Assets	
Cash and cash equivalents	\$ 766,224
Due from other governments	183,149
Due from other funds	359,187
Accounts receivable, net	370,157
Inventory, at cost	169,156
	<u>1,847,873</u>
Noncurrent Assets	
Food service equipment	1,671,642
Less accumulated depreciation	(1,202,130)
	<u>469,512</u>
<b>Total assets</b>	<u>2,317,385</u>
<b>Liabilities</b>	
Current Liabilities	
Accounts payable	177,290
Accrued salaries and related costs	273,348
Unearned revenue	126,165
Compensated absences	6,407
	<u>583,210</u>
Noncurrent Liabilities	
Compensated absences	178,133
	<u>178,133</u>
<b>Total liabilities</b>	<u>761,343</u>
<b>Net Position</b>	
Net investment in capital assets	469,512
Unrestricted	1,086,530
	<u>1,556,042</u>
<b>Total net position</b>	<u>\$ 1,556,042</u>

See Notes to Basic Financial Statements.

**St. Mary's County Public Schools**

**Statement of Revenues, Expenses, and Changes in Net Position –  
Proprietary Fund  
Year Ended June 30, 2014**

	Enterprise Fund
Operating Revenues	
Food service sales	\$ 3,118,583
Federal grants and commodities	3,678,550
State matching and other	250,283
<b>Total operating revenue</b>	<u>7,047,416</u>
Operating Expenses	
Payroll costs	3,608,831
Professional and contract services	57,358
Supplies and materials	3,031,615
Depreciation	76,247
Other operating costs	181,841
<b>Total operating expenses</b>	<u>6,955,892</u>
<b>Operating income</b>	<u>91,524</u>
Non-Operating Revenues	
Interest income	230
	<u>230</u>
<b>Change in net position</b>	91,754
Total Net Position	
Beginning	<u>1,464,288</u>
Ending	<u>\$ 1,556,042</u>

See Notes to Basic Financial Statements.

**St. Mary's County Public Schools**

**Statement of Cash Flows – Proprietary Fund  
Year Ended June 30, 2014**

	Enterprise Fund
<hr/>	
Cash Flows From Operating Activities	
Cash received from user charges	\$ 2,844,550
Operating grants and subsidies received	3,596,643
Payments to employees for services	(3,593,052)
Payments to suppliers for goods and services	(2,510,100)
Payments for other operating expenses	(239,199)
<b>Net cash provided by operating activities</b>	<u>98,842</u>
 Cash Flows From Non-Capital Financing Activities	
Internal activity – net borrowings from other funds	185,919
<b>Net cash provided by non-capital financing activities</b>	<u>185,919</u>
 Cash Flows From Capital and Related Financing Activities	
Acquisition of capital assets	(7,446)
<b>Net cash (used in) capital and related financing activities</b>	<u>(7,446)</u>
 Cash Flows From Investing Activities	
Interest received on investments	230
<b>Net cash provided by investing activities</b>	<u>230</u>
 <b>Net increase in cash and cash equivalents</b>	277,545
 Cash and Cash Equivalents	
Beginning	<u>488,679</u>
Ending	<u><u>\$ 766,224</u></u>
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 91,524
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	76,247
Changes in assets and liabilities:	
Due from other governments	44,108
Receivables	(271,296)
Inventory	35,753
Accounts payable	109,464
Accrued salaries and related costs	(7,496)
Unearned revenue	(2,737)
Compensated absences	23,275
<b>Net cash provided by operating activities</b>	<u><u>\$ 98,842</u></u>

See Notes to Basic Financial Statements.

**St. Mary's County Public Schools**

**Statement of Fiduciary Net Position – Fiduciary Funds  
June 30, 2014**

	Private-Purpose Trust Fund	Retiree Benefit Trust Fund (OPEB)	School Activity Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 101,586	\$ -	\$ 1,490,195
Investments held in MABE Trust	-	34,714,840	-
Due from other funds	-	-	17,715
<b>Total assets</b>	<u>101,586</u>	<u>34,714,840</u>	<u>\$ 1,507,910</u>
<b>Liabilities</b>			
Due to other funds	3,095	-	\$ -
Due to student groups	-	-	1,507,910
<b>Total liabilities</b>	<u>3,095</u>	<u>-</u>	<u>\$ 1,507,910</u>
<b>Net Position</b>			
Reserved for scholarships	<u>\$ 98,491</u>		
Held in trust for retiree benefits		<u>\$ 34,714,840</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, 2014**

	Private-Purpose Trust Fund	Retiree Benefit Trust Fund (OPEB)
<hr/>		
Additions		
Contributions	\$ -	\$ 5,046,099
Investment and other income, net of administrative fees	853	3,864,891
<b>Total additions</b>	<u>853</u>	<u>8,910,990</u>
Deductions		
Scholarships awarded	<u>1,550</u>	<u>-</u>
<b>Change in net position</b>	(697)	8,910,990
Net Position		
Beginning	<u>99,188</u>	<u>25,803,850</u>
Ending	<u><u>\$ 98,491</u></u>	<u><u>\$ 34,714,840</u></u>

See Notes to Basic Financial Statements.

## St. Mary's County Public Schools

### Notes to Basic Financial Statements

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#### Note 1. Overview and Summary of Significant Accounting Policies

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

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

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

The School System's financial statements are prepared in accordance with the Codification of Governmental Accounting and Financial Reporting Standards (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

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

##### C. Fund Financial Statements

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

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

##### *Governmental Funds:*

General Fund: The General Fund is the general operating fund of the School System. It is used to account for all financial resources except those required to be accounted for in another fund. This fund includes appropriations and grants.

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 (additions).

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 as additions using the economic resource measurement focus and the accrual basis of accounting, under which expenses (deduction) are recorded when the liability is incurred or benefits are paid.

## St. Mary's County Public Schools

### Notes to Basic Financial Statements

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#### 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. Measurement Focus and Basis of Accounting

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

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

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

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#### 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, 2014.

##### K. Accrued Salaries

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

##### L. 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, \$3,200 for each professional employee, and \$6,200 for each supervisor and administrator, 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, 2014, 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.

## St. Mary's County Public Schools

### Notes to Basic Financial Statements

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

##### 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, 2014.

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

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

## St. Mary's County Public Schools

### Notes to Basic Financial Statements

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#### Note 2. Deposits and Investments

##### Deposits:

###### *Custodial credit risk*

Custodial credit risk for deposits is the risk that in the event of a bank failure, the School System's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the School System must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2014, 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, 2014, 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 \$10,000,999, \$406,126, and \$604,951 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, 2014, 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 contributors to the MABE Trust are the boards of education of the following counties in Maryland: Allegany, Caroline, Cecil, Charles, Harford, Kent, Prince George's, St. Mary's, and Washington.

The 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, 2014, the pooled net position of the MABE Trust was \$176,170,967 in total, of which the School System's share was \$34,714,840. 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, 2014, consist of the following:

	Governmental Activities		Business-Type Activities	Total
	General	Capital Projects		
Due from other governments				
Local	\$ 657,979	\$ 1,583,980	\$ -	\$ 2,241,959
State	366,561	763,206	30,401	1,160,168
Federal	4,750,561	-	152,748	4,903,309
	<u>\$ 5,775,101</u>	<u>\$ 2,347,186</u>	<u>\$ 183,149</u>	<u>\$ 8,305,436</u>
Other receivables				
Accounts	\$ 20,742	\$ -	\$ 370,157	\$ 390,899
Due from Fiduciary Funds to General Fund reclassified in statement of net position	3,095	-	-	3,095
	<u>\$ 23,837</u>	<u>\$ -</u>	<u>\$ 370,157</u>	<u>\$ 393,994</u>
Accounts payable				
Vendors	\$ 2,105,179	\$ 1,941,406	\$ 177,290	\$ 4,223,875
Contractor retainages	-	216,861	-	216,861
Due from General Fund to Fiduciary Funds reclassified in statement of net position	17,715	-	-	17,715
	<u>\$ 2,122,894</u>	<u>\$ 2,158,267</u>	<u>\$ 177,290</u>	<u>\$ 4,458,451</u>
Due to other governments				
Local	\$ 187,462	\$ -	\$ -	\$ 187,462

### Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2014, is as follows:

	Balance, June 30, 2013	Additions	Deletions/ Transfers	Balance, June 30, 2014
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 2,545,293	\$ -	\$ -	\$ 2,545,293
Construction in process	3,639,276	11,415,667	(1,562,503)	13,492,440
	<u>6,184,569</u>	<u>11,415,667</u>	<u>(1,562,503)</u>	<u>16,037,733</u>
Capital assets being depreciated				
Buildings and improvements	338,004,986	3,533,365	-	341,538,351
Furniture and equipment	8,151,387	755,665	(532,478)	8,374,574
Equipment leased under financing agreements	4,472,501	1,733,091	-	6,205,592
	<u>350,628,874</u>	<u>6,022,121</u>	<u>(532,478)</u>	<u>356,118,517</u>
Accumulated depreciation for				
Buildings and improvements	(114,764,578)	(7,715,165)	-	(122,479,743)
Furniture and equipment	(6,311,080)	(1,847,513)	510,528	(7,648,065)
	<u>(121,075,658)</u>	<u>(9,562,678)</u>	<u>510,528</u>	<u>(130,127,808)</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 235,737,785</u>	<u>\$ 7,875,110</u>	<u>\$ (1,584,453)</u>	<u>\$ 242,028,442</u>

**St. Mary's County Public Schools**

**Notes to Basic Financial Statements**

**Note 4. Capital Assets (Continued)**

	Balance June 30, 2013	Additions	Deletions/ Transfers	Balance June 30, 2014
<b>Business-type activities</b>				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,664,196	\$ 7,446	\$ -	\$ 1,671,642
Accumulated depreciation for				
Furniture and equipment	(1,125,883)	(76,247)	-	(1,202,130)
<b>Business-type activities capital assets, net</b>	<b>\$ 538,313</b>	<b>\$ (68,801)</b>	<b>\$ -</b>	<b>\$ 469,512</b>

Depreciation expense was charged in the statement of activities for the year ended June 30, 2014, as follows:

<b>Governmental activities</b>	
Administration	\$ 122,559
Mid-level administration	845,204
Other instructional costs	502,579
Special education	14,860
Student personnel services	682
Student transportation services	132,062
Operation of plant	7,938,180
Maintenance of plant	6,552
	<u>\$ 9,562,678</u>
<b>Business-type activities</b>	
Food services	<u>\$ 76,247</u>

**Note 5. Unearned Revenue**

General Fund: Unearned revenue primarily consists of payments received under restricted programs in excess of the expenses / expenditures incurred to date under those programs at June 30, 2014, of \$1,705,012.

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

Enterprise Fund: Unearned revenue of \$126,165 represents student lunch ticket sales collected in advance which will be consumed by students in fiscal year 2015.

## St. Mary's County Public Schools

### Notes to Basic Financial Statements

#### Note 6. Interfund Balances

The composition of interfund balances as of June 30, 2014, is as follows:

Payable Fund	Receivable Fund			
	General	Capital Projects	Enterprise	Agency
General	\$ -	\$ 209	\$ 359,187	\$ 17,715
Private-Purpose Trust	3,095	-	-	-
	<u>\$ 3,095</u>	<u>\$ 209</u>	<u>\$ 359,187</u>	<u>\$ 17,715</u>

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

#### Note 7. Long-Term Liabilities

Long-term debt at June 30, 2014, consists of equipment financing obligations, accumulated compensated absences payable and net OPEB obligation. The following is a summary of changes in the School System's long-term liabilities for the year ended June 30, 2014:

	Balance, June 30, 2013	Additions	Deductions	Balance, June 30, 2014	Amounts Due Within One Year
<b>Governmental activities</b>					
Equipment financing agreements	\$ 3,462,131	\$ 1,733,091	\$ (1,414,425)	\$ 3,780,797	\$ 1,411,407
Compensated absences	4,131,710	850,717	(331,990)	4,650,437	580,306
Net OPEB obligation	30,945,928	12,515,000	(7,818,958)	35,641,970	-
	<u>\$ 38,539,769</u>	<u>\$ 15,098,808</u>	<u>\$ (9,565,373)</u>	<u>\$ 44,073,204</u>	<u>\$ 1,991,713</u>
<b>Business-type activities</b>					
Compensated absences	\$ 161,265	\$ 33,369	\$ (10,094)	\$ 184,540	\$ 6,407

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.

During the year ended June 30, 2014, the School System entered into two additional lease-purchase agreement to acquire additional computer equipment in the amount of \$1,733,091. The terms of one of the agreements provide for four annual payments of \$445,646, including interest at 3.59% and one final payment of \$26,464 due August 2017. The other agreement provides for 60 monthly payments of \$354.61, including interest at 6.79% through June 30, 2018.

Total combined annual lease payments, including interest, under these agreements at June 30, 2014, was \$1,546,940.

**St. Mary's County Public Schools**

**Notes to Basic Financial Statements**

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**Note 7. Long-Term Liabilities (Continued)**

The future minimum lease payments and the net present value of the minimum lease payments as of June 30, 2014, under these agreements are as follows:

Year Ending June 30,

2015	\$ 1,546,940
2016	1,546,940
2017	877,806
2018	47,091
	<u>4,018,777</u>
Less amount representing interest	<u>(237,980)</u>
<b>Present value of minimum lease payments</b>	<b><u><u>\$ 3,780,797</u></u></b>

**Note 8. Governmental Fund Balances**

Governmental fund balances at June 30, 2014, are summarized as follows:

	General Fund	Capital Projects	Total
Non-spendable			
Prepaid items	<u>\$ 8,620</u>	<u>\$ -</u>	<u>\$ 8,620</u>
Restricted for			
Capital projects	<u>-</u>	<u>81,120</u>	<u>81,120</u>
Committed to			
Facility security upgrades	<u>-</u>	<u>129,851</u>	<u>129,851</u>
Assigned to			
Administrative	117	-	117
Building operations and maintenance	11,524	-	11,524
Fixed charges	162,080	-	162,080
	<u>173,721</u>	<u>-</u>	<u>173,721</u>
Unassigned	480,726	-	480,726
<b>Total fund balances</b>	<b><u><u>\$ 663,067</u></u></b>	<b><u><u>\$ 210,971</u></u></b>	<b><u><u>\$ 874,038</u></u></b>

## St. Mary's County Public Schools

### Notes to Basic Financial Statements

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#### 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 1 of 16 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 1 of 16 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, a cost-sharing 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
- 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**

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**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 ten 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: Contributions to the Systems are specified by the State Personnel and Pensions Article of the Annotated Code of Maryland. The State Personnel and Pensions Article requires both active members and their respective employers to make contributions to the respective Systems. Rates for required contributions by active members are established by law.. Under the "Retirement System" employees contribute 5% or 7% of their earnable compensation depending upon the retirement option selected, and under the "Pension System" employees contribute 7% of their earnable compensation. Effective, July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance.

Contribution rates for employer and other non-employer contributing entities (including the State of Maryland) are established by annual actuarial valuations using the individual entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The School System made required contributions totaling \$4,416,608 or 3.71% of current covered payroll, and the State of Maryland made contributions on behalf of the School System totaling \$13,048,841 or 11.00% of current covered payroll for fiscal year 2014. A three-year trend of the School System's annual pension cost is as follows:

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
2012	\$ 16,334,577	\$ 1,428,621	\$ 14,905,956	100%	\$ -
2013	15,441,323	3,626,191	11,815,132	100%	-
2014	17,465,449	4,416,608	13,048,841	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.

**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 Plan) to employees, former employees, or beneficiaries who meet retirement eligibility requirements of the pension plans. Effective July 1, 2007, by terms of a negotiated contract with employee associations, the School System partially supports the group insurance plan for retired employees who have been employed by the School System for 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.

## St. Mary's County Public Schools

### Notes to Basic Financial Statements

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

In March 2009, the School System established the Retiree Benefit Trust of the Board of Education of St. Mary's County (Benefit Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Benefit Trust established a trust account with, and became a member of, the Maryland Association of Boards of Education Pooled OPEB Investment Trust (MABE Trust). The School System reserves the right to establish and amend the provisions of its relationship with the MABE Trust with respect to participants, any benefit provided there under, or its participation therein, in whole or in part at any time, by resolution of its governing body and upon advance written notice to the Trustees of the MABE Trust.

The MABE Trust was established to pool assets of its member Boards of Education for investment purposes only. Each member of the Investment Trust is required to designate a member trustee who is a trustee of the member trust. The member trustees of the MABE Trust shall ensure that the MABE Trust keep such records as are necessary in order to maintain a separation of the assets of the MABE Trust from the assets of trusts maintained by other governmental employers. Assets of the member trusts are reported in their respective financial statements using the economic resources measurement focus and the accrual basis of accounting, under which expenses are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned and become measurable. Investments are reported at fair value and are based on published prices and quotations from major investment brokers at current exchange rates, if available.

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

Membership of the OPEB Plan currently enrolled in medical / drug coverage consisted of the following at July 1, 2012, the date of the latest actuarial valuation:

#### Number of Participants

Active employees	1,635
Retirees – pre-medicare*	196
Retirees – post-medicare*	356
	<u>2,187</u>

\* - Does not include 209 participants who are not enrolled in medical / drug coverage but have life insurance coverage.

Funding Policy: The School System contributes the pay as you go portion, along with a annually budgeted prefunding amount of the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of the GASB Codification. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC rate is 10.45% of annual covered payroll. The ARC consisted of the normal cost of \$5,661,000 and the amortization of unfunded accrued liability of \$6,734,000. The School System contributed \$7,818,958 for the year ended June 30, 2014, including \$2,772,859 towards current healthcare and life insurance premiums accounted for in the general fund and an additional \$5,046,099 to prefund future benefits to the retirement benefit trust fund.

**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, 2014. The annual OPEB cost (expense) for the year ended June 30, 2014, was \$12,515,000, which was comprised of the ARC of \$12,395,000 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:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 12,481,000	51.08%	\$ 25,033,380
2013	11,911,000	50.36%	30,945,928
2014	12,515,000	62.48%	35,641,970

Funded Status and Funding Progress: As of July 1, 2013, the plan was 17.12% funded. The actuarially accrued liability for benefits was \$146,045,000, and the actuarial value of assets was \$25,002,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$121,043,000. The covered payroll (annual payroll of active employees covered by the plan) was \$118,651,284, and the ratio of UAAL to the covered payroll was 102.02%. 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 25 years for the year ended June 30, 2014.

## St. Mary's County Public Schools

### Notes to Basic Financial Statements

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#### 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, 2014, 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 \$4,603,677. Additionally, the School System had entered into a land purchase agreement as of June 30, 2014 in the amount of \$2,900,000 for future use for a high school site.

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 three 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 \$2,519,790 for estimated claims incurred but not reported as of June 30, 2014. The following is a reconciliation of changes in the aggregate liabilities for claims for the years ended June 30, 2014 and 2013.

	2014	2013
Accrued estimated health insurance claims incurred but not reported, beginning of year	\$ 1,925,000	\$ -
Actual and estimated claims incurred	21,228,812	19,797,377
Payments on claims	(20,634,022)	(17,872,377)
Accrued estimated health insurance claims incurred but not reported, end of year	<u>\$ 2,519,790</u>	<u>\$ 1,925,000</u>

## St. Mary's County Public Schools

### Notes to Basic Financial Statements

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#### 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, 2014, that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statement of the School System:

- GASB Statement No. 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.
- 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. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, will be effective for the School System beginning with its year ending June 30, 2015. This Statement amends Statement 68 to require that, when transitioning to the new pension standards, a government recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

**REQUIRED SUPPLEMENTARY INFORMATION**

**St. Mary's County Public Schools**

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

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

Actuarial Valuation Date	Actuarial Value of Assets a	Actuarial Accrued Liability (AAL) b	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll c	UAAL as a Percentage of Covered Payroll [(b-a) / c]
July 1, 2011	\$ 17,077,262	\$ 145,876,000	\$ 128,798,738	11.71%	\$ 114,323,669	112.68%
July 1, 2012	19,591,619	136,749,000	117,157,381	14.33%	116,191,213	100.83%
July 1, 2013	25,002,000	146,045,000	121,043,000	17.12%	118,651,284	102.02%

See Notes to Required Supplementary Information and Basic Financial Statements.

**St. Mary's County Public Schools**

**Budgetary Comparison Schedule –  
General Fund  
Year Ended June 30, 2014**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Favorable (Unfavorable)
	Original	Amended		
<b>Revenues</b>				
Local	\$ 89,910,979	\$ 89,910,979	\$ 89,910,979	\$ -
State of Maryland	95,020,211	95,106,711	94,779,046	(327,665)
Federal government	16,497,304	16,718,548	13,118,784	(3,599,764)
Tuition	469,233	469,233	320,786	(148,447)
Investment income	5,000	5,000	4,300	(700)
Utilization of fund balance				
Committed – insurance call	-	1,000,000	1,000,000	-
Unassigned	2,525,000	4,284,466	4,284,466	-
Other	829,224	1,626,014	1,684,820	58,806
	<u>205,256,951</u>	<u>209,120,951</u>	<u>205,103,181</u>	<u>(4,017,770)</u>
<b>Expenditures</b>				
Administration	3,173,798	3,328,798	3,255,823	72,975
Mid-level administration	17,179,274	16,873,274	16,593,845	279,429
Instructional salaries	76,515,676	75,984,676	74,806,893	1,177,783
Instructional textbooks and supplies	3,964,725	3,343,725	2,984,810	358,915
Other instructional costs	2,853,555	2,952,555	2,598,494	354,061
Special education	21,161,730	21,327,730	21,037,018	290,712
Student personnel services	1,450,872	1,406,872	1,378,295	28,577
Student health services	2,067,647	2,105,647	2,037,135	68,512
Student transportation services	16,395,420	16,142,420	15,460,244	682,176
Operation of plant	13,624,062	13,988,062	13,868,725	119,337
Maintenance of plant	3,828,415	3,387,415	3,387,219	196
Fixed charges	41,930,584	47,211,584	46,710,141	501,443
Community services	339,432	339,432	259,552	79,880
Capital outlay	771,761	728,761	724,987	3,774
	<u>205,256,951</u>	<u>209,120,951</u>	<u>205,103,181</u>	<u>4,017,770</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Adjustments to conform with generally accepted accounting principles			(5,529,083)	
Fund Balance				
Beginning			<u>6,192,150</u>	
Ending			<u>\$ 663,067</u>	

See Notes to Required Supplementary Information and Basic Financial Statements.



## St. Mary's County Public Schools

### Notes to Required Supplementary Information

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#### Note 1. Budgets and Budgetary Accounting

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

##### Operating Budget (General Fund)

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

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

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

## St. Mary's County Public Schools

### Notes to Required Supplementary Information

#### Note 2. Reconciliation of Budgetary Basis to GAAP

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

Adjustments necessary to convert the results of operations and fund balance for the General Fund for fiscal year 2014 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	\$ 205,103,181	\$ 205,103,181	\$ -	\$ -
Budget to GAAP reconciliation				
Prior year encumbrances outstanding, 6/30/13	-	623,160	-	(623,160)
Prior year encumbrances canceled	-	(204,822)	-	204,822
Interfund transfers	(167,320)	(167,320)	-	-
Current year encumbrances outstanding, 6/30/14	-	(173,721)	-	173,721
State retirement contribution	13,048,841	13,048,841	-	-
Fund balance usage	(5,284,466)	-	-	(5,284,466)
Financing agreement proceeds	-	-	1,733,091	1,733,091
Equipment acquired under financing agreements	-	1,733,091	-	(1,733,091)
	7,597,055	14,859,229	1,733,091	(5,529,083)
<b>General Fund – GAAP basis</b>	<b>\$ 212,700,236</b>	<b>\$ 219,962,410</b>	<b>\$ 1,733,091</b>	<b>\$ (5,529,083)</b>

**SUPPLEMENTARY INFORMATION**

St. Mary's County Public Schools

Combining Budgetary Comparison Schedule – General Fund –  
 Unrestricted Fund and Restricted Funds  
 Year Ended June 30, 2014

	Unrestricted Fund				Restricted Funds				Total Combined General Fund			
	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With	Budgeted Amounts		Actual	Variance With
	Original	Amended	(Budgetary Basis)	Amended Budget Favorable (Unfavorable)	Original	Amended	(Budgetary Basis)	Amended Budget Favorable (Unfavorable)	Original	Amended	(Budgetary Basis)	Amended Budget Favorable (Unfavorable)
<b>Revenues</b>												
Local	\$ 89,910,979	\$ 89,910,979	\$ 89,910,979	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,910,979	\$ 89,910,979	\$ 89,910,979	\$ -
State of Maryland	93,913,553	94,000,053	93,902,180	(97,873)	1,106,658	1,106,658	876,866	(229,792)	95,020,211	95,106,711	94,779,046	(327,665)
Federal government	2,172,000	2,393,244	2,365,425	(27,819)	14,325,304	14,325,304	10,753,359	(3,571,945)	16,497,304	16,718,548	13,118,784	(3,599,764)
Tuition	74,000	74,000	39,364	(34,636)	395,233	395,233	281,422	(113,811)	469,233	469,233	320,786	(148,447)
Investment income	5,000	5,000	4,300	(700)	-	-	-	-	5,000	5,000	4,300	(700)
Utilization of fund balance												
Committed – insurance call	-	1,000,000	1,000,000	-	-	-	-	-	-	1,000,000	1,000,000	-
Unassigned	2,525,000	4,284,466	4,284,466	-	-	-	-	-	2,525,000	4,284,466	4,284,466	-
Other	598,300	1,395,090	1,550,681	155,591	230,924	230,924	134,139	(96,785)	829,224	1,626,014	1,684,820	58,806
	<u>189,198,832</u>	<u>193,062,832</u>	<u>193,057,395</u>	<u>(5,437)</u>	<u>16,058,119</u>	<u>16,058,119</u>	<u>12,045,786</u>	<u>(4,012,333)</u>	<u>205,256,951</u>	<u>209,120,951</u>	<u>205,103,181</u>	<u>(4,017,770)</u>
<b>Expenditures</b>												
Administration	2,894,323	3,049,323	3,048,503	820	279,475	279,475	207,320	72,155	3,173,798	3,328,798	3,255,823	72,975
Mid-level administration	16,357,264	16,051,264	16,051,164	100	822,010	822,010	542,681	279,329	17,179,274	16,873,274	16,593,845	279,429
Instructional salaries	72,760,838	72,229,838	72,229,753	85	3,754,838	3,754,838	2,577,140	1,177,698	76,515,676	75,984,676	74,806,893	1,177,783
Instructional textbooks and supplies	2,477,055	1,856,055	1,855,353	702	1,487,670	1,487,670	1,129,457	358,213	3,964,725	3,343,725	2,984,810	358,915
Other instructional costs	1,543,950	1,642,950	1,642,761	189	1,309,605	1,309,605	955,733	353,872	2,853,555	2,952,555	2,598,494	354,061
Special education	17,224,548	17,390,548	17,389,784	764	3,937,182	3,937,182	3,647,234	289,948	21,161,730	21,327,730	21,037,018	290,712
Student personnel services	1,307,603	1,263,603	1,263,069	534	143,269	143,269	115,226	28,043	1,450,872	1,406,872	1,378,295	28,577
Student health services	1,916,797	1,954,797	1,954,502	295	150,850	150,850	82,633	68,217	2,067,647	2,105,647	2,037,135	68,512
Student transportation services	15,264,058	15,011,058	15,010,952	106	1,131,362	1,131,362	449,292	682,070	16,395,420	16,142,420	15,460,244	682,176
Operation of plant	13,448,948	13,812,948	13,812,539	409	175,114	175,114	56,186	118,928	13,624,062	13,988,062	13,868,725	119,337
Maintenance of plant	3,828,415	3,387,415	3,387,219	196	-	-	-	-	3,828,415	3,387,415	3,387,219	196
Fixed charges	39,447,852	44,728,852	44,727,889	963	2,482,732	2,482,732	1,982,252	500,480	41,930,584	47,211,584	46,710,141	501,443
Community services	-	-	-	-	339,432	339,432	259,552	79,880	339,432	339,432	259,552	79,880
Capital outlay	727,181	684,181	683,907	274	44,580	44,580	41,080	3,500	771,761	728,761	724,987	3,774
	<u>189,198,832</u>	<u>193,062,832</u>	<u>193,057,395</u>	<u>5,437</u>	<u>16,058,119</u>	<u>16,058,119</u>	<u>12,045,786</u>	<u>4,012,333</u>	<u>205,256,951</u>	<u>209,120,951</u>	<u>205,103,181</u>	<u>4,017,770</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Adjustments to Conform With Generally Accepted Accounting Principles			(5,529,083)								(5,529,083)	
Fund Balance												
Beginning			<u>6,192,150</u>								<u>6,192,150</u>	
Ending			<u>\$ 663,067</u>								<u>\$ 663,067</u>	

St. Mary's County Public Schools

Combining Budgetary Comparison Schedule – General Fund –  
Unrestricted Fund  
Year Ended June 30, 2014

	Unrestricted Fund (excluding Charter School by category)				Unrestricted Fund (Charter School only)				Total Combined Unrestricted Fund			
	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Favorable (Unfavorable)	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Favorable (Unfavorable)	Budgeted Amounts		Actual (Budgetary Basis)	Variance With Amended Budget Favorable (Unfavorable)
	Original	Amended			Original	Amended			Original	Amended		
<b>Revenues</b>												
Local	\$ 89,910,979	\$ 89,910,979	\$ 89,910,979	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89,910,979	\$ 89,910,979	\$ 89,910,979	\$ -
State of Maryland	93,913,553	94,000,053	93,902,180	(97,873)	-	-	-	-	93,913,553	94,000,053	93,902,180	(97,873)
Federal government	2,172,000	2,393,244	2,365,425	(27,819)	-	-	-	-	2,172,000	2,393,244	2,365,425	(27,819)
Tuition	74,000	74,000	39,364	(34,636)	-	-	-	-	74,000	74,000	39,364	(34,636)
Investment income	5,000	5,000	4,300	(700)	-	-	-	-	5,000	5,000	4,300	(700)
Utilization of fund balance												
Committed – insurance call	-	1,000,000	1,000,000	-	-	-	-	-	-	1,000,000	1,000,000	-
Unassigned	2,525,000	4,284,466	4,284,466	-	-	-	-	-	2,525,000	4,284,466	4,284,466	-
Other	598,300	1,395,090	1,550,681	155,591	-	-	-	-	598,300	1,395,090	1,550,681	155,591
	<u>189,198,832</u>	<u>193,062,832</u>	<u>193,057,395</u>	<u>(5,437)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,198,832</u>	<u>193,062,832</u>	<u>193,057,395</u>	<u>(5,437)</u>
<b>Expenditures</b>												
Administration	2,894,323	3,049,323	3,048,503	820	-	-	-	-	2,894,323	3,049,323	3,048,503	820
Mid-level administration	16,084,098	15,778,098	15,780,897	(2,799)	273,166	273,166	270,267	2,899	16,357,264	16,051,264	16,051,164	100
Instructional salaries	70,970,969	70,439,969	70,412,406	27,563	1,789,869	1,789,869	1,817,347	(27,478)	72,760,838	72,229,838	72,229,753	85
Instructional textbooks and supplies	2,402,055	1,781,055	1,779,409	1,646	75,000	75,000	75,944	(944)	2,477,055	1,856,055	1,855,353	702
Other instructional costs	1,543,950	1,642,950	1,633,311	9,639	-	-	9,450	(9,450)	1,543,950	1,642,950	1,642,761	189
Special education	17,224,548	17,390,548	17,389,784	764	-	-	-	-	17,224,548	17,390,548	17,389,784	764
Student personnel services	1,300,103	1,256,103	1,261,189	(5,086)	7,500	7,500	1,880	5,620	1,307,603	1,263,603	1,263,069	534
Student health services	1,863,901	1,901,901	1,901,606	295	52,896	52,896	52,896	-	1,916,797	1,954,797	1,954,502	295
Student transportation services	15,114,058	14,861,058	14,872,667	(11,609)	150,000	150,000	138,285	11,715	15,264,058	15,011,058	15,010,952	106
Operation of plant	12,780,106	13,144,106	13,179,122	(35,016)	668,842	668,842	633,417	35,425	13,448,948	13,812,948	13,812,539	409
Maintenance of plant	3,823,415	3,382,415	3,371,628	10,787	5,000	5,000	15,591	(10,591)	3,828,415	3,387,415	3,387,219	196
Fixed charges	38,859,382	44,140,382	44,224,920	(84,538)	588,470	588,470	502,969	85,501	39,447,852	44,728,852	44,727,889	963
Community services	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	727,181	684,181	683,907	274	-	-	-	-	727,181	684,181	683,907	274
	<u>185,588,089</u>	<u>189,452,089</u>	<u>189,539,349</u>	<u>(87,260)</u>	<u>3,610,743</u>	<u>3,610,743</u>	<u>3,518,046</u>	<u>92,697</u>	<u>189,198,832</u>	<u>193,062,832</u>	<u>193,057,395</u>	<u>5,437</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>3,610,743</u>	<u>3,610,743</u>	<u>3,518,046</u>	<u>(92,697)</u>	<u>(3,610,743)</u>	<u>(3,610,743)</u>	<u>(3,518,046)</u>	<u>92,697</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Financing Sources (Uses)</b>												
Transfer in (out)	(3,610,743)	(3,610,743)	(3,518,046)	92,697	3,610,743	3,610,743	3,518,046	(92,697)	-	-	-	-
	<u>(3,610,743)</u>	<u>(3,610,743)</u>	<u>(3,518,046)</u>	<u>92,697</u>	<u>3,610,743</u>	<u>3,610,743</u>	<u>3,518,046</u>	<u>(92,697)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Adjustments to Conform With Generally Accepted Accounting Principles			(5,529,083)								(5,529,083)	
<b>Fund Balance</b>												
Beginning			<u>6,192,150</u>								<u>6,192,150</u>	
Ending			<u>\$ 663,067</u>								<u>\$ 663,067</u>	

**St. Mary's County Public Schools**

**Statement of Revenues, Expenses, and Changes in Net Position –  
Proprietary Fund – Budget vs. Actual  
Year Ended June 30, 2014**

	Amended Budget	Actual	Variance With Amended Budget Favorable (Unfavorable)
<b>Revenues</b>			
Food service sales	\$ 3,495,833	\$ 3,118,583	\$ (377,250)
Federal grants and commodities	3,550,000	3,678,550	128,550
State matching and other	230,000	250,283	20,283
Interest income	1,000	230	(770)
	<u>7,276,833</u>	<u>7,047,646</u>	<u>(229,187)</u>
<b>Expenses</b>			
Payroll costs	3,793,733	3,608,831	184,902
Professional and contract services	62,000	57,358	4,642
Supplies and materials	2,972,600	3,031,615	(59,015)
Depreciation	102,000	76,247	25,753
Other operating costs	346,500	181,841	164,659
	<u>7,276,833</u>	<u>6,955,892</u>	<u>320,941</u>
<b>Change in net position</b>	<u>\$ -</u>	91,754	<u>\$ 91,754</u>
<b>Net Position</b>			
Beginning		<u>1,464,288</u>	
Ending		<u>\$ 1,556,042</u>	

**St. Mary's County Public Schools**

**Schedule of Changes in Cash and Cash Equivalents –  
School Activity Funds  
Year Ended June 30, 2014**

	School Activity Accounts Balance, July 1, 2013	Additions	Deductions	School Activity Accounts Balance, June 30, 2014
<b>School – Checking</b>				
Benjamin Banneker Elementary	\$ 11,347	\$ 76,082	\$ (79,303)	\$ 8,126
Chesapeake Public Charter School	29,876	97,935	(102,240)	25,571
Chopticon High School	59,957	766,252	(651,814)	174,395
Dr. James A. Forrest Career & Technology Center	64,951	292,787	(314,475)	43,263
Dynard Elementary	30,907	62,074	(68,811)	24,170
Esperanza Middle	52,119	115,615	(105,967)	61,767
Evergreen Elementary	20,642	73,244	(73,043)	20,843
Fairlead Academy	2,796	6,862	(7,796)	1,862
G.W. Carver Elementary	11,885	38,763	(38,960)	11,688
Great Mills High School	86,683	455,545	(412,161)	130,067
Green Holly Elementary	10,411	38,254	(41,288)	7,377
Greenview Knolls Elementary	5,954	56,373	(55,323)	7,004
Hollywood Elementary	2,707	63,914	(61,795)	4,826
L.M. Dent Elementary	18,267	107,040	(110,679)	14,628
LBO-Sunshine Fund	1,216	824	(675)	1,365
Leonardtown Elementary	10,345	110,290	(111,715)	8,920
Leonardtown High School	89,783	747,917	(741,205)	96,495
Leonardtown Middle	35,486	109,285	(124,540)	20,231
Lexington Park Elementary	11,665	35,767	(41,865)	5,567
Loveville Bd. Office	1,013	2,246	(2,716)	543
Margaret Brent Middle	25,219	123,987	(138,770)	10,436
Mechanicsville Elementary	8,969	64,885	(63,957)	9,897
MGA-MUN	4,057	1,624	(1,519)	4,162
Oakville Elementary	17,678	27,773	(28,862)	16,589
Park Hall Elementary	4,584	44,298	(45,889)	2,993
Piney Point Elementary	34,582	65,730	(62,475)	37,837
Pupil Services	3,170	14,460	(9,418)	8,212
Ridge Elementary	6,787	32,844	(30,556)	9,075
SMASC	3,148	340	(40)	3,448
Spring Ridge Middle	28,249	224,054	(226,602)	25,701
Town Creek Elementary	12,215	30,725	(32,885)	10,055
White Marsh Elementary	13,185	52,561	(54,156)	11,590
	719,853	3,940,350	(3,841,500)	818,703

(Continued)

**St. Mary's County Public Schools**

**Schedule of Changes in Cash and Cash Equivalents –  
School Activity Funds (Continued)  
Year Ended June 30, 2014**

	School Activity Accounts Balance, July 1, 2013	Additions	Deductions	School Activity Accounts Balance, June 30, 2014
<b>School – Savings</b>				
Chopticon High School	\$ 25,831	\$ 97,633	\$ (25,837)	\$ 97,627
Dr. James A. Forrest Career & Technology Center	70,000	140	(140)	70,000
Park Hall Elementary	500	-	-	500
	<u>96,331</u>	<u>97,773</u>	<u>(25,977)</u>	<u>168,127</u>
<b>School – MLGIP (Maryland Local Government Investment Pool)</b>				
Benjamin Banneker Elementary	2,623	1	-	2,624
Chopticon High School	173,867	28	(173,895)	-
Dr. James A. Forrest Career & Technology Center	37,110	22	-	37,132
Dynard Elementary	5,102	4	-	5,106
Esperanza Middle	6,230	3	-	6,233
G.W. Carver Elementary	1,865	1	-	1,866
Great Mills High School	170,901	101	-	171,002
Green Holly	2,360	1	-	2,361
Greenview Knolls Elementary	18,184	11	-	18,195
Hollywood Elementary	12,542	8	-	12,550
L.M. Dent Elementary	1,421	1	-	1,422
Leonardtown Elementary	5,309	3	-	5,312
Leonardtown High School	146,215	87	-	146,302
Leonardtown Middle	15,388	10	-	15,398
Margaret Brent Middle	41,554	25	-	41,579
Mechanicsville Elementary	295	-	(295)	-
MGA-MUN	2,627	2	-	2,629
Oakville Elementary	1,260	-	-	1,260
Park Hall Elementary	5,199	3	-	5,202
Piney Point Elementary	8,279	5	-	8,284
Shoe Fund	6,315	1	(5,500)	816
SMASC	262	-	-	262
Spring Ridge Middle	10,860	6	(420)	10,446
Town Creek Elementary	3,098	2	-	3,100
White Marsh Elementary	4,281	3	-	4,284
	<u>683,147</u>	<u>328</u>	<u>(180,110)</u>	<u>503,365</u>
<b>Total</b>	<b>\$ 1,499,331</b>	<b>\$ 4,038,451</b>	<b>\$ (4,047,587)</b>	<b>\$ 1,490,195</b>



**SINGLE AUDIT**



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of St. Mary's County Public Schools (School System), as of and for the year ended June 30, 2014, 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 29, 2014.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

The image shows a handwritten signature in cursive script that reads "McGladrey LLP".

Frederick, Maryland  
September 29, 2014



**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  
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, 2014. 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, 2014.

## 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 29, 2014

St. Mary's County Public Schools

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2014

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Unearned) 6/30/13	Cash Received FY 2014	FY '14 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Unearned) 6/30/14
<b><u>U.S. Department of Agriculture:</u></b>									
Passed through the Maryland State Dept. of Education:									
USDA Commodities	10.555		07/01/2013 - 06/30/2014	\$ 375,000	\$ -	\$ 376,298	\$ 376,298	\$ -	\$ -
Summer Food Program	10.559		07/01/2012 - 06/30/2013	17,000	5,494	5,494	-	-	-
Summer Food Program	10.559		07/01/2013 - 06/30/2014	20,000	-	20,517	26,160	-	5,643
Breakfast	10.553		07/01/2013 - 06/30/2014	875,000	-	872,031	916,534	-	44,503
Breakfast	10.553		07/01/2012 - 06/30/2013	825,000	38,527	38,527	-	-	-
Lunch (Sec 4 & 11)	10.555		07/01/2013 - 06/30/2014	2,300,000	-	2,231,820	2,333,156	-	101,336
Lunch (Sec 4 & 11)	10.555		07/01/2012 - 06/30/2013	2,200,000	163,374	163,374	-	-	-
Federal Snack Program	10.555		07/01/2013 - 06/30/2014	30,000	-	20,084	20,350	-	266
Federal Snack Program	10.555		07/01/2012 - 06/30/2013	26,000	291	291	-	-	-
<b>Total Child Nutrition Cluster</b>				<b>6,668,000</b>	<b>207,686</b>	<b>3,728,436</b>	<b>3,672,498</b>	<b>-</b>	<b>151,748</b>
Healthy Hunger Free Kids	10.560	135380.01	05/01/2013 - 05/30/2014	9,560	-	5,052	5,052	-	-
Team Nutrition Grant	10.574		07/01/2013 - 09/30/2014	1,000	-	-	1,000	-	1,000
<b>Total Department of Agriculture</b>				<b>6,678,560</b>	<b>207,686</b>	<b>3,733,488</b>	<b>3,678,550</b>	<b>-</b>	<b>152,748</b>
<b><u>U.S. Department of Defense:</u></b>									
<u>Direct Program:</u>									
ROTC Navy	12.000		07/01/2013 - 06/30/2014	70,000	-	52,031	71,775	-	19,744
ROTC Air Force	12.000		07/01/2013 - 06/30/2014	50,000	-	54,863	60,406	-	5,543
ROTC Air Force	12.000		07/01/2012 - 06/30/2013	54,000	5,397	5,397	-	-	-
<b>Total Program</b>				<b>174,000</b>	<b>5,397</b>	<b>112,291</b>	<b>132,181</b>	<b>-</b>	<b>25,287</b>
Naval Air Warfare Center AD (PAX)	12.330	N00421-13-1-0005	03/15/2013 - 02/28/2014	20,000	-	20,000	20,000	-	-
STEM - Project Based Learning	12.556	HE1254-12-1-0043	09/25/2012 - 08/31/2015	2,500,000	1,395,339	1,830,929	490,538	-	54,948

(Continued)

St. Mary's County Public Schools

Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2014

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Unearned) 6/30/13	Cash Received FY 2014	FY '14 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Unearned) 6/30/14
Public Law 102-484	12.558		07/01/2013 - 06/30/2014	\$ 412,000	\$ -	\$ -	\$ 493,363	\$ -	\$ 493,363
Public Law 102-484	12.558		07/01/2012 - 06/30/2013	412,000	469,884	469,884	-	-	-
Total Program				824,000	469,884	469,884	493,363	-	493,363
<b>Total U.S. Department of Defense</b>				<b>3,518,000</b>	<b>1,870,620</b>	<b>2,433,104</b>	<b>1,136,082</b>	<b>-</b>	<b>573,598</b>
<b><u>U.S. Department of Justice:</u></b>									
<u>Direct Program:</u>									
Mentoring Programs	16.726	2009-JU-FX-OO15	08/01/2009 - 07/31/2013	251,956	43,567	47,030	3,463	-	-
<u>Passed through the Juvenile Drug Court</u>									
Mentoring Programs	16.726	2010-DC-BX-0007	10/01/2010 - 06/30/2014	44,442	16,970	24,456	14,657	-	7,171
<b>Total U.S. Department of Justice</b>				<b>296,398</b>	<b>60,537</b>	<b>71,486</b>	<b>18,120</b>	<b>-</b>	<b>7,171</b>
<b><u>U.S. Department of Education:</u></b>									
<u>Passed through the Maryland State Dept. of Education:</u>									
Adult Education & Lit Services (ASE) (344)	84.002a	POOP3400006.04	07/01/2012 - 06/30/2013	5,727	4,001	4,001	-	-	-
Adult Education & Lit Services (Local Ins.) (348)	84.002a	POOP3400006.05	07/01/2012 - 06/30/2013	4,962	2,191	2,191	-	-	-
Adult Education & Lit Services (FL) (345)	84.002a	POOP3400006.06	07/01/2012 - 06/30/2013	7,363	(1,600)	-	-	1,600	-
Adult Education & Lit Services (ABE/ESL) FY12 Carryover	84.002a	POOP3400006.07	07/01/2012 - 06/30/2013	1,195	289	290	-	1	-
Adult Education & Lit Services (ABE/ESL) (343)	84.002A	POOP4400146.03	07/01/2013 - 06/30/2014	38,146	-	30,908	31,501	-	593
Adult Education & Lit Services (ASE) (344)	84.002A	POOP4400146.04	07/01/2013 - 06/30/2014	4,722	-	4,722	4,615	-	(107)
Adult Education & Lit Services (Local Ins.) (348)	84.002A	POOP4400146.05	07/01/2013 - 06/30/2014	4,629	-	2,769	4,108	-	1,339
Adult Education & Lit Services (FL) (345)	84.002A	POOP4400146.06	07/01/2013 - 06/30/2014	6,941	-	3,588	5,926	-	2,338
Adult Education & Lit Services (ABE/ESL) FY13 Carryover	84.002A	POOP4400146.08	07/01/2013 06/30/2014	1,757	-	-	1,736	-	1,736
Adult Education Prof Development FY13 Carryover (340)	84.002A	POOP4400146.09	07/01/2013 06/30/2014	737	-	-	737	-	737
<b>Total Program</b>				<b>76,179</b>	<b>4,881</b>	<b>48,469</b>	<b>48,623</b>	<b>1,601</b>	<b>6,636</b>

(Continued)

St. Mary's County Public Schools

Schedule of Expenditures of Federal Awards (Continued)  
 Year Ended June 30, 2014

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Unearned) 6/30/13	Cash Received FY 2014	FY '14 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Unearned) 6/30/14
E.C.I.A. Title I	84.010	134405.01	07/01/2012 - 06/30/2014	\$ 2,325,810	\$ 632,716	\$ 915,341	\$ 360,459	\$ -	\$ 77,834
E.C.I.A. Title I	84.010	144473.01	07/01/2013 - 06/30/2015	2,301,122	-	1,085,940	1,823,295	-	737,355
E.C.I.A. Title I	84.010	124541.01	07/01/2011 - 06/30/2013	2,348,658	16,503	16,503	-	-	-
E.C.I.A. Title I Approaching Target	84.010	145068.02	07/01/2013 - 10/31/2014	15,200	-	2,280	2,487	-	207
E.C.I.A. Title I Focus	84.010	135002.02	07/01/2012 - 10/31/2013	147,950	53,457	91,865	38,408	-	-
E.C.I.A. Title I Focus	84.010	144803.01	07/01/2013 - 10/31/2014	150,950	-	22,643	63,126	-	40,483
E.C.I.A. Title I Focus Summer School	84.010	135276.01	07/01/2012 - 09/30/2013	100,120	(7,607)	46,024	53,631	-	-
<b>Total Program</b>				<b>7,389,810</b>	<b>695,069</b>	<b>2,180,596</b>	<b>2,341,406</b>	<b>-</b>	<b>855,879</b>
SPED Pass Thru	84.027	144268.01	07/01/2013 - 09/30/2014	3,099,113	-	1,599,573	3,027,488	-	1,427,915
SPED Pass Thru	84.027	134275.01	07/01/2012 - 06/30/2014	3,323,527	839,394	891,331	283,799	-	231,862
SPED Pass Thru Parent Placed	84.027	134275.02	07/01/2012 - 09/30/2013	31,215	30,279	30,279	-	-	-
SPED Pass Thru Parent Placed	84.027	144268.02	07/01/2013 - 09/30/2014	30,507	-	29,915	30,507	-	592
SPED One-Time Supplemental	84.027	145367.01	05/15/2014 - 08/31/2015	39,107	-	-	27,300	-	27,300
Local Flexibility	84.027	144268.06	07/01/2013 - 09/30/2014	104,461	-	56,669	83,757	-	27,088
Local Flexibility	84.027	134275.08	07/01/2012 - 09/30/2013	79,770	(6,075)	8,652	14,727	-	-
SPED Discretionary	84.027	144269.01	07/01/2013 - 08/31/2014	112,915	-	76,937	108,473	-	31,536
SPED SEAC	84.027	144268.05	07/01/2013 - 09/30/2014	2,500	-	375	616	-	241
SPED Partners for Success	84.027	134275.05	07/01/2012 - 09/30/2013	15,000	909	5,459	4,550	-	-
SPED SEAC	84.027	134275.06	07/01/2012 - 09/30/2013	2,500	1,651	1,651	-	-	-
SPED Transition	84.027	134275.07	07/01/2012 - 09/30/2013	10,000	(358)	2,927	3,285	-	-
Infants & Toddlers Program	84.027	144231.02	07/01/2013 - 09/30/2014	15,833	-	2,375	4,780	-	2,405
Infants & Toddlers Program	84.027	144231.05	07/01/2013 - 09/30/2014	80,815	-	12,122	37,329	-	25,207
IDEA Discretionary One - Time Supplemental	84.027	145289.01	05/15/2014 - 08/15/2015	19,092	-	2,864	-	-	(2,864)
IDEA Pre-school	84.173	134275.03	07/01/2012 - 06/30/2014	110,144	3,412	3,934	46,470	-	45,948
IDEA Pre-school	84.173	144268.03	07/01/2013 - 09/30/2014	108,780	-	62,317	103,983	-	41,666
IDEA Pre-school Parent Placed	84.173	144268.04	07/01/2013 - 09/30/2014	954	-	493	954	-	461
IDEA Pre-school Parent Placed	84.173	134275.04	07/01/2012 - 09/30/2013	910	500	500	-	-	-
Building Bridges	84.173	134797.03	08/15/2012 - 09/30/2013	23,582	(3,537)	10,232	13,769	-	-
Maryland Model for School Readiness	84.173	134534.03	07/01/2012 - 09/30/2013	5,452	(99)	-	-	99	-
Maryland Model for School Readiness	84.173	144577.02	07/01/2013 - 09/30/2014	4,525	-	1,079	1,779	-	700
SPED Preschool Discretionary	84.173	144269.02	07/01/2013 - 08/13/2014	1,309	-	196	771	-	575
Infants & Toddlers Program	84.173	144231.03	07/01/2013 - 09/30/2014	7,000	-	5,000	1,457	-	(3,543)

(Continued)



St. Mary's County Public Schools

Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2014

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Unearned) 6/30/13	Cash Received FY 2014	FY '14 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Unearned) 6/30/14
Passed through the									
<u>St. Mary's County Health Dept:</u>									
Health Dept I&T	84.027	MOU	07/01/2013 - 06/30/2014	\$ 5,900	\$ -	\$ -	\$ 5,694	\$ -	\$ 5,694
Health Dept I&T	84.027	MOU	07/01/2012 - 09/30/2013	31,941	23,263	23,263	-	-	-
<b>Total Special Education Cluster (IDEA)</b>				<b>7,266,852</b>	<b>889,339</b>	<b>2,828,143</b>	<b>3,801,488</b>	<b>99</b>	<b>1,862,783</b>
<u>Direct Program:</u>									
Impact Aid	84.041		07/01/2013 - 06/30/2014	1,600,000	-	1,723,452	1,739,881	-	16,429
Passed through the									
<u>Maryland State Dept. of Education:</u>									
Perkins (Program Improvement)	84.048	134777.01	07/01/2012 - 06/30/2013	148,697	19,981	19,981	-	-	-
Perkins (Program Improvement)	84.048	144686.01	07/01/2013 - 06/30/2014	156,683	-	79,888	148,631	-	68,743
Perkins (Program Improvement)	84.048	144687.01	07/01/2013 - 06/30/2014	9,964	-	5,849	5,962	-	113
Perkins (Non-Traditional Funds)	84.048	144687.02	07/01/2013 - 06/30/2014	2,388	-	1,324	1,349	-	25
<b>Total Program</b>				<b>317,732</b>	<b>19,981</b>	<b>107,042</b>	<b>155,942</b>	<b>-</b>	<b>68,881</b>
Summer Youth Employment	84.126	144284.01	07/01/2013 - 08/30/2013	4,232	-	2,792	2,792	-	-
Building Bridges	84.181	134797.01	08/15/2012 - 09/30/2013	100,000	20,781	49,397	28,616	-	-
Infants & Toddlers Program	84.181	144231.01	07/01/2013 - 09/30/2014	91,900	-	30,785	59,109	-	28,324
<b>Total Program</b>				<b>191,900</b>	<b>20,781</b>	<b>80,182</b>	<b>87,725</b>	<b>-</b>	<b>28,324</b>
Homeless Education	84.196a	135026.01	07/01/2012 - 09/30/2013	7,000	5,950	5,950	(548)	548	-
Homeless Education	84.196a	144846.01	07/01/2013 - 09/30/2014	6,650	-	998	4,265	-	3,267
<b>Total Program</b>				<b>13,650</b>	<b>5,950</b>	<b>6,948</b>	<b>3,717</b>	<b>548</b>	<b>3,267</b>
MD Seamless Transition Collaboration	84.235	125206.01	10/01/2011 - 06/30/2013	75,000	41,267	41,267	-	-	-
21st Century Learning Centers	84.287	144728.01	07/01/2013 - 09/30/2014	344,000	-	172,805	321,165	-	148,360
21st Century Learning Centers	84.287	134810.01	07/01/2012 - 08/31/2013	344,000	61,725	83,979	22,254	-	-
<b>Total Program</b>				<b>688,000</b>	<b>61,725</b>	<b>256,784</b>	<b>343,419</b>	<b>-</b>	<b>148,360</b>

(Continued)

St. Mary's County Public Schools

Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2014

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Unearned) 6/30/13	Cash Received FY 2014	FY '14 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Unearned) 6/30/14
Title III	84.365A	124298.01	07/01/2011 - 09/30/2013	\$ 26,038	\$ 191	\$ 191	\$ -	\$ -	\$ -
Title III	84.365A	134223.01	07/01/2012 - 09/30/2014	24,786	(772)	10,444	19,361	-	8,145
Title III	84.365A	144591.01	07/01/2013 - 09/30/2015	25,592	-	3,839	3,685	-	(154)
Title III (Immigrant)	84.365A	134223.02	07/01/2012 - 09/30/2014	5,248	36	36	2,727	-	2,727
Title III (Immigrant)	84.365A	144591.02	07/01/2013 - 09/30/2015	5,465	-	5,000	2,459	-	(2,541)
<b>Total Program</b>				<b>87,129</b>	<b>(545)</b>	<b>19,510</b>	<b>28,232</b>	<b>-</b>	<b>8,177</b>
Title II Part A	84.367	124216.01	07/01/2011 - 06/30/2013	627,002	61,111	61,111	-	-	-
Title II Part A	84.367	134600.02	07/01/2012 - 06/30/2014	625,786	(84,791)	-	476,685	-	391,894
Title II Part A	84.367	134600.01	07/01/2012 - 06/30/2013	4,766	4,051	4,051	-	-	-
Title II Part A	84.367	144776.01	07/01/2013 - 06/30/2015	601,447	-	254,514	137,077	-	(117,437)
<b>Total Program</b>				<b>1,859,001</b>	<b>(19,629)</b>	<b>319,676</b>	<b>613,762</b>	<b>-</b>	<b>274,457</b>
ARRA RTTT - EEA / TIA	84.395	135315.01	04/01/2013 - 09/30/2013	82,881	-	79,316	79,316	-	-
ARRA RTTT - EEA / TIA	84.395	135315.02	04/01/2013 - 09/30/2013	3,000	-	3,000	3,000	-	-
ARRA RTTT - CPCS	84.395	134352.02	08/01/2012 - 06/30/2013	50,000	6,299	6,299	-	-	-
ARRA RTTT - Teacher/Principal Evaluation	84.395	144950.01	10/11/2013 - 09/30/2014	66,810	-	66,149	66,810	-	661
ARRA Student Instructional Intervention System 21/42	84.395	145172.01	02/01/2014 - 09/21/2014	34,000	-	33,107	33,107	-	-
ARRA RTTT - 11/29	84.395	125714.01	06/01/2012 - 06/30/2013	208,000	15,206	15,206	-	-	-
ARRA RTTT - World Language Academies	84.395	154484	06/01/2014 - 08/31/2014	404	-	-	404	-	404
ARRA Race to the Top	84.395	115755.01	08/25/2010 - 09/30/2014	1,535,423	35,423	75,423	40,000	-	-
ARRA Race to the Top	84.395	115755.02	08/25/2010 - 09/30/2014	67,397	338	7,284	56,303	-	49,357
ARRA RTTT Teach for Maryland	84.395	144723.01	09/15/2013 - 05/30/2014	4,500	-	972	972	-	-
<b>Total Program</b>				<b>2,052,415</b>	<b>57,266</b>	<b>286,756</b>	<b>279,912</b>	<b>-</b>	<b>50,422</b>
ARRA RTTT - Early Learning Challenge	84.412	134534.04	07/01/2012 - 09/30/2013	1,014	-	152	-	152	-
<b>Total U.S. Department of Education:</b>				<b>21,622,914</b>	<b>1,776,085</b>	<b>7,901,769</b>	<b>9,446,899</b>	<b>2,400</b>	<b>3,323,615</b>

(Continued)

**St. Mary's County Public Schools**

**Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2014**

Grant Name	CFDA Number	Grant Number	Project Period	Grant Award	Accrued/ (Unearned) 6/30/13	Cash Received FY 2014	FY '14 Revenue Recognized & Expenditures	Refunded to MSDE/ (Write Off)	Accrued/ (Unearned) 6/30/14
<b><u>U.S. Department of Health and Human Services:</u></b>									
<u>Direct Program</u>									
Office of Head Start	93.600	03CH3375/02	07/01/2013 - 06/30/2018	2,104,913	-	-	512,734	-	512,734
Office of Head Start	93.600	03CH3375/01	07/01/2013 - 06/30/2018	1,553,643	-	1,016,551	1,156,259	-	139,708
Office of Head Start	93.600	03CH3375/01	06/01/2013 - 06/30/2018	97,338	1,368	59,400	66,135	-	8,103
<b>Total Program</b>				<b>3,755,894</b>	<b>1,368</b>	<b>1,075,951</b>	<b>1,735,128</b>	<b>-</b>	<b>660,545</b>
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	07/01/2013 - 06/30/2014	1,009,112	(1,197,182)	864,147	782,555	-	(1,278,774)
<b>Total U.S. Department of Health and Human Services</b>				<b>4,768,006</b>	<b>(1,193,486)</b>	<b>1,942,426</b>	<b>2,517,683</b>	<b>-</b>	<b>(618,229)</b>
<b><u>U.S. Homeland Security:</u></b>									
Passed through the <u>St. Mary's County Health Dept:</u>									
Emergency generator transfer switch (GMHS/LHS)	97.073	PO 042797	08/01/2010 - 06/30/2013	63,180	31,515	31,515	-	-	-
<b>Total Expenditures of Federal Awards</b>				<b>\$ 36,947,058</b>	<b>\$ 2,752,957</b>	<b>\$ 16,113,788</b>	<b>\$ 16,797,334</b>	<b>\$ 2,400</b>	<b>\$ 3,438,903</b>

## St. Mary's County Public Schools

### Notes to the Schedule of Expenditures of Federal Awards

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#### **Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards (Schedule) includes all of the federal grant activity for the School System under programs of the federal government for the year ended June 30, 2014. 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. Unearned balances at year-end represent an excess of cash receipts over reimbursable expenditures to date. Generally, accrued or unearned balances caused by differences in the timing of cash receipts and expenditures will be reversed in the remaining grant period or subsequent fiscal year.

#### **Note 3. Program Exclusions**

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

**St. Mary's County Public Schools**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014**

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**Section I – Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?        Yes   X   No

Federal Awards:

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with section 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>
12.558	Public Law – Department of Defense Impact Aid
84.027 and 84.173	Special Education Cluster (IDEA)
84.041	Impact Aid
84.395	Race to the Top
93.600	Head Start

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

Total Expenditures of Federal Awards	\$ 16,797,334
Program excluded from testing as funding is received under a vendor-type relationship – CFDA No. 93.778	<u>(782,555)</u>
	16,014,779
	3%
<b>Type A Dollar Threshold</b>	<u><u>\$ 480,443</u></u>

Auditee qualified as low-risk auditee?        Yes   X   No

**Section II – Financial Statement Findings**

No matters were reported.

**Section III – Findings and Questioned Costs for Federal Awards**

No matters were reported.

## St. Mary's County Public Schools

### Summary Schedule of Prior Audit Findings Year Ended June 30, 2014

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#### Internal Control

*Identifying Number:* 2013-01 Missing Transactions – Material Weakness

*Audit Finding:* 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.

*Corrective Action Taken:* Corrective action was taken.

*Identifying Number:* 2013-02 Review of Year End Journal Entries – Significant Deficiency

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

*Corrective Action Taken:* Corrective action was taken.