

**BOARD OF EDUCATION OF
CHARLES COUNTY, MARYLAND
La Plata, Maryland**

**ANNUAL FINANCIAL REPORT
June 30, 2012**

TABLE OF CONTENTS

	PAGES
INDEPENDENT AUDITOR’S REPORT	1
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 <i>GOVERNMENT AUDITING STANDARDS</i>.....	3
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
Basic Financial Statements	19
Government-Wide Financial Statements	
Statement of Net Assets	20
Statement of Activities.....	21
Fund Financial Statements	
Balance Sheet – Governmental Funds	22
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	23
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	24
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	25
Statement of Fiduciary Net Assets – Trust and Agency Funds.....	26
Statement of Changes in Fiduciary Net Assets.....	27
Notes to Financial Statements	28
REQUIRED SUPPLEMENTARY INFORMATION	49
Defined Benefit Plan - Schedules of Funding Progress and Employer Contributions – Pension and Retiree Health Plans	50
Schedule of Employer Contributions – Pension and Retiree Health Plans.....	51
General Fund	
Schedule of Revenues and Expenditures – Budget and Actual – Non-GAAP Budgetary Basis	52
Notes to Required Supplementary Information	53

TABLE OF CONTENTS
(CONTINUED)

	PAGES
OTHER SUPPLEMENTARY INFORMATION	54
Schedule of Revenues – Budget and Actual – Non-GAAP Budgetary Basis – General Fund	55
Schedule of Expenditures – Budget and Actual – Non-GAAP Budgetary Basis – General Fund	56
Combining Balance Sheet – Capital Projects Fund	58
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Capital Projects Sub- Funds	59
Schedule of Revenues, Expenditures, and Encumbrances Non-GAAP Basis – Special Revenue – Restricted Programs Fund	60
Schedule of Revenues, Expenditures, and Encumbrances – Budget and Actual – Non-GAAP Budgetary Basis – Special Revenue – Food Service Fund	61
Schedule of Changes in Net Assets and Liabilities Student Activities Fund – Agency Fund	62
Combining Schedule of Fiduciary Net Assets – Retiree Health and Pension Trust Funds	63
Combining Schedule of Changes in Fiduciary Net Assets – Retiree Health and Pension Trust Funds	64



CliftonLarsonAllen

Independent Auditor's Report

Members of the Board
Board of Education of Charles County, Maryland
La Plata, Maryland

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Charles County, Maryland (the Board), a component unit of the County Commissioners of Charles County, Maryland as of and for the year ended June 30, 2012, which collectively comprise The Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of The Board's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012 on our consideration of the Board's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 18, budgetary comparison for the general fund on page 52, and the schedule of funding progress and employer contributions on pages 50 through 51 be presented to supplement the basic financial statements, such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
September 27, 2012



CliftonLarsonAllen

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
Board of Education of Charles County, Maryland
La Plata, Maryland

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Charles County, Maryland (the Board), a component unit of the County Commissioners of Charles County, Maryland, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. 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.

Internal Control Over Financial Reporting

Management of the Board is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Education of Charles County, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

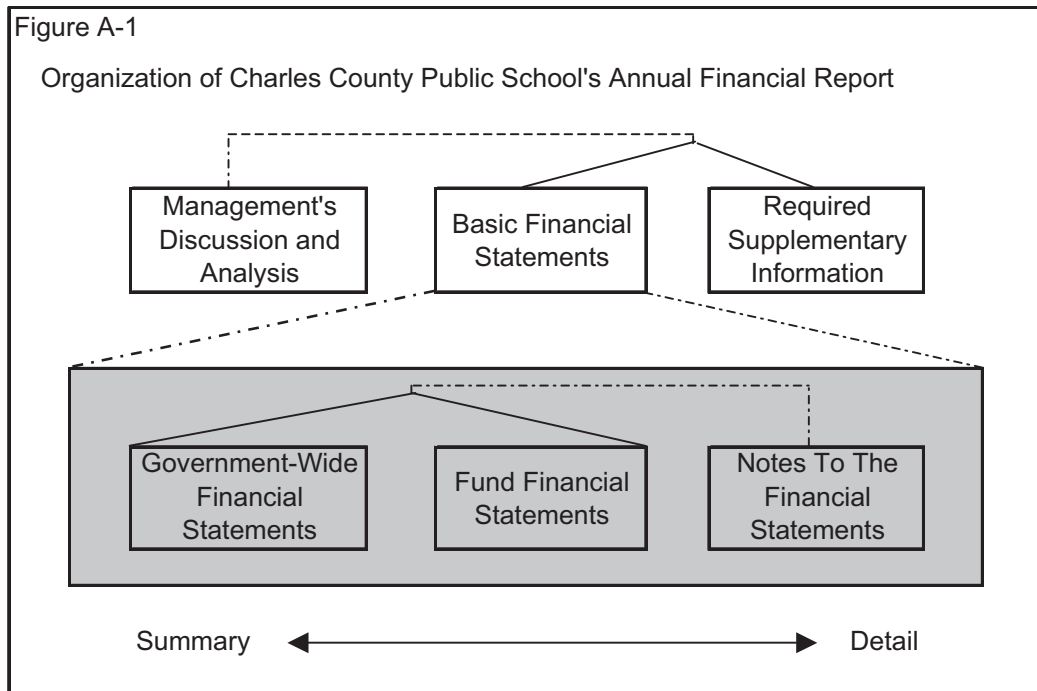
Baltimore, Maryland
September 27, 2012

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Our discussion and analysis of the Charles County Public School's (the School System) financial performance provides an overview of the financial activities for the fiscal year ending June 30, 2012. The information in this section should be used in conjunction with the financial statement notes and the required supplementary information.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.



The basic financial statements include two kinds of statements (government-wide and fund statements) that present different views of the School System:

Government-Wide Statements

The government-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 Assets and the Statement of Activities are prepared using the accrual basis of accounting (recognition of revenues when they are earned and expenses when a liability is incurred).

The Statement of Net Assets reports the residual between the School System's assets and liabilities. Presenting the net assets is one way to measure the School System's financial health or position.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

The Statement of Activities reports the current year's revenues and expenses regardless of when cash is received or paid. This statement will show how the School System changed in the current fiscal year. All of the School System's basic services are included in this statement, such as regular and special education, transportation, and administration. County appropriations and state formula aid finance most of these services.

The two government-wide statements report the School System's net assets and how they have changed. When reading the statements, the reader should consider the following:

- Over a period of time, increases or decreases in the School System's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the School System's overall health, you need to consider additional non-financial factors such as changes in the School System's local appropriation, student enrollment growth, and the condition of school buildings and other facilities.

Fund Financial Statements

Overall, these statements focus on individual parts of the School System, reporting the School System's operations in more detail than the government-wide statements.

The fund financial statements provide more detailed information about the School System's funds, focusing on its most significant or "major" funds (not the School System as a whole). Funds are accounting devices the School System uses to keep track of the sources and uses of funds in particular programs. The School System may use funds for the following reasons.

- To comply with state and federal law requirements.
- To control and manage resources designated for specific activities or objectives.

The School System has two 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 readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School System's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided to explain the relationship (or differences) between them.
- Fiduciary Funds: The School System is the trustee for assets that belong to others, such as the pension, OPEB, and student activities funds. The School System is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those for whom the assets belong. The School System excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

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

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.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements			
	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School System (except fiduciary funds)	The activities of the School System that are not proprietary or fiduciary, such as special education and maintenance	Resources administered on behalf of someone else, such as school activity monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial flows 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 up and liabilities that come due during the year; capital assets or long-term liabilities are not included	All assets and liabilities, both short-term and long-term; funds may or may not contain capital assets
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues where cash is received during or soon after the end of the year to pay liabilities for current period; expenditures occur when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Financial Analysis of the School System as A Whole (Government-Wide)

The School System's combined net assets as of June 30, 2012 totaled \$183.9 million, a decrease of \$24.4 million or 11.7% less than last fiscal year as shown in the statement below.

Condensed Statement of Net Assets (in millions of dollars)

	Governmental Activities		Total Percent
	2011	2012	Change
			2011-2012
Assets			
Current and other assets	\$ 62.0	\$ 67.6	9.0%
Capital assets	268.9	265.1	(1.4)%
Total assets	\$ 330.9	\$ 332.7	0.5%
Liabilities			
Long-term liabilities	\$ 80.6	\$ 109.3	35.7%
Other liabilities	42.0	39.4	(6.2)%
Total liabilities	\$ 122.6	\$ 148.8	21.3%
Net Assets			
Invested in capital assets	\$ 268.9	\$ 265.1	(1.4)%
Unrestricted	(60.6)	(81.2)	33.9%
Total net assets	\$ 208.3	\$ 183.9	(11.7)%

The major portion of the School System's assets, \$265.1 million (79.7%) reflects the investment in capital assets (land, land improvements, buildings, equipment and construction). These assets include school buildings, relocatable classrooms, land for athletic fields, playgrounds, and equipment in the school classrooms and other buildings. The unrestricted net assets decreased due to an additional increase in OPEB obligation for the current year of \$25.6 million as described in Note 6 of the financial statements.

Changes In Net Assets: The School System's net assets decreased by \$24.4 million in 2012 as opposed to a decrease of \$15.3 million in 2011.

- The School System's revenues of \$365.5 million increased \$10.8 million (3.1%) over last year. Program revenue increased by \$2.5 million while general revenues increased by \$8.3 million. The increases are largely due to an increase in funding contributed by the state for funding of regular education and general operations.
- Expenses totaled \$389.9 million or \$19.9 million more than fiscal year 2011. The largest increase was in expenses related to instruction which increased to \$247.8 million in fiscal year 2012, an increase of \$15.2 million. This was a result of increased funding for education received from the state of Maryland as noted above.

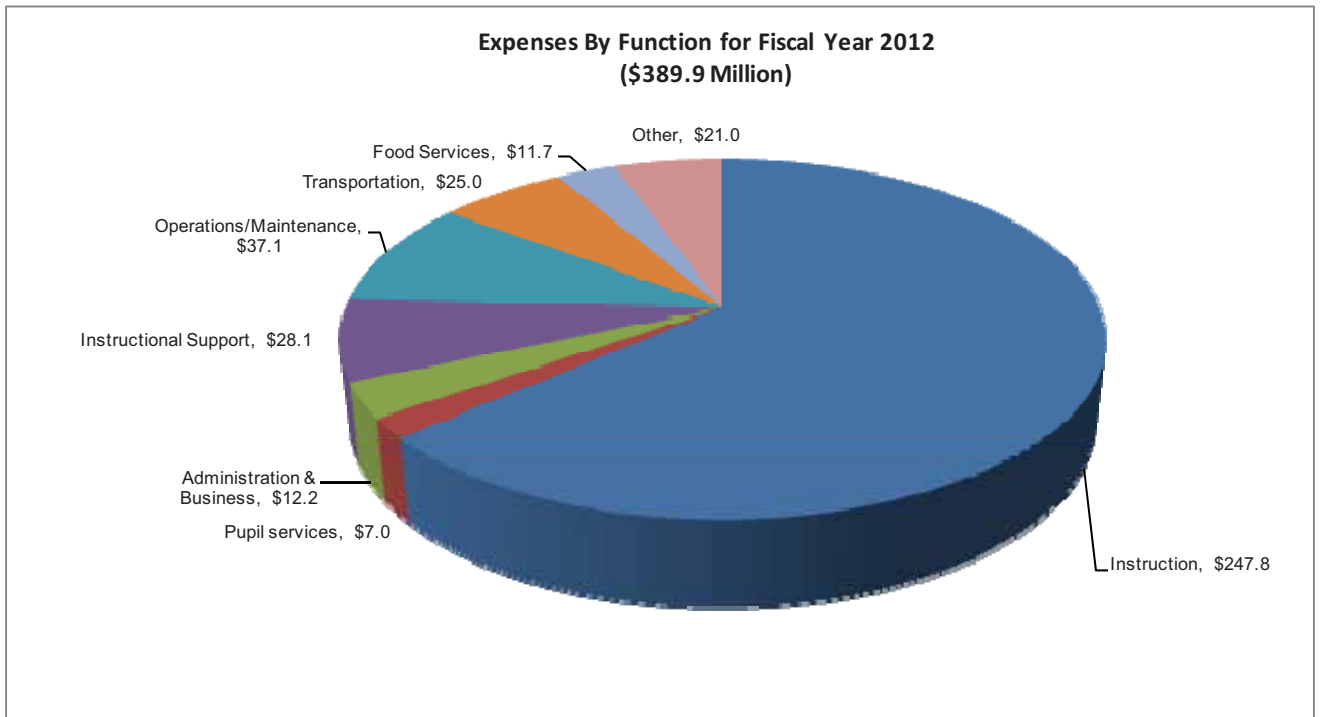
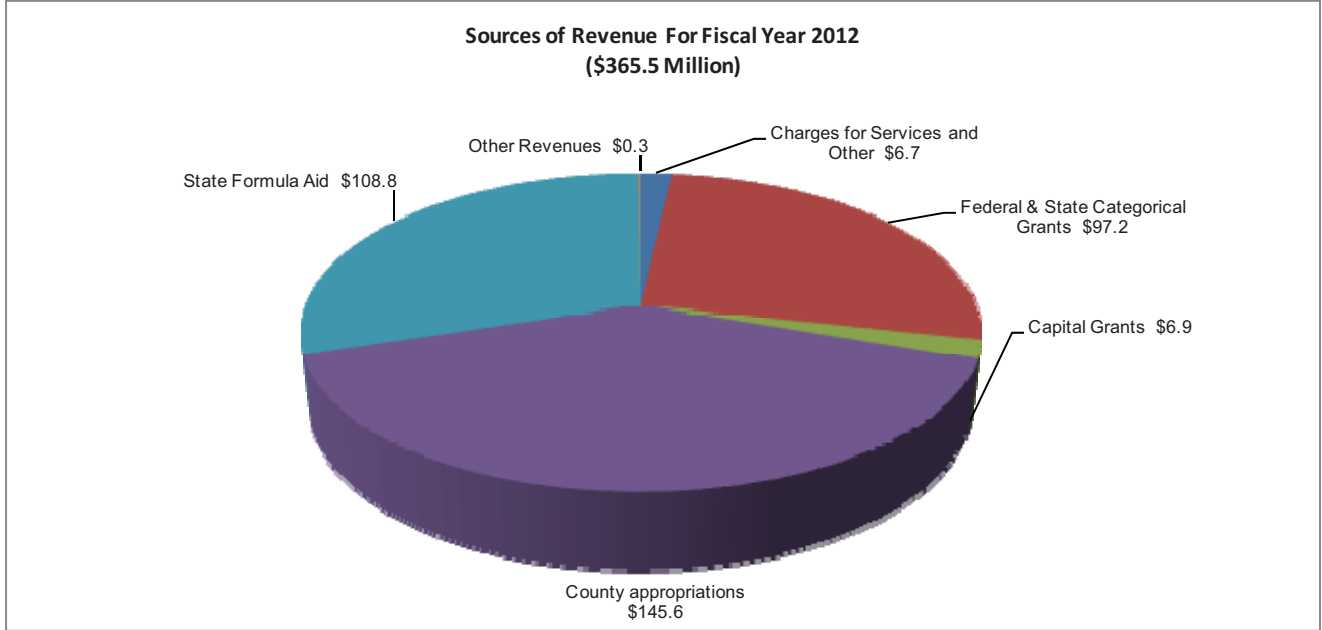
BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Changes in Net Assets (in millions of dollars)

	<u>Governmental Activities</u>		<u>Change</u>	<u>% Change</u>
	<u>2011</u>	<u>2012</u>		
Revenues				
Program revenues				
Charges for services	\$ 6.7	\$ 6.7	(0.0)	(0.2)%
Operating grants and contributions	89.0	97.2	8.2	9.2%
Capital grants and contributions	12.6	6.9	(5.7)	(45.5)%
General revenues			-	
County appropriations	145.3	145.6	0.3	0.2%
State formula aid	100.8	108.8	8.0	8.0%
Other	<u>0.3</u>	<u>0.3</u>	<u>(0.0)</u>	<u>(1.3)%</u>
Total revenues	<u>354.7</u>	<u>365.5</u>	<u>10.8</u>	<u>3.1%</u>
Expenditures				
Instruction	232.6	247.8	15.2	6.5%
Support services				
Pupil services	6.6	7.0	0.4	5.4%
Administration	12.0	12.2	0.2	1.8%
Instructional support	26.3	28.1	1.8	6.7%
Operations and maintenance	43.8	37.1	(6.7)	(15.3)%
Transportation	23.9	25.0	1.2	4.9%
Food services	11.1	11.7	0.6	5.2%
Planning and construction	0.7	7.9	7.2	1026.6%
Other	<u>13.0</u>	<u>13.1</u>	<u>0.2</u>	<u>1.5%</u>
Total expenditures	<u>370.0</u>	<u>389.9</u>	<u>19.9</u>	<u>5.4%</u>
Decrease in net assets	<u>\$ (15.3)</u>	<u>\$ (24.4)</u>	<u>(9.1)</u>	<u>59.4%</u>

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

Revenues and Expenditures by Source and Function



BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Governmental Activities

The county appropriation for the operating budget in fiscal year 2012 was \$145.6 million or \$.3 million more than in fiscal year 2011 as shown on the Statement of Activities for fiscal years 2011 and 2012. Total cost of services increased 5.4% from 2011. Also, the net cost of services increased by \$17.4 million or 6.7%, in fiscal year 2011 the net cost decreased by \$1.5 million or .6%.

Net Cost of Governmental Activities: The cost of the nine major School System activities (schedule shown below): Instruction, Instructional Support, Pupil Services, Administration, Transportation, Operation and Maintenance, Food Services, Planning and Construction and Other (Community Services, and unallocated depreciation) are reflected in the table below. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the impact on the School System by each of the activities. General revenues, including county appropriations and state aid, must support the net cost of the School System's activities.

	Net Cost of Government Activities (in millions of dollars)						
	Total Cost of Services		Percentage	Net Costs of Services		Percentage	
	2011	2012	Change	2011	2012	Change	
Instruction	\$ 232.6	\$ 247.8	6.5%	\$ 162.9	\$ 170.5	4.7%	
Pupil services	6.6	7.0	5.4%	6.6	6.9	5.0%	
Administration	12.0	12.2	1.8%	11.1	11.0	-0.5%	
Instructional support	26.3	28.1	6.7%	25.0	26.5	6.1%	
Operations and maintenance	43.8	37.1	-15.3%	43.2	36.4	-15.8%	
Transportation	23.9	25.0	4.5%	14.5	14.8	1.8%	
Food services	11.1	11.7	5.2%	0.7	0.9	25.2%	
Planning and construction	0.7	7.9	1026.6%	(14.2)	0.0	-100.1%	
Other	13.0	13.1	0.7%	11.9	12.1	1.4%	
Total	\$ 370.0	\$ 389.9	5.4%	\$ 261.7	\$ 279.1	6.7%	

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Financial Highlights
Financial Analysis of the School System's Funds

The general fund is the operating fund for the School System. On a GAAP basis the School System ended the fiscal year with a general fund balance of \$19.8 million. The fund balance consists of amounts assigned for purchase order encumbrances; subsequent year expenditures; uninsured health claims, and other GAAP related accounting requirements.

The total governmental funds consist of the General, Restricted Programs (restricted by purpose and source of funds), Food Service, and Capital Projects. Capital Projects receive their funding on a reimbursement basis and the negative fund balance is due to the timing of the reimbursement. The School System reported a total governmental funds balance of \$21.4 million as compared to last year's combined ending balance of \$13.0 million or \$8.4 million more than last year.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Changes in Fund Balance - Governmental Funds - GAAP Basis

	<u>General</u> <u>Fund</u>	<u>Restricted</u> <u>Programs Fund</u>	<u>Food</u> <u>Service Fund</u>	<u>Capital</u> <u>Projects</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES					
State of Maryland	\$ 178,659,908	\$ 1,877,267	\$ 222,740	\$ 3,103,395	\$ 183,863,310
Federal government	1,024,494	17,744,099	4,918,349	-	23,686,942
Other sources	1,745,586	981,718	5,523,176	-	8,250,480
Local sources	<u>145,620,700</u>	<u>311,100</u>	<u>-</u>	<u>3,764,187</u>	<u>149,695,987</u>
Total revenues	<u>327,050,688</u>	<u>20,914,184</u>	<u>10,664,265</u>	<u>6,867,582</u>	<u>365,496,719</u>
EXPENDITURES					
Current:					
Administration	8,112,265	268,903	-	-	8,381,168
Mid-level administration	20,392,787	1,261,747	-	-	21,654,534
Instructional salaries	118,696,962	7,291,156	-	-	125,988,118
Materials of instruction	3,090,413	575,525	-	-	3,665,938
Other costs of instruction	2,095,508	909,265	-	-	3,004,773
Special education	28,163,178	4,917,872	-	-	33,081,050
Student personnel services	3,178,568	19,449	-	-	3,198,017
Health service	2,693,420	2,075	-	-	2,695,495
Transportation	24,395,434	346,744	-	-	24,742,178
Operations	22,699,297	198,744	-	-	22,898,041
Maintenance	5,838,711	98,569	-	-	5,937,280
Food service	-	105,631	9,292,210	-	9,397,841
Community service	734,632	913,328	-	-	1,647,960
Fixed charges	74,460,274	3,364,081	1,652,501	-	79,476,856
Capital outlay	<u>2,953,840</u>	<u>1,526,771</u>	<u>-</u>	<u>11,106,747</u>	<u>15,587,358</u>
Total expenditures	<u>317,505,289</u>	<u>21,799,860</u>	<u>10,944,711</u>	<u>11,106,747</u>	<u>361,356,607</u>
Excess (deficiency) of revenue over expenditures	9,545,399	(885,676)	(280,446)	(4,239,165)	4,140,112
OTHER FINANCING SOURCES					
Issuance of note	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,243,830</u>	<u>4,243,830</u>
NET CHANGE IN FUND BALANCES	9,545,399	(885,676)	(280,446)	4,665	8,383,942
FUND BALANCES, BEGINNING OF YEAR	<u>10,234,198</u>	<u>1,379,531</u>	<u>1,566,600</u>	<u>(156,271)</u>	<u>13,024,058</u>
FUND BALANCES, END OF YEAR	<u>\$ 19,779,597</u>	<u>\$ 493,855</u>	<u>\$ 1,286,154</u>	<u>\$ (151,606)</u>	<u>\$ 21,408,000</u>

Excess of revenues over expenditures resulted in increases or (decreases) in fund balances. Further analysis and explanation of Fund Balance (see Note 12).

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Budget Adjustments

The School System's final budget for General Fund requires total revenues to be equal to total expenditures. Final results for the year yielded an actual \$8.2 million surplus. The surplus was due primarily to planned savings related to salaries and employee benefits, utilities, and transportation costs. The following provides a synopsis of the intra-category changes as it relates to the source and use of budgetary funds.

REVENUES

Total revenues were \$2.4 million less than anticipated budgetary levels due to the Board not utilizing prior year fund balance appropriated for 2012 in the amount of \$2.6 million. Actual amounts for revenues from the State of Maryland and federal sources did not vary significantly from budgeted amounts. Other sources of revenue were \$2.7 million less than budgeted amounts due to the Board not utilizing the \$2.6 million of prior year fund balance.

EXPENDITURES

All revenue shortfalls were offset by total planned expenditure savings of \$10.6 million from unfilled positions, turnover (including associated employee benefits), student transportation, utilities, and materials of instruction throughout the School System.

General Fund Budgetary Highlights – Non-GAAP

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

- Intra-category transfers to align budgets within the expenditure category. These changes require county government notification and are generally done as needed throughout the year.
- Inter-category transfers to fund categories over budget. According to state law, no expenditure category can exceed approved budget amounts. Inter-category budget transfers require Board and county government approval, and are generally done once a year.
- Revenue budget changes require approval; when they provide a source of funding for expenditure categories, or a transfer from fund balance.

Food Service Budget to Actual – Non-GAAP

Budget to actual – Non-GAAP Budgetary Basis statement can be found in the Other Supplementary Information section towards the end of this report.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

General Fund Budget and Actual - Non-GAAP Budgetary Basis

	2012			Variances Positive (Negative)	2011
	Original Budget	As Amended Budget	Actual		Actual
REVENUES					
State of Maryland	\$ 149,693,720	\$ 154,055,939	\$ 154,069,059	\$ 13,120	\$ 139,861,837
Federal government	770,000	770,000	1,024,494	254,494	965,980
Other sources	3,119,080	4,419,080	1,745,586	(2,673,494)	1,858,240
Local sources	145,620,700	145,620,700	145,620,700	-	145,296,600
Total revenues	299,203,500	304,865,719	302,459,839	(2,405,880)	287,982,657
EXPENDITURES					
Administration	8,547,828	8,547,828	8,168,717	379,111	8,014,724
Mid-level administration	20,682,352	20,682,352	20,399,640	282,712	19,693,222
Instructional salaries	120,854,152	120,854,152	118,696,962	2,157,190	120,266,068
Materials of instruction	4,902,284	4,902,284	4,314,386	587,898	3,196,707
Other costs of instruction	2,543,675	2,543,675	2,046,414	497,261	1,525,855
Special education	28,590,831	28,590,831	28,165,762	425,069	27,835,295
Student personnel services	3,240,120	3,240,120	3,178,567	61,553	3,105,210
Health service	2,795,900	2,795,900	2,693,420	102,480	2,609,830
Transportation	25,254,863	25,254,863	24,378,332	876,531	23,103,156
Operations	25,107,321	25,107,321	22,845,103	2,262,218	23,827,916
Maintenance	6,220,375	6,220,375	6,005,020	215,355	6,015,986
Community service	771,169	771,169	734,632	36,537	690,766
Capital outlay	1,524,042	2,824,042	2,778,475	45,567	1,009,474
Fixed charges	48,168,588	52,530,807	49,869,425	2,661,382	46,359,479
Total expenditures	299,203,500	304,865,719	294,274,855	10,590,864	287,253,688
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 8,184,984	\$ 8,184,984	\$ 728,969

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Capital Asset and Long-Term Debt

Capital Assets

During the year, the School System completed several building projects. The projects were:

Project Description	Cost (in millions)
Additions to buildings (PA Systems, boiler replacement, CTE classroom renovations, carpet/tile replacement, door/window replacement, curtain divider, ceiling suspended backboards, ADA modifications and miscellaneous maintenance projects).	\$ 3.9
Full Day Kindergarten additions/renovations	<u>3.4</u>
Total	<u><u>\$ 7.3</u></u>

During fiscal year 2012, capital assets decreased \$ 3.8 million, which was a decrease of 1.4% from fiscal year 2011. Some of the changes were as follows:

- Land Improvements increased due to new playground equipment, paving, wetland creation, sidewalk addition, scoreboards, track repair, fencing and soil erosion work.
- Construction in progress included additions of full day kindergarten classrooms at Arthur Middleton elementary school (\$1.8 million) and Eva Turner elementary school (\$1.6 million) and boiler replacement at John Hanson middle school (\$2.7 million). During fiscal year 2012, \$6.5 million of completed projects were transferred from construction in progress to buildings.
- Equipment decreased due to computer lab replacements in various schools.

Capital Assets (in millions of dollars)

	Governmental Activities		Change
	2011	2012	2011 - 2012
Land	\$ 16.8	\$ 16.8	\$ -
Land improvements	8.8	9.3	0.5
Buildings	421.1	428.5	7.4
Construction in progress	14.1	14.3	0.2
Equipment and furniture	27.8	27.6	(0.2)
Accumulated depreciation	<u>(219.7)</u>	<u>(231.4)</u>	<u>(11.7)</u>
Total	<u><u>\$ 268.9</u></u>	<u><u>\$ 265.1</u></u>	<u><u>\$ (3.8)</u></u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

The School System's fiscal year 2013 capital improvement program budget includes spending another \$22.4 million for capital projects, principally in two areas:

- \$3.7 million for boiler and various maintenance projects.
- \$18.7 million towards construction for St. Charles High School.

Over the next five years, the School System anticipates opening a new elementary school, a new high school and completing two full day kindergarten additions.

Long-Term Debt

At year-end, the School System had \$111.3 million in long-term debt. Compensated absences in accumulated vacation and sick leave for the School System's employees available upon termination accounted for \$7.2 million of the debt. The School System also has an obligation of \$99.8 million for post-employment benefits other than pensions (OPEB). The Technology loan accounted for \$4.3 million of the debt. More detailed information about the School System's long-term liabilities is presented in Note 10 of the financial statements.

Factors Expected To Have an Effect on Future Operations

The School System continues to do an excellent job managing and allocating resources. The School System did not have budget deficits or over expenditures in any category and was able to generate a significant fund balance through savings initiatives which should provide a financial buffer moving forward. The system recently completed a comprehensive two year audit review by the Maryland State Department of Education, which concluded with no findings or recommendations.

The stalled economy continues to present funding challenges for local education. Enrollment growth in the county has declined slightly over the past two years and this will most likely lead to future reductions in State funding unless the legislature takes steps to increase funding to education. On a national level, there is much debate regarding potential budget cuts which will be triggered by sequestration and the impact on local education budget. The County recently raised taxes in order to fund a step increase and State mandated retirement contributions, but the State has required that counties take on an increasing share of teacher pension contributions. All said, it appears that we can expect several more years of slow growth and budget uncertainty.

Funding other post-retirement benefits (OPEB) in accordance with GASB 45 remains a concern, but a low budget priority. The Board of Education is committed to honoring union contracts, which provides health insurance benefits to current and retired employees. Health costs escalated significantly this year due to an unusually high volume of claims even though efforts have been made to reduce health care costs. The tradeoff between funding OPEB or staff salaries in the future will be problematic.

Another area of concern is our school bus transportation costs, which remain one of the highest in the state on a per-pupil basis. A transportation work group has been established to analyze costs and present options to the board of education for future budgets.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012

Balancing the operating budget for FY2013 was extremely difficult and relied on the use of one time reserves, lapsed salary savings, the elimination of OPEB, program and position cuts in order to present a balanced budget and give a modest salary increase to employees. The system still remains one step behind in employee salary scale progression, and the ability to fund two steps in any given year is extremely problematic. Moving forward, there needs to be a concerted effort by management to reduce the reliance on fund balance reserves to pay for recurring costs.

The System is opening a new high school in the fall of 2014 and this will require a major increase in staff, operating and startup costs. The County Government has committed to partially funding these operating costs, but the source of funding, both from the County and internally has not been identified.

Finally, the school system will experience a major changeover in senior management. The Superintendent and several other key administrative positions will retire after a long tenure of service. As with any management turnover, there will be changes in direction, focus and organization, all of which will have an impact on the budget and future operations. The Board of Education will appoint a new Superintendent to a four year term starting July 2013.

Contacting the School System's Financial Management

This financial report is designed to provide the School System's citizens, taxpayers, customers, and investors and creditors with a general overview of the School System's finances and to demonstrate the School System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Assistant Superintendent of Finance, Business Administration and Technology, Charles County Public Schools, P.O. Box 2770, La Plata, Maryland 20646.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF NET ASSETS
June 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 49,558,609
Accounts receivable	
Federal	3,720,594
State of Maryland	1,836,963
Other sources	2,887,807
Inventories	825,515
Prepaid pension obligation	8,756,418
Capital assets	
Land and construction in progress	31,111,632
Other capital assets, net of depreciation	<u>233,972,405</u>
TOTAL ASSETS	<u>332,669,943</u>
LIABILITIES	
Accounts payable	6,472,394
Accrued salaries and fringe benefits	23,492,758
Payroll taxes and withholding payable	23,200
Other liabilities	98,397
Payable for health insurance	2,810,000
Unearned revenue	4,524,739
Noncurrent liabilities:	
Due within one year	1,989,594
Due in more than one year	<u>109,343,014</u>
TOTAL LIABILITIES	<u>148,754,096</u>
NET ASSETS	
Invested in capital assets	265,084,037
Unrestricted	<u>(81,168,190)</u>
TOTAL NET ASSETS	<u>\$ 183,915,847</u>

The accompanying notes are an integral part of the financial statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

	Program Revenues			Net Revenue (Expenses) and Changes in Net Assets	
Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	
GOVERNMENTAL ACTIVITIES					
INSTRUCTION					
Regular education	\$ 205,789,316	\$ 777,604	\$ 62,025,842	\$ -	\$ (142,985,870)
Special education	<u>41,998,160</u>	<u>317,893</u>	<u>14,117,934</u>	<u>-</u>	<u>(27,562,333)</u>
Total instruction	<u>247,787,477</u>	<u>1,095,497</u>	<u>76,143,776</u>	<u>-</u>	<u>(170,548,204)</u>
SUPPORT SERVICES					
Pupil services	6,953,118	-	22,310	-	(6,930,808)
Administration	12,213,174	-	1,173,969	-	(11,039,205)
Instructional support	28,065,507	-	1,544,760	-	(26,520,747)
Operation and maintenance	37,078,048	364,918	319,305	-	(36,393,825)
Transportation	25,066,881	-	10,310,624	-	(14,756,257)
Community services	1,871,111	27,553	1,105,236	-	(738,322)
School lunch services	11,675,260	5,201,203	5,597,869	-	(876,188)
Planning and construction	7,885,971	-	997,899	6,867,582	(20,490)
Unallocated depreciation expense	<u>11,323,449</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(11,323,449)</u>
Total support services	<u>142,132,518</u>	<u>5,593,674</u>	<u>21,071,972</u>	<u>6,867,582</u>	<u>(108,599,290)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 389,919,995</u>	<u>\$ 6,689,171</u>	<u>\$ 97,215,748</u>	<u>\$ 6,867,582</u>	<u>(279,147,494)</u>
GENERAL REVENUES					
County appropriations					145,620,700
State aid not restricted to specific purposes					108,843,935
Earnings on investment					30,334
Miscellaneous					<u>265,845</u>
					<u>254,760,814</u>
CHANGE IN NET ASSETS					(24,386,680)
NET ASSETS, BEGINNING OF YEAR					<u>208,302,527</u>
NET ASSETS, END OF YEAR					<u>\$ 183,915,847</u>

The accompanying notes are an integral part of the financial statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	<u>General Fund</u>	<u>Restricted Programs Fund</u>	<u>Food Service Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and short-term investments	\$ 47,496,208	\$ -	\$ 2,041,335	\$ 21,066	\$ 49,558,609
Accounts receivable:					
Federal	101,659	3,473,250	145,685	-	3,720,594
State of Maryland	689,380	453,905	45,021	648,657	1,836,963
Other sources	1,087,921	150,388	28,200	1,621,298	2,887,807
Due from other funds	-	2,028,607	-	4,665	2,033,272
Inventories	499,212	-	326,303	-	825,515
TOTAL ASSETS	<u>\$ 49,874,380</u>	<u>\$ 6,106,150</u>	<u>\$ 2,586,544</u>	<u>\$ 2,295,686</u>	<u>\$ 60,862,760</u>
LIABILITIES					
Accounts payable	\$ 4,896,631	\$ 590,806	\$ 13,809	\$ 971,148	\$ 6,472,394
Accrued salaries and fringe benefits	22,032,104	1,039,174	421,480	-	23,492,758
Payroll taxes and withholdings payable	23,200	-	-	-	23,200
Due to other governments	-	74,728	-	-	74,728
Due to other funds	40,444	-	540,353	1,476,144	2,056,941
Payable for health insurance	2,810,000	-	-	-	2,810,000
Unearned revenue	292,404	3,907,587	324,748	-	4,524,739
Total liabilities	<u>30,094,783</u>	<u>5,612,295</u>	<u>1,300,390</u>	<u>2,447,292</u>	<u>39,454,760</u>
FUND BALANCE (DEFICIT)					
Nonspendable - inventory	499,212	-	326,303	-	825,515
Restricted	-	493,855	-	-	493,855
Assigned	7,839,564	-	959,851	-	8,799,415
Unassigned	11,440,821	-	-	(151,606)	11,289,215
Total fund balance(deficit)	<u>19,779,597</u>	<u>493,855</u>	<u>1,286,154</u>	<u>(151,606)</u>	<u>21,408,000</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 49,874,380</u>	<u>\$ 6,106,150</u>	<u>\$ 2,586,544</u>	<u>\$ 2,295,686</u>	<u>\$ 60,862,760</u>

The accompanying notes are an integral part of the financial statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total Fund Balances - Governmental Funds \$ 21,408,000

**Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:**

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

The cost of capital assets	\$ 496,470,962	
Accumulated depreciation	<u>(231,386,925)</u>	
		265,084,037

Prepaid pension obligation is not recognized in the governmental funds but is recognized in the Statement of Activities.	8,756,418
--	-----------

Long-term liabilities, including notes payable, net other postemployment obligations and compensated absences, 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 consisted of:

Net OPEB obligation	(99,829,466)	
Note payable	(4,275,701)	
Compensated absences	<u>(7,227,441)</u>	
		<u>(111,332,608)</u>

TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES **\$ 183,915,847**

The accompanying notes are an integral part of the financial statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>General Fund</u>	<u>Restricted Programs Fund</u>	<u>Food Service Fund</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
REVENUES					
State of Maryland	\$ 178,659,908	\$ 1,877,267	\$ 222,740	\$ 3,103,395	\$ 183,863,310
Federal government	1,024,494	17,744,099	4,918,349	-	23,686,942
Other sources	1,745,586	981,718	5,523,176	-	8,250,480
Local sources	<u>145,620,700</u>	<u>311,100</u>	<u>-</u>	<u>3,764,187</u>	<u>149,695,987</u>
Total revenues	<u>327,050,688</u>	<u>20,914,184</u>	<u>10,664,265</u>	<u>6,867,582</u>	<u>365,496,719</u>
EXPENDITURES					
Current:					
Administration	8,112,265	268,903	-	-	8,381,168
Mid-level administration	20,392,787	1,261,747	-	-	21,654,534
Instructional salaries	118,696,962	7,291,156	-	-	125,988,118
Materials of instruction	3,090,413	575,525	-	-	3,665,938
Other costs of instruction	2,095,508	909,265	-	-	3,004,773
Special education	28,163,178	4,917,872	-	-	33,081,050
Student personnel services	3,178,568	19,449	-	-	3,198,017
Health service	2,693,420	2,075	-	-	2,695,495
Transportation	24,395,434	346,744	-	-	24,742,178
Operations	22,699,297	198,744	-	-	22,898,041
Maintenance	5,838,711	98,569	-	-	5,937,280
Food service	-	105,631	9,292,210	-	9,397,841
Community service	734,632	913,328	-	-	1,647,960
Fixed charges	74,460,274	3,364,081	1,652,501	-	79,476,856
Capital outlay	<u>2,953,840</u>	<u>1,526,771</u>	<u>-</u>	<u>11,106,747</u>	<u>15,587,358</u>
Total expenditures	<u>317,505,289</u>	<u>21,799,860</u>	<u>10,944,711</u>	<u>11,106,747</u>	<u>361,356,607</u>
Excess (deficiency) of revenues					
Over expenditures	9,545,399	(885,676)	(280,446)	(4,239,165)	4,140,112
OTHER FINANCING SOURCES					
Issuance of note	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,243,830</u>	<u>4,243,830</u>
NET CHANGE IN FUND BALANCES	9,545,399	(885,676)	(280,446)	4,665	8,383,942
FUND BALANCES,					
BEGINNING OF YEAR	<u>10,234,198</u>	<u>1,379,531</u>	<u>1,566,600</u>	<u>(156,271)</u>	<u>13,024,058</u>
FUND BALANCES, END OF YEAR	<u>\$ 19,779,597</u>	<u>\$ 493,855</u>	<u>\$ 1,286,154</u>	<u>\$ (151,606)</u>	<u>\$ 21,408,000</u>

The accompanying notes are an integral part of the financial statements.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

Total Net Change in Fund Balances - Governmental Funds \$ 8,383,942

**Amounts Reported for Governmental Activities in the
Statement of Activities are Different Because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities, those costs are shown in the Statement of Net Assets and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.

Assets capitalized during the year	\$ 9,622,643	
Depreciation expense for the year	(13,390,772)	
Net book value of assets disposed of during the year	<u>(30,514)</u>	(3,798,643)

Prepaid pension obligation is not recognized in the governmental funds but is recognized in the Statement of Activities. This is the increase in prepaid pension obligation for the year. 836,966

OPEB costs reported in the Statement of Activities do not require the use of current financial resources and, are not reported as expenditures in governmental funds. (25,567,478)

The issuance of long-term debt (e.g. notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither, transaction however has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt. (4,275,701)

In the Statement of Activities, certain operating expenses, such as compensated absences, are measured by the amounts accrued during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources expended. 34,234

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (24,386,680)**

The accompanying notes are an integral part of the financial statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
TRUST AND AGENCY FUNDS
June 30, 2012

	Pension and Retiree Health Trust Funds	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 5,329,624	\$ 2,286,527
Investments, at fair value with fiscal agent	78,088,344	-
Contribution receivable	1,825,001	-
Due from other funds	23,669	-
TOTAL ASSETS	85,266,638	2,286,527
LIABILITIES		
Due to student groups	-	2,286,527
TOTAL LIABILITIES	-	\$ 2,286,527
NET ASSETS		
Held in trust for retiree health/pension benefits	\$ 85,266,638	

The accompanying notes are an integral part of the financial statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2012

	<u>Pension and Retiree Health Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 13,222,154
Plan members	<u>2,666,043</u>
Total contributions	<u>15,888,197</u>
 Investment earnings:	
Interest and dividends	1,970,997
Net increase in fair value of investments	<u>119,880</u>
Total investment earnings	2,090,877
Less investment loss	<u>300,728</u>
Net investment gain	<u>1,790,149</u>
Total additions	<u>17,678,346</u>
 DEDUCTIONS	
Benefits paid to members	12,024,491
Administrative expenses	<u>2,268,310</u>
Total deductions	<u>14,292,801</u>
 CHANGE IN PLAN NET ASSETS	 3,385,545
 TOTAL NET ASSETS, BEGINNING OF YEAR	 <u>81,881,093</u>
 TOTAL NET ASSETS, END OF YEAR	 <u><u>\$ 85,266,638</u></u>

The accompanying notes are an integral part of the financial statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Board of Education of Charles County, Maryland (the Board) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Board of Education of Charles County, Maryland is a component unit of the County Commissioners of Charles County, Maryland (the County). The Board's financial statements are an integral part of the financial statements of The County Commissioners of Charles County, Maryland. This conclusion has been reached based on the following criteria: (1) The County Commissioners are responsible for approving the Board's budget and establishing spending limitations; (2) The County Commissioners are responsible for levying taxes and collecting and distributing the funds to the Board; (3) The Board cannot issue bonded debt, but the County can and does issue bonds to finance school system capital projects.

All amounts appearing in the basic financial statements and the tabular presentations within the notes to the financial statements are stated in U.S. dollars.

The following is a summary of the more significant accounting policies of the Board.

Reporting Entity

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

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

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the Board.

The Statement of Activities demonstrates the degree to which the direct expense of a given program is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. *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 operation or capital requirements of a particular function.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Revenues and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenues are recognized in the year for which they are earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported 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 Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Special revenue (food services) fund revenue includes the value of commodities donated by the United States Department of Agriculture which were received during the fiscal year. Expenditures include the value of commodities consumed during the fiscal year.

The Board reports the following funds:

- **General Fund** - The General Fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in another fund.
- **Special Revenue Funds** - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted for specific purposes. The Board has the following Special Revenue Funds: the Restricted Programs Fund which consists of individual funds for state, local, and federal grants restricted for specific purposes and the Food Service Fund.
- **Capital Projects Funds** - The Capital Improvement Program Fund, the School Construction Fund, and Technology Fund are used to account for the acquisition or construction of major capital facilities, significant repairs and maintenance, and the acquisition of equipment. These funds are considered to be sub-funds established for capital projects and are considered as one major fund for purposes of presentation in the fund financial statements.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

- **Fiduciary Fund** – This represents trust and agency funds which are used to account for assets held by the Board in a trust or agency capacity. These include:
 - a. Pension Trust Fund – The Pension Trust Fund is used to account for activities of the Board's administered retirement system.
 - b. Retiree Health Trust Fund – This fund was established to record other postemployment benefits (OPEB) that the Board provides to retirees and their dependents of Charles County Public Schools.
 - c. Agency Funds – Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. As a result, Agency Funds report only assets and liabilities. This type of fund is used to account for the transactions of the student activities funds which are the direct responsibility of the principal of each respective school.

Budgets and Budgetary Accounting

The following procedures are used by the Board in establishing the budgetary data reflected in the financial statements:

1. Subsequent to March, the Board submits to Charles County Commissioners a proposed operating budget for the fiscal year starting the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The approved budget is returned to the Board by the County Commissioners prior to June 30.
3. Legal budgetary control is employed for the General Fund only. The Capital Projects budget and the Special Revenue - Restricted Program are prepared on a project length basis and program basis, respectively, and, accordingly, annual budgetary comparisons are not presented in the financial statements. The Special Revenue – Food Service Fund budget is adopted by the Board for management purposes only, and is not subject to and under the control of the Charles County Commissioners. Accordingly, budgetary comparisons are not presented as required supplementary information, but are shown as other supplementary information.
4. Budgets are prepared and adopted on a budgetary basis which differs from GAAP due to the inclusion of encumbrances as expenditures and the usage of budget surplus as a revenue source to balance the budget.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets and Budgetary Accounting (Continued)

5. The Board may transfer funds between major categories with approval by the County Commissioners. The Board has the authority to transfer funds between objects (i.e., salaries and wages, contracted services, supplies and materials) within the major categories, but must notify the County of such action. In accordance with Education Article 5-105 of the Annotated Code of Maryland, the Board may not exceed the appropriation by category without transfer and approval by the County.
6. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, Special Revenue Funds, and Capital Projects Funds.

The budgeted amounts reflected in the accompanying financial statements recognized budget transfers made within budget categories during the year, all of which were properly reported and/or approved, as applicable. During the year, the County Commissioners adopted supplemental appropriations for the Board of Education's General Fund Budget. The approved budget and supplemental appropriations are presented below:

Original operating budget approved by the County Commissioners	\$299,203,500
Approved supplemental appropriations	<u>5,662,219</u>
Amended operating budget for fiscal year 2012	<u>\$304,865,719</u>

Inventories

Inventories are valued at the lower of cost or market. Cost for supplies inventory is determined using the weighted average method, while cost for food service inventory is determined using the first-in, first-out method. Inventory in the General and Special Revenue Funds consists of expendable supplies held for consumption and certain school equipment not placed in service as of year-end. The cost is recorded as an expenditure item at the time the individual inventory items are used rather than when purchased (consumption method). In the fund financial statements, these inventories are classified as non-spendable which indicates that they do not constitute available expendable resources.

Due To/From Other Funds

Interfund balances result from transactions that constitute reimbursements to a fund, typically the General Fund, for expenditures initially made from it that are applicable to another fund. These amounts are eliminated in the Government Wide Statement of Net Assets.

Compensated Absence

Employees earn annual leave at the rate of 15 - 24 days per year, depending upon the length of service and the position held by the employee. There is no requirement that annual leave be taken, but the maximum permissible accumulation is 50 days. Upon retirement, classified employees are paid for any accumulated annual leave not to exceed 50 days at the employee's current wage rate. Upon termination for any reason other than retirement, classified employees are paid for any accumulated annual leave not to exceed 30 days at the employee's current wage rate. Upon termination, professional employees, other than ten and eleven month employees such as teachers, librarians, counselors, and speech therapists, are paid for all accrued, but unused annual leave.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absence (Continued)

Employees earn sick leave at the rate of one day per month of employment, for ten and eleven month professional employees. There is no limit on the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave unless they retire with 10 years of service in Charles County. The rate of sick leave reimbursement is a maximum of \$90 per day, for no more than 100 days of sick leave for certificated and \$90 per day, for no more than 100 days of sick leave for noncertificated employees.

The entire compensated absence liability is reported on the government-wide financial statements. For the governmental fund financial statements, the amount of accumulated vacation and sick leave is only recorded if the amounts are payable due to resignations or retirements.

Unearned Revenue

Revenues received before being earned are recorded as unearned revenue. The unearned revenue in the General Fund consists of tuition payments received in advance of summer school. The unearned revenues recorded in the Special Revenue Funds represent funds and commodities received in excess of expenditures incurred in connection with the federal financial assistance programs.

Fund Balance

The Board follows the requirements of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Additionally, this statement clarifies the definitions of the general fund, special revenue fund type, and permanent fund type as applicable to the Board. This statement changes the fund balance classifications reported on the Governmental Fund Balance Sheet and requires expanded disclosure of the Board's policies and procedures as it relates to authority levels, spending policy, and reporting of encumbrances.

This statement requires that governmental fund balance amounts be properly reported within one of the fund balance categories listed below.

Nonspendable – Includes fund balance amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact such as a permanent fund. Not in spendable form includes items that are not expected to be converted to cash, such as inventories and prepaid expenses.

Restricted – Includes amounts that are restricted to specific purposes when constraints are placed on the use of resources by constitution, external resource providers, or through enabling legislation.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

Committed – Includes fund balance amounts that can be used only for the specific purposes determined by formal action (Board resolution) of the Board of Education Directors (the Board's highest level of decision-making authority). Similar action of the Board is required to modify or rescind such commitments.

Assigned – Includes fund balance amounts that are intended to be used by the Board for specific purposes as determined by the Assistant Superintendent of Finance. The authority to assign funds has been granted to the Assistant Superintendent of Finance by the Board of Education Directors. Constraints imposed on the use of assigned amounts do not rise to the level required to be classified as either restricted or committed.

Unassigned – Represents the residual classification for the Board's general fund and includes all spendable amounts not contained in the four classifications described above.

Order of Fund Balance Spending Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Board considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Board considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Deposits and Investments

The Board's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition, including investments in the Maryland Local Government Investment Pool (MLGIP).

Investments are reported at fair value. Changes in the fair value of investments are recorded in investment income. The MLGIP's reported value is basically the same as the fair value of the Fund's shares.

Capital Assets

Capital assets, which include land, land improvements, building, and furniture and equipment, are reported in the government-wide financial statements. The Board defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Buildings and improvements and furniture and equipment of the Board are depreciated using the straight-line method over the following estimated lives:

Assets	Years
Buildings and improvements	30
Land improvements	10
Furniture and equipment	5-10

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable Statement of Net Assets. The Board's long-term obligations include compensated absences, other post employment benefits obligation, capital lease payable, and notes payable.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH AND INVESTMENTS

Various cash accounts and short-term investments are held by the Board. The Board has engaged an independent third party as custodian for securities collateralizing repurchase agreements.

Deposits

At year-end, the carrying amount of the Board's combined deposits including amounts invested in repurchase agreements was \$17,781,134 and the bank balance was \$22,223,353. The bank balance was covered by either Federal depository insurance or by collateral held in either the pledging bank's trust department or by the pledging bank's agent in the Board's name.

Statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments

The Board of Education is required to comply with the investment policy of Charles County Government. This policy authorizes the Board to invest in short-term United States Government securities, repurchase agreements, the Maryland Local Government Investment Pool, and certificate of deposits.

The Pension and Retiree Health Trust Funds are authorized to invest in repurchase agreements, domestic and foreign equities, obligations of the United States and its agencies, securities issued or guaranteed by a foreign government or corporation, marketable corporate bonds, collateralized obligations, commercial paper, bankers' acceptances, certificates of deposit, commercial paper, money market funds, mutual funds, guaranteed insurance contracts, limited partnerships, venture-capital investments, and real estate investments.

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

The assets of the MABE Trust are managed by Wells Fargo Advisors and consist of money market funds, U.S. government securities, fixed income securities, mortgage-backed securities, equity securities, mutual funds, and certificates of deposits. At June 30, 2012, the pooled assets of the MABE Trust were valued at \$87,375,026 in total, of which the Board's share was \$11,285,575.

The Board is a participant in the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the State a safe investment vehicle for the short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the State Treasurer, has been managed by PNC Institutional Investments. The pool has an AAAM rating from Standards and Poors and maintains a \$1.00 per share value. An MLGIP Advisory Committee of current participants was formed to review, on a quarterly basis, the activities of the Fund and to provide suggestions to enhance the pool. The fair value of the pool is the same as the value of the pool shares.

The fair value as determined above is based on a quoted market price at June 30, 2012.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments (Continued)

A summary of cash and investments at June 30, 2012 is as follows:

	Total Governmental Funds	Total Fiduciary Funds	Total	Weighted Average Maturity in Years
Cash on hand	\$ 1,000	\$ -	\$ 1,000	N/A
Deposits	6,857,493	2,423,634	9,281,127	N/A
Repurchase agreements - overnight	8,500,007	-	8,500,007	N/A
Money market mutual funds	-	5,055,410	5,055,410	N/A
MLGIP	34,200,109	-	34,200,109	N/A
MABE Trust	-	11,285,575	11,285,575	N/A
U.S. Government & agencies	-	18,346,444	18,346,444	5.0%
Corporate bonds	-	117,793	117,793	11.4%
Equity mutual funds	-	19,051,229	19,051,229	N/A
Common stocks	-	16,992,919	16,992,919	N/A
Mortgage-backed securities	-	12,431,491	12,431,491	24.4%
Total	\$ 49,558,609	\$ 85,704,495	\$ 135,263,104	

The following tables summarize the ratings and maturity for fixed income investments held at June 30, 2012:

	S&P Ratings						
	AAA	BBB+	B+	B	CC	CCC+	Unrated
MLGIP	\$ 34,200,109	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. obligations	-	-	-	-	-	-	18,346,445
Corporate bonds	-	-	-	-	15,520	68,913	33,360
Mortgage backed securities	-	-	-	-	-	-	12,431,490
Grand total	\$ 34,200,109	\$ -	\$ -	\$ -	\$ 15,520	\$ 68,913	\$ 30,811,295
	FMV	Less than 1 Year	1-5 Years	6-10 Years	11-15 Years	16-20 Years	20+ Years
MLGIP	\$ 34,200,109	\$ 34,200,109	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. obligations	18,346,445	-	10,524,230	2,711,533	2,460,672	1,513,251	1,136,759
Corporate bonds	117,793	-	15,520	33,360	-	68,913	-
Mortgage backed securities	12,431,490	-	620,481	1,698,498	-	10,112,511	-
Grand total	\$ 65,095,837	\$ 34,200,109	\$ 11,160,231	\$ 4,443,391	\$ 2,460,672	\$ 11,694,675	\$ 1,136,759

Investment Rate Risk

Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. To limit the Board's exposure to fair value losses arising from increasing interest rates, the Board's investment policy limits the term of investment maturities, other than the Fiduciary Funds investments, to overnight repurchase agreements and requires that collateral securities underlying the repurchase agreements have a market value equal to the cost of the agreement.

Interest income is reported as general revenue in the Statement of Activities.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of failure of the counter party, the Board will not be able to recover all or a portion of its investments or collateral securities that are in the possession of an outside party. In this regard, the Board limits its investments, other than Fiduciary Funds investments, to overnight deposits that are insured or collateralized with securities held by a custodial in the Board's name and investments in the MLGIP. Statutes require that deposits be in Maryland banks and that uninsured deposits be fully collateralized and authorize the Board to invest in obligations of the United States government, federal agency obligations and repurchase agreements secured by direct government or agency obligations.

Concentrations of Credit Risk

The investment policy of the Pension Plan limits the exposure of debt securities of any one private corporation to no more than 5% of the cost value of assets within the portfolio.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 is as follows:

GOVERNMENTAL ACTIVITIES	Balance at June 30, 2011	Increases	Decreases	Balance at June 30, 2012
Capital assets not being depreciated				
Land	\$ 16,849,701	\$ -	\$ -	\$ 16,849,701
Construction-in-progress	<u>14,081,454</u>	<u>6,707,098</u>	<u>(6,526,621)</u>	<u>14,261,931</u>
Total capital assets, not being depreciated	<u>30,931,155</u>	<u>6,707,098</u>	<u>(6,526,621)</u>	<u>31,111,632</u>
Capital assets being depreciated				
Buildings and improvements	421,141,033	7,337,321	-	428,478,354
Land improvements	8,757,217	528,855	(15,142)	9,270,930
Furniture and equipment	<u>27,760,720</u>	<u>1,575,991</u>	<u>(1,726,665)</u>	<u>27,610,046</u>
Total capital assets being depreciated	<u>457,658,970</u>	<u>9,442,167</u>	<u>(1,741,807)</u>	<u>465,359,330</u>
Less – accumulated depreciation				
Buildings and improvements	(192,692,587)	(11,209,484)	-	(203,902,071)
Land improvements	(6,320,994)	(392,727)	15,142	(6,698,579)
Furniture and equipment	<u>(20,693,865)</u>	<u>(1,788,561)</u>	<u>1,696,151</u>	<u>(20,786,275)</u>
Total accumulated depreciation	<u>(219,707,446)</u>	<u>(13,390,772)</u>	<u>1,711,293</u>	<u>(231,386,925)</u>
Total capital assets, being depreciated, net	<u>237,951,524</u>	<u>(3,948,605)</u>	<u>(30,514)</u>	<u>233,972,405</u>
Capital assets, net	<u>\$ 268,882,679</u>	<u>\$ 2,758,493</u>	<u>\$ (6,557,135)</u>	<u>\$ 265,084,037</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the Board as follows:

Governmental activities	
Regular education	\$ 505,803
Special education	13,201
Supporting services:	
Pupil services	4,603
Health services	5,306
Administration	97,740
Instructional support	34,717
Operation and maintenance of facilities	678,339
Transportation	99,875
Community services	5,154
School lunch services	28,589
Planning and construction	593,995
Unallocated	<u>11,323,449</u>
Total depreciation expense – governmental activities	<u>\$ 13,390,772</u>

The Board has active school construction projects at June 30, 2012, as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
New High School #2	\$ 11,238,444	\$ 159,504
Jenifer RTU/ Boiler	<u>2,286,454</u>	<u>105,327</u>
Total	<u>\$ 13,524,898</u>	<u>\$ 264,831</u>

NOTE 4 – RETIREMENT SYSTEM – STATE OF MARYLAND DESCRIPTION

Plan Description

Substantially all of the Board's employees are covered by the Teachers Retirement System of the State of Maryland, the Teachers Pension System of the State of Maryland or the Employees Retirement System of the State of Maryland. These systems are part of the Maryland State Retirement and Pension System (the State System), and are cost-sharing multiple-employer public employee retirement systems. The State System provides pension, death and disability benefits to plan members and beneficiaries. The State of Maryland pays a substantial portion of employer contributions on behalf of the Board. The plan is administered by the State Retirement Agency (the Agency). Responsibility for the administration and operation of the State System is vested in a 12-member Board of Trustees. The State System was established by the State Personnel and Pensions Article of the Annotated Code of Maryland. The Agency issued a publicly available financial report that includes basic financial statements and required supplementary information for the State System. The report may be obtained by writing to the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, MD 21202, or by calling 410-625-5555.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 – RETIREMENT SYSTEM – STATE OF MARYLAND DESCRIPTION (CONTINUED)

Plan Description (Continued)

The State Personnel and Pensions Article requires active members to contribute to the State System at the rate of 5% or 7% of their covered salary depending upon the retirement option selected. The Board of Education of Charles County is required to contribute at an actuarially determined rate. The State’s contributions on behalf of the Board for the years ended June 30, 2012, 2011, and 2010 were \$24,590,849, \$24,388,903, and \$21,545,453, respectively, which were equal to the required contributions for each year.

NOTE 5 – RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

The Board of Education of Charles County Defined Benefit Plan (the Plan) is a single employer public employee retirement system which was established for the benefit of employees not covered by the Teachers Retirement System or the Teachers Pension System of the State of Maryland (the Systems). The Plan was created under authorization of the Board effective July 1, 1969. The Plan provides pension income based on average pay and years of service.

Summary of Significant Accounting Policies

The Statement of Plan Assets and Statement of Changes in Plan Net Assets are prepared on the accrual basis of accounting, with contributions recognized when due. Benefits and expenses are recognized when due and payable. Investments are reported at fair value.

The Plan is administered by Wells Fargo. Investments are managed by various market fund managers and an internal investment committee which includes an outside investment consultant.

The payroll for employees covered by the Plan for the year ended June 30, 2012 was \$18,822,124.

Membership in the Plan consisted of the following at June 30, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	263
Terminated plan members entitled to but not yet receiving benefits	21
Active plan members	493
Terminated due return of contributions	<u>176</u>
Total	<u><u>953</u></u>

Funding Policy

All employees not covered by the State System who work at least four hours per day and at least 10 months per year must join the Plan as a condition of employment. Participants are required to contribute 5% of their gross earnings to the Plan. Participants are eligible for full benefits upon retirement at age 60, the normal retirement date or age 55, the early retirement date. Full benefits in the Plan are defined as 1.5% of the Average Monthly Earnings multiplied by the years of continuous service through July 1, 1998, plus 1.8% of the Average Monthly Earnings multiplied by the years of continuous service after July 1, 1998 prior to the normal retirement date.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (CONTINUED)

Annual Pension Costs

Although the Plan is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), the Board uses the minimum and maximum contribution rules of that law as a guideline for contributions. At July 1, 2011, the minimum and maximum contribution computed under ERISA was \$4,332,303 and \$5,249,987, respectively. For fiscal year 2012, the Board contributed \$5,249,987 to the Plan while participants contributed \$962,267. These contributions amounted to approximately 27.9% and 5.1% of covered payroll, respectively.

The pension benefit obligation was computed as part of an actuarial valuation performed as of July 1, 2008, the latest date available. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 7% compounded annually; (b) projected annual salary increases of 5.5% annually; (c) actuarial cost method – frozen initial accrued liability method; and (d) asset valuation method – five-year phase-in of actual return over expected return.

The difference between the expected return on assets and the actual return on assets is recognized over five years. Expected return is based on the actuarial valuation interest rate assumption as of the beginning of the fiscal year and the market value of assets as of the beginning of the year.

The Board's annual pension cost and prepaid pension obligation for the year ended June 30, 2012 were:

Annual required contribution	\$ 4,332,303
Interest on net pension obligation	(554,362)
Adjustment to annual required contribution	<u>635,080</u>
Annual pension cost	4,413,021
Contributions made	<u>(5,249,987)</u>
Increase in prepaid pension costs	(836,966)
Prepaid pension obligation, beginning of year	<u>(7,919,452)</u>
Prepaid pension obligation, end of year	<u>\$ (8,756,418)</u>

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Actual</u> <u>Contribution</u>	<u>Funded</u> <u>Percentage</u>
June 30, 2010	\$ 3,770,877	\$ 6,032,806	160%
June 30, 2011	4,153,768	5,523,768	133%
June 30, 2012	4,332,303	5,249,987	121%

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 5 – RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (CONTINUED)

Annual Pension Costs (Continued)

**Annual Pension Cost and Net Pension Obligation
Three-Year Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Actual Contribution	Percentage of APC Contributed	Prepaid
June 30, 2010	3,815,722	6,032,806	158.1%	(6,616,895)
June 30, 2011	4,221,210	5,523,768	130.9%	(7,919,452)
June 30, 2012	4,413,021	5,249,987	119.0%	(8,756,418)

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
June 30, 2009	54,663,845	76,757,664	22,093,819	71.2%	19,864,036	111.2%
June 30, 2010	61,278,442	82,482,959	21,204,517	74.3%	19,808,871	107.0%
June 30, 2011	68,603,594	83,684,393	15,080,799	82.0%	19,594,555	77.0%

The funding method used for this plan is the Frozen Initial Accrued Liability (FIAL) method. Under this method, the employer is not required to report the AAL or the UAAL. For consistency, we show here the AAL and the UAAL based on the Entry Age Normal funding method. This is the practice that has been followed in prior years.

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 employer 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 above and as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Based on recommendations from the actuary, pension manager and pension committee, additional funding of \$825,000 was contributed in 2012 to improve the funded ratio and fund the early retirement option resulting from a negotiated agreement with an employees' union. The pension committee has established a minimum target of 80% for the funded ratio.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Board provides medical, dental and life insurance benefits to eligible employees who retire from employment with the Charles County Public School System. The employer’s contributions are financed on a pay-as-you-go basis, and the future payment of these benefits is contingent upon the annual approval of the operating budget. Details of the postemployment benefits provided are as follows:

Funding Policy

Medical and Dental Benefits - Retirees are eligible for continued membership in one of the school system’s group medical and dental plans provided that they have at least 10 years service with the Charles County Public Schools. The school system pays 75% of the premiums for these plans. The medical and dental benefits paid by the Board for the year ended June 30, 2012 was \$5,038,066. As of June 30, 2012, 787 eligible participants were receiving these benefits.

Life Insurance Benefits - The Board pays 75% of the life insurance premiums for retirees with at least 10 years of service. The amount of insurance coverage is based on the employees’ annual salary upon retirement. The life insurance benefits paid by the Board for the year ended June 30, 2012 was \$1,679,355. As of June 30, 2012, 802 eligible participants were receiving these benefits.

Annual OPEB Cost and Net OPEB Obligation

The Board's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution* of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Board's net OPEB obligation:

Annual required contribution	\$	35,317,000
Interest on net OPEB obligation		3,156,000
Adjustment to annual required contribution		<u>(3,254,000)</u>
Annual OPEB cost		35,219,000
Contributions made		<u>(9,651,522)</u>
Increase in net OPEB obligation		25,567,478
Net OPEB obligation - beginning of year		<u>74,261,988</u>
Net OPEB obligation - end of year	\$	<u>99,829,466</u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the year ended June 30, 2012 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 23,999,000	41.2%	\$ 58,321,136
June 30, 2011	29,265,000	39.4%	74,261,988
June 30, 2012	35,219,000	35.3%	99,829,466

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 6 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS
(CONTINUED)

Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the Plan was 2.99% funded. The actuarial accrued liability for benefits was \$383,592,000, and the actuarial value of assets was \$11,463,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$372,129,000. The covered payroll (annual payroll of active employees covered by the Plan) was \$184,000,000 and the ratio of the UAAL to the covered payroll was 202%.

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 employer 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 multi-year trend information about 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 the 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 the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011, actuarial valuation, the projected unit credit method, with linear pro-ration to assumed benefit commencement method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the Plan at the valuation date, and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 4.2% and is attained in 2080. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

Additional information as of the latest actuarial valuation follows:

Valuation Date	June 30, 2011
Actuarial Cost Method	Projected unit credit method
Amortization Method	Level percentage of projected payroll over a 30-year period
Asset Valuation Method	Market value
Actuarial Assumptions:	
Investment Rate of Return	4.0% per year compounded annually
Payroll Growth Rate	3.5%
Healthcare Cost Trend Rates:	
Medical	7.5% initial / 4.2% ultimate (not applicable to life insurance)
Dental	5.0%

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – TRUST FUNDS

The condensed financial statements of the Board's trust funds are as follows:

Condensed Statement of Net Assets			
	Retiree Health Trust Fund	Pension Trust Fund	Total
Assets			
Investments, including cash and cash equivalents	\$ 11,285,575	\$ 72,132,393	\$ 83,417,968
Other assets	1,023,670	825,000	1,848,670
Total assets	12,309,245	72,957,393	85,266,638
Liabilities			
	-	-	-
Net Assets			
Held in trust for retiree health/pension benefits	\$ 12,309,245	\$ 72,957,393	\$ 85,266,638

Condensed Statement of Changes in Trust Fund Assets			
	Retiree Health Trust Fund	Pension Trust Fund	Total
Additions			
Contributions	\$ 9,651,522	\$ 6,236,675	\$ 15,888,197
Net Investment Gain/(Loss)	(153,963)	1,944,112	1,790,149
Total additions	9,497,559	8,180,787	17,678,346
Deductions			
Benefits paid	8,651,521	3,372,970	12,024,491
Administrative expenses	-	2,268,310	2,268,310
Total deductions	8,651,521	5,641,280	14,292,801
Change in net assets	846,038	2,539,507	3,385,545
Net assets - beginning of year	11,463,207	70,417,886	81,881,093
Net assets - end of year	\$ 12,309,245	\$ 72,957,393	\$ 85,266,638

NOTE 8 – DEBT SERVICE

School Construction Debt

The Board 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. Accordingly, the Board does not record school construction debt service revenues, expenditures or outstanding school construction debt in statements prepared in accordance with GAAP.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 9 – INTERFUND ACCOUNTS

At June 30, 2012, the amounts due to and from other funds were as follows:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
General fund	\$ -	\$ 40,444
Special revenue – food service	-	540,353
Agency fund	-	-
Retiree Health Plan Trust	23,669	-
Special revenue – restricted program	2,028,607	-
Capital projects – total	<u>4,665</u>	<u>1,476,144</u>
Total	<u>\$ 2,056,941</u>	<u>\$ 2,056,941</u>

NOTE 10 – LONG-TERM LIABILITIES

The following is an analysis of the changes in long-term debt for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Net Increase (Decrease)</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Compensated absences	\$ 7,261,675	\$ (34,234)	\$ 7,227,441	\$ 1,010,000
Net OPEB obligation	74,261,988	25,567,478	99,829,466	-
Technology loan	<u>-</u>	<u>4,275,701</u>	<u>4,275,701</u>	<u>979,594</u>
Total long-term debt	<u>\$ 81,523,663</u>	<u>\$ 29,808,945</u>	<u>\$ 111,332,608</u>	<u>\$ 1,989,594</u>

The technology loan requires quarterly payments of principle and interest in the amount of \$260,845 through July 15, 2016. Interest rate on the loan is 1.63%.

The future annual payments due under the technology loan as of June 30, 2012 are:

<u>Year Ended June 30,</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 979,594	\$ 63,785	\$ 1,043,379
2014	995,674	47,705	1,043,379
2015	1,012,018	31,361	1,043,379
2016	1,028,630	14,749	1,043,379
2017	<u>259,785</u>	<u>1,060</u>	<u>260,845</u>
Total minimum loan payments	<u>\$ 4,275,701</u>	<u>\$ 158,660</u>	<u>\$ 4,434,360</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Board is committed under various leases for the use of equipment. The leases cover annual and multi-year periods with various expiration dates through June 2014. These leases are considered to be operating leases for accounting purposes.

The future annual minimum lease payments due under these operating leases as of June 30, 2012 are:

Year Ended June 30,	Amount
2013	\$ 951,609
2014	574,147
2015	226,961
Total minimum lease payments	\$ 1,752,717

Rental expenditures for the year ended June 30, 2012 amounted to approximately \$869,790.

Litigation

Various claims and lawsuits are pending against the Board. The Board's attorneys estimate that potential claims against the Board not covered by insurance resulting from such litigation would not materially affect the financial statements of the Board.

Health Insurance

The Board entered into an agreement with BlueCross BlueShield of Maryland for health insurance under a claims made policy. The Board underwrites 75% of the cost of health insurance based on an estimate and the employees contribute 25%. Actual contribution rates by the Board may vary based on actual results. The policy arrangement includes a stop-loss provision for claims in excess of \$150,000. A liability in the amount of \$2,810,000 has been recorded for the estimated claims incurred but not reported at the end of the year.

NOTE 12 – FUND BALANCE DEFICIT

The Capital Projects Fund reflects a deficit unassigned fund balance for June 30, 2012 because revenues, provided by the State and County needed to liquidate encumbrances outstanding, are not received and recognized until invoices for goods and services rendered are received and approved by the Board. The deficit will be eliminated through future funding provided by local and state sources.

NOTE 13 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board is a member of the Maryland Association of Boards of Education Group Liability Insurance Pool and the Workmen's Compensation Self-Insurance Fund.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 13 – RISK MANAGEMENT (CONTINUED)

These pools are self-insurance funds for the various member Maryland Boards of Education. The pools were organized for the purpose of minimizing the cost of insurance and related administrative expenses. Coverage is provided up to specified limits and the Charles County Board of Education pays an annual premium for the coverage provided by those pools. In addition to general liability insurance, the Group Liability Insurance Pool also provides coverage for property liability and automobile liability. Coverage above these limits is provided by third party insurance carriers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 14 – ENCUMBRANCES

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of budgetary integration in the General Fund and Restricted Programs Fund and encumbrances outstanding at year-end are reported as restrictions and assignments of fund balances since they do not constitute expenditures or liabilities.

Encumbrances at June 30, 2012 are for the following uses:

	General Fund	Restricted Programs Fund
Encumbrances:		
Administration	\$ 229,271	\$ 69,964
Mid-Level Administration	33,264	118,456
Instruction	1,597,144	83,003
Special Education	5,583	103,972
Operation & Maintenance of Plant	934,932	24,548
Community Service	-	4,400
Capital Outlay	764,190	89,512
Total encumbrances	\$ 3,564,384	\$ 493,855

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 15 – FUND BALANCE

Fund balance at June 30, 2012 consists of the following:

	<u>General Fund</u>	<u>Restricted Programs Fund</u>	<u>Food Service Fund</u>	<u>Capital Projects</u>
Nonspendable - Inventory	\$ 499,212	\$ -	\$ 326,303	\$ -
Restricted for:				
Administration		69,964		
Mid-Level Administration	-	118,456	-	-
Instruction	-	83,003	-	-
Special Education	-	103,972	-	-
Operation & Maintenance	-	24,548	-	-
Community Service	-	4,400	-	-
Capital Outlay	-	89,512	-	-
Total restricted for	<u>-</u>	<u>493,855</u>	<u>-</u>	<u>-</u>
Assigned for:				
Administration	229,271	-	-	-
Mid-Level Administration	33,264	-	-	-
Instruction	1,597,144	-	-	-
Special Education	5,583	-	-	-
Operation and Maintenance of Plant	934,932	-	-	-
Community Service	-	-	-	-
Capital Outlay	764,190	-	-	-
Subsequent year expenditures	<u>4,275,170</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assigned for	<u>7,839,554</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unassigned:	<u>11,440,831</u>	<u>-</u>	<u>959,851</u>	<u>(151,606)</u>
Total Fund Balance	<u>\$ 19,779,597</u>	<u>\$ 493,855</u>	<u>\$ 1,286,154</u>	<u>\$ (151,606)</u>

This information is an integral part of the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF FUNDING PROGRESS
Year Ended June 30, 2012**

RETIREMENT SYSTEM – DEFINED BENEFIT PLAN

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a
						Percentage of Covered Payroll (b-a/c)
June 30, 2006	39,783,252	58,201,982	18,418,730	68.4%	14,563,647	126.5%
June 30, 2007	44,483,269	64,286,231	19,802,962	69.2%	16,042,718	123.4%
June 30, 2008	50,067,063	70,562,104	20,495,041	71.0%	18,241,021	112.4%
June 30, 2009	54,663,845	76,757,664	22,093,819	71.2%	19,864,036	111.2%
June 30, 2010	61,278,442	82,482,959	21,204,517	74.3%	19,808,871	107.0%
June 30, 2011	68,603,594	83,684,393	15,080,799	82.0%	19,594,555	77.0%

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required	Percentage
	Contribution	Contributed
June 30, 2007	2,275,117	142%
June 30, 2008	3,017,762	131%
June 30, 2009	3,377,712	124%
June 30, 2010	3,770,877	160%
June 30, 2011	4,153,768	133%
June 30, 2012	4,332,303	121%

RETIREE HEALTH PLAN TRUST

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a
						Percentage of Covered Payroll (b-a/c)
June 30, 2008	\$ 1,323,669	\$ 319,234,000	\$ 317,910,331	0.41%	\$ 158,000,000	201%
June 30, 2009	1,323,669	332,957,000	331,657,000	0.40%	162,000,000	205%
June 30, 2010	1,323,669	332,957,000	331,657,000	0.40%	162,000,000	205%
June 30, 2011	5,155,000	309,778,000	304,623,000	1.66%	184,000,000	166%
June 30, 2012**	11,463,000	383,592,000	372,129,000	2.99%	184,000,000	202%

* GASB No. 45 was not applicable to the Board prior to the year ended June 30, 2008; accordingly no prior valuations were performed.

** The July 1, 2011 valuation was updated for the annual required contribution, unfunded liability at year-end, and increase in value of assets. The valuation update did not take into consideration changes to the census data at July 1, 2011.

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Year Ended June 30, 2012**

Schedule of Employer Contributions

Fiscal Year Ending	Annual Required Contribution	Actual Contribution	Percentage Contributed	Net OPEB Obligation
June 30, 2008	\$ 26,847,000	\$ 4,266,760	15.6%	\$ 22,580,240
June 30, 2009	26,865,000	4,478,755	16.6%	45,003,484
June 30, 2010	23,738,000	10,681,348	44.5%	58,321,136
June 30, 2011	29,066,000	13,324,148	45.8%	74,261,988
June 30, 2012	35,317,000	9,651,522	27.3%	99,829,466

* GASB No. 43 was not applicable to the Board prior to the year ended June 30, 2008, accordingly prior information is not available.

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
GENERAL FUND
Year Ended June 30, 2012

	2012			
	Original Budget	As Amended Budget	Actual	Variances Positive (Negative)
REVENUES				
State of Maryland	\$ 149,693,720	\$ 154,055,939	\$ 154,069,059	\$ 13,120
Federal government	770,000	770,000	1,024,494	254,494
Other sources	3,119,080	4,419,080	1,745,586	(2,673,494)
Local sources	145,620,700	145,620,700	145,620,700	-
	<u>299,203,500</u>	<u>304,865,719</u>	<u>302,459,839</u>	<u>(2,405,880)</u>
EXPENDITURES				
Administration	8,547,828	8,547,828	8,168,717	379,111
Mid-level administration	20,682,352	20,682,352	20,399,640	282,712
Instructional salaries	120,854,152	120,854,152	118,696,962	2,157,190
Materials of instruction	4,902,284	4,902,284	4,314,386	587,898
Other costs of instruction	2,543,675	2,543,675	2,046,414	497,261
Special education	28,590,831	28,590,831	28,165,762	425,069
Student personnel services	3,240,120	3,240,120	3,178,567	61,553
Health service	2,795,900	2,795,900	2,693,420	102,480
Transportation	25,254,863	25,254,863	24,378,332	876,531
Operations	25,107,321	25,107,321	22,845,103	2,262,218
Maintenance	6,220,375	6,220,375	6,005,020	215,355
Community service	771,169	771,169	734,632	36,537
Capital outlay	1,524,042	2,824,042	2,778,475	45,567
Fixed charges	48,168,588	52,530,807	49,869,425	2,661,382
	<u>299,203,500</u>	<u>304,865,719</u>	<u>294,274,855</u>	<u>10,590,864</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>8,184,984</u>	<u>\$ 8,184,984</u>
FUND BALANCE AT JUNE 30, 2011			<u>8,032,858</u>	
FUND BALANCE AT JUNE 30, 2012			<u>\$ 16,217,842</u>	

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2012

General Fund - Reconciliation of Revenues and Expenditures

Actual revenues (non-GAAP budgetary basis)	\$ 302,459,839
Pension contribution by the State of Maryland on behalf of the Board	<u>24,590,849</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 327,050,688</u>
Actual expenditures (non-GAAP budgetary basis)	\$ 294,274,855
Encumbrance adjustment, net	(1,360,415)
Pension contribution by the State of Maryland on behalf of the Board	<u>24,590,849</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 317,505,289</u>

OTHER SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF REVENUES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
GENERAL FUND
Year Ended June 30, 2012

	2012			
	<u>Original Budget</u>	<u>As Amended Budget</u>	<u>Actual</u>	<u>Variances Positive (Negative)</u>
State of Maryland				
State - Foundation	\$ 103,444,429	\$ 105,369,133	\$ 105,369,133	\$ -
Compensatory aid	25,069,116	25,069,116	25,069,116	-
Transportation	9,963,881	9,963,881	9,963,881	-
Handicapped children	6,138,203	6,009,445	6,009,445	-
Tuition - handicapped	1,188,000	1,188,000	1,148,759	(39,241)
Other (LEP grant)	870,466	870,466	870,466	-
Out of county living	-	-	52,361	52,361
Guaranteed tax base	1,362,352	1,362,352	1,362,352	-
CGEI	1,037,273	3,474,788	3,474,788	-
Medicaid revenues	620,000	748,758	748,758	-
	<u>149,693,720</u>	<u>154,055,939</u>	<u>154,069,059</u>	<u>13,120</u>
Federal government				
Impact aid	300,000	300,000	417,479	117,479
Impact aid special education	430,000	40,000	58,854	18,854
ROTC	40,000	430,000	548,161	118,161
	<u>770,000</u>	<u>770,000</u>	<u>1,024,494</u>	<u>254,494</u>
Other sources				
Tuition - summer school	133,000	140,000	140,250	250
Tuition - nonresident	782,400	814,400	799,841	(14,559)
Tuition - Novel	30,000	30,000	18,570	(11,430)
Tuition - parents payments	104,100	104,100	68,496	(35,604)
Summer youth camp	30,000	30,000	27,553	(2,447)
Rent from school facilities	410,100	273,100	303,653	30,553
Sale of property	4,000	15,000	18,130	3,130
Interest income	74,880	74,880	30,334	(44,546)
Vending commissions	82,000	82,000	68,340	(13,660)
Payroll transfers	100,000	100,000	92,780	(7,220)
Other	8,600	95,600	117,667	22,067
Restitution	60,000	60,000	59,972	(28)
Prior year fund balance transfer	1,300,000	2,600,000	-	(2,600,000)
	<u>3,119,080</u>	<u>4,419,080</u>	<u>1,745,586</u>	<u>(2,673,494)</u>
Local sources				
Operational budget	<u>145,620,700</u>	<u>145,620,700</u>	<u>145,620,700</u>	<u>-</u>
TOTAL REVENUES	<u>\$ 299,203,500</u>	<u>\$ 304,865,719</u>	<u>\$ 302,459,839</u>	<u>\$ (2,405,880)</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
GENERAL FUND
Year Ended June 30, 2012

	2012			
	Original Budget	As Amended Budget	Actual	Variances Positive (Negative)
Administration				
Salaries and wages	\$ 6,904,187	\$ 6,777,695	\$ 6,471,648	\$ 306,047
Contracted services	941,150	1,180,047	1,189,040	(8,993)
Supplies and materials	426,172	401,805	368,150	33,655
Other charges	279,602	254,387	205,349	49,038
Equipment	46,423	43,600	25,529	18,071
Transfers in	(49,706)	(109,706)	(90,999)	(18,707)
	<u>8,547,828</u>	<u>8,547,828</u>	<u>8,168,717</u>	<u>379,111</u>
Mid-level administration				
Salaries and wages	19,527,116	19,516,494	19,418,244	98,250
Contracted services	359,730	361,150	411,691	(50,541)
Supplies and materials	480,836	479,259	354,493	124,766
Other charges	310,570	321,349	215,212	106,137
Equipment	4,100	4,100	-	4,100
	<u>20,682,352</u>	<u>20,682,352</u>	<u>20,399,640</u>	<u>282,712</u>
Instruction salaries				
Salaries and wages	120,854,152	120,854,152	118,696,962	2,157,190
Materials of instruction				
Supplies and materials	4,902,284	4,902,284	4,314,386	587,898
Other costs of instruction				
Contracted services	2,038,916	2,067,166	1,725,403	341,763
Other charges	226,100	235,240	258,346	(23,106)
Equipment	178,659	141,269	9,374	131,895
Outgoing transfers	100,000	100,000	53,291	46,709
	<u>2,543,675</u>	<u>2,543,675</u>	<u>2,046,414</u>	<u>497,261</u>
Special education				
Salaries and wages	23,732,180	23,147,182	22,885,712	261,470
Contracted services	1,484,111	1,967,109	1,809,352	157,757
Supplies and materials	66,210	76,210	81,092	(4,882)
Other charges	58,330	58,330	62,040	(3,710)
Outgoing transfers	3,250,000	3,342,000	3,327,566	14,434
	<u>28,590,831</u>	<u>28,590,831</u>	<u>28,165,762</u>	<u>425,069</u>
Student personnel services				
Salaries and wages	3,212,570	3,218,570	3,159,957	58,613
Contracted services	4,800	5,700	5,265	435
Supplies and materials	12,650	9,150	7,532	1,618
Other charges	6,100	6,700	5,813	887
Equipment	4,000	-	-	-
	<u>3,240,120</u>	<u>3,240,120</u>	<u>3,178,567</u>	<u>61,553</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
GENERAL FUND
Year Ended June 30, 2012
(Continued)

	Original Budget	As Amended Budget	Actual	Variances Positive (Negative)
Health service				
Contracted services	\$ 2,783,200	\$ 2,783,200	\$ 2,680,134	\$ 103,066
Supplies and materials	12,700	12,700	13,286	(586)
	<u>2,795,900</u>	<u>2,795,900</u>	<u>2,693,420</u>	<u>102,480</u>
Transportation				
Salaries and wages	672,527	672,527	652,933	19,594
Contracted services	24,520,666	24,484,266	23,639,921	844,345
Supplies and materials	14,480	15,980	5,682	10,298
Other charges	5,190	5,690	3,470	2,220
Equipment	42,000	76,400	76,326	74
	<u>25,254,863</u>	<u>25,254,863</u>	<u>24,378,332</u>	<u>876,531</u>
Operations				
Salaries and wages	10,502,767	10,502,767	10,278,107	224,660
Contracted services	2,610,595	2,468,875	2,167,658	301,217
Supplies and materials	1,373,909	1,437,129	1,490,292	(53,163)
Other charges	10,479,750	10,529,750	8,866,282	1,663,468
Equipment	140,300	168,800	42,764	126,036
	<u>25,107,321</u>	<u>25,107,321</u>	<u>22,845,103</u>	<u>2,262,218</u>
Maintenance				
Salaries and wages	3,559,636	3,559,636	3,358,568	201,068
Contracted services	1,876,839	1,561,079	1,400,228	160,851
Supplies and materials	782,180	1,087,940	1,235,053	(147,113)
Other charges	1,720	4,720	4,222	498
Equipment	-	7,000	6,949	51
	<u>6,220,375</u>	<u>6,220,375</u>	<u>6,005,020</u>	<u>215,355</u>
Community service				
Salaries and wages	60,479	60,479	64,337	(3,858)
Contracted services	701,410	701,410	666,227	35,183
Supplies and materials	8,680	8,680	4,068	4,612
Other charges	600	600	-	600
	<u>771,169</u>	<u>771,169</u>	<u>734,632</u>	<u>36,537</u>
Capital outlay				
Salaries and wages	362,262	355,742	349,605	6,137
Contracted services	1,155,800	1,095,820	1,012,293	83,527
Supplies and materials	3,430	3,430	2,331	1,099
Other charges	2,550	4,050	7,559	(3,509)
Equipment	-	1,365,000	1,406,687	(41,687)
	<u>1,524,042</u>	<u>2,824,042</u>	<u>2,778,475</u>	<u>45,567</u>
Fixed charges				
Other charges	48,168,588	52,530,807	49,869,425	2,661,382
TOTAL EXPENDITURES	<u>\$ 299,203,500</u>	<u>\$ 304,865,719</u>	<u>\$ 294,274,855</u>	<u>\$ 10,590,864</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
COMBINING BALANCE SHEET
CAPITAL PROJECTS SUB-FUNDS
June 30, 2012

	Capital Improvement Programs	School Construction	Technology Fund	Total
ASSETS				
Cash and short-term investments	\$ -	\$ 21,066	\$ -	\$ 21,066
Accounts receivable:				
State of Maryland	-	648,657	-	648,657
Other sources	1,460,943	-	160,355	1,621,298
Due from other funds	-	4,665	-	4,665
TOTAL ASSETS	\$ 1,460,943	\$ 674,388	\$ 160,355	\$ 2,295,686
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 180,129	\$ 648,711	\$ 142,308	\$ 971,148
Due to other funds	1,458,097	-	18,047	1,476,144
Total liabilities	1,638,226	648,711	160,355	2,447,292
FUND BALANCES (DEFICIT)				
Unassigned	(177,283)	25,677	-	(151,606)
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,460,943	\$ 674,388	\$ 160,355	\$ 2,295,686

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS SUB-FUNDS
 Year Ended June 30, 2012**

	Capital Improvement Programs	School Construction	Technology Fund	Total
REVENUES				
State of Maryland	\$ -	\$ 3,103,395	\$ -	\$ 3,103,395
Local sources	3,764,187	-	-	3,764,187
Total revenues	<u>3,764,187</u>	<u>3,103,395</u>	<u>-</u>	<u>6,867,582</u>
EXPENDITURES				
Capital outlay:				
Contracted services	3,713,428	3,098,730	-	6,812,158
Materials	50,759	-	295,420	346,179
Computers and equipment	-	-	3,948,410	3,948,410
Total expenditures	<u>3,764,187</u>	<u>3,098,730</u>	<u>4,243,830</u>	<u>11,106,747</u>
Excess (deficiency) of revenues over expenditures	-	4,665	(4,243,830)	(4,239,165)
OTHER FINANCING SOURCES				
Issuance of debt	-	-	4,243,830	4,243,830
NET CHANGE IN FUND BALANCE	-	4,665	-	4,665
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	<u>(177,283)</u>	<u>21,012</u>	<u>-</u>	<u>(156,271)</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (177,283)</u>	<u>\$ 25,677</u>	<u>\$ -</u>	<u>\$ (151,606)</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
NON-GAAP BASIS – SPECIAL REVENUE
RESTRICTED PROGRAMS FUND
Year Ended June 30, 2012

	Restricted Programs Fund
REVENUES	
State of Maryland	\$ 1,877,267
Federal government	17,744,099
Other sources	981,718
Local government	311,100
	20,914,184
Total revenues	20,914,184
EXPENDITURES	
Administration	338,867
Mid-level administration	1,344,541
Instructional salaries	7,183,508
Materials of instruction	535,622
Other costs of instruction	448,705
Special education	4,998,899
Student personnel services	19,449
Health Services	2,075
Transportation	346,744
Operations	211,893
Maintenance	98,569
Food services	105,631
Community service	917,701
Capital outlay	997,899
Fixed charges	3,364,081
	3,364,081
Total expenditures	20,914,184
EXCESS OF REVENUES OVER EXPENDITURES	\$ -

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES, AND ENCUMBRANCES
BUDGET AND ACTUAL – NON-GAAP BUDGETARY BASIS
SPECIAL REVENUE – FOOD SERVICE FUND
Year Ended June 30, 2012

	<u>Original Budget</u>	<u>As Amended Budget</u>	<u>Actual</u>	<u>Variances Positive (Negative)</u>
REVENUES				
State of Maryland	\$ 194,750	\$ 194,750	\$ 222,740	\$ 27,990
Federal government	4,317,542	4,317,542	4,918,349	600,807
Local sources	5,748,432	5,748,432	5,523,176	(225,256)
	<u>10,260,724</u>	<u>10,260,724</u>	<u>10,664,265</u>	<u>403,541</u>
EXPENDITURES				
Food service				
Salaries and wages	3,670,708	3,670,708	3,667,829	2,879
Contracted services	111,700	111,700	49,307	62,393
Supplies and materials	4,850,917	4,850,917	5,391,831	(540,914)
Other charges	55,899	55,899	35,234	20,665
Equipment	60,000	60,000	-	60,000
Total food service	<u>8,749,224</u>	<u>8,749,224</u>	<u>9,144,201</u>	<u>(394,977)</u>
Fixed charges	<u>1,511,500</u>	<u>1,511,500</u>	<u>1,652,501</u>	<u>(141,001)</u>
Total expenditures	<u>10,260,724</u>	<u>10,260,724</u>	<u>10,796,702</u>	<u>(535,978)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (132,437)</u>	<u>\$ (132,437)</u>

BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
SCHEDULE OF CHANGES IN NET ASSETS AND LIABILITIES
STUDENT ACTIVITIES FUND – AGENCY FUND
Year Ended June 30, 2012

	Balance June 30, 2011	Additions/ Receipts	Reductions/ Disbursements	Balance June 30, 2012
ASSETS				
Cash by schools				
Elementary schools				
C. Paul Barnhart	\$ 33,893	\$ 48,196	\$ 52,804	\$ 29,285
Berry	20,941	120,547	129,043	12,445
Dr. Gustavus Brown	19,395	60,241	47,563	32,073
Dr. Samuel A. Mudd	7,535	47,317	44,169	10,683
J.C. Parks	8,373	68,184	50,850	25,707
J.P. Ryon	14,526	57,748	51,520	20,754
Eva Turner	16,197	38,344	31,861	22,680
Dr. Thomas L. Higdon	27,844	66,973	56,383	38,434
Daniel of St. Thomas Jenifer	15,780	71,894	72,380	15,294
Dr. James Craik	52,102	105,827	103,292	54,637
Gale-Bailey	20,456	66,423	64,934	21,945
Indian Head	10,388	34,349	37,835	6,901
Malcolm	34,294	67,046	68,400	32,940
T.C. Martin	27,753	86,888	84,905	29,736
Arthur H. Middleton	10,063	54,467	48,059	16,471
Walter J. Mitchell	8,809	65,923	59,791	14,941
Mt. Hope/Nanjemoy	28,160	60,988	56,516	32,632
William B. Wade	38,972	96,627	106,959	28,640
Mary H. Matula	32,380	77,725	72,391	37,714
William Diggs	23,299	147,357	150,024	20,632
Mary B. Neal	4,689	136,499	121,703	19,485
Middle schools				
John Hanson	64,161	120,539	141,149	43,551
Matthew Henson	72,735	94,843	99,089	68,490
Piccowaxen	68,552	101,842	112,911	57,483
General Smallwood	25,729	74,576	78,658	21,647
Milton Somers	46,470	150,140	160,833	35,777
Benjamin Stoddert	34,008	99,452	93,646	39,814
Mattawoman	80,616	164,751	145,479	99,888
Theodore G. Davis	25,180	127,457	138,418	14,219
High schools				
La Plata	225,536	647,760	623,284	250,013
Lackey	102,247	542,133	528,472	115,909
Maurice J. McDonough	205,259	561,735	535,875	231,120
Thomas Stone	274,409	538,486	534,149	278,747
Westlake	84,533	588,733	534,068	139,198
North Point				
High School	138,832	1,441,793	1,281,214	299,412
STI	84,408	386	84,794	-
Centers				
F. B. Gwynn	31,059	13,362	14,453	29,968
Alternative School	33,813	41,282	37,829	37,265
TOTAL ASSETS	\$ 2,053,396	\$ 6,888,832	\$ 6,655,700	\$ 2,286,527
LIABILITIES DUE TO STUDENT GROUPS	\$ 2,053,396	\$ 6,888,832	\$ 6,655,700	\$ 2,286,527

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
 COMBINING SCHEDULE OF FIDUCIARY NET ASSETS –
 RETIREE HEALTH AND PENSION TRUST FUNDS
 Year Ended June 30, 2012**

	<u>Retiree Health Trust Fund</u>	<u>Pension Trust Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 5,329,624	\$ 5,329,624
Investments, at fair value with fiscal agent	11,285,575	66,802,769	78,088,344
Contribution receivable	1,000,001	825,000	1,825,001
Due from other funds	<u>23,669</u>	<u>-</u>	<u>23,669</u>
TOTAL ASSETS	<u>12,309,245</u>	<u>72,957,393</u>	<u>85,266,638</u>
NET ASSETS			
Held in trust for retiree health/pension benefits	<u>\$ 12,309,245</u>	<u>\$ 72,957,393</u>	<u>\$ 85,266,638</u>

**BOARD OF EDUCATION OF CHARLES COUNTY, MARYLAND
COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS –
RETIREE HEALTH AND PENSION TRUST FUNDS
Year Ended June 30, 2012**

	<u>Retiree Health Trust Fund</u>	<u>Pension Trust Fund</u>	<u>Total</u>
ADDITIONS			
Contributions			
Employer	\$ 7,972,167	\$ 5,249,987	\$ 13,222,154
Plan members	<u>1,679,355</u>	<u>986,688</u>	<u>2,666,043</u>
Total contributions	<u>9,651,522</u>	<u>6,236,675</u>	<u>15,888,197</u>
Investment earnings:			
Interest and dividends	-	1,970,997	1,970,997
Net (decrease) increase in fair value of investments	<u>(153,963)</u>	<u>273,843</u>	<u>119,880</u>
Investment (loss)/gain	(153,963)	2,244,840	2,090,877
Less investment expense	<u>-</u>	<u>300,728</u>	<u>300,728</u>
Net investment (loss)/gain	<u>(153,963)</u>	<u>1,944,112</u>	<u>1,790,149</u>
Total additions	<u>9,497,559</u>	<u>8,180,787</u>	<u>17,678,346</u>
DEDUCTIONS			
Benefits paid to members	8,651,521	3,372,970	12,024,491
Administrative expenses	<u>-</u>	<u>2,268,310</u>	<u>2,268,310</u>
Total deductions	<u>8,651,521</u>	<u>5,641,280</u>	<u>14,292,801</u>
NET INCREASE FOR THE YEAR IN PLAN NET ASSETS			
	846,038	2,539,507	3,385,545
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>11,463,207</u>	<u>70,417,886</u>	<u>81,881,093</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 12,309,245</u>	<u>\$ 72,957,393</u>	<u>\$ 85,266,638</u>