

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
OTHER SUPPLEMENTARY INFORMATION
Year Ended June 30, 2009

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Mayer Hoffman McCann P.C.
An Independent CPA Firm

INDEPENDENT AUDITORS' REPORT

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, 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 Talbot County, Maryland, a component unit of Talbot County, Maryland, as of and for the year ended June 30, 2009, which collectively comprise the Board's basic financial statements as listed in the foregoing Table of Contents. These financial statements are the responsibility of the Board of Education'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we express we no such opinion. 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 the 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 of Education of Talbot County, Maryland as of June 30, 2009, and the respective changes in financial position thereof 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 a report dated September 30, 2009 on our consideration of the Board of Education of Talbot County, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 important for assessing the results of our audit.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

The management's discussion and analysis on pages 5-16 and the budgetary comparison information on page 39 and the schedule of funding progress on page 40 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. 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 schedule of revenues and statement of cash receipts and cash disbursements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Board of Education of Talbot County, Maryland. The schedule of revenues, statement of cash receipts and cash disbursements, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


September 30, 2009
Easton, Maryland



Mayer Hoffman McCann P.C.
An Independent CPA Firm

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, 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 Talbot County, Maryland (the Board), a component unit of Talbot County, Maryland, as of and for the year ended June 30, 2009, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 30, 2009. 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

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 Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board'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 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 Board'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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

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 that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board, its management, others within the organization, Talbot County Council, Maryland State Department of Education (the cognizant audit agency, as designated by the U.S. Department of Transportation), 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.

Maya Hoffman McCann P.C.

September 30, 2009
Easton, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

This section of the Board of Education of Talbot County's annual financial report presents management's discussion and analysis of the Board's financial performance during the fiscal year that ended on June 30, 2009. Please read it in conjunction with the Board's financial statements, which immediately follow this section.

Financial highlights

Key financial highlights for the fiscal year (FY) ended June 30, 2009 include the following:

- Net assets total \$69,596,788, an increase of \$4,468,553, or 6.86% over the prior year.
- General Fund unreserved fund balance was \$33,092, after a reservation for encumbrances of \$820,154. The total fund balance was \$853,246, a decrease of \$275,979 from the prior year.

Overview of the financial statements

The financial section of the annual report consists of four parts – independent auditors' reports, required supplementary information which includes management's discussion and analysis (this section), the basic financial statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the Board:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the Board's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Board, reporting the Board's operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Fiduciary funds statements* provide information about the financial relationships in which the Board acts solely as a *trustee or agent* for the benefit of others to whom the resources belong.

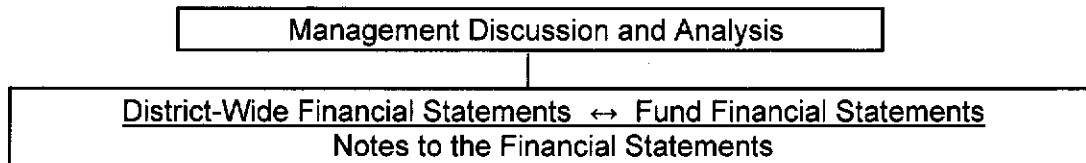
THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure 1 shows how the various parts of this annual report are arranged and relate to one another. Figure 2 summarizes the major features of the Board's financial statements, including the portion of the Board's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure 1 – Organization of TCBOE Annual Financial Report



The illustration above represents the minimum requirements for the basic financial statements.

Figure 2 – Major Features of District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the Board that are not proprietary or fiduciary, such as special education, general and building maintenance, food service, and capital projects	Instances in which the Board administers resources on behalf of someone else, such as the Special Education Consortium and Student Activities Fund
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 revenue, 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	Full accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

District-wide financial statements

The district-wide perspective is designed to provide readers with a complete financial view of the entity known as The Board of Education of Talbot County. The financial presentation of this perspective is similar to a private sector business.

The Statement of Net Assets presents information on all of the assets and liabilities of the Board with the difference between the two reported as *net assets*. The Statement of Activities presents information showing how the Board's net assets changed during the most recent fiscal year.

All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

Over time, increases or decreases in the Board's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Board you also need to consider additional non-financial factors such as changes in the condition of school buildings and other facilities.

The district-wide perspective is unrelated to budget and, accordingly, budget comparisons are not provided.

Fund financial statements

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

- Some funds are required by State law.
- The Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (e.g., federal and state grants).
- The Board has two kinds of funds:
 - *Governmental funds* – Most of the Board's basic services are included in governmental funds, which generally focus on (1) *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 funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information reconciling governmental funds statements with the district-wide statements.
 - *Fiduciary funds* – The Board is the trustee, or agent, for assets that belong to others, such as the Mid-Shore Special Education Consortium. The Student Activities Fund is also accounted for as a fiduciary fund. The Board is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the Board cannot use these assets to finance its operations.

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Financial analysis of the board as a whole

Net Assets - The Board's net assets were \$69,596,788 on June 30, 2009. This was an increase of 6.86 percent from the prior year. (See Table 1).

Table 1

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Current and other assets	\$ 7,504,461	\$ 7,801,924
Capital assets	<u>72,517,235</u>	<u>64,791,782</u>
TOTAL ASSETS	<u>\$ 80,021,696</u>	<u>\$ 72,593,706</u>
<u>LIABILITIES</u>		
Current liabilities	\$ 6,710,046	\$ 6,560,996
Long-term liabilities	<u>3,714,862</u>	<u>904,475</u>
TOTAL LIABILITIES	<u>\$ 10,424,908</u>	<u>\$ 7,465,471</u>
<u>NET ASSETS</u>		
Investment in capital assets, net of related debt	\$ 71,317,525	\$ 64,147,254
Restricted	311,521	308,124
Unrestricted	<u>(2,032,258)</u>	<u>672,857</u>
TOTAL NET ASSETS	<u>\$ 69,596,788</u>	<u>\$ 65,128,235</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Financial analysis of the board as a whole - continued

Changes in net assets - The Board's total revenues were \$66,950,184 for the year ended June 30, 2009. (See Table 2). The county appropriation and state aid accounted for approximately 60 percent of total revenue for the year. Another 24 percent came from program revenues, and the remainder from investment earnings and other sources. The total cost of all programs and services was \$62,415,444. The Board's expenses are predominantly related to providing direct educational services to students (60 percent). The purely administrative activities of the Board accounted for 2 percent of total expenses. Total revenues surpassed expenses, increasing net assets \$4,468,553 over last year.

Table 2

	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>% OF</u> <u>TOTAL</u>	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>% OF</u> <u>TOTAL</u>
	<u>2009</u>		<u>2008</u>	
<u>REVENUES</u>				
<i>Program Revenues:</i>				
Charges for services	\$ 856,464	1.28%	\$ 888,058	1.67%
Federal, state and local grants	15,373,663	22.96%	12,848,191	19.67%
<i>General Revenues:</i>				
County appropriation	34,053,966	50.86%	31,728,712	48.56%
State of Maryland	7,398,439	11.05%	7,143,811	10.94%
Restricted for capital outlay	9,126,738	13.64%	12,478,836	19.10%
Other	<u>140,914</u>	0.21%	<u>239,478</u>	.37%
TOTAL REVENUE	<u>66,950,184</u>	100.00%	<u>65,327,086</u>	100.00%
<u>EXPENSES</u>				
Instruction and special education	36,887,062	59.10%	32,912,910	60.42%
Administration	1,141,266	1.83%	1,232,271	2.26%
Support services	21,453,001	34.37%	17,706,860	32.50%
Depreciation	<u>2,934,115</u>	4.70%	<u>2,624,735</u>	4.82%
TOTAL EXPENSES	<u>62,415,444</u>	100.00%	<u>54,476,776</u>	100.00%
EXCESS OF REVENUES OVER EXPENSES	4,534,740		10,850,310	
Transfer of unreserved fund balance to County	<u>(66,187)</u>		<u>(128,343)</u>	
INCREASE IN NET ASSETS	<u>\$ 4,468,553</u>		<u>\$ 10,721,967</u>	

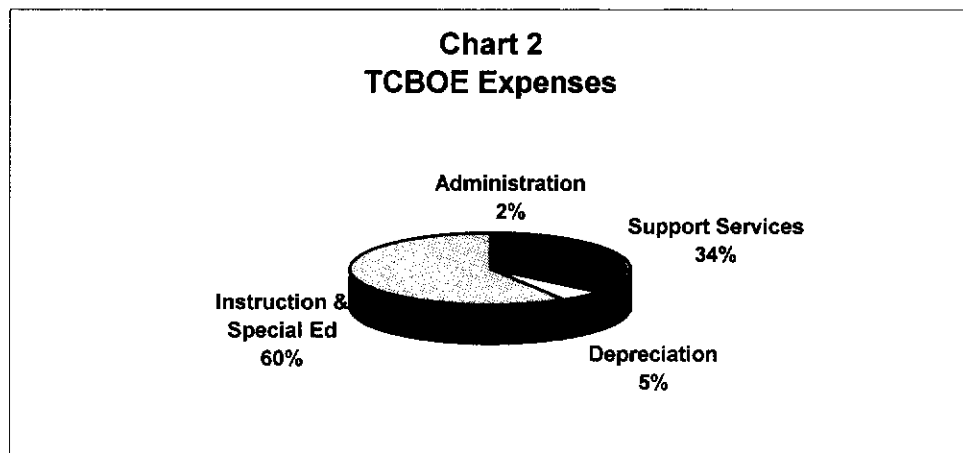
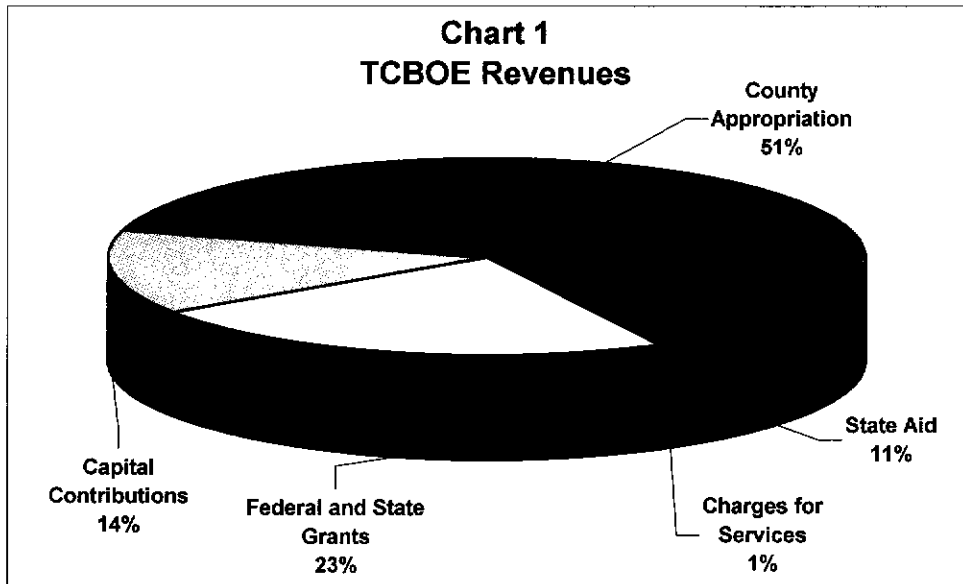
THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Financial analysis of the board as a whole - continued

Governmental activities - The increase in net assets for governmental activities was \$4,468,553 in 2009.



THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Financial analysis of the board's funds

The financial performance of the Board as a whole is reflected in its governmental funds. As the Board completed the year, its governmental funds reported a *combined* fund balance of \$1,164,767, a decrease of \$272,582 over last year's ending fund balance.

Revenues for the Board's governmental funds were \$66,950,184, an increase of \$1,623,098 from last year. Total expenditures were \$67,156,579 for the year, an increase of \$2,113,228 from the prior year.

General Fund - The General Fund includes the primary operations of the Board in providing educational services to students from pre-kindergarten through grade 12, including pupil transportation activities, and maintenance and operations of all school facilities. See Table 4 for a summary of General Fund revenues and expenditures.

Restricted Grants - These funds are used to account for grants from federal, state, and local sources. Grants provide a major source of revenue for specific educational programs not funded by the General Fund. Programs include initiatives for special education students and students from families who are socially and economically deprived. Table 5 reflects the increases (decreases) in grant funds by source over the prior year.

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Table 4

GENERAL FUND

	<u>FISCAL YEAR</u> <u>2009</u>	<u>FISCAL YEAR</u> <u>2008</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>PERCENT</u> <u>INCREASE</u> <u>(DECREASE)</u>
<u>REVENUES</u>				
Talbot County appropriations	\$ 37,847,263	\$ 34,192,655	\$ 3,654,608	10.69%
Talbot County Health Dept. school nurses	621,211	588,188	33,023	5.61%
Talbot County – OPEB	1,482,000	-	-	100.00%
State of Maryland	9,921,686	9,668,670	253,016	2.62%
State of Maryland share of retirement and pension contribution	2,887,089	2,774,097	112,922	4.07%
Other	<u>140,914</u>	<u>252,721</u>	<u>(111,807)</u>	<u>(44.24)%</u>
TOTAL REVENUES	<u>52,900,163</u>	<u>47,476,331</u>	<u>5,423,832</u>	<u>11.42%</u>
<u>EXPENDITURES</u>				
Administration	1,169,054	1,088,793	80,261	7.37%
Mid-level administration	3,873,870	3,603,349	270,521	7.51%
Instructional salaries	18,294,303	17,379,977	914,326	5.26%
Instructional texts and supplies	1,194,638	862,348	332,290	38.53%
Other instructional costs	640,959	492,460	148,499	30.15%
Special education	2,920,980	2,734,032	186,948	6.84%
Student personnel services	180,732	166,311	14,421	8.67%
Student transportation	2,574,748	2,292,477	282,271	12.31%
Operation of plant and equipment	3,702,707	3,437,883	264,824	7.70%
Maintenance of plant	1,472,795	1,257,044	215,751	17.16%
Fixed charges	8,301,572	7,899,891	401,681	5.07%
Debt service	3,793,297	2,463,943	1,329,354	53.95%
State of Maryland share of retirement and pension contribution	2,887,089	2,774,097	112,992	4.07%
Talbot County Health Dept. - school nurses	621,211	588,188	33,023	5.61%
Talbot County - OPEB	<u>1,482,000</u>	<u>-</u>	<u>-</u>	<u>100.00%</u>
TOTAL EXPENDITURES	<u>53,109,955</u>	<u>47,040,793</u>	<u>6,069,162</u>	<u>12.90%</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (209,792)</u>	<u>\$ 435,538</u>	<u>\$ (645,330)</u>	<u>(148.17)%</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Table 5

	<u>RESTRICTED GRANT REVENUE</u>			PERCENT
	FISCAL YEAR	FISCAL YEAR	INCREASE	INCREASE
	<u>2009</u>	<u>2008</u>	<u>(DECREASE)</u>	<u>(DECREASE)</u>
Federal through state	\$ 2,404,702	\$ 2,618,336	\$ (213,634)	(8.16)%
State of Maryland	462,178	452,793	9,385	2.07%
Other	<u>361,796</u>	<u>684,446</u>	<u>(322,650)</u>	<u>(47.14)%</u>
TOTAL REVENUES	<u>\$ 3,228,676</u>	<u>\$ 3,755,575</u>	<u>\$ (526,899)</u>	<u>(14.03)%</u>

Capital projects fund - The Board has no legal authority to borrow funds. All funds for school construction come from either the transfer of bond proceeds from Talbot County selling capital bonds or from state aid through the Maryland Public School Construction Program (PSCP). During FY 2009, the Board received county proceeds of \$8,922,475 and state funding of \$204,263.

Fiduciary funds - The following funds are accounted for as fiduciary funds:

- (1) Mid-Shore Special Education Consortium: A five (5) county consortium serving Caroline, Dorchester, Kent, Queen Anne's and Talbot County students with disabilities. Total assets as of June 30, 2009 were \$1,314,504.
- (2) School Activities Accounts: During Fiscal Year 2009, the Board's nine schools collected revenues and incurred expenditures for various student activities (see Table 6). The Board contracts with an independent Certified Public Accountant to perform an audit of these agency funds on an annual basis. Please refer to the separately issued audited financial statements for the School Activities Fund for specific details.
- (3) Private Purpose Trust Fund: The fund is used to account for memorial donations to the public school system.

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Table 6

	<u>SCHOOL ACTIVITIES FUND</u>			
	<u>FISCAL YEAR</u>	<u>FISCAL YEAR</u>	<u>INCREASE</u>	<u>PERCENT</u>
	<u>2009</u>	<u>2008</u>	<u>(DECREASE)</u>	<u>INCREASE</u>
				<u>(DECREASE)</u>
Cash receipts	\$ 979,450	\$ 1,035,102	\$ (55,652)	(5.38)%
Cash expenditures	(1,079,862)	(1,026,458)	67,169	6.54%
Beginning cash balances	<u>431,970</u>	<u>423,326</u>	<u>8,644</u>	<u>2.04%</u>
ENDING CASH BALANCES	<u>\$ 331,558</u>	<u>\$ 431,970</u>	<u>\$ (100,412)</u>	<u>(23.25)%</u>

General fund budgetary highlights

The actual General Fund revenues were under budget by \$118,421. Actual expenditures and encumbrances were under budget by \$151,513. There were no budget adjustments during the year.

Capital assets and debt administration

Capital assets - By the end of fiscal 2009, the Board had invested \$111 million in a broad range of capital assets, including land, school buildings, athletic facilities, furniture and equipment. (More detailed information about capital assets can be found in Note 3 to the financial statements). Total depreciation expense for the year was approximately \$2.9 million.

Long-term liabilities - At year-end, the Board had \$ 4,085,214 in long-term debt. This amount consists of the following:

- \$467,352 due to Maryland State Retirement and Pension System.
- \$1,199,710 in Notes Payable.
- \$2,418,152 in Net OPEB obligation.
- See Note 6 and 8 for more details.

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Factors impacting the school system

Beginning with fiscal year 2003, the State government enacted the Bridge to Excellence in Public Schools Act (the Act). The Act provides increased funding to all public schools. Increases were received in fiscal year 2003 through fiscal year 2007 under this Act with the largest increase in 2008, as the initiative reached full funding levels. Beginning with fiscal year 2004, the Act also unrestricted many of the funding components that were previously categorical restricted funds to provide flexibility in improving student performance. As long as Talbot County Public Schools has level enrollment, state funds will not increase.

The Master Plan for Talbot County Public Schools, required under the Act, provides a five-year action plan to guide the school system in preparing students to be contributing members of a democratic society. The plan directs the use of current and new state, federal and local funds to eliminate achievement gaps among subgroups of students and to challenge each student to higher academic levels. The plan organizes and aligns research-based practices, instructional services, professional development and resource distribution to guide Talbot County Public Schools. Budgets are linked to master plan strategies.

The State's Bridge to Excellence in Public Schools and the Federal No Child Left Behind Acts established certain requirements for public school systems. These requirements include, but are not limited to: all students in core academic subjects are taught by "highly qualified" teachers, all students must reach proficiency levels on state assessments by 2014, all economically disadvantaged children must have access to a pre-kindergarten program, new certification and assessment requirements for paraprofessionals, and extensive tracking and reporting requirements. All of these requirements have significant potential cost impacts associated with them.

Beginning with fiscal year 2009, the system is required to adhere to the new standard issued by the Government Accounting Standards Board (GASB) for reporting other post employment benefits known as GASBS 45. GASBS 45 stipulates standards for the measurement, recognition, and display of OPEB expenses and related liabilities and assets, note disclosures and required supplementary information in the financial reports of state and local governmental employers. GASBS 45 requires the measurement and disclosure of actuarial accrued liabilities and funded status. Under GASBS 45 the system is not only the reporting other post-retirement benefits (OPEB) expense, but the associated accrued financial obligations. Funding of the obligation is optional. The system is also required to disclose the funded status of the benefits as of the most recent valuation and to present as Required Supplementary Information (RSI) multi-year trend information about funding progress.

Probably one of the most significant factors bearing on the Board's future is the "revenue cap". Instituted in November 1996 as the result of a county referendum, the Talbot County Government's ability to raise revenue for governmental agencies has been seriously impeded by the revenue cap. It is a cap on the amount of revenue that can be raised in any fiscal year from real and personal property taxes. The cap, or ceiling, is the lower of 2% or the Consumer Price Index for all urban customers (CPI-U) percentage of change for the latest calendar year, as determined by the U.S. Department of Labor. The cap prevents the county from receiving any benefit in the growth of the assessable tax base for either real or personal property. Since the cap is on revenue and not on the tax rate, the county's ability to raise revenue to meet any growth in county population and accompanying services is severely restricted.

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Contacting the board's financial management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Board's finances and to demonstrate the Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Office, Talbot County Board of Education, 12 Magnolia Street, P.O. Box 1029, Easton, Maryland 21601.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF NET ASSETS

June 30, 2009

ASSETS

		<u>GOVERNMENTAL ACTIVITIES</u>
Cash		\$ 6,004,055
Due from other units of government		1,313,670
Other receivables		154,959
Inventory		31,777
Capital assets:		
Construction-in-progress	31,518,940	
Land, buildings and improvements	61,359,035	
Furniture, fixtures and equipment	18,716,721	
Less: accumulated depreciation	<u>(39,077,461)</u>	
Total capital assets, net of depreciation		<u>72,517,235</u>
 TOTAL ASSETS		 <u>\$ 80,021,696</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable		\$ 224,403
Accrued expenditures		4,055,038
Payroll deductions and withholdings		53,764
Deferred revenue		1,859,792
Compensated absences		146,697
Long-term debt:		
Portion due or payable within one year:		
Notes payable	343,749	
Maryland State Retirement and Pension System	<u>26,603</u>	370,352
Portion due or payable after one year:		
Net OPEB obligation	2,418,152	
Notes payable	855,961	
Maryland State Retirement and Pension System	<u>440,749</u>	<u>3,714,862</u>
TOTAL LIABILITIES		<u>10,424,908</u>

NET ASSETS

Investment in capital assets, net of related debt		71,317,525
Restricted for food service operations		308,743
Restricted for capital projects		2,778
Unrestricted deficit		<u>(2,032,258)</u>
TOTAL NET ASSETS		<u>69,596,788</u>

TOTAL LIABILITIES AND NET ASSETS		<u>\$ 80,021,696</u>
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The accompanying Notes to Financial Statements
are an integral part of this financial statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS GOVERNMENTAL ACTIVITIES</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
GOVERNMENTAL ACTIVITIES				
Administration	\$ 960,534	\$ -	\$ -	\$ (960,534)
Instructional services	26,966,376	-	4,285,935	(22,680,441)
Special education	3,856,230	-	2,224,491	(1,631,739)
Student personnel services	180,732	-	-	(180,732)
Student transportation	3,513,138	-	1,344,708	(2,168,430)
Operation of plant	2,291,526	-	-	(2,291,526)
Maintenance of plant	1,490,394	-	-	(1,490,394)
Fixed charges	14,119,845	-	2,887,089	(11,232,756)
Community Services	271,353	-	-	(271,353)
Capital outlay	1,295,723	-	-	(1,295,723)
Food service operations	1,698,472	856,464	838,143	(3,865)
Debt service	3,793,297	-	3,793,297	-
Interest on long-term debt	24,102	-	-	(24,102)
Depreciation – unallocated	1,953,722	-	-	(1,953,722)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 62,415,444	\$ 856,464	\$ 15,373,663	(46,185,317)
<u>General revenues</u>				
				34,053,966
Talbot County appropriations				7,398,439
State of Maryland				9,126,738
Capital outlay/construction funding				25,443
Unrestricted investment earnings				115,471
Other revenue				<u>50,720,057</u>
TOTAL GENERAL REVENUES				
<u>Transfers</u>				
Refund of prior year unreserved fund balance to Talbot County				<u>(66,187)</u>
TOTAL GENERAL REVENUES AND TRANSFERS				<u>50,653,870</u>
CHANGE IN NET ASSETS				4,468,553
NET ASSETS, BEGINNING OF YEAR				<u>65,128,235</u>
NET ASSETS, END OF YEAR				<u>\$ 69,596,788</u>

The accompanying Notes to Financial Statements
are an integral part of this financial statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2009

	<u>MAJOR FUNDS</u>		<u>MAJOR FUNDS</u>	<u>NON-MAJOR</u>		<u>TOTAL</u>
	<u>GENERAL</u>	<u>RESTRICTED</u>	<u>FUNDS</u>	<u>FUND</u>	<u>FOOD</u>	<u>GOVERNMENTAL</u>
		<u>GRANTS</u>	<u>CAPITAL</u>	<u>SERVICES</u>		<u>FUNDS</u>
	\$ 5,683,681	\$ -	\$ -	\$ 320,374	\$	\$ 6,004,055
Cash	51,806	-	794,062	-		845,868
Due from other governments:	7,728	8,187	67,620	-		83,535
Talbot County	-	255,541	-	35,201		290,742
State of Maryland	1,008,870	1,585,474	-	-		2,594,344
United States government	-	93,525	154,959	-		248,484
Due from other funds	-	-	-	31,777		31,777
Other receivables	-	-	-	-		-
Inventory	-	-	-	-		-
TOTAL ASSETS	<u>\$ 6,752,085</u>	<u>\$ 1,942,727</u>	<u>\$ 1,016,641</u>	<u>\$ 387,352</u>		<u>\$ 10,098,805</u>
 <u>LIABILITIES AND FUND BALANCES</u>						
	\$ 221,307	\$ 3,096	\$ -	\$ -	\$	\$ 224,403
LIABILITIES	3,874,734	126,510	-	53,794		4,055,038
Accounts payable	53,764	-	-	-		53,764
Accrued expenditures	1,585,474	-	1,008,870	-		2,594,344
Payroll deductions and withholdings	16,863	1,813,121	4,993	24,815		1,859,792
Due to other funds	146,697	-	-	-		146,697
Deferred revenue	5,898,839	1,942,727	1,013,863	78,609		8,934,038
Compensated absences	-	-	-	-		-
TOTAL LIABILITIES						
	-	-	2,778	-		2,778
FUND BALANCES	-	-	-	6,962		6,962
Reserved for fund purposes	820,154	-	-	-		820,154
Reserved for inventory	33,092	-	-	-		33,092
Reserved for encumbrances	853,246	-	-	301,781		334,873
Unreserved	-	-	2,778	308,743		1,164,767
TOTAL FUND BALANCES						
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,752,085</u>	<u>\$ 1,942,727</u>	<u>\$ 1,016,641</u>	<u>\$ 387,352</u>		<u>\$ 10,098,805</u>

The accompanying Notes to Financial Statements
are an integral part of this financial statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
Year Ended June 30, 2009

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,164,767

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:

Cost of assets	111,594,696
Less: accumulated depreciation	<u>(39,077,461)</u>

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

Net OPEB obligation	2,418,152
Notes payable	1,199,710
Maryland State Retirement and Pension System	<u>467,352</u>

Total long-term liabilities	<u>(4,085,214)</u>
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES \$ 69,596,788

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	MAJOR FUNDS	
	GENERAL	RESTRICTED GRANTS
REVENUES		
Talbot County	\$ 39,950,474	\$ -
State of Maryland	12,808,775	462,178
United States government	-	2,404,702
Other sources:		
Food service sales	-	-
Interest earned	29,069	-
Other	111,845	361,796
TOTAL REVENUES	52,900,163	3,228,676
EXPENDITURES		
Current:		
Administration	1,169,054	123,808
Mid-level administration	3,873,870	64,516
Instructional salaries	18,294,303	539,068
Instructional texts and supplies	1,194,638	199,402
Other instructional costs	640,959	480,663
Special education	2,920,980	935,250
Student personnel service	180,732	-
Student transportation	2,574,748	49,690
Operation of plant	3,702,707	45,279
Maintenance of plant	1,472,795	17,599
Fixed charges	8,301,572	502,048
Community services	-	271,353
Capital outlay	-	-
Food service operating expenditures	-	-
Debt service	3,793,297	-
On behalf payments	4,990,300	-
TOTAL EXPENDITURES	53,109,955	3,228,676
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	(209,792)	-
OTHER FINANCING USES – TRANSFERS		
Refund of prior year fund balance to Talbot County	(66,187)	-
CHANGE IN FUND BALANCES	(275,979)	-
FUND BALANCES, BEGINNING OF YEAR	1,129,225	-
FUND BALANCES, END OF YEAR	\$ 853,246	\$ -

<u>MAJOR FUNDS CAPITAL PROJECTS</u>	<u>NON-MAJOR FUND FOOD SERVICES</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ 8,922,475	\$ -	\$ 48,215,949
204,263	87,853	13,563,069
-	750,290	3,154,992
-	856,464	856,464
-	-	29,069
-	-	477,267
<u>91,26,738</u>	<u>1,694,607</u>	<u>66,950,184</u>
-	-	1,292,862
-	-	3,938,386
-	-	18,833,371
-	-	1,394,040
-	-	1,121,622
-	-	3,856,230
-	-	180,732
-	-	2,624,438
-	-	3,747,986
-	-	1,490,394
-	-	8,803,620
-	-	271,353
9,126,319	-	9,126,319
-	1,691,629	1,691,629
-	-	3,793,297
-	-	4,990,300
<u>9,126,319</u>	<u>1,691,629</u>	<u>67,156,579</u>
419	2,978	(206,395)
-	-	(66,187)
-	2,978	(272,582)
<u>2,778</u>	<u>305,765</u>	<u>1,437,349</u>
<u>\$ 2,778</u>	<u>\$ 308,743</u>	<u>\$ 1,164,767</u>

The accompanying Notes to Financial Statements
are an integral part of this statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
WITH THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (272,582)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. These consist of:

Capital outlays	10,708,926
Depreciation expense	(2,934,115)
Loss on disposition	(49,358)

Increase in Maryland State Retirement and Pension System deficit balance due to updated actuarial study	(36,321)
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Proceeds from long-term borrowing are reported as an offset of expenditures in governmental funds, but as an increase long-term notes payable in the statement of net assets.	(924,228)
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OPEB costs reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds	(2,418,152)
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Repayments of long-term debt are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Notes payables	369,046
Maryland State Retirement and Pension System	<u>25,337</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 4,468,553

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET ASSETS

Year Ended June 30, 2009

	<u>PRIVATE PURPOSE TRUST FUND</u>	<u>AGENCY FUNDS</u> <u>SPECIAL EDUCATION CONSORTIUM</u>	<u>SCHOOL ACTIVITIES FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>				
Cash	\$ 1,485	\$ 1,281,935	\$ 331,558	\$ 1,614,978
Other receivable	<u>-</u>	<u>32,569</u>	<u>-</u>	<u>32,569</u>
TOTAL ASSETS	<u>\$ 1,485</u>	<u>\$ 1,314,504</u>	<u>\$ 331,558</u>	<u>\$ 1,647,547</u>
<u>LIABILITIES</u>				
Accrued expenses	\$ -	\$ 179,784	\$ -	\$ 179,784
Funds held for school activities	<u>-</u>	<u>-</u>	331,558	331,558
Deferred revenue	<u>1,485</u>	<u>1,134,720</u>	<u>-</u>	<u>1,136,205</u>
TOTAL LIABILITIES	<u>\$ 1,485</u>	<u>\$ 1,314,504</u>	<u>\$ 331,558</u>	<u>\$ 1,647,547</u>

The accompanying Notes to Financial Statements
are an integral part of this statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies

The Board of Education of Talbot County is a component unit of Talbot County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. Accordingly, the financial statements of the Board are included in the financial statements of Talbot County, Maryland.

The accounting policies of the Board of Education of Talbot County conform to generally accepted accounting principles (GAAP) for governmental units. The following is a summary of the significant policies employed by the Board:

Government-wide and fund financial statements – The statement of net assets and the statement of activities report information on all of the non-fiduciary activities of the Board of Education of Talbot County as a whole. For the most part, the effect of interfund activity has been removed from these statements. The activities of the General Fund (Unrestricted Current Expense Fund), Special Revenue Funds (Restricted Current Expense and Food Service Funds), and Capital Projects Fund (School Construction Fund) have been presented as governmental activities in the government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational requirements of a particular program. Local appropriations, state and federal aid, and other items that are not classified as program revenues are presented as general revenues of the Board.

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 and the non-major 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. Local appropriations and state and federal aid are recognized as revenues in the year for which they were approved by the provider. Grants and similar items are recognized as revenues 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Measurement focus, basis of accounting and financial statement presentation – continued

Local appropriations and state and federal aid associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria have been met. Expenditure-driven grants are recognized as revenues when the qualifying expenditures have been incurred and all other grant requirements have been met.

Agency funds are custodial in nature and do not measure results of operations or have a measurement focus. Agency funds do, however, use the accrual basis of accounting.

The government reports the following funds in the financial statements:

Major funds

General fund – All financial resources appropriated for current operating expenditures, exclusive of certain restricted funds, are accounted for in the General Fund.

Restricted grants fund – This fund is used to account for revenue sources that are legally restricted to expenditures for a specific purpose, such as federal, state, and local grants.

Capital projects fund – This fund accounts for financial resources that are restricted to construction of new buildings, additions and alterations, and acquisition of equipment. Revenue is recognized from bond issues in the year that funds are either transferred or receivable from Talbot County.

Non-major funds

Food services fund – This fund is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes (school cafeteria operations).

Fiduciary funds

Agency Fund – This fund is used to account for the transactions of the student activities funds, which are the direct responsibility of the principal of each of the respective schools, and the Mid-Shore Special Education Consortium for which the Board acts as the processing agent for invoices.

Private Purpose Trust Fund – This fund is used to account for memorial donations to the public school system.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies – continued**

Measurement focus, basis of accounting and financial statement presentation – continued

– The accounting policies of the Board conform to accounting principles generally accepted in the United States of America. Accordingly, the Board applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins.

Capital assets – Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs 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.

Property, plant, and equipment are depreciated using the straight-line method over estimated useful lives of 20-50 years for buildings, improvements, and infrastructure, and 5-20 years for equipment.

Cash deposits – The Board is authorized to invest any monies in any fund or account for which they have custody or control. The types of investments are specified in accordance with Section 6-222 of the Maryland State Finance and Procurement Article.

Article 95, Section 22 of the Annotated Code of Maryland requires that deposits with financial institutions by local boards of education be fully collateralized. Full collateralization is necessary to minimize the risk of loss of a deposit in the event of the default of a financial institution. In addition, this section of the law requires that collateral be of the types specified in the State Finance and Procurement Article, Section 6-202 of the Code (i.e., direct obligations of the United States, or its agencies and/or obligations of states, counties, or municipalities).

Budgets and budgetary accounting – The Talbot County Public Schools operate within the following budget requirements for local educational agencies as specified by state law.

1. The Board must submit an annual school budget in writing to the County Council by February 15 of each year.
2. The County Council must approve the budget ordinance by May 31 of each year.
3. The budget is prepared and approved by major categories as specified in the state law.
4. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except for the inclusion of encumbrances as expenditures. Budget comparisons presented in this report are on a non-GAAP budgetary basis.
5. The Board may transfer funds within the major categories without recourse from the County Council. Transfers between major categories can only be made with the approval of the County Council.
6. Unencumbered appropriations lapse at the end of each fiscal year.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) **Summary of significant accounting policies – continued**

Budget calendar

<u>Approximate Date</u>	<u>Procedure Performed</u>
Mid-November	Department heads and schools submit requests
Early December	Review compilation of department budget requests with Superintendent, Assistant Superintendent, and Directors and establish proposed priority listing
Early January	Board of Education public meeting to review proposed budget
Early February	Regular meeting – Board of Education for final adoption of the proposed budget. Submission of proposed budget to County Council.
Late May/June	Board public workshops on revised budget based on actual appropriation
June	Public meeting(s) to review actual budget allocations and final adoption

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 formal budgetary integration in the general fund. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Due to/from other funds – Outstanding balances resulting from transactions between funds as of June 30, 2009 consist of the following:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General fund	\$ 1,008,870	\$ 1,585,474
Restricted grants	1,585,474	-
Capital projects fund	<u>-</u>	<u>1,008,870</u>
TOTAL	<u>\$ 2,594,344</u>	<u>\$ 2,594,344</u>

All transactions between funds represent “*due to/from other funds*” caused by cash from one fund paying for expenditures or expenses of another. The Board did not incur transactions between funds that would represent lending/borrowing arrangements outstanding at the end of the fiscal year.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

Inventory – Inventories of the Food Service Fund are stated at cost, determined on a first-in first-out (FIFO) basis. Food received from the USDA is included at values stated by the USDA, but is offset by a deferred credit until consumed.

Inventories of materials and supplies are charged to expenditures when consumed, rather than when purchased or donated.

Compensated absences – Twelve-month employees earn annual leave at varying rates dependent upon position and length of service. Annual leave generally must be taken by June 30 each year. For support staff, up to ten days may be transferred to the next fiscal year. For administrative staff, up to 20 days may be transferred to the next fiscal year.

Employees earn sick leave at varying rates of 13 to 18 days per year depending upon position and utilization. There is no limit on the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave; however, at retirement, a portion may be used as additional credited service under the retirement plan.

Expenditures in the statement of revenues and expenditures for such items are the amounts accrued during the year that normally would be liquidated with expendable available financial resources. All accrued compensated absences are recorded in the government-wide financial statements. The compensated absences liability attributable to the governmental activities will be liquidated by the general fund.

Net assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations placed on their use through external restrictions imposed by grantors or laws or regulations of other governments.

Fund balances and reserve for encumbrances – In the fund financial statements, reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures. The reserve for encumbrances was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the Board but not completed as of the close of the fiscal year. Designated fund balances represent specific allocations of available financial resources.

On behalf payments - The Board recognizes as revenue and expenditures amounts expended on its behalf during the fiscal year for amounts paid by third parties.

Use of estimates - 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 the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(2) Deposits and investments

Deposits – At June 30, 2009, Talbot County Public Schools had deposits of \$8,515,565 with a local bank (carrying value \$7,618,533). All deposits were insured by federal depository insurance (FDIC) due to the Temporary Liquidity Guarantee Program that became effective on November 21, 2008.

(3) Capital assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 377,446	\$ -	\$ -	\$ 377,446
Construction in progress	<u>23,688,344</u>	<u>-</u>	<u>23,688,344</u>	<u>-</u>
Total capital assets not being depreciated	<u>24,065,790</u>	<u>-</u>	<u>23,688,344</u>	<u>377,446</u>
Capital assets being depreciated:				
Buildings	59,680,627	31,518,940	-	91,199,567
Land improvements	1,303,476	-	2,514	1,300,962
Furniture, equipment and vehicles	<u>17,698,243</u>	<u>2,878,330</u>	<u>1,859,852</u>	<u>18,716,721</u>
Total capital assets being depreciated	<u>78,682,346</u>	<u>34,397,270</u>	<u>1,862,366</u>	<u>111,217,250</u>
Less accumulated Depreciation for:				
Buildings	24,673,255	1,321,094	-	25,994,349
Land improvements	395,143	47,028	94	442,077
Furniture, equipment and vehicles	<u>12,887,956</u>	<u>1,565,993</u>	<u>1,812,914</u>	<u>12,641,035</u>
Total accumulated depreciation	<u>37,956,354</u>	<u>2,934,115</u>	<u>1,813,008</u>	<u>39,077,461</u>
Total capital assets being depreciated, net	<u>40,725,992</u>	<u>31,763,155</u>	<u>49,358</u>	<u>72,439,789</u>
 GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	 <u>\$ 64,791,782</u>	 <u>\$ 7,774,811</u>	 <u>\$ 49,358</u>	 <u>\$ 72,517,235</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(3) Capital assets – continued

Depreciation expense for the year ended June 30, 2009 was charged to governmental functions as follows:

<u>Support services</u>	
Instructional services	\$ 615,930
Student transportation	357,620
Food services	6,843
Unallocated	<u>1,953,722</u>
TOTAL	<u>\$ 2,934,115</u>

(4) Pension plans

Plan description – The Board contributes to the State Retirement and Pension System (SRPS), a cost sharing multiple-employer defined benefit pension plan administered by the State of Maryland. SRPS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Article 73B of the Annotated Code of the State of Maryland assigns the authority to establish and amend benefit provisions to the SRPS Board of Trustees. The State of Maryland issues a publicly available financial report that includes financial statements and required supplementary information for SRPS. That report may be obtained by writing to Maryland State Retirement and Pension System, 301 West Preston Street, Baltimore, Maryland 21202.

Funding policy – Employees are members of either the retirement system (older plan) or the pension system (newer plan) based upon their date of hire. Members of the retirement system are required to contribute 5% to 7% of compensation to the plan. Members of the pension system are required to contribute at actuarially determined rates, which is currently 11.7% of covered compensation for teachers and 8.73% for classified employees. The contribution requirements of plan members and the Board are established, and may be amended by, the SRPS Board of Trustees.

The State makes a substantial portion of the Board's annual required contributions to the Teachers systems on behalf of the Board. The State's contributions on behalf of the Board to the Teachers systems for the year ended June 30, 2009, amounted to \$2,887,089. The fiscal 2009 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the General Fund in the accompanying Statement of Activities and Statement of Revenues, Expenditures, and Changes in Fund Balances. The Board makes the entire employer required annual contributions to the Employees systems as well as those that relate to positions in the Teachers systems funded through federal and state restricted programs.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(4) Pension plans – continued

Employer's payroll and contributions under the plans – The employer's current year payroll for the years ended June 30, 2009, 2008, and 2007, payroll covered under the various state plans, and contributions paid are as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total payroll	\$ 31,373,211	\$ 29,796,701	\$ 28,901,256
Payroll covered under the Plans	\$ 29,794,343	\$ 28,292,858	\$ 27,502,501
Contributions paid in:			
Board payments	\$ 481,796	\$ 566,123	\$ 470,731
State on-behalf payments	\$ 2,887,089	\$ 2,774,097	\$ 2,241,430

Funding status – As a result of a first time actuarial study of the State Retirement and Pension System of Maryland, the Talbot County Board of Education was identified as one of 23 municipal corporations not having enough assets available to fund the present value of accrued benefits for participants in the retirement system. Under the rules of House Bill 1338, the original deficit amount was determined to be \$925,482 as of June 30, 1996, to be repaid over a period of 40 years. The Board was granted relief of \$210,003 (as of June 30, 1996) by HB1348 enacted in 1997 and further relief of \$210,003 (as of June 30, 1996) by HB430 which was enacted in 1998. The fiscal year 2009 payment was \$25,337. See Note 6 for the remaining years' payment stream. The payments reflect a pattern which increases by 5% per year for the next 27 years.

(5) Deferred revenue

Deferred revenue consists of federal and state grants and other revenues that have not been expended by June 30, 2009. Deferred revenue at June 30, 2009 consists of the following:

Restricted federal, Maryland and other grant programs	\$ 1,813,121
USDA commodities	24,815
Other sources	<u>21,856</u>
TOTAL DEFERRED REVENUE	<u>\$ 1,859,792</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) Long-term liabilities

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. The reporting of county debt service and related revenues in the general fund is required by state laws. Annual debt service expenditures are fully offset by county and state revenues. Debt service principal and interest on bond obligations paid by Talbot County was \$3,793,297 for the year ended June 30, 2009.

The Board's long-term debt at June 30, 2009 consists of the following:

Notes payable

Note payable to Branch Bank & Trust Co; principal and interest payments of \$6,834.80 are payable monthly through September 15, 2011; interest is payable at 4.19% per annum; collateralized by school buses	\$ 175,816
Note payable to Branch Bank & Trust Co.; principal and interest payments of \$197,961.69 are payable annually through August 15, 2012; interest is payable at 3.55% per annum; collateralized by school buses	726,266
Capital lease payable to All Points Public Funding, LLC; principal and interest payments of \$106,980.80 are payable annually through October 31, 2011; interest is payable at 3.87% per annum; collateralized by school buses	<u>297,628</u>
TOTAL NOTES PAYABLE	<u>\$ 1,199,710</u>

Aggregate maturities of long-term notes payable at June 30, 2009 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 343,749	\$ 43,211	\$ 386,960
2011	356,805	30,155	386,960
2012	307,980	17,467	325,447
2013	191,176	6,787	197,963
TOTAL	\$ 1,199,710	\$ 97,620	\$ 1,297,330

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) **Long-term liabilities – continued**

State retirement system

State Retirement and Pension System of Maryland
 (note 4, funding status); payable annually
 through December, 2035 \$ 467,352

The remaining deficit reduction payment schedule authorized by House Bill 430 is as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2010	\$ 26,603
2011	27,933
2012	29,330
2013	30,797
2014	32,337
2015 – 2019	187,613
2020 – 2024	239,449
2025 – 2029	305,602
2030 – 2034	390,036
2035 – 2036	<u>184,681</u>
Total principal and interest	\$ 1,454,381
Less amount representing interest	<u>(987,029)</u>
LIABILITY AS OF JUNE 30, 2009	<u>\$ 467,352</u>

The changes in long-term liabilities for the year ended June 30, 2009 are as follows:

	<u>STATE RETIREMENT SYSTEM</u>	<u>NOTES PAYABLE</u>	<u>TOTAL</u>
Balance at June 30, 2008	\$ 456,368	\$ 644,528	\$ 1,100,896
Increases	36,321	924,228	960,549
Payments	<u>(25,337)</u>	<u>(369,046)</u>	<u>(394,383)</u>
Balance at June 30, 2009	<u>\$ 467,352</u>	<u>\$1,199,710</u>	<u>\$ 1,667,062</u>

The increase to the State Retirement System debt is related to an actuarial valuation that produced updated principal balances and was communicated to Talbot County Board of Education on June 16, 2008.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(7) On-behalf payments

The Board recognized the following on-behalf payments for the fiscal year ended June 30, 2009:

Pension contribution by the State of Maryland to the state retirement system for applicable employees of the Board (Note 4)	\$ 2,887,089
School nurses provided by Talbot County, Maryland Health Department	621,211
Other post-employment benefits funded by Talbot County Government	<u>1,482,000</u>
TOTAL ON-BEHALF PAYMENTS	<u>\$ 4,990,300</u>

(8) Other postemployment benefits

Plan Description - The Talbot County Public Schools Retiree Health Plan (Plan) is a single-employer defined benefit healthcare Plan that is administered by the Talbot County Government (County) and covers retired employees of the Board and their dependents. The Plan provides for the payment of a portion or all of the health insurance premiums for eligible retired employees depending on their position that was held and length of service. The Board of Education has the authority to establish and amend benefit provisions of the Plan. The Plan does not issue a separate, publicly available report.

Funding Policy - Premiums and other contributions for the Boards' share of the cost of the group programs may be paid, as determined by the County, from the assets of the Board. Premium payments for some programs may require contributions by the participant as well as the Board. The frequency and amount of such contributions shall be established from time to time by the County. In no event will payments made by participants be excluded from their taxable income. No participant shall have any claim against, right to, or interest in the Plan. In the event that the Board or the County for any reason fails to pay premiums for, or otherwise implement, the group programs for participants, the sole liability of the Board shall be limited to the amount of premiums otherwise payable. The Board shall not be responsible for any losses to participants or dependents for such failure beyond the amount of such premiums or contributions.

Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Talbot County Public Schools Retiree Health Plan pays 66% of the individual premium for each insured retiree who has at least 8 years of service. Retirees with less than 8 years of service are allowed access, but must pay 100% of the published rates. Spouses and other dependents are eligible for coverage, but the employee is responsible for the entire cost of such coverage if they retired on or after 1/1/1998. If they retired prior to 12/31/1997 the Board pays 45% of the premiums.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(8) Postemployment benefits – continued

Annual OPEB Cost and Net OPEB Obligation - The Board's annual other post employment 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 No. 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 to Talbot County Public Schools Retiree Health Plan:

Annual required contribution	\$ 4,140,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>4,140,000</u>
Contributions made	<u>(1,721,848)</u>
Increase in net OPEB obligation	2,418,152
Net OPEB obligation – beginning of year	<u>-</u>
 Net OPEB obligation – end of year	 <u>\$ 2,418,512</u>

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2009 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$4,140,000	41.59%	\$2,418,152

Fiscal year 2009 was the year of implementation of GASB Statement No. 45, and the Board has elected to implement prospectively. Therefore, prior year comparative data is not available. In future years, three-year trend information will be presented.

Funded Status and Funding Progress - As of the most recent actuarial valuation date, the plan was 3.68 percent funded. The actuarial accrued liability for benefits was \$46,822,000, and the actuarial value of assets was \$1,482,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$45,340,000. The covered payroll (annual payroll of active employees covered by the plan) was \$29,794,343, and the ratio of the UAAL to the covered payroll was 152.3 percent.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(8) Postemployment benefits – continued

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 multiyear 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, 2009, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4 percent 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, a projected salary increase of 4 percent per year, and an annual healthcare cost trend rate of 9.5 percent initially, reduced by decrements to an ultimate rate of 5.5 percent. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2009, was twenty nine years.

(9) Budget reconciliation

The accompanying Schedule of Revenues, Expenditures and Encumbrances – Budget and Actual has been prepared on a legally prescribed budgetary basis of accounting which differs from generally accepted accounting principles (GAAP). The purpose of the budgetary basis of accounting is to demonstrate compliance with the legal requirements of Talbot County and the State of Maryland. The difference between the two methods is set forth below.

	<u>GENERAL FUND</u>	<u>RESTRICTED GRANTS FUND</u>
REVENUES		
Non-GAAP budgetary basis	\$ 44,116,566	\$ 3,187,608
Net encumbrance adjustment	-	41,068
Debt service paid by Talbot County, MD	3,793,297	-
State and County – on behalf payments	<u>4,990,300</u>	<u>-</u>
GAAP BASIS	<u>\$ 52,900,163</u>	<u>\$ 3,228,676</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(9) Budget reconciliation – continued

	<u>GENERAL FUND</u>	<u>RESTRICTED GRANTS FUND</u>
EXPENDITURES		
Non-GAAP budgetary basis	\$ 44,083,474	\$ 3,187,608
Net encumbrance adjustment	242,884	41,068
Debt service paid by Talbot County, MD	3,793,297	-
State and County – on behalf payments	<u>4,990,300</u>	<u>-</u>
GAAP BASIS	<u>\$ 53,109,955</u>	<u>\$ 3,228,676</u>

(10) Risk management

General insurance – 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. Effective July 1, 1992, the Board joined the Maryland Association of Boards of Education Group Insurance and Workers Compensation Pools (MABE) which provide casualty and property insurance, and workers compensation coverage. MABE operates as authorized by Section 482B of Article 84A of the Annotated Code of Maryland. The Board pays an annual premium to MABE for its insurance coverage. The agreement for formation of MABE provides that it will be self-sustaining through member premiums and will reinsure through commercial companies as specified in the agreement. As of June 30, 2009, MABE had total fund equity of approximately \$21 million. It is believed that there are no outstanding claims in excess of the equity.

MABE publishes its own audited financial report based on a June 30 year-end. This report may be obtained from Maryland Association of Boards of Education Group Insurance Pool, 621 Ridgely Avenue, Suite 300, Annapolis, Maryland 21401.

Health insurance – Effective with the 1996 fiscal year, the Board joined together with the Eastern Shore of Maryland Boards of Education to form the Eastern Shore of Maryland Education Consortium Health Insurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for health insurance coverage. Currently, only five counties are participating in the alliance for their health insurance coverage.

The agreement for formation of the alliance provides that the pool will be self-sustaining through member premiums. These funds have been invested in the Mercantile Local Government Investment Pool.

The pooling agreement allows for the pool, which is administered by Blue Cross/Blue Shield of Maryland, to make additional assessments to make the pool self-sustaining. As of the date of this report, it is believed that there are no outstanding claims in excess of the equity of the trust.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(11) Commitments

Operating leases – At June 30, 2009, the Board was obligated under 2 operating leases for laptop computers for which future lease payments are \$836,000. Total rent expense under these leases for fiscal 2009 was \$418,000. Future lease payments are as follows:

<u>Year Ended June 30,</u>	
2010	\$ 418,000
2011	209,000
2012	<u>209,000</u>
Total Lease Commitments	<u>\$ 836,000</u>

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES –
BUDGET AND ACTUAL – GENERAL FUND AND RESTRICTED GRANTS
Year Ended June 30, 2009

	GENERAL FUND		
	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
REVENUES			
Talbot County	\$ 34,053,966	\$ 34,053,966	\$ -
State of Maryland	9,884,021	9,921,686	37,665
United States government	-	-	-
Other sources:			
Interest earned	250,000	25,443	(224,557)
Other	47,000	115,471	68,471
TOTAL REVENUES	<u>44,234,987</u>	<u>44,116,566</u>	<u>(118,421)</u>
EXPENDITURES AND ENCUMBRANCES			
Administration	1,128,459	1,128,117	342
Mid-level administration	3,890,666	3,889,213	1,453
Instructional salaries	18,369,815	18,237,656	132,159
Instructional texts and supplies	1,125,150	1,124,458	692
Other instructional costs	672,135	663,469	8,666
Special education	2,921,649	2,921,425	224
Student personnel services	264,842	264,697	145
Student transportation	2,619,362	2,617,406	19,56
Operation of plant	3,570,295	3,568,837	1,458
Maintenance of plant	1,349,938	1,345,747	4,191
Fixed charges	8,322,676	8,322,449	227
Community services	-	-	-
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>44,234,987</u>	<u>44,083,474</u>	<u>151,513</u>
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES	<u>\$ -</u>	<u>\$ 33,092</u>	<u>\$ 33,092</u>

RESTRICTED GRANTS

<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
\$ -	\$ -	\$ -
566,030	450,200	(115,830)
3,767,982	2,350,274	(1,417,708)
-	-	-
<u>881,374</u>	<u>387,134</u>	<u>(494,240)</u>
<u>5,215,386</u>	<u>3,187,608</u>	<u>(2,027,778)</u>
160,389	122,350	38,039
79,630	64,516	15,114
699,847	539,068	160,779
419,640	266,643	152,997
681,286	414,729	266,557
1,907,898	926,498	981,400
-	-	-
59,954	49,691	10,263
172,300	45,278	127,022
17,128	8,623	8,505
716,171	502,048	214,123
<u>301,143</u>	<u>248,164</u>	<u>52,979</u>
<u>5,215,386</u>	<u>3,187,608</u>	<u>2,027,778</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF FUNDING PROGRESS

Year Ended June 30, 2009

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
7/01/2008	\$ 1,482,000	\$ 46,822,000	\$ 45,340,000	3.68%	\$ 29,794,343	152.3%

OTHER ADDITIONAL INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES – GENERAL FUND

Year Ended June 30, 2009

TALBOT COUNTY FUNDS		
Current appropriations	\$ 34,053,966	
Debt service	<u>3,793,297</u>	
Total County Funds		\$ 37,847,263
TALBOT COUNTY – ON BEHALF PAYMENTS		
School nurses	621,211	
OPEB	<u>1,482,000</u>	
Total Talbot County – on behalf funds		2,103,211
STATE OF MARYLAND FUNDS		
Current expenses	4,248,849	
Compensatory education	3,111,925	
Transportation	1,344,708	
Students with disabilities – formula	749,045	
Limited English-proficient	429,494	
Out of county living	<u>37,665</u>	
Total State of Maryland Funds		9,921,686
STATE OF MARYLAND – ON BEHALF PAYMENTS		2,887,089
OTHER SOURCES		
Out of county living	85,829	
Interest earned	29,069	
Miscellaneous	<u>26,016</u>	
Total Other Sources		<u>140,914</u>
TOTAL REVENUES		<u>\$ 52,900,163</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
SCHOOL ACTIVITIES FUND (AGENCY FUND)

Year Ended June 30, 2009

	<u>CASH JUNE 30, 2008</u>	<u>CASH RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>CASH JUNE 30, 2009</u>
Easton High School	\$ 186,794	\$ 409,310	\$ 473,839	\$ 122,265
St. Michaels High School	56,637	132,529	148,178	40,988
Easton Middle School	19,172	135,402	143,025	11,549
Easton Elementary School - Dobson	12,438	35,320	39,001	8,757
Easton Elementary School - Moton	29,459	87,315	93,702	23,072
St. Michaels Elementary/ Middle School	27,460	69,811	57,422	39,849
Tilghman Elementary School	25,727	38,869	49,857	14,739
White Marsh Elementary School	13,617	24,814	25,540	12,891
Chapel District Elementary School	<u>60,666</u>	<u>46,080</u>	<u>49,298</u>	<u>57,448</u>
TOTALS	<u>\$ 431,970</u>	<u>\$ 979,450</u>	<u>\$ 1,079,862</u>	<u>\$ 331,558</u>



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An Independent CPA Firm

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Compliance

We have audited the compliance of the Board of Education of Talbot County, Maryland (the Board) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Board's compliance with those requirements.

In our opinion, the Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Internal Control Over Compliance

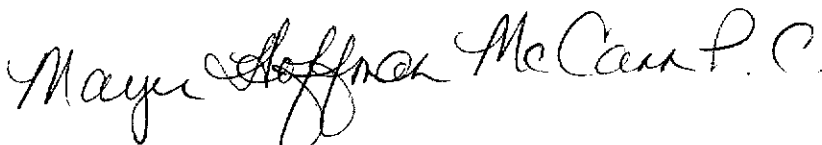
The management of the Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board, management, others within the Organization, Maryland State Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.



September 30, 2009
Easton, Maryland

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

<u>GRANT NAME</u>	<u>CFDA NUMBER</u>	<u>MSDE/FEDERAL GRANT NUMBER</u>	<u>PROJECT PERIOD</u>	<u>TOTAL GRANT AWARD</u>
<u>DEPARTMENT OF LABOR</u>				
Medical Assistance	17.248	330163-01	07/01/02 - 06/30/03	\$ 300,000
Medical Assistance	17.248	232266	07/01/01 - 06/30/02	\$ 207,630
Medical Assistance	17.248	232256	07/01/01 - 06/30/02	\$ 15,000
Medical Assistance	17.248	330205-01	07/01/02 - 06/30/03	\$ 15,000
Medical Assistance	17.248	Unknown	Unknown	Unknown
TOTAL DEPARTMENT OF LABOR				
<u>DEPARTMENT OF EDUCATION</u>				
Title 1 Grants				
Title 1	84.010	900611-01	07/01/08 - 06/30/10	\$ 673,788
Title 1	84.010	800744-01	07/01/07 - 06/30/09	\$ 681,344
Network for Success	84.010	031902-01	07/01/99 - 09/30/00	\$ 5,000
Special Education - Grants to States				
Infants & Toddlers	84.027	232403-02/03	07/01/01 - 06/30/02	\$ 18,819
Infants & Toddlers	84.027	600848-03	07/01/05 - 06/30/06	\$ 6,295
Pass Through Carryover	84.027	800164-01	07/01/07 - 09/30/08	\$ 876,145
Pass Through	84.027	700136-01	07/01/06 - 06/30/07	\$ 866,941
Infants & Toddlers	84.027	700855-03	07/01/06 - 06/30/07	\$ 7,561
Infants & Toddlers	84.027	702150-01	06/15/07 - 06/30/08	\$ 11,664
Pass Through	84.027	800164-01	07/01/07 - 09/30/08	\$ 876,145
IDEA Part B	84.027	800164-02/06	07/01/07 - 09/30/08	\$ 77,112
Special Education Consortium	84.027	800164-03	07/01/07 - 09/30/08	\$ 275,000
Discretionary	84.027	801992-01	07/01/07 - 09/30/08	\$ 21,913
Pass Through Carryover	84.027	802007-01	07/01/07 - 06/30/08	\$ 335,075
Special Education	84.027	900898-01	07/30/08 - 09/30/09	\$ 80,000
Pass Through	84.027	900296-01	07/01/08 - 09/30/09	\$ 897,803
Discretionary	84.027	900296-02	07/01/08 - 09/30/09	\$ 64,296
Special Education Consortium	84.027	900296-03	07/01/08 - 09/30/09	\$ 275,000
Infants and Toddlers	84.027	900489-02	07/01/08 - 06/30/09	\$ 5,844
Pass Through Carryover	84.027	901896-01	07/01/08 - 06/30/09	\$ 247,907

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2008</u>	<u>CASH RECEIVED JULY 1, 2008 TO JUNE 30, 2009</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2009</u>
(213,732)	175,070	59,518	-	(329,284)
(106,850)	-	-	-	(106,850)
(587)	-	-	-	(587)
(4,973)	-	-	-	(4,973)
<u>(3,875)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,875)</u>
<u>(330,017)</u>	<u>175,070</u>	<u>59,518</u>	<u>-</u>	<u>(445,569)</u>
-	595,975	613,421	-	17,446
26,655	34,412	96,314	-	88,557
<u>(5,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,000)</u>
<u>21,655</u>	<u>630,387</u>	<u>709,735</u>	<u>-</u>	<u>101,003</u>
(9,843)	-	-	-	(9,843)
(820)	-	-	-	(820)
-	-	-	-	-
-	-	-	3	3
719	-	-	-	719
-	1,915	10,698	-	8,783
14,817	39,782	9,662	-	(15,303)
6,986	19,823	12,837	-	-
55,884	55,884	-	-	-
-	438	438	-	-
75,318	82,818	7,500	-	-
-	47,000	43,705	-	(3,295)
-	722,455	611,905	-	(110,550)
-	64,296	64,262	-	(34)
-	275,000	275,000	-	-
-	993	5,844	-	4,851
<u>-</u>	<u>247,907</u>	<u>221,378</u>	<u>-</u>	<u>(26,529)</u>
<u>143,061</u>	<u>1,558,311</u>	<u>1,263,229</u>	<u>3</u>	<u>(152,018)</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

<u>GRANT NAME</u>	<u>CFDA NUMBER</u>	<u>MSDE/FEDERAL GRANT NUMBER</u>	<u>PROJECT PERIOD</u>	<u>TOTAL GRANT AWARD</u>
Vocational Education - Basic Grants to States				
Career & Technology Education	84.048	801507-01	07/01/07 - 06/30/08	\$ 48,052
Career & Technology Education	84.243	801507-02	07/01/07 - 06/30/08	\$ 5,733
Career & Technology Education	84.048	900852-01	07/01/08 - 06/30/09	\$ 49,093
Career & Technology Education	84.243	900852-02	07/01/08 - 06/30/09	\$ 5,563
Career & Technology Education	84.048	900943-01	07/01/08 - 06/30/09	\$ 39,364
Career & Technology Education	84.048	901736-01	12/12/08 - 06/30/09	\$ 3,629
Special Education - Preschool Grants				
Infants & Toddlers	84.173	501628-03	07/01/04 - 06/30/05	\$ 2,555
Infants and Toddlers	84.173	600848-04	07/01/05 - 06/30/06	\$ 5,000
IDEA Part B Preschool	84.173	700136-05	07/01/06 - 09/30/07	\$ 20,564
IDEA Part B Preschool	84.173	800164-04	07/01/07 - 09/30/08	\$ 20,564
Special Education Consortium	84.173	800164-05	07/01/07 - 09/30/08	\$ 100,000
Infants and Toddlers	84.173	800234-03	07/01/07 - 09/30/08	\$ 5,000
Maryland Model For School Readiness	84.173	800971-02	07/01/07 - 09/30/08	\$ 3,072
Maryland Model For School Readiness	84.173	901277-02	07/01/08 - 09/30/09	\$ 4,827
Infants and Toddlers	84.173	900489-03	07/01/08 - 09/30/09	\$ 5,000
Preschool Pass Through	84.173	900296-04	07/01/08 - 06/30/09	\$ 20,564
Special Education Consortium	84.173	900296-05	07/01/08 - 09/30/09	\$ 100,000
Special Education - Grants for Infants and Families With Disabilities				
Infants and Toddlers	84.181	831669	07/01/97 - 06/30/98	\$ 30,238
Infants and Toddlers	84.181	401757-01	07/01/03 - 06/30/04	\$ 5,984
Infants and Toddlers	84.181	501628-04	07/01/04 - 06/30/05	\$ 12,838
Infants and Toddlers	84.181	700855-01	07/01/06 - 06/30/07	\$ 6,372
Infants and Toddlers	84.181	701853-01	07/01/06 - 06/30/07	\$ 18,402
Infants and Toddlers	84.181	700855-02	07/01/06 - 06/30/07	\$ 64,075
Maryland Infants and Toddlers	84.181	9620A96	07/01/96 - 06/30/97	\$ 8,000
Infants and Toddlers	84.181	800234-01	07/01/07 - 09/30/08	\$ 64,075
Infants and Toddlers	84.181	900489-01	07/01/08 - 09/30/09	\$ 64,075
Infants and Toddlers	84.181	802301-01	06/15/08 - 06/30/09	\$ 17,425

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2008</u>	<u>CASH RECEIVED JULY 1, 2008 TO JUNE 30, 2009</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2009</u>
(943)	-	-	943	-
798	798	-	-	-
-	49,093	47,935	-	(1,158)
-	5,563	5,563	-	-
-	39,364	38,164	-	(1,200)
-	3,629	3,629	-	-
<u>(145)</u>	<u>98,447</u>	<u>95,291</u>	<u>943</u>	<u>(2,358)</u>
(2)	-	-	-	(2)
(2,007)	-	-	-	(2,007)
(25)	-	-	-	(25)
(1,532)	16,258	17,790	-	-
18,446	18,446	-	-	-
614	-	156	-	770
(3,423)	1,008	2,756	-	(1,675)
-	4,242	418	-	(3,824)
-	5,000	5,000	-	-
-	20,564	18,335	-	(2,229)
-	100,000	100,000	-	-
<u>12,071</u>	<u>165,518</u>	<u>144,455</u>	<u>-</u>	<u>(8,992)</u>
(23,403)	-	-	-	(23,403)
(1,869)	-	-	-	(1,869)
(12,838)	-	-	-	(12,838)
(956)	-	-	956	-
(728)	-	-	-	(728)
6,372	-	-	-	6,372
(7,113)	-	-	-	(7,113)
6,759	16,473	-	-	(9,714)
-	63,068	55,355	-	(7,713)
-	4,614	12,407	-	7,793
<u>(33,776)</u>	<u>84,155</u>	<u>67,762</u>	<u>956</u>	<u>(49,213)</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

<u>GRANT NAME</u>	<u>CFDA NUMBER</u>	<u>MSDE/FEDERAL GRANT NUMBER</u>	<u>PROJECT PERIOD</u>	<u>TOTAL GRANT AWARD</u>
Safe and Drug Free Schools and Communities - National Programs Federal Justice	84.184	S184L000004	On-Going	\$ 281,396
Safe and Drug Free Schools - State Grants				
Title IV, Safe & Drug Free Schools & Communities	84.186	800415-01	07/01/07 - 06/30/09	\$ 19,211
Title IV, Safe & Drug Free Schools & Communities	84.186	700177-01	07/01/06 - 06/30/08	\$ 19,495
Title IV, Safe & Drug Free Schools & Communities	84.186	900429-02	07/01/08 - 06/30/10	\$ 15,069
Innovative Education Program Strategies				
Title VI – Innovative	84.298	700631-01	07/01/06 - 06/30/08	\$ 8,148
Title VI – Innovative	84.298	800771-01	07/01/07 - 06/30/09	\$ 7,570
Technology Literacy Challenge Fund				
Enhancing Education Through Education	84.318	601038-02	07/01/05 - 06/30/07	\$ 13,938
Enhancing Education Through Education	84.318	702005-01	01/01/07 - 06/30/08	\$ 191,760
Enhancing Education Through Education	84.318	800936-01	07/01/07 - 06/30/09	\$ 7,024
Enhancing Education Through Education	84.318	900820-01	07/01/08 - 06/30/10	\$ 6,161
English Language Acquisition Grants				
English Language Acquisition	84.365A	800612-01	07/01/07 - 06/30/09	\$ 38,037
English Language Acquisition	84.365A	900555-01	07/01/08 - 06/30/10	\$ 31,911
English Language Acquisition	84.365A	900555-02	07/01/08 - 06/30/09	\$ 170
Improving Teacher Quality State Grants				
Improving Teacher Quality	84.367	600480-01	07/01/05 - 06/30/07	\$ 239,136
Improving Teacher Quality	84.367	700655-01	07/01/06 - 06/30/08	\$ 231,013
Improving Teacher Quality	84.367	800797-01/02	07/01/07 - 06/30/09	\$ 230,029
Improving Teacher Quality	84.367	900564-01	07/01/08 - 06/30/10	\$ 231,926

TOTAL DEPARTMENT OF EDUCATION

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2008</u>	<u>CASH RECEIVED JULY 1, 2008 TO JUNE 30, 2009</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2009</u>
<u>(21,863)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(21,863)</u>
2,385	11,800	9,415	-	-
14,621	14,621	-	-	-
<u>-</u>	<u>9,455</u>	<u>15,069</u>	<u>-</u>	<u>5,614</u>
<u>17,006</u>	<u>35,876</u>	<u>24,484</u>	<u>-</u>	<u>5,614</u>
8,043	8,043	-	-	-
<u>827</u>	<u>1,242</u>	<u>415</u>	<u>-</u>	<u>-</u>
<u>8,870</u>	<u>9,285</u>	<u>415</u>	<u>-</u>	<u>-</u>
(2,613)	-	-	-	(2,613)
10,903	12,466	1,563	-	-
(865)	938	2,513	-	710
<u>-</u>	<u>924</u>	<u>123</u>	<u>-</u>	<u>(801)</u>
<u>7,425</u>	<u>14,328</u>	<u>4,199</u>	<u>-</u>	<u>(2,704)</u>
2,308	9,660	6,999	-	(353)
-	26,660	31,306	-	4,646
<u>-</u>	<u>26</u>	<u>-</u>	<u>-</u>	<u>(26)</u>
<u>2,308</u>	<u>36,346</u>	<u>38,305</u>	<u>-</u>	<u>4,267</u>
13,862	-	-	-	13,862
27,351	50,242	22,752	-	(139)
(8,723)	172,515	179,872	-	(1,366)
<u>-</u>	<u>88,356</u>	<u>130,480</u>	<u>-</u>	<u>42,124</u>
<u>32,490</u>	<u>311,113</u>	<u>333,104</u>	<u>-</u>	<u>54,481</u>
<u>189,102</u>	<u>2,943,766</u>	<u>2,680,979</u>	<u>1,902</u>	<u>(71,783)</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2009

<u>GRANT NAME</u>	<u>CFDA NUMBER</u>	<u>MSDE/FEDERAL GRANT NUMBER</u>	<u>PROJECT PERIOD</u>	<u>TOTAL GRANT AWARD</u>
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
Learn and Serve America	94.004	701775-01	09/01/06 - 08/31/07	\$ 8,000
Learn and Serve America	94.004	801423-01	09/01/07 - 08/31/08	\$ 8,000
Learn and Serve America	94.004	900911-01	09/01/08 - 07/31/09	\$ 15,597
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
<u>DEPARTMENT OF HEALTH & HUMAN SERVICES</u>				
State Children's Insurance Program				
Medicaid	93.767	400121-01	07/01/03 - 06/30/04	\$ 15,000
Health Care Financing Administration				
Medicaid	93.778	930171	07/01/98 - 06/30/99	\$ 197,982
Medicaid	93.778	930267	07/01/98 - 06/30/99	\$ 1,078
Medicaid Funds	93.778	130293-01	07/01/00 - 06/30/01	\$ 10,000
Medicaid	93.778	500118-01	07/01/04 - 06/30/05	\$ 300,000
Medicaid	93.778	500144-01	07/01/04 - 06/30/05	\$ 20,000
Medicaid	93.778	600211-01	07/01/05 - 06/30/06	\$ 300,000
Medicaid	93.778	600239-01	07/01/05 - 06/30/06	\$ 20,000
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES				
<u>DEPARTMENT OF AGRICULTURE</u>				
Food Distribution				
USDA Commodities	10.550	N/A	07/01/07 - 06/30/08	N/A
Child Nutrition Cluster				
National School Lunch Program	10.555	SECTION 4	07/01/07 - 06/30/08	\$ 88,217
National School Lunch Program	10.555	SECTION 11	07/01/07 - 06/30/08	\$ 359,541
School Breakfast Program	10.553	SN BREAKFAST	07/01/07 - 06/30/08	\$ 117,719
National School Lunch Program	10.555	SECTION 4	07/01/08 - 06/30/09	\$ 96,030
National School Lunch Program	10.555	SECTION 11	07/01/08 - 06/30/09	\$ 425,074
School Breakfast Program	10.553	SN BREAKFAST	07/01/08 - 06/30/09	\$ 186,326
TOTAL DEPARTMENT OF AGRICULTURE				
TOTAL FEDERAL AWARDS				

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2008</u>	<u>CASH RECEIVED JULY 1, 2008 TO JUNE 30, 2009</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2009</u>
(1,200)	-	-	1,200	-
2,340	2,605	265	-	-
<u>-</u>	<u>4,889</u>	<u>7,087</u>	<u>-</u>	<u>2,198</u>
<u>1,140</u>		<u>7,352</u>	<u>1,200</u>	<u>2,198</u>
<u>(27,913)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,913)</u>
51,054	-	-	-	51,054
(3)	-	-	-	(3)
(76,368)	12,060	3,782	-	(84,646)
(164,128)	-	26,952	-	(137,176)
(5,270)	-	1,120	-	(4,150)
(69,428)	-	-	9,714	(59,714)
<u>(27,894)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,894)</u>
<u>(292,037)</u>	<u>12,060</u>	<u>31,854</u>	<u>9,714</u>	<u>(262,529)</u>
<u>(319,950)</u>	<u>12,060</u>	<u>31,854</u>	<u>9,714</u>	<u>(290,442)</u>
<u>-</u>	<u>42,859</u>	<u>42,859</u>	<u>-</u>	<u>-</u>
3,541	3,541	-	-	-
14,322	14,322	-	-	-
5,770	5,770	-	-	-
-	91,432	96,030	-	4,598
-	404,432	425,074	-	20,642
<u>-</u>	<u>176,366</u>	<u>186,326</u>	<u>-</u>	<u>-</u>
<u>23,633</u>	<u>695,863</u>	<u>707,430</u>	<u>-</u>	<u>35,200</u>
<u>23,633</u>	<u>738,722</u>	<u>750,289</u>	<u>-</u>	<u>35,200</u>
<u>\$ (436,092)</u>	<u>\$ 3,877,112</u>	<u>\$ 3,529,992</u>	<u>\$ 12,816</u>	<u>\$ (770,396)</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(1) Scope of audit pursuant to OMB Circular A-133

All federal award programs operated by the Board of Education of Talbot County, Maryland, are included in the scope of the OMB Circular A-133 audit. The single audit was conducted in accordance with the provisions of OMB Circular A-133, the OMB Compliance Supplement, and amendments by the Maryland State Department of Education. Compliance testing of all requirements, as described in the Compliance Supplement and Maryland State Department of Education amendments, was performed for the following major federal award programs.

<u>Program Description</u>	<u>CFDA Number</u>	<u>Fiscal Year 2009 Expenditure</u>
Special Education Cluster	84.027 & 84.173	\$ 1,407,684
Title I – Improving Teacher Quality	84.010	\$ 709,735
Improving Teacher Quality	84.367	\$ 333,104

The Maryland State Department of Education has been designated as the cognizant audit agency for the OMB Circular A-133 audit.

(2) Fiscal year audited

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2009. Single audit testing has previously been performed on transactions occurring during the fiscal year ended June 30, 2008.

(3) Summary of significant accounting policies

Basis of presentation - The accompanying Schedule of Expenditures of Federal Awards includes all federal grants of the Board which had financial activity during the fiscal year or accrued (deferred) grant revenue at June 30, 2009. This schedule has been prepared in accordance with accounting principles generally accepted in the United States of America.

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

(4) Funding sources

All programs reported in the schedule of expenditures of federal awards were passed through by the Maryland State Department of Education except the federal justice grant (CFDA #84.184), which was received directly from the U.S. Department of Education.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

(5) Findings of noncompliance

The potential reimbursement effects of any questioned costs/reimbursements relate to costs/receipts which were inappropriately charged/credited to federal award programs. The ultimate disposition of these findings rests with the cognizant agency.

(6) Revenue reconciliation

The following is a reconciliation of revenue recognized in the 2009 Schedule of Expenditures of Federal Awards with the revenue recognized in the 2009 basic financial statements.

Restricted current expense fund - U.S. government revenue	\$ 2,404,702
Food service fund - U.S. government revenue	750,290
Agency fund - Mid-shore special education consortium	<u>375,000</u>
 REVENUE RECOGNIZED ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	 <u>\$ 3,529,992</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2009

1. SUMMARY OF AUDITORS' FINDINGS

- i. An unqualified opinion was issued on the financial statements of the Board of Education of Talbot County, Maryland for the year ended June 30, 2009.
- ii. The audit did not disclose any significant deficiencies or material weaknesses in internal control.
- iii. The audit did not disclose any noncompliance which would be material to the financial statements of the Board.
- iv. The audit did not disclose any significant deficiencies or material weaknesses in internal control over major programs.
- v. An unqualified report was issued on compliance for major programs for the Board of Education of Talbot County, Maryland for the year ended June 30, 2009.
- vi. The compliance audit of the Board did not disclose any audit findings for the year ended June 30, 2009 which would be required to be reported as defined in Sub-Section .510(a) of OMB Circular A-133.
- vii. Major programs: Special Education Cluster, CFDA 84.027 and 84.173; Title I, CFDA 84.010; Improving Teach Quality, CFDA 84.367.
- viii. Dollar threshold to distinguish between Type A and Type B programs: \$300,000.
- ix. The Board qualified as a low-risk auditee for the year ended June 30, 2009.

2. FINDINGS RELATING TO THE FINANCIAL STATEMENTS

None disclosed

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None disclosed

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATUS OF PRIOR YEAR'S FINDINGS

Year Ended June 30, 2008

The compliance procedures applied to the fiscal year ended June 30, 2008 did not disclose any findings of noncompliance or questioned costs.