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August 29, 2006

Board Members
Board of Education of Talbot County, Maryland
Easton, Maryland

INDEPENDENT AUDITORS' REPORT

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, 2006, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland as of June 30, 2006, 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 August 29, 2006 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 5-16 and the budgetary comparison information on page 39 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 accompanying 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. These schedules and statements 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.

BEATTY, SATCHELL & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS

August 29, 2006

Board Members
Board of Education of Talbot County, Maryland
Easton, Maryland

**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**

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, 2006, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated August 29, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board Members
Board of Education of Talbot County, Maryland
August 29, 2006
Page 2

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.

BEATTY, SATCHELL & COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2006

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, 2006. Please read it in conjunction with the Board's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year (FY) ended June 30, 2006 include the following:

- Net assets total \$44,481,176, a decrease of \$321,477, or .72%, under the prior year.
- General Fund unreserved fund balance was \$210,085, after a reservation for encumbrances of \$327,999. The total fund balance was \$583,084, an increase of \$168,591 over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – independent auditor's reports, required supplementary information which includes management's discussion and analysis (this section) and the Schedule of Revenues, Expenditures and Encumbrances – Budget and Actual – General Fund and Restricted Grants, 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, 2006

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

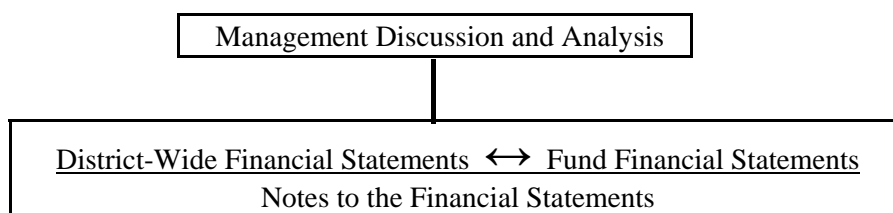


Figure 2 – Major Features of District-Wide and Fund Financial Statements

	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, 2006

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 at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

THE BOARD OF EDUCATION OF TALBOT COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006**

Fund Financial Statements - Continued

- *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.

FINANCIAL ANALYSIS OF THE BOARD AS A WHOLE

Net Assets

The Board's net assets were \$44,481,176 on June 30, 2006. This was a decrease of 0.72 percent from the prior year. (See Table 1).

	GOVERNMENTAL ACTIVITIES	
	2006	2005
<u>ASSETS</u>		
Current and Other Assets	\$ 6,386,668	\$ 6,169,954
Capital Assets	<u>44,158,549</u>	<u>44,880,164</u>
<i>TOTAL ASSETS</i>	<u>\$ 50,545,217</u>	<u>\$ 51,050,118</u>
<u>LIABILITIES</u>		
Current Liabilities	5,677,630	5,697,867
Long-Term Liabilities	<u>386,411</u>	<u>549,598</u>
<i>TOTAL LIABILITIES</i>	<u>\$ 6,064,041</u>	<u>\$ 6,247,465</u>
<u>NET ASSETS</u>		
Investment in Capital Assets, Net of Related Debt	\$ 43,942,577	\$ 44,536,029
Restricted	345,177	287,999
Unrestricted	<u>193,422</u>	<u>(21,375)</u>
<i>TOTAL NET ASSETS</i>	<u>\$ 44,481,176</u>	<u>\$ 44,802,653</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006**

Changes in Net Assets

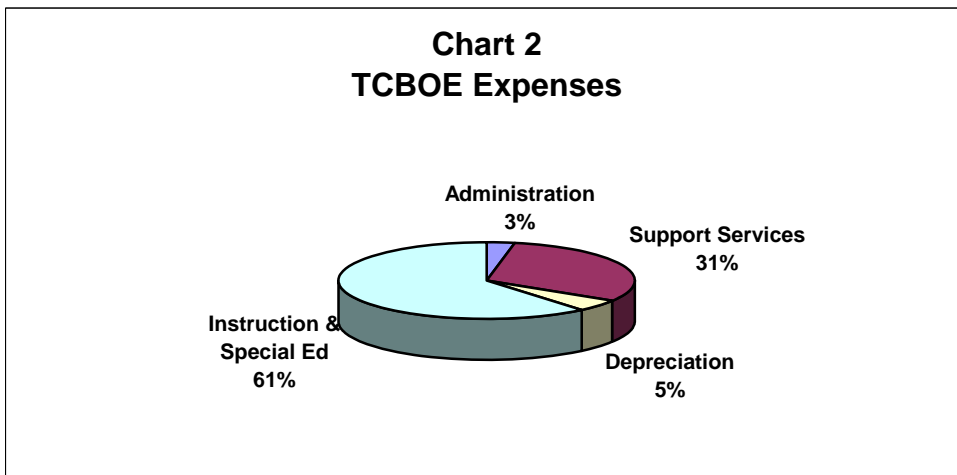
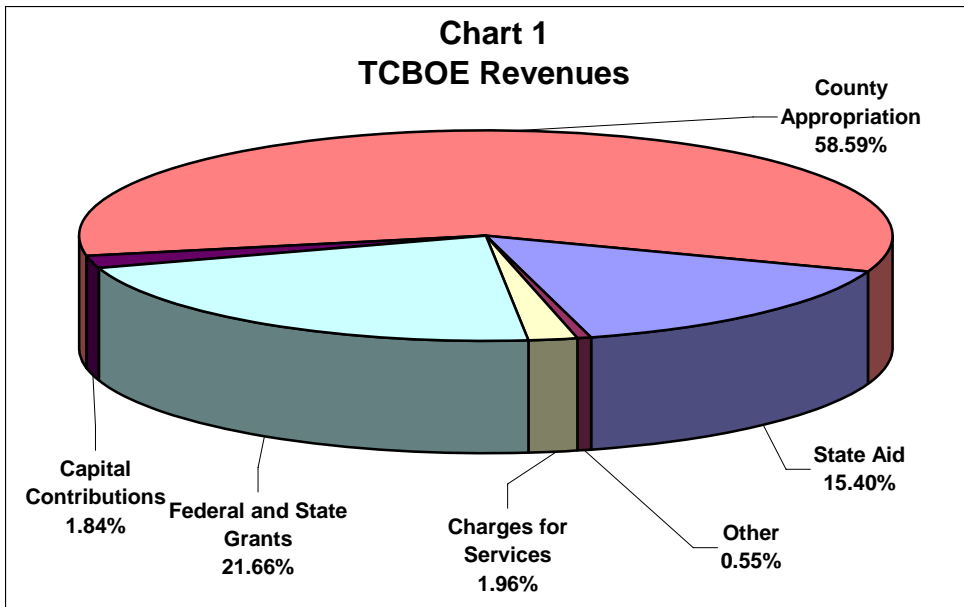
The Board's total revenues were \$47,612,795 for the year ended June 30, 2006. (See Table 2). The county appropriation and state formula aid accounted for approximately 75 percent of total revenue for the year. Another 25 percent came from program revenues, and the remainder from investment earnings. The total cost of all programs and services was \$47,854,695. The Board's expenses are predominantly related to providing direct educational services to students (52 percent). The purely administrative activities of the Board accounted for almost 3 percent of total expenses. Total expenses surpassed revenues, decreasing net assets \$241,900 under last year.

	GOVERNMENTAL	% OF	GOVERNMENTAL	% OF
	ACTIVITIES	TOTAL	ACTIVITIES	TOTAL
<u>REVENUES</u>				
	<u>2006</u>		<u>2005</u>	
<i>Program Revenues:</i>				
Charges for Services	\$ 933,774	1.96%	\$ 927,497	2.08%
Federal, State and Local Grants	10,312,428	21.66%	9,792,079	21.98%
Capital Contributions	874,998	1.84%	532,465	1.20%
<i>General Revenues:</i>				
County Appropriation	27,897,682	58.59%	26,359,842	59.15%
State of Maryland	7,331,834	15.40%	6,831,291	15.33%
Other	<u>262,079</u>	<u>0.55%</u>	<u>117,982</u>	<u>0.26%</u>
<i>TOTAL REVENUE</i>	<u>47,612,795</u>	<u>100.00%</u>	<u>44,561,156</u>	<u>100.00%</u>
<u>EXPENSES</u>				
Instruction and Special				
Education	28,984,534	60.57%	28,202,702	61.34%
Administration	1,326,031	2.77%	1,082,402	2.35%
Support Services	15,023,166	31.39%	14,212,926	30.91%
Depreciation	<u>2,520,964</u>	<u>5.27%</u>	<u>2,479,803</u>	<u>5.40%</u>
<i>TOTAL EXPENSES</i>	<u>47,854,695</u>	<u>100.00%</u>	<u>45,977,833</u>	<u>100.00%</u>
<i>EXCESS OF EXPENSES OVER REVENUES</i>	<u>(241,900)</u>		<u>(1,416,677)</u>	
Transfer of Unreserved				
Fund Balance to County	<u>(79,577)</u>		<u>(11,027)</u>	
<i>DECREASE IN NET ASSETS</i>	<u>\$ (321,477)</u>		<u>\$ (1,427,704)</u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

Governmental Activities

The decrease in net assets for governmental activities was \$321,477 in 2006.



THE BOARD OF EDUCATION OF TALBOT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

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 \$883,261, an increase of \$225,769 over last year's ending fund balance.

Revenues for the Board's governmental funds were \$47,612,795, an increase of \$3,051,639 from last year. Total expenditures were \$47,307,449 for the year, an increase of \$2,776,121 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, 2006**

Table 4

	<u>GENERAL FUND</u>		<u>INCREASE (DECREASE)</u>	<u>PERCENT INCREASE (DECREASE)</u>
	<u>FISCAL YEAR 2006</u>	<u>FISCAL YEAR 2005</u>		
<u>REVENUES</u>				
Talbot County Appropriations	\$ 29,938,812	\$ 28,401,677	\$ 1,537,135	5.41%
State of Maryland	9,238,911	8,520,209	718,702	8.44%
State of Maryland Share of Retirement and Pension Contribution	2,150,165	2,034,542	115,623	5.68%
Other	<u>274,150</u>	<u>147,677</u>	<u>126,473</u>	<u>85.64%</u>
<i>TOTAL REVENUES</i>	<u>41,602,038</u>	<u>39,104,105</u>	<u>2,497,933</u>	<u>6.39%</u>
<u>EXPENDITURES</u>				
Administration	900,933	851,004	49,929	5.87%
Mid-Level Administration	3,146,071	2,932,427	213,644	7.29%
Instructional Salaries	16,292,484	15,698,600	593,884	3.78%
Instructional Texts and Supplies	747,166	598,447	148,719	24.85%
Other Instruction Costs	383,705	320,431	63,274	19.75%
Special Education	2,510,898	2,420,232	90,666	3.75%
Student Personnel Services	161,957	135,011	26,946	19.96%
Student Transportation	1,707,896	1,565,629	142,267	9.09%
Operation of Plant and Equipment	3,078,207	2,846,750	231,457	8.13%
Maintenance of Plant	823,043	794,408	28,635	3.60%
Fixed Charges	7,410,215	6,817,748	592,467	8.69%
Debt Service	2,041,130	2,041,835	(705)	(0.03%)
State of Maryland Share of Retirement and Pension Contribution	<u>2,150,165</u>	<u>2,034,542</u>	<u>115,623</u>	<u>5.68%</u>
<i>TOTAL EXPENDITURES</i>	<u>41,353,870</u>	<u>39,057,064</u>	<u>2,296,806</u>	<u>5.88%</u>
<i>EXCESS OF REVENUES OVER EXPENDITURES</i>	<u>\$ 248,168</u>	<u>\$ 47,041</u>	<u>\$ 201,127</u>	<u>427.56%</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

Table 5

	<u>RESTRICTED GRANT REVENUE</u>			
	<u>FISCAL YEAR</u> <u>2006</u>	<u>FISCAL YEAR</u> <u>2005</u>	<u>INCREASE</u>	<u>PERCENT</u> <u>INCREASE</u>
Federal Through State	\$ 2,489,482	\$ 2,464,635	\$ 24,847	1.01%
State of Maryland	580,827	494,963	85,864	17.35%
Other	<u>428,367</u>	<u>362,667</u>	<u>65,700</u>	<u>18.12%</u>
<i>TOTAL REVENUES</i>	<u>\$ 3,498,676</u>	<u>\$ 3,322,265</u>	<u>\$ 176,411</u>	<u>5.31%</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 2006, the Board received county proceeds of \$637,244.

Fiduciary Fund

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, 2006 were \$691,209.
- (2) School Activities Accounts: During Fiscal Year 2006, 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.

THE BOARD OF EDUCATION OF TALBOT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

Table 6

	<u>SCHOOL ACTIVITIES FUND</u>		PERCENT	
	FISCAL YEAR 2006	FISCAL YEAR 2005	INCREASE (DECREASE)	INCREASE (DECREASE)
Cash Receipts	\$ 1,011,334	\$ 936,044	\$ 75,290	8.04%
Cash Expenditures	(954,268)	(887,099)	67,169	7.57%
Beginning Cash Balances	<u>324,798</u>	<u>275,853</u>	<u>48,945</u>	<u>17.74%</u>
<i>ENDING CASH BALANCES</i>	<u>\$ 381,864</u>	<u>\$ 324,798</u>	<u>\$ 57,066</u>	<u>17.57%</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

The actual General Fund revenues exceeded the budget by \$202,989. Actual expenditures and encumbrances were under budget by \$7,056. The originally adopted budget was amended two times during the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

By the end of fiscal 2006, the Board had invested \$80 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 C to the financial statements). Total depreciation expense for the year exceeded \$2.5 million.

Long-Term Liabilities

At year-end, the Board has \$560,634 in long-term debt. This amount consists of the following:

- \$341,076 due to Maryland State Retirement and Pension System.
- \$219,558 in Notes Payable.
- See Footnote F for more details.

THE BOARD OF EDUCATION OF TALBOT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

FACTORS BEARING ON THE BOARD'S FUTURE

- 1) The fiscal year 2007 operating budget contains an average compensation increase for all employees of 4.5%, including step.
- 2) Recently passed federal legislation known as **No Child Left Behind** is projected to significantly impact the way all school systems do business. Some of the major changes required by the legislation that will ultimately affect the Board include:
 - Stronger accountability for results, including required assessments of all students with the goal to have all students reaching proficient levels of achievement by fiscal year 2014.
 - Expanded options and public school choice for parents of eligible students for any Title I schools not making adequate yearly progress for two consecutive years.
 - Requirement that by December 2006 all paraprofessionals (instructional assistants) must:
 - a. complete at least two years of study at an institution of higher education;
 - b. obtain an associate's degree or higher; or
 - c. meet a rigorous standard of quality established at the local level, which includes an assessment of math, reading and writing.
 - Providing local school boards flexibility and consolidation of federal dollars to other federal education programs to address needs and priorities.
 - All teachers must be Highly Qualified based on NCLB definitions that are related to, but not fully congruent with, state certification. All paraprofessionals must be Highly Qualified through testing or college course work. These requirements are reflected in the Bridge to Excellence Master Plan, including,
 - a. 3.3.a. (p.I-74) "Provide information... to achieve system-wide HQ status." Strategies include researching and maintaining of teacher records, advising individual teachers of HQ requirements, assessing annually teacher assignments for HQ implications, etc.
 - b. 3.3.B. (p. I-75) "Utilize...practices to ensure full compliance with HQ regulations (for support staff)." Strategies include formulating individual professional development plans, transfers of non-compliant staff, provide information for ParaPro and appropriate college courses, etc.
 - All students in grades three through eight and high school must be tested annually in reading and mathematics as required by NCLB. All students in the aggregate and by federally defined sub-groups must meet Adequate Yearly Progress (AYP) toward 100% proficiency or face sanctions.
- 3) The General Assembly enacted Senate Bill 894 (Education Fiscal Accountability and Oversight Act of 2004). This bill establishes procedures to ensure fiscal accountability of local school systems by requiring bi-annual financial reports, prohibiting school deficits, and providing for regular legislative audits. Failure to comply with certain accountability procedures would result in the withholding of state education funding.

THE BOARD OF EDUCATION OF TALBOT COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006

FACTORS BEARING ON THE BOARD'S FUTURE – Continued

- 4) The Bridge to Excellence in Public Schools Act restructured Maryland's public school finance system in fiscal year 2003, and it is projected to provide State aid to public schools of \$1.3 billion over the following five fiscal years. The Act included the following:
 - a) In fiscal 2004, the State eliminated 23 existing State aid programs and began to phase out four other existing programs.
 - b) Local school systems must implement full-day kindergarten programs by fiscal year 2008. Talbot County Public Schools already have full-day kindergarten programs in the primary schools.
 - c) Local school systems are provided maximum flexibility in spending resources; however, each local school system must develop a five-year comprehensive master plan providing for improvements in student achievement for every segment of the student population.

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.

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, 2006****ASSETS****GOVERNMENTAL
ACTIVITIES**

Cash		\$ 5,778,043
Due from Other Units of Government		406,183
Other Receivables		187,650
Inventory		14,792
Capital Assets:		
Construction-in-Progress	1,167,166	
Land, Buildings and Improvements	64,588,333	
Furniture, Fixtures and Equipment	14,247,225	
Less: Accumulated Depreciation	<u>(35,844,175)</u>	
<i>Total Capital Assets, Net of Depreciation</i>		<u>44,158,549</u>
<i>TOTAL ASSETS</i>		<u>50,545,217</u>

LIABILITIES AND NET ASSETS*Liabilities:*

Accounts Payable		255,088
Accrued Expenditures		3,313,122
Payroll Deductions and Withholdings		269,393
Due to Mid-Shore Education Consortium		21,476
Deferred Revenue		1,399,907
Compensated Absences		244,421
Long-Term Debt:		
Portion Due or Payable Within One Year:		
Notes Payable	140,558	
Maryland State Retirement and Pension System	<u>33,665</u>	174,223
Portion Due or Payable After One Year:		
Notes Payable	79,000	
Maryland State Retirement and Pension System	<u>307,411</u>	<u>386,411</u>
<i>TOTAL LIABILITIES</i>		<u>6,064,041</u>

Net Assets:

Investment in Capital Assets, Net of Related Debt		43,942,577
Restricted for Food Service Operations		342,818
Restricted for Capital Projects		2,359
Unrestricted		<u>193,422</u>
<i>TOTAL NET ASSETS</i>		<u>44,481,176</u>
<i>TOTAL LIABILITIES AND NET ASSETS</i>		<u>\$ 50,545,217</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
GOVERNMENTAL ACTIVITIES					
Administration	\$ 1,164,074	\$ -	\$ -	\$ -	\$ (1,164,074)
Instructional Services	21,782,188	-	3,722,729	-	(18,059,459)
Special Education	3,209,065	-	562,435	-	(2,646,630)
Student Personnel Services	161,957	-	-	-	(161,957)
Student Transportation	1,825,599	-	1,120,589	-	(705,010)
Operation of Plant	3,126,018	-	-	-	(3,126,018)
Maintenance of Plant	803,550	12,071	-	-	(791,479)
Fixed Charges	7,817,405	-	-	-	(7,817,405)
Capital Outlay	82,632	-	-	874,998	792,366
Food Service Operations	1,593,952	921,703	715,380	-	43,131
Debt Service	2,041,130	-	2,041,130	-	-
State of Maryland – On Behalf Pension Payments	2,150,165	-	2,150,165	-	-
Interest on Long-Term Debt	5,270	-	-	-	(5,270)
Depreciation – Unallocated	2,091,690	-	-	-	(2,091,690)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 47,854,695	\$ 933,774	\$ 10,312,428	\$ 874,998	\$ (35,733,495)

GENERAL REVENUES

Talbot County Appropriations	27,897,682
State of Maryland	7,331,834
Unrestricted Investment Earnings	207,222
Other Revenue	54,857

TOTAL GENERAL REVENUES 35,491,595

TRANSFERS

Refund of Prior Year Unreserved Fund Balance to Talbot County	(79,577)
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TOTAL GENERAL REVENUES & TRANSFERS 35,412,018

CHANGE IN NET ASSETS (321,477)

NET ASSETS AT JULY 1, 2005 44,802,653

NET ASSETS AT JUNE 30, 2006 \$ 44,481,176

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2006

	<u>MAJOR FUNDS</u>		<u>NON-MAJOR FUNDS</u>		<u>TOTAL</u>	<u>TOTAL</u>
	<u>GENERAL</u>	<u>RESTRICTED</u>	<u>CAPITAL</u>	<u>FOOD</u>	<u>NON MAJOR</u>	<u>GOVERNMENTAL</u>
		<u>GRANTS</u>	<u>PROJECTS</u>	<u>SERVICES</u>	<u>FUNDS</u>	<u>FUNDS</u>
<u>ASSETS</u>						
Cash	\$ 5,402,433	\$ -	\$ -	\$ 375,610	\$ 375,610	\$ 5,778,043
Due from Other Governments:						
Talbot County	25,304	-	4,205	-	4,205	29,509
State of Maryland	-	41,281	-	2,470	2,470	43,751
United States Government	-	322,683	-	10,240	10,240	332,923
Due from Other Funds	1,135	1,038,313	2,147	-	2,147	1,041,595
Other Receivables	30,473	157,177	-	-	-	187,650
Inventory	-	-	-	14,792	14,792	14,792
<i>TOTAL ASSETS</i>	<u>\$ 5,459,345</u>	<u>\$ 1,559,454</u>	<u>\$ 6,352</u>	<u>\$ 403,112</u>	<u>\$ 409,464</u>	<u>\$ 7,428,263</u>
<u>LIABILITIES AND FUND BALANCES</u>						
<i>Liabilities:</i>						
Accounts Payable	\$ 227,088	\$ 28,000	\$ -	\$ -	\$ -	\$ 255,088
Accrued Expenditures	3,094,460	167,464	-	51,198	51,198	3,313,122
Payroll Deductions and Withholdings	269,393	-	-	-	-	269,393
Due to Mid-Shore Education Consortium	21,476	-	-	-	-	21,476
Due to Other Funds	1,040,460	-	-	1,135	1,135	1,041,595
Deferred Revenue	23,963	1,363,990	3,993	7,961	11,954	1,399,907
Compensated Absences	244,421	-	-	-	-	244,421
<i>TOTAL LIABILITIES</i>	<u>4,921,261</u>	<u>1,559,454</u>	<u>3,993</u>	<u>60,294</u>	<u>64,287</u>	<u>6,545,002</u>
<i>Fund Balances:</i>						
Reserved for Fund Purposes	-	-	2,359	-	2,359	2,359
Reserved for Inventory	-	-	-	6,831	6,831	6,831
Reserved for Encumbrances	327,999	-	-	-	-	327,999
Unreserved	210,085	-	-	335,987	335,987	546,072
<i>TOTAL FUND BALANCES</i>	<u>538,084</u>	<u>-</u>	<u>2,359</u>	<u>342,818</u>	<u>345,177</u>	<u>883,261</u>
<i>TOTAL LIABILITIES AND FUND BALANCES</i>	<u>\$ 5,459,345</u>	<u>\$ 1,559,454</u>	<u>\$ 6,352</u>	<u>\$ 403,112</u>	<u>\$ 409,464</u>	<u>\$ 7,428,263</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 BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS \$ 883,261

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	80,002,724
Less: Accumulated Depreciation	(35,844,175)

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:

Notes Payable	219,558
Maryland State Retirement and Pension System	<u>341,076</u>

Total Long-Term Liabilities (560,634)

TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES **\$ 44,481,176**

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>MAJOR FUNDS</u>		<u>NON-MAJOR FUNDS</u>		<u>TOTAL</u>	<u>TOTAL</u>
	<u>GENERAL</u>	<u>RESTRICTED GRANTS</u>	<u>CAPITAL PROJECTS</u>	<u>FOOD SERVICES</u>	<u>NON-MAJOR FUNDS</u>	<u>GOVERNMENTAL FUNDS</u>
<u>REVENUES</u>						
Talbot County	\$ 29,938,812	\$ -	\$ 637,244	\$ -	\$ 637,244	\$ 30,576,056
State of Maryland	9,238,911	580,827	237,754	80,854	318,608	10,138,346
State of Maryland – On Behalf Payments	2,150,165	-	-	-	-	2,150,165
United States Government	-	2,489,482	-	634,526	634,526	3,124,008
Other Sources:						
Food Service Sales	-	-	-	921,703	921,703	921,703
Interest Earned	207,222	-	-	-	-	207,222
Other	66,928	428,367	-	-	-	495,295
<i>TOTAL REVENUES</i>	<u>41,602,038</u>	<u>3,498,676</u>	<u>874,998</u>	<u>1,637,083</u>	<u>2,512,081</u>	<u>47,612,795</u>
<u>EXPENDITURES</u>						
Current:						
Administration	900,933	262,248	893	-	893	1,164,074
Mid-Level Administration	3,146,071	165,249	-	-	-	3,311,320
Instructional Salaries	16,292,484	922,279	-	-	-	17,214,763
Instructional Texts and Supplies	747,166	348,310	-	-	-	1,095,476
Other Instructional Costs	383,705	546,838	-	-	-	930,543
Special Education	2,510,898	698,167	-	-	-	3,209,065
Student Personnel Service	161,957	-	-	-	-	161,957
Student Transportation	1,707,896	60,618	-	-	-	1,768,514
Operation of Plant	3,078,207	47,811	-	-	-	3,126,018
Maintenance of Plant	823,043	7,904	-	-	-	830,947
Fixed Charges	7,410,215	439,252	-	-	-	7,849,467
Capital Outlay	-	-	874,105	-	874,105	874,105
Food Service Operating Expenditures	-	-	-	1,579,905	1,579,905	1,579,905
Debt Service	2,041,130	-	-	-	-	2,041,130
Pension – On Behalf Payments	2,150,165	-	-	-	-	2,150,165
<i>TOTAL EXPENDITURES</i>	<u>41,353,870</u>	<u>3,498,676</u>	<u>874,998</u>	<u>1,579,905</u>	<u>2,454,903</u>	<u>47,307,449</u>
<i>EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES</i>	248,168	-	-	57,178	57,178	305,346
<u>OTHER FINANCING USES</u>						
Refund of Prior Year Fund Balance to Talbot County	(79,577)	-	-	-	-	(79,577)
<i>NET CHANGE TO FUND BALANCE</i>	168,591	-	-	57,178	57,178	225,769
<u>FUND BALANCES AT JULY 1, 2005</u>	<u>369,493</u>	<u>-</u>	<u>2,359</u>	<u>285,640</u>	<u>287,999</u>	<u>657,492</u>
<u>FUND BALANCES AT JUNE 30, 2006</u>	<u>\$ 538,084</u>	<u>\$ -</u>	<u>\$ 2,359</u>	<u>\$ 342,818</u>	<u>\$ 345,177</u>	<u>\$ 883,261</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
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

TOTAL NET CHANGE IN FUND BALANCES – GOVERNMENTAL FUNDS \$ 225,769

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	1,799,349
Depreciation Expense	(2,520,964)

Repayment of long-term debt is reported as an expenditure 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 Payable	142,307
Maryland State Retirement and Pension System	<u>32,062</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (321,477)

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND**STATEMENT OF FIDUCIARY NET ASSETS****JUNE 30, 2006**

	<u>AGENCY FUNDS</u>			
	<u>PRIVATE PURPOSE TRUST FUND</u>	<u>MID-SHORE SPECIAL EDUCATION CONSORTIUM</u>	<u>SCHOOL ACTIVITIES FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>				
Cash	\$ 1,849	\$ 591,798	\$ 381,864	\$ 975,511
Due from State	-	77,935	-	77,935
Due from Other Funds	-	21,476	-	21,476
<i>TOTAL ASSETS</i>	<u>\$ 1,849</u>	<u>\$ 691,209</u>	<u>\$ 381,864</u>	<u>\$ 1,074,922</u>
<u>LIABILITIES</u>				
Accounts Payable	\$ -	\$ 7,720	\$ -	\$ 7,720
Accrued Expenses	-	172,752	-	172,752
Funds Held for School Activities	-	-	381,864	381,864
Deferred Revenue	1,849	510,737	-	512,586
<i>TOTAL LIABILITIES</i>	<u>\$ 1,849</u>	<u>\$ 691,209</u>	<u>\$ 381,864</u>	<u>\$ 1,074,922</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

JUNE 30, 2006

NOTE A – 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 which 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus, Basis Of Accounting And Financial Statement Presentation – Continued

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.

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 governmental funds:

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 special revenue 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.

Non-Major Funds

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.

Food Service 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).

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus, Basis Of Accounting And Financial Statement Presentation – Continued

The Board also reports the following fiduciary fund types:

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.

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 is 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 type 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).

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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.

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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, 2006 consist of the following:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General Fund	\$ 1,135	\$ 1,040,460
Restricted	1,038,313	-
Capital Projects Fund	2,147	-
Food Service	<u>-</u>	<u>1,135</u>
TOTAL	<u>\$ 1,041,595</u>	<u>\$ 1,041,595</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.

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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 statement. 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 For Fringe Benefits

On-Behalf Payments for Fringe Benefits represents the pension contribution by the State of Maryland to the state retirement system (Note D) for applicable employees of the Board.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE B – DEPOSITS AND INVESTMENTS

Deposits

At year-end, the Board’s carrying amount of deposits was \$983,576, and the bank balance was \$992,445. Of the bank balance, \$365,021 was insured by federal depository insurance. In addition, the Board had \$500 cash on hand for petty cash at June 30, 2006.

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$632,183 of the government’s bank balance of \$992,445 was exposed to custodial credit risk because it was uninsured by FDIC and fully collateralized by securities held by the pledging financial institution’s trust department or agent, but not in the Board’s name.

Investments

At June 30, 2006, the Board’s investment balances by type and maturity were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		<u>Interest Rate at June 30</u>
		<u>Less than 1</u>	<u>1 - 5</u>	
Repurchase Agreements	\$ 5,769,478	-	\$ 5,769,478	1.9% - 4%

Reconciliation of cash and investments as shown on Statement of Net Assets:

Cash on Hand	\$ 500
Carrying Amount of Deposits	983,576
Carrying Amount of Investments (above)	<u>5,769,478</u>
<i>Total Cash and Investments</i>	6,753,554
Less: Amounts in Fiduciary Funds	<u>(975,511)</u>
Total Cash and Investments per Statement of Net Assets	<u>\$ 5,778,043</u>

Investment Rate Risk: Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Board’s exposure to fair value losses arising from increasing interest rates, the Board does not allow investments other than deposits at Talbot Bank.

Credit Risk: Talbot County Public Schools investment policy does not permit investments in commercial paper or corporate bonds unless permitted under state law.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE B – DEPOSITS AND INVESTMENTS - Continued

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the bank, the Board will not be able to recover all or a portion of the value of its repurchase agreements that are in the possession of the bank. For the Board's \$5,769,478 in repurchase agreements, \$6,848,283 of underlying securities were held by Talbot Bank and pledged to the Board's account.

Foreign Currency Risk: The investment policy for the fiduciary trust funds does not permit investments in foreign currency denominated investments.

NOTE C – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 377,446	\$ -	\$ -	\$ 377,446
Construction in Progress	<u>618,238</u>	<u>548,928</u>	<u>-</u>	<u>1,167,166</u>
<i>Total Capital Assets Not Being Depreciated</i>	<u>995,684</u>	<u>548,928</u>	<u>-</u>	<u>1,544,612</u>
<i>Capital Assets Being Depreciated:</i>				
Buildings	\$ 62,368,362	\$ 118,760	\$ -	\$ 62,487,122
Land Improvements	1,590,765	133,000	-	1,723,765
Furniture, Equipment And Vehicles	<u>13,465,775</u>	<u>998,661</u>	<u>(217,211)</u>	<u>14,247,225</u>
<i>Total Capital Assets Being Depreciated</i>	<u>77,424,902</u>	<u>1,250,421</u>	<u>(217,211)</u>	<u>78,458,112</u>

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006****NOTE C – CAPITAL ASSETS - Continued**

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 21,662,615	\$ 1,470,454	\$ -	\$ 23,133,069
Land Improvements	680,673	114,933	-	795,606
Furniture, Equipment and Vehicles	<u>11,197,134</u>	<u>935,577</u>	<u>(217,211)</u>	<u>11,915,500</u>
 <i>Total Accumulated Depreciation</i>	 <u>33,540,422</u>	 <u>2,520,964</u>	 <u>(217,211)</u>	 <u>35,844,175</u>
 <i>Total Capital Assets Being Depreciated, Net</i>	 <u>43,884,480</u>	 <u>(1,270,543)</u>	 <u>\$ -</u>	 <u>42,613,937</u>
 <i>GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET</i>	 <u>\$ 44,880,164</u>	 <u>\$ (721,615)</u>	 <u>\$ -</u>	 <u>\$ 44,158,549</u>

Depreciation expense for the year ended June 30, 2006 was charged to governmental functions as follows:

<u>Support Services</u>	
Instructional Services	\$ 198,014
Student Transportation	204,662
Food Services	26,598
Unallocated	<u>2,091,690</u>
 <i>TOTAL</i>	 <u><u>\$ 2,520,964</u></u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND**NOTES TO FINANCIAL STATEMENTS****JUNE 30, 2006****NOTE D – 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

Members of the retirement system entering on or after July 1, 1973 are required to contribute 5% of earnable compensation; members before that date contribute the lesser of 5% of earnable compensation or the percentage they were contributing prior to July 1, 1973. Members of the pension system are required to make contributions of 5% of earnable compensation in excess of the taxable wage base under FICA. Members of the contributory pension are required to contribute 2% of earnable compensation. The Board is required to contribute at an actuarially determined rate. The current rate is 9.35% of covered compensation for teachers and 5.76% for classified employees. An additional 5% on all retirement system members' payroll is required. The contribution requirements of plan members and the Board are established, and may be amended, by the SRPS Board of Trustees.

Employer's Payroll And Contributions Under The Plans

The employer's current year payroll for the years ended June 30, 2006, 2005, and 2004, payroll covered under the various state plans, and contributions paid are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total Payroll	\$ 27,572,329	\$ 26,702,551	\$ 26,435,923
Payroll Covered Under the Plans	\$ 26,117,452	\$ 25,394,973	\$ 25,209,996
Contributions Paid In:			
Board Payments	\$ 652,868	\$ 425,201	\$ 392,506
State On-Behalf Payments	\$ 2,150,165	\$ 2,034,542	\$ 2,025,143

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE D – PENSION PLANS - Continued

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 2006 payment was \$32,062. See Note F for the remaining years’ payment stream. The payments reflect a pattern which increases by 5% per year for the next 30 years.

NOTE E – DEFERRED REVENUE

Deferred revenue consists of federal and state grants and other revenues that have not been expended by June 30, 2006. Deferred revenue at June 30, 2006 consists of the following:

Restricted Federal, Maryland and Other Grant Programs	\$ 1,363,990
USDA Commodities	7,961
Other Sources	<u>27,956</u>
<i>TOTAL DEFERRED REVENUE</i>	<u>\$ 1,399,907</u>

NOTE F – 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 paid by Talbot County was \$2,041,130 for the year ended June 30, 2006 for bond obligations.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE F – LONG -TERM LIABILITIES – Continued

The Board’s long-term debt at June 30, 2006 consists of the following:

Notes Payable

Note Payable to Queenstown Bank of Maryland; Principal and Interest Payments of \$6,166.74 are Payable Monthly Through July 15, 2008; Interest is Payable at 2.56% Per Annum; Collateralized by Equipment	\$ 149,992
Note Payable to Talbot Bank; Principal and Interest Payments of \$1,217 are Payable Monthly Through September 7, 2006; Interest is Payable at 4.05% Per Annum; Unsecured	3,585
Note Payable to Talbot County, Maryland; Final Payment Due Fiscal Year 2007; Collateralized by School Buses	<u>65,981</u>
<i>TOTAL NOTES PAYABLE</i>	<u>\$ 219,558</u>

Aggregate maturities of long-term notes payable at June 30, 2006 are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$140,558	\$ 3,029	\$ 143,587
2008	72,831	1,170	74,001
2009	<u>6,169</u>	<u>13</u>	<u>6,182</u>
<i>TOTAL</i>	<u>\$ 219,558</u>	<u>\$ 4,212</u>	<u>\$ 223,770</u>

State Retirement System

State Retirement and Pension System of Maryland (Note D, Funding Status); Payable Annually Through December, 2035	<u>\$ 341,076</u>
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BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE F – LONG -TERM LIABILITIES – Continued

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

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 33,665
2008	35,348
2009	37,115
2010	38,971
2011	40,920
2012	42,966
2013 – 2017	249,283
2018 – 2022	318,156
2023 – 2027	406,056
2028 – 2032	518,242
2033 – 2036	<u>515,926</u>
<i>Total Principal and Interest</i>	\$ 2,236,648
Less Amount Representing Interest	<u>(1,895,572)</u>
<i>LIABILITY AS OF JUNE 30, 2006</i>	<u>\$ 341,076</u>

The changes in long-term liabilities for the year ended June 30, 2006 are as follows:

	<u>STATE RETIREMENT SYSTEM</u>	<u>NOTES PAYABLE</u>	<u>TOTAL</u>
Balance at June 30, 2005	\$ 373,138	\$ 361,865	\$ 735,003
Additions	-	-	-
Payments	<u>(32,062)</u>	<u>(142,307)</u>	<u>(174,369)</u>
Balance at June 30, 2006	<u>\$ 341,076</u>	<u>\$ 219,558</u>	<u>\$ 560,634</u>

NOTE G – 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE G – BUDGET RECONCILIATION - Continued

	<u>GENERAL FUND</u>	<u>RESTRICTED GRANTS FUND</u>
<u>REVENUES</u>		
Non-GAAP Budgetary Basis	\$ 37,410,743	\$ 3,517,388
Net Encumbrance Adjustment	-	(18,712)
Debt Service Paid by Talbot County, MD	2,041,130	-
State of Maryland – On Behalf Payments	<u>2,150,165</u>	<u>-</u>
<i>GAAP BASIS</i>	<u>\$ 41,602,038</u>	<u>\$ 3,498,676</u>
<u>EXPENDITURES</u>		
Non-GAAP Budgetary Basis	\$ 37,200,698	\$ 3,517,388
Net Encumbrance Adjustment	(38,123)	(18,712)
Debt Service Paid by Talbot County, MD	2,041,130	-
State of Maryland – On Behalf Payments	<u>2,150,165</u>	<u>-</u>
<i>GAAP BASIS</i>	<u>\$ 41,353,870</u>	<u>\$ 3,498,676</u>

NOTE H – 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, 2006, MABE had total fund equity of approximately \$25.7 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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE H – RISK MANAGEMENT - Continued

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.

NOTE I – COMMITMENTS

The Board had the following construction projects in progress as of June 30, 2006:

St. Michaels Complex: The board is in the process of renovating this complex. The approved budget for this project is \$31.7 million; \$6.8 million from the State and \$24.9 million from local sources. The project is expected to take thirty-eight months starting July 10, 2006.

NOTE J – SUBSEQUENT EVENTS

The Board has contracted with Horizon Philanthropic Consulting for the purpose of engaging in fundraising activities related to the 1 to 1 laptop program. It is expected that their efforts will raise \$1.2 million during fiscal year 2007, at an estimated cost of approximately \$144,000.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES –
BUDGET AND ACTUAL – GENERAL FUND AND RESTRICTED GRANTS
FOR THE YEAR ENDED JUNE 30, 2006

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE – FAVORABLE (UNFAVORABLE)
<u>REVENUES</u>				
Talbot County	\$ 27,897,682	\$ 27,897,682	\$ 27,897,682	\$ -
State of Maryland	9,225,072	9,225,072	9,238,911	13,839
United States Government	-	-	-	-
Other Sources:				
Interest Earned	45,000	45,000	207,222	162,222
Other	40,000	40,000	66,928	26,928
<i>TOTAL REVENUES</i>	<u>37,207,754</u>	<u>37,207,754</u>	<u>37,410,743</u>	<u>202,989</u>
<u>EXPENDITURES AND ENCUMBRANCES</u>				
Administration	890,065	900,640	900,518	122
Mid-Level Administration	3,130,326	3,130,326	3,129,929	397
Instructional Salaries	16,353,293	16,284,937	16,283,983	954
Instructional Texts and Supplies	701,933	701,933	701,914	19
Other Instructional Costs	394,726	394,726	393,415	1,311
Special Education	2,458,833	2,511,515	2,510,761	754
Student Personnel Services	150,853	150,853	150,355	498
Student Transportation	1,554,104	1,709,850	1,707,875	1,975
Operation of Plant	3,015,716	3,092,500	3,092,361	139
Maintenance of Plant	884,044	907,044	906,753	291
Fixed Charges	7,673,861	7,423,430	7,422,834	596
<i>TOTAL EXPENDITURES AND ENCUMBRANCES</i>	<u>37,207,754</u>	<u>37,207,754</u>	<u>37,200,698</u>	<u>7,056</u>
<i>EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 210,045</u>	<u>\$ 210,045</u>

RESTRICTED GRANTS

<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE – FAVORABLE (UNFAVORABLE)</u>
\$ -	\$ -	\$ -
628,581	502,338	(126,243)
3,637,694	2,527,410	(1,110,284)
-	-	-
<u>750,441</u>	<u>487,640</u>	<u>(262,801)</u>
<u>5,016,716</u>	<u>3,517,388</u>	<u>(1,499,328)</u>
328,259	262,248	66,011
97,005	107,148	(10,143)
1,118,920	977,738	141,182
388,366	343,375	44,991
917,200	552,663	364,537
1,422,779	686,338	736,441
-	-	-
100,637	60,618	40,019
24,560	46,236	(21,676)
91,130	41,772	49,358
<u>527,860</u>	<u>439,252</u>	<u>88,608</u>
<u>5,016,716</u>	<u>3,517,388</u>	<u>1,499,328</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

COUNTY FUNDS

Current Appropriations	\$ 27,897,682	
Debt Service	<u>2,041,130</u>	
<i>Total County Funds</i>		\$ 29,938,812

STATE OF MARYLAND FUNDS

Current Expenses	5,168,745	
Compensatory Education	1,869,904	
Transportation	1,120,589	
Students with Disabilities – Formula	562,435	
Extended Elementary Education Program	275,320	
Limited English Proficient	224,053	
Out of County Living	<u>17,865</u>	
<i>Total State of Maryland Funds</i>		9,238,911

STATE OF MARYLAND – ON BEHALF PAYMENTS 2,150,165

OTHER SOURCES

Out of County Living	53,584	
Interest Earned	207,222	
School Rentals	12,071	
Other	<u>1,273</u>	
<i>Total Other Sources</i>		<u>274,150</u>

TOTAL REVENUES **\$ 41,602,038**

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
SCHOOL ACTIVITIES FUND (AGENCY FUND)
FOR THE YEAR ENDED JUNE 30, 2006

	<u>CASH</u> <u>JUNE 30,</u> <u>2005</u>	<u>CASH</u> <u>RECEIPTS</u>	<u>CASH</u> <u>DISBURSE-</u> <u>MENTS</u>	<u>CASH</u> <u>JUNE 30,</u> <u>2006</u>
Easton High School	\$ 126,748	\$ 402,522	\$ 384,739	\$ 144,531
St. Michaels High School	53,090	165,919	142,512	76,497
Easton Middle School	6,156	119,202	111,560	13,798
Easton Elementary School - Dobson	7,884	34,148	33,905	8,127
Easton Elementary School - Moton	28,383	92,351	101,140	19,594
St. Michaels Elementary/Middle School	18,266	72,242	61,500	29,008
Tilghman Elementary School	21,575	24,033	29,845	15,763
White Marsh Elementary School	16,719	34,188	33,919	16,988
Chapel District Elementary School	<u>45,977</u>	<u>66,729</u>	<u>55,148</u>	<u>57,558</u>
<i>TOTALS</i>	<u>\$ 324,798</u>	<u>\$ 1,011,334</u>	<u>\$ 954,268</u>	<u>\$ 381,864</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

<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 COMMERCE</u>				
<i>National Oceanic & Atmospheric Administration</i>				
Chesapeake Bay Studies	11.457	401518-01	10/01/03 - 12/31/03	\$ 5,761
NOAA Year 3 Meaningful Bay Experience	11.457	501401-01	07/01/04 - 06/30/05	\$ 8,000
TOTAL DEPARTMENT OF COMMERCE				
 <u>DEPARTMENT OF EDUCATION</u>				
<i>Adult Education</i>				
NALS 3	84.002A	030357-02	07/01/99 - 06/30/00	\$ 3,169
<i>Title I Grants</i>				
Network for Success	84.010	031902-01	07/01/99 - 09/30/00	\$ 5,000
Title 1	84.010	600552-01	07/01/05 - 06/30/07	\$ 737,374
Title 1	84.010	401711-01	07/01/03 - 06/30/05	\$ 53,538
Title 1	84.010	500438-01	07/01/04 - 06/30/06	\$ 789,506
Title 1 School Improvement	84.010	500937-01	07/01/04 - 06/30/06	\$ 100,000
Title 1 NCLB	84.010	601066-01	07/01/05 - 09/30/05	\$ 22,873
Title 1	84.010	602123-01	10/01/05 - 08/31/06	\$ 4,086
 <i>Special Education - Grants to States</i>				
Parent Information	84.027	832285	06/01/98 - 09/30/99	\$ 16,000
Pass Through	84.027	400494-01	07/01/03 - 09/30/04	\$ 676,933
Discretionary	84.027	400494-06	07/01/03 - 09/30/04	\$ 28,401
IDEA, Part B	84.027	930836	08/10/98 - 09/30/99	\$ 52,400
State Supplemental	84.027	030623-02	07/01/99 - 09/30/00	\$ 82,000
Preschool	84.027	030623-04	07/01/99 - 09/30/00	\$ 19,601
IDEA, Part B	84.027	030809-01	09/01/99 - 09/30/00	\$ 69,999
Disproportional	84.027	030965-01	10/30/99 - 09/30/00	\$ 10,000
Handicapped Children	84.027	131079-01	07/30/00 - 09/30/01	\$ 357,433

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2005</u>	<u>CASH RECEIVED JULY 1, 2005 TO JUNE 30, 2006</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2006</u>
\$ (31)	\$ -	\$ -	\$ -	\$ (31)
<u>4,000</u>	<u>8,000</u>	<u>-</u>	<u>4,000</u>	<u>-</u>
<u>\$ 3,969</u>	<u>\$ 8,000</u>	<u>\$ -</u>	<u>\$ 4,000</u>	<u>\$ (31)</u>
<u>\$ (1,510)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,510</u>	<u>\$ -</u>
\$ (5,000)	\$ -	\$ -	\$ -	\$ (5,000)
-	507,535	554,086	-	46,551
(4,267)	-	-	4,267	-
2,651	179,720	176,084	-	(985)
(4,052)	58,165	60,659	-	(1,558)
-	22,873	22,873	-	-
-	-	3,976	-	3,976
<u>\$ (10,668)</u>	<u>\$ 768,293</u>	<u>\$ 817,678</u>	<u>\$ 4,267</u>	<u>\$ 42,984</u>
\$ (582)	\$ -	\$ -	\$ -	\$ (582)
(101,541)	-	-	101,541	-
(36)	-	-	36	-
(805)	-	-	805	-
(1,904)	-	-	1,904	-
(84)	-	-	84	-
(740)	-	-	740	-
(612)	-	-	612	-
(72,479)	-	-	72,479	-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued

FOR THE YEAR ENDED JUNE 30, 2006

<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 EDUCATION – Continued</u>				
<i>Special Education – Grants to States - Continued</i>				
Handicapped Children	84.027	131079-03	07/30/00 - 09/30/01	\$ 11,473
Handicapped Children	84.027	400494-09	07/01/03 - 08/30/04	\$ 5,000
Disproportional	84.027	131554-01	09/20/00 - 09/30/01	\$ 10,000
State Improvement	84.027	131950-01	11/30/00 - 09/30/01	\$ 12,500
State Supplemental	84.027	232364-03	07/01/01 - 06/30/02	\$ 11,524
Preschool	84.027	232364-04	07/01/01 - 06/30/02	\$ 10,000
Infants & Toddlers	84.027	232403-02/03	07/01/01 - 06/30/02	\$ 18,819
Disproportional	84.027	232714	07/01/01 - 06/30/02	\$ 10,000
Discretionary	84.027	233150	10/09/01 - 09/30/02	\$ 60,000
Handicapped Children	84.027	234255	10/01/01 - 09/30/02	\$ 12,500
Pass Through	84.027	301248-01	07/01/02 - 09/30/03	\$ 572,674
Discretionary	84.027	301248-03	07/01/02 - 09/30/03	\$ 11,428
Discretionary	84.027	301248-05	07/01/02 - 06/30/03	\$ 10,000
State Supplemental	84.027	400494-07	07/01/03 - 06/30/04	\$ 12,500
Disproportional	84.027	400374-02	07/01/03 - 09/30/04	\$ 18,000
Professional Staff Development	84.027	500757-01	07/01/04 - 06/30/05	\$ 4,000
Handicapped Children	84.027	500911-01	07/01/04 - 09/30/05	\$ 8,000
Handicapped Children	84.027	500324-07	07/01/04 - 09/30/05	\$ 5,000
Pass Through	84.027	500324-01	07/01/04 - 06/30/05	\$ 785,589
Discretionary	84.027	500800-01	07/01/04 - 09/30/05	\$ 23,725
Discretionary	84.027	500742-01	07/01/04 - 09/30/05	\$ 18,000
Discretionary	84.027	500324-02	07/01/04 - 09/30/05	\$ 30,874
Infants & Toddlers	84.027	500987-02	07/01/04 - 06/30/05	\$ 14,999
Pass Through Carryover	84.027	501658-01	07/01/04 - 06/30/05	\$ 185,548
Handicapped Children	84.027	600676-01	07/01/05 - 09/30/06	\$ 2,500
Pass Through	84.027	600162-01	07/01/05 - 06/30/06	\$ 866,014
Discretionary	84.027	600162-02	07/01/05 - 09/30/06	\$ 55,868
LRE	84.027	600162-03	07/01/05 - 06/30/06	\$ 41,551
Special Education Consortium	84.027	600162-04	07/01/05 - 06/30/06	\$ 275,000
Infants & Toddlers	84.027	601882-02	07/01/05 - 06/30/06	\$ 10,218
Pass Through Carryover	84.027	601835-01	07/01/05 - 06/30/06	\$ 210,499
Infants & Toddlers	84.027	600848-03	07/01/05 - 06/30/06	\$ 6,295

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2005</u>	<u>CASH RECEIVED JULY 1, 2005 TO JUNE 30, 2006</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2006</u>
(2,836)	-	-	750	(2,086)
2,600	-	-	-	2,600
(1,124)	-	-	1,124	-
(309)	-	-	309	-
80	-	-	(80)	-
(1,407)	-	-	1,407	-
(9,124)	-	-	-	(9,124)
(1,831)	-	-	1,831	-
(2,822)	-	-	2,822	-
(4,489)	-	-	4,489	-
(26,916)	-	-	26,916	-
(2,119)	-	-	2,119	-
(5,550)	-	-	5,550	-
(3,350)	-	-	3,350	-
(815)	-	-	815	-
3,622	-	-	-	3,622
(103)	-	-	-	(103)
(750)	-	2,060	-	1,310
(27,077)	21,920	48,997	-	-
10,820	11,743	922	1	-
(576)	8,033	8,608	1	-
(2,234)	2,458	4,692	-	-
1,591	2,245	-	(161)	(815)
(17,806)	-	17,806	-	-
-	697	697	-	-
-	502,414	498,082	-	(4,332)
-	39,136	42,182	-	3,046
-	41,551	41,551	-	-
-	275,000	275,000	-	-
-	7,418	10,218	-	2,800
-	66,739	189,902	-	123,163
-	4,109	5,475	-	1,366
<u>\$ (271,308)</u>	<u>\$ 983,463</u>	<u>\$ 1,146,192</u>	<u>\$ 229,444</u>	<u>\$ 120,865</u>

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued

FOR THE YEAR ENDED JUNE 30, 2006

<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 EDUCATION – Continued</u>				
<i><u>Vocational Education - Basic Grants to States</u></i>				
Career & Technology Education	84.048	931033	07/01/98 - 06/30/99	\$ 10,000
Career & Technology Education	84.048	331058-01	07/01/02 - 06/30/03	\$ 60,243
Career & Technology Education	84.048	500576-01	07/01/04 - 06/30/05	\$ 59,003
Career & Technology Education	84.048	600610-01	07/01/05 - 06/30/06	\$ 56,176
<i><u>Special Education - Preschool Grants</u></i>				
Handicapped Children	84.173	930734-05	07/01/98 - 09/30/99	\$ 2,669
Special Education - IDEA Part B	84.173	030711-01	07/01/99 - 06/30/01	\$ 6,234
Handicapped Children	84.173	131079-05	07/01/00 - 06/30/01	\$ 20,629
Preschool	84.173	232364-06	07/01/01 - 06/30/02	\$ 20,630
Handicapped Children	84.173	500324-05	07/01/04 - 06/30/05	\$ 20,564
Handicapped Children	84.173	400493-03	07/01/03 - 06/30/04	\$ 20,564
Infants & Toddlers	84.173	501628-03	07/01/04 - 06/30/05	\$ 2,555
Infants & Toddlers	84.173	500987-03	07/01/04 - 06/30/05	\$ 5,000
Preschool Pass Through	84.173	600162-05	07/01/05 - 06/30/06	\$ 20,564
Special Education Consortium	84.173	600162-06	07/01/05 - 06/30/06	\$ 100,000
Infants and Toddlers	84.173	601882-03	07/01/05 - 06/30/06	\$ 2,833
Infants and Toddlers	84.173	600848-04	07/01/05 - 06/30/06	\$ 5,000
<i><u>Special Education - Grants for Infants and Families With Disabilities</u></i>				
Maryland Infants and Toddlers	84.181	9620A96	07/01/96 - 06/30/97	\$ 8,000
Infants and Toddlers	84.181	831669	07/01/97 - 06/30/98	\$ 30,238
Infants and Toddlers	84.181	301346-01	07/01/02 - 06/30/03	\$ 54,494
Infants and Toddlers	84.181	400744-01	07/01/03 - 06/30/04	\$ 59,640
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	500987-01	07/01/04 - 06/30/05	\$ 63,075
Infants and Toddlers	84.181	601882-01	07/01/05 - 06/30/06	\$ 12,849
Infants and Toddlers	84.181	600848-02	07/01/05 - 06/30/06	\$ 64,075
Infants and Toddlers	84.181	600848-01	07/01/05 - 06/30/06	\$ 12,186

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2005</u>	<u>CASH RECEIVED JULY 1, 2005 TO JUNE 30, 2006</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2006</u>
\$ (1,501)	\$ -	\$ -	\$ 1,501	\$ -
(9)	-	-	9	-
-	4,912	1,692	-	(3,220)
<u>3,220</u>	<u>49,101</u>	<u>50,794</u>	<u>-</u>	<u>4,913</u>
<u>\$ 1,710</u>	<u>\$ 54,013</u>	<u>\$ 52,486</u>	<u>\$ 1,510</u>	<u>\$ 1,693</u>
\$ (4,374)	\$ -	\$ -	\$ 4,374	\$ -
(935)	-	-	935	-
(737)	-	-	737	-
(32)	-	-	32	-
(2,041)	298	2,338	1	-
(412)	-	-	412	-
(2)	-	-	-	(2)
1,416	763	-	1	654
-	17,527	19,884	-	2,357
-	100,000	100,000	-	-
-	2,833	2,833	-	-
-	<u>3,609</u>	<u>2,843</u>	<u>-</u>	<u>(766)</u>
<u>\$ (7,117)</u>	<u>\$ 125,030</u>	<u>\$ 127,898</u>	<u>\$ 6,492</u>	<u>\$ 2,243</u>
\$ (7,113)	\$ -	\$ -	\$ -	\$ (7,113)
(23,403)	-	-	-	(23,403)
(3,336)	-	-	-	(3,336)
12,480	-	359	(624)	12,215
(1,869)	-	-	-	(1,869)
(12,838)	-	-	-	(12,838)
11,207	11,207	-	-	-
-	12,849	12,849	-	-
-	35,836	42,292	-	6,456
-	<u>7,182</u>	<u>12,642</u>	<u>-</u>	<u>5,460</u>
<u>\$ (24,872)</u>	<u>\$ 67,074</u>	<u>\$ 68,142</u>	<u>\$ (624)</u>	<u>\$ (24,428)</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued

FOR THE YEAR ENDED JUNE 30, 2006

<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 EDUCATION – Continued</u>				
<i><u>Safe and Drug Free Schools - State Grants</u></i>				
Title IV, Safe & Drug Free Schools & Communities	84.186	832275-01	06/30/98 - 09/30/99	\$ 23,189
Title IV, Safe & Drug Free Schools & Communities	84.186	832275-02	06/30/98 - 09/30/99	\$ 11,811
Title IV, Safe & Drug Free Schools & Communities	84.186	931289-02	07/01/98 - 06/30/00	\$ 10,986
Title IV, Safe & Drug Free Schools & Communities	84.186	130374-19	07/01/00 - 06/30/02	\$ 19,537
Title IV, Safe & Drug Free Schools & Communities	84.186	232440-03	07/01/01 - 06/30/03	\$ 19,427
Title IV, Safe & Drug Free Schools & Communities	84.186	600521-01	07/01/05 - 06/30/07	\$ 26,256
<i><u>Tech Prep Education</u></i>				
Tech Prep	84.243	190003-01/02	07/01/00 - 6/30/001	\$ 4,000
<i><u>Fund for the Improvement of Education</u></i>				
Partnerships in Character Education	84.215	600850-01	10/01/05 - 09/30/06	\$ 51,400
Character Education	84.215	501648-01	01/01/05 - 12/31/05	\$ 15,000
<i><u>Goals 2000 - State & Local Education</u></i>				
<i><u>Systemic Improvement Grants</u></i>				
Goals 2000	84.276	031842-01	04/01/00 - 06/30/01	\$ 200,000
Goals 2000 - School for Success	84.276	132308	06/30/01 - 09/30/01	\$ 80,000
<i><u>Eisenhower Professional Development</u></i>				
Eisenhower Professional Development Grant	84.281	731419	12/11/96 - 06/30/98	\$ 17,557

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2005</u>	<u>CASH RECEIVED JULY 1, 2005 TO JUNE 30, 2006</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2006</u>
\$ (4,420)	\$ -	\$ -	\$ -	\$ (4,420)
(699)	-	-	-	(699)
(618)	-	-	-	(618)
(341)	-	-	341	-
(750)	-	-	750	-
<u>-</u>	<u>20,816</u>	<u>24,070</u>	<u>-</u>	<u>3,254</u>
<u>\$ (6,828)</u>	<u>\$ 20,816</u>	<u>\$ 24,070</u>	<u>\$ 1,091</u>	<u>\$ (2,483)</u>
<u>\$ (2,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ -</u>
\$ -	\$ 51,400	\$ 51,400	\$ -	\$ -
<u>(15,000)</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>-</u>
<u>\$ (15,000)</u>	<u>\$ 51,400</u>	<u>\$ 66,400</u>	<u>\$ -</u>	<u>\$ -</u>
\$ (9,248)	\$ -	\$ -	\$ 9,248	\$ -
<u>(6,806)</u>	<u>-</u>	<u>-</u>	<u>6,806</u>	<u>-</u>
<u>\$ (16,054)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,054</u>	<u>\$ -</u>
\$ (1,084)	\$ -	\$ -	\$ -	\$ (1,084)

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued

FOR THE YEAR ENDED JUNE 30, 2006

<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 EDUCATION – Continued</u>				
<i><u>Eisenhower Professional Development - Continued</u></i>				
Eisenhower Professional Development Grant	84.281	131146	10/01/00 - 06/30/02	\$ 17,199
Eisenhower Professional Development Grant	84.281	233024	09/21/01 - 06/30/03	\$ 21,280
<i><u>Twenty First Century Community Learning Centers</u></i>				
Twenty First Century Community Learning Centers	84.287A	R992871	06/01/99 - 05/31/00	\$ 298,836
Twenty First Century Community Learning Centers	84.287A	R287A990324	06/01/00 - 05/31/01	\$ 242,436
Twenty First Century Community Learning Centers	84.287A	Unknown	06/01/01 - 05/31/02	\$ 154,335
<i><u>Innovative Education Program Strategies</u></i>				
Title VI - I.A.S.A.	84.298	930020	07/01/98 - 06/30/99	\$ 28,166
Title VI - I.A.S.A.	84.298	030958	07/01/99 - 06/30/01	\$ 31,333
Title VI - I.A.S.A.	84.298	131868-05	07/01/00 - 06/30/02	\$ 30,093
Title VI - I.A.S.A.	84.298	233030	07/01/01 - 06/30/03	\$ 32,326
Title V, Part A	84.298	500442-01	07/01/04 - 06/30/06	\$ 24,037
Title V, Part A	84.298	600453-01	07/01/05 - 06/30/07	\$ 16,284
<i><u>Enhancing Education Through Technology</u></i>				
Technology Literacy Challenge	84.318	930370	07/01/98 - 09/30/99	\$ 83,927
Enhancing Education Through Technology	84.318	301193-01	07/01/02 - 09/30/03	\$ 150,000
Enhancing Education Through Technology	84.318	331060-01	07/01/02 - 09/30/03	\$ 26,135

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2005</u>	<u>CASH RECEIVED JULY 1, 2005 TO JUNE 30, 2006</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2006</u>
(2,101)	-	-	2,101	-
<u>(5,054)</u>	<u>-</u>	<u>-</u>	<u>5,054</u>	<u>-</u>
\$ (8,239)	\$ -	\$ -	\$ 7,155	\$ (1,084)
\$ (5,620)	\$ -	\$ -	\$ -	\$ (5,620)
(11)	-	-	-	(11)
<u>(50)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50)</u>
\$ (5,681)	\$ -	\$ -	\$ -	\$ (5,681)
\$ (9,463)	\$ -	\$ -	\$ 9,463	\$ -
(2,356)	-	-	2,356	-
(984)	-	-	-	(984)
(3,557)	-	-	3,557	-
6,838	13,146	6,255	-	(53)
<u>-</u>	<u>5,546</u>	<u>3,572</u>	<u>-</u>	<u>(1,974)</u>
\$ (9,522)	\$ 18,692	\$ 9,827	\$ 15,376	\$ (3,011)
\$ (6,378)	\$ -	\$ -	\$ 6,378	\$ -
(32)	-	-	32	-
(533)	-	-	533	-

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued

FOR THE YEAR ENDED JUNE 30, 2006

<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 EDUCATION – Continued</u>				
<i><u>Enhancing Education Through Technology – Continued</u></i>				
Enhancing Education Through Technology	84.318	400695-01	07/01/03 - 06/30/05	\$ 21,190
Enhancing Education Through Technology	84.318	400955-01	07/01/03 - 09/30/04	\$ 100,000
Enhancing Education Through Technology	84.318	500781-01	07/01/04 - 09/30/05	\$ 75,000
Enhancing Education Through Technology	84.318	500440-01	07/01/04 - 06/30/06	\$ 21,346
Enhancing Education Through Technology	84.318	601038-02	07/01/05 - 06/30/07	\$ 13,938
Enhancing Education Through Technology	84.318	601071-01	07/01/05 - 06/30/07	\$ 400,000
<i><u>Class Size Reduction</u></i>				
Class Size Reduction - Federal	84.340	130531-01	07/01/00 - 12/30/01	\$ 109,528
<i><u>Title I Accountability Grants</u></i>				
SAFE - New School Improvement	84.348	232440-02	07/01/01 - 06/30/03	\$ 55,000
<i><u>English Language Acquisition Grants</u></i>				
English Language Acquisition	84.365	500474-01	07/01/04 - 06/30/06	\$ 22,470
English Language Acquisition	84.365	330974-01	07/01/02 - 09/30/04	\$ 13,312
English Language Acquisition	84.365	600507-01	07/01/05 - 06/30/04	\$ 27,566
<i><u>Improving Teacher Quality State Grants</u></i>				
Improving Teacher Quality	84.367	400694-01	07/01/03 - 06/30/05	\$ 239,912
Improving Teacher Quality	84.367	500439-01	07/01/04 - 06/30/06	\$ 240,729
Improving Teacher Quality	84.367	600480-01	07/01/05 - 06/30/07	\$ 239,136

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2005</u>	<u>CASH RECEIVED JULY 1, 2005 TO JUNE 30, 2006</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2006</u>
(1,476)	-	1,476	-	-
(1,593)	-	-	1,593	-
(11,251)	9,667	10,751	-	(10,167)
(913)	9,698	7,484	-	(3,127)
-	5,575	279	-	(5,296)
<u>-</u>	<u>233,837</u>	<u>193,196</u>	<u>-</u>	<u>(40,641)</u>
<u>\$ (22,176)</u>	<u>\$ 258,777</u>	<u>\$ 213,186</u>	<u>\$ 8,536</u>	<u>\$ (59,231)</u>
<u>\$ (8,855)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,855</u>	<u>\$ -</u>
<u>\$ (5,891)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,891</u>	<u>\$ -</u>
\$ (83)	\$ -	\$ (342)	\$ -	\$ (425)
(9)	-	-	9	-
<u>-</u>	<u>26,186</u>	<u>24,136</u>	<u>-</u>	<u>(2,050)</u>
<u>\$ (92)</u>	<u>\$ 26,186</u>	<u>\$ 23,794</u>	<u>\$ 9</u>	<u>\$ (2,475)</u>
\$ (23,881)	\$ -	\$ -	\$ -	\$ (23,881)
(175)	-	175	-	-
<u>-</u>	<u>150,248</u>	<u>220,510</u>	<u>-</u>	<u>70,262</u>
<u>\$ (24,056)</u>	<u>\$ 150,248</u>	<u>\$ 220,685</u>	<u>\$ -</u>	<u>\$ 46,381</u>

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued

FOR THE YEAR ENDED JUNE 30, 2006

<u>GRANT NAME</u>	<u>CFDA NUMBER</u>	<u>MSDE/FEDERAL GRANT NUMBER</u>	<u>PROJECT PERIOD</u>	<u>TOTAL GRANT AWARD</u>
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DEPARTMENT OF EDUCATION – Continued

Hurricane Education Recovery

Hurricane Education Recovery	84.938C	602031-01	09/01/05 - 07/31/06	\$ 15,000
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Sexual Harasment/Assault Prevention Grants

Sexual Harrassment	93.126	500948-01	10/01/04 - 06/30/06	\$ 15,000
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Sexual Harrassment	93.126	600346-01	07/01/05 - 06/30/06	\$ 15,000
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TOTAL DEPARTMENT OF EDUCATION

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

Serve America Sub-Grant	94.004	831467-01	09/01/97 - 12/31/98	\$ 9,600
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Serve America Sub-Grant	94.004	930891-01	09/01/98 - 12/31/99	\$ 8,282
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Serve America Sub-Grant	94.004	232846-01	09/01/01 - 08/31/02	\$ 8,900
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MD Student Service Alliance	94.004	331073-01	07/01/02 - 12/31/03	\$ 8,680
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Serve America Sub-Grant	94.004	401161-01	09/01/03 - 06/30/04	\$ 9,680
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Serve America Sub-Grant	94.004	500765-01	07/01/04 - 08/31/05	\$ 10,211
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Serve America Sub-Grant	94.004	601017-01	09/01/05 - 08/31/06	\$ 16,865
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TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

DEPARTMENT OF HEALTH & HUMAN SERVICES

State Children's Insurance Program

Medicaid	93.767	400094-01	07/01/03 - 06/30/04	\$ 300,000
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Medicaid	93.767	400121-01	07/01/03 - 06/30/04	\$ 15,000
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<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2005</u>	<u>CASH RECEIVED JULY 1, 2005 TO JUNE 30, 2006</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2006</u>
\$ -	\$ 15,000	\$ 15,000	\$ -	\$ -
\$ 13,975	\$ -	\$ -	\$ -	\$ 13,975
<u>-</u>	<u>-</u>	<u>12,484</u>	<u>-</u>	<u>12,484</u>
\$ 13,975	\$ -	\$ 12,484	\$ -	\$ 26,459
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ (424,184)	\$ 2,538,992	\$ 2,797,842	\$ 307,566	\$ 142,232
\$ (867)	\$ -	\$ -	\$ 867	\$ -
(317)	-	-	-	(317)
(159)	-	-	159	-
(21)	-	-	-	(21)
(995)	-	-	995	-
148	2,440	2,292	-	-
<u>-</u>	<u>12,250</u>	<u>14,524</u>	<u>-</u>	<u>2,274</u>
\$ (2,211)	\$ 14,690	\$ 16,816	\$ 2,021	\$ 1,936
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ (83,058)	\$ 12,923	\$ 1,972	\$ (146)	\$ (94,155)
<u>(27,913)</u>	<u>43,471</u>	<u>-</u>	<u>-</u>	<u>(71,384)</u>
\$ (110,971)	\$ 56,394	\$ 1,972	\$ (146)	\$ (165,539)

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued

FOR THE YEAR ENDED JUNE 30, 2006

<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 HEALTH AND HUMAN SERVICES – Continued</u>				
<i>Health Care Financing Administration</i>				
Medical Assistance	93.778	232256	07/01/01 - 06/30/02	\$ 15,000
Medical Assistance	93.778	232266	07/01/01 - 06/30/02	\$ 207,630
Medical Assistance	93.778	330163-01	07/01/02 - 06/30/03	\$ 300,000
Medical Assistance	93.778	330205-01	07/01/02 - 06/30/03	\$ 15,000
Medical Assistance	93.778	Unknown	Unknown	Unknown
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	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	600239-01	07/01/05 - 06/30/06	\$ 20,000
Medicaid	93.778	600211-01	07/01/05 - 06/30/06	\$ 300,000
<i>Temporary Assistance For Needy Families</i>				
SAFE - High School Drop Out Prevention	93.558	330710-03	07/01/02 - 06/30/04	\$ 56,006
SAFE - Middle School Drop Out Prevention	93.558	400462-01	07/01/03 - 09/30/04	\$ 56,006
<i>Preventive Health & Health Services Block Grant</i>				
Sexual Assault Prevention Grant	93.991	931929	02/19/99 - 09/30/99	\$ 14,511
Sexual Assault Prevention Grant	93.991	031419	12/20/99 - 09/30/00	\$ 20,000

TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2005</u>	<u>CASH RECEIVED JULY 1, 2005 TO JUNE 30, 2006</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2006</u>
\$ (587)	\$ -	\$ -	\$ -	\$ (587)
(36,846)	-	5,783	-	(31,063)
(868)	-	868	-	-
2,870	-	294	-	3,164
(8,137)	3,875	-	-	(12,012)
(1,995)	-	-	-	(1,995)
(3)	-	-	-	(3)
(236,843)	-	38,222	-	(198,621)
(5,270)	-	-	-	(5,270)
-	33,784	2,685	-	(31,099)
<u>-</u>	<u>136,083</u>	<u>-</u>	<u>(251)</u>	<u>(136,334)</u>
<u>\$ (287,679)</u>	<u>\$ 173,742</u>	<u>\$ 47,852</u>	<u>\$ (251)</u>	<u>\$ (413,820)</u>
\$ (158)	\$ -	\$ -	\$ 158	\$ -
<u>(9)</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>-</u>
<u>\$ (167)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 167</u>	<u>\$ -</u>
\$ (1,559)	\$ -	\$ -	\$ 1,559	\$ -
<u>(10)</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>-</u>
<u>\$ (1,569)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,569</u>	<u>\$ -</u>
<u>\$ (400,386)</u>	<u>\$ 230,136</u>	<u>\$ 49,824</u>	<u>\$ 1,339</u>	<u>\$ (579,359)</u>

-Continued-

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued

FOR THE YEAR ENDED JUNE 30, 2006

<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 AGRICULTURE</u>				
<i>Team Nutrition Training Grants</i>				
Team Nutrition Grant	10.574	233725	12/05/01 - 02/28/02	\$ 2,000
<i>Food Distribution</i>				
USDA Commodities	10.550	n/a	07/01/05 - 06/30/06	n/a
<i>Child Nutrition Cluster</i>				
National School Lunch Program	10.555	Section 4	07/01/04 - 06/30/05	\$ 84,149
National School Lunch Program	10.555	Section 11	07/01/04 - 06/30/05	\$ 324,567
School Breakfast Program	10.553	SN Breakfast	07/01/04 - 06/30/05	\$ 128,099
National School Lunch Program	10.555	Section 4	07/01/05 - 06/30/06	\$ 85,457
National School Lunch Program	10.555	Section 11	07/01/05 - 06/30/06	\$ 327,394
School Breakfast Program	10.553	SN Breakfast	07/01/05 - 06/30/06	\$ 139,419
TOTAL DEPARTMENT OF AGRICULTURE				
<u>FEDERAL DIRECT - DEPARTMENT OF EDUCATION</u>				
<i>Safe and Drug Free Schools and Communities - National Programs</i>				
Federal Justice	84.184	S184L000004	On-Going	\$ 281,396
TOTAL FEDERAL DIRECT				
TOTAL FEDERAL AWARDS				

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2005</u>	<u>CASH RECEIVED JULY 1, 2005 TO JUNE 30, 2006</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2006</u>
\$ (104)	\$ -	\$ -	\$ 104	\$ -
\$ -	\$ 82,256	\$ 82,256	\$ -	\$ -
\$ 1,814	\$ 1,814	\$ -	\$ -	\$ -
7,098	7,098	-	-	-
4,204	4,204	-	-	-
-	83,915	85,457	-	1,542
-	321,552	327,394	-	5,842
<u>-</u>	<u>136,563</u>	<u>139,419</u>	<u>-</u>	<u>2,856</u>
\$ 13,116	\$ 555,146	\$ 552,270	\$ -	\$ 10,240
\$ 13,012	\$ 637,402	\$ 634,526	\$ 104	\$ 10,240
\$ (21,863)	\$ -	\$ -	\$ -	\$ (21,863)
\$ (21,863)	\$ -	\$ -	\$ -	\$ (21,863)
\$ (831,663)	\$ 3,429,220	\$ 3,499,008	\$ 315,030	\$ (446,845)

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE A – 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 program.

<u>Program Description</u>	<u>CFDA Number</u>	<u>Fiscal Year 2006 Expenditures</u>
Special Education Cluster	84.027 & 84.173	\$ 1,274,090

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

NOTE B – FISCAL YEAR AUDITED

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2006. Single audit testing has previously been performed on transactions occurring during the fiscal year ended June 30, 2005.

NOTE C – 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 2006 or accrued (deferred) grant revenue at June 30, 2006. This schedule has been prepared in accordance with accounting principles generally accepted in the United States of America.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Continued
FOR THE YEAR ENDED JUNE 30, 2006

NOTE C – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

NOTE D – 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.

NOTE E – REVENUE RECONCILIATION

The following is a reconciliation of revenue recognized in the 2006 Schedule of Expenditures of Federal Awards with the revenue recognized in the 2006 basic financial statements.

Restricted Current Expense Fund -	
U.S. Government Revenue	\$ 2,489,482
Food Service Fund -	
U.S. Government Revenue	634,526
Agency Fund - Mid-Shore Special	
Education Consortium	<u>375,000</u>
 <i>REVENUE RECOGNIZED ON</i>	
<i>SCHEDULE OF EXPENDITURES</i>	
<i>OF FEDERAL AWARDS</i>	
	<u>\$ 3,499,008</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

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, 2006.
- ii. The audit did not disclose any reportable conditions 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 reportable conditions 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, 2006.
- vi. The compliance audit of the Board did not disclose any audit findings for the year ended June 30, 2006 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 Number 84.027 and 84.173.
- 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, 2006.

2. **FINDINGS RELATING TO THE FINANCIAL STATEMENTS**

The audit did not disclose any findings relating to the financial statements which are required to be reported in accordance with Generally Accepted Governmental Accounting Standards (GAGAS) for the year ended June 30, 2006.

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None disclosed

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATUS OF PRIOR YEAR'S FINDINGS

AS OF JUNE 30, 2005

The compliance procedures applied to the fiscal year ended June 30, 2005 did not disclose any findings of noncompliance or questioned costs.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
OTHER SUPPLEMENTARY INFORMATION
JUNE 30, 2006
