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INDEPENDENT AUDITORS' REPORT

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland, a component unit of Talbot County, Maryland, as of and for the year ended June 30, 2007, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland as of June 30, 2007, 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 October 4, 2007 on our consideration of the Board of Education of Talbot County, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

The management's discussion and analysis on pages 5-15 and the budgetary comparison information on page 36 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.

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

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. 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.

Maya Hoffman McCann P.C.

October 4, 2007
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**

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of Talbot County, Maryland (the Board), a component unit of Talbot County, Maryland, as of and for the year ended June 30, 2007, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated October 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Board's financial statements that is more than inconsequential will not be prevented or detected by the Board's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Board's internal control.

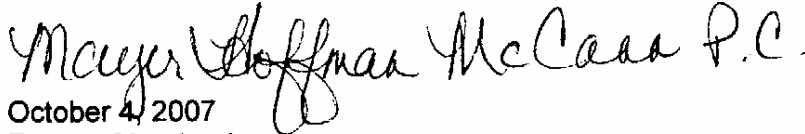
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board, its management, others within the organization, Talbot County Council, Maryland State Department of Education (the cognizant audit agency, as designated by the U.S. Department of Transportation), federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



October 4, 2007
Easton, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

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, 2007. 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, 2007 include the following:

- Net assets total \$54,406,268, an increase of \$9,925,092, or 2.23% over the prior year.
- General Fund unreserved fund balance was \$128,343, after a reservation for encumbrances of \$693,687. The total fund balance was \$822,030, an increase of \$283,946 over the prior year.

Overview of the financial statements

The financial section of the annual report consists of four parts – independent auditors' reports, required supplementary information which includes management's discussion and analysis (this section) 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, 2007

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

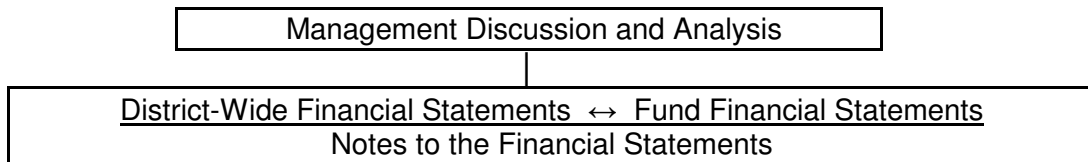


Figure 2 – Major Features of District-Wide and Fund Financial Statements

	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, 2007

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, 2007

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 \$54,406,268 on June 30, 2007. This was an increase of 22.31 percent from the prior year. (See Table 1).

Table 1

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2007</u>	<u>2006</u>
<u>ASSETS</u>		
Current and other assets	\$ 7,158,709	\$ 6,386,668
Capital assets	<u>53,849,524</u>	<u>44,158,549</u>
TOTAL ASSETS	<u>\$ 61,008,233</u>	<u>\$ 50,545,217</u>
<u>LIABILITIES</u>		
Current liabilities	\$ 6,074,925	\$ 5,677,630
Long-term liabilities	<u>527,040</u>	<u>386,411</u>
TOTAL LIABILITIES	<u>\$ 6,601,965</u>	<u>\$ 6,064,041</u>
<u>NET ASSETS</u>		
Investment in capital assets, net of related debt	\$ 53,431,722	\$ 43,942,577
Restricted	459,927	345,177
Unrestricted	<u>514,619</u>	<u>193,422</u>
TOTAL NET ASSETS	<u>\$ 54,406,268</u>	<u>\$ 44,481,176</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

Changes in net assets - The Board's total revenues were \$61,824,634 for the year ended June 30, 2007. (See Table 2). The county appropriation and state aid accounted for approximately 61 percent of total revenue for the year. Another 39 percent came from program revenues, and the remainder from investment earnings and other sources. The total cost of all programs and services was \$51,689,457. The Board's expenses are predominantly related to providing direct educational services to students (49 percent). The purely administrative activities of the Board accounted for 2 percent of total expenses. Total revenues surpassed expenses, increasing net assets \$10,135,177 over last year.

Table 2

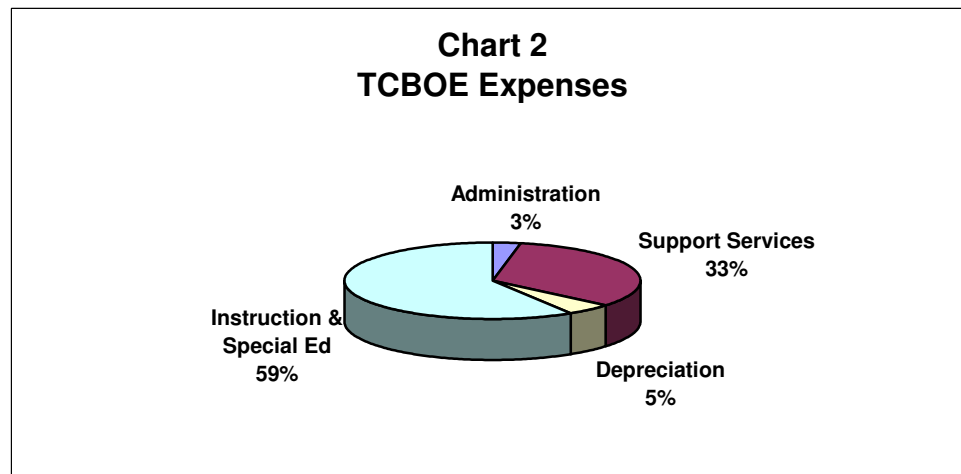
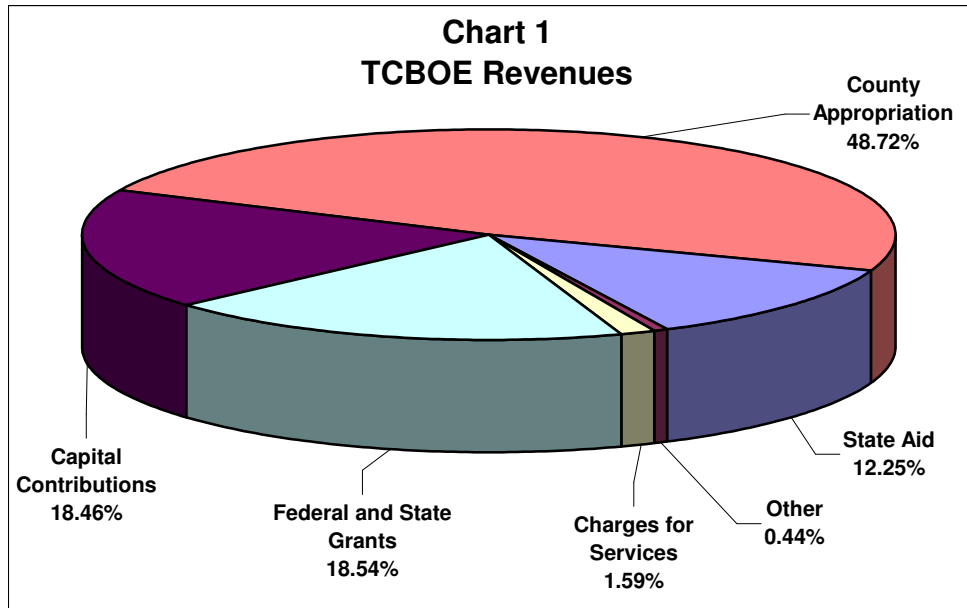
	<u>GOVERNMENTAL ACTIVITIES</u>	<u>% OF TOTAL</u>	<u>GOVERNMENTAL ACTIVITIES</u>	<u>% OF TOTAL</u>
	<u>2007</u>		<u>2006</u>	
<u>REVENUES</u>				
<i>Program Revenues:</i>				
Charges for services	\$ 976,687	1.59%	\$ 933,774	1.96%
Federal, state and local grants	11,359,222	18.54%	10,312,428	21.66%
Capital contributions	11,305,237	18.46%	874,998	1.84%
<i>General Revenues:</i>				
County appropriation	29,848,888	48.72%	27,897,682	58.59%
State of Maryland	7,505,714	12.25%	7,331,834	15.40%
Other	<u>270,194</u>	<u>.44%</u>	<u>262,079</u>	<u>.55%</u>
TOTAL REVENUE	<u>61,265,942</u>	<u>100.00%</u>	<u>47,612,795</u>	<u>100.00%</u>
<u>EXPENSES</u>				
Instruction and special education	30,094,683	58.86%	28,984,534	60.57%
Administration	1,478,490	2.89%	1,326,031	2.77%
Support services	16,969,660	33.19%	15,023,166	31.39%
Depreciation	<u>2,587,932</u>	<u>5.06%</u>	<u>2,520,964</u>	<u>5.27%</u>
TOTAL EXPENSES	<u>51,130,765</u>	<u>100.00%</u>	<u>47,854,695</u>	<u>100.00%</u>
EXCESS OF EXPENSES OVER REVENUES	10,135,177		(241,900)	
Transfer of unreserved fund balance to County	<u>(210,085)</u>		<u>(79,577)</u>	
INCREASE IN NET ASSETS	<u>\$ 9,925,092</u>		<u>\$ (321,477)</u>	

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

Governmental activities - The increase in net assets for governmental activities was \$9,925,092 in 2007.



THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

FINANCIAL ANALYSIS OF THE BOARD'S FUNDS

The financial performance of the Board as a whole is reflected in its governmental funds. As the Board completed the year, its governmental funds reported a *combined* fund balance of \$1,281,957, an increase of \$398,696 over last year's ending fund balance.

Revenues for the Board's governmental funds were \$61,814,634, an increase of \$14,201,839 from last year. Total expenditures were \$61,205,853 for the year, an increase of \$13,898,404 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, 2007

Table 4

	<u>GENERAL FUND</u>			
	<u>FISCAL YEAR</u>	<u>FISCAL YEAR</u>	<u>INCREASE</u>	<u>PERCENT</u>
	<u>2007</u>	<u>2006</u>	<u>(DECREASE)</u>	<u>(DECREASE)</u>
<u>REVENUES</u>				
Talbot County appropriations	\$ 31,864,628	\$ 29,938,812	\$ 1,925,816	6.43%
Talbot County Health Dept. school nurses	558,692	-	558,692	100.00%
State of Maryland	9,734,373	9,238,911	495,462	5.36%
State of Maryland share of retirement and pension contribution	2,241,430	2,150,165	91,265	30.23%
Other	<u>285,542</u>	<u>274,150</u>	<u>11,392</u>	4.24%
TOTAL REVENUES	<u>44,684,665</u>	<u>41,602,038</u>	<u>3,082,627</u>	7.41%
<u>EXPENDITURES</u>				
Administration	1,034,514	900,933	133,581	14.83%
Mid-level administration	3,272,925	3,146,071	126,854	4.03%
Instructional salaries	16,793,329	16,292,484	500,845	3.07%
Instructional texts and supplies	953,335	747,166	206,169	27.59%
Other instructional costs	401,765	383,705	18,060	4.71%
Special education	2,536,957	2,510,898	26,059	1.04%
Student personnel services	157,932	161,957	(4,025)	(2.49)%
Student transportation	2,048,521	1,707,896	340,625	19.94%
Operation of plant and equipment	3,353,580	3,078,207	275,373	8.95%
Maintenance of plant	1,144,585	823,043	321,542	28.09%
Fixed charges	7,677,329	7,410,215	267,114	3.60%
Debt service	2,015,740	2,041,130	(25,390)	1.24%
State of Maryland share of retirement and pension contribution	2,241,430	2,150,165	91,265	4.24%
Talbot County Health Dept. - school nurses	<u>558,692</u>	<u>-</u>	<u>558,692</u>	100.00%
TOTAL EXPENDITURES	<u>44,190,634</u>	<u>41,353,870</u>	<u>2,836,764</u>	6.86%
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 494,031</u>	<u>\$ 248,168</u>	<u>\$ 245,863</u>	99.07%

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

Table 5

	<u>RESTRICTED GRANT REVENUE</u>			PERCENT
	<u>FISCAL YEAR</u>	<u>FISCAL YEAR</u>	<u>INCREASE</u>	<u>INCREASE</u>
	<u>2007</u>	<u>2006</u>	<u>(DECREASE)</u>	<u>(DECREASE)</u>
Federal through state	\$ 2,342,243	\$ 2,489,482	\$ (147,239)	(5.92%)
State of Maryland	521,954	580,827	(58,873)	(10.12%)
Other	<u>705,398</u>	<u>428,367</u>	<u>277,031</u>	64.68%
TOTAL REVENUES	<u>\$ 3,569,595</u>	<u>\$ 3,498,676</u>	<u>\$ 70,919</u>	2.03%

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 2007, the Board received county proceeds of \$6,345,352.

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, 2007 were \$912,677.

(2) School Activities Accounts: During Fiscal Year 2007, 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, 2007

Table 6

	<u>SCHOOL ACTIVITIES FUND</u>			
	<u>FISCAL YEAR 2007</u>	<u>FISCAL YEAR 2006</u>	<u>INCREASE (DECREASE)</u>	<u>PERCENT INCREASE (DECREASE)</u>
Cash receipts	\$ 1,019,560	\$ 1,011,334	\$ 8,226	.81%
Cash expenditures	(978,098)	(954,268)	(23,830)	2.50%
Beginning cash balances	<u>381,864</u>	<u>324,798</u>	<u>57,066</u>	17.57%
 ENDING CASH BALANCES	 <u>\$ 423,326</u>	 <u>\$ 381,864</u>	 <u>\$ 41,462</u>	 10.86%

GENERAL FUND BUDGETARY HIGHLIGHTS

The actual General Fund revenues exceeded the budget by \$103,710. Actual expenditures and encumbrances were under budget by \$24,633.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets - By the end of fiscal 2007, 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 3 to the financial statements). Total depreciation expense for the year was approximately \$2.6 million.

Long-term liabilities - At year-end, the Board has \$705,213 in long-term debt. This amount consists of the following:

- \$307,411 due to Maryland State Retirement and Pension System.
- \$397,802 in Notes Payable.
- See Note 6 for more details.

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2007

FACTORS BEARING ON THE BOARD'S FUTURE

- 1) The fiscal year 2008 operating budget contains an average compensation increase for employees of 3.7% for support staff and 5% for teachers, including steps.
- 2) Federal Legislation known as **No Child Left Behind** has significantly impacted the way all school systems do business. Some of the major changes required by legislation 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 1 schools not making adequate yearly progress for two consecutive years.
 - 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.
 - 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) Most school system employee groups are covered by multi-year labor contracts, are due for negotiation during fiscal year 2008 for teachers and fiscal year 2009 for support staff.
- 4) The student enrollments are projected to remain level between fiscal year 2008 and fiscal year 2009 budgets.

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, 2007

ASSETS

		<u>GOVERNMENTAL ACTIVITIES</u>
Cash		\$ 6,292,422
Due from other units of government		781,871
Other receivables		62,685
Inventory		21,731
Capital assets:		
Construction-in-progress	11,881,694	
Land, buildings and improvements	64,607,398	
Furniture, fixtures and equipment	15,034,807	
Less: accumulated depreciation	<u>(37,694,375)</u>	
Total capital assets, net of depreciation		<u>53,849,524</u>
 TOTAL ASSETS		 <u>61,008,233</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable		305,369
Accrued expenditures		3,824,317
Payroll deductions and withholdings		49,301
Deferred revenue		1,577,569
Compensated absences		140,196
Long-term debt:		
Portion due or payable within one year:		
Notes payable	142,825	
Maryland State Retirement and Pension System	<u>35,348</u>	178,173
Portion due or payable after one year:		
Notes payable	254,977	
Maryland State Retirement and Pension System	<u>272,063</u>	<u>527,040</u>
TOTAL LIABILITIES		<u>6,601,965</u>

NET ASSETS

Investment in capital assets, net of related debt		53,451,722
Restricted for food service operations		457,568
Restricted for capital projects		2,359
Unrestricted		<u>494,619</u>
TOTAL NET ASSETS		<u>54,406,268</u>
 TOTAL LIABILITIES AND NET ASSETS		 <u>\$ 61,008,233</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	<u>MAJOR FUNDS</u>	
	<u>GENERAL</u>	<u>RESTRICTED GRANTS</u>
<u>ASSETS</u>		
Cash	\$ 5,811,985	\$ -
Due from other governments:		
Talbot County	-	-
State of Maryland	174,586	25,990
United States government	-	384,027
Due from other funds	154,723	1,243,051
Other receivables	-	62,604
Inventory	-	-
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 6,141,294</u>	<u>\$ 1,715,672</u>
<u>LIABILITIES AND FUND BALANCES</u>		
LIABILITIES		
Accounts Payable	\$ 293,168	\$ -
Accrued expenditures	3,573,744	198,517
Payroll deductions and withholdings	49,301	-
Due to other funds	1,243,051	-
Deferred revenue	19,804	1,517,155
Compensated absences	140,196	-
TOTAL LIABILITIES	<u>5,319,264</u>	<u>1,715,672</u>
FUND BALANCES		
Reserved for fund purposes	-	-
Reserved for inventory	-	-
Reserved for encumbrances	693,687	-
Unreserved	128,343	-
TOTAL FUND BALANCES	<u>822,030</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 6,141,294</u>	<u>\$ 1,715,672</u>

<u>MAJOR FUNDS CAPITAL PROJECTS</u>	<u>NON-MAJOR FUND FOOD SERVICES</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ -	\$ 480,437	\$ 6,292,422
40,083	-	40,083
132,885	5,402	338,863
-	18,898	402,925
-	-	1,397,774
-	81	62,685
<u>-</u>	<u>21,731</u>	<u>21,731</u>
<u>\$172,968</u>	<u>\$ 526,549</u>	<u>\$ 8,556,483</u>
\$ 12,201	\$ -	\$ 305,369
-	52,056	3,824,317
-	-	49,301
153,415	1,308	1,397,774
4,993	15,617	1,557,569
-	-	140,196
<u>170,609</u>	<u>68,981</u>	<u>7,274,526</u>
2,359	-	2,359
-	6,114	6,114
-	-	693,687
<u>-</u>	<u>451,454</u>	<u>579,797</u>
<u>2,359</u>	<u>457,568</u>	<u>1,281,957</u>
<u>\$172,968</u>	<u>\$ 526,549</u>	<u>\$ 8,556,483</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2007

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>
GOVERNMENTAL ACTIVITIES	
Administration	\$ 1,303,558
Instructional services	21,927,516
Special education	3,554,579
Student personnel services	174,932
Student transportation	2,480,089
Operation of plant	3,359,206
Maintenance of plant	1,170,602
Fixed charges	7,977,064
Community Services	17,224
Capital outlay	590,708
Food service operations	1,598,227
Debt service	2,015,740
On behalf payments	2,800,122
Interest on long-term debt	13,943
Depreciation – unallocated, net of depreciation included in direct expenses of various programs	<u>2,147,255</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$51,130,765</u>

<u>CHARGES FOR SERVICES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS GOVERNMENTAL ACTIVITIES</u>
	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	
\$ -	\$ -	\$ -	\$ (1,303,558)
-	2,969,766	-	(18,957,750)
-	1,629,589	-	(1,924,990)
-	-	-	(174,932)
-	1,208,898	-	(1,271,191)
-	-	-	(3,359,206)
15,348	-	-	(1,155,254)
-	-	-	(7,977,064)
-	-	-	(17,224)
-	-	11,305,237	10,714,529
961,339	735,107	-	98,219
-	2,015,740	-	-
-	2,800,122	-	-
-	-	-	(13,943)
-	-	-	(2,147,255)
<u>\$ 976,687</u>	<u>\$ 11,359,222</u>	<u>\$ 11,305,237</u>	<u>\$ (27,489,619)</u>

General revenues

Talbot County appropriations	29,848,888
State of Maryland	7,505,714
Unrestricted investment earnings	240,629
Other revenue	<u>29,565</u>
TOTAL GENERAL REVENUES	37,624,796

Transfers

Refund of prior year unreserved fund balance	
To Talbot County	<u>(210,085)</u>
TOTAL GENERAL REVENUES AND TRANSFERS	37,414,711
CHANGES IN NET ASSETS	9,925,092
NET ASSETS, BEGINNING OF YEAR	<u>44,481,176</u>
NET ASSETS, END OF YEAR	<u>\$ 54,406,268</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

Year Ended June 30, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 1,281,957
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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		91,523,899
Less: accumulated depreciation		(37,694,375)

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		397,802
Maryland State Retirement and Pension System		<u>307,411</u>

Total long-term liabilities		<u>(705,213)</u>
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TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u>\$ 54,406,268</u>
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The accompanying Notes to Financial Statements
are an integral part of this statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

Year Ended June 30, 2007

	MAJOR FUNDS	
	GENERAL	RESTRICTED GRANTS
REVENUES		
Talbot County	\$ 32,423,320	\$ -
State of Maryland	11,975,803	521,954
United States government	-	2,342,243
Other sources:		
Food service sales	-	-
Interest earned	240,629	-
Other	44,913	705,398
TOTAL REVENUES	44,684,665	3,569,595
EXPENDITURES		
Current:		
Administration	1,034,514	269,044
Mid-level administration	3,272,925	82,337
Instructional salaries	16,793,329	981,940
Instructional texts and supplies	953,335	150,676
Other instructional costs	401,765	588,026
Special education	2,536,957	1,017,622
Student personnel service	157,932	17,000
Student transportation	2,048,521	57,168
Operation of plant	3,353,580	5,626
Maintenance of plant	1,144,585	49,532
Fixed charges	7,677,329	333,400
Community services	-	17,224
Capital outlay	-	-
Food service operating expenditures	-	-
Debt service	2,015,740	-
On behalf payments	2,800,122	-
TOTAL EXPENDITURES	44,190,634	3,569,595
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	494,031	-
OTHER FINANCING USES		
Refund of prior year fund balance to Talbot County	(210,085)	-
NET CHANGE TO FUND BALANCE	283,946	-
FUND BALANCES, BEGINNING OF YEAR	538,084	-
FUND BALANCES, END OF YEAR	\$ 822,030	\$ -

<u>MAJOR FUNDS CAPITAL PROJECTS</u>	<u>NON-MAJOR FUND FOOD SERVICES</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
\$ 6,345,352	\$ -	\$ 38,768,672
4,959,884	79,245	17,536,886
-	655,862	2,998,105
-	961,339	961,339
-	-	240,629
-	-	750,311
<u>11,305,236</u>	<u>1,696,446</u>	<u>61,255,942</u>
-	-	1,303,558
-	-	3,355,262
-	-	17,775,269
-	-	1,104,011
-	-	989,791
-	-	3,554,579
-	-	174,932
-	-	2,105,689
-	-	3,359,206
-	-	1,194,117
-	-	8,010,729
-	-	17,224
11,305,236	-	11,305,236
-	1,581,696	1,581,696
-	-	2,015,740
-	-	2,800,122
<u>11,305,236</u>	<u>1,581,696</u>	<u>60,647,161</u>
-	114,750	608,781
-	-	(210,085)
-	114,750	398,696
<u>2,359</u>	<u>342,818</u>	<u>883,261</u>
<u>\$ 2,359</u>	<u>\$ 457,568</u>	<u>\$ 1,281,957</u>

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
WITH THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ 398,696
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Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlays	12,258,907
Depreciation expense	(2,587,932)

Proceeds from long-term borrowings are reported as an offset of expenditures in governmental funds, but as an increase long-term notes payable in the statement of net assets.	(369,401)
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Repayment of long-term debt is reported as an expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Notes payables	191,157
Maryland State Retirement and Pension System	<u>33,665</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$9,925,092</u></u>
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The accompanying Notes to Financial Statements
are an integral part of this statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF FIDUCIARY NET ASSETS

Year Ended June 30, 2007

	<u>AGENCY FUNDS</u>			
	<u>PRIVATE PURPOSE TRUST FUND</u>	<u>SPECIAL EDUCATION CONSORTIUM</u>	<u>SCHOOL ACTIVITIES FUND</u>	<u>TOTAL</u>
 <u>ASSETS</u>				
Cash	\$ 1,468	\$ 856,611	\$ 423,326	\$ 1,281,405
Due from state	<u>-</u>	<u>56,066</u>	<u>-</u>	<u>56,066</u>
 TOTAL ASSETS	 <u>\$ 1,468</u>	 <u>\$ 912,677</u>	 <u>\$ 423,326</u>	 <u>\$ 1,337,471</u>
 <u>LIABILITIES</u>				
Accounts payable	\$ -	\$ 2,720	\$ -	\$ 2,720
Accrued expenses	-	166,306	-	166,306
Funds held for school activities	-	-	423,326	423,326
Deferred revenue	<u>1,468</u>	<u>743,651</u>	<u>-</u>	<u>745,119</u>
 TOTAL LIABILITIES	 <u>\$ 1,468</u>	 <u>\$ 912,677</u>	 <u>\$ 423,326</u>	 <u>\$ 1,337,471</u>

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

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

(1) Summary of significant accounting policies

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational requirements of a particular program. Local appropriations, state and federal aid, and other items 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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

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

(1) Summary of significant accounting policies - continued

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

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

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

The government reports the following 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.

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

Non-major funds

Food 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).

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.

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

(1) Summary of significant accounting policies - continued

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

Capital assets - Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Cash deposits - The Board is authorized to invest any monies in any fund or account for which they have custody or control. The 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).

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

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

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

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

Budget calendar

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

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

Due to/from other funds - Outstanding balances resulting from transactions between funds as of June 30, 2007 consist of the following:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General fund	\$ 154,723	\$ 1,243,051
Restricted	1,243,051	-
Capital projects fund	-	153,415
Food service	<u>-</u>	<u>1,308</u>
TOTAL	<u>\$ 1,397,774</u>	<u>\$ 1,397,774</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

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

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.

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(2) Deposits and investments

Deposits - At year-end, the Board's carrying amount of deposits was \$1,291,403, and the bank balance was \$1,314,490. Of the bank balance, \$323,542 was insured by federal depository insurance. In addition, the Board had \$500 cash on hand for petty cash at June 30, 2007.

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 Board does not have a deposit policy for custodial credit risk. As of June 30, 2007, \$990,948 of the government's bank balance of \$1,314,490 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, 2007, 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	\$ 6,281,924	-	\$ 6,281,924	1.9%-4.6%

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

Cash on hand	\$ 500
Carrying amount of deposits	1,291,403
Carrying amount of investments (above)	<u>6,281,924</u>
Total cash and investments	7,573,827
Less: amounts in fiduciary funds	<u>(1,281,405)</u>
 TOTAL CASH AND INVESTMENTS PER STATEMENT OF NET ASSETS	 <u>\$ 6,292,422</u>

Interest 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.

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 \$6,281,924 in repurchase agreements, \$7,912,703 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.

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

(3) Capital assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
GOVERNMENTAL ACTIVITIES				
Capital assets not being depreciated:				
Land	\$ 377,446	\$ -	\$ -	\$ 377,446
Construction in progress	<u>1,167,166</u>	<u>10,714,528</u>	<u>-</u>	<u>11,881,694</u>
Total capital assets not being depreciated	<u>1,544,612</u>	<u>10,714,528</u>	<u>-</u>	<u>12,259,140</u>
Capital assets being depreciated:				
Buildings	62,487,122	-	-	62,487,122
Land improvements	1,723,765	22,074	3,009	1,742,830
Furniture, equipment and vehicles	<u>14,247,225</u>	<u>1,522,305</u>	<u>734,723</u>	<u>15,034,807</u>
Total capital assets being depreciated	<u>78,458,112</u>	<u>1,544,379</u>	<u>737,732</u>	<u>79,264,759</u>
Less accumulated Depreciation for:				
Buildings	23,133,069	1,318,625	-	24,451,694
Land improvements	795,606	44,988	3,009	837,585
Furniture, equipment and vehicles	<u>11,915,500</u>	<u>1,224,319</u>	<u>734,723</u>	<u>12,405,096</u>
Total accumulated depreciation	<u>35,844,175</u>	<u>2,587,932</u>	<u>737,732</u>	<u>37,694,375</u>
Total capital assets being depreciated, net	<u>42,613,937</u>	<u>(1,043,553)</u>	<u>-</u>	<u>41,570,384</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 44,158,549</u>	<u>\$ 9,670,975</u>	<u>\$ -</u>	<u>\$ 53,849,524</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(3) **Capital assets - continued**

Depreciation expense for the year ended June 30, 2007 was charged to governmental functions as follows:

<u>Support services</u>	
Instructional services	\$ 203,274
Student transportation	210,099
Food services	27,304
Unallocated	<u>2,147,255</u>
TOTAL	<u>\$ 2,587,932</u>

(4) **Pension plans**

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

Funding policy – Employees are members of either the retirement system (older plan) or the pension system (newer plan) based upon their date of hire. Members of the retirement system are required to contribute 5% of compensation to the plan. Members of the pension system are required to contribute 3% of compensation. The Board is required to contribute at actuarially determined rates, which are currently 9.71% of covered compensation for teachers and range from 8.1% to 13.1% for classified employees. The contribution requirements of plan members and the Board are established, and may be amended by, the SRPS Board of Trustees.

The State makes a substantial portion of the Board's annual required contributions to the Teachers systems on behalf of the Board. The State's contributions on behalf of the Board to the Teachers systems for the year ended June 30, 2007, amounted to \$2,241,430. The fiscal 2007 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the General Fund in the accompanying Statement of Activities and Statement of Revenues, Expenditures, and accompanying Statement of Activities and Statement of Revenues, Expenditures, and Changes in Fund Balances. The Board makes the entire employer required annual contributions to the Employees systems as well as those that relate to positions in the Teachers systems funded through federal and state restricted programs.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(4) Pension plans - continued

Employer's payroll and contributions under the plans - The employer's current year payroll for the years ended June 30, 2007, 2006, and 2005, payroll covered under the various state plans, and contributions paid are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total payroll	\$ 28,901,256	\$ 27,572,329	\$ 26,702,551
Payroll covered under the Plans	\$ 27,502,501	\$ 26,117,452	\$ 25,394,973
Contributions paid in:			
Board payments	\$ 470,731	\$ 652,868	\$ 425,201
State on-behalf payments	\$ 2,241,430	\$ 2,150,165	\$ 2,034,542

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 2007 payment was \$33,665. See Note 6 for the remaining years' payment stream. The payments reflect a pattern which increases by 5% per year for the next 30 years.

(5) Deferred revenue

Deferred revenue consists of federal and state grants and other revenues that have not been expended by June 30, 2007. Deferred revenue at June 30, 2007 consists of the following:

Restricted federal, Maryland and other grant programs	\$ 1,517,155
USDA commodities	15,617
Other sources	<u>24,797</u>
TOTAL DEFERRED REVENUE	<u>\$ 1,557,569</u>

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

(6) Long-term liabilities

The Board is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the county and state governments. The reporting of county debt service and related revenues in the general fund is required by state laws. Annual debt service expenditures are fully offset by county and state revenues. Debt service principal and interest paid by Talbot County was \$2,015,740 for the year ended June 30, 2007 for bond obligations.

The Board's long-term debt at June 30, 2007 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	\$ 79,008
Note payable to Branch Bank & Trust Co; principal and interest payments of \$6,834.80 are payable monthly through September 15, 2011; interest is payable at 4.19% per annum; collateralized by school buses	<u>318,794</u>
TOTAL NOTES PAYABLE	<u>\$ 397,802</u>

Aggregate maturities of long-term notes payable at June 30, 2007 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 142,825	\$13,193	\$ 156,018
2009	79,161	9,034	88,195
2010	76,101	5,916	82,017
2011	79,352	2,666	82,018
2012	<u>20,363</u>	<u>142</u>	<u>20,505</u>
TOTAL	<u>\$ 397,802</u>	<u>\$30,951</u>	<u>\$ 428,753</u>

State retirement system

State Retirement and Pension System of Maryland (note 4, funding status); payable annually through December, 2035	<u>\$ 307,411</u>
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BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
NOTES TO FINANCIAL STATEMENTS

(6) 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>
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>
Total principal and interest	\$ 2,202,983
Less amount representing interest	<u>(1,895,572)</u>
LIABILITY AS OF JUNE 30, 2007	<u>\$ 307,411</u>

The changes in long-term liabilities for the year ended June 30, 2007 are as follows:

	<u>STATE RETIREMENT SYSTEM</u>	<u>NOTES PAYABLE</u>	<u>TOTAL</u>
Balance at June 30, 2006	\$ 341,076	\$ 219,558	\$ 560,634
Additions	-	369,401	369,401
Payments	<u>(33,665)</u>	<u>(191,157)</u>	<u>(224,822)</u>
Balance at June 30, 2007	<u>\$ 307,411</u>	<u>\$ 397,802</u>	<u>\$ 705,213</u>

(7) On-behalf payments

The Board recognized the following on-behalf payments for the fiscal year ended June 30, 2007:

Pension Contribution by the State of Maryland to the state retirement system for applicable employees of the Board (Note 4)	\$ 2,241,430
School nurses provided by Talbot County, Maryland Health Department	<u>558,692</u>
TOTAL ON-BEHALF PAYMENTS	<u>\$ 2,800,122</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(8) Postemployment benefits

In addition to the pension benefits described in Note 4, the Board provides postretirement health care benefits, in accordance with Board policy, to all full time employees who are members of the Board's health care plan at the time of their retirement. Currently, 111 retirees meet those eligibility requirements. The Board pays 40% - 66% of the annual Blue Cross/Blue Shield health insurance premium and the retirees are responsible for the remaining portion of the premium. Expenditures for postretirement health care benefits are recognized as they are paid. During the year ended June 30, 2007, expenditures of \$637,372 were recognized for post-retirement health care.

(9) Budget reconciliation

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

	<u>GENERAL FUND</u>	<u>RESTRICTED GRANTS FUND</u>
REVENUES		
Non-GAAP budgetary basis	\$ 39,868,803	\$ 4,135,491
Net encumbrance adjustment	-	(555,896)
Debt service paid by Talbot County, MD	2,015,740	-
State and County – on behalf payments	<u>2,800,122</u>	<u>-</u>
GAAP BASIS	<u>\$ 44,684,665</u>	<u>\$ 3,579,595</u>
EXPENDITURES		
Non-GAAP budgetary basis	\$ 39,740,460	\$ 4,135,491
Net encumbrance adjustment	(375,688)	(555,896)
Debt service paid by Talbot County, MD	2,015,740	-
State and County – on behalf payments	<u>2,800,122</u>	<u>-</u>
GAAP BASIS	<u>\$ 44,180,634</u>	<u>\$ 3,579,595</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(10) **Risk management**

General insurance - The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Effective July 1, 1992, the Board joined the Maryland Association of Boards of Education Group Insurance and Workers Compensation Pools (MABE) which provide casualty and property insurance, and workers compensation coverage. MABE operates as authorized by Section 482B of Article 84A of the Annotated Code of Maryland. The Board pays an annual premium to MABE for its insurance coverage. The agreement for formation of MABE provides that it will be self-sustaining through member premiums and will reinsure through commercial companies as specified in the agreement. As of June 30, 2007, MABE had total fund equity of approximately \$20 million. It is believed that there are no outstanding claims in excess of the equity.

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

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

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

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

(11) **Commitments**

The Board had the following construction project in progress as of June 30, 2007:

St. Michaels complex - The board is in the process of renovating this school 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 be completed by September, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF REVENUES, EXPENDITURES AND ENCUMBRANCES –
BUDGET AND ACTUAL – GENERAL FUND AND RESTRICTED GRANTS

Year Ended June 30, 2007

	GENERAL FUND		
	ORIGINAL AND FINAL BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES			
Talbot County	\$ 29,848,888	\$ 29,848,888	\$ -
State of Maryland	9,729,205	9,734,373	5,168
United States government	-	-	-
Other sources:			
Interest earned	140,000	240,629	100,629
Other	47,000	44,913	(2,087)
TOTAL REVENUES	<u>39,765,093</u>	<u>39,868,803</u>	<u>103,710</u>
EXPENDITURES AND ENCUMBRANCES			
Administration	1,037,309	1,037,033	276
Mid-Level administration	3,321,010	3,318,954	2,056
Instructional salaries	16,800,328	16,793,329	6,999
Instructional Texts and supplies	950,595	947,912	2,683
Other instructional costs	429,392	429,350	42
Special education	2,538,171	2,536,692	1,479
Student personnel services	161,589	160,481	1,108
Health services	-	-	-
Student transportation	2,070,306	2,069,570	736
Operation of plant	3,647,481	3,643,441	4,040
Maintenance of plant	1,135,974	1,133,453	2,521
Fixed charges	7,672,938	7,670,245	2,693
Community services	-	-	-
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>39,765,093</u>	<u>39,740,460</u>	<u>24,633</u>
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES	<u>\$ -</u>	<u>\$ 128,343</u>	<u>\$ 128,343</u>

RESTRICTED GRANTS

<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
\$ -	\$ -	\$ -
573,601	495,934	(77,667)
3,856,165	2,378,372	(1,477,793)
-	-	-
<u>1,471,374</u>	<u>1,261,185</u>	<u>(210,189)</u>
<u>5,901,140</u>	<u>4,135,491</u>	<u>(1,765,649)</u>
336,909	300,109	36,800
114,929	82,336	32,593
1,270,035	981,940	288,095
242,477	193,582	48,895
1,367,043	1,145,147	221,896
1,847,328	968,917	878,411
17,000	17,000	-
-	2,221	(2,221)
77,978	60,562	17,416
22,687	(8,623)	31,310
66,341	31,687	34,654
508,413	333,401	175,012
<u>30,000</u>	<u>27,212</u>	<u>2,788</u>
<u>5,901,140</u>	<u>4,135,491</u>	<u>1,765,649</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER ADDITIONAL INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES – GENERAL FUND

Year Ended June 30, 2007

TALBOT COUNTY FUNDS		
Current appropriations	\$ 29,848,888	
Debt service	<u>2,015,740</u>	
Total County Funds		\$ 31,864,628
TALBOT COUNTY – ON BEHALF PAYMENTS		558,692
STATE OF MARYLAND FUNDS		
Current expenses	4,827,574	
Compensatory education	2,358,320	
Transportation	1,208,898	
Students with disabilities – formula	691,784	
Extended elementary education program	314,652	
Limited English-proficient	327,977	
Out of county living	<u>5,168</u>	
Total State of Maryland Funds		9,734,373
STATE OF MARYLAND – ON BEHALF PAYMENTS		2,241,430
OTHER SOURCES		
Out of county living	28,823	
Interest earned	240,629	
Miscellaneous	<u>16,090</u>	
Total Other Sources		<u>285,542</u>
TOTAL REVENUES		<u>\$ 44,684,665</u>

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

Year Ended June 30, 2007

	<u>CASH JUNE 30, 2006</u>	<u>CASH RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>CASH JUNE 30, 2007</u>
Easton High School	\$ 144,531	\$ 394,776	\$ 344,395	\$ 194,912
St. Michaels High School	76,497	159,768	177,444	58,821
Easton Middle School	13,798	151,306	142,654	22,450
Easton Elementary School - Dobson	8,127	33,989	36,046	6,070
Easton Elementary School - Moton	19,594	106,225	97,418	28,401
St. Michaels Elementary/ Middle School	29,008	53,347	58,204	24,151
Tilghman Elementary School	15,763	19,449	19,986	15,226
White Marsh Elementary School	16,988	47,301	49,105	15,184
Chapel District Elementary School	<u>57,558</u>	<u>53,399</u>	<u>52,846</u>	<u>58,111</u>
TOTALS	<u>\$ 381,864</u>	<u>\$ 1,019,560</u>	<u>\$ 978,098</u>	<u>\$ 423,326</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

GRANT NAME	CFDA NUMBER	MSDE/FEDERAL GRANT NUMBER	PROJECT PERIOD	TOTAL GRANT AWARD
DEPARTMENT COMMERCE				
National oceanic and atmospheric administration				
Chesapeake Bay studies	11.457	401518-01	10/01/03 - 12/31/03	\$
NOAA year 3 meaningful Bay experience	11.457	501401-01	07/01/04 - 06/30/05	\$
TOTAL DEPARTMENT OF COMMERCE				
DEPARTMENT OF EDUCATION				
Adult education				
NALS 3	84.002A	030357-02	07/01/99 – 06/30/00	\$
Title I Grants				
Network for Success	84.010	031902-01	07/01/99 – 09/30/00	\$
Title 1	84.010	600552-01	07/01/05 – 06/30/07	\$
Title 1	84.010	401711-01	07/01/03 – 06/30/05	\$
Title 1	84.010	500438-01	07/01/04 - 06/30/06	\$
Title I school improvement	84.010	500937-01	07/01/04 - 06/30/06	\$
Title 1 NCLB	84.010	601066-01	07/01/05 - 9/30/05	\$
Title 1	84.010	602123-01	10/01/05 - 8/31/06	\$
Special education - grants to states				
Parent information	84.027	832285	06/01/98 - 09/30/99	\$
Pass through	84.027	400494-01	07/01/03 - 09/30/04	\$
Discretionary	84.027	400494-06	07/01/03 - 09/30/04	\$
IDEA, part b	84.027	930836	08/10/98 - 09/30/99	\$
State supplemental	84.027	030623-02	07/01/99 - 09/30/00	\$
Preschool	84.027	030623-04	07/01/99 - 09/30/00	\$
IDEA, part b	84.027	030809-01	09/01/99 - 09/30/00	\$
Disproportional	84.027	030965-01	10/30/99 - 09/30/00	\$
Handicapped children	84.027	131079-01	07/30/00 - 09/30/01	\$

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

		MSDE/FEDERAL		TOTAL
	CFDA	GRANT		GRANT
GRANT NAME	NUMBER	NUMBER	PROJECT PERIOD	AWARD
DEPARTMENT OF EDUCATION - continued				
Special education - grants to states - continued				
Handicapped children	84.027	131079-03	07/30/00 - 09/30/01	\$
Handicapped children	84.027	400494-09	07/01/03 - 08/30/04	\$
Disporportional	84.027	131554-01	09/20/00 - 09/30/01	\$
State improvement	84.027	131950-01	11/30/00 - 09/30/01	\$
State supplemental	84.027	232364-03	07/01/01 - 6/30/02	\$
Preschool	84.027	232364-04	07/01/01 - 6/30/02	\$
Infants & toddlers	84.027	232403-02/03	07/01-01 - 06/30/02	\$
Disporportional	84.027	232714	07/01/01 - 06/30/02	\$
Discretionary	84.027	233150	10/09/01 - 09/30/02	\$
Handicapped children	84.027	234255	10/01/01 - 09/30/02	\$
Pass through	84.027	301248-01	07/01/02 - 09/30/03	\$
Discretionary	84.027	301248-03	07/01/02 - 09/30/03	\$
Discretionary	84.027	301248-05	07/01/02 - 06/30/03	\$
State supplemental	84.027	400494-07	07/01/03 - 06/30/04	\$
Disproportional	84.027	400374-02	07/01/03 - 09/30/04	\$
Professional staff development	84.027	500757-01	07/01/04 - 06/30/05	\$
Handicapped children	84.027	500911-01	07/01/04 - 09/30/05	\$
Handicapped children	84.027	500324-07	07/01/04 - 09/30/05	\$
Pass through	84.027	500324-01	07/01/04 - 06/30/05	\$
Discretionary	84.027	500800-01	07/01/04 - 09/30/05	\$
Discretionary	84.027	500742-01	07/01/04 - 09/30/05	\$
Discretionary	84.027	500324-02	07/01/04 - 09/30/05	\$
Infants & toddlers	84.027	500987-02	07/01/04 - 06/30/05	\$
Pass through carryover	84.027	501658-01	07/01/04 - 06/30/05	\$
Handicapped children	84.027	600676-01	07/01/05 - 09/30/06	\$
Pass through	84.027	600162-01	07/01/05 - 06/30/06	\$
Discretionary	84.027	600162-02	07/01/05 - 09/30/06	\$
LRE	84.027	600162-03	07/01/05 - 06/30/06	\$
Special education consortium	84.027	600162-04	07/01/05 - 06/30/06	\$
Infants & toddlers	84.027	601882-02	07/01/05 - 06/30/06	\$
Pass through carryover	84.027	601835-01	07/01/05 - 06/30/06	\$
Infants & toddlers	84.027	600848-03	07/01/05 - 06/30/06	\$

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

		MSDE/FEDERAL		TOTAL
	CFDA	GRANT		GRANT
GRANT NAME	NUMBER	NUMBER	PROJECT PERIOD	AWARD
DEPARTMENT OF EDUCATION - continued				
Vocational education - basic grants to states				
Career & technology education	84.048	931033	07/01/98 - 06/30/99	\$
Career & technology education	84.048	331058-01	07/01/02 - 06/30/03	\$
Career & technology education	84.048	500576-01	07/01/04 - 06/30/05	\$
Career & technology education	84.048	600610-01	07/01/05 - 06/30/06	\$
Special education - preschool grants				
Handicapped children	84.173	930734-05	07/01/98 - 09/30/99	\$
Special education - IDEA part b	84.173	030711-01	07/01/99 - 06/30/01	\$
Handicapped children	84.173	131079-05	07/01/00 - 06/30/01	\$
Preschool	84.173	232364-06	07/01/01 - 06/30/02	\$
Handicapped children	84.173	500324-05	07/01/04 - 06/30/05	\$
Handicapped children	84.173	400493-03	07/01/03 - 06/30/04	\$
Infants & toddlers	84.173	501628-03	07/01/04 - 06/30/05	\$
Infants & toddlers	84.173	500987-03	07/01/04 - 06/30/05	\$
Preschool pass through	84.173	600162-05	07/01/05 - 06/30/06	\$
Special education consortium	84.173	600162-06	07/01/05 - 06/30/06	\$
Infants & toddlers	84.173	601882-03	07/01/05 - 06/30/06	\$
Infants & toddlers	84.173	600848-04	07/01/05 - 06/30/06	\$
Special education - grants for infants and families with disabilities				
Maryland infants and toddlers	84.181	9620A96	07/01/96 - 06/30/97	\$
Infants and toddlers	84.181	831669	07/01/97 - 06/30/98	\$
Infants and toddlers	84.181	301346-01	07/01/02 - 06/30/03	\$
Infants and toddlers	84.181	400744-01	07/01/03 - 06/30/04	\$
Infants and toddlers	84.181	401757-01	07/01/03 - 06/30/04	\$
Infants and toddlers	84.181	501528-04	07/01/04 - 06/30/05	\$
Infants and toddlers	84.181	500987-01	07/01/04 - 06/30/05	\$
Infants and toddlers	84.181	601882-01	07/01/05 - 06/30/06	\$
Infants and toddlers	84.181	600848-02	07/01/05 - 06/30/06	\$
Infants and toddlers	84.181	600848-01	07/01/05 - 06/30/06	\$

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

Year Ended June 30, 2007

<u>GRANT NAME</u>	<u>CFDA NUMBER</u>	<u>MSDE/FEDERAL GRANT NUMBER</u>	<u>PROJECT PERIOD</u>	<u>TOTAL GRANT AWARD</u>
DEPARTMENT OF EDUCATION - continued				
Safe and drug free schools - state grants				
Title IV, safe & drug free schools & communities	84.186	832285-01	06/30/98 - 09/30/99	\$
Title IV, safe & drug free schools & communities	84.186	832275-02	06/30/98 - 09/30/99	\$
Title IV, safe & drug free schools & communities	84.186	931289-02	07/01/98 - 06/30/00	\$
Title IV, safe & drug free schools & communities	84.186	130374-19	07/01/00 - 06/30/02	\$
Title IV, safe & drug free schools & communities	84.186	232440-03	07/01/01 - 06/30/03	\$
Title IV, safe & drug free schools & communities	84.186	600521-01	07/01/05 - 06/30/07	\$
Tech prep education				
Tech prep	84.243	190003-01/02	07/01/00 - 06/30/01	\$
Fund for the improvement of education				
Partnerships in character education	84.215	600850-01	10/01/05 - 09/30/06	\$
Character education	84.215	501648-01	01/01/05 - 12/31/05	\$
Goals 2000 - state & local education systemic improvement grants				
Goals 2000	84.276	031842-01	04/01/00 - 06/30/01	\$
Goals 200 - school for success	84.276	132308	06/30/01 - 09/30/01	\$
Eisenhower professional development				
Eisenhower professional development grant	84.281	731419	12/11/96 - 06/30/98	\$

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

Year Ended June 30, 2007

GRANT NAME	CFDA NUMBER	MSDE/FEDERAL GRANT NUMBER	PROJECT PERIOD	TOTAL GRANT AWARD
DEPARTMENT OF EDUCATION - continued				
Eisenhower professional development - continued				
Eisenhower professional development grant	84.281	131146	10/01/00 - 06/30/02	\$
Eisenhower professional development grant	84.281	233024	09/21/01 - 06/30/03	\$
Twenty first century community learning centers				
Twenty first century community learning centers	84.287A	R992871	06/01/99 - 05/31/00	\$
Twenty first century community learning centers	84.287A	R287A990324	06/01/00 - 05/31/01	\$
Twenty first century community learning centers	84.287A	Unknown	06/01/01 - 05/31/02	\$
Innovative education program strategies				
Title IV - I.A.S.A.	84.298	930020	07/01/98 - 06/30/99	\$
Title IV - I.A.S.A.	84.298	030958	07/01/99 - 06/30/01	\$
Title IV - I.A.S.A.	84.298	131868-05	07/01/00 - 06/30/02	\$
Title IV - I.A.S.A.	84.298	233030	07/01/01 - 06/30/03	\$
Title V, part a	84.298	500442	07/01/04 - 06/30/06	\$
Title V, part a	84.298	600453-01	07/01/05 - 06/30/07	\$
Enhancing education through technology				
Technology literacy challenge	84.318	930370	07/01/98 - 09/30/99	\$
Enhancing education through technology	84.318	301193-01	07/01/02 - 09/30/03	\$
Enhancing education through technology	84.318	331060-01	07/01/02 - 09/30/03	\$
Enhancing education through technology	84.318	400695-01	07/01/03 - 06/30/05	\$

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

Year Ended June 30, 2007

<u>GRANT NAME</u>	<u>CFDA NUMBER</u>	<u>MSDE/FEDERAL GRANT NUMBER</u>	<u>PROJECT PERIOD</u>	<u>TOTAL GRANT AWARD</u>
DEPARTMENT OF EDUCATION - continued				
Enhancing education through technology - continued				
Enhancing education through technology	84.318	400955-01	07/01/03 - 09/30/04	\$
Enhancing education through technology	84.318	500781-01	07/01/04 - 09/30/05	\$
Enhancing education through technology	84.318	500440-01	07/01/04 - 06/30/06	\$
Enhancing education through technology	84.318	601038-02	07/01/05 - 06/30/07	\$
Enhancing education through technology	84.318	601071-01	07/01/05 - 06/30/07	\$
Class size reduction				
Class size reduction - federal	84.340	130531-01	07/01/00 - 12/30/01	\$
Title 1 accountability grants				
SAFE - new school improvement	84.348	232440-02	07/01/01 - 06/30/03	\$
English language acquisition grants				
English language acquisition	84.365	500474-01	07/01/04 - 06/30/06	\$
English language acquisition	84.365	330974-01	01/01/02 - 09/30/04	\$
English language acquisition	84.365	600507-01	07/01/05 - 06/30/04	\$
Improving teacher quality state grants				
Improving teacher quality	84.367	400694-01	07/01/03 - 06/30/05	\$
Improving teacher quality	84.367	500439-01	07/01/04 - 06/30/06	\$
Improving teacher quality	84.367	600480-01	07/01/05 - 06/30/07	\$
Hurricane education recovery				
Hurricane education recovery	84.938C	602031-01	09/01/05 - 07/31/06	\$
Sexual harassment/assault prevention grants				
Sexual harassment	93.126	500948-01	10/01/04 - 06/30/06	\$
Sexual harassment	93.126	600346-01	07/01/05 - 06/30/06	\$
TOTAL DEPARTMENT OF EDUCATION				

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2007

GRANT NAME	CFDA NUMBER	MSDE/FEDERAL GRANT NUMBER	PROJECT PERIOD	TOTAL GRANT AWARD
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Serve America sub-grant	94.004	831467-01	09/01/97 - 12/31/98	\$
Serve America sub-grant	94.004	930891-01	09/01/98- 12/31/99	\$
Serve America sub-grant	94.004	232846-01	09/01/01 - 08/31/02	\$
MD student service alliance	94.004	331073-01	07/01/02 - 12/31/03	\$
Serve America sub-grant	94.004	401161-01	09/01/03 - 06/30/04	\$
Serve America sub-grant	94.004	500765-01	07/01/04 - 08/31/05	\$
Serve America sub-grant	94.004	601017-01	09/01/05 - 08/31/06	\$
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	\$
Medicaid	93.767	400121-01	07/01/03 - 06/30/04	\$
Health care financing administration				
Medical assistance	93.778	232256	07/01/01 - 06/30/02	\$
Medical assistance	93.778	232266	07/01/01 - 06/30/02	\$
Medical assistance	93.778	330163-01	07/01/02 - 06/30/03	\$
Medical assistance	93.778	330205-01	07/01/02 - 06/30/03	\$
Medical assistance	93.778	Unknown	Unknown	Unknown
Medicaid	93.778	930171	07/01/98 - 06/30/99	\$
Medicaid	93.778	930267	07/01/98 - 06/30/99	\$
Medicaid	93.778	500118-01	07/01/04 - 06/30/05	\$
Medicaid	93.778	500144-01	07/01/04 - 06/30/05	\$
Medicaid	93.778	600239-01	07/01/05 - 06/30/06	\$
Medicaid	93.778	600211-01	07/01/05 - 06/30/06	\$
Temporary assistance for needy families				
SAFE - high school drop out prevention	93.558	330710-03	07/01/02 - 06/30/04	\$
SAFE - high school drop out prevention	93.558	400462-01	07/01/03 - 09/30/04	\$

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

Year Ended June 30, 2007

<u>GRANT NAME</u>	<u>CFDA NUMBER</u>	<u>MSDE/FEDERAL GRANT NUMBER</u>	<u>PROJECT PERIOD</u>	<u>TOTAL GRANT AWARD</u>
DEPARTMENT OF HEALTH & HUMAN SERVICES - Continued				
Preventive health & health services block grant				
Sexual assault prevention grant	93.991	931929	02/19/99 - 09/30/99	\$
Sexual assault prevention grant	93.991	031419	12/20/99 - 09/30/00	\$
TOTAL DEPARTMENT OF HEALTH & HUMAN SERVICES				
DEPARTMENT OF AGRICULTURE				
Team nutrition training grants				
Team nutrition grant	10.574	233725	12/05/01 - 02/28/02	\$
Food distribution				
USDA commodities	10.550	N/A	07/01/05 - 06/30/06	N/A
Child nutrition cluster				
National school lunch program	10.555	Section 4	07/01/04 - 06/30/05	\$
National school lunch program	10.555	Section 11	07/01/04 - 06/30/05	\$
School breakfast program	10.555	SN Breakfast	07/01/04 - 06/30/05	\$
National school lunch program	10.555	Section 4	07/01/05 - 06/30/06	\$
National school lunch program	10.555	Section 11	07/01/05 - 06/30/06	\$
School breakfast program	10.555	SN Breakfast	07/01/05 - 06/30/06	\$
TOTAL DEPARTMENT OF AGRICULTURE				
FEDERAL DIRECT - DEPARTMENT OF EDUCATION				
Safe and drug free schools and communities - national programs				
Federal justice	84.184	S184L000004	On-Going	\$
TOTAL FEDERAL DIRECT				
TOTAL FEDERAL AWARDS				

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

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

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

<u>Program Description</u>	<u>CFDA Number</u>	<u>Fiscal Year 2007 Expenditure</u>
Special Education Cluster	84.027 & 84.173	\$

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

(2) Fiscal year audited

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2007. Single audit testing has previously been performed on transactions occurring during the fiscal year ended June 30, 2006.

(3) Summary of significant accounting policies

Basis of presentation - The accompanying Schedule of Expenditures of Federal Awards includes all federal grants of the Board which had financial activity during the fiscal year 2006 or accrued (deferred) grant revenue at June 30, 2007. This schedule has been prepared in accordance with accounting principles generally accepted in the United States of America.

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

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

(4) 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.

(5) Revenue reconciliation

The following is a reconciliation of revenue recognized in the 2007 Schedule of Expenditures of Federal Awards with the revenue recognized in the 2007 basic financial statements.

Restricted current expense fund -	
U.S. government revenue	\$
Food service fund -	
U.S. government revenue	
Agency fund - Mid-shore special education consortium	_____
 REVENUE RECOGNIZED ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	 \$ _____

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

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

Year Ended June 30, 2006

The compliance procedures applied to the fiscal year ended June 30, 2006 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

Year Ended June 30, 2007