

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
OTHER SUPPLEMENTARY INFORMATION
Year Ended June 30, 2011

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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, 2011, 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, 2011, 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 our report dated September 29, 2011, 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 should be considered in assessing the results of our audit.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 15 and on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements as a whole. The combining nonmajor fund financial statements, schedule of general fund revenues, and schedule of agency fund cash receipts and 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. The schedule of revenues, statement of cash receipts and cash disbursements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



September 29, 2011
Easton, Maryland



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**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, 2011, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated September 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Board's financial statements will not be prevented, or detected and corrected on a timely basis.

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Compliance and Other Matters

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

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

Maya Hoffman McCann P.C.

September 29, 2011
Easton, Maryland

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

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, 2011. Please read it in conjunction with the Board's financial statements, which immediately follow this section.

Financial highlights

Key financial highlights for the fiscal year (FY) ended June 30, 2011 include the following:

- Net assets total \$59,106,783, a decrease of \$5,144,615, or 8.01% from the prior year.
- General Fund unassigned fund balance was \$37,354, after an assignment for encumbrances of \$1,225,074. The total fund balance was \$1,262,428, a decrease of \$18,989 from the prior year.

Overview of the financial statements

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

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

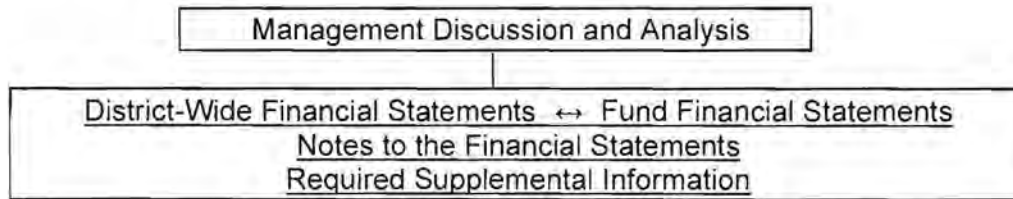
THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

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

Figure 1 – Organization of TCBOE Annual Financial Report



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

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

	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the Board that are not proprietary or fiduciary, such as special education, general and building maintenance, food service, and capital projects	Instances in which the Board administers resources on behalf of someone else, such as the Special Education Consortium and Student Activities Fund
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenue, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Full accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2010

District-wide financial statements

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

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

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

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

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

Fund financial statements

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

- Some funds are required by State law.
- The Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues (e.g., federal and state grants).
- The Board has two kinds of funds:
 - *Governmental funds* – Most of the Board's basic services are included in governmental funds, which generally focus on (1) *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Board's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information reconciling governmental funds statements with the district-wide statements.
 - *Fiduciary funds* – The Board is the trustee, or agent, for assets that belong to others, such as the Mid-Shore Special Education Consortium. The Student Activities Fund is also accounted for as a fiduciary fund. The Board is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the Board cannot use these assets to finance its operations.

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

Financial analysis of the board as a whole

Net Assets - The Board's net assets were \$59,106,783 on June 30, 2011. This was a decrease of 8.01% from the prior year. (See Table 1).

Table 1

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
Current and other assets	\$ 7,743,947	\$ 7,658,335
Capital assets	<u>67,854,383</u>	<u>70,668,404</u>
TOTAL ASSETS	<u>75,598,330</u>	<u>78,326,739</u>
<u>LIABILITIES</u>		
Current liabilities	6,605,575	6,479,727
Long-term liabilities	<u>9,885,972</u>	<u>7,595,614</u>
TOTAL LIABILITIES	<u>16,491,547</u>	<u>14,075,341</u>
<u>NET ASSETS</u>		
Investment in capital assets, net of related debt	67,355,228	69,812,445
Restricted	213,254	281,929
Unrestricted	<u>(8,461,699)</u>	<u>(5,842,976)</u>
TOTAL NET ASSETS	<u>\$ 59,106,783</u>	<u>\$ 64,251,398</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

Financial analysis of the board as a whole - continued

Changes in net assets - The Board's total revenues were \$59,896,381 for the year ended June 30, 2011. (See Table 2). The county appropriation and state aid accounted for approximately 70 percent of total revenue for the year. Another 29% came from program revenues, and the remainder from investment earnings and other sources. The total cost of all programs and services was \$65,020,479. The Board's expenses are predominantly related to providing direct educational services to students (58%). The purely administrative activities of the Board accounted for 2% of total expenses. Total expenses surpassed revenues, decreasing net assets \$5,144,615 from last year.

Table 2

	<u>2011</u>	<u>% OF</u>	<u>2010</u>	<u>% OF</u>
	<u>GOVERNMENTAL</u>	<u>TOTAL</u>	<u>GOVERNMENTAL</u>	<u>TOTAL</u>
	<u>ACTIVITIES</u>		<u>ACTIVITIES</u>	
<u>REVENUES</u>				
<i>Program Revenues:</i>				
Charges for services	\$ 803,907	1.34	\$ 819,332	1.35
Federal, state and local grants	16,411,918	27.40	15,905,889	26.29
<i>General Revenues:</i>				
County appropriation	34,329,542	57.31	34,219,073	56.57
State of Maryland	7,377,061	12.32	7,579,590	12.53
Restricted for capital projects	788,015	1.32	1,839,427	3.04
Other	185,938	0.31	132,272	0.22
TOTAL REVENUE	<u>59,896,381</u>	<u>100.00</u>	<u>60,495,583</u>	<u>100.00</u>
<u>EXPENSES</u>				
Instruction and special education	37,756,353	58.07	38,141,526	57.96
Administration	1,330,816	2.05	1,220,455	1.85
Support services	21,893,687	33.67	22,463,125	34.14
Depreciation	4,039,623	6.20	3,982,775	6.05
TOTAL EXPENSES	<u>65,020,479</u>	<u>99.99</u>	<u>65,807,881</u>	<u>100.00</u>
EXCESS OF EXPENSES OVER REVENUES	(5,124,098)		(5,312,298)	
Transfer of Unreserved Fund Balance to County	<u>(20,517)</u>		<u>(33,092)</u>	
DECREASE IN NET ASSETS	<u>\$ (5,144,615)</u>		<u>\$ (5,345,390)</u>	

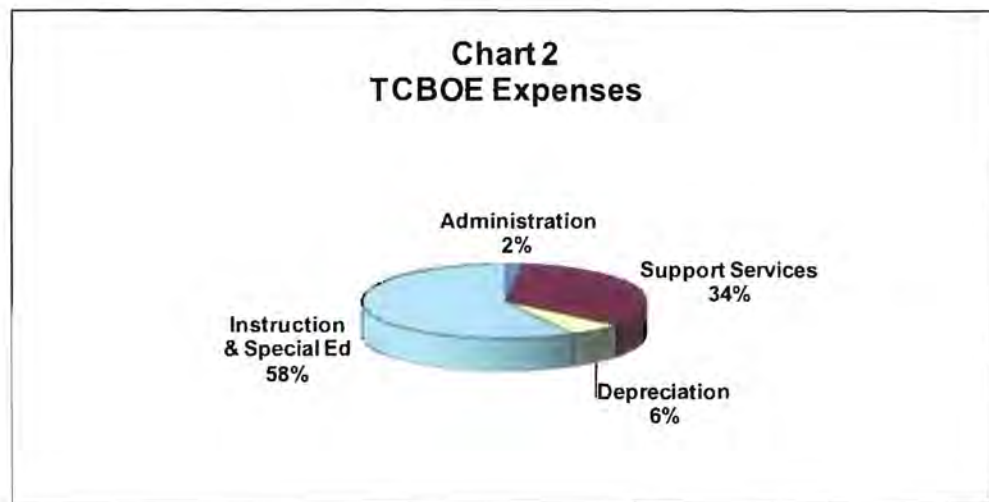
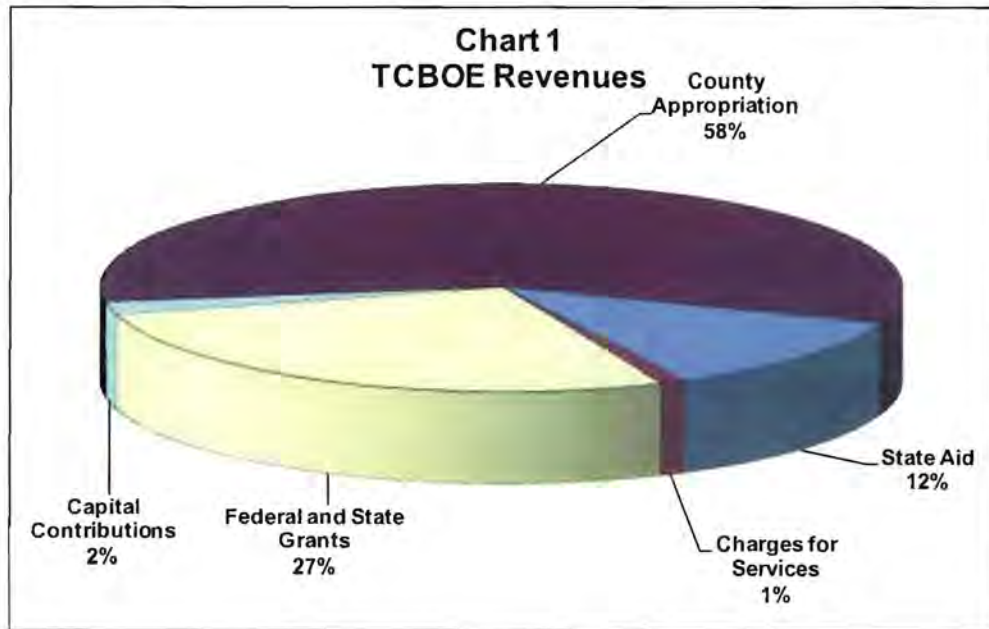
THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

Financial analysis of the board as a whole - continued

Governmental activities - The decrease in net assets for governmental activities was \$5,144,615 in 2011.



THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

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 \$1,475,682, a decrease of \$87,664 from last year's ending fund balance.

Revenues for the Board's governmental funds were \$59,896,381, a decrease of \$599,202 from fiscal year 2010. Total expenditures were \$59,963,528 for the year, a decrease of \$100,384 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 3 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 4 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, 2011

Table 3

	<u>GENERAL FUND</u>			
	<u>FISCAL YEAR</u> <u>2011</u>	<u>FISCAL YEAR</u> <u>2010</u>	<u>INCREASE</u> <u>(DECREASE)</u>	<u>PERCENT</u> <u>INCREASE</u> <u>(DECREASE)</u>
<u>REVENUES</u>				
Talbot County appropriations	\$ 38,029,679	\$ 38,010,145	\$ 19,534	0.05%
Talbot-school nurses	612,645	596,363	16,282	2.73%
State of Maryland	9,898,201	10,188,898	(290,697)	(2.85%)
State of Maryland share of retirement and pension contribution	3,756,748	3,309,785	446,963	13.50%
Other	<u>201,367</u>	<u>154,744</u>	<u>46,623</u>	<u>30.13%</u>
TOTAL REVENUES	<u>52,498,640</u>	<u>52,259,935</u>	<u>238,705</u>	<u>0.46%</u>
<u>EXPENDITURES</u>				
Administration	1,052,922	1,086,530	(33,608)	(3.09%)
Mid-level administration	3,832,751	3,927,834	(95,083)	(2.42%)
Instructional salaries	19,132,429	19,003,605	128,824	0.68%
Instructional texts and supplies	1,098,800	1,028,482	70,318	6.84%
Other instruction costs	552,436	485,805	66,631	13.72%
Special education	2,782,411	2,740,899	41,512	1.51%
Student personnel services	201,246	219,883	(18,637)	(8.48%)
Student transportation	2,400,048	2,582,748	(182,700)	(7.07%)
Operation of plant and equipment	3,094,357	3,427,683	(333,326)	(9.72%)
Maintenance of plant	1,364,010	1,098,777	265,233	24.14%
Fixed charges	8,916,172	8,499,206	416,966	4.91%
Debt service	3,700,137	3,791,072	(90,935)	(2.40%)
School nurses	612,645	596,363	16,282	2.73%
State of Maryland share of retirement and pension contribution	<u>3,756,748</u>	<u>3,309,785</u>	<u>446,963</u>	<u>13.50%</u>
TOTAL EXPENDITURES	<u>52,497,112</u>	<u>51,798,672</u>	<u>698,440</u>	<u>1.35%</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 1,528</u>	<u>\$ 461,263</u>	<u>\$ (459,735)</u>	<u>(99.67%)</u>

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

Table 4

	<u>RESTRICTED GRANT REVENUE</u>			
	<u>FISCAL YEAR</u> <u>2011</u>	<u>FISCAL YEAR</u> <u>2010</u>	<u>INCREASE</u>	<u>PERCENT</u> <u>INCREASE</u>
Federal Through State	\$ 3,635,572	\$ 3,655,614	\$ (20,042)	(0.55%)
State of Maryland	465,308	494,691	(29,383)	(5.94%)
Other	<u>675,425</u>	<u>558,797</u>	<u>116,628</u>	20.87%
 TOTAL REVENUES	 <u>\$ 4,776,305</u>	 <u>\$ 4,709,102</u>	 <u>\$ 67,203</u>	 1.43%

Capital projects fund - The Board has no legal authority to borrow funds for construction. 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 2011, the Board received county proceeds of \$706,955 and state funding of \$54,192.

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

- (1) Mid-Shore Special Education Consortium: A five (5) county consortium serving Caroline, Dorchester, Kent, Queen Anne's and Talbot County students with disabilities. Total assets as of June 30, 2011 were \$679,981.
- (2) School Activities Accounts: During fiscal year 2011, the Board's nine schools collected revenues and incurred expenditures for various student activities (see Table 5). The Board contracts with an independent Certified Public Accountant to perform an audit of these agency funds on an annual basis. Please refer to the separately issued audited financial statements for the School Activities Fund for specific details.
- (3) Private Purpose Trust Fund: The fund is used to account for memorial donations to the public school system.

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

Table 5

	<u>SCHOOL ACTIVITIES FUND</u>			<u>PERCENT INCREASE (DECREASE)</u>
	<u>FISCAL YEAR 2011</u>	<u>FISCAL YEAR 2010</u>	<u>INCREASE (DECREASE)</u>	
Cash Receipts	\$ 943,167	\$ 914,212	\$ 28,955	3.17%
Cash Expenditures	(1,035,159)	(987,881)	(47,278)	4.79%
Beginning Cash Balances	<u>257,892</u>	<u>331,561</u>	<u>(73,669)</u>	(22.22%)
ENDING CASH BALANCES	\$ <u>165,900</u>	\$ <u>257,892</u>	\$ <u>(91,992)</u>	(35.67%)

General fund budgetary highlights

The actual General Fund revenues were under budget by \$348,169. Actual expenditures and encumbrances were under budget by \$385,523. There were budget adjustments during the year to transfer \$748,780 from Student Transportation and Operation of Plant to Fixed Charges for an increase in health insurance costs.

Capital assets and debt administration

Capital assets - By the end of fiscal year 2011, the Board had invested \$114 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 4 to the financial statements). Total depreciation expense for the year was approximately \$4 million.

Long-term liabilities - At year-end, the Board had \$12,532,138 in long-term debt. This amount consists of the following:

- \$458,797 due to Maryland State Retirement and Pension System.
- \$191,175 in notes payable.
- \$9,236,000 in Net OPEB obligation.
- See Notes 7 and 9 for more details.

THE BOARD OF EDUCATION OF TALBOT COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2011

Factors impacting the school system

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

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

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

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

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, 2011

ASSETS

**GOVERNMENTAL
ACTIVITIES**

Cash		\$ 7,193,008
Due from other units of government		490,885
Other receivables		35,851
Inventory		24,203
Capital assets:		
Land		377,446
Other depreciable capital assets, at cost, less accumulated depreciation		<u>67,476,937</u>
TOTAL ASSETS		<u>\$ 75,598,330</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable		\$ 99,042
Accrued expenditures		4,158,209
Payroll deductions and withholdings		68,191
Deferred revenue		1,771,823
Compensated absences		171,000
Long-term debt:		
Portion due or payable within one year:		
Notes payable	307,980	
Maryland State Retirement and Pension System	<u>29,330</u>	337,310
Portion due or payable after one year:		
Net OPEB obligation	9,236,000	
Notes payable	191,175	
Maryland State Retirement and Pension System	<u>458,797</u>	<u>9,885,972</u>
TOTAL LIABILITIES		<u>16,491,547</u>

NET ASSETS

Investment in capital assets, net of related debt		67,355,228
Restricted for food service operations		213,254
Unrestricted deficit		<u>(8,461,699)</u>
TOTAL NET ASSETS		<u>59,106,783</u>

TOTAL LIABILITIES AND NET ASSETS		<u>\$ 75,598,330</u>
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The accompanying Notes to Financial Statements
are an integral part of this financial statement

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2011

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>PROGRAM REVENUES</u>		<u>NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS GOVERNMENTAL ACTIVITIES</u>
		<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	
GOVERNMENTAL ACTIVITIES				
Administration	\$ 1,129,570	\$ -	\$ -	\$ (1,129,570)
Instructional services	26,568,401	-	4,203,795	(22,364,606)
Special education	4,475,557	-	2,347,841	(2,127,716)
Student personnel services	201,246	-	-	(201,246)
Student transportation	2,485,074	-	1,358,454	(1,126,620)
Operation of plant	2,877,429	-	-	(2,877,429)
Maintenance of plant	1,393,459	15,429	-	(1,378,030)
Fixed charges	16,304,307	-	3,756,748	(12,547,559)
Community Services	282,268	-	-	(282,268)
Capital outlay	788,015	-	-	(788,015)
Food service operations	1,909,575	788,478	1,044,943	(76,154)
Debt service	3,700,137	-	3,700,137	-
Interest on long-term debt	27,202	-	-	(27,202)
Depreciation – unallocated	2,878,239	-	-	(2,878,239)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 65,020,479	\$ 803,907	\$ 16,411,918	(47,804,654)
<u>General revenues</u>				
				34,329,542
Talbot County appropriations				7,377,061
State of Maryland				788,015
Capital outlay/construction funding				13,590
Unrestricted investment earnings				172,348
Other revenue				<u>42,680,556</u>
Total General Revenues				
<u>Transfers</u>				
Refund of prior year unreserved fund balance to Talbot County				<u>(20,517)</u>
TOTAL GENERAL REVENUES AND TRANSFERS				<u>42,660,039</u>
CHANGE IN NET ASSETS				<u>(5,144,615)</u>
NET ASSETS, BEGINNING OF YEAR				<u>64,251,398</u>
NET ASSETS, END OF YEAR				<u>\$ 59,106,783</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, 2011

	MAJOR FUNDS			TOTAL GOVERNMENTAL FUNDS
	GENERAL	RESTRICTED GRANTS	NON-MAJOR FUNDS	
ASSETS				
Cash	\$ 6,965,913	\$ -	\$ 227,095	\$ 7,193,008
Due from other governments:				
Talbot County	-	46,692	4,833	51,525
State of Maryland	-	85,023	7,237	92,260
United States government	-	305,162	41,938	347,100
Due from other funds	3,946	1,276,496	-	1,280,442
Other receivables	35,851	-	-	35,851
Inventory	-	-	24,203	24,203
TOTAL ASSETS	\$ 7,005,710	\$ 1,713,373	\$ 305,306	\$ 9,024,389
LIABILITIES				
Accounts payable	\$ 93,798	\$ 5,244	\$ -	\$ 99,042
Accrued expenditures	3,916,736	174,596	66,877	4,158,209
Payroll deductions and withholdings	68,191	-	-	68,191
Due to other funds	1,276,496	-	3,946	1,280,442
Deferred revenue	217,061	1,533,533	21,229	1,771,823
Compensated absences	171,000	-	-	171,000
TOTAL LIABILITIES	5,743,282	1,713,373	92,052	7,548,707
FUND BALANCES				
Nonspendable:				
Inventory	-	-	4,754	4,754
Restricted for:				
Fund purposes	-	-	208,500	208,500
Assigned:				
Encumbrances	1,225,074	-	-	1,225,074
Unassigned	37,354	-	-	37,354
TOTAL FUND BALANCES	1,262,428	-	213,254	1,475,682
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,005,710	\$ 1,713,373	\$ 305,306	\$ 9,024,389

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, 2011

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		\$ 1,475,682
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		114,368,626
Less: accumulated depreciation		(46,514,243)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Net OPEB obligation	9,236,000	
Notes payable	499,155	
Maryland State Retirement and Pension System	<u>488,127</u>	
Total long-term liabilities		<u>(10,223,282)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u>\$ 59,106,783</u>

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 BALANCES

GOVERNMENTAL FUNDS

Year Ended June 30, 2011

	<u>MAJOR FUNDS</u>			<u>TOTAL GOVERNMENTAL FUNDS</u>
	<u>GENERAL</u>	<u>RESTRICTED GRANTS</u>	<u>NON-MAJOR FUNDS</u>	
REVENUES				
Talbot County	\$ 38,642,324	\$ -	\$ 706,955	\$ 39,349,279
State of Maryland	13,654,949	465,308	138,317	14,258,574
United States government	-	3,635,571	960,818	4,596,390
Other sources:				
Food service sales	-	-	788,478	788,478
Interest earned	13,590	-	-	13,590
Other	187,777	675,426	26,868	890,070
TOTAL REVENUES	<u>52,498,640</u>	<u>4,776,305</u>	<u>2,621,436</u>	<u>59,896,381</u>
EXPENDITURES				
Current:				
Administration	1,052,922	120,417	-	1,173,339
Mid-level administration	3,832,751	66,569	-	3,899,320
Instructional salaries	19,132,429	659,957	-	19,792,386
Instructional texts and supplies	1,098,800	177,391	-	1,276,191
Other instructional costs	552,436	518,441	-	1,070,877
Special education	2,782,411	1,693,146	-	4,475,557
Student personnel service	201,246	-	-	201,246
Student transportation	2,400,048	59,618	-	2,459,666
Operation of plant	3,094,357	137,397	-	3,231,754
Maintenance of plant	1,364,010	29,449	-	1,393,459
Fixed charges	8,916,172	1,031,652	-	9,947,824
Community services	-	282,268	-	282,268
Capital outlay	-	-	788,015	788,015
Food service operating expenditures	-	-	1,902,096	1,902,096
Debt service	3,700,137	-	-	3,700,137
On behalf payments	4,369,393	-	-	4,369,393
TOTAL EXPENDITURES	<u>52,497,112</u>	<u>4,776,305</u>	<u>2,690,111</u>	<u>59,963,528</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING USES	1,528	-	(68,675)	(67,147)
OTHER FINANCING USES – TRANSFERS				
Refund of prior year fund balance to Talbot County	(20,517)	-	-	(20,517)
CHANGE IN FUND BALANCES	(18,989)	-	(68,675)	(87,664)
FUND BALANCES, BEGINNING OF YEAR	<u>1,281,417</u>	<u>-</u>	<u>281,929</u>	<u>1,563,346</u>
FUND BALANCES, END OF YEAR	<u>\$ 1,262,428</u>	<u>\$ -</u>	<u>\$ 213,254</u>	<u>\$ 1,475,682</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, 2011

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (87,664)
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	1,228,065
Depreciation expense and loss on disposal of capital assets	(4,042,086)
Increases in long-term liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Maryland State Retirement System deficit balance	(38,093)
Net OPEB obligation	(2,589,575)
Repayments of long-term debt are reported as expenditures in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Notes payables	356,804
Maryland State Retirement and Pension System	<u>27,934</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ (5,144,615)</u>

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, 2011

	<u>PRIVATE PURPOSE TRUST FUND</u>	<u>AGENCY FUNDS</u> <u>SPECIAL EDUCATION CONSORTIUM</u>	<u>SCHOOL ACTIVITIES FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>				
Cash	\$ 1,492	\$ 679,561	\$ 165,900	\$ 846,953
Accounts receivable	<u>-</u>	<u>420</u>	<u>-</u>	<u>420</u>
TOTAL ASSETS	<u>\$ 1,492</u>	<u>\$ 679,981</u>	<u>\$ 165,900</u>	<u>\$ 847,373</u>
<u>LIABILITIES</u>				
Accrued expenses	\$ -	\$ 213,485	\$ -	\$ 213,485
Accounts payable	-	18,222	-	18,222
Funds held for school activities	-	-	165,900	165,900
Deferred revenue	<u>1,492</u>	<u>448,274</u>	<u>-</u>	<u>449,766</u>
TOTAL LIABILITIES	<u>\$ 1,492</u>	<u>\$ 679,981</u>	<u>\$ 165,900</u>	<u>\$ 847,373</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 (the Board) is a component unit of Talbot County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. Accordingly, the financial statements of the Board are included in the financial statements of Talbot County, Maryland.

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

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

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

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

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

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

(1) Summary of significant accounting policies – 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. For this purpose, the Board considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to certain compensated absences are recognized when the obligations are expected to be liquidated with expendable available resources.

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

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

The government reports the following funds in the financial statements:

Major funds

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

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

Non-major funds

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

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.

Fiduciary funds

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

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies – continued

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.*

Implementation of new accounting principles – The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASBS 54) effective for reporting periods beginning after June 15, 2010. GASBS 54 establishes standards for fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. Additionally, the definitions of a general fund, special revenue fund, capital projects fund, debt service fund, and permanent fund are clarified by the provisions in this Statement. The Board has adopted GASBS 54 for the fiscal year ended June 30, 2011 and has disclosed information about fund balance reporting in a these notes.

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.

Assets that have been acquired with funds received through federal grants must be used in accordance with the terms of the grant. Federal regulations require, in some cases, that the Board must reimburse the federal government for any assets which the Board retains for its own use after the termination of the grant unless otherwise provided by the grantor.

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

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

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

(1) 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

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.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

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

Due to/from other funds – 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 statements. The compensated absences liability attributable to the governmental activities will be liquidated by the general fund.

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

Fund balances – As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

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

(1) Summary of significant accounting policies – continued

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board of Education members. The Board of Education is the highest level of decision-making authority for the entity. Commitments may be established, modified, or rescinded only through formal actions approved by the Board members.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. These amounts are designated by management.

Unassigned – all other spendable amounts.

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

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

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

(2) Interfund receivables – payables

Outstanding balances resulting from transactions between funds as of June 30, 2011 consist of the following:

	<u>DUE FROM OTHER FUNDS</u>	<u>DUE TO OTHER FUNDS</u>
General fund	\$ 3,946	\$ 1,276,496
Restricted grants	1,276,496	-
Food service fund	-	893
Capital projects fund	-	3,053
	\$ 1,280,442	\$ 1,280,442
TOTAL	\$ 1,280,442	\$ 1,280,442

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

(3) Deposits

At June 30, 2011, Talbot County Public Schools had deposits of \$10,142,330 with a local bank (carrying value \$8,042,719). Of the total deposits, \$199,668 was subject to FDIC insurance, \$6,000,000 was covered by an irrevocable letter of credit held by the bank in favor of the Board, and \$3,942,662 was collateralized by securities held by the pledging financial institution's trust department or agent, but not in the Board's name. Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits may not be returned to it.

(4) Capital assets

Capital asset activity for the year ended June 30, 2011 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
Capital assets being depreciated:				
Buildings	91,091,093	-	-	91,091,093
Land improvements	1,300,962	22,553	-	1,323,515
Furniture, equipment and vehicles	<u>20,598,306</u>	<u>1,205,512</u>	<u>227,246</u>	<u>21,576,572</u>
Total capital assets being depreciated	<u>112,990,361</u>	<u>1,228,065</u>	<u>227,246</u>	<u>113,991,180</u>
Less accumulated depreciation for:				
Buildings	27,949,415	2,053,319	-	30,002,734
Land improvements	489,136	47,967	-	537,103
Furniture, equipment and vehicles	<u>14,260,852</u>	<u>1,938,337</u>	<u>224,783</u>	<u>15,974,406</u>
Total accumulated depreciation	<u>42,699,403</u>	<u>4,039,623</u>	<u>227,783</u>	<u>46,514,243</u>
Total capital assets being depreciated, net	<u>70,290,958</u>	<u>(2,811,558)</u>	<u>2,463</u>	<u>67,476,937</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 70,668,404</u>	<u>\$ (2,811,558)</u>	<u>\$ 2,463</u>	<u>\$ 67,854,383</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(4) Capital assets - continued

Depreciation expense for the year ended June 30, 2011 was charged to governmental functions as follows:

<u>Support services</u>	
Instructional services	\$ 744,490
Student transportation	409,415
Food services	7,479
Unallocated	<u>2,878,239</u>
TOTAL	<u>\$ 4,039,623</u>

(5) Pension plans

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

Funding policy – Employees are members of either the retirement system (older plan) or the pension system (newer plan) based upon their date of hire. Members of the retirement system are required to contribute 5% to 7% of compensation to the plan. Members of the pension system are required to contribute 3% of compensation. The Board is required to contribute at actuarially determined rates, which are currently 14.3% of covered compensation for teachers and 11.69% 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, 2011, amounted to \$3,756,748. The fiscal 2011 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the General Fund in the accompanying Statement of Activities and Statement of Revenues, Expenditures, and Changes in Fund Balances. The Board makes the entire employer required annual contributions to the Employees systems as well as those that relate to positions in the Teachers systems funded through federal and state restricted programs.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(5) Pension plans - continued

Employer's payroll and contributions under the plans – The employer's total payroll covered under the various state plans, and contributions paid are as follows for the three most recent fiscal years:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total payroll	\$ 32,628,054	\$ 32,650,125	\$ 31,373,211
Payroll covered under the Plans	\$ 30,917,375	\$ 30,931,517	\$ 29,794,343
Contributions paid in:			
Board payments	\$ 725,295	\$ 572,742	\$ 481,796
State on-behalf payments	\$ 3,756,748	\$ 3,309,785	\$ 2,887,089

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 2011 payment was \$27,934. See Note 7 for the remaining years' payment stream. The payments reflect a pattern which increases by 5% per year for the next 25 years.

(6) Deferred revenue

Deferred revenue consists of federal and state grants and other revenues that have not been expended by June 30, 2011. Deferred revenue at June 30, 2011 consists of the following:

Restricted federal, Maryland and other grant programs	\$ 1,533,533
USDA commodities	19,449
Other sources	<u>218,841</u>
TOTAL DEFERRED REVENUE	<u>\$ 1,771,823</u>

(7) Long-term liabilities

The Board is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the county and state governments. The reporting of county debt service and related revenues in the general fund is required by state laws. Annual debt service expenditures are fully offset by county and state revenues. Debt service principal and interest on bond obligations paid by Talbot County was \$3,700,137 for the year ended June 30, 2011.

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

(7) Long-term liabilities – continued

The Board's long-term debt at June 30, 2011 consists of the following:

Notes payable

Note payable to Branch Bank & Trust Co;
 principal and interest payments of \$6,834.80
 are payable monthly through September 15,
 2011; interest is payable at 4.19% per annum;
 collateralized by school buses \$ 20,363

Note payable to Branch Bank & Trust Co.;
 principal and interest payments of \$197,961.69
 are payable annually through August 15, 2012;
 interest is payable at 3.55% per annum;
 collateralized by school buses 375,795

Capital lease payable to All Points Public Funding, LLC;
 principal and interest payments of \$106,980.80
 are payable annually through October 31, 2011;
 interest is payable at 3.87% per annum;
 collateralized by school buses 102,997

TOTAL NOTES PAYABLE \$ 499,155

Aggregate maturities of long-term notes payable at June 30, 2011 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 307,980	\$ 17,467	\$ 325,447
2013	<u>191,175</u>	<u>6,787</u>	<u>197,962</u>
TOTAL	<u>\$ 499,155</u>	<u>\$ 24,254</u>	<u>\$ 523,409</u>

State retirement system

State Retirement and Pension System of Maryland
 (note 5, funding status); payable annually
 through December, 2035 \$ 488,127

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

(7) 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>
2012	\$ 29,330
2013	30,797
2014	32,337
2015	33,953
2016	35,651
2017 – 2021	206,844
2022 – 2026	263,992
2027 – 2031	336,927
2032 – 2036	<u>430,014</u>
Total principal and interest	\$ 1,399,845
Less amount representing interest	<u>(911,718)</u>
LIABILITY AS OF JUNE 30, 2011	<u>\$ 488,127</u>

The changes in long-term liabilities for the year ended June 30, 2011 are as follows:

	<u>STATE RETIREMENT SYSTEM</u>	<u>NOTES PAYABLE</u>	<u>TOTAL</u>
Balance at June 30, 2010	\$ 477,968	\$ 855,959	\$ 1,333,927
Increases	38,093	-	38,093
Payments	<u>(27,934)</u>	<u>(356,804)</u>	<u>(384,738)</u>
Balance at June 30, 2011	<u>\$ 488,127</u>	<u>\$ 499,155</u>	<u>\$ 987,282</u>

The increase to the State Retirement System debt is related to an actuarial valuation that produced updated principal balances and was communicated to Talbot County Board of Education on November 10, 2010.

(8) On-behalf payments

The Board recognized the following on-behalf payments for the fiscal year ended June 30, 2011:

Pension contribution by the State of Maryland to the state retirement system for applicable employees of the Board	\$ 3,756,748
School nurses provided by Talbot County, Maryland Health Department	<u>612,645</u>
TOTAL ON-BEHALF PAYMENTS	<u>\$ 4,369,393</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(9) Other postemployment benefits

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

Funding policy - Premiums and other contributions for the Boards' share of the cost of the group programs may be paid, as determined by the Board, from the assets of the Board. Premium payments for some programs may require contributions by the participant as well as the Board. The frequency and amount of such contributions shall be established from time to time by the County.

Plan members receiving benefits contribute a percentage of the monthly insurance premium. The Talbot County Public Schools Retiree Health Plan pays 66% of the individual premium for each insured retiree who has at least 8 years of service. Retirees with less than 8 years of service are allowed access, but must pay 100% of the published rates.

Annual OPEB cost and net OPEB obligation - The Board's annual other post employment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation to Talbot County Public Schools Retiree Health Plan:

Annual required contribution	\$ 4,021,000
Interest on net OPEB obligation	255,000
Adjustment to annual required contribution	<u>(237,000)</u>
Annual OPEB cost (expense)	4,039,000
Actuarial adjustment for unfunded benefits	(263,425)
Benefits paid	<u>(1,186,000)</u>
Increase in net OPEB obligation	2,589,575
Net OPEB obligation – beginning of year	<u>6,646,425</u>
Net OPEB obligation – end of year	<u>\$ 9,236,000</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(9) Other postemployment benefits – continued

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 and preceding two years was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$4,140,000	41.59%	\$ 2,418,152
6/30/2010	\$4,467,000	5.34%	\$ 6,646,425
6/30/2011	\$4,039,000	29.36%	\$ 9,236,000

Funded status and funding progress - As of the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$47,141,000, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$47,141,000. The covered payroll (annual payroll of active employees covered by the plan) was \$30,917,375, and the ratio of the UAAL to the covered payroll was 152.5 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, a projected salary increase of 4% per year, and an annual healthcare cost trend rate of 8% initially, reduced by decrements to an ultimate rate of 4.9%. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011 was 28 years.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

NOTES TO FINANCIAL STATEMENTS

(10) 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		
Budgetary basis	\$ 44,429,110	\$ 4,623,217
Net encumbrance adjustment	-	153,088
Debt service paid by Talbot County, MD	3,700,137	-
State and County – on behalf payments	<u>4,369,393</u>	<u>-</u>
Modified Accrual Basis	<u>\$ 52,498,640</u>	<u>\$ 4,776,305</u>
EXPENDITURES		
Budgetary basis	\$ 44,391,756	\$ 4,623,217
Net encumbrance adjustment	35,826	153,088
Debt service paid by Talbot County, MD	3,700,137	-
State and County – on behalf payments	<u>4,369,393</u>	<u>-</u>
Modified Accrual Basis	<u>\$ 52,497,112</u>	<u>\$ 4,776,305</u>

(11) 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, 2011, MABE had total fund equity of approximately \$17 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

(11) 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 PNC Local Government Investment Pool.

The pooling agreement allows for the pool, which is administered by Carefirst 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.

(12) Commitments

Operating leases – At June 30, 2011, the Board was obligated under two operating leases for laptop computers for which future lease payments are \$209,000. Total rent expense under these leases for fiscal year 2011 was \$209,000. Future lease payments are as follows:

<u>Year Ended June 30,</u>	
2012	<u>\$ 209,000</u>

(13) Subsequent events

On September 21, 2011, the Board passed a resolution to approve a lease purchase of four school buses over five years with a \$1 buy out at the end of the lease term. The total cost of the lease, including interest, is \$442,348, which is payable in sixty equal monthly installments of \$7,372.

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, 2011

	GENERAL FUND			
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	VARIANCE - FAVORABLE (UNFAVORABLE)
REVENUES				
Talbot County	\$ 34,329,542	\$ 34,329,542	\$ 34,329,542	\$ -
State of Maryland	10,250,737	10,250,737	9,898,201	(352,536)
United States government	-	-	-	-
Other sources:				
Interest earned	150,000	150,000	13,590	(136,410)
Other	47,000	47,000	187,777	140,777
TOTAL REVENUES	<u>44,777,279</u>	<u>44,777,279</u>	<u>44,429,110</u>	<u>(348,169)</u>
EXPENDITURES AND ENCUMBRANCES				
Administration	1,051,422	1,051,422	1,051,250	172
Mid-level administration	3,922,226	3,922,226	3,917,733	4,493
Instructional salaries	19,152,822	19,152,822	19,151,279	1,543
Instructional texts and Supplies	1,125,150	1,125,150	1,121,703	3,447
Other instructional costs	613,395	613,395	611,092	2,303
Special education	2,782,494	2,782,494	2,782,390	104
Student personnel services	201,579	201,579	200,674	905
Student transportation	2,697,723	2,251,421	2,251,367	54
Operation of plant	3,496,984	3,194,506	3,194,221	285
Maintenance of plant	1,212,957	1,212,957	1,212,662	295
Fixed charges	8,520,527	9,269,307	8,897,385	371,922
Community services	-	-	-	-
TOTAL EXPENDITURES AND ENCUMBRANCES	<u>44,777,279</u>	<u>44,777,279</u>	<u>44,391,756</u>	<u>385,523</u>
EXCESS OF REVENUES OVER EXPENDITURES AND ENCUMBRANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,354</u>	<u>\$ 37,354</u>

RESTRICTED GRANTS

<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
\$ 150,000	\$ 125,843	\$ (24,157)
597,469	509,776	(87,693)
5,459,227	3,444,772	(2,014,455)
-	-	-
<u>1,264,364</u>	<u>542,826</u>	<u>(721,538)</u>
<u>7,471,060</u>	<u>4,623,217</u>	<u>(2,847,843)</u>
147,261	117,329	29,932
205,308	66,570	138,738
983,371	659,958	323,413
219,745	170,797	48,948
671,474	362,193	309,281
2,886,556	1,658,570	1,227,986
-	-	-
63,907	59,619	4,288
458,460	194,397	264,063
20,000	21,201	(1,201)
1,542,719	1,031,653	511,066
<u>272,259</u>	<u>280,930</u>	<u>(8,671)</u>
<u>7,471,060</u>	<u>4,623,217</u>	<u>2,847,843</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF FUNDING PROGRESS

Year Ended June 30, 2011

<u>Valuation Date</u>	<u>Value of Assets</u>	<u>Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
7/01/2009	-	\$ 46,822,000	\$ 46,822,000	-	\$ 29,794,343	157.2%
7/01/2010	-	\$ 50,155,000	\$ 50,155,000	-	\$ 30,931,517	162.1%
7/01/2011	-	\$ 47,141,000	\$ 47,141,000	-	\$ 30,917,375	152.5%

OTHER ADDITIONAL INFORMATION

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

COMBINING BALANCE SHEET – NON-MAJOR FUNDS

Year Ended June 30, 2011

	<u>FOOD SERVICES</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash	\$ 227,095	\$ -	\$ 227,095
Due from other governments:			
Talbot County	-	4,833	4,833
State of Maryland	7,237	-	7,237
United States government	41,938	-	41,938
Inventory	<u>24,203</u>	<u>-</u>	<u>24,203</u>
TOTAL ASSETS	<u>\$ 300,473</u>	<u>\$ 4,833</u>	<u>\$ 305,306</u>
LIABILITIES			
Accrued expenditures	\$ 66,877	\$ -	\$ 66,877
Due to other funds	893	3,053	3,946
Deferred revenue	<u>19,449</u>	<u>1,780</u>	<u>21,229</u>
TOTAL LIABILITIES	<u>87,219</u>	<u>4,833</u>	<u>92,052</u>
FUND BALANCES			
Nonspendable	4,754	-	4,754
Restricted	<u>208,500</u>	<u>-</u>	<u>208,500</u>
TOTAL FUND BALANCES	<u>213,254</u>	<u>-</u>	<u>213,254</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 300,473</u>	<u>\$ 4,833</u>	<u>\$ 305,306</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – NON-MAJOR FUNDS

Year Ended June 30, 2011

	<u>FOOD SERVICES</u>	<u>CAPITAL PROJECTS</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
REVENUES			
Talbot County	\$ -	\$ 706,955	\$ 706,955
State of Maryland	84,125	54,192	138,317
United States government	960,818	-	960,818
Other sources:			
Food service sales	788,478	-	788,478
Other	-	26,868	26,868
TOTAL REVENUES	<u>1,833,421</u>	<u>788,015</u>	<u>2,621,436</u>
EXPENDITURES			
Current:			
Capital outlay	-	788,015	788,015
Food services	<u>1,902,096</u>	-	<u>1,902,096</u>
TOTAL EXPENDITURES	<u>1,902,096</u>	<u>788,015</u>	<u>2,690,111</u>
CHANGE IN FUND BALANCES	(68,675)	-	(68,675)
FUND BALANCES, BEGINNING OF YEAR	<u>281,929</u>	-	<u>281,929</u>
FUND BALANCES, END OF YEAR	<u>\$ 213,254</u>	<u>\$ -</u>	<u>\$ 213,254</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF REVENUES – GENERAL FUND

Year Ended June 30, 2011

TALBOT COUNTY FUNDS		
Current appropriations	\$ 34,329,542	
Debt service	<u>3,700,137</u>	
Total Talbot County Funds		\$ 38,029,679
TALBOT COUNTY – ON BEHALF PAYMENTS		
School nurses	<u>612,645</u>	
Total Talbot County – on behalf funds		612,645
STATE OF MARYLAND FUNDS		
Current expenses	3,919,887	
Compensatory education	3,439,078	
Transportation	1,358,454	
Students with disabilities – formula	733,192	
Limited English-proficient	429,494	
Out of county living	<u>18,096</u>	
Total State of Maryland Funds		9,898,201
STATE OF MARYLAND – ON BEHALF PAYMENTS		3,756,748
OTHER SOURCES		
Out of county living	92,120	
Interest earned	13,590	
Miscellaneous	78,805	
Building rental	15,428	
Sale of equipment	<u>1,424</u>	
Total Other Sources		<u>201,367</u>
TOTAL REVENUES		<u>\$ 52,498,640</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
SCHOOL ACTIVITIES FUND (AGENCY FUND)
Year Ended June 30, 2011

	<u>CASH JUNE 30, 2010</u>	<u>CASH RECEIPTS</u>	<u>DISBURSEMENTS</u>	<u>CASH JUNE 30, 2011</u>
Easton High School	\$ 108,441	\$ 468,868	\$ 511,930	\$ 65,379
St. Michaels High School	20,754	123,628	128,148	16,234
Easton Middle School	16,125	81,538	83,871	13,792
Easton Elementary School - Dobson	14,724	20,021	23,396	11,349
Easton Elementary School - Moton	26,247	71,468	77,617	20,098
St. Michaels Elementary/ Middle School	35,314	87,108	112,696	9,726
Tilghman Elementary School	4,193	10,222	13,327	1,088
White Marsh Elementary School	19,910	33,232	34,718	18,424
Chapel District Elementary School	<u>12,184</u>	<u>47,082</u>	<u>49,456</u>	<u>9,810</u>
TOTALS	<u>\$ 257,892</u>	<u>\$ 943,167</u>	<u>\$ 1,035,159</u>	<u>\$ 165,900</u>



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board Members

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Compliance

We have audited the compliance of the Board of Education of Talbot County, Maryland (the Board) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion on the Board's compliance based on our audit.

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

In our opinion, the Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

Internal Control Over Compliance

The management of the Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Maya Hoffman McCann P.C.

September 29, 2011
Easton, Maryland

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

Year Ended June 30, 2011

<u>GRANT NAME</u>	<u>CFDA NUMBER</u>	<u>MSDE/FEDERAL GRANT NUMBER</u>	<u>PROJECT PERIOD</u>	<u>TOTAL GRANT AWARD</u>
<u>DEPARTMENT OF LABOR</u>				
Medical Assistance	17.248	Unknown	On-Going	
<u>DEPARTMENT OF EDUCATION</u>				
Title 1 Grants				
Title 1	84.010	900611-01	07/01/08 - 06/30/10	\$ 673,788
Title 1	84.010	104808-01	07/01/09 - 06/30/11	\$ 703,762
Title 1	84.010	114450-01	07/01/10 - 06/30/12	\$ 696,423
Maryland School Performance	84.010	116215-01	02/15/11 - 06/30/11	\$ 1,867
Special Education - Grants to States				
Pass Through Carryover	84.027	901896-01	07/01/08 - 06/30/09	\$ 247,907
Pass Through	84.027	104753-01	07/30/09 - 09/30/10	\$ 974,419
Discretionary PDP	84.027	104753-02	07/30/09 - 09/30/10	\$ 12,095
Discretionary Part B	84.027	104753-03	07/30/09 - 09/30/10	\$ 10,000
Discretionary SECAC	84.027	104753-04	07/30/09 - 09/30/10	\$ 2,500
Discretionary Transition	84.027	104753-05	07/30/09 - 09/30/10	\$ 6,000
Discretionary LRE	84.027	104753-06	07/30/09 - 09/30/10	\$ 8,298
Discretionary RFBD	84.027	104753-07	07/30/09 - 09/30/10	\$ 25,000
Discretionary/Transition	84.027	104958-01	09/03/09 - 09/30/10	\$ 50,000
Preschool LRE	84.027	105452-01	07/01/10 - 09/30/11	\$ 40,000
Family Support Coordinator	84.027	114575-01	07/01/10 - 09/30/11	\$ 45,000
Alt. MD Assessment	84.027	114605-01	07/01/10 - 09/30/11	\$ 14,500
Part B - RFB&D	84.027	114606-09	07/01/10 - 09/30/11	\$ 25,000
Part B - PDP	84.027	114606-06	07/01/10 - 09/30/11	\$ 12,095
Part B - PPPSS	84.027	114606-02	07/01/10 - 09/30/11	\$ 20,507
Part B - Partners	84.027	114606-07	07/01/10 - 09/30/11	\$ 10,000
Part B - Governors Transition	84.027	114606-10	07/01/10 - 09/30/11	\$ 6,000
Infant & Toddler	84.027	114241-02	07/01/10 - 09/30/11	\$ 5,678
Part B - SECAC	84.027	114606-08	07/01/10 - 09/30/11	\$ 2,500
Consortium	84.027	114606-11	07/01/10 - 09/30/11	\$ 275,000
Passthrough Carryover	84.027	115935-01	12/16/10 - 06/30/11	\$ 247,435
Part B Passthrough	84.027	104606-01	07/01/10 - 09/30/11	\$ 935,623

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2010</u>	<u>CASH RECEIVED JULY 1, 2010 TO JUNE 30, 2011</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2011</u>
\$ (526,592)	\$ -	\$ 9,499	\$ 35,546	\$ (481,547)
60,367	60,367	-	-	-
-	51,673	87,306	-	11,000
-	559,120	640,052	-	80,932
<u>(24,633)</u>	<u>280</u>	<u>1,440</u>	<u>-</u>	<u>1,160</u>
<u>35,734</u>	<u>671,440</u>	<u>728,798</u>	<u>-</u>	<u>93,092</u>
(24,142)	-	24,142	-	-
(28,196)	63,688	91,884	-	-
2,859	10,066	7,207	-	-
(81)	-	-	81	-
(47)	1,814	1,861	-	-
1,069	3,619	2,550	-	-
5,249	5,249	-	-	-
(1,004)	21,250	22,254	-	-
(7,500)	2,718	10,218	-	-
(7,457)	2,559	10,016	-	-
-	6,750	1,615	-	(5,135)
-	12,271	12,864	-	593
-	9,306	5,824	-	(3,482)
-	12,095	12,052	-	(43)
-	17,443	14,367	-	(3,076)
-	10,000	10,000	-	-
-	6,000	5,979	-	(21)
-	5,678	140	-	(5,538)
-	2,467	2,082	-	(385)
-	275,000	275,000	-	-
-	153,642	222,560	-	68,918
<u>-</u>	<u>732,415</u>	<u>711,020</u>	<u>-</u>	<u>(21,395)</u>
<u>(59,250)</u>	<u>1,354,030</u>	<u>1,443,635</u>	<u>81</u>	<u>30,436</u>

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

Year Ended June 30, 2011

<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>				
Vocational Education – Basic Grants to States				
CTE Curriculum for Ag Science Education	84.048	105584-01	09/01/09 - 06/30/10	\$ 20,000
Career & Technology Education	84.048	105614-01	07/01/09 - 06/30/10	\$ 50,718
CTE Reserve Fund	84.048	105911-01	07/01/09 - 06/30/10	\$ 12,868
Career & Technology Education	84.048	104677-01	07/01/10 - 06/30/11	\$ 61,722
CTE Reserve Fund	84.048	114676-01	07/01/10 - 06/30/11	\$ 19,005
Special Education – Preschool Grants				
Maryland Model for School Readiness	84.173	800971-02	07/01/07 - 09/30/08	\$ 3,072
Preschool Passthrough	84.173	900296-04	07/01/08 - 06/30/09	\$ 20,564
Preschool Passthrough	84.173	104753-10	07/30/09 - 09/30/10	\$ 19,338
Maryland Model for School Readiness	84.173	114591-02	07/01/10 - 09/30/11	\$ 12,996
Infants and Toddlers Part B	84.173	114241-03	07/01/10 - 09/30/11	\$ 5,000
Part B Preschool Passthrough	84.173	114606-03	07/01/10 - 09/30/11	\$ 18,406
Part B Preschool Consortium	84.173	114606-05	07/01/10 - 09/30/11	\$ 100,000
Part B Preschool PPPS	84.173	104606-04	07/01/10 - 09/30/11	\$ 566
Special Education – Grants for Infants and Families with Disabilities				
Maryland Infants and Toddlers	84.181	9620A96	07/01/96 - 06/30/97	\$ 8,000
Infants and Toddlers Part C	84.181	104204-01	07/01/09 - 09/30/10	\$ 32,901
Infants and Toddlers Part C	84.181	114241-01	07/01/10 - 09/30/11	\$ 31,601
Safe and Drug Free Schools - State Grants				
Title IV, Safe and Drug Free Schools and Community	84.186	104301-01	07/01/09 - 06/30/11	\$ 15,025

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2010</u>	<u>CASH RECEIVED JULY 1, 2010 TO JUNE 30, 2011</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2011</u>
(2,199)	853	3,052	-	-
(2,020)	-	2,020	-	-
2,210	3,160	950	-	-
-	42,845	48,322	-	5,477
-	<u>19,005</u>	<u>18,820</u>	-	<u>(185)</u>
<u>(2,009)</u>	<u>65,863</u>	<u>73,164</u>	-	<u>5,292</u>
(2,600)	-	-	-	(2,600)
(15)	-	-	15	-
(2,127)	-	2,127	-	-
-	2,984	5,058	-	2,074
-	5,000	466	-	(4,534)
-	3,129	-	(82)	(3,211)
-	100,000	100,000	-	-
-	<u>96</u>	<u>9</u>	-	<u>(87)</u>
<u>(4,742)</u>	<u>111,209</u>	<u>107,660</u>	<u>(67)</u>	<u>(8,358)</u>
(224)	-	224	-	-
(2,645)	-	2,645	-	-
-	<u>31,603</u>	<u>31,603</u>	-	-
<u>(2,869)</u>	<u>31,603</u>	<u>34,472</u>	-	-
<u>82</u>	<u>82</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

Year Ended June 30, 2011

<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 –</u>				
<u>Continued</u>				
Career and Technology Education Title II Tech Prep	84.243	114677-02	07/01/10 - 06/30/11	\$ 6,200
Technology Literacy Challenge Fund Enhancing Education Through Education	84.318	601038-02	07/01/05 - 06/30/07	\$ 13,938
Enhancing Education Through Education	84.318	800936-01	07/01/07 - 06/30/09	\$ 7,024
Enhancing Education Through Education	84.318	900820-01	07/01/08 - 06/30/10	\$ 6,161
Enhancing Education Through Education	84.318	105003-01	07/01/09 - 06/30/11	\$ 6,427
ESEA Title I – ARRA ESEA Title I – ARRA	84.389	104772-01	07/01/09 - 06/30/11	\$ 377,974
English Language Acquisition Grants English Language Acquisition	84.365	104632-01	07/01/09 - 06/30/11	\$ 40,147
English Language Acquisition	84.365	104632-02	07/01/09 - 06/30/11	\$ 152
Maryland Teacher PDP	84.365A	116248-01	05/01/10 - 09/30/11	\$ 5,133
English Language Acquisition	84.365A	115193-01	07/01/10 - 09/30/12	\$ 33,205
Improving Teacher Quality State Grants Improving Teacher Quality	84.367	900564-01	07/01/08 - 06/30/10	\$ 231,926
Improving Teacher Quality	84.367	104610-01	07/01/09 - 06/30/11	\$ 233,889
Improving Teacher Quality	84.367	114286-01	07/01/10 - 06/30/12	\$ 235,756
Assistance to the State for Educating Students with Disabilities ARRA 2 IDEA Part B	84.391	104500-01	07/01/09 - 09/30/10	\$1,098,231

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2010</u>	<u>CASH RECEIVED JULY 1, 2010 TO JUNE 30, 2011</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2011</u>
-	4,336	5,301	-	965
-	-	-	-	-
-	-	-	-	-
4,130	5,214	1,084	-	-
(1,126)	3,482	4,608	-	-
<u>3,004</u>	<u>8,696</u>	<u>5,692</u>	<u>-</u>	<u>-</u>
9,756	139,881	130,125	-	-
3,729	9,069	5,340	-	-
(23)	-	-	23	-
-	-	596	-	596
-	<u>28,703</u>	<u>32,065</u>	<u>-</u>	<u>3,362</u>
<u>3,706</u>	<u>37,772</u>	<u>38,001</u>	<u>23</u>	<u>3,958</u>
7,573	12,100	4,527	(123)	(123)
42,019	124,886	82,867	-	-
-	<u>153,566</u>	<u>181,305</u>	<u>-</u>	<u>27,739</u>
<u>49,592</u>	<u>290,552</u>	<u>268,699</u>	<u>(123)</u>	<u>27,616</u>
10,568	376,048	363,890	-	(1,590)

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

Year Ended June 30, 2011

<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 –</u>				
<u>Continued</u>				
Passthrough Extended IFSP Option/ ARRA II				
IDEA Part C ARRA II	84.393	104638-01	07/01/09 - 09/30/10	\$ 39,700
IDEA Part C ARRA II	84.393	104638-02	07/01/09 - 09/30/10	\$ 37,059
State Fiscal Stabilization Fund Stabilization Fund – Education State Grants	84.394	114086-03	07/01/10 - 09/30/11	\$ 233,928
Stabilization Fund – Education State Grants	84.394	114086-05	07/01/10 - 09/30/11	\$ 116,726
Education Recovery Act Race to the Top – ARRA	84.395	115757-03	08/25/10 - 09/30/14	\$ 25,000
Education Jobs Fund – ARRA	84.410	115735-01	08/10/10 - 09/30/12	\$ 463,290
TOTAL DEPARTMENT OF EDUCATION				
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>				
Learn and Serve America	94.004	114388-01	07/01/10 - 08/31/11	\$ 15,000
Learn and Serve America	94.004	105730-01	07/01/09 - 06/30/10	\$ 13,065
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICES				
<u>DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
State Children's Insurance Program Medicaid	93.767	On-Going	On-Going	On-Going

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2010</u>	<u>CASH RECEIVED JULY 1, 2010 TO JUNE 30, 2011</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2011</u>
-	13,421	5,256	-	(8,165)
<u>8,144</u>	<u>37,059</u>	<u>34,736</u>	<u>-</u>	<u>5,821</u>
<u>8,144</u>	<u>50,480</u>	<u>39,992</u>	<u>-</u>	<u>(2,344)</u>
-	233,928	233,928	-	-
<u>-</u>	<u>21,012</u>	<u>95,774</u>	<u>-</u>	<u>74,762</u>
<u>-</u>	<u>254,940</u>	<u>329,702</u>	<u>-</u>	<u>74,762</u>
<u>-</u>	<u>-</u>	<u>22,500</u>	<u>-</u>	<u>22,500</u>
<u>-</u>	<u>370,632</u>	<u>370,632</u>	<u>-</u>	<u>-</u>
<u>51,716</u>	<u>3,767,564</u>	<u>3,962,263</u>	<u>(86)</u>	<u>246,329</u>
-	9,915	15,000	-	5,085
<u>252</u>	<u>2,533</u>	<u>2,281</u>	<u>-</u>	<u>-</u>
<u>252</u>	<u>12,448</u>	<u>17,281</u>	<u>-</u>	<u>5,085</u>
<u>(27,913)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,913)</u>

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

Year Ended June 30, 2011

<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>				
Health Care Financing Administration				
Medicaid	93.778	On-Going	On-Going	On-Gong
Medicaid	93.778	On-Going	On-Going	On-Going
Medicaid	93.778	On-Going	On-Going	On-Going
Medicaid	93.778	On-Going	On-Going	On-Going
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<u>DEPARTMENT OF AGRICULTURE</u>				
Food Distribution				
USDA Commodities	10.555	N/A	07/01/09 - 06/30/10	Unknown
Child Nutrition Cluster				
National School Lunch Program	10.555	Section 4	07/01/09 - 06/30/10	\$ 98,277
National School Lunch Program	10.555	Section 11	07/01/09 - 06/30/10	\$ 469,500
School Breakfast Program	10.553	SN Breakfast	07/01/09 - 06/30/10	\$ 185,116
National School Lunch Program	10.555	Section 4	07/01/10 - 06/30/11	\$ 627,907
National School Lunch Program	10.555	Section 11	07/01/10 - 06/30/11	\$ 27,070
School Breakfast Program	10.553	SN Breakfast	07/01/10 - 06/30/11	\$ 180,249
TOTAL DEPARTMENT OF AGRICULTURE				
TOTAL FEDERAL AWARDS				

<u>ACCRUED (DEFERRED) GRANT REVENUE JULY 1, 2010</u>	<u>CASH RECEIVED JULY 1, 2010 TO JUNE 30, 2011</u>	<u>REVENUE RECOGNIZED/ EXPENDITURES</u>	<u>ADJUSTMENTS AND CASH RETURNED TO MSDE</u>	<u>ACCRUED (DEFERRED) GRANT REVENUE JUNE 30, 2011</u>
(83,873)	-	10,692	-	(73,181)
(30,378)	-	3,489	-	(26,889)
(65,042)	8,740	240	-	(73,542)
<u>(68,788)</u>	<u>-</u>	<u>7,107</u>	<u>-</u>	<u>(61,681)</u>
(248,081)	8,740	21,528	-	(235,293)
<u>(275,994)</u>	<u>8,740</u>	<u>21,528</u>	<u>-</u>	<u>(263,206)</u>
<u>-</u>	<u>120,872</u>	<u>120,872</u>	<u>-</u>	<u>-</u>
4,027	4,027	-	-	-
19,690	19,690	-	-	-
8,340	8,340	-	-	-
-	601,142	632,626	-	31,484
-	25,922	27,071	-	1,149
<u>-</u>	<u>170,945</u>	<u>180,249</u>	<u>-</u>	<u>9,304</u>
32,057	830,066	839,946	-	41,937
<u>32,057</u>	<u>950,938</u>	<u>960,818</u>	<u>-</u>	<u>41,937</u>
<u>\$ (718,561)</u>	<u>\$ 4,739,690</u>	<u>\$ 4,971,389</u>	<u>\$ 35,460</u>	<u>\$ (451,402)</u>

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

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

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

<u>Program Description</u>	<u>CFDA Number</u>	<u>Fiscal Year 2011 Expenditures</u>
Title I	84.010 & 84.389	\$ 858,923
State Fiscal Stabilization Fund	84.394	\$ 329,702
Education Jobs Fund	84.410	\$ 370,632

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, 2011. Single audit testing has previously been performed on transactions occurring during the fiscal year ended June 30, 2010.

(3) Summary of significant accounting policies

Basis of presentation - The accompanying Schedule of Expenditures of Federal Awards includes all federal grants of the Board which had financial activity during the fiscal year or accrued (deferred) grant revenue at June 30, 2011. 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) Funding sources

All programs reported in the schedule of expenditures of federal awards were passed through by the Maryland State Department of Education.

(5) Findings of noncompliance

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

(6) Revenue reconciliation

The following is a reconciliation of revenue recognized in the 2011 Schedule of Expenditures of Federal Awards with the revenue recognized in the 2011 basic financial statements.

Restricted current expense fund -	
U.S. government revenue	\$ 3,635,571
Food service fund -	
U.S. government revenue	960,818
Agency fund - Mid-Shore Special Education Consortium	<u>375,000</u>
 REVENUE RECOGNIZED ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	 <u>\$ 4,971,389</u>

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

A. **SECTION 1 – SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported
- Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No

Identification of major programs: Title I – CFDA 84.010 and 84.839
State Fiscal Stabilization Fund
CFDA 84.394
Education Jobs Fund –
CFDA 84.410

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee: Yes

B. **SECTION II – FINANCIAL STATEMENT FINDINGS**

None reported.

C. **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported.

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

STATUS OF PRIOR YEAR'S FINDINGS

Year Ended June 30, 2010

The compliance procedures applied to the fiscal year ended June 30, 2010 did not disclose any findings of noncompliance or questioned costs.