

**BOARD OF EDUCATION OF CARROLL COUNTY
Westminster, Maryland**

**MANAGEMENT'S DISCUSSION AND ANALYSIS,
FINANCIAL STATEMENTS AND
REQUIRED AND OTHER SUPPLEMENTARY
INFORMATION AND SINGLE AUDIT REPORT
June 30, 2007**

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Independent Auditor's Report

Members of the Board of
Education of Carroll County
Westminster, 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 Carroll County, a component unit of Carroll County, Maryland, as of and for the year ended June 30, 2007, which collectively comprise the Board of Education of Carroll County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of Education of Carroll County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 Carroll County as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2007 on our consideration of the Board of Education of Carroll County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3-10 and budgetary comparison information on pages 38 and 42 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of Education of Carroll County's basic financial statements. The schedules on pages 43 through 49 presented as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. They have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Clifton Henderson LLP

Baltimore, Maryland
September 26, 2007

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

As Management of the Board of Education of Carroll County (the Board), we offer readers of the Board's financial statements this discussion and analysis of the Board's financial performance during the fiscal year ended June 30, 2007. This section should be read in conjunction with the financial statements, which immediately follow this discussion.

Overview of the Financial Statements

The Board's basic financial statements consist of three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The basic financial statements include two kinds of statements that present different views of the Board's financial performance. The report also contains required supplementary information and supplementary budgetary schedules.

- The first two statements are *government-wide financial statements* that provide both short-term and long-term information about the Board's overall financial strength.
- The next two statements are *fund financial statements* that focus on individual parts of the school system, and provide more detail on individual areas of revenues and expenditures.
- It also contains required supplementary information in addition to the basic financial statements themselves, such as a budgetary basis presentation of financial operations in the short-term for the budgetary general fund, measuring regulatory and budgetary compliance.

The financial statements also include notes that explain some of the information in the statements and, in some cases, provide even greater levels of detail. The required supplementary information is followed by a section of supplementary budgetary schedules, which primarily provides additional budgetary review. In this last section of other supplementary information, the Board has chosen to include additional detail beyond that which is required. This additional detail provides information on select operations at individual schools, as well as detailed expenditure data comparable to the reporting required by the Maryland State Department of Education.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Overview of the Financial Statements (Continued)

The following table relays the major features of the two types of statements discussed above:

Type of Analysis	Government-Wide Financials	Governmental Fund Financials	Budgetary Basis
Scope	Entire school system	All activities of the school system (food service, capital projects, and certain school funds)	Reflects only the Current Operating/ General Fund
Required Financial Statements	Statement of Net Assets and Statement of Activities	Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balances, and Fiduciary Fund Balance Sheet	Budgetary Comparison Schedule presented as Required Supplementary Information
Accounting Basis and Measurement Focus	Full accrual accounting and economic resource focus	Modified accrual accounting and current financial focus	Budgetary basis and current financial focus
Type of Asset/ Liability Information	All assets and liabilities, including short and long term, as well as financial and capital	Assets and liabilities considered reasonably current (generally within one year), no long-term liabilities or capital assets included	A budgetary basis balance sheet is not presented
Type of Inflow/ Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or immediately following the year; expenditures only when the goods/services are received and the related liability is payable	Revenues for which cash is received during or immediately following the year; includes expenditures and open encumbrances

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Government-Wide Financial Statements

The school system-wide statements report information about the school system as a whole using accounting methods similar to those used by private sector companies. The two statements on the school system-wide level report net assets and changes in net assets and are intended to evaluate the school system's financial health or position. Net assets are defined as total assets less total liabilities. These statements will, over time, reflect improvements or deteriorations in the school system's financial strength. These statements consider the non-financial factors, including depreciation of school buildings and other facilities, which are necessary to determine overall financial strength.

Typically, the school system-wide financial statements can reflect governmental activities and business-type activities. While the school system's food service operation charges fees, the fee structure is not designed to cover all costs including depreciation cost. Therefore, this function is included as a governmental activity and no business-type activities are presented.

Fund Financial Statements

The Fund Financial Statements are designed to provide additional levels of detail on the school system's funds as opposed to the school system as a whole. Funds are accounting devices used by the school system to keep track of specific sources of funding and spending.

The school system has four funds reported here:

General Fund includes most of the school system's basic functions and generally follows the requirements of the Maryland State Department of Education.

Food Service Fund is the fund that captures the financial activities of the cafeteria operations.

Capital Improvement Project Fund, which tracks larger construction projects. This fund reports revenue and expenditures on a yearly basis. It should be noted, however, that due to the long-term nature of most projects, the budgetary basis of this fund crosses fiscal years.

Fiduciary Fund reflects liabilities due to student groups and reflects revenues and expenditures that are earmarked for specific student groups at individual schools.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Financial Analysis of the School System as a Whole

As noted above, all activities are identified as governmental activities, as opposed to business-type activities. Current assets totaled \$49.1 million, most of which appears as accounts receivable due from other governments. This is primarily due from the County Commissioners of Carroll County. Noncurrent assets are composed of capital assets and account for approximately 87% of the school system's total assets. Current liabilities total \$43.2 million, of which over \$17.3 million is accrued payroll and related withholdings. It should be noted that this balance reflects payments made to 10-month staff members (such as teachers) who prefer to continue bi-weekly payrolls during July and August. Since these staff members have fulfilled their contractual obligation as of June 30th, the unpaid wages are reflected in this accrual. The Accrued Fringe portion of this balance is also primarily associated with the payments that will be made for 10-month staff members during July and August. Noncurrent liabilities are over \$31 million and are predominantly tied to compensated absences for employees.

Condensed Statement of Net Assets

	Governmental Activities June 30, 2007	Governmental Activities June 30, 2006
	<i>(In Millions)</i>	<i>(In Millions)</i>
Current and other assets	\$ 49.1	\$ 38.7
Capital assets	<u>316.9</u>	<u>301.6</u>
Total assets	<u>\$ 366.0</u>	<u>\$ 340.3</u>
Current liabilities	\$ 43.2	\$ 33.8
Non current liabilities	<u>31.0</u>	<u>30.2</u>
Total liabilities	<u>\$ 74.2</u>	<u>\$ 64.0</u>
Net assets:		
Invested in capital assets, net of related debt	308.7	293.0
Restricted	0.6	0.6
Unrestricted deficit	<u>(17.5)</u>	<u>(17.4)</u>
Total net assets	<u>\$ 291.8</u>	<u>\$ 276.2</u>

The school system's revenues exceeded expenses by \$15.5 million. For budgetary purposes, acquisitions of equipment and capital improvements are considered expenditures. However in accordance with Generally Accepted Accounting Principles (GAAP) and subject to the Board's Capitalization Policy, the equipment and capital improvements, amounting to \$18.9 million are capitalized and subject to depreciation. The school system continues to have a change in enrollment patterns. Consequently, the school system has been constructing new buildings and renovating/expanding existing ones. This capital outlay has resulted in increases in capital assets. The associated debt to finance these acquisitions resides on the County Government and State of Maryland financial statements, as it is not a burden of Carroll County Public Schools.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Financial Analysis of the School System as a Whole (Continued)

Changes in Net Assets from Operating Results

	Governmental Activities June 30, 2007	Governmental Activities June 30, 2006
	<i>(In Millions)</i>	<i>(In Millions)</i>
Revenues		
Program revenues:		
Charge for services	\$ 5.2	\$ 5.2
Operating grants and contributions	38.6	37.4
Capital grants and contributions	25.4	18.1
General revenues:		
County government	145.0	135.8
State (unrestricted)	99.3	89.1
State pension aid	13.4	12.2
Other	1.6	0.9
Total revenues	328.5	298.7
Expenses		
Instruction (regular and special education)	213.2	202.6
Administration (central and school)	34.4	32.5
Maintenance and operations	36.1	32.7
Transportation	17.9	16.8
Student services and health	4.9	4.6
Food services	6.5	6.2
Total expenses	313.0	295.4
Increase in net assets	\$ 15.5	\$ 3.3

All costs identified in the Statement of Activities include the cost of salaries, wages, supplies, contracted services, and depreciation by function. In the case of Regular Instruction, depreciation expense on the school buildings and equipment in those schools account for \$9.8 million. Due to reporting capabilities, no expenses are unallocated. Fringe benefits and depreciation can be tracked by individual or asset, respectively, and therefore can be tied to a function. Review of the revenues identifies some fee for services circumstances, including use of facilities and tuition. Operating Grant revenues include primarily State and Federal Grants and reflect restricted sources. As detailed in the Statement of Activities, the general revenues include State and County revenue, as well as interest income, none of which meets the criteria for classification as program revenues. More specifically:

- The cost of all governmental services this year was \$313.0 million.
- \$5.2 million of the costs were financed by users of the school districts programs through fees for service.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Financial Analysis of the School System as a Whole (Continued)

- The state and federal governments subsidized the operations of certain programs with grants and contributions totaling almost \$38.6 million.
- Most of the district's costs, however, were financed by Carroll County and State of Maryland taxpayers.
- Of that portion, \$145 million was associated with Carroll County government allocations.
- The state and county governments financed \$25.4 million in principally capital asset purchases.

Financial Analysis of the Board's Funds

In the general fund, revenues increased by 8% to \$296.6 million. The general fund increase is attributable to a 7% increase in the appropriation from the County government and an 12% increase in unrestricted State revenue. Significant expenditure increases occurred to fund salary increases and other costs negotiated by the various bargaining groups. The system also funded 161.4 (full-time equivalent) new positions to meet growth and academic needs as well as to implement Phase II of state-mandated Full Day Kindergarten for all students.

The Food Service Operation reflected a net change in fund balance of \$(4,785) for the year ended June 30, 2007 versus a net change in fund balance of \$(6,859) for the prior year.

The Capital Projects Fund reflects no change to fund balance since revenues exactly offset expenses. This fund is designed not to maintain net assets since expenditures should be offset by revenue in each fiscal year.

Limitations affecting the availability of resources in the General Fund include a reserve for inventories of approximately \$423,530, a reserve for prepaids of approximately \$449,875, and a reserve for encumbrances of \$4,723,941.

Budgetary Highlights

Over the course of each fiscal year, the school system revises the annual current operating budget. Generally, the budgets fluctuate for one of two reasons. First, when grants are awarded during the year, an amendment is done to adjust the budget as a whole. In addition, the system is required to maintain budgets by category, or function. Therefore, the school system makes transfers within budgeted line items to more accurately reflect changing conditions. These transfers do not impact the budget total as a whole. As reflected in the Schedule of Revenues, Expenditures, and Changes in Fund Balance on the Budget (Non-GAAP) Basis, none of the school system's categories were overspent at year-end. Most importantly, the school system ended the fiscal year with an excess of revenues over expenditures of \$3,054,639. This fund balance will be returned to the County Commissioners of Carroll County.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Budgetary Highlights (Continued)

The budgetary process is designed to reflect revenues equal to expenditures. However, on the Fund statements, actual expenditures and actual revenues were both lower than budgeted. Most of this variance is associated with grants that cross fiscal years, and therefore are not fully recognized or expended during the twelve-month fiscal cycle. For instance, the current operating fund actual revenues fell short of the final budget by almost \$4.3 million. Virtually all of this shortfall was within the restricted portion, illustrating grants that cross into fiscal year 2008.

Specific examples include Twenty-First Century Community Learning Center at \$476,836, Handicapped Non-Public Placement at \$691,792 and Special Education and Medical Assistance at \$863,820. These revenues will be realized and received in fiscal year 2008 to offset fiscal year 2008 grant related expenditures.

Specific areas of expenditure exceeded original budgets. However, budget transfers between categories were approved to more closely align with actual expenditures, so that at year-end all categories were in compliance. For fiscal year 2007, transfers were made out of fixed charges to maintenance of plant, operation of plant, and instructional areas. The school system is self-insured for medical, dental, prescription, and vision coverage. Actual claims in 2007 were lower than actuarial projections, creating a surplus in those line items.

Capital Asset Administration

By the end of fiscal year 2007, the school system had invested over \$316.9 million in capital assets net of depreciation, predominantly buildings. Total depreciation expense for the year exceeded \$11.4 million, increasing accumulated depreciation on assets to \$136.8 million. Included in the Construction in Progress balance is the work completed on Full Day Kindergarten construction projects: Ebb Valley Elementary, New Northeast High School and the work completed by Johnson Controls. Fiscal year 2008 capital budgets reflect \$61.8 million for the New Northeast Area High School, \$8 million for Open Space Classroom Enclosures and \$4 million for Full Day Kindergarten. The County government issues the debt associated with these capital projects, therefore, the school system financial statements do not reflect outstanding debt associated with these capital assets.

Factors Bearing on the School System's Future

At the time that these financial statements were prepared and audited, the school system was aware of several existing circumstances that could affect its financial health in the future:

1. The school system has begun implementing President Bush's "No Child Left Behind Act." Increased costs will be associated with hiring and retaining "highly qualified" teachers and paraprofessionals.

**BOARD OF EDUCATION OF CARROLL COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2007**

Factors Bearing on the School System's Future (Continued)

2. The Government Accounting Standards Board (GASB) issued GASB Statement No. 45, *Accounting for Other Post-Employment Benefits*. The Board of Education of Carroll County does offer other non-pension benefits to retirees and therefore will be recognizing a liability in fiscal year 2008 in accordance with this statement. The entire effect of this accounting change is not presently known.

Contacting the Board's Financial Management

This financial report is designed to provide the school system's citizens, taxpayers, customers, stakeholders, and creditors with a general overview of the system's finances and to demonstrate the school system's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Comptroller's Office, Carroll County Public Schools, 125 North Court Street, Westminster, Maryland 21157.

BASIC FINANCIAL STATEMENTS

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Governmental Activities</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 14,943,970
Investments	1,344,197
Accounts receivable	565,725
Due from other units of government	30,960,821
Inventory	729,969
Other current assets	515,388
Total current assets	<u>49,060,070</u>
NONCURRENT ASSETS	
Capital assets (net of accumulated depreciation):	
Land and improvements	12,549,603
Construction in progress	25,075,721
Equipment	11,675,693
Buildings and improvements	267,641,259
Total noncurrent assets	<u>316,942,276</u>
Total assets	<u>366,002,346</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	8,965,451
Accrued salaries and fringes	17,257,957
Accrued health claims	2,879,446
Accrued expenses	7,994,392
Accrued interest	48,289
Due to student groups	1,834,344
Due to other governments	142,819
Unearned revenue	1,464,899
Current portion of capital lease obligations	448,091
Current portion of compensated absences payable	2,135,000
Total current liabilities	<u>43,170,688</u>
NONCURRENT LIABILITIES	
Long-term portion of capital lease obligations	7,749,836
Long-term portion of compensated absences payable	23,239,335
Total noncurrent liabilities	<u>30,989,171</u>
Total liabilities	<u>74,159,859</u>
NET ASSETS	
Invested in capital assets, net of related debt	308,744,349
Restricted for:	
Food services	647,395
Unrestricted	(17,549,257)
TOTAL NET ASSETS	<u><u>\$ 291,842,487</u></u>

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

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expenses)</u>	
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Revenue and Changes in Net Assets</u>
				<u>Total</u>	
				<u>Governmental Activities</u>	
FUNCTIONS/PROGRAMS					
GOVERNMENTAL ACTIVITIES					
INSTRUCTION					
Regular education	\$ 172,773,901	\$ 567,291	\$ 17,976,984	\$ 25,448,453	\$ (128,781,173)
Special education	40,422,547	-	17,018,932	-	(23,403,615)
Total instruction	<u>213,196,448</u>	<u>567,291</u>	<u>34,995,916</u>	<u>25,448,453</u>	<u>(152,184,788)</u>
SUPPORT SERVICES					
Administration	6,580,498	-	220,924	-	(6,359,574)
Mid-level administration	27,819,579	-	658,312	-	(27,161,267)
Student personnel services	1,508,708	-	1,017	-	(1,507,691)
Student health services	3,371,735	-	46,238	-	(3,325,497)
Student transportation services	17,941,064	-	118,827	-	(17,822,237)
Operation of plant	26,361,956	-	848	-	(26,361,108)
Maintenance of plant	9,441,894	-	382,792	-	(9,059,102)
Community services	298,929	304,059	16,328	-	21,458
Food services	6,492,857	4,374,484	2,116,294	-	(2,079)
Total support services	<u>99,817,220</u>	<u>4,678,543</u>	<u>3,561,580</u>	<u>-</u>	<u>(91,577,097)</u>
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 313,013,668</u>	<u>\$ 5,245,834</u>	<u>\$ 38,557,496</u>	<u>\$ 25,448,453</u>	<u>(243,761,885)</u>
GENERAL REVENUES					
Local appropriations					144,998,072
State aid					112,739,842
Interest and investment earnings					662,088
Miscellaneous					940,528
Total general revenues					<u>259,340,530</u>
CHANGES IN NET ASSETS					15,578,645
NET ASSETS, BEGINNING OF YEAR					<u>276,263,842</u>
NET ASSETS, END OF YEAR					<u>\$ 291,842,487</u>

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

BOARD OF EDUCATION OF CARROLL COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	<u>General Fund</u>	<u>Food Services Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 14,936,345	\$ 7,625	\$ -	\$ 14,943,970
Investments	1,344,197	-	-	1,344,197
Accounts receivable	556,434	9,291	-	565,725
Due from other funds	-	824,239	32,696	856,935
Due from other units of government	23,989,338	74,242	6,897,241	30,960,821
Inventory	423,530	306,439	-	729,969
Other current assets	515,388	-	-	515,388
TOTAL ASSETS	<u>\$ 41,765,232</u>	<u>\$ 1,221,836</u>	<u>\$ 6,929,937</u>	<u>\$ 49,917,005</u>
LIABILITIES				
Accounts payable	\$ 2,068,189	\$ 43,838	\$ 6,853,424	\$ 8,965,451
Accrued salaries and fringes	16,734,051	523,906	-	17,257,957
Accrued health claims	2,879,446	-	-	2,879,446
Accrued expenses	7,994,392	-	-	7,994,392
Due to other funds	2,614,766	-	76,513	2,691,279
Due to other governments	142,819	-	-	142,819
Deferred revenue	1,458,202	6,697	-	1,464,899
Total liabilities	<u>33,891,865</u>	<u>574,441</u>	<u>6,929,937</u>	<u>41,396,243</u>
FUND BALANCES				
Reserved for:				
Encumbrances	4,723,941	102,630	-	4,826,571
Inventories	423,530	306,439	-	729,969
Prepaid	449,875	-	-	449,875
Unreserved:				
Undesignated	2,276,021	238,326	-	2,514,347
Total fund balances	<u>7,873,367</u>	<u>647,395</u>	<u>-</u>	<u>8,520,762</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 41,765,232</u>	<u>\$ 1,221,836</u>	<u>\$ 6,929,937</u>	<u>\$ 49,917,005</u>

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

**BOARD OF EDUCATION OF CARROLL COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2007**

Total fund balances – governmental funds (page 14) \$ 8,520,762

**AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:**

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$453,742,486, and the accumulated depreciation is \$(136,800,210). 316,942,276

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 capital lease obligations and compensated absences payable. (33,572,262)

Accrued interest is reported when due and payable in the funds and is reported when incurred on governmental activities. (48,289)

TOTAL NET ASSETS, GOVERNMENTAL ACTIVITIES (page 12) \$ 291,842,487

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

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	<u>General Fund</u>	<u>Food Services Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Local sources	\$ 144,636,751	\$ -	\$ 16,697,998	\$ 161,334,749
State sources	138,940,100	52,745	8,750,455	147,743,300
Federal sources	9,796,825	1,928,825	-	11,725,650
Earnings on investments	627,038	35,050	-	662,088
Charges for services	871,350	4,374,484	-	5,245,834
Miscellaneous revenues	1,745,971	134,724	-	1,880,695
Total revenues	<u>296,618,035</u>	<u>6,525,828</u>	<u>25,448,453</u>	<u>328,592,316</u>
EXPENDITURES				
Administration	5,722,287	-	-	5,722,287
Instruction	135,011,766	-	-	135,011,766
Student personnel services	1,323,508	-	-	1,323,508
Student health services	2,764,720	-	-	2,764,720
Student transportation services	17,645,758	-	-	17,645,758
Operation of plant	22,045,440	-	-	22,045,440
Maintenance of plant	7,265,109	-	-	7,265,109
Fixed charges	44,594,191	-	-	44,594,191
Mid-level administration	23,322,629	-	-	23,322,629
Community services	279,435	-	-	279,435
Special education	34,434,391	-	-	34,434,391
Costs of operation - food services	-	6,530,613	-	6,530,613
Capital outlay	1,033,742	-	25,448,453	26,482,195
Total expenditures	<u>295,442,976</u>	<u>6,530,613</u>	<u>25,448,453</u>	<u>327,422,042</u>
NET CHANGE IN FUND BALANCES	1,175,059	(4,785)	-	1,170,274
FUND BALANCES,				
BEGINNING OF YEAR	<u>6,698,308</u>	<u>652,180</u>	<u>-</u>	<u>7,350,488</u>
FUND BALANCES, END OF YEAR	<u>\$ 7,873,367</u>	<u>\$ 647,395</u>	<u>\$ -</u>	<u>\$ 8,520,762</u>

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

**BOARD OF EDUCATION OF CARROLL COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
June 30, 2007**

Total net change in fund balances – governmental funds (page 16) \$ 1,170,274

**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. This is the amount by which capital outlay, which is capitalized \$26,736,013, exceeds depreciation expenses, \$11,402,141, in the period. 15,333,872

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid or expected to be paid within one year). This year, vacation and sick leave earned exceeded the amounts used by: (1,311,642)

The execution of a capital lease agreement provides current financial resources to governmental funds, while the repayment of the lease principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the amount of principal payments on the lease obligation for this year. 412,002

In the Statement of Activities, only the gain or loss on sale of the capital assets is reported. In the governmental funds, however, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed. (25,861)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 15,578,645**
(page 13)

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

BOARD OF EDUCATION OF CARROLL COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2007

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 526,993
Due from other funds	2,085,342
Accounts receivable	1,000
Prepaid expenses	<u>6,090</u>
TOTAL ASSETS	<u><u>\$2,619,425</u></u>
LIABILITIES	
Accounts payable	\$ 213,883
Due to student groups	2,154,544
Due to other funds	<u>250,998</u>
TOTAL LIABILITIES	<u><u>\$2,619,425</u></u>

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

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Board of Education of Carroll County (the Board) as currently constituted was established under Title 3, Subtitle 103, Education, of the Annotated Code of Maryland. The Board is a five-member elected body responsible for the operation of Carroll County Public Schools.

The Board of Education of Carroll County is a component unit of Carroll County, Maryland by virtue of the County's responsibility for levying taxes and its budgetary control over the Board of Education. The Board does not have any component units, as it does not have any entities that it is considered to be financially accountable for in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 and as amended by GASB Statement No. 39.

The financial statements of the Board are prepared in conformity with generally accepted accounting principles (GAAP) applicable to governments in the United States of America.

Government-Wide and Fund Financial Statements

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This statement was amended by Statement No. 41, insofar as to the reporting of budgetary data. This statement, known as the "Reporting Model" statement, affects the way the Board prepares and presents financial information.

The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis - GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis many private sector entities provide in their annual reports.

Government-Wide Financial Statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities (such as cash and accounts payable), but also capital assets and long-term liabilities. Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter. Fiduciary funds are not included in government-wide financial statements.

The basic financial statements include both government-wide (based on the Board as a whole) and fund financial statements. The Board does not engage in business-type activities and, as such, issues single column government-wide financial statements. In the Government-Wide Statement of Net Assets, both the governmental activities' assets and liabilities (a) are presented on a consolidated basis and (b) are reflected on a full accrual, economic resource basis, which incorporates non-current assets and receivables as well as long-term obligations.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Statement of Net Assets - The Statement of Net Assets is designed to display the financial position of the primary government. The Board reports all capital assets in the government-wide Statement of Net Assets and reports depreciation expense – the cost of “using up” capital assets – in the Statement of Activities. The net assets of the Board are broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities - The Government-Wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each Board function. The expenses of individual functions are compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants). These directly matched revenues are called program revenues. This format enables the Government-Wide Statement of Activities to reflect both the gross and net cost per functional category (regular instruction, special instruction, pupil transportation, etc.) that are otherwise being supported by general government revenues.

Program revenues must be directly associated with a function and are restricted to meeting the operational or capital requirements of a particular function or activity. Multi-purposed grants and other items not properly included among program revenues are reported as general revenues. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

Direct expenses are considered those that are clearly identifiable with a specific function or segment. The Board does not allocate indirect expenses.

Fund Financial Statements - Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

In the fund financial statements, financial transactions and accounts of the Board are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The fund statements are presented on a current financial resource and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide and Fund Financial Statements (Continued)

Budgetary Comparison Schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the financial progress of their governments over the course of the year. The Board and many other governments revise their original budgets over the course of the year for a variety of reasons. A budgetary comparison schedule of the Board's original budget to the final budget and actual results is presented as required supplementary information.

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Nonexchange transactions are where the Board either gives or receives value without directly receiving or giving equal value in exchange including, for example, grants and contributions. Revenues from grants and contributions are recognized in the fiscal year in which all eligibility requirements have been satisfied.

It is the Board's policy to first use restricted assets for expenses incurred for which both restricted and unrestricted assets are available unless a local match is required. Where a local match is required, the expense is allocated to restricted and unrestricted assets based on the required match percentages.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This focus is on the determination of, and changes in financial position, and generally only current assets and current liabilities are included on the Balance Sheet. Revenues are recorded as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within a current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The major revenue sources subject to the availability criterion are the local, state, and federal revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. Expenditures related to compensated absences are recorded when payment is due or when payable resulting from resignations or retirements.

The following types of transactions are reported as program revenues. Tuition paid directly by students and parents is identified as charges for services. Additionally, sales associated with the Food Service Operation are identified as charges for services, while state and federal support for this function is identified as operating grants and contributions. Grant-related revenue that is specifically restricted for use by a particular function is separated in the Statement of Activities.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Board reports the following major governmental funds:

General Fund – The General Fund is the operating fund of the Board and is used to account for the revenues and expenditures necessary for the day-to-day operation of the Board. This fund is used to account for all financial resources except those required to be accounted for in another fund.

Food Service Fund – The Food Service Fund is used to account for the operations of the cafeteria program throughout the school system.

Capital Improvements Project Fund – The Capital Improvements Project Fund is used to account for the financial resources to be used for the acquisition or construction of the Board's major capital facilities.

Additionally, the Board reports the following fiduciary fund:

School Fund – The School Fund is a fiduciary fund used to account for the funds held by the Board in a trustee capacity. The school funds account for the funds of other persons or organizations which are the direct responsibility of the principals of the respective schools. This is an agency fund with no measurement focus as only assets and liabilities are reported on the accrual basis.

As a general rule, the effect of interfund and internal activity has been eliminated from the government-wide financial statements including the Statement of Activities. Interfund balances are not included in the Government-Wide Statement of Net Assets. The Board distinguishes overhead costs, which are eliminated in the preparation of the Statement of Activities from interfund services provided and used between functions which are not eliminated in the Statement of Activities in the financial statement closing process. The Board does not allocate indirect expenses to functions in the fund financial statements.

Assets, Liabilities, and Net Assets or Equity

Investments

Investments are reported at fair market value in accordance with GASB Statement No. 31.

Receivables and Payables

All interfund receivables and payables are displayed in the fund statements as "due to/due from other funds." These amounts offset each other and are eliminated from the government-wide Statement of Net Assets, so as to not overstate the Board's assets and liabilities. All trade receivables are reported net of an allowance for uncollectibles.

Inventory

Inventory consists of expendable supplies and food held for consumption and is valued at cost (first-in, first-out). Inventory is reflected in the financial statements by the consumption method. Under this method, the expenditure is recognized when inventory is used. In the fund financial statements, these inventories are offset by a fund balance reserve which indicates that they do not constitute available expendable resources, even though they are a component of assets.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include land and improvements, buildings and improvements, and equipment, are reported in the government-wide financial statements. 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

ASSETS	Years
Buildings	50
Improvements	20
Equipment	3 – 10

Unearned Revenues

Unearned revenues represent amounts received from grantors in advance of incurrence of eligible expenditures for reimbursable-type grants and unused commodities at June 30, 2007, since title does not pass to the Board until the commodities are used.

Compensated Absences Payable

The current portion of compensated absences that has matured due to resignations or retirements is included in accrued wages in the General Fund. The Board recognizes expenditures for these items, which include salaries and salary related payments, as incurred. Vested absences earned but not taken were \$25,374,335 at June 30, 2007 and are reflected in the entity wide Statement of Net Assets.

These absences consist primarily of sick and vacation time earned but not taken. Employees hired prior to July 1, 1997 meeting specified service requirements are eligible to accumulate sick time and upon retirement, are entitled to payment for unused sick time at 50% of their accrued sick leave balance at their previous three year average daily rate. Employees hired prior to July 1, 1997 may accumulate unused sick time and will be paid for a maximum of 250 days or their accumulated balance at June 30, 2003, whichever is greater. Employees hired July 1, 1997 and later are eligible for accumulated unlimited sick time but are not entitled to payment for unused sick time upon retirement. There is a maximum accrual of 30 paid vacation days for those employees eligible to earn and accumulate vacation time.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assets, Liabilities, and Net Assets or Equity (Continued)

Encumbrances

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

School Construction Debt

The Board is not obligated to repay principal or interest on any debt incurred for school construction. Such bonds and loans are obligations of the County government. Accordingly, the Board does not record school construction debt service revenues, expenditures, or outstanding school construction debt. The authorization for annual expenditures related to debt service emanate from the Carroll County Operating Budget Ordinance.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Fund balances in the governmental funds are reserved for encumbrances to indicate the amounts are not available for other expenditures.

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING POLICIES

Legal budgetary control is employed for the General Fund only. The School Fund does not have a legally adopted annual budget. Capital Projects are budgeted on a project basis only. Management employs budgetary control over the Food Service Fund for operational purposes only.

The Board follows these procedures in establishing the budgetary data reflected in these financial statements:

1. Prior to December, the staff accumulates and summarizes data for a proposed operating budget (General Fund).
2. During January, the Superintendent of Schools submits a proposed operating budget to the Board.
3. Public hearings are held to obtain citizens' comments.
4. During February, the Board adopts the proposed budget.
5. On March 1, the budget is submitted to the Carroll County Commissioners for approval.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING POLICIES (CONTINUED)

6. During May, the County Commissioners hold final hearings and adopt the budget which becomes effective July 1.
7. The General Fund budget is adopted on a basis consistent with GAAP except for the inclusion of encumbrances as expenditures and the exclusion of pension payments made by the State on behalf of the Board. Budget comparisons presented in this report are on a non-GAAP budgetary basis. The required supplementary information budgetary comparison schedule reflects the budget as amended.
8. Request for adjustments to major categories must be submitted to the County Commissioners for approval or denial. No action within thirty (30) days of submission constitutes approval.
9. Requests for transfers between major categories must be submitted to the County Commissioners for approval or denial. No action within thirty (30) days of submission constitutes approval.
10. Expenditures may not legally exceed appropriations at the major category level. In addition, all appropriations lapse at year-end.

During the year, the County Commissioners adopted supplemental appropriations for the Board of Education's General Fund budget. The approved budget and supplemental appropriations are presented below:

Original operating budget approved by the County Commissioners	\$286,532,569
Approved supplemental appropriations	<u>1,099,196</u>
Amended Operating Budget for Fiscal Year 2007	<u>\$287,631,765</u>

NOTE 3 – CASH AND CASH EQUIVALENTS

The Board of Education maintains pooled and various separate cash accounts for its funds. The cash balances of the School Fund (see Statement of Fiduciary Net Assets) consist of individual demand accounts maintained by the schools. The Board considers any instrument with a maturity of three months or less when purchased, as cash equivalents.

Deposits

At year-end, the carrying value of the Board's combined deposits including amounts invested in repurchase agreements was \$15,470,963 and \$1,344,197 and was invested in the Maryland Local Government Investment Pool. The bank balance of deposits, including amounts invested in repurchase agreements, was \$19,779,139 and cash on hand was \$150. Of the bank balance, \$336,582 was covered by federal depository insurance and \$19,442,557 was covered by collateral held by the financial institution's trust department in the Board's name. Statutes authorize secured time deposits in Maryland banks. Statutes require uninsured deposits to be fully collateralized. Therefore, under the reporting requirements of Governmental Accounting Standards Board Statement No.40, the Board's deposits are not subject to custodial or credit risk at year-end. Because of the short-term maturity and type of the investments there is limited interest rate risk.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 3 – CASH AND CASH EQUIVALENTS (CONTINUED)

Investments

Statutes authorize the Board to invest in obligations of the U.S. Government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligations.

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

Additionally, in accordance with reporting requirements of GASB Statement No. 40, the Board does not have any interest rate risk associated with investments. Investments in the MLGIP and repurchase agreements are priced on a daily basis, with funds availability also on a daily basis. It should also be noted that the Board does not have any foreign currency risk associated with any investments.

NOTE 4 – INVENTORY

Inventory consists of the following for the general fund:

Custodial supplies	\$ 186,080
Equipment, repair and maintenance supplies	237,450
Food service supplies	32,550
Food	<u>273,889</u>
Total inventories	<u>\$ 729,969</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 5 – CAPITAL ASSETS

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

GOVERNMENTAL ACTIVITIES	Balance at June 30, 2006	Increases	Decreases	Balance at June 30, 2007
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and improvements	\$ 12,339,252	\$ 210,351	\$ -	\$ 12,549,603
Construction in progress	<u>17,431,003</u>	<u>15,896,955</u>	<u>(8,252,237)</u>	<u>25,075,721</u>
Total capital assets, not being depreciated	<u>29,770,255</u>	<u>16,107,306</u>	<u>(8,252,237)</u>	<u>37,625,324</u>
CAPITAL ASSETS BEING DEPRECIATED				
Equipment	37,964,885	3,837,880	(2,534,339)	39,268,426
Equipment under capital lease	4,816,683	-	-	4,816,683
Building and improvements	<u>356,988,989</u>	<u>15,043,064</u>	<u>-</u>	<u>372,032,053</u>
Total capital assets being depreciated	<u>399,770,557</u>	<u>18,880,944</u>	<u>(2,534,339)</u>	<u>416,117,162</u>
LESS – ACCUMULATED DEPRECIATION				
Building and improvements	96,127,297	8,263,497	-	104,390,794
Equipment under capital lease	4,816,683	-	-	4,816,683
Equipment	<u>26,962,567</u>	<u>3,138,644</u>	<u>(2,508,478)</u>	<u>27,592,733</u>
Total accumulated depreciation	<u>127,906,547</u>	<u>11,402,141</u>	<u>(2,508,478)</u>	<u>136,800,210</u>
Total capital assets, being depreciated, net	<u>271,864,010</u>	<u>7,478,803</u>	<u>(25,861)</u>	<u>279,316,952</u>
CAPITAL ASSETS, NET	<u>\$301,634,265</u>	<u>\$ 23,586,109</u>	<u>\$ (8,278,098)</u>	<u>\$316,942,276</u>

Depreciation expense for the year was charged to functions as follows:

Regular education	\$ 9,814,847
Special education	125,861
Administration	91,696
Mid level administration	101,161
Student personnel services	21,771
Student health services	1,503
Student transportation services	111,939
Operation of plant	864,472
Maintenance of plant	222,058
Food services	<u>46,833</u>
Total depreciation expense – governmental activities	<u>\$11,402,141</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 5 – CAPITAL ASSETS (CONTINUED)

At June 30, 2007, the Board has construction commitments consisting of the following:

	Future Amounts to be Expended	Future Funding to be Provided
West Middle Windows	\$ 519,025	\$ -
New Northeast Area High	63,830,288	63,830,288
Robert Moton HVAC	3,084,505	-
Sykesville Middle	923,688	-
Ebb Valley Elementary	12,953,234	6,030,046
Full Day Kindergarten	1,059,697	-
Total	\$ 82,370,437	\$ 69,860,334

NOTE 6 – INTERFUND BALANCES

The composition of interfund balances as of June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Food Service Fund	General Fund	\$ 572,121
Food Service Fund	Capital Projects Fund	1,120
School Fund	General Fund	2,009,949
School Fund	Capital Projects Fund	75,393
Food Service Fund	School Fund	250,998
Capital Projects Fund	General Fund	32,696
Total		\$ 2,942,277

The interfund balances resulted from the time lag between the dates that payments of expenses and cash collections by one fund on behalf of another are made.

NOTE 7 – LONG-TERM DEBT

Long-term debt at June 30, 2007 consists of amounts due under capital leases and compensated absences payable as further discussed in Note 1.

During the fiscal year ended June 30, 2007, no new capital leases were entered into by the Board. In October of 2004, Phase IV of an energy management plan was entered into providing air conditioning to three elementary schools. Additionally, the plan will upgrade water and lighting fixtures.

The Board leases energy management equipment pursuant to capital lease agreements entered into in prior years. Payments made on capital leases are recorded in the General Fund. Future minimum lease obligations are as follows:

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 7 – LONG-TERM DEBT (CONTINUED)

<u>Year Ending June</u>	<u>Energy Management Equipment</u>
2008	\$ 738,322
2009	760,472
2010	783,286
2011	806,785
2012	830,988
Next 5 years ending 2017	3,580,841
Next 5 years ending 2022	<u>2,799,821</u>
Total future payments	10,300,515
Less interest	<u>(2,102,588)</u>
Present value of future minimum lease payments	<u>\$ 8,197,927</u>

Interest expense related to capital leases was \$304,816 for the year ended June 30, 2007. This amount was allocated to functions as follows:

Maintenance of plant and equipment	<u>\$ 304,816</u>
------------------------------------	-------------------

Changes in capital lease obligations for the year ended June 30, 2007 were as follows:

Balance at June 30, 2006	\$ 8,609,929
Additions	-
Reductions	<u>(412,002)</u>
Balance at June 30, 2007	8,197,927
Amounts due within one year	<u>(448,091)</u>
Capital lease obligations non-current	<u>\$ 7,749,836</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Changes in compensated absences payable for the year ended June 30, 2007 were as follows:

Balance at June 30, 2006	\$ 24,062,693
Additions	2,869,797
Reductions	<u>(1,558,155)</u>
Balance at June 30, 2007	25,374,335
Amounts due within one year	<u>(2,135,000)</u>
Compensated absence non-current portion	<u>\$ 23,239,335</u>

Capital lease and compensated absence liabilities are generally liquidated by the General Fund.

NOTE 8 – PENSION PLAN

The employees of the Board are covered by the State Retirement and Pension System of Maryland which is a cost sharing employer public employee retirement system (the State System). Most Board employees participate in the State System. The State System prepares a Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension Systems of Maryland at 120 East Baltimore Street, Baltimore, Maryland 21202.

Plan Description

The State System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of several plans which are managed by the Board of Trustees for the State System. All State employees and employees of the participating entities are eligible for coverage by the plans. The State System provides retirement, death, and disability benefits in accordance with State statutes.

Funding Policy

The Board's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the State System, all benefits of the State System are funded in advance. The entry age normal cost method is the actuarial cost method used. Both the Board and covered employees are required by State statute to contribute to the State System. The employees contribute 3% to 7% of compensation, as defined, depending on the participant's plan.

The contribution requirements of the State System members, as well as the State and participating governmental employees are established and may be amended by the Board of Trustees for the State System. Benefits are provided in accordance with State statutes.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 8 – PENSION PLAN (CONTINUED)

Funding Policy (Continued)

The State makes a substantial portion of the Board's annual required contributions to the State System on behalf of the Board. The State's contributions on behalf of the Board for the years ended June 30, 2007, 2006, and 2005 amounted to \$13,436,187, \$12,180,637, and \$11,582,831, respectively. The fiscal 2007 contributions made by the State on behalf of the Board have been included as both revenues and expenditures in the General Fund in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balances and are also included as revenues and expenses on the Statement of Activities.

The Board made its share of the required contributions during the years ended June 30, 2007, 2006, and 2005 of \$1,373,580, \$1,130,506, and \$1,081,932, respectively.

The contributions are sufficient to fund normal costs and amortize the unfunded actuarial accrued liability over a 40-year period (as provided by law) from July 1, 1980.

NOTE 9 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

The Board provides medical benefits to retirees pursuant to two medical benefit plans for retired employees based on negotiated agreements with various bargaining groups. For retirees over the age of 65 who retired prior to September 1, 1988, the percentage of the premium paid by the Board is dependent upon the retiree's years of service and ranges from 10% to 100%. For retirees who retired after September 1, 1988, the percentage of the premium paid by the Board is dependent upon the retiree's years of service and ranges from 0% to 100%. These percentages are applied to premiums established annually by the Board for individual, husband/wife, parent/child, and family coverages. Only Carroll County Board of Education years of service are considered. The employer's contributions are financed on a pay-as-you-go basis and the future payment of these benefits is contingent upon the annual approval of the operating budget. The medical benefits paid by the Board for the year ended June 30, 2007 were \$1,797,582. As of June 30, 2007, 711 eligible participants were receiving benefits.

The Board has not assessed the impact on its financial position or results of operations of implementing GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement will be effective for the Board in fiscal year 2008. It will require prospective recognition of the cost of these benefits as they are earned rather than as they are paid in the government-wide and proprietary and fiduciary fund financial statements. Recognition in governmental fund financial statements will be on the modified accrual basis.

NOTE 10 – LITIGATION AND CONTINGENCIES

Several suits have been filed arising from personnel grievances, personal injury, and other matters. It is anticipated by the Board that an adverse decision in excess of insurance coverage on any or all of these suits would not have a material adverse affect on these financial statements.

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 10 – LITIGATION AND CONTINGENCIES (CONTINUED)

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. Amounts, if any, of expenditures that may be disallowed by grantors cannot be determined at this time, although the Board expects such amounts, if any, to be immaterial.

NOTE 11 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Board participates in the Maryland Association of Boards of Education Group Insurance Pool (MABE). MABE is a public entity risk pool currently operating as a common risk management and insurance program for fourteen member counties to reduce the amount of claims expenditures incurred. The Board pays an annual premium to MABE for its general insurance coverage. The Formation Agreement of MABE provides that MABE will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of established loss limits which range from \$2,500 to \$5 million for each insured event depending on the type of loss. Settled claims did not exceed coverage in any of the past three years.

Commercial insurance policies are purchased to provide coverage including workers' compensation coverage. Settled claims did not exceed coverage in any of the past three years.

The Board has also established limited risk management programs for healthcare insurance. In the past, healthcare insurance was covered by a third party carrier. Effective January 1, 1998, the Board, with Aetna U.S. Healthcare, established a new arrangement of providing coverage for future medical claims. Effective July 1, 2005, employees contribute 15% towards this coverage. Deposits are made by the Board into a bank account used only for payments resulting from health insurance claims.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. At June 30, 2007, liabilities include an amount for claims that have been incurred but not reported (IBNR). Claim liabilities are calculated by an actuary based on the effects of inflation, recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The estimate of the claims liability also includes amounts for non-incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example, from salvage or subrogation are another component of the claims liability estimate. The liability for claims and judgments is reported in the General Fund. Changes in the balances of claims liabilities are as follows:

	Year Ended June 30,	
	2007	2006
ACCRUED HEALTH CLAIMS		
Unpaid claims at beginning of year	\$ 2,922,528	\$ 2,408,964
Incurred claims (including IBNR)	28,363,400	24,675,299
Claim payments	<u>(28,406,482)</u>	<u>(24,161,735)</u>
UNPAID CLAIMS AT END OF YEAR	<u>\$ 2,879,446</u>	<u>\$ 2,922,528</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 12 – POTENTIAL LITIGATION

A lawsuit has been threatened against the Board by an individual seeking damages for injuries sustained as a result of a bus accident involving an independent contractor that provides contracted bus service to the Board. A formal monetary demand has not been filed by the potential plaintiff since the full medical costs of the injuries is unknown. It is anticipated that the amount of the claim could exceed \$1 million, which is the amount of coverage provided to the Board by the M.A.B.E. Group Insurance Pool. As a result of the threat of this lawsuit, the independent contractor has threatened a lawsuit against the Board in the event the judgment awarded to the individual exceeds the insurance coverage the Board provided to the independent contractor. A liability has not been recorded since the amount of the claims can not be reasonably estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

**BOARD OF EDUCATION OF CARROLL COUNTY
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
(NON-GAAP BUDGETARY BASIS)
Fiscal Year Ended June 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Non-GAAP Actual</u>	<u>Variances Positive (Negative) Final Budget To Actual</u>
REVENUES				
Local sources	\$ 144,760,300	\$ 144,998,072	\$ 144,998,072	\$ -
State sources	126,346,094	126,591,010	125,180,436	(1,410,574)
Federal sources	12,832,487	12,906,660	9,947,378	(2,959,282)
Other revenues	2,593,688	3,136,023	3,238,486	102,463
Total revenues	<u>286,532,569</u>	<u>287,631,765</u>	<u>283,364,372</u>	<u>(4,267,393)</u>
EXPENDITURES				
Administration	5,238,265	5,280,046	5,024,404	255,642
Instructional salaries	117,008,605	116,874,223	114,133,438	2,740,785
Student personnel services	1,226,146	1,249,146	1,247,828	1,318
Student health services	2,714,129	2,658,284	2,555,587	102,697
Student transportation services	18,418,178	18,441,637	17,416,043	1,025,594
Operation of plant	21,950,789	21,785,162	21,783,256	1,906
Maintenance of plant	6,077,123	7,297,625	7,292,039	5,586
Fixed charges	46,385,208	45,799,104	44,603,778	1,195,326
Community services	275,000	280,350	279,392	958
Capital outlay	784,089	784,089	750,795	33,294
Mid-level administration	22,088,025	22,542,865	21,785,058	757,807
Special education	33,286,085	33,283,484	32,382,853	900,631
Instructional textbooks/supplies	7,490,591	7,701,511	7,678,901	22,610
Other instructional costs	3,590,336	3,654,239	3,389,133	265,106
Total expenditures	<u>286,532,569</u>	<u>287,631,765</u>	<u>280,322,505</u>	<u>7,309,260</u>
Excess of revenues over expenditures	<u>-</u>	<u>-</u>	<u>3,041,867</u>	<u>(3,041,867)</u>
FUND BALANCE AT JUNE 30, 2006	-	-	-	-
Transfer to County	<u>-</u>	<u>-</u>	<u>(3,054,639)</u>	<u>3,054,639</u>
FUND BALANCE AT JUNE 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,772)</u>	<u>\$ 12,772</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2007

NOTE 1 – BUDGETARY BASIS OF ACCOUNTING

Under the budgetary basis of accounting, revenues are recognized when cash is received and expenditures are recognized upon the commitment of an encumbrance. Pension payments made by the State on behalf of the Board are not considered revenues and expenditures on the budgetary basis of accounting.

NOTE 2 – BUDGETARY TO GAAP RECONCILIATION

A reconciliation of the revenues and expenditures for the funds which are affected by the adjustments necessary to present the Statement of Revenues and Expenditures and Changes in Fund Balance on a GAAP basis follows:

BUDGETARY GENERAL FUND

Revenues (non-GAAP budgetary basis)	\$ 283,364,372
Increase in fiscal year revenues generated by fiscal year changes in encumbrances of expenditure driven grants	180,806
Prior year non-GAAP fund balance transferred to County	(363,330)
State pension payments	<u>13,436,187</u>
Revenues and other financing sources (GAAP basis)	<u>\$ 296,618,035</u>
Expenditures (non-GAAP budgetary basis)	\$ 280,322,505
Encumbrance adjustment, net	1,448,925
State pension payments	13,436,187
Expenditures financed through capital leases	<u>235,359</u>
Expenditures (GAAP basis)	<u>\$ 295,442,976</u>

OTHER SUPPLEMENTARY INFORMATION

**BOARD OF EDUCATION OF CARROLL COUNTY
GENERAL FUND
SCHEDULE OF REVENUES COMPARED TO BUDGET
(NON-GAAP BUDGETARY BASIS)
June 30, 2007**

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Local Sources			
Carroll County Government	\$ 144,998,072	\$ 144,998,072	\$ -
State of Maryland			
State share of current expense	98,057,488	98,057,488	-
Pupil transportation	7,759,430	7,759,430	-
Special Education	7,244,775	7,244,853	78
Compensatory Education	6,922,924	6,922,924	-
Handicapped Non-Public Placement	3,900,000	3,208,208	(691,792)
Judy Center	394,609	352,727	(41,882)
Aging Schools	391,033	382,792	8,241
Limited English Proficient	409,835	409,835	-
Infant and Toddlers Program	159,456	159,456	-
EEEP	171,658	171,658	-
Adult Education and Literacy Services	206,495	206,495	-
Other state	973,307	304,570	(668,737)
Total state	<u>126,591,010</u>	<u>125,180,436</u>	<u>(1,410,574)</u>
United States Government			
Special Education	5,710,235	5,319,617	(390,618)
Medical Assistance Program	1,560,000	1,086,798	(473,202)
Title I Grants to Local Educational Agencies	1,752,065	1,301,898	(450,167)
Twenty-First Century Community Learning Centers	1,077,499	600,663	(476,836)
Improving Teacher Quality State Grants	639,364	567,411	(71,953)
Career and Technology Education	277,374	265,406	(11,968)
Adult Education - State Grant Program	333,673	321,515	(12,158)
Fund for the Improvement of Education	516,512	91,651	(424,861)
Innovative Education Program Strategies	221,442	192,554	(28,888)
Education Technology State Grants	31,678	49,438	17,760
Other federal revenue	786,818	150,427	(636,391)
Total federal	<u>12,906,660</u>	<u>9,947,378</u>	<u>(2,959,282)</u>
Miscellaneous			
Rebates	175,000	287,539	112,539
Medicare Part D rebate	308,000	419,428	111,428
Sale of surplus equipment	6,000	14,740	8,740
Other miscellaneous	55,575	218,823	163,248
Total miscellaneous	<u>544,575</u>	<u>940,530</u>	<u>395,955</u>
Local			
Tuition and fees:			
Athletic fees	300,000	305,513	5,513
Summer school	134,264	130,730	(3,534)
Outdoor school	132,000	112,636	(19,364)
Nonresident pupils	3,000	(14,288)	(17,288)
Adult education	9,200	3,952	(5,248)
Other tuition	27,180	22,876	(4,304)
Rental of school facilities	340,000	304,059	(35,941)
Interest income	488,103	627,038	138,935
Other local	1,015,701	648,298	(367,403)
Total local	<u>2,449,448</u>	<u>2,140,814</u>	<u>(308,634)</u>
Incoming Transfers			
From other school units within Maryland	-	16,976	16,976
From other school units outside Maryland	142,000	140,166	(1,834)
Total transfers	<u>142,000</u>	<u>157,142</u>	<u>15,142</u>
TOTAL REVENUES	<u>\$ 287,631,765</u>	<u>\$ 283,364,372</u>	<u>\$ (4,267,393)</u>

**BOARD OF EDUCATION OF CARROLL COUNTY
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
(NON-GAAP BUDGETARY BASIS)
June 30, 2007**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Administration			
Salaries	\$ 3,945,134	\$ 3,881,485	\$ 63,649
Contracted services	778,483	661,225	117,258
Materials and supplies	189,269	113,778	75,491
Other charges	322,016	317,886	4,130
Equipment - additional	5,000	41,796	(36,796)
Equipment - replacement	6,000	8,234	(2,234)
Transfer (indirect cost recovery)	34,144	-	34,144
	<u>5,280,046</u>	<u>5,024,404</u>	<u>255,642</u>
Mid-Level Administration			
Salaries	20,467,695	20,196,934	270,761
Contracted services	353,886	238,536	115,350
Materials and supplies	596,650	319,174	277,476
Other charges	1,068,461	825,301	243,160
Equipment - additional	35,998	29,246	6,752
Equipment - replacement	20,175	175,738	(155,563)
Other outgoing transfers	-	129	(129)
	<u>22,542,865</u>	<u>21,785,058</u>	<u>757,807</u>
Instructional Salaries			
Regular	110,155,484	106,594,334	3,561,150
Hourly	5,105,133	4,075,956	1,029,177
Add-ons, team leaders, dept chair	696,033	584,062	111,971
Substitutes	2,987,549	2,497,048	490,501
Other charges	145,564	382,038	(236,474)
Hiring turnover	(2,215,540)	-	(2,215,540)
	<u>116,874,223</u>	<u>114,133,438</u>	<u>2,740,785</u>
Textbooks and Instructional Supplies			
Textbooks	1,359,964	1,786,592	(426,628)
Library media	483,066	439,638	43,428
Computer supplies	1,000,932	963,559	37,373
General supplies	4,391,050	4,110,810	280,240
Other charges	466,499	378,302	88,197
	<u>7,701,511</u>	<u>7,678,901</u>	<u>22,610</u>

**BOARD OF EDUCATION OF CARROLL COUNTY
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
(NON-GAAP BUDGETARY BASIS)
June 30, 2007
(CONTINUED)**

	Final Budget	Actual	Variance Positive (Negative)
Other Instructional Costs			
Contracted services	\$ 1,490,997	\$ 1,255,115	\$ 235,882
Other charges	995,137	506,551	488,586
Equipment - additional	471,098	794,209	(323,111)
Equipment - replacement	599,935	759,048	(159,113)
Transfers to MD/LEA	48,000	51,529	(3,529)
Other outgoing transfers	49,072	22,681	26,391
Total other instructional costs	<u>3,654,239</u>	<u>3,389,133</u>	<u>265,106</u>
Student Personnel Services			
Salaries	1,091,353	1,077,524	13,829
Contracted services	117,060	120,760	(3,700)
Materials and supplies	15,862	17,820	(1,958)
Other charges	9,271	16,124	(6,853)
Equipment - additional	-	-	-
Equipment - replacement	15,600	15,600	-
Total student personnel services	<u>1,249,146</u>	<u>1,247,828</u>	<u>1,318</u>
Health Services			
Salaries	2,541,344	2,457,957	83,387
Contracted services	30,719	10,494	20,225
Materials and supplies	89,485	74,423	15,062
Other charges	(14,601)	12,713	(27,314)
Equipment - additional	11,337	-	11,337
Other outgoing transfers	-	-	-
Total health services	<u>2,658,284</u>	<u>2,555,587</u>	<u>102,697</u>
Transportation of Pupils			
Salaries	1,318,130	1,231,021	87,109
Contracted services	16,815,751	15,911,773	903,978
Materials and supplies	16,297	21,173	(4,876)
Other charges	289,959	218,587	71,372
Equipment - additional	-	-	-
Equipment - replacement	1,500	33,489	(31,989)
Total transportation of pupils	<u>18,441,637</u>	<u>17,416,043</u>	<u>1,025,594</u>

**BOARD OF EDUCATION OF CARROLL COUNTY
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
(NON-GAAP BUDGETARY BASIS)
June 30, 2007
(CONTINUED)**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operation of Plant			
Salaries	\$ 10,053,366	\$ 10,105,188	\$ (51,822)
Contracted services			
Rent	1,431,961	1,430,431	1,530
Repair of equipment	469,298	537,944	(68,646)
Other	414,650	468,481	(53,831)
Supplies	716,031	632,880	83,151
Telephone	358,500	313,131	45,369
Gas and electric	6,387,244	6,453,945	(66,701)
Heating fuels	694,000	680,956	13,044
Water and sewage	755,512	676,135	79,377
Insurance	406,600	316,293	90,307
Other charges	38,770	54,476	(15,706)
Equipment - additional	45,650	93,911	(48,261)
Equipment - replacement	13,580	19,485	(5,905)
	<u>21,785,162</u>	<u>21,783,256</u>	<u>1,906</u>
Maintenance of Plant			
Salaries	2,722,226	2,752,362	(30,136)
Contracted services			
Repair of equipment	71,500	66,658	4,842
Repair of vehicles	65,614	95,791	(30,177)
Improvements to grounds	59,914	76,303	(16,389)
Improvements to buildings	1,974,522	1,795,687	178,835
Other	72,500	210,802	(138,302)
Materials and supplies	1,058,190	1,022,399	35,791
Other charges	173,400	159,568	13,832
Equipment - additional	145,657	118,590	27,067
Equipment - replacement	954,102	993,879	(39,777)
	<u>7,297,625</u>	<u>7,292,039</u>	<u>5,586</u>

**BOARD OF EDUCATION OF CARROLL COUNTY
GENERAL FUND
SCHEDULE OF EXPENDITURES COMPARED TO BUDGET
(NON-GAAP BUDGETARY BASIS)
June 30, 2007
(CONTINUED)**

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fixed Charges			
Medical insurance	\$ 22,567,555	\$ 22,355,112	\$ 212,443
Social Security taxes	14,132,767	13,511,142	621,625
Employee retirement	1,499,120	1,613,357	(114,237)
Workmen's compensation	1,096,893	1,150,729	(53,836)
Sick leave conversion	1,685,000	1,289,411	395,589
Life insurance	237,821	249,364	(11,543)
Optical insurance	188,165	223,663	(35,498)
Dental insurance	871,644	706,029	165,615
Unemployment insurance	43,000	36,382	6,618
Property and liability insurance	258,492	203,881	54,611
Tuition reimbursement	892,134	1,006,866	(114,732)
Retiree health insurance	1,874,250	1,797,582	76,668
Flex benefit administration	75,000	76,560	(1,560)
Other charges	377,263	383,700	(6,437)
Total fixed charges	<u>45,799,104</u>	<u>44,603,778</u>	<u>1,195,326</u>
Community Services			
Salaries	284,020	267,475	16,545
Contract services	3,041	2,207	834
Supplies	5,238	5,100	138
Other charges	(11,949)	4,610.00	(16,559)
Equipment - additional	-	-	-
Total community services	<u>280,350</u>	<u>279,392</u>	<u>958</u>
Special Education Services			
Salaries	23,784,830	23,919,560	(134,730)
Contracted services	608,835	1,235,736	(626,901)
Materials and supplies	396,625	393,368	3,257
Other charges	905,340	178,825	726,515
Equipment - additional	79,404	169,707	(90,303)
Equipment - replacement	5,200	2,783	2,417
Transfers to Maryland LEA	53,250	45,280	7,970
Other transfers	7,450,000	6,437,594	1,012,406
Total special education services	<u>33,283,484</u>	<u>32,382,853</u>	<u>900,631</u>
Capital Outlay			
Salaries	686,325	685,558	767
Contracted services	78,000	47,787	30,213
Materials and supplies	5,105	6,414	(1,309)
Other charges	14,659	11,036	3,623
Equipment - replacement	-	-	-
Total capital outlay	<u>784,089</u>	<u>750,795</u>	<u>33,294</u>
TOTAL CURRENT EXPENDITURES	<u><u>\$ 287,631,765</u></u>	<u><u>\$ 280,322,505</u></u>	<u><u>\$ 7,309,260</u></u>

**BOARD OF EDUCATION OF CARROLL COUNTY
FOOD SERVICE FUND
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
COMPARED TO BUDGET (NON-GAAP BUDGETARY BASIS)
June 30, 2007 and 2006**

	<u>Year Ended June 30, 2007</u>			<u>Year Ended June 30, 2006</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Percent of Total Revenue</u>	<u>Budget</u>	<u>Actual</u>	<u>Percent of Total Revenue</u>
Revenues						
Food sales:						
Lunches	\$ 4,065,663	\$ 3,493,960	53.5%	\$ 3,829,633	\$ 3,381,781	53.8%
Breakfasts	75,000	91,342	1.4%	40,546	86,546	1.4%
A La Carte	1,650,000	668,174	10.2%	1,438,711	729,345	11.6%
Milk	70,000	71,405	1.1%	106,700	65,507	1.0%
Federal reimbursement of portion of food costs	1,316,500	1,463,248	22.4%	1,186,504	1,355,312	21.6%
USDA commodities	460,000	465,577	7.1%	426,800	403,151	6.4%
State reimbursement of portion of food costs	64,000	52,745	0.8%	64,020	46,633	0.7%
Income from investments	20,000	35,050	0.5%	5,335	35,171	0.6%
Rebates on food purchases	45,000	49,603	0.8%	64,020	34,729	0.6%
Miscellaneous	135,000	134,724	2.1%	140,504	145,654	2.3%
Total revenues	<u>\$ 7,901,163</u>	<u>6,525,828</u>	<u>100.0%</u>	<u>\$ 7,302,773</u>	<u>6,283,829</u>	<u>100.0%</u>
Expenditures						
Cost of food sold	\$ 3,350,100	2,280,165	34.9%	\$ 2,975,100	2,246,931	35.7%
Salary and wages	4,104,813	3,842,573	58.8%	3,903,648	3,609,469	57.4%
Other supplies	295,350	284,055	4.3%	289,250	262,545	4.2%
Contracted services	5,750	2,023	0.0%	5,450	974	0.0%
Other charges	32,050	32,711	0.5%	27,725	31,998	0.5%
Equipment	113,100	94,594	1.4%	101,600	136,166	2.2%
Total expenditures	<u>\$ 7,901,163</u>	<u>6,536,121</u>	<u>100.0%</u>	<u>\$ 7,302,773</u>	<u>6,288,083</u>	<u>100.0%</u>
Deficiency of revenues over expenditures		<u>\$ (10,293)</u>	<u>0.0%</u>		<u>\$ (4,254)</u>	<u>0.0%</u>

BOARD OF EDUCATION OF CARROLL COUNTY
FOOD SERVICE
SCHEDULE OF REVENUES AND EXPENDITURES BY SCHOOL
(NON-GAAP BUDGETARY BASIS)
Fiscal Year Ended June 30, 2007

<u>School</u>	<u>Revenues</u>	<u>Cost of Food Sold</u>	<u>Cafeteria Workers' Payroll</u>	<u>Other</u>	<u>Excess Revenues (Deficiency) Over Expenditures</u>
Taneytown Elementary School	\$ 176,990	\$ 55,267	\$ 86,413	\$ 17,129	\$ 18,181
Northwest Middle School	191,046	64,467	118,380	16,776	(8,577)
Francis Scott Key High School	319,234	120,639	126,230	26,636	45,729
Runnymede Elementary School	145,702	50,224	64,639	16,959	13,880
Charles Carroll Elementary School	100,142	31,176	76,963	8,892	(16,889)
Sandymount Elementary School	104,086	34,320	82,455	9,437	(22,126)
Mechanicsville Elementary School	121,640	43,248	80,950	11,120	(13,678)
Eldersburg Elementary School	130,392	42,919	81,126	11,199	(4,852)
Linton Springs Elementary School	158,099	56,962	92,341	14,526	(5,730)
Sykesville Middle School	186,560	70,359	86,088	18,939	11,174
Freedom Elementary School	103,879	35,155	71,299	11,120	(13,695)
Carrolltowne Elementary School	109,445	36,247	85,316	11,602	(23,720)
Liberty High School	185,420	68,546	105,819	16,822	(5,767)
Oklahoma Road Middle School	163,479	57,503	85,418	14,603	5,955
Piney Ridge Elementary School	142,189	50,471	80,993	15,325	(4,600)
Manchester Elementary School	139,526	41,488	89,927	12,098	(3,987)
East Middle School	155,489	-	-	-	155,489
West Middle School	205,823	68,960	90,228	18,353	28,282
Winters Mill High School	294,792	107,027	136,971	25,363	25,431
William Winchester Elementary School	136,374	42,821	80,894	12,728	(69)
Westminster High School	365,144	238,468	360,619	60,164	(294,107)
C C Career & Technology	107,529	-	-	-	107,529
North Carroll Middle School	169,716	55,840	88,877	15,028	9,971
Hampstead Elementary School	123,081	43,214	84,311	12,941	(17,385)
North Carroll High School	367,085	131,731	147,534	31,172	56,648
Spring Garden Elementary School	149,156	48,666	79,456	13,129	7,905
Shiloh Middle School	188,243	62,589	87,233	16,020	22,401
Winfield Elementary School	142,752	51,162	71,004	15,379	5,207
New Windsor Middle School	111,310	40,763	66,413	10,835	(6,701)
Elmer Wolfe Elementary School	118,963	41,862	73,567	12,632	(9,098)
Parr's Ridge Elementary School	92,236	29,525	66,318	9,959	(13,566)
Mt. Airy Elementary School	83,685	28,330	70,906	8,493	(24,044)
Mt. Airy Middle School	100,137	39,576	74,840	9,078	(23,357)
South Carroll High School	212,668	75,839	144,305	18,643	(26,119)
Food Services - unallocated	-	7,840	270,015	(193,922)	(83,933)
Century High School	321,227	129,347	127,960	27,863	36,057
Westminster Elementary School	130,903	48,706	67,392	16,287	(1,482)
Robert Moton Elementary	155,553	47,828	83,633	14,412	9,680
Carroll Springs Schools	12,908	-	-	26	12,882
Friendship Valley Elementary School	107,996	33,421	78,030	11,089	(14,544)
Cranberry Station Elementary School	148,690	47,659	77,710	14,528	8,793
Gateway School	46,539	-	-	-	46,539
Total	<u>\$ 6,525,828</u>	<u>\$ 2,280,165</u>	<u>\$ 3,842,573</u>	<u>\$ 413,383</u>	<u>\$ (10,293)</u>

BOARD OF EDUCATION OF CARROLL COUNTY
SCHOOL FUNDS
SCHEDULE OF CHANGES IN SCHOOL ACTIVITIES FUNDS PAYABLE
(NON-GAAP BUDGETARY BASIS)
Fiscal Year Ended June 30, 2007

School	Organization Funds			Other Funds		
	Balance	Net Change	Balance	Balance	Net Change	Balance
	July 1, 2006	For Year Increase (Decrease)	June 30, 2007	July 1, 2006	For Year Increase (Decrease)	June 30, 2007
Taneytown Elementary School	\$ 26,864	\$ (16,545)	\$ 10,319	\$ 2,545	\$ (2,492)	\$ 53
Northwest Middle School	36,562	295	36,857	13,097	(2,506)	10,591
Francis Scott Key High School	78,859	(467)	78,392	13,858	(10,329)	3,529
Runnymede Elementary School	7,179	(866)	6,313	6,791	1,851	8,642
Charles Carroll Elementary School	8,248	3,954	12,202	3,294	(1,263)	2,031
Sandymount Elementary School	13,688	(3,523)	10,165	4,708	1,974	6,682
Mechanicsville Elementary School	8,006	9,255	17,261	13,608	8,328	21,936
Eldersburg Elementary School	3,341	247	3,588	22,066	829	22,895
Linton Springs Elementary School	18,806	8,094	26,900	105	-	105
Sykesville Middle School	33,625	(4,244)	29,381	13,264	12,244	25,508
Freedom Elementary School	31,800	(1,071)	30,729	26,776	42	26,818
Carrolltowne Elementary School	17,902	13,839	31,741	14,244	(102)	14,142
Liberty High School	103,596	2,258	105,854	2,426	6,895	9,321
Oklahoma Road Middle School	59,657	(7,250)	52,407	9,167	3,291	12,458
Piney Ridge Elementary School	81,191	(26,266)	54,925	-	-	-
Manchester Elementary School	13,013	309	13,322	(2,272)	1,314	(958)
East Middle School	25,325	6,487	31,812	3,397	1,848	5,245
West Middle School	107,294	(6,203)	101,091	40,370	(17,833)	22,537
Winters Mill High School	97,393	36,274	133,667	42,108	(5,674)	36,434
William Winchester Elementary School	16,105	(651)	15,454	5,044	(52)	4,992
Westminster High School	165,174	(6,500)	158,674	2,152	34,471	36,623
C C Career & Technology Center	25,774	(9,795)	15,979	7,007	(3,422)	3,585
North Carroll Middle School	31,895	8,170	40,065	3,105	-	3,105
Hampstead Elementary School	25,018	4,092	29,110	-	-	-
North Carroll High School	164,052	18,153	182,205	1,469	(118)	1,351
Spring Garden Elementary School	43,331	(10,217)	33,114	6,296	(14,081)	(7,785)
Shiloh Middle School	47,146	14,302	61,448	224	-	224
Winfield Elementary School	9,273	(3,413)	5,860	14,542	(11,881)	2,661
New Windsor Middle School	23,734	(650)	23,084	6,628	(69)	6,559
Elmer Wolfe Elementary School	8,608	9,967	18,575	(2,389)	(5)	(2,394)
Parr's Ridge Elementary School	3,706	(659)	3,047	2,165	780	2,945
Mt. Airy Elementary School	6,670	4,135	10,805	12,570	(542)	12,028
Mt. Airy Middle School	30,861	(4,224)	26,637	16,519	8,423	24,942
South Carroll High School	(68,308)	196,534	128,226	19,194	63,538	82,732
Century High School	87,751	47,741	135,492	38,735	(31,267)	7,468
Westminster Elementary School	13,555	1,227	14,782	13,899	(851)	13,048
Robert Moton Elementary	4,724	(1,741)	2,983	(41)	1,502	1,461
Carroll Springs School	11,403	(805)	10,598	22	(1)	21
Friendship Valley Elementary School	15,120	(4,389)	10,731	2,850	124	2,974
Cranberry Station Elementary School	10,779	(3,317)	7,462	4,240	(2,143)	2,097
Gateway School	2,808	(569)	2,239	4,357	86	4,443
Total	\$ 1,451,528	\$ 271,968	\$ 1,723,496	\$ 388,140	\$ 42,909	\$ 431,048

SINGLE AUDIT SECTION

BOARD OF EDUCATION OF CARROLL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2007

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Education			
Direct Programs:			
Fund for the Improvement of Education	84.215	S215L022177	\$ 30,105
Passed through Maryland State Department of Education:			
Adult Education - State Grant Program	84.002	700813-04	44,916
Adult Education - State Grant Program	84.002	700813-05	4,013
Adult Education - State Grant Program	84.002	700813-06	25,938
Adult Education - State Grant Program	84.002	700813-07	124,426
Adult Education - State Grant Program	84.002	700813-08	15,682
Adult Education - State Grant Program	84.002	700813-09	13,847
Adult Education - State Grant Program	84.002	700813-10	84,035
			<u>312,857</u>
Title I Grants to Local Educational Agencies	84.010	500363-01	40,502
Title I Grants to Local Educational Agencies	84.010	600355-01	80
Title I Grants to Local Educational Agencies	84.010	600539-01	317,444
Title I Grants to Local Educational Agencies	84.010	601784-01	4,538
Title I Grants to Local Educational Agencies	84.010	700538-01	935,246
Title I Grants to Local Educational Agencies	84.010	701879-01	5,492
			<u>1,303,302</u>
Special Education Cluster			
Special Education - Grants to States	84.027	700137-01	4,445,775
Special Education - Grants to States	84.027	700137-02	22,603
Special Education - Grants to States	84.027	700137-03	18,327
Special Education - Grants to States	84.027	700137-04	100,981
Special Education - Grants to States	84.027	700521-03	30,343
Special Education - Grants to States	84.027	701556-01	229,573
Special Education - Preschool Grants	84.173	700137-05	179,466
Special Education - Preschool Grants	84.173	700521-04	7,000
			<u>5,034,068</u>
Vocational Education - Basic Grants to States	84.048	700888-01	194,944
Vocational Education - Basic Grants to States	84.048	701569-01	4,000
Vocational Education - Basic Grants to States	84.048	701569-02	2,422
			<u>201,366</u>
Special Education - Grants for Infants and Families with Disabilities	84.181	700521-01	16,304
Special Education - Grants for Infants and Families with Disabilities	84.181	700521-02	182,458
			<u>198,762</u>

BOARD OF EDUCATION OF CARROLL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2007
(Continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	CFDA Number	Grant Number	Federal Expenditures
U.S. Department of Education (Continued)			
Safe and Drug-Free Schools and Communities - State Grants	84.186	600513-01	\$ 71,675
Safe and Drug-Free Schools and Communities - State Grants	84.186	700191-01	5,431
			<u>77,106</u>
Fund for the Improvement of Education	84.215	500902-01	9,225
Fund for the Improvement of Education	84.215	601264-01	16,000
Fund for the Improvement of Education	84.215	701798-01	62,856
			<u>88,081</u>
Tech-Prep Education	84.243	700858-03	54,751
Tech-Prep Education	84.243	700858-04	14,040
			<u>68,791</u>
Twenty-First Century Community Learning Centers	84.287	600965-01	81,761
Twenty-First Century Community Learning Centers	84.287	602061-01	302,206
Twenty-First Century Community Learning Centers	84.287	602253-01	216,068
			<u>600,035</u>
State Grants for Innovative Programs	84.298	600439-02	18,652
State Grants for Innovative Programs	84.298	700617-01	172,849
			<u>191,501</u>
Education Technology State Grants	84.318	601024-02	9,538
Education Technology State Grants	84.318	700676-01	11,455
Education Technology State Grants	84.318	700676-02	53
Education Technology State Grants	84.318	via Balt. Co.	1,020
Education Technology State Grants	84.318	via Baltimore Co.	2,780
Education Technology State Grants	84.318	via Baltimore Co.	6,709
Education Technology State Grants	84.318	via Montgomery Co.	657
Education Technology State Grants	84.318	via Montgomery Co.	17,126
			<u>49,338</u>
English Language Acquisition Grants	84.365	600491-01	493
English Language Acquisition Grants	84.365	700352-01	12,661
			<u>13,154</u>
Improving Teacher Quality State Grants	84.367	600465-01	104,212
Improving Teacher Quality State Grants	84.367	700641-01	462,261
			<u>566,473</u>
Hurricane Education Recovery	84.938	700387-01	21,500
Total U.S. Department of Education			<u><u>\$ 8,756,439</u></u>

BOARD OF EDUCATION OF CARROLL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2007
(Continued)

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	CFDA Number	Grant Number	Federal Expenditures
Passed through Maryland State Department of Education:			
Food Donation	10.550	n/a	\$ 465,577
Child Nutrition Cluster			
School Breakfast Program	10.553	n/a	159,653
National School Lunch Program	10.555	n/a	481,463
National School Lunch Program	10.555	n/a	822,131
			<u>1,463,247</u>
Total U.S. Department of Agriculture			<u>\$ 1,928,824</u>
U.S. Department of Commerce			
Passed through Chesapeake Bay Trust			
Chesapeake Bay Studies	11.457	CBT - 8175	\$ 4,182
Total U.S. Department of Commerce			<u>\$ 4,182</u>
U.S. Department of Health and Human Services			
Passed through Maryland State Department of Education:			
Preventive Health and Health Services Block Grant	93.991	701858-01	\$ 3,630
Total U.S. Department of Health and Human Services			<u>\$ 3,630</u>
U.S. Department of Interior			
Passed through Maryland State Department of Natural Resources:			
Sport Fish Restoration	15.605	K00P6201064	\$ 997
Total U.S. Department of Interior			<u>\$ 997</u>
U.S. Department of Labor			
Passed through Maryland State Department of Education:			
Incentive Grants - WIA Section 503	17.267	700813-11	\$ 315
Total U.S. Department of Labor			<u>\$ 315</u>
U.S. Corporation for National and Community Service			
Passed through Maryland State Department of Education:			
Learn and Serve America - School and Community Based Programs	94.004	701508-01	\$ 27,081
Learn and Serve America - School and Community Based Programs	94.004	601004-02/3	4,509
Youth Ready to Respond	94.004	n/a	454
Total U.S. Corporation for National and Community Service			<u>\$ 32,044</u>
Total Federal Expenditures			<u>\$ 10,726,431</u>

BOARD OF EDUCATION OF CARROLL COUNTY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Board of Education of Carroll County (the Board) for the year ended June 30, 2007.

Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards has been prepared using the modified accrual basis of accounting. This basis of accounting is fully described in Note 1 to the Board's basic financial statements.

Food Commodities

The value of food commodities donated by the United States Department of Agriculture (the Department) is determined by the Department and is included in revenues and expenditures in the year received.

NOTE 2 – RELATION TO GENERAL PURPOSE FINANCIAL STATEMENTS AND FINANCIAL FEDERAL REPORTS

The following schedule reconciles the amount per the financial statements to the amounts per the Schedule of Expenditures of Federal Awards for the year ended June 30, 2007:

	Food Service Fund	General Fund	Total
REVENUE			
BALANCE PER FINANCIAL STATEMENTS			
Federal revenues	\$ 1,928,825	\$ 9,796,825	\$ 11,725,650
ADD			
Miscellaneous adjustments			85,079
LESS			
Medical assistance revenue			<u>1,084,298</u>
TOTAL PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS			<u>\$ 10,726,431</u>

**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Members of the Board of Education
of Carroll County
Westminster, 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 Carroll County as of and for the year ended June 30, 2007, which collectively comprise the Board of Education of Carroll County's basic financial statements and have issued our report thereon dated September 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

Clifton Gunderson LLP

September 26, 2007
Baltimore, Maryland

**Independent Auditor's Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control
Over Compliance in Accordance With OMB Circular A-133**

Members of the Board of Education
of Carroll County
Westminster, Maryland

Compliance

We have audited the compliance of the Board of Education of Carroll County with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Board of Education of Carroll County's major federal programs are identified in the summary of auditor's 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 of Education of Carroll County's management. Our responsibility is to express an opinion on the Board of Education of Carroll County'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 of Education of Carroll County'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 of the Board of Education of Carroll County's compliance with those requirements.

In our opinion, the Board of Education of Carroll County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Board of Education of Carroll County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Board of Education of Carroll County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to

determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

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

Clifton Gunderson LLP

Baltimore, Maryland
September 26, 2007

**BOARD OF EDUCATION OF CARROLL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	___	Yes	<u>X</u>	No
Significant deficiency(s) identified that are not considered to be material weaknesses	___	Yes	<u>X</u>	None Reported
Noncompliance material to financial statements noted?	___	Yes	<u>X</u>	No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	___	Yes	<u>X</u>	No
Significant deficiency(s) identified that are not considered to be material weaknesses	___	Yes	<u>X</u>	None Reported

Type of auditor's 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 Circular A-133?	___	Yes	<u>X</u>	No
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Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
82.027, 84.173	Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs	\$323,757
Auditee qualified as low-risk auditee?	<u>X</u> Yes ___ No

**BOARD OF EDUCATION OF CARROLL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007**

**II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO
BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED *GOVERNMENT
AUDITING STANDARDS***

A. Material Weakness in Internal Control

None.

B. Compliance Findings

None.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

IV. PRIOR YEAR FINDINGS

None.