BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

AUDIT COMMUNICATIONS

JUNE 30, 2024

BOARD OF EDUCATION OF TALBOT COUNTY, MARYLAND

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COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

September 25, 2024

Board of Education of Talbot County, Maryland
Easton, 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 for Talbot County, Maryland for the year ended June 30, 2024. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 3, 2024. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Board of Education of Talbot County, Maryland are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2024. We noted no transactions entered into by the Board during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Board's financial statements were:

> Management's estimate of depreciation expense is based upon the estimated useful life of the assets. We evaluated the key factors and assumptions used to develop depreciation expense in determining that it is reasonable in relation to the financial statement taken as a whole.

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Management’s estimate of the net OPEB (other postemployment benefits) liability and related deferred outflows of resources, deferred inflows of resources, and OPEB expense which is recorded on the government-wide statements is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the accrual/expense in determining that it is reasonable in relationship to the financial statements taken as a whole.

Management’s estimate of the net pension liability and related deferred outflows of resources, deferred inflows of resources, and pension expense which is recorded on the government-wide statements is based on an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the accrual, deferred outflows/inflows, and expense in determining that it is reasonable in relationship to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of pensions in Note 7 to the financial statements describes the Board’s pension plans, pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources related to pensions as well as the significant assumptions used in the actuarial valuation.

The disclosure of other post-employment benefits (“OPEB”) in Note 9 to the financial statements describes the Board’s defined benefit healthcare plan, net OPEB liability, OPEB expense, deferred outflows or resources, and deferred inflows of resources related to other post-employment benefits as well as the significant assumptions used in the actuarial valuation.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representation

We have requested certain representations from management that are included in the management representation letter dated September 25, 2024.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Board's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Auditing Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Matters</u>

We applied certain limited procedures to the management's discussion and analysis, schedule of revenues, expenditures and encumbrances budget and actual – general fund, schedule of revenues, expenditures and encumbrances budget and actual – restricted grants fund, schedule of changes in the Board's net OPEB liability and related ratios, schedule of investment returns, schedule of the Board's proportionate share of the net pension liability, and the schedule of contributions; which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the additional supplementary information, which accompanies the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the information and use of the Board and management of the Board of Education of Talbot County, Maryland and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

UHY LLP

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COMMENTS AND RECOMMENDATIONS

On the Horizon - Implementation of New Accounting Principles

Governmental Accounting Standards Board Statement No. 101, Compensated Absences

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The requirements for this statement are effective for reporting periods beginning after December 15, 2023. This statement requires that liabilities for compensated absences be recognized for 1) leave that has not been used and 2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if a) the leave is attributable to services already rendered, b) the leave accumulates, and c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

The intent of this Statement is to more appropriately reflect when a government incurs an obligation related to compensated absences. The Statement aims to eliminate potential comparability issues between governments that offer different types of leave.

The Board currently records a liability for compensated absences that will be paid on termination. The Statement will require the Board to identify other compensated absences that will more likely than not be used for time off and estimate a potential liability.

Governmental Accounting Standards Board Statement No. 102, Certain Risk Disclosures

In December 2023, GASB issued Statement No. 102, *Certain Risk Disclosures*. The requirements for this statement are effective for reporting periods beginning after June 15, 2024. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. A concentration is defined as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending.

These disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. This should allow users to better understand and anticipate certain risks related to a government's financial condition.

The Board currently discloses information about its exposure to certain risks. This statement will explicitly require the disclosure of other risks that tend to be prevalent among state and local governments.

Governmental Accounting Standards Board Statement No. 103, Financial Reporting Model Improvements

In April 2024, GASB issued Statement No. 103, Financial Reporting Model Improvements. The requirements for this statement are effective for reporting periods beginning after June 15, 2025. The objectives of this Statement are to improve key components of the financial reporting model surrounding the management's discussion and analysis, unusual or infrequent items, the presentation of the proprietary fund statement of revenues, expenses and changes in fund net position, major component unit presentation, and budgetary comparison information.

Significant impacts of this Statement will be to require the management's discussion and analysis be presented in five specific sections with a detailed analysis explaining why balances and the results of operations changed when compared to prior year. The Statement seeks to clarify what information should be included in the management's discussion and analysis and improve the quality of the analysis of changes from year to year.

Unusual or infrequent items will be required to be presented separately in the government-wide, government fund, and proprietary fund statements of resource flows to provide additional clarity to financial statements users on those items.

The proprietary fund statement of revenues, expenses, and changes in fund net position will require additional subtotals for operating income (loss) and noncapital subsidies before nonoperating revenues and expenses. The Statement also provides a clear definition of operating revenues and expenses and of nonoperating revenues and expenses to allow for better comparability between governments.

For governments that report component units, the Statement outlines specific requirements for how major component units are to be presented to allow for comparability between governments.

Budgetary comparison information will be required to be presented as required supplementary information to improve comparability between governments. The Statement will require variances between original and final budget to be presented along with variances between final budget and actual amounts. An explanation of significant variances will be required to be presented in the notes to the required supplementary information to provide more useful information for making decisions and assessing accountability.

The Board of Education of Talbot County will primarily be impacted by the changes required to the management discussion and analysis and the new disclosure requirements related to the budgetary comparison schedules.