
THE COUNTY COMMISSIONERS FOR
ST. MARY'S COUNTY, MARYLAND

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2005

The County Commissioners for St. Mary's County, Maryland

June 30, 2005

Table of Contents

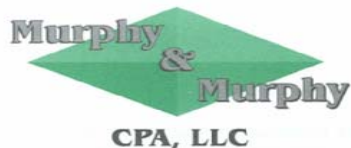
	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-13
<u>Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Assets	14-15
Statement of Activities	16-17
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	18
Statement of Revenues, Expenditures and Changes in Fund Balance	19
Reconciliations of the Governmental Funds to the Governmental Activities	20
Proprietary Fund Financial Statements	
Balance Sheet	21
Statement of Revenues, Expenses, and Changes in Fund Net Assets	22
Statement of Cash Flows	23
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	24
Statement of Changes in Fiduciary Net Assets	25

The County Commissioners for St. Mary's County

June 30, 2005

Table of Contents

	<u>Page</u>
Notes to Financial Statements Index	
Notes to Financial Statements	26-99
Required Supplementary Information	
Statement of Revenues, Expenditures, Encumbrances and Other Financing Sources and Uses – Budget (Non-GAAP) Basis and Actual – General Fund	100
Sheriff's Office Retirement Plan	101
Other Supplementary Information	
General Fund	
Combining Balance Sheet – Nonmajor Governmental Funds	102
Combining Statement of Revenues, Expenditures and Changes In Fund Balance – Nonmajor Governmental Funds	103
Schedule of Revenues and Other Financing Sources – Budgetary (Non-GAAP) Basis and Actual – General Fund	104-105
Schedule of Expenditures and Other Financing Uses - Budgetary (Non-GAAP) Basis and Actual – General Fund	106-110
Schedule of Unexpended Appropriations for Capital Projects	111-112
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	113



Independent Auditor's Report

County Commissioners for St. Mary's County, Maryland
Leonardtown, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2005, which collectively comprise the County Commissioners for St. Mary's County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's Commissioners for St. Mary's County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of St. Mary's County, Maryland, which represents 35% of the assets and 45% of the revenues of the total reporting entity. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions on the financial statements, insofar as they relate to the amounts included for the Board of Education of St. Mary's County, Maryland, are based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the fiduciary fund activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable 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 November 8, 2005, on our consideration of the County Commissioners for St. Mary's County, Maryland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Member: AICPA Private Companies Practice Section

8023 Malcolm Road ◆ Clinton, Maryland 20735-1717 ◆ (301) 856-4100 ◆ Fax: (301) 856-4105
P.O. Box 1919 ◆ 108 La Grange Avenue ◆ La Plata, Maryland 20646-1919 ◆ (301) 609-7515
(301) 870-3677 ◆ Fax: (301) 609-7510 ◆ email: cpa@murphycpa.com

The management's discussion and analysis, the statement of revenues, expenditures, encumbrances and other financing sources and uses – budget (NON-GAAP) basis and actual – general fund, and the schedules of employer contributions and funding progress for the Sheriff's Office Retirement Plan 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 County Commissioners for St. Mary's County, Maryland's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedule of revenues and other financing sources budgetary (Non-GAAP) basis and actual general fund presented on pages 104 and 105, and the schedule of expenditures and other financing uses budgetary (Non-GAAP) basis and actual general fund presented on pages 106 through 110 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules 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.

La Plata, Maryland
November 8, 2005

Murphy + Murphy, CPA, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Financial Report of St. Mary's County, Maryland presents a narrative overview and analysis of the financial activities of St. Mary's County Government for the fiscal year ended June 30, 2005. We encourage readers to use the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets of St. Mary's County Government exceeded its liabilities at the close of the most recent fiscal year by \$143.1 million (*net assets*). Approximately \$2.7 million, or approximately 2%, is attributable to the County's enterprise funds, which include business-type activities for medical adult daycare services, recreation and parks and the Wicomico Golf Course. Approximately 21.9% of the total net assets, or \$31.3 million (*unrestricted net assets*), may be used to meet ongoing obligations to citizens and creditors. Virtually all of the unrestricted net assets are related to governmental activities. The unrestricted net assets for the enterprise funds total \$233,791, reflecting principally the net effect of the accumulated deficit of \$643,325 for medical adult daycare services offset by the positive net assets for the recreation and park-related enterprise activities. Other components of the net assets are \$39.7 million of restricted net assets and approximately \$72.1 million of net investment in capital assets. The net investment in capital assets represents the capitalized assets, net of accumulated depreciation and outstanding debt.
- The Government's overall net asset position reflects an increase of \$28.3 million over the prior year.
- As of June 30, 2005, the County's governmental funds reported combined fund balances of \$73.7 million, an increase of \$26.8 million over the prior year. The capital projects fund reflected an increase of \$12.3 million, while the general fund and the non-major funds posted increases of \$12.1 million and \$2.4 million, respectively. The County's governmental fund balances at June 30, 2005 include \$39.4 million for capital projects, \$34.7 million in general funds, and a deficit of \$272,588 in other non-major funds. The general fund balance includes approximately \$1.5 million that is reserved, the largest components of which are encumbrances and inventory. In addition, the general funds reflect designations of approximately \$20.9 million, including a bond rating reserve of \$8.9 million, a Rainy Day Fund of \$1.25 million, and an Economic Stabilization Reserve of \$7.5 million. The balance has been designated for other purposes, including approximately \$3 million used to fund non-recurring costs in the FY2006 budget. The County's undesignated fund balance is approximately \$12.2 million, and will be considered for use in the FY2007 budget. The non-major funds are special purpose funds that correspond to special assessments and a revolving loan fund set up to assist volunteer fire and rescue squads in their acquisition of capital assets, including rolling stock and buildings. These funds, by design, require the expenditures to be incurred by the County and then are reimbursed by various entities pursuant to written agreements over varying periods of time, which correspond to the underlying asset. These funds reflect deficits that increase when loans are extended and decrease, ultimately netting to zero, as repayments are received. The increase in the capital projects fund balance reflects the sale in FY2005 of general obligation bonds to finance already incurred as well as future capital project expenditures, as identified in the project budgets and in the bond resolution.
- The business-type operating activities reflect a net increase in net assets of \$206,066, which is comprised of an increase in net assets attributable to fee-based recreation activities of \$165,823 and the Wicomico Golf Course of \$94,563, offset by a decrease in net assets of \$54,320 in the adult daycare services fund. The recreation activities are intended to function at a near break-even, though individual years do vary. Generally, the activity fees are developed based on a break-even philosophy and the estimated level of participation in the numerous

individual programs and activities. The medical adult daycare fund reflected a decrease in net assets of \$54,320, compared to a decrease in FY2004 of \$78,805. This improved operation reflects efforts by the Department on Aging to improve the operation of the daycare activities with the goal of break-even. As a part of the FY2006 budget, the Board of County Commissioners approved an allocation of \$589,007, to significantly reduce the accumulated deficit, to allow the program to continue.

- At June 30, 2005, unreserved fund balance for the general fund (primary operating fund) was \$33.1 million, or 24.8% of general fund expenditures, excluding pass-throughs. Designated fund balance of the general fund was \$20.9 million, or 63.2% of unreserved fund balance.
- St. Mary's County Government's total general obligation indebtedness, including general obligation bonds and Water Quality loans, increased by \$12.4 million during the fiscal year ended June 30, 2005. Principal activities were a new bond issue of \$16,260,000, additional draws on the Water Quality Loan program financing of \$2,938,525, as well as \$476,959 of exempt financing for vehicles and equipment. In addition, there were additional accruals for landfill postclosure costs (\$200,000) and compensated absences (\$351,725).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to St. Mary's County Government's basic financial statements. St. Mary's County Government's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required and non-required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements: The *government-wide financial statements* are designed to provide readers with a broad overview of St. Mary's County Government's finances, in a manner comparable to a private-sector business.

The *statement of net assets* presents information on all of St. Mary's County Government's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of St. Mary's County Government is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of St. Mary's County Government that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of St. Mary's County Government include general government, public safety, public works, health, social services, economic development, agricultural land preservation and recreation and parks, community services, planning and zoning, and permits and inspections. The business-type activities of St. Mary's County Government include the Medical Adult Daycare Services, Wicomico Golf Course and the Recreation Activities, including an indoor swimming pool.

The government-wide financial statements include not only St. Mary's County Government itself (known as the *primary government*), but also legally separate component units. St. Mary's County Government has the following component units: St. Mary's County Board of Education, St. Mary's County Board of Library Trustees, the Metropolitan Commission, and the Building Authority. Financial information for these *component units* is reported

separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 14 to 17 of this report.

Fund financial statements: A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. St. Mary's County Government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of St. Mary's County Government can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

St. Mary's County Government maintains five individual governmental funds: general, capital projects, special assessments, fire and rescue revolving funds, and emergency support. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general, capital projects and non-major funds (special assessments, fire and rescue revolving, and emergency support funds). The detail for the non-major funds is presented as part of supplementary information following the notes to the financial statements.

St. Mary's County Government adopts an annual appropriated budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, the County's primary fund. The basic governmental fund financial statements can be found on pages 18 to 19 of this report.

Proprietary funds: Proprietary funds, also known as *Enterprise funds*, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. St. Mary's County Government uses enterprise funds to account for its Medical Adult Daycare Services as well as the Wicomico Golf Course and fee-based Recreation Activities. The proprietary fund financial statements can be found on pages 21 to 23 of this report.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support St. Mary's County Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 24 and 25 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 26 to 99 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning St. Mary's County Government's progress in funding its

obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 100 and 101 of this report. Other supplementary information can be found on pages 102 to 112.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's overall financial condition and position. In the case of St. Mary's County, assets exceeded liabilities by \$143.1 million at the close of the current fiscal year. St. Mary's County Government's net assets are divided into three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Approximately 50% of the County's net assets reflect its investment in capital assets net of depreciation (e.g. land and easements, buildings, machinery, equipment, infrastructure and improvements), less any outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent 28% of total net assets. Restricted net assets are resources that are subject to external restrictions on how they may be used. Unrestricted net assets of the government have a balance of \$31.3 million (22% of total net assets) which may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, unrestricted net assets for business-type activities are \$.2 million.

ST. MARY'S COUNTY GOVERNMENT'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
ASSETS						
Current Assets	\$101,577,478	\$72,404,151	\$ 998,153	\$715,777	\$102,575,631	\$73,119,928
Other Non-Current Assets	26,839,467	29,126,098	0	0	26,839,467	29,126,098
Capital Assets, net of accumulated depreciation	<u>191,793,751</u>	<u>178,269,997</u>	<u>2,564,131</u>	<u>2,610,859</u>	<u>194,357,882</u>	<u>180,880,856</u>
Total Assets	<u>320,210,696</u>	<u>279,800,246</u>	<u>3,562,284</u>	<u>3,326,636</u>	<u>323,772,980</u>	<u>283,126,882</u>
LIABILITIES						
Current Liabilities	30,973,199	29,064,716	681,144	714,597	31,654,343	29,779,313
Non-current Liabilities	<u>148,760,061</u>	<u>138,327,914</u>	<u>223,452</u>	<u>160,417</u>	<u>148,983,513</u>	<u>138,488,331</u>
Total Liabilities	<u>179,733,260</u>	<u>167,392,630</u>	<u>904,596</u>	<u>875,014</u>	<u>180,637,856</u>	<u>168,267,644</u>
NET ASSETS						
Invested in capital assets, net of related debt	69,704,223	68,195,891	2,423,897	2,450,442	72,128,120	70,646,333
Restricted	39,717,598	26,502,037	0	0	39,717,598	26,502,037
Unrestricted	<u>31,055,615</u>	<u>17,709,688</u>	<u>233,791</u>	<u>1,180</u>	<u>31,289,406</u>	<u>17,710,868</u>
Total Net Assets	<u>140,477,436</u>	<u>112,407,616</u>	<u>2,657,688</u>	<u>2,451,622</u>	<u>143,135,124</u>	<u>114,859,238</u>
Total Liabilities and Net Assets	<u>\$320,210,696</u>	<u>\$279,800,246</u>	<u>\$3,562,284</u>	<u>\$3,326,636</u>	<u>\$323,772,980</u>	<u>\$283,126,882</u>

At June 30, 2005, St. Mary's County Government reports positive balances in all three categories of net assets as a whole.

The following table indicates the changes in net assets for governmental and business-type activities:

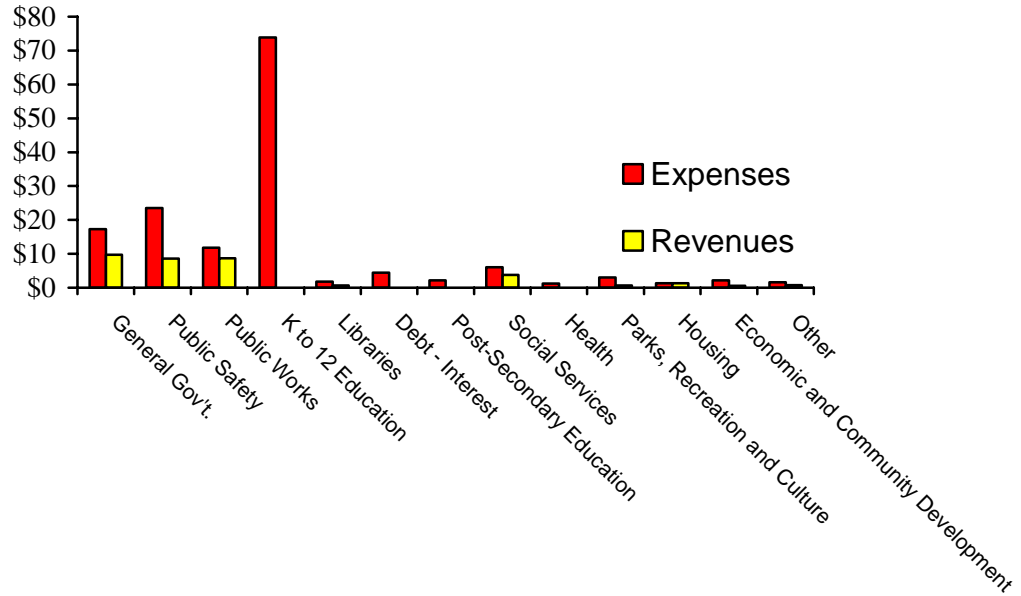
ST. MARY'S COUNTY GOVERNMENT'S CHANGES IN NET ASSETS
Year Ended June 30, 2005

	<u>Governmental Activities</u>		<u>Business -Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Program Revenues:						
Charges for Services	\$9,921,564	\$12,106,719	\$3,596,194	\$4,068,931	13,517,758	\$16,175,650
Operating Grants and Contributions	19,355,216	13,737,746	577,631	0	19,932,847	13,737,746
Capital Grants and Dedicated Fees or Taxes	5,588,002	951,002	0	0	5,588,002	951,002
General Revenues:						
Property Taxes	58,187,880	56,179,450	0	0	58,187,880	56,179,450
Income Taxes	54,148,444	51,352,963	0	0	54,148,444	51,352,963
Other Taxes	23,137,885	16,650,367	0	0	23,137,885	16,650,367
Investment Earnings	1,093,882	348,710	17,855	4,578	1,111,737	353,288
Miscellaneous	<u>6,994,490</u>	<u>12,219,470</u>	<u>0</u>	<u>0</u>	<u>6,994,490</u>	<u>12,219,470</u>
Total Revenues	<u>178,427,363</u>	<u>163,546,427</u>	<u>4,191,680</u>	<u>4,073,509</u>	<u>182,619,043</u>	<u>167,619,936</u>
Program Expenses:						
General Government	17,296,982	11,595,951	0	0	17,296,982	11,595,951
Public Safety	23,521,544	25,949,377	0	0	23,521,544	25,949,377
Public Works	11,787,965	10,065,172	0	0	11,787,965	10,065,172
Health	1,205,276	1,151,286	0	0	1,205,276	1,151,286
Social Services	6,073,461	5,984,736	0	0	6,073,461	5,984,736
Primary and Secondary Education	73,893,720	64,256,427	0	0	73,893,720	64,256,427
Post-Secondary Education	2,195,193	2,116,500	0	0	2,195,193	2,116,500
Parks, Recreation, and Culture	3,014,943	2,890,412	3,985,614	4,128,312	7,000,557	7,018,724
Housing	1,343,327	821,950	0	0	1,343,327	821,950
Libraries	1,789,465	1,634,103	0	0	1,789,465	1,634,103
Conservation of Natural Resources	276,734	851,504	0	0	276,734	851,504
Economic Development and Opportunity	2,136,544	2,115,564	0	0	2,136,544	2,115,564
Debt Interest	4,463,972	4,508,127	0	0	4,463,972	4,508,127
Inter-governmental	48,936	48,129	0	0	48,936	48,129
Other	<u>1,309,481</u>	<u>930,267</u>	<u>0</u>	<u>0</u>	<u>1,309,481</u>	<u>930,267</u>
Total Expenses	<u>150,357,543</u>	<u>134,919,505</u>	<u>3,985,614</u>	<u>4,128,312</u>	<u>154,343,157</u>	<u>139,047,817</u>
Change in Net Assets	28,069,820	28,626,922	206,066	(54,803)	28,275,886	28,572,119
Net Assets- Beginning	<u>112,407,616</u>	<u>83,780,694</u>	<u>2,451,622</u>	<u>2,506,425</u>	<u>114,859,238</u>	<u>86,287,119</u>
Net Assets -Ending	<u>\$140,477,436</u>	<u>\$112,407,616</u>	<u>\$2,657,688</u>	<u>\$2,451,622</u>	<u>\$143,135,124</u>	<u>\$114,859,238</u>

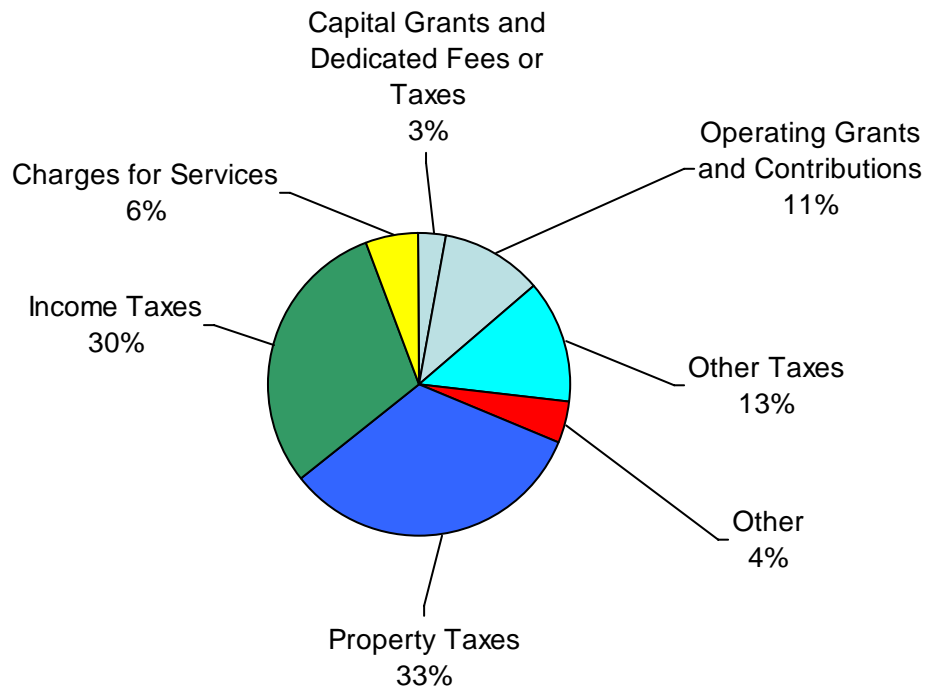
Governmental activities: Governmental activities reflected an increase in St. Mary's County Government's net assets of \$28.1 million. The governmental funds reflected a net increase of \$26.9 million.

Business-type activities: Business-type activities reflected an increase in net assets of \$206,066. The Wicomico Golf Course and the Recreation and Parks fee-based activities both posted increases, which were partially offset by the decrease in the adult daycare net assets.

Expenses and Program Revenues – Governmental Activities



Revenues By Source – Governmental Activities



Financial Analysis of the Government's Funds

As noted earlier, St. Mary's County Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds: The focus of St. Mary's County Government's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing St. Mary's County Government's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2005, St. Mary's County Government's governmental funds reported combined ending fund balances of \$73.7 million, an increase of \$26.9 million over the prior year. Approximately \$35 million, or 47% of this total, constitutes *unreserved fund balance*, which is available for spending at the government's discretion, including \$3 million for the 2006 budget. Reserved fund balance includes \$38.7 million for capital projects as well as approximately \$4.2 million committed to liquidate encumbrances, for inventories, or dedicated for a variety of restricted purposes. The reserved fund balance does not significantly affect the availability of fund resources for future use.

The general fund is the chief operating fund of St. Mary's County Government and is central to the budget process and management of current resources. At June 30, 2005, unreserved fund balance of the general fund was \$33.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 24.8% of total general fund expenditures, excluding pass-throughs, while total fund balance represents 26% of that same amount. The elevated level of fund balance reflects several unusual revenue and expense deviations which occurred during FY2004 and, to some extent, similar items in FY2005. These variances are largely in income taxes, recordation fees, investment income, and selected expense accounts. However, they are not expected to continue to recur, as the Board has reduced tax rates for several years in a row. Additionally, to the extent that the positive revenue variances reflect non-recurring levels of activity and transactions, the Board's philosophy is to build a budget based on sustainable levels of revenues, and use any excess generated in one year to fund non-recurring items in a subsequent budget. For example, because of the current economic and real estate market, the collections of recordation fees, transfer taxes, and impact fees are at substantially higher levels than would be expected to occur over a long-term horizon. Generally, it is the County's philosophy that taxes and fees should be charged to match current programs and levels of activities rather than to build fund balances. Thus, the FY2006 budget incorporated both capital project pay-go transfers and reductions in tax rates, based on expected levels of recurring vs. non-recurring levels of revenues. With the low property tax rate, which was reduced effective July 1, 2005 from \$.908 to \$.878, and an income tax rate that is less than the maximum allowed by the State, and which was also reduced effective January 1, 2005 from 3.1% to 3.05% and will decline further on January 1, 2006 to 3.0%, the County has maintained ample capability for revenue enhancement, should future needs arise. At the close of FY2004, the Board designated \$7.5 million as an economic stabilization reserve, funded by FY2004 savings, to address costs that might occur due to BRAC and/or shortfalls in State funding for school construction. Now that the BRAC report is released, and there is little if any loss of activity on the horizon for the County, these funds will be a part of the FY2007 budget discussion. Similarly, the positive fund balance generated in FY2005, will also be considered, with emphasis placed on funding significant and needed non-recurring items, capital expenditures, increasing pay-go or reducing debt, and/or providing tax relief.

The fund balance of St. Mary's County Government's general fund increased by \$12.1 million during the fiscal year ended June 30, 2005. The key factors contributing to this net positive variance are as follows:

- Income tax revenues exceeded budget by \$4.5 million, including \$2.5 million that represented accelerated distributions from the State to the County of local income tax collections that generally would be distributed in a

later year. Recordation tax revenues exceeded budget by \$3.5 million, a reflection of the extremely high level of activity that has occurred in St. Mary's County for several recent years.

- Positive expenditure variances were realized throughout County departments, a reflection of conservative budget estimates, strong management of expenditures to match budgeted priorities, continued focus on efficiency and effectiveness, and the impact of a health insurance premium settlement (refund) under our retrospective rating arrangement that reduced employer costs by approximately \$1.1 million in FY2005 and also allowed the return of the employee share as a premium holiday.
- Debt service savings contributed \$.7 million to the savings, due to both timing of the issuance and better than projected interest rates.

The Capital Projects Fund has a total fund balance of \$39.4 million, which includes \$9.9 million of unspent bond proceeds as well as greater than budgeted collections of impact fees and transfer taxes. These excess funds are then available to fund projects in the FY2007 approved capital budget. Also included in this balance is \$662,000 held in reserve not specified for one project, available at the direction of the Board of County Commissioners, to cover unanticipated costs.

Proprietary funds: St. Mary's County Government's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, unrestricted net assets of the Wicomico Golf Course Fund accounted for \$811,418, the Recreation Activities Fund reflected net assets of \$65,698, and the Medical Adult Daycare Services reflected a deficit of \$643,325. On a combined basis, there was a \$206,066 increase in net assets, principally attributable to the positive results in the Recreation Activity Fund. Factors concerning these funds' finances have been addressed in the discussion of St. Mary's County Government's business-type activities.

General Fund Budgetary Highlights

The final budget for the General Fund was approximately \$2.5 million higher than the original budget. The increase reflects principally new or increased grants received, with most of the increases in the area of public safety activities and, to a lesser extent, for the STS transportation system. During the year, revenues exceeded budget and expenditures were less than budgetary estimates. Because of these positive variances, there was no need to draw upon the appropriated use of fund balance for operations, though that was originally budgeted at \$1.8 million for FY2005.

Capital Asset and Debt Administration

Capital assets: St. Mary's County Government's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$194.4 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure and land development rights. The total increase in St. Mary's County Government's investment in capital assets for the fiscal year ended June 30, 2005, was \$13.4 million, a 7.5% increase over FY2004. It should be noted that the capital asset balances include the County's infrastructure. (i.e., roads), as the County has fully implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

ST. MARY'S COUNTY GOVERNMENT'S CAPITAL ASSETS
(At Cost, Net of Accumulated Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Land	\$18,830,327	\$11,614,581	\$1,078,666	\$1,078,666	\$19,908,993	\$12,693,247
Building and Improvements	71,298,279	69,036,996	788,121	830,065	72,086,400	69,867,061
Facilities Under Construction	2,504,611	9,657,186	0	0	2,504,611	9,657,186
Solid Waste Facilities	10,663,660	6,378,024	0	0	10,663,660	6,378,024
Infrastructure	71,786,627	64,965,369	331,246	348,306	72,117,873	65,313,675
Vehicles	2,879,680	2,452,148	316,638	308,965	3,196,318	2,761,113
Furniture and Equipment	<u>13,830,567</u>	<u>14,165,693</u>	<u>49,460</u>	<u>44,857</u>	<u>13,880,027</u>	<u>14,210,550</u>
	<u>\$191,793,751</u>	<u>\$178,269,997</u>	<u>\$2,564,131</u>	<u>\$2,610,859</u>	<u>\$194,357,882</u>	<u>\$180,880,856</u>

Major capital asset events during the current fiscal year included the following:

- \$7.2 million of Lexington Manor land purchases.
- \$3.6 million in buildings and improvements were placed in service in FY2005, including Northern Senior Center, and Carter State Office Building.
- \$4.3 million in solid waste facilities project which consists of closure and capping of St. Andrews Area B.
- Approximately \$5.3 million in roads were added to the County system, of which \$4.6 million were by transfers from third parties, at no cost to the County.
- Chaptico Park and Nicolet Park Expansion projects, as well as Parks ADA Access improvements, were completed and capitalized in FY05 totaling approximately \$4.8 million.
- Vehicles (with a total cost of approximately \$800,000) were purchased to replace aging vehicles for the Sheriff's Department, St. Mary's Transit System, and other government activities.

Additional information on St. Mary's County's capital assets can be found in Note 4 of this report.

Long-term debt: At June 30, 2005, St. Mary's County Government had the following total general obligation bonded debt, and other similar obligations outstanding, as set forth in the table below. The full faith and credit and unlimited taxing power of the County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the bonds.

ST. MARY'S COUNTY GOVERNMENT'S GENERAL OBLIGATION DEBT

Primary Government

	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Amounts due within one year</u>
General Obligation Bonds – County	\$104,270,000	\$113,135,000	\$7,675,000
Less: Amount Deferred on Refunding	(1,830,777)	(1,807,220)	(24,001)
Water Quality Loan	3,197,792	5,934,960	494,150
State Loans	787,209	702,241	85,007
Exempt Financing (Equipment & Vehicles)	<u>899,882</u>	<u>1,174,547</u>	<u>486,166</u>
	<u>\$107,324,106</u>	<u>\$119,139,528</u>	<u>\$8,716,322</u>
General Obligation Bonds, sold on behalf of St. Mary's Hospital	<u>\$25,565,000</u>	<u>\$23,630,000</u>	<u>\$2,795,000</u>

Business-Type Activities

	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Amounts due within one year</u>
Exempt Financing (Equipment)	<u>\$160,417</u>	<u>\$125,225</u>	<u>\$35,000</u>

St. Mary's County Government's total general obligation bonded debt increased by a net \$6.9 million, based on the sale of \$16,260,000 of general obligation bonds for County projects, reduced by principal payments on previously outstanding bonds, including \$1.9 million in principal payments related to bonds issued on behalf of the St. Mary's Hospital. The Hospital fully reimburses the County for costs and debt service payments related thereto; the debt service is not funded by general funds of the County.

St. Mary's County Government has maintained an "AA-" rating from Standard and Poor's, an "AA" rating from Fitch Ratings, and an "Aa3" rating from Moody's Investors Service, Inc. These were all confirmed as a part of the bond issue that was sold and closed in March 2005. The debt affordability guidelines for St. Mary's County Government were previously set by the Board of County Commissioners, on the advice of the County's financial advisor. The guidelines were approved at a debt to assessed value of 2%, and debt service as a percent of current general fund revenue of 12%. The County is within these parameters, and monitors its capital budgets and 5-year plans to ensure that the County remains within the limitations.

Additional information on St. Mary's County Government's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

- Net taxable income for calendar year 2004 (the latest data available) for County residents was approximately \$1.551 billion and continues to demonstrate an approximate 5% growth, with the 3-year average increase of 6.6%.
- Assessable base continues to reflect an average annual increase of approximately 6% and reflects both increased assessed values and a growth in the assessable base due to new construction.
- The business community in St. Mary's County has grown significantly following the realignment of Naval Air Systems Command with 66% growth in the number of technology firms since 1998.
- The largest private employers in the County have increased their number of employees, and the Navy-related employment is expected to maintain its current levels, with continued growth in private sector activity. There is continued growth in the number and the diversity of high tech firms.
- Department of Defense capital improvement in St. Mary's County continues to expand, with significant commitments by the Government during FY2005 for programs such as the Joint Strike Fighter, the Presidential Helicopter, and Unmanned Aerial Vehicle programs.
- Tourism has been strong, with increased numbers of visitors; there continues to be development of hotels and expansion of accommodations, a reflection of the business growth as well as increased tourism opportunities and activity.
- Commercial office space has increased; large office management corporations are expanding their activities in the region. Rapid demand keeps costs competitive.
- Median household income (\$59,700) is slightly above the State average, and is increasing faster than the State and the tri-county area.
- The average unemployment rate for the County is less than 3%, and remains well below that of the State or the U.S.
- Measures were taken as a part of the FY2005 and continued into the FY2006 budget process, to restructure revenues and provide some tax relief. This included reductions in the property and income tax rates. These measures were taken after consideration by the Board of County Commissioners of the multi-year outlook and its commitments, including but not limited to debt service and the funding of the Bridge to Excellence 5-year agreement reached with the Board of Education in April 2004. This agreement provides a specific ongoing funding commitment to the public schools, based on enrollment, wealth, and other factors identified in the Thornton Commission report.

All of these factors were considered in preparing the St. Mary's County Government's budget for the 2006 fiscal year, resulting in a budgeted increase of 9.2%. This rate of increase reflects this Board of County Commissioners' decision

to provide pay-go funding for capital projects totaling \$3 million, from prior budget savings. In adopting the budget for FY2006, the County considered long-term projections of revenues and expenses. The local economy is expected to continue to be strong and reflect positive growth, and the Board expects to continue and expand its use of multi-year projections into its FY2007 budget process to assure that adequate and sustainable resources are identified to address prioritized needs – both capital and operating.

Requests for Information

This financial report is designed to provide a general overview of St. Mary's County Government's finances for all those with an interest in the Government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Department of Finance, St. Mary's County Government, P.O. Box 653, Leonardtown, Maryland 20650.

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Board of Education	Library	Metropolitan Commission	Building Authority
ASSETS							
Cash and cash equivalents	\$64,226,557	\$5,745	\$64,232,302	\$15,664,941	\$3,570	\$3,706,837	\$339
Internal balances	(812,244)	812,244	0	0	0	0	0
Restricted cash and investments	445,896	0	445,896	23,244	590,539	0	0
Taxes receivable	1,723,391	0	1,723,391	0	0	0	0
Income tax reserve, funds held by the State	15,724,699	0	15,724,699	0	0	0	0
Due from other governments	0	0	0	7,551,385	4,000	0	165,809
Special tax assessments receivable	923	0	923	0	0	0	0
Notes receivable, Fire and Rescue loans	221,871	0	221,871	0	0	0	0
Emergency support taxes receivable	20,023	0	20,023	0	0	0	0
Accounts receivable	17,487,606	158,645	17,646,251	125,663	56,708	973,833	590,156
Inventory	478,925	21,519	500,444	93,799	0	31,114	0
Other, including prepaid expenses	2,059,831	0	2,059,831	124,361	0	14,736	0
Mortgages receivable from St. Mary's Hospital	23,630,000	0	23,630,000	0	0	0	0
Deferred and unamortized bond issuance costs	0	0	0	0	0	392,214	435,388
Notes receivable, Fire and Rescue loans, net of short-term portion	1,014,527	0	1,014,527	0	0	0	0
Special tax assessments receivable, net of short-term portion	2,194,940	0	2,194,940	0	0	0	0
Capital assets	281,546,205	4,127,418	285,673,623	261,934,307	3,042,501	91,626,380	17,532,782
Accumulated depreciation	(89,752,454)	(1,563,287)	(91,315,741)	(66,518,417)	(1,712,014)	(28,034,541)	(6,751,154)
Capital assets, net of accumulated depreciation	<u>191,793,751</u>	<u>2,564,131</u>	<u>194,357,882</u>	<u>195,415,890</u>	<u>1,330,487</u>	<u>63,591,839</u>	<u>10,781,628</u>
Total Assets	<u>\$320,210,696</u>	<u>\$3,562,284</u>	<u>\$323,772,980</u>	<u>\$218,999,283</u>	<u>\$1,985,304</u>	<u>\$68,710,573</u>	<u>\$11,973,320</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Board of Education	Library	Metropolitan Commission	Building Authority
LIABILITIES							
Accounts payable	\$4,584,464	\$139,997	\$4,724,461	\$6,295,747	\$34,264	\$925,708	\$0
Compensation-related liabilities	2,390,108	239,821	2,629,929	11,594,785	89,605	0	0
Deferred income tax distribution	15,724,699	0	15,724,699	0	0	0	0
Deferred revenue	4,671,920	301,326	4,973,246	566,141	0	77,920	0
Other liabilities	3,569,994	0	3,569,994	174,301	0	714,575	259,713
Due to other governments	32,014	0	32,014	224,097	0	0	0
Due to primary government	0	0	0	0	133,795	0	0
<u>Non-current liabilities</u>							
Due within one year	11,570,095	35,836	11,605,931	728,535	0	1,209,442	975,000
Due in more than one year	137,189,966	187,616	137,377,582	7,476,508	85,346	18,998,045	9,440,000
Total Liabilities	\$179,733,260	\$904,596	\$180,637,856	\$27,060,114	\$343,010	\$21,925,690	\$10,674,713
NET ASSETS							
-							
Invested in capital assets, net of related debt	69,704,223	2,423,897	72,128,120	190,408,516	1,330,487	43,384,352	366,628
Restricted	39,717,598	0	39,717,598	101,378	75,875	1,742,818	215,647
Unrestricted	31,055,615	233,791	31,289,406	1,429,275	235,932	1,657,713	716,332
Total Net Assets	\$140,477,436	\$2,657,688	\$143,135,124	\$191,939,169	\$1,642,294	\$46,784,883	\$1,298,607
Total Liabilities and Net Assets	\$320,210,696	\$3,562,284	\$323,772,980	\$218,999,283	\$1,985,304	\$68,710,573	\$11,973,320

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions / Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes
General Government	\$17,296,982	\$5,467,042	\$4,303,428	\$0
Public Safety	23,521,544	1,576,421	2,631,966	4,339,320
Public Works	11,787,965	1,153,536	7,558,194	0
Health	1,205,276	0	0	0
Social Services	6,073,461	0	3,799,179	0
Primary and Secondary Education	73,893,720	0	0	0
Post -Secondary Education	2,195,193	0	0	0
Parks, Recreation, and Culture	3,014,943	312,351	25,674	363,723
Libraries	1,789,465	0	0	705,407
Conservation of Natural Resources	276,734	0	0	0
Housing	1,343,327	811,271	532,056	0
Economic Development and Opportunity	2,136,544	55,721	504,719	0
Debt Interest	4,463,972	0	0	0
Inter-governmental	48,936	0	0	0
Other	1,309,481	545,222	0	179,552
TOTAL GOVERNMENTAL ACTIVITIES	\$150,357,543	\$9,921,564	\$19,355,216	\$5,588,002
Business - Type Activities				
Recreation Activity	\$2,160,460	\$2,292,579	\$33,704	\$0
Wicomico	1,008,446	1,085,154	0	0
Medical Adult Daycare	816,708	218,461	543,927	0
TOTAL BUSINESS-TYPE ACTIVITIES	\$3,985,614	\$3,596,194	\$577,631	\$0
TOTAL PRIMARY GOVERNMENT	\$154,343,157	\$13,517,758	\$19,932,847	\$5,588,002
Component Units:				
Board of Education	\$149,734,136	\$2,926,897	\$26,659,394	\$18,015,913
Library	2,658,501	186,923	654,577	0
MetCom	12,466,727	9,634,213	0	0
Building Authority	914,242	1,411,491	0	0
	\$165,773,606	\$14,159,524	\$27,313,971	\$18,015,913

General Revenues:

Property Taxes
Income Taxes
Other Taxes
Investment Earnings
Grants and Contributions Not Restricted to Specific Purposes
Miscellaneous
Total General Revenues

Changes in Net Assets

Net Assets - Beginning
Prior Period Adjustment
Net Assets - Ending

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net (Expense) Revenue and Changes in Net Assets

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Board of Education	Library	MetCom	Building Authority
Total Revenues							
\$9,770,470	(\$7,526,512)	\$0	(\$7,526,512)				
8,547,707	(14,973,837)	0	(14,973,837)				
8,711,730	(3,076,235)	0	(3,076,235)				
0	(1,205,276)	0	(1,205,276)				
3,799,179	(2,274,282)	0	(2,274,282)				
0	(73,893,720)	0	(73,893,720)				
0	(2,195,193)	0	(2,195,193)				
701,748	(2,313,195)	0	(2,313,195)				
705,407	(1,084,058)	0	(1,084,058)				
0	(276,734)	0	(276,734)				
1,343,327	0	0	0				
560,440	(1,576,104)	0	(1,576,104)				
0	(4,463,972)	0	(4,463,972)				
0	(48,936)	0	(48,936)				
724,774	(584,707)	0	(584,707)				
<u>\$34,864,782</u>	<u>(\$115,492,761)</u>	<u>\$0</u>	<u>(\$115,492,761)</u>				
\$2,326,283	\$0	\$165,823	\$165,823				
1,085,154	0	76,708	76,708				
762,388	0	(54,320)	(54,320)				
<u>\$4,173,825</u>	<u>\$0</u>	<u>\$188,211</u>	<u>\$188,211</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>\$39,038,607</u>	<u>(\$115,492,761)</u>	<u>\$188,211</u>	<u>(\$115,304,550)</u>				
\$47,602,204	\$0	\$0	\$0	(\$102,131,932)	\$0	\$0	\$0
\$841,500	0	0	0	\$0	(1,817,001)	0	0
\$9,634,213	0	0	0	\$0	0	(2,832,514)	0
\$1,411,491	0	0	0	\$0	0	0	497,249
<u>\$59,489,408</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$102,131,932)</u>	<u>(\$1,817,001)</u>	<u>(\$2,832,514)</u>	<u>\$497,249</u>
	\$58,187,880	\$0	\$58,187,880	\$0	\$0	\$0	\$0
	54,148,444	0	54,148,444	0	0	0	0
	23,137,885	0	23,137,885	0	0	0	0
	1,093,882	17,855	1,111,737	228,822	9,594	114,396	4
	0	0	0	114,747,735	1,666,464	0	0
	6,994,490	0	6,994,490	163,140	23,394	188,254	0
	<u>\$143,562,581</u>	<u>\$17,855</u>	<u>\$143,580,436</u>	<u>\$115,139,697</u>	<u>\$1,699,452</u>	<u>\$302,650</u>	<u>\$4</u>
	28,069,820	206,066	28,275,886	13,007,765	(117,549)	(2,529,864)	497,253
	\$112,407,616	\$2,451,622	\$114,859,238	\$178,931,404	\$1,759,843	\$48,984,780	\$801,354
						\$329,967	
	<u>\$140,477,436</u>	<u>\$2,657,688</u>	<u>\$143,135,124</u>	<u>\$191,939,169</u>	<u>\$1,642,294</u>	<u>\$46,784,883</u>	<u>\$1,298,607</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$64,226,557	\$0	\$0	\$64,226,557
Due from other funds	0	37,746,527	1,226,954	38,973,481
Taxes receivable	1,723,391	0	0	1,723,391
Emergency Support taxes receivable	0	0	20,023	20,023
Income tax reserve, funds held by the State	15,724,699	0	0	15,724,699
Special tax assessments receivable	0	0	923	923
Notes receivable, Fire and Rescue loans	0	0	221,871	221,871
Accounts receivable	14,114,747	3,372,859	0	17,487,606
Inventory	478,925	0	0	478,925
Prepaid debt service payment	2,057,363	0	0	2,057,363
Other	2,468	0	0	2,468
Notes receivable, Fire and Rescue loans, net of short-term portion	0	0	1,014,527	1,014,527
Special tax assessments receivable, net of short-term portion	0	0	2,194,940	2,194,940
Total Assets	\$98,328,150	\$41,119,386	\$4,679,238	\$144,126,774
LIABILITIES				
Accounts payable	\$2,834,645	\$1,741,173	\$305,132	\$4,880,950
Compensation-related liabilities	2,448,881	0	0	2,448,881
Deferred income tax distribution	15,724,699	0	0	15,724,699
Deferred revenue	496,441	0	3,433,097	3,929,538
Other liabilities	3,569,994	0	0	3,569,994
Due to other funds	38,572,128	0	1,213,597	39,785,725
Due to other governments	32,014	0	0	32,014
Total Liabilities	\$63,678,802	\$1,741,173	\$4,951,826	\$70,371,801
FUND BALANCES				
Reserved	\$1,550,496	\$38,716,101	(\$1,214,433)	\$39,052,164
Unreserved, designated	20,910,209	662,112	941,845	22,514,166
Unreserved, undesignated	12,188,643	0	0	12,188,643
Total Fund Balances	\$34,649,348	\$39,378,213	(272,588)	\$73,754,973
Total Liabilities and Fund Balances	\$98,328,150	\$41,119,386	\$4,679,238	\$144,126,774

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Capital Projects	Non-Major	Total
REVENUES				
Property Taxes	\$58,187,880	\$0	\$0	\$58,187,880
Other Local Taxes	66,998,952	9,229,696	0	76,228,648
Highway User Revenues	6,217,472	0	0	6,217,472
Licenses and Permits	1,288,530	0	0	1,288,530
Intergovernmental	5,852,959	5,590,116	230,528	11,673,603
Charges for Services	5,221,939	3,513,675	0	8,735,614
Fines and Forfeitures	295,292	0	0	295,292
Special Assessments	0	0	179,554	179,554
Other Revenues	1,434,648	4,504,210	1,079,383	7,018,241
Sub-total	<u>145,497,672</u>	<u>22,837,697</u>	<u>1,489,465</u>	<u>169,824,834</u>
Pass-Throughs	3,125,169	0	0	3,125,169
TOTAL GENERAL FUND REVENUES	<u>\$148,622,841</u>	<u>\$22,837,697</u>	<u>\$1,489,465</u>	<u>\$172,950,003</u>
EXPENDITURES				
General Government	\$15,566,271	\$0	\$0	\$15,566,271
Public Safety	21,836,828	0	1,162,140	22,998,968
Public Works	7,576,202	0	0	7,576,202
Health	1,160,411	0	0	1,160,411
Social Services	3,407,300	0	0	3,407,300
Primary and Secondary Education	60,608,593	13,887,150	0	74,495,743
Post -Secondary Education	2,152,456	0	0	2,152,456
Parks, Recreation, and Culture	2,576,795	0	0	2,576,795
Libraries	1,666,464	0	0	1,666,464
Conservation of Natural Resources	276,734	0	0	276,734
Housing	811,271	0	0	811,271
Economic Development and Opportunity	2,252,011	0	0	2,252,011
Capital Projects	0	14,645,138	0	14,645,138
Debt Service - Principal	7,551,027	0	142,488	7,693,515
Debt Service - Interest	4,524,491	0	62,388	4,586,879
Inter-governmental	48,936	0	0	48,936
Other	1,309,481	0	0	1,309,481
Sub-total	<u>133,325,271</u>	<u>28,532,288</u>	<u>1,367,016</u>	<u>163,224,575</u>
Pass-Throughs	3,125,169	0	0	3,125,169
TOTAL GENERAL FUND EXPENDITURES	<u>\$136,450,440</u>	<u>\$28,532,288</u>	<u>\$1,367,016</u>	<u>\$166,349,744</u>
Excess of Revenues Over (Under) Expenditures	<u>12,172,401</u>	<u>(5,694,591)</u>	<u>122,449</u>	<u>6,600,259</u>
OTHER FINANCING SOURCES AND USES				
Proceeds from issuance bonds	\$0	\$16,260,000	\$0	\$16,260,000
Proceeds from issuance of WQ Loan	0	2,938,525	0	2,938,525
Exempt financing proceeds	476,958	0	0	476,958
Premium on issuance of bonds	0	39,394	0	39,394
Capital Projects - General Fund Transfer	(500,000)	500,000	0	0
Contributions	0	553,000	0	553,000
Transfers	0	(2,250,000)	2,250,000	0
Total Other Financing Sources / Uses	<u>(\$23,042)</u>	<u>\$18,040,919</u>	<u>\$2,250,000</u>	<u>\$20,267,877</u>
Net Change in Fund Balances	12,149,359	12,346,328	2,372,449	26,868,136
FUND BALANCE				
Beginning of the Year	\$22,499,989	\$27,031,885	(\$2,645,037)	\$46,886,837
End of year	<u><u>\$34,649,348</u></u>	<u><u>\$39,378,213</u></u>	<u><u>(\$272,588)</u></u>	<u><u>\$73,754,973</u></u>

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

The County Commissioners for St. Mary's County
 Reconciliations of the Governmental Funds to the Governmental Activities
 For the Year Ended June 30, 2005

Balances reflected as Fund Balance for Governmental Funds are different from Net Assets for Governmental Activities because:

Fund Balance - Governmental Funds	\$73,754,973
Fixed Assets, net of accumulated depreciation, are not reported in the Balance Sheet for Governmental Funds	191,793,751
Debt, including bonds, loans, capital leases and the long-term portion of compensated absences, is not reported in the Balance Sheet for Governmental Funds. The amount reflected here is net of mortgages receivable from St. Mary's Hospital of \$23,630,000, but does include debt applicable to assets reported in the component unit for the Board of Education	(125,071,288)
Net Assets - Governmental Activities	\$140,477,436

Amounts reported for change in Fund Balances - Governmental Funds are different from change in Net Assets of Governmental Activities because:

Net change in fund balances - total governmental funds	\$26,868,136
Depreciation expense which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(6,575,109)
Disposal of fixed assets which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(9,792)
Issuance of long-term debt, excluding amounts which are offset by mortgages receivable from St. Mary's Hospital, and effect of refunding. This does include debt applicable to assets reported in the component unit for the Board of Education	(20,205,689)
Repayment of debt	7,883,619
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	20,108,655
Change in net assets of governmental activities	\$28,069,820

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2005

	<u>Medical Adult Daycare</u>	<u>Recreation Activity Fund</u>	<u>Wicomico</u>	<u>Total</u>
ASSETS				
<u>Current assets</u>				
Cash and cash equivalents	\$0	\$0	\$5,745	\$5,745
Due to/from other funds	0	392,583	1,074,026	1,466,609
Accounts receivable	139,171	7,693	11,781	158,645
Inventory	0	0	21,519	21,519
Total Current Assets	<u>139,171</u>	<u>400,276</u>	<u>1,113,071</u>	<u>1,652,518</u>
<u>Non-current assets</u>				
Capital assets	0	136,913	3,990,505	4,127,418
Accumulated depreciation	0	(121,904)	(1,441,383)	(1,563,287)
Capital assets, net of accumulated depreciation	0	15,009	2,549,122	2,564,131
Total Assets	<u>\$139,171</u>	<u>\$415,285</u>	<u>\$3,662,193</u>	<u>\$4,216,649</u>
LIABILITIES				
<u>Current liabilities</u>				
Due to/from other funds	\$654,365	\$0	\$0	\$654,365
Accounts payable	14,346	82,215	43,436	139,997
Compensation-related liabilities	113,785	67,809	58,227	239,821
Deferred revenue	0	199,563	101,763	301,326
<u>Noncurrent Liabilities</u>				
Due within one year	0	0	35,836	35,836
Due in more than one year	0	0	187,616	187,616
Total liabilities	<u>782,496</u>	<u>349,587</u>	<u>426,878</u>	<u>1,558,961</u>
NET ASSETS				
Invested in capital assets, net of related debt	0	0	2,423,897	2,423,897
Unrestricted	(643,325)	65,698	811,418	233,791
Total Net Assets	<u>(643,325)</u>	<u>65,698</u>	<u>3,235,315</u>	<u>2,657,688</u>
Total Liabilities and Net Assets	<u>\$139,171</u>	<u>\$415,285</u>	<u>\$3,662,193</u>	<u>\$4,216,649</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Medical Adult Daycare</u>	<u>Recreation Activity Fund</u>	<u>Wicomico</u>	<u>Total</u>
OPERATING REVENUES				
Charges for Services	\$218,461	\$2,292,579	\$1,085,154	\$3,596,194
OPERATING EXPENSES				
Personal Services	572,074	\$1,352,573	\$597,962	\$2,522,609
Operating Supplies	62,356	287,479	157,832	507,667
Professional Services	6,747	199,824	58,353	264,924
Communications	0	20,623	2,898	23,521
Transportation	169,962	5,886	22,734	198,582
Repairs	0	1,441	14,921	16,362
Rentals	0	125,200	1,078	126,278
Public Utilities	4,854	132,775	33,781	171,410
Insurance	0	0	13,609	13,609
Miscellaneous	715	2,089	2,301	5,105
Interest Expense	0	0	4,216	4,216
Equipment	0	26,987	0	26,987
Depreciation	0	5,583	98,761	104,344
Total operating expenses	<u>\$816,708</u>	<u>\$2,160,460</u>	<u>\$1,008,446</u>	<u>\$3,985,614</u>
Operating Income (Loss)	(\$598,247)	\$132,119	\$76,708	(\$389,420)
Non-Operating Revenue				
Interest income	0	0	17,855	17,855
Grants revenue	543,927	33,704	0	577,631
Change in net assets	<u>(\$54,320)</u>	<u>\$165,823</u>	<u>\$94,563</u>	<u>\$206,066</u>
NET ASSETS				
Beginning of the year	(589,005)	(100,125)	3,140,752	2,451,622
End of Year	<u>(\$643,325)</u>	<u>\$65,698</u>	<u>\$3,235,315</u>	<u>\$2,657,688</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Charges for Services	\$288,762	\$2,307,009	\$1,085,758	\$3,681,529
Personal Services	(543,518)	(1,362,841)	(555,823)	(2,462,182)
Other Expenses	(238,526)	(834,868)	(309,764)	(1,383,158)
Net Cash Provided (Used) By Operating Activities	<u>(\$493,282)</u>	<u>\$109,300</u>	<u>\$220,171</u>	<u>(\$163,811)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Net change in interfund loans	(50,645)	(140,386)	(147,835)	(338,866)
Grant revenue	543,927	33,704	0	577,631
Net Cash Provided (Used) By Non-Capital and Related Financing Activities	<u>\$493,282</u>	<u>(\$106,682)</u>	<u>(\$147,835)</u>	<u>\$238,765</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction / purchase of capital assets	0	(2,618)	(47,135)	(49,753)
Principal payments on long term debt	0	0	(35,192)	(35,192)
Disposal of fixed assets net of accumulated depreciation	0	0	(7,864)	(7,864)
Net Cash Used by Capital and Related Financing Activities	<u>\$0</u>	<u>(\$2,618)</u>	<u>(\$90,191)</u>	<u>(\$92,809)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	0	0	17,855	17,855
Net Change in Cash	\$0	\$0	\$0	\$0
CASH				
Beginning of Year	0	0	5,745	5,745
End of Year	<u>\$0</u>	<u>\$0</u>	<u>\$5,745</u>	<u>\$5,745</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	(\$598,247)	\$132,119	\$76,708	(\$389,420)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Depreciation	0	5,583	98,761	104,344
(Increase) decrease in accounts receivable	70,301	(681)	(5,147)	64,473
(Increase) decrease in inventory	0	0	(7,983)	(7,983)
Increase (decrease) in accounts payable	6,108	(32,564)	9,941	(16,515)
Increase (decrease) in compensation-related liabilities	28,556	(10,268)	42,140	60,428
Increase (decrease) in deferred revenue	0	15,111	5,751	20,862
Net Cash Provided (Used) By Operating Activities	<u>(\$493,282)</u>	<u>\$109,300</u>	<u>\$220,171</u>	<u>(\$163,811)</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2005

	Sheriff's Office Retirement Plan
ASSETS	
Cash and cash equivalents	\$ 100,031
Restricted cash and investments	21,936,041
Total Assets	\$22,036,072
NET ASSETS	
Held in trust for pension benefits	22,036,072
Total Net Assets	\$22,036,072

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005

	Sheriff's Office Retirement Plan
ADDITIONS	
Contributions - Employer	\$2,036,981
Contributions - Employee	511,259
	2,548,240
Interest and Dividends	810,713
Realized Loss	(148,156)
Net Unrealized Gain on Investments	958,049
	1,620,606
Net Additions	\$4,168,846
DEDUCTIONS	
Benefits	(1,213,746)
Administrative	(140,040)
Total Deductions	(\$1,353,786)
Change in Net Assets	\$2,815,060
NET ASSETS	
Beginning of Year	19,221,012
End of Year	\$22,036,072

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

The County Commissioners for St. Mary's County

Notes to Financial Statements Index

June 30, 2005

	<u>Page</u>
1. Reporting entity and summary of significant accounting policies	26-37
2. Deficit Fund Equity	37
3. Cash, cash equivalents and investments	38-42
4. Changes in capital assets	43-49
5. Property tax	50
6. Special assessment receivable and deferred revenue	50-51
7. Long-term obligations	52-75
8. Fund balances	76-77
9. Retirement plans	78-95
10. Segment information for enterprise funds	96
11. Interfund receivables	96-97
12. Mortgage receivable	97
13. Commitments and contingencies	97-98
14. Post-employment benefits	98-99
15. Landfill closure and postclosure cost	99
16. Pass-through proceeds	99
17. Risk management	99

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies

Reporting entity

St. Mary's County, the first Maryland county, was established in 1637. The Board of County Commissioners is composed of five Commissioners elected for four-year terms. Four Commissioners represent specific election districts while the President of the Commissioners runs at large. All Commissioners are elected by the voters of the entire County. The County operates under a line-organizational method, with a County Administrator being responsible for the general administration of the County government. The Director of Finance is responsible for the accounting and general ledger, and budgeting functions. The Treasurer is responsible for the collection of real and personal property taxes. The County provides the following services: public safety, highway and streets, health and social services, recreation, education, public improvements, planning and zoning, sewage and water treatment and general administrative services.

The financial statements of the reporting entity include those of St. Mary's County Government (the primary government) and its component units. As defined by GASB Statement No. 14, component units are legally separate entities that are included in the County's reporting entity because of the significance of their operating or financial relationships with the County. The criteria for including organizations as component units within the County's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate
- the County Commissioners appoint a voting majority of the organization's board
- the County Commissioners have the ability to impose their will on the organization
- the organization has the potential to impose a financial benefit/burden on the County
- the organization is fiscally dependent on the County

Based on the application of these criteria, the following organizations are considered component units of St. Mary's County Government. Their financial data is discretely presented in separate columns in the government-wide financial statements. All discretely presented component units have a June 30 year-end.

Discretely presented component units

For financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *Defining the Governmental Reporting Entity*. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, and the ability to significantly influence operations and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Discretely presented component units (continued)

Except for the Board of Education of St. Mary's County, the governing bodies of all these component units are appointed by The County Commissioners for St. Mary's County.

Board of Education of St. Mary's County – In Maryland, public schools are part of a statewide system of county school boards. The school boards' political boundaries conform to the county boundaries. The purpose of the Board of Education of St. Mary's County is to operate the local public school system in accordance with State and community standards. The school system does not have the authority to levy any taxes or incur debt. Schools are funded with local, State and Federal monies. St. Mary's County has oversight responsibility for approval and partial funding of the school system's operating budget.

St. Mary's County Metropolitan Commission is responsible for providing water and wastewater facilities and services within the jurisdiction of St. Mary's County, Maryland.

St. Mary's County Building Authority Commission was created by the Maryland General Assembly as an instrumentality of the County to acquire title to property within St. Mary's County for construction, renovation, or rehabilitation. The Building Authority Commission currently owns and leases property to the State of Maryland and St. Mary's Nursing Center, Inc.

Board of Library Trustees for St. Mary's County operates a main library in Leonardtown and branch libraries in Lexington Park and Charlotte Hall.

Financial statements of the individual component units can be obtained from their respective administrative offices.

Administrative Offices

Board of Education of St. Mary's County
23160 Moakley Street
Leonardtown, Maryland 20650

St. Mary's County Metropolitan Commission
43990 Commerce Avenue
Hollywood, Maryland 20636

St. Mary's County Building Authority Commission
23115 Leonard Hall Drive
P.O. Box 653, Governmental Center
Leonardtown, Maryland 20650

Board of Library Trustees for St. Mary's County
23250 Hollywood Road
Leonardtown, Maryland 20650

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Financial Statements

The financial statements of the County Commissioners for St. Mary's County, Maryland, (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements include various agencies, department organizations and offices which are legally part of St. Mary's County (the Primary Government) and the County's Component Units. As defined in GASB Statement Number 14, component units are legally separate organizations for whom the County is financially accountable or for which their relationship with the County is of such significance that exclusion would cause the County's financial statements to be misleading. The decision to include a potential component unit in the financial reporting entity was made by applying the criteria set forth in GASB Statement Number 14. These financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

The County's basic financial statements include government-wide financial statements (reporting on the County as a whole), fund financial statements (reporting the County's most significant funds), and fiduciary financial statements (reporting on the County's pension funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. Governmental activities are normally supported by taxes and intergovernmental revenues. The County's public safety, public transportation, health and social services, some parks and recreation activities, public works and general administrative services are classified as governmental activities. Business-type activities rely significantly on fees and charges for support. The County's Recreation and Parks, Medical Adult Daycare and the Wicomico Golf Course are classified as business-type activities.

Government-wide Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. The government-wide financial statements focus more on the sustainability of the County as an entity and the change in the County's net assets resulting from the current year's activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) reported using the economic resources measurement focus and the accrual basis of accounting, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The County's net assets are reported in three parts – (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use. When both restricted and unrestricted resources are available for use, the County utilizes restricted resources to finance qualifying activities first, then unrestricted resources as they are needed.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Government-wide Statements (continued)

The government-wide Statement of Activities reports both the gross and net cost of each of the County's functions and business-type activities. The functions are also supported by general government revenues (property tax, income tax, certain intergovernmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating grants and capital grants. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenues (property tax, income tax, intergovernmental revenues, interest income, etc.) which are properly not included among program revenues. The County has an indirect cost allocation plan which it uses (when applicable and allowed) to charge costs to special revenue (grant) programs. Indirect costs are not normally charged to general government activities.

Fund Financial Statements

The financial transactions of the County are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements. No major funds by category are summarized into a single column.

Governmental Funds

The measurement focus of the governmental fund financial statements is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the County.

1. General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund.
2. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Special Revenue Funds of the County are non-major funds.
3. Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). The Capital Projects Fund is a major fund.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those applicable to businesses in the private sector. The following is a description of the proprietary funds of the County:

Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to cover similar costs.

Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support County programs. The reporting focus for fiduciary funds is on net assets and changes in net assets and accounting principles used are similar to proprietary funds.

The County's pension trust fund accounts for the retirement benefits for the St. Mary's County Maryland Sheriff's Office Retirement Plan. Since, by definition, these assets are held for the benefit of a third party (pension participants) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. They are presented in the fiduciary fund financial statements.

Basis of Accounting and Measurement Focus

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. The measurement focus identifies which transactions should be recorded.

Basis of Accounting

- a. Accrual Basis – Both governmental and business-type activities are presented using the accrual basis of accounting in the government-wide financial statements and the proprietary and fiduciary fund financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Basis of Accounting (continued)

- b. Modified Accrual Basis – The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means knowing or able to reasonably estimate the amount. “Available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year-end. All other revenue items are considered to be measurable and available only when cash is received by the County. Expenditures (including capital outlay) are recorded when the related liability is incurred. However, debt service expenditures (principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when due.

Measurement Focus

In the government-wide financial statements, both governmental and business-type activities are presented using the economic resources measurement focus as defined in item (b.) below.

In the governmental fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. The fund financial statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Accounting policies

The financial statements of The County Commissioners for St. Mary's County have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the County has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the County has chosen not to do so. The more significant accounting policies established in the GAAP and used by the County are discussed below.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Fund accounting

The County uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate fund types.

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the government (internal service funds).

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. When these assets are held under the terms of a formal trust agreement, either a pension trust fund, a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the government is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

The amount of grant funds passed through the County to Walden Sierra, Inc., Three Oaks Homeless Shelter, So. MD. Tri-County Community Action Committee and St. Mary's County Housing Authority for the fiscal year ended June 30, 2005 totaled \$3,125,169. These pass-through grants are recorded as pass-through revenue and expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Budget and budgetary accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America. All annual operating appropriations lapse at fiscal year end. Project-length financial plans are adopted for the capital projects fund. The County follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1 of each year, The County Commissioners for St. Mary's County shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance by June 1.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Budget and budgetary accounting (continued)

- d. All revisions that alter the expenditures of each fund must be approved by The County Commissioners for St. Mary's County or the Director of Finance.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund, special assessment fund and enterprise funds.
- f. Budgets for the special revenue funds and the capital projects fund are adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America. The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America, except that appropriations of fund balance are treated as other financing sources. Budget comparisons presented for the general fund in this report are on a non-GAAP basis. The capital projects funds' budgets are prepared on a project-length basis, and accordingly, annual budgetary comparisons are not presented in the financial statements. The enterprise funds' budgets are flexible annual operating budgets. Budgetary comparisons are not presented in the financial statements for the enterprise funds.
- g. The budgeted amounts are as adopted, including amendments, by The County Commissioners for St. Mary's County.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

Cash, cash equivalents and investments

Cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired. State statutes authorize investments in obligations of the United States government, federal government agency obligations and repurchase agreements. Investments are stated at cost.

The operating cash balances for all funds are commingled and shown in the governmental activities on the statement of net assets and in the general fund on the governmental fund balance sheet.

Investments in the Pension Trust Fund and Sheriff's Department Retirement Plan are carried at fair value as determined on June 30 of each year, based on appraisals or quotations by an independent investment counselor offset by a fund balance reservation, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Inventory and prepaid expenditures

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the general fund, special revenue funds and enterprise funds consists of expendable supplies held for consumption. Reported inventories and prepaid expenditures in the general fund are offset by a fund balance reservation, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Long-term receivables

Noncurrent portions of long-term receivables are reported on the balance sheet in spite of their spending measurement focus. The long-term portion of receivables is offset by a fund balance reservation, which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

Accumulated unpaid annual leave

Full-time employees can earn annual leave at a rate of from ten days per year (one through five years of service) up to a maximum of twenty-five days per year (if over twenty years of service). Leave for permanent part-time employees is prorated according to the number of hours worked.

There are no requirements that annual leave be taken; however, the maximum permissible accumulation to be carried into the new calendar year is forty-five days for full-time employees and twenty-two and one-half days for permanent part-time employees. At termination, employees are paid for any accumulated annual leave.

Full-time and permanent part-time employees earn sick leave based upon the number of hours worked, with a maximum of fifteen days earned per year. There is no limit to the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave, nor is credit provided for employees that retire on early retirements. However, at regular retirement, employees who have been employed by the County for five years are eligible to receive service credit at a rate of one month for every twenty days of unused sick leave. Persons that are reinstated in the County service within one year from the time of their separation shall receive full credit for all sick leave accumulated at time of separation.

Full-time employees are entitled to compensatory time off for work performed in excess of the normal work period. Compensatory leave should be used within a reasonable period; however, the maximum permissible accumulation to be carried into the new calendar year is 240 hours for non-law enforcement employees and 480 hours for law enforcement employees and correctional officers. At termination, employees are paid for any accumulated compensatory leave at the higher rate of the average regular rate received by the employee during the last three years or the final regular rate received by such employee.

Use of estimates

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Budget basis of accounting

Actual results of operations are presented in the Statement of Revenues, Expenditures, Encumbrances, and Other Financing Sources and Uses - Budget (Non-GAAP Basis) and Actual - General Fund, in order to provide a meaningful comparison of actual results with budget estimates. Under the budget basis, encumbrances are recorded as the equivalent of expenditures, as opposed to only a reservation of fund balance as on a GAAP basis.

A reconciliation of the revenues and expenditures of the general fund from the budgetary basis to the GAAP basis is as follows:

	Net Change in Fund Balance	End of Year Fund Balance
	-----	-----
Budgetary Basis – General Fund	\$11,553,050	\$33,573,215
Minor revolving funds and general financing that relate to activities resulting from fees, fines, and other revenue sources that are not an element of the budget basis reporting	(447,603)	(328,763)
Issuance of additional exempt financing	34,752	34,752
Beginning of year encumbrances, rolled into FY2005	(360,984)	0
Appropriation from prior year rolled to FY2005 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2005	360,984	360,984
End of year encumbrances included in budget basis expenditures, not included for GAAP	<u>1,009,160</u>	<u>1,009,160</u>
GAAP Basis	<u>\$12,149,359</u>	<u>\$34,649,348</u>

Basis of presentation

The statement of net assets and the statement of activities display information about the County as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements distinguish between those activities of the County that are governmental and those that are considered business-type activities.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Capital assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

With the implementation of GASB Statement No. 34, the County has recorded its public domain (infrastructure) capital assets, which include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, etc.

The purpose of depreciation is to spread the cost of capital assets equitably among all uses over the lives of these assets. The amount charged to depreciation expense each year represents that year's prorata share of capital assets.

The method of depreciation being used for all governmental-type assets placed in service as a result of GASB Statement No. 34 is the straight-line half-year convention. Only assets greater than or equal to \$5,000 will be depreciated. Assets greater than or equal to \$1,000 but less than \$5,000 will be tracked for inventory purposes only.

Property, plant and equipment of the primary government and the component units are depreciated using the straight-line method (half-year convention) over the following estimated useful lives:

Primary Government

Buildings and improvements	50 years
Computer equipment	5 years
Furniture and equipment	5-10 years
Vehicles licensed	5- 8 years
Off-road vehicles	5-10 years
Miscellaneous equipment	5-10 years
Other infrastructure	10-50 years

Component Units

St. Mary's County Public Schools

Buildings and improvements	20-50 years
Furniture and equipment	5-15 years
Property under financing agreements	5-50 years

Board of Library Trustees for St. Mary's County

Furnishings and equipment	5 years
Vehicles	5 years
Books	7 years

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

1. Reporting entity and summary of significant accounting policies (continued)

Capital assets (continued)

Component Units (continued)

St. Mary's County Metropolitan Commission

Utility plants	18-50 years
Water plant systems	18-50 years
Equipment	3-10 years
Capitalized interest	50 years
Buildings	25 years

St. Mary's County Building Authority Commission

Buildings	40 years
Furniture and equipment	10 years

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market. The inventories are recorded as expenditures when consumed rather than when purchased. Governmental fund-type inventories are offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources," even though they are a component of net current assets.

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and business-type activities statement of net assets, or proprietary fund type balance sheet. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bond.

2. Deficit fund equity

Non-major governmental funds – The deficits in the non-major governmental funds arise primarily because of the application of accounting principles generally accepted in the United States of America to the financial reporting of such funds. Special assessments are recognized as revenue only to the extent that individual installments are considered current assets. Expenditures, however, are recognized at the time liabilities are incurred. The deficit will be reduced and eliminated as deferred assessment installments are assessed and collected.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

3. Cash, cash equivalents and investments

Primary Government

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term securities and certificates of deposit with an original maturity of three months or less.

Investments held by the County, including the pension funds, are stated at fair value. Fair value is based on quoted market prices at year end or best available estimate. All investments not required to be reported at fair value are stated at cost or amortized cost.

Article 95, Section 22 of the Annotated Code of Maryland states that local governments are authorized to invest in the instruments specified in the State Finance and Procurement Article, Section 6-222 of the Code. In addition, Article 95, Section 22 requires that local government deposits with financial institutions be fully collateralized and that the collateral be of types specified in the State Finance and Procurement Article, Section 6-202. The County is charged with the responsibility for selecting depositories and investing the idle funds as directed by the State and County Codes. The County is further restricted as to the types of deposits and investments in accordance with the County's investment policy. Depository institutions must be Maryland banks and must be approved for use by the County Commissioners.

Cash Deposits

At year end, the carrying amount of the County's deposits was \$28,308,323 and the collected bank balance was \$29,169,182. Of the collected bank balance, \$220,143 was covered by Federal Deposit Insurance Corporation (FDIC), and \$28,949,039 was covered by collateral held either in the pledging bank's trust department or by the pledging bank's agent.

Investments

Statutes authorize the County to invest in short-term United States government securities or repurchase agreements fully secured by the United States government if the funds are not needed for immediate disbursement. The stated maturities of the investments may not exceed 270 days. Statutes also authorize the County to invest in the Local Government Investment Pool established by state law. Investments are subject to approval of the County Commissioners as to the amount available for investment and the acceptable securities or financial institutions used.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

3. Cash, cash equivalents and investments (continued)

Primary Government (continued)

Investments (continued)

At year end, the County's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>
U.S. government securities - Treasuries	\$28,308,323
Maryland Local Government Investment Pool	35,873,844
Suntrust – Money market funds	50,135
Pension investments – Sheriff's office retirement plan	
Cash and equivalents	
Cash	250,644
Temporary investments	955,941
Fixed income	
U.S. government and agencies	11,885,628
Preferred stock – nonconvertible	19,615
Equities	
Corporate bonds – convertible	281,330
Common stocks	7,637,026
Closed-end fund – equity	<u>1,005,888</u>
Subtotal – Sheriff's office retirement plan	22,036,072
Debt service sinking fund (St. Mary's Hospital)	<u>445,896</u>
Total investments	<u>\$86,714,270</u>

Investments in the Maryland Local Government Investment Pool (MLGIP) are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk. The State Treasurer of Maryland exercises oversight responsibility over the MLGIP. A single financial institution is contracted to operate the Pool. In addition, the State Treasurer has established an advisory board composed of Pool participants to review the activities of the contractor quarterly and provide suggestions to enhance the return on investments.

The MLGIP uses the amortized cost method to compute unit value rather than market value to report net assets. Accordingly, the fair value of the position in the MLGIP is the same as the value of the MLGIP shares.

None of the County's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

3. Cash, cash equivalents and investments (continued)

Investments (continued)

Component Units

St. Mary's County Public Schools

Investments

Maryland State Law authorizes the School System to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations, or the State's sponsored investment pool.

At June 30, 2005, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value were \$14,589,413, \$347,674, and \$917,176 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County

Cash deposits and investments

Statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

At June 30, 2005, the carrying amount of the Library's deposits was \$3,570, and the bank balances totaled \$3,220. Of the bank balances, \$3,220 was covered by federal deposit insurance.

Investments in the Maryland Local Government Investment Pool (MLGIP), an external investment pool, are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk.

The Vanguard Group investment is an investment in an open-end mutual fund and is therefore not subject to custodial credit risk.

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government Investment Pool	<u>\$ 517,884</u>	<u>\$ 517,884</u>
Restricted:		
The Vanguard Group	\$ 68,589	\$ 68,589
Mercantile Southern Maryland Bank – Savings account	<u>4,066</u>	<u>4,066</u>
Board - restricted fund	<u>\$ 72,655</u>	<u>\$ 72,655</u>

None of the Library's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

Statutes authorize the Library to invest in obligations of the United States government, federal government agency obligations, repurchase agreements secured by direct government or agency obligations, certificates of deposit, banks' acceptances, commercial paper, pooled investments and municipal bonds and municipal mutual funds.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

St. Mary's County Metropolitan Commission

Deposits and investments

Deposits

The carrying amount of MetCom's deposits was \$1,143,586 at June 30, 2005, and the bank balances were \$1,254,002. Of the bank balances, \$100,000 was covered by federal depository insurance at June 30, 2005, with the remaining \$1,154,002 adequately covered by collateral. State statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Cash and cash equivalents consisted of the following:

Investments	\$ 2,563,101
Cash	1,143,586
Petty cash	<u>150</u>
	<u>\$ 3,706,837</u>

Investments

State statutes authorize MetCom to invest in obligations of the United States government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligations. All of the funds were invested in the Maryland Local Government Investment Pool (MLGIP) which qualifies under the statutes.

Investments in the Maryland Local Government Investment Pool, an external investment pool, are not evidenced by securities. The investment pool, not the participating governments, faces the custodial credit risk.

None of MetCom's investments are subject to concentration of credit risk, interest rate risk or foreign currency risk.

	<u>Carrying Amount</u>	<u>Market Value</u>
MLGIP	<u>\$ 2,563,101</u>	<u>\$ 2,563,101</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

4. Changes in capital assets

Primary Government

A summary of changes in capital assets is as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Governmental Activities				
Capital assets not being depreciated:				
Land	\$11,614,581	\$7,215,746		\$18,830,327
Solid Waste Facilities	6,378,024	4,285,636		10,663,660
Construction In Progress	9,657,186	13,702,322	(20,854,897)	2,504,611
Buildings & improvements	17,320,205			17,320,205
Computer equipment	2,297,243	74,154		2,371,397
Furniture & equipment	381,191			381,191
Vehicles - licensed	30,568			30,568
Off-road vehicles	46,315			46,315
Miscellaneous equipment	1,606,059	166,764		1,772,823
Roads	1,095			1,095
Airport equipment	1,844			1,844
Bridges	68,746	2,500		71,246
Parks & recreation	17,072			17,072
Parking lots	2,219			2,219
911 system & equipment	1,423,733			1,423,733
Total capital assets not being depreciated	\$50,846,081	\$25,447,122	(\$20,854,897)	\$55,438,306
Capital assets being depreciated:				
Buildings & improvements	\$77,095,465	\$3,588,352		\$80,683,817
Computer equipment	1,543,459	5,573		1,549,032
Furniture & equipment	147,522	23,623		171,145
Vehicles - licensed	8,550,912	803,509	(155,558)	9,198,863
Off-road vehicles	1,393,075	399,781		1,792,856
Miscellaneous equipment	1,863,622	127,964		1,991,586
Roads	86,765,597	5,338,192		92,103,789
Curbing	946,791			946,791
Sidewalks	692,520			692,520
Guardrails	705,264			705,264
Airport infrastructure	4,392,856	64,676		4,457,532
Airport equipment	514,808			514,808
Baseball fields	697,680	10,000		707,680
Bridges	4,923,166	5,000		4,928,166
Parks & recreation	5,146,765	4,843,085		9,989,850
Marinas & docks	7,252,865	306,675		7,559,540
Irrigation systems	179,714			179,714
Signage	475,433			475,433
Parking lots	105,047			105,047
911 system & equipment	7,354,466			7,354,466
Total capital assets being depreciated	\$210,747,027	\$15,516,430	(\$155,558)	\$226,107,899
Accumulated depreciation for:				
Buildings & improvements	(\$25,378,674)	(\$1,327,069)		(\$26,705,743)
Computer equipment	(1,199,205)	(87,301)		(1,286,506)
Furniture & equipment	(32,890)	(8,557)		(41,447)
Vehicles - licensed	(6,811,839)	(606,469)	145,766	(7,272,542)
Off-road vehicles	(756,883)	(159,497)		(916,380)
Miscellaneous equipment	(714,996)	(197,273)		(912,269)
Roads	(37,960,228)	(2,612,152)		(40,572,380)

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

4. Changes in capital assets (continued)

Primary Government (continued)

	Balance		Balance	
	June 30, 2004	Additions	Deletions	June 30, 2005
Accumulated depreciation for: (continued)				
Curbing	(\$481,422)	(\$26,752)		(\$508,174)
Sidewalks	(286,232)	(16,376)		(302,608)
Guardrails	(280,525)	(16,109)		(296,634)
Airport infrastructure	(3,117,828)	(455,420)		(3,573,248)
Airport equipment	(373,236)	(47,191)		(420,427)
Baseball fields	(286,650)	(14,166)		(300,816)
Bridges	(1,543,374)	(100,397)		(1,643,771)
Parks & recreation	(708,668)	(245,056)		(953,724)
Marinas & docks	(2,257,219)	(243,312)		(2,500,531)
Irrigation systems	(82,672)	(3,781)		(86,453)
Signage	(297,596)	(15,349)		(312,945)
Parking lots	(105,047)	0		(105,047)
911 equipment	(647,927)	(392,882)		(1,040,809)
Total accumulated depreciation	(\$83,323,111)	(\$6,575,109)	\$145,766	(\$89,752,454)
Total capital assets being depreciated, net	\$127,423,916	\$8,941,321	(\$9,792)	\$136,355,445
Governmental activities capital assets, net	\$178,269,997	\$34,388,443	(\$20,864,689)	\$191,793,751
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$1,078,666			\$1,078,666
Off-road vehicles	225,477			225,477
Buildings & improvements	2,492			2,492
Computer equipment	1,139			1,139
Miscellaneous equipment	1,282	2,618		3,900
Total capital assets not being depreciated	\$1,309,056	\$2,618	\$0	\$1,311,674
Capital assets being depreciated:				
Buildings & improvements	\$1,707,974			\$1,707,974
Computer equipment	46,827			46,827
Furniture & equipment	39,359			39,359
Off-road vehicles	123,518	35,974		159,492
Miscellaneous equipment	340,946	11,160		352,106
Irrigation systems	509,986			509,986
Total capital assets being depreciated	\$2,768,610	\$47,134	\$0	\$2,815,744
Accumulated depreciation for:				
Buildings & improvements	(\$880,401)	(\$41,944)		(\$922,345)
Computer equipment	(45,959)	(212)		(46,171)
Furniture & equipment	(35,274)	(1,528)		(36,802)
Off-road vehicles	(40,030)	(28,301)		(68,331)
Miscellaneous equipment	(303,463)	(15,299)	7,864	(310,898)
Irrigation systems	(161,680)	(17,060)		(178,740)
Total accumulated depreciation	(\$1,466,807)	(\$104,344)	\$7,864	(\$1,563,287)
Total capital assets being depreciated, net	\$1,301,803	(\$57,210)	\$7,864	\$1,252,457
Business-type activities capital assets, net	\$2,610,859	(\$54,592)	\$7,864	\$2,564,131

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

4. Changes in capital assets (continued)

Primary Government (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General Government	\$766,488
Public Safety	1,075,770
Public Works	3,999,076
Health	85,106
Social Services	34,403
Primary and Secondary Education	64,960
Post -Secondary Education	42,737
Parks, Recreation, and Culture	382,348
Libraries	123,001
Economic Development and Opportunity	1,220
Total Depreciation - Governmental Activities	\$6,575,109

Business-Type Activities

Recreation Activity Fund	\$5,583
Wicomico	98,761
Total Depreciation - Business-Type Activities	\$104,344

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

4. Changes in capital assets (continued)

Component Units

St. Mary's County Public Schools

Capital Assets

Capital asset activity for the year ended June 30, 2005 is as follows:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 761,983	\$ 0	\$ 0	\$ 761,983
Land under financing agreement	620,149	0	0	620,149
Facilities under construction	27,737,169	16,067,143	(996,768)	42,807,544
	<u>29,119,301</u>	<u>16,067,143</u>	<u>(996,768)</u>	<u>44,189,676</u>
Capital assets being depreciated:				
Buildings and improvements	204,886,508	2,267,390	0	207,153,898
Furniture and equipment	3,195,254	590,940	(114,242)	3,671,952
Facilities and equipment under financing agreements	5,531,794	189,145	0	5,720,939
	<u>213,613,556</u>	<u>3,047,475</u>	<u>(114,242)</u>	<u>216,546,789</u>
Accumulated depreciation for:				
Buildings and improvements, including facilities under capital lease	(59,131,832)	(4,872,795)	0	(64,004,627)
Furniture and equipment, including equipment under financing agreements	(1,813,494)	(418,887)	105,375	(2,127,006)
	<u>(60,945,326)</u>	<u>(5,291,682)</u>	<u>105,375</u>	<u>(66,131,633)</u>
Governmental activities capital assets, net	<u>\$ 181,787,531</u>	<u>\$ 13,822,936</u>	<u>\$ (1,005,635)</u>	<u>\$194,604,832</u>
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,061,085	\$ 143,385	\$ (6,628)	\$ 1,197,842

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Assets (continued)

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
Accumulated depreciation for: Furniture and equipment	<u>(316,255)</u>	<u>(77,157)</u>	<u>(6,628)</u>	<u>(386,784)</u>
Business-type activities capital assets, net	<u>\$ 744,830</u>	<u>\$ 66,228</u>	<u>\$ 0</u>	<u>\$ 811,058</u>

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2005, as follows:

Governmental activities:

Administration	\$ 34,392
Mid-Level Administration	21,985
Other Instructional Costs	68,682
Special Education	10,160
Student Personnel Services	6,032
Student Transportation Services	152,891
Operation of Plant	4,993,049
Maintenance of Plant	<u>4,491</u>
Total governmental activities depreciation expense	<u>\$ 5,291,682</u>

Business-type activities:

Food Services	<u>\$ 77,157</u>
---------------	------------------

Board of Library Trustees for St. Mary's County

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2005 was as follows:

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2005</u>
Capital assets:				
Furnishings and Equipment	\$ 797,365	\$ 39,423	\$ 0	\$ 836,788
Vehicles	17,199	0	0	17,199
Books	<u>2,115,355</u>	<u>259,170</u>	<u>(186,011)</u>	<u>2,188,514</u>
	<u>\$ 2,929,919</u>	<u>\$ 298,593</u>	<u>\$(186,011)</u>	<u>\$ 3,042,501</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

4. Changes in capital assets (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County (continued)

Capital assets and depreciation (continued)

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2005</u>
Accumulated depreciation:				
Furnishings and Equipment	\$323,203	\$137,363	\$0	\$460,566
Vehicles	8,600	3,440	0	12,040
Books	<u>1,145,454</u>	<u>279,965</u>	<u>(186,011)</u>	<u>1,239,408</u>
	<u>1,477,257</u>	<u>420,768</u>	<u>(186,011)</u>	<u>1,712,014</u>
Net capital assets	<u>\$1,452,662</u>	<u>\$(122,175)</u>	<u>\$0</u>	<u>\$1,330,487</u>

Governmental activities depreciation expense of \$420,768 was charged to Library services.

St. Mary's County Building Authority Commission

Capital assets

Capital assets at June 30, 2005 consisted of the following:

	Balance <u>July 1, 2004</u>	<u>Additions</u>	Balance <u>June 30, 2005</u>
Capital assets:			
Nursing Home building	\$ 8,846,238	\$ 0	\$ 8,846,238
State Office building	8,673,157	0	8,673,157
Furniture and equipment	<u>13,387</u>	<u>0</u>	<u>13,387</u>
	<u>\$ 17,532,782</u>	<u>\$ 0</u>	<u>\$ 17,532,782</u>
Accumulated depreciation:			
Nursing Home building	3,186,136	221,156	3,407,292
State Office building	3,113,646	216,829	3,330,475
Furniture and equipment	<u>13,387</u>	<u>0</u>	<u>13,387</u>
	<u>\$ 6,313,169</u>	<u>\$ 437,985</u>	<u>\$ 6,751,154</u>
Net capital assets	<u>\$ 11,219,613</u>	<u>\$ 437,985</u>	<u>\$10,781,628</u>

Depreciation expense of \$437,985 was charged to activities for the fiscal year ended June 30, 2005. There were no additions or deletions of capital assets during the fiscal year ended June 30, 2005.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

4. Changes in capital assets (continued)

St. Mary's County Metropolitan Commission

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2005 was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital assets:				
Utility plants	\$65,079,322	\$ 559,025	\$140,324	\$65,498,023
Water plant systems	10,299,694	1,640,621	20,169	11,920,146
Equipment	3,922,985	472,964	237,030	4,158,919
Capitalized interest	818,201	0	0	818,201
Buildings	<u>1,414,137</u>	<u>29,600</u>	<u>0</u>	<u>1,443,737</u>
Subtotal	81,534,339	2,702,210	397,523	83,839,026
Not being depreciated:				
Utility plant construction in process	3,020,841	3,863,520	559,243	6,325,118
Water plant construction in process	2,085,042	314,563	1,463,706	935,899
Land/land rights	<u>526,337</u>	<u>0</u>	<u>0</u>	<u>526,337</u>
	<u>87,166,559</u>	<u>6,880,293</u>	<u>2,420,472</u>	<u>91,626,380</u>
Accumulated depreciation:				
Utility plants	19,947,431	1,325,161	0	21,272,592
Water plant systems	3,637,281	261,702	282,287	3,616,696
Equipment	2,478,846	276,132	228,810	2,526,168
Capitalized interest	155,458	16,364	0	171,822
Buildings	<u>391,305</u>	<u>55,958</u>	<u>0</u>	<u>447,263</u>
	<u>26,610,321</u>	<u>1,935,317</u>	<u>511,097</u>	<u>28,034,541</u>
Net capital assets	<u>\$60,556,238</u>	<u>\$4,944,976</u>	<u>\$ 1,909,375</u>	<u>\$63,591,839</u>

Depreciation expense of \$1,935,317 was charged to activities as follows:

Sewer activities	\$ 1,740,063
Water activities	103,633
Administrative	<u>91,621</u>
Total	<u>\$ 1,935,317</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

5. Property tax

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied each July 1, and the taxpayer has the option to pay in full without interest by September 30 or elect a semiannual payment option. If a semiannual payment option is elected, the first payment is payable without interest by September 30 and the second payment, including a service charge, is payable without interest by December 31. Interest is charged for each month or fraction thereof that taxes remain unpaid beginning October 1 on accounts under the annual payment option or January 1 for accounts under the semiannual payment option. Maryland law grants the Treasurer of St. Mary's County the power to immediately advertise and sell any real property after the taxes are delinquent for a period of one year. Property taxes are levied at rates enacted by the Commissioners in the annual budget based on the assessed value of the property as determined by the Maryland State Department of Assessments and Taxation, an agency of the government of the State of Maryland. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice and, then only after public hearings. The real property tax rate during the year ended June 30, 2005, was \$.878 per \$100 of assessed value based on the full valuation method. The personal property tax rate during the year ended June 30, 2005 was \$2.195 per \$100 of assessed value. The County bills and collects all property taxes.

A 100% allowance for uncollectibles is established for prior year (fiscal year 2003 and prior) taxes receivable. County property tax receivable as of June 30, 2005, net of the allowance for uncollectibles of \$419,034, is \$1,444,654 (this amount does not include state and emergency services taxes receivable). On October 1, a 3% penalty is assessed, and interest begins accruing at a rate of 1% for each month that real and personal property taxes are delinquent (unless taxpayer has elected semiannual payment option as described above).

6. Special assessment receivable and deferred revenue

Primary Government

The special assessment receivable is composed of various special assessments levied by the County for completed projects funded by the County. The cost of the completed projects is billed to taxpayers over periods from 10 to 25 years and reported as a special assessment receivable and deferred revenue. In accordance with the modified accrual method of accounting, in subsequent periods, when revenue recognition criteria are met or when the government has a legal claim to the resources, the liability for the deferred revenue is removed from the balance sheet and revenue is recognized. The non-current portion of the receivable is offset by a fund balance reserve account, which indicates that this does not constitute available resources since this is not a component of net current assets. The current portion of the special assessment receivable is considered available spendable resources.

As of June 30, 2005, there were no delinquent special assessment receivables due from taxpayers.

Component Units

St. Mary's County Public Schools

General Fund

Deferred revenue consists primarily of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2005. Additionally, summer school tuition which is collected in advance is included in deferred revenue since the corresponding expenditures do not occur until the following fiscal year.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

6. Special assessment receivable and deferred revenue (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Enterprise Fund

Deferred revenue consists of commodities in the amount of \$54,966, donated by the Federal government and included in inventory at June 30, 2005. The remaining deferred revenue of \$17,960 represents student lunch ticket sales collected in advance for lunches which will be consumed by students in fiscal year 2006.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations

Primary Government

	June 30, 2004	Additions	Deductions	Principal Repayment	June 30, 2005	Amounts due within one year
General Obligation Bonds - County	\$104,270,000	\$16,260,000	\$0	(\$7,395,000)	\$113,135,000	\$7,675,000
Water Quality Loan	3,197,792	2,938,525	0	(201,357)	5,934,960	494,150
State Loans	787,209	0	0	(84,968)	702,241	85,007
Exempt Financing	899,882	476,959	0	(202,294)	1,174,547	486,166
	<u>109,154,883</u>	<u>19,675,484</u>	<u>0</u>	<u>(7,883,619)</u>	<u>120,946,748</u>	<u>8,740,323</u>
General Obligation Bonds, sold on behalf of St. Mary's Hospital	25,565,000	0	0	(1,935,000)	23,630,000	2,795,000
Landfill Post-Closure Costs	2,750,000	200,000	0	0	2,950,000	0
Compensated Absences (long-term)	2,688,808	351,725	0	0	3,040,533	58,773
	<u>5,438,808</u>	<u>551,725</u>	<u>0</u>	<u>0</u>	<u>5,990,533</u>	<u>58,773</u>
Total	<u>\$140,158,691</u>	<u>\$20,227,209</u>	<u>\$0</u>	<u>(\$9,818,619)</u>	<u>\$150,567,281</u>	<u>\$11,594,096</u>
Less: Amount Deferred on Refunding	(1,830,777)	23,557	0	0	(1,807,220)	(24,001)
Amount Reported in Statement of Net Assets	<u>\$138,327,914</u>	<u>\$20,250,766</u>	<u>\$0</u>	<u>(\$9,818,619)</u>	<u>\$148,760,061</u>	<u>\$11,570,095</u>

Business-Type Activities

Exempt Financing	\$160,417	\$0	\$0	(\$35,192)	\$125,225	\$35,000
Compensated Absences (Long-Term)	105,411	0	(7,184)	0	98,227	836
Amount Reported in Statement of Net Assets	<u>\$265,828</u>	<u>\$0</u>	<u>(\$7,184)</u>	<u>(\$35,192)</u>	<u>\$223,452</u>	<u>\$35,836</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Primary Government (continued)

General obligation bonds

The County issues General Obligation Bonds to provide funds for the acquisition and construction of major capital facilities. General Obligation Bonds have been issued for both general government and proprietary activities. These bonds, therefore, are reported in the proprietary funds if they are expected to be repaid from proprietary revenue. In addition, General Obligation Bonds have been issued to refund both General Obligation and Revenue Bonds. General Obligation Bonds are direct obligations of the County and pledge the full faith and credit of the government.

On July 15, 2001, The County Commissioners for St. Mary's County issued Consolidated Public Improvement Bonds in the amount of \$25,000,000. The bonds bear interest at rates of 4-5.50% per annum, payable January 1 and July 1, beginning January 1, 2002. Principal payments of varying amounts are payable July 1, commencing July 1, 2002.

On January 15, 2002, the County issued General Obligation Bonds (\$20,755,000 Consolidated Public Improvement Refunding Bonds and \$20,000,000 General Obligation Hospital Bonds). The Hospital Bonds were issued to fund a loan by the County to St. Mary's Hospital of St. Mary's County (the "Hospital"). The Hospital will apply the proceeds of such loan to fund capital improvements to its facility in Leonardtown, MD, including the construction of approximately 67,000 square feet of new space, the renovation of approximately 40,000 square feet of existing space, and site and infrastructure improvements. The Refunding Bonds will mature on October 1, in 17 annual serial installments, beginning in the year 2003 and ending with the year 2019. Interest on the Bonds is payable semiannually on each April 1 and October 1 to maturity with an average interest rate of 4.17% (Hospital Bonds of 2003) and 3.86% (Refunding Bonds of 2003).

The Refunding Bonds were issued to currently refund all outstanding maturities of the County's Public Facilities Bonds of 1988, and to advance refund the callable maturities of the County's Consolidated Public Improvement Bonds of 1999 (collectively, the "Refunded Bonds"), provided however, that the County reserves the right not to refund some or all of the maturities of the Refunded Bonds if appropriate levels of savings cannot be achieved.

The proceeds of the Refunding Bonds will be applied to the purchase of non-callable direct obligations of the United States of America ("Government Obligations") and used to pay certain expenses of the County related to the issuance and disposition of the proceeds of the Refunding Bonds.

On August 15, 2003, the County issued Public Facilities and Refunding Bonds of 2003 in the principal amount of \$33,985,000. The bonds mature on November 1, in twenty annual installments, beginning in 2004 and ending in 2023. Interest rates on the bonds range from 2.75% to 4.75%, with a true interest cost of approximately 3.99%. Interest is payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1 to maturity.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
November 1, 2013 through October 31, 2014	101%
November 1, 2014 through October 31, 2015	100-1/2 %
After November 1, 2015	100%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Primary Government (continued)

General obligation bonds (continued)

The County Bonds are being issued to (1) pay a portion of the costs of financing certain capital projects of the County, (2) currently refund all outstanding maturities of the County's Public Facilities Bonds of 1991 and Public Facilities Bonds of 1993 (collectively, the "Currently Refunded County Bonds"), (3) advance refund the callable maturities only of the County's Public Facilities Bonds of 1995 (the "Advance Refunded County Bonds" and, together with the Currently Refunded County Bonds, the "Refunded County Bonds"), and (4) pay costs of issuance.

On March 8, 2005, the County issued General Obligation Bonds (\$16,260,000 Consolidated Public Improvement Bonds). The Consolidated Public Improvement Bonds will mature on March 1, in 20 annual serial installments, beginning in the year 2006 and ending with the year 2025. Interest on the Bonds is payable semiannually on each March 1 and September 1 to maturity with an average interest rate of 3.80%.

The County has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase United States government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government-wide financial statements. As of June 30, 2005, the amount of debt outstanding removed from long-term debt amounted to \$18,495,000.

2001 Maryland Water Quality Loan

On September 29, 2000, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$3,338,383 for landfill post-closure costs, St. Andrews Landfill area B, cells 1, 2 and 4. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears interest at a rate of 2.4% per annum payable semiannually. Principal payments are due annually starting February 1, 2002. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2005, based on the final loan amount of \$3,225,318, are as follows:

2001 Maryland Water Quality Loan

<u>Year ending June 30,</u>	<u>Amount</u>
2006	\$ 277,689
2007	277,689
2008	277,689
2009	277,689
2010	277,689
2011-2015	1,388,444
2016	<u>164,624</u>
	<u>\$2,941,513</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Primary Government (continued)

2001 Maryland Water Quality Loan (continued)

The totals are composed of principal, interest and administrative fees as follows:

Principal	\$2,447,764
Interest	353,470
Administrative fees	<u>140,279</u>
	<u>\$2,941,513</u>

2004 Maryland Water Quality Loan

On May 26, 2004, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$4,332,759 for landfill post-closure costs, St. Andrews Landfill area B, cells 3 and 5. As of June 30, 2005, the amount drawn on the loan was \$3,487,197. The loan bears an interest rate of 1.10% per annum, payable semiannually. An initial principal payment of \$1,000 is due August 1, 2005. Subsequent principal payments are due annually beginning February 1, 2006. Once the final loan amount has been determined, a new amortization schedule will be formally placed in effect. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2005, based on the total proceeds of \$4,332,759, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2006	\$ 347,436
2007	347,441
2008	347,441
2009	347,441
2010	347,441
2011-2015	1,737,207
2016-2019	<u>1,389,767</u>
	<u>\$4,864,174</u>

The totals are composed of principal, interest and administrative fees as follows:

Principal	\$4,332,759
Interest	365,917
Administrative fees	<u>165,498</u>
	<u>\$4,864,174</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Primary Government (continued)

2004 Exempt Financing – Equipment Lease

On December 23, 2003, The County Commissioners for St. Mary's County entered into an agreement with Suntrust Bank to borrow \$605,000 for the purchase of vehicles. The lease bears interest at a rate of 3.2% per annum payable monthly. Payments are due monthly starting February 2, 2004. This lease was prorated between primary government and business-type activities at a rate of 71 and 29 percent, respectively. The annual requirements to amortize the 2004 Equipment Lease (primary government portion only) as of June 30, 2005, based on the final lease amount of \$605,000, are as follows:

2004 Equipment Lease

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$86,000	\$8,600	\$94,600
2007	86,000	5,848	91,848
2008	86,000	3,096	89,096
2009	<u>49,696</u>	<u>526</u>	<u>50,222</u>
	<u>\$ 307,696</u>	<u>\$ 18,070</u>	<u>\$ 325,766</u>

2004 911 Equipment Lease

On August 19, 2003, The County Commissioners for St. Mary's County entered into an agreement with Suntrust Bank to borrow \$600,000 for the purchase of additional 911 equipment. The lease bears interest at a rate of 2.89% per annum, payable monthly. Payments are due monthly starting August 19, 2003. The annual requirements to amortize the 2004 911 Lease as of June 30, 2005, based on the final lease amount of \$600,000, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$119,296	\$9,696	\$128,992
2007	122,790	6,202	128,992
2008	126,386	2,606	128,992
2009	<u>21,421</u>	<u>77</u>	<u>21,498</u>
	<u>\$ 389,893</u>	<u>\$ 18,581</u>	<u>\$ 408,474</u>

2005 Exempt Financing Equipment Lease

On June 28, 2005, The County Commissioners for St. Mary's County entered into an agreement with Suntrust Bank to borrow \$1,510,975 for the purchase of vehicles. The lease bears interest at a rate of 3% per annum, payable monthly. Payments are due monthly starting July 28, 2005. The annual requirements to amortize the 2005 Equipment Lease as of June 30, 2005, based on the final lease amount of \$1,510,975, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$280,869	\$49,791	\$330,660
2007	291,149	39,511	330,660
2008	301,805	28,855	330,660
2009	312,851	17,809	330,660
2010	<u>324,301</u>	<u>6,359</u>	<u>330,660</u>
	<u>\$1,510,975</u>	<u>\$142,325</u>	<u>\$1,653,300</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Primary Government (continued)

Long-term obligations at June 30, 2005 consist of the following:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Amount</u>
<u>State loans:</u>			
Rural housing service, formerly Farmers Home Administration (Watershed Project)	1972-2022	3.463%	\$ 42,151
Maryland Department of Natural Resources: Point Breeze	1993-2017	None	105,846
Sandgates Road	1994-2015	None	62,320
Breton Bay Erosion Project	1983-2006	None	15,181
Jefferson Island #2 and #3 Erosion Projects	1985-2015	None	80,148
Tall Timbers #2 Erosion Project	1986-2012	None	45,286
Tall Timbers #3 Erosion Project	1991-2016	None	72,398
Jefferson Island Club, Inc.	1991-2016	None	140,452
Hollywood Shores	1998-2012	None	54,922
Maryland Water Quality Loan	2003-2016	2.4%	2,447,764
Murray Road Revetment	2004-2028	None	83,537
Maryland Water Quality Loan	2005-2019	None	<u>3,487,196</u>
Total state loans			<u>\$6,637,201</u>

Bonds:

General obligation bonds:

St. Mary's Hospital Bonds of 1993	1994-2008	5.75-6.75%	\$ 2,085,000
Public Facilities Refunding Bonds of 1996	1997-2009	3.3-5.0%	1,145,000
St. Mary's County Refunding Hospital Bonds of 1996	1997-2009	3.3-5.0%	1,545,000
St. Mary's County Consolidated Public Improvement Project and Refunding Bonds of 1997	1998-2012	4.5-4.875%	14,710,000
Consolidated Public Improvement Bonds of 1999	2000-2019	5-6%	6,185,000
2001 General Obligation Bonds	2004-2022	3.80%	22,350,000
2003 Refunding Bonds	2004-2020	3.25-5%	20,330,000
2003 St. Mary's Hospital Bonds	2006-2023	3.5-5.125%	20,000,000
2003 Public Facilities and Refunding Bonds	2006-2023	2.75-4.75%	32,155,000
Consolidated Public Improvement Bonds of 2005	2006-2025	3.75-4.25%	<u>16,260,000</u>
Total general obligation bonds			<u>\$136,765,000</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Primary Government (continued)

Total state loans and bonds	\$ 143,402,201
Accrued landfill closure and postclosure costs	2,950,000
Exempt Financing	1,174,547
Accumulated unpaid annual leave employee benefits	<u>3,040,533</u>
Total	\$ 150,567,281
Less: Amount deferred on refunding	<u>\$ (1,807,220)</u>
	<u>\$ 148,760,061</u>

Business-Type Activities

Exempt Financing – Equipment Lease

On December 23, 2003, The County Commissioners for St. Mary's County entered into an agreement with Suntrust Bank to borrow \$605,000. The lease bears interest at a rate of 3.2% per annum payable monthly. Payments are due monthly starting February 2, 2004. This lease was prorated between primary government and business type activities at a rate of 71 and 29 percent, respectively. The annual requirements to amortize the 2004 Equipment Lease (Business-Type portion only) as of June 30, 2005, based on the final lease amount of \$605,000, are as follows:

2004 Equipment Lease

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 35,000	\$ 3,500	\$ 38,500
2007	35,000	2,380	37,380
2008	35,000	1,260	36,260
2009	<u>20,225</u>	<u>214</u>	<u>20,439</u>
	<u>\$ 125,225</u>	<u>\$ 7,354</u>	<u>\$ 132,579</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Primary Government (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2005 is composed of the following loans payable to the Maryland Department of Natural Resources:

Hollywood Shores, Shore Erosion Control Project, payable in fifteen annual installments of \$7,846, without interest, guaranteed by the full faith and credit of the County.	\$54,922
Breton Bay, Shore Erosion Control Project, payable in twenty-five annual installments of \$7,589, without interest, guaranteed by the full faith and credit of the County.	15,181
Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$7,547, without interest, guaranteed by the full faith and credit of the County.	45,286
Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$6,582, without interest, guaranteed by the full faith and credit of the County.	72,398
Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of \$10,109, without interest, modified during fiscal year 1993 to eighteen varying annual payments without interest, guaranteed by the full faith and credit of the County.	80,148
Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of \$11,040, without interest, modified during fiscal year 1993 to twenty-two varying annual payments without interest, guaranteed by the full faith and credit of the County.	<u>140,452</u>
	<u>\$408,387</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Primary Government (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2005, including interest of \$52,372,736, except for the accrued landfill closure and postclosure costs, accumulated unpaid leave benefits, exempt financing and Maryland Water Quality Loan, are as follows:

Year ending June 30	General Obligation			Special	Total
	Bonds	Hospital Bonds	State Loans	Assessment Fund	
2006	\$ 12,374,061	\$ 3,834,907	\$ 28,594	\$ 57,880	\$ 16,295,442
2007	12,140,660	2,250,069	28,594	57,616	14,476,939
2008	12,133,508	2,253,231	28,594	49,757	14,465,090
2009	11,524,074	2,251,936	28,576	49,490	13,854,076
2010	10,708,717	1,679,976	21,891	49,223	12,459,807
2011-2015	43,776,553	8,366,784	90,030	137,839	52,371,206
2016-2020	35,974,413	8,414,144	42,586	6,582	44,437,725
2021-2025	16,388,117	5,062,518	18,160		21,468,795
2026-2029			10,896		10,896
	<u>\$ 155,020,103</u>	<u>\$ 34,113,565</u>	<u>\$ 297,921</u>	<u>\$ 408,387</u>	<u>\$ 189,839,976</u>

The totals above are composed of principal and interest as follows:

	General Obligation			Special	Total
	Bonds	Hospital Bonds	State Loans	Assessment Fund	
Principal	\$ 113,135,000	\$ 23,630,000	\$ 293,854	\$ 408,387	\$ 137,467,241
Interest	41,885,103	10,483,565	4,067		52,372,735
	<u>\$ 155,020,103</u>	<u>\$ 34,113,565</u>	<u>\$ 297,921</u>	<u>\$ 408,387</u>	<u>\$ 189,839,976</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units

St. Mary's County Public Schools

Long-term Liabilities

General long-term debt at June 30, 2005, consists of financing agreement obligations and accumulated compensated absences payable. The interest rates on the financing agreement obligations range from 2.65% to 4.75% with maturity dates up to October 2016. The financing agreement obligations are secured by the capital assets purchased. The following is a summary of changes in the School System's general long-term liabilities for the year ended June 30, 2005.

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Deductions/ Maturities</u>	<u>Balance June 30, 2005</u>	<u>Amounts due Within one year</u>
Governmental activities:					
Financing agreements					
Office facility construction	\$4,997,393	\$0	\$(286,684)	\$4,710,709	\$300,264
School buses and related equipment	286,799	203,500	(170,390)	319,909	172,897
	<u>\$5,284,192</u>	<u>\$203,500</u>	<u>\$(457,074)</u>	<u>\$5,030,618</u>	<u>\$473,161</u>
Other long-term liabilities:					
Compensated absences	<u>\$3,030,360</u>	<u>\$461,587</u>	<u>\$(389,642)</u>	<u>\$3,102,305</u>	<u>\$251,162</u>
Governmental activities:					
Long-term liabilities	<u>\$8,314,552</u>	<u>\$665,087</u>	<u>\$(846,716)</u>	<u>\$8,132,923</u>	<u>\$724,323</u>
Business-type activities:					
Other long-term liabilities:					
Compensated absences	<u>\$59,362</u>	<u>\$45,673</u>	<u>\$(32,915)</u>	<u>\$72,120</u>	<u>\$4,212</u>

The compensated absences liability attributable to the governmental activities will be liquidated solely by the General Fund.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Long-term Liabilities (continued)

Following is a schedule of current maturities, including interest, under financing agreements as of June 30, 2005:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2006	\$706,853	\$473,161	\$233,692
2007	675,590	461,540	214,050
2008	524,024	329,466	194,558
2009	524,024	345,116	178,908
2010	524,024	361,509	162,515
2011-2015	2,620,121	2,082,025	538,096
2016-2017	<u>1,048,047</u>	<u>977,801</u>	<u>70,246</u>
	<u>\$6,622,683</u>	<u>\$5,030,618</u>	<u>\$1,592,065</u>

Board of Library Trustees for St. Mary's County

Long-term debt

Long-term debt consists of accrued compensated absences. The following is a summary of the changes in long-term debt for the year ended June 30, 2005:

<u>Balance</u> <u>July 1, 2004</u>	<u>Increase</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Amounts due</u> <u>within one year</u>
\$ 68,473	\$ 16,873	\$ 85,346	\$ 0

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission

Long-term debt

Long-term bonds payable as of June 30, 2005 are as follows:

Bonds payable				
<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Third Issue	1976-2006	5.0 - 6.0%	\$ 190,000	\$ 10,830
Tenth Issue	1995-2020	5.56 - 6.08%	745,000	371,945
Twelfth Issue	1996-2013	3.9 - 5.25%	1,585,000	346,025
Thirteenth Issue	1996-2021	5.579%	645,000	364,913
Fourteenth Issue	2001-2029	4.125 - 5.0%	1,632,300	1,191,186
Seventeenth Issue	2006-2019	2.75 - 4.40%	<u>5,989,400</u>	<u>1,918,338</u>
			10,786,700	4,203,237
Less current portion			<u>627,500</u>	<u>473,339</u>
Total			<u>\$10,159,200</u>	<u>\$3,729,898</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2005 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006 (current)	\$ 627,500	\$ 473,339
2007	734,300	446,422
2008	666,200	419,043
2009	688,000	392,037
2010	719,900	363,437
2011-2015	3,611,200	1,321,282
2016-2020	2,840,600	559,127
2021-2025	475,600	174,180
2026-2030	<u>423,400</u>	<u>54,370</u>
	<u>\$10,786,700</u>	<u>\$4,203,237</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Sinking fund redemption

The bonds due on November 1, 2013 and 2018 are subject to mandatory sinking fund or payment at the stated maturity date, as the case may be, at a redemption price, or price at maturity, as the case may be, equal to the principal amount thereof plus accrued interest to the redemption or payment date, at maturity on each as follows:

\$1,185,000 term bonds due November 1, 2013

<u>Year</u>	<u>Sinking Fund Installment</u>
2011	\$ 370,000
2012	\$ 395,000
2013	\$ 420,000

\$2,515,000 term bonds due November 1, 2018

<u>Year</u>	<u>Sinking Fund Installment</u>
2014	\$ 440,000
2015	\$ 470,000
2016	\$ 500,000
2017	\$ 535,000
2018	\$ 570,000

Bonds are payable from benefit assessment charges and connection charges derived from the properties served by MetCom and interest on investments. Payment of interest and principal on bonds when due is guaranteed by St. Mary's County

Redemption – Tenth Issue – DHCD Loan

Optional redemption

Bonds that mature on or before June 1, 2005 are not subject to redemption prior to their maturities. Bonds that mature on or after June 1, 2005 are subject to redemption beginning June 1, 2005, as a whole at any time or in part on any interest payment date, in order of maturities, at the option of MetCom, at the following redemption prices expressed as a percentage of the principal amount of bonds to be redeemed plus accrued interest thereon to the date fixed for redemption:

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

<u>Period During Which Redeemable (Both Dates Inclusive)</u>	<u>Redemption Price</u>
June 1, 2005 to May 31, 2006	102%
June 1, 2006 to May 31, 2007	101%
June 1, 2007 and thereafter	100%

Redemption – Twelfth Issue

Optional redemption

Bonds that mature on or before June 1, 2006 are not subject to redemption prior to their maturities. Bonds that mature on or after June 1, 2006 are subject to redemption beginning June 1, 2006, as a whole at any time or in part on any interest payment date, in order of maturities, at the option of MetCom, at the following redemption prices expressed as a percentage of the principal amount of bonds to be redeemed plus accrued interest thereon to the date fixed for redemption:

<u>Period During Which Redeemable (Both Dates Inclusive)</u>	<u>Redemption Price</u>
June 1, 2006 to May 31, 2007	101%
June 1, 2007 to May 31, 2008	100-1/2%
June 1, 2008 and thereafter	100%

Redemption – Thirteenth Issue – DHCD Loan

Optional redemption

The Bonds are subject to redemption, at the option of the issuer, in whole or in part at any time, on or after June 1, 2006, during the periods and at the redemption prices, plus accrued interest on principal amount thereof to the redemption date listed below:

<u>Period During Which Redeemable (Both Dates Inclusive)</u>	<u>Redemption Price</u>
June 1, 2006 to May 31, 2007	101%
June 1, 2007 to May 31, 2008	100-1/2%
June 1, 2008 and thereafter	100%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Special redemption

The Bonds are subject to special redemption at the principal amount thereof, plus accrued interest thereon, at the option of the issuer, in whole or in part, at any time, without premium from (1) bond proceeds deposited in the Infrastructure Fund and not used to finance an Infrastructure Loan, and (2) amounts on deposit in the Surplus Fund.

Fourteenth Issue

On May 18, 1999, the Commission issued \$1,830,900 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2005, the Commission had drawn \$1,830,900 of the proceeds.

Principal payments are due from 2001-2029. The average interest cost is 4.86%.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
June 1, 2009 through May 31, 2010	101%
June 1, 2010 through May 31, 2011	100-1/2%
After June 1, 2011	100%

Seventeenth Issue

On September 4, 2003, Metcom issued Refunding Bonds of 2003 in the principal amount of \$6,105,000. The bonds mature on November 1, in 14 annual installments, beginning in 2005 and ending in 2018. Interest rates on the bonds range from 2.75% to 4.4%. Interest is payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1, to Maturity.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
November 1, 2013 through October 31, 2014	101%
November 1, 2014 through October 31, 2015	100-1/2%
After November 1, 2015	100%

The bonds were issued to refund all the outstanding maturities of the St. Mary's County Metropolitan Commission Refunding Bonds of 1993 (Ninth Issue).

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

The outstanding amount of refunding bond issue number seventeen is shown net of a deferred loss on the advance refunding of \$115,600.

Notes, leases, and loans payable

Notes, leases and loans payable as of June 30, 2005 are as follows:

Description	Due	Rate	Principal	Interest
Leonardtown	2010-2020	6.10 – 10%	\$ 158,329	\$ 68,057
MD Bank and Trust	2009	4.15%	107,298	11,523
Sixth Issue	2017	6.682%	145,201	70,469
MD Water Quality Loan #8	2012	4.458%	618,272	114,927
MD Water Quality Loan #11	2017	4.26%	2,892,513	861,938
MD Water Quality Loan #15	2020	2.70%	665,939	142,368
MD Water Quality Loan #16	2023	1.20%	511,158	49,961
MD Water Quality Loan #18	2025	1.10%	2,991,935	359,808
MD Water Quality Loan #19	2024	1.10%	335,940	38,435
MD Water Quality Loan #20	2024	1.10%	<u>994,202</u>	<u>116,584</u>
			9,420,787	1,834,070
Less current portion			<u>581,942</u>	<u>252,946</u>
Total			<u>\$ 8,838,845</u>	<u>\$ 1,581,124</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

As of June 30, 2005, MetCom has seven loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eight amounting to \$1,326,045 are to be used to finance the Marley-Taylor WRF Interim Expansion. There are no more funds to be drawn on the first loan as of June 30, 2005. Proceeds from loan number eleven of \$4,275,682 are to be used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. As of June 30, 2005, amounts drawn on the loan were \$4,177,116. Loan number fifteen of \$835,000 was drawn during the year ended June 30, 2000 for the purposes of financing an office building for the administrative use of MetCom. Loan number sixteen of \$630,756 is to be used to upgrade the Leonardtown waste water treatment plant. Proceeds drawn at June 30, 2005 were \$567,680. Loan number eighteen for \$4,712,200 is to be used to upgrade the Marley-Taylor WRF. Proceeds drawn at June 30, 2005 were \$2,991,935. Loan number nineteen for \$976,700 is to be used to replace the wastewater pumping station. Proceeds drawn at June 30, 2005 were \$335,939. Loan number twenty is to be used for water meter installations. Proceeds drawn at June 30, 2005 were \$1,074,536.

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2005, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006 (current)	\$ 581,942	\$ 252,946
2007	599,873	231,836
2008	618,889	213,270
2009	638,683	193,924
2010	629,249	173,744
2011-2015	3,062,927	573,463
2016-2020	2,082,353	158,770
2021-2025	<u>1,206,871</u>	<u>36,117</u>
	<u>\$9,420,787</u>	<u>\$1,834,070</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2005 were as follows:

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2005</u>	Amounts due <u>Within one year</u>
Bonds payable	\$11,156,742	\$0	\$370,042	\$10,786,700	\$627,500
Notes, leases and loans payable	5,644,268	4,225,024	448,505	9,420,787	581,942
Total long-term debt	<u>\$16,801,010</u>	<u>\$4,225,024</u>	<u>\$818,547</u>	<u>\$20,207,487</u>	<u>\$1,209,442</u>

Building Authority Commission

Long-term Debt

Changes in Long-term Debt

The changes in long-term debt for the year ended June 30, 2005 were as follows:

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2005</u>	Amounts due <u>within one year</u>
Bonds payable	<u>\$11,415,000</u>	<u>\$0</u>	<u>\$1,000,000</u>	<u>\$10,415,000</u>	<u>\$975,000</u>

Nursing Home Refunding Bonds

General

The refunding bonds are dated December 2, 2003 and were issued in the aggregate principal amount of \$6,230,000. The following principal amounts mature and bear interest each January 15 and July 15 as set forth below:

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

Nursing Home Refunding Bonds (continued)

<u>Maturity Date</u>	<u>Principal Amounts</u>	<u>Interest</u>
2006	\$ 490,000	2.50%
2007	\$ 490,000	2.50%
2008	\$ 510,000	2.50%
2009	\$ 530,000	2.75%
2010	\$ 535,000	3.00%
2011 – 2015	\$2,395,000	3.00% - 3.50%
2016 – 2017	\$ 740,000	3.625% - 3.75%

Interest payments due under the bonds are made payable to the registered bond-owners of record as of the last business day of the month next preceding each such interest payment date. Each bond bears interest from the most recent date on which interest was paid.

Optional redemption

Bonds that mature on or before July 15, 2013, are not subject to redemption prior to their maturities. Bonds that mature on or after July 15, 2014, are subject to redemption beginning July 15, 2013, as a whole at any time or in part on any interest payment date, in any order of maturities, at the option of the Commission, at the following redemption prices expressed as a percentage of the principal amount of bonds to be redeemed plus accrued interest thereon to the date fixed for redemption:

<u>Period During Which Redeemable (both dates inclusive)</u>	<u>Redemption Price</u>
July 15, 2013 to July 14, 2014	101%
July 15, 2014 to July 14, 2015	100.5%
July 15, 2015 and thereafter	100%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

Nursing Home Refunding Bonds (continued)

If fewer than all of the bonds of any one maturity are called for redemption, the particular bonds or portion of bonds to be redeemed from such maturity will be selected by lot by the Bond Registrar.

When less than all of a bond in a denomination in excess of \$5,000 is so redeemed, then, upon the surrender thereof, there will be issued without charge to the registered owner thereof, for the unredeemed balance of the principal amount of such bond, at the option of such owner, bonds in any of the authorized denominations as specified by the registered owner. The aggregate face amount of such bonds issued will be equal to the unredeemed balance of the principal amount of the bond surrendered, and the bonds issued will bear the same interest rate and will mature on the same date as the unredeemed balance of the bond surrendered.

Notice of redemption

If the Commission elects to redeem all or a portion of the bonds outstanding, it will give a redemption notice to the registered owners of the bonds to be redeemed by letter mailed first class, postage prepaid, at least thirty (30) days prior to the date fixed for redemption to the addresses of such registered owners appearing on the registration books kept by the Bond Registrar; provided however, that the failure to mail the redemption notice or any defect in the notice so mailed or in the mailing thereof will not affect the validity of the redemption proceedings; and provided further, that the Commission will publish notice of redemption at least once (not less than thirty (30) days prior to the date fixed for redemption) in a financial journal or daily newspaper of general circulation in the Borough of Manhattan, New York, New York. The redemption notice will state (i) whether the bonds are redeemed in whole or in part and, if in part, the maturities and numbers of the bonds to be redeemed, (ii) that the interest on the bonds to be redeemed will cease to accrue on the date fixed for redemption, (iii) the date fixed for redemption and the redemption price, and (iv) that the bonds to be redeemed will be presented for redemption and payment on the date fixed for redemption at the principal corporate trust office of the Paying Agent.

From and after the date fixed for redemption, if notice has been duly and properly given and if funds sufficient for the payment of the redemption price and accrued interest are available on such date, the bonds designated for redemption will cease to bear interest. Upon presentation and surrender for redemption in compliance with the redemption notice, the bonds to be redeemed will be paid by the Paying Agent at the redemption price. If they are not paid upon presentation, the bonds designated for redemption will continue to bear interest at the rates stated therein until paid.

The nursing home refunding bonds were issued to refund the Commission's Nursing Home Project and Refunding Bonds of 1992. The Commission reduced its future debt service costs by \$959,538 and experienced an economic gain of \$798,982 as a result of the refunding.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds

The certificates were dated June 1, 1994, in the amount of \$8,760,000 and were issued in serial and term form in the principal amounts, maturing (subject to the redemption provisions set forth below) and bearing interest.

The certificates were executed and delivered in fully registered form, without coupons, in denominations of \$5,000 each or any integral multiple thereof. Interest is payable on the certificates on each June 1 and December 1. The principal or redemption price of the certificates is payable at the principal corporate trust office of the Trustee in Baltimore, Maryland. Interest is payable by check mailed by the Trustee to the registered Holders of certificates as their names and addresses appear in the registration books maintained by the Trustee as of (i) the fifteenth calendar day of the month next preceding each interest payment date or (ii) in the case of the payment of any defaulted interest, the tenth (10) day before such payment. At the request of a Holder of certificates in the aggregate principal amount of at least \$500,000, such payments may be made by wire transfer in accordance with written instructions filed by such Holder with the Trustee. Interest on the certificates is calculated on the basis of a year consisting of 360 days divided into twelve 30-day months.

Mandatory extraordinary redemption

Redemption provisions

The certificates are subject to mandatory redemption in whole at any time or in part on any interest payment date at par plus accrued interest (i) if the project is damaged, destroyed or condemned, from insurance or condemnation proceeds not required to rebuild or modify the project after such damage, destruction or condemnation or (ii) if the project is damaged, destroyed or condemned, and the insurance or condemnation proceeds are insufficient to repair, rebuild or modify the project and the State elects not to use its own funds for such purpose, from insurance and condemnation proceeds and amounts then payable by the State as prepayment of the entire project purchase price.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Optional redemption

The certificates maturing on or after December 1, 2004, are subject to optional redemption prior to their maturity beginning June 1, 2004, in whole or in part at any time to the extent the State exercises its option to prepay all or a portion of the project purchase price. Upon any such prepayment of the project purchase price, a like principal amount of certificates will be redeemed at the redemption prices (expressed as percentages of the principal amount of such certificates or portions thereof to be redeemed) set forth below, plus all interest accrued thereon to the date fixed for redemption:

<u>Period During Which Redeemable</u> <u>(both dates inclusive)</u>	<u>Redemption Price</u>
June 1, 2004 to May 31, 2005	102%
June 1, 2005 to May 31, 2006	101%
June 1, 2006 and thereafter	100%

The certificates maturing on June 1, 2013 are subject to mandatory sinking fund redemption on the following dates in the following amounts, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption:

\$1,055,000 term certificates due June 2013:

<u>Date</u>	<u>Sinking Fund</u> <u>Installment</u>
June 1, 2012	\$ 340,000
December 1, 2012	\$ 355,000
June 1, 2013	\$ 360,000

The principal amount of certificates redeemed from sinking fund installments due on any date will be reduced by an amount equal to the aggregate principal amount of certificates purchased by the Trustee in the open market or redeemed prior to such date and not theretofore credited against a sinking fund installment.

Selection of certificate to be redeemed

If fewer than all of the certificates are called for redemption, the Trustee will redeem the certificates in any order of maturity selected by the State and by lot in such manner as the Trustee will determine within any maturity; provided, however, that the portion of any certificate to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof and, in selecting certificates for redemption, the Trustee will redeem each certificate as representing that number of certificates that is obtained by dividing the principal amount of such certificate by \$5,000.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Notice of redemption

The Trustee will mail notice of redemption, by first class mail, not fewer than 30 days before the date of redemption to the registered Holders of the certificates of the maturity or maturities to be redeemed at their addresses shown on the registration books maintained by the Trustee. Notice having been given and sufficient monies having been delivered to the Trustee, interest will cease to accrue on the certificates to be redeemed on and after the date fixed for redemption. Any notice of redemption may indicate that such redemption is conditioned upon the deposit of sufficient monies to effect such redemption on the redemption date. The failure by the Trustee to mail a notice of redemption with respect to any particular certificate will not affect the validity of the redemption of any other certificate for which proper notice will have been given.

Security and sources of payment for the certificates

The certificates are payable as to principal, redemption price and interest solely from base rentals to be paid by the State pursuant to the lease agreement, monies attributable to the sale, leasing or other disposition of the project by the Trustee upon the occurrence of certain defaults by the State pursuant to the lease agreement and amounts from time to time on deposit in certain funds and accounts established by the Trust Agreement. Pursuant to the Trust Agreement, the Commission has executed and delivered the mortgage to the Trustee and has assigned to the Trustee all of its rights under the lease agreement and the ground lease (except for its rights under certain provisions in respect of indemnification and an option to purchase the project site), and all amounts on deposit from time to time in such funds and accounts for the benefit of the Holders of the certificates.

All amounts payable by the State under the lease agreement, including the base rentals, are subject in each year to appropriation by the Maryland General Assembly. The Maryland General Assembly is under no obligation to make any appropriation with respect to the lease agreement. The lease agreement is not a general obligation of the State, the County or the Commission within the meaning of any constitutional or statutory limitation or a charge against the general credit or taxing power of the State, the County or the Commission.

It is expected that each department and agency utilizing the project will pay its portion of the base rentals to the Department of General Services, which will pay to the Trustee the total amount of base rentals due under the lease agreement. Although the sources of funds appropriated to pay the base rentals are not limited to any particular source of State revenue, the State expects that the base rentals will be paid and appropriated from the State's General Fund, and, to the extent available to particular departments and agencies, from certain of the State's other budgetary funds.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

The annual requirements to amortize the principal of all bonds outstanding as of June 30, 2005 are as follows:

<u>Years</u>	<u>State Office Building</u>	<u>Nursing Home</u>	<u>Total</u>
2006	\$485,000	\$490,000	\$975,000
2007	510,000	490,000	1,000,000
2008	540,000	510,000	1,050,000
2009	565,000	530,000	1,095,000
2010	605,000	535,000	1,140,000
2011-2015	2,020,000	2,395,000	4,415,000
2016-2017	0	740,000	740,000
	<u>\$ 4,725,000</u>	<u>\$ 5,690,000</u>	<u>\$10,415,000</u>

The annual requirements to amortize the interest of all bonds outstanding as of June 30, 2005 are as follows:

<u>Years</u>	<u>State Office Building</u>	<u>Nursing Home</u>	<u>Total</u>
2006	\$256,220	\$168,317	\$424,537
2007	229,742	156,067	385,809
2008	201,405	143,567	344,972
2009	171,292	129,904	301,196
2010	139,668	114,591	254,259
2011-2015	205,573	318,172	523,745
2016-2017	0	27,709	27,709
	<u>\$ 1,203,900</u>	<u>\$ 1,058,327</u>	<u>\$ 2,262,227</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

8. Fund Balances

A summary of the reserved and unreserved - designated and undesignated fund balances as of June 30, 2005 is as follows:

	Special Revenue Funds					Capital Projects Fund	Pension Trust Fund
	General Fund	Special Assessments	Fire & Rescue Revolving	Emergency Support	Total		
Reserved							
Encumbrances	\$1,009,160					\$2,626,480	
Inventory	478,925						
Land Tax Sale	2,468						
Retirement of Long-Term Obligations		(\$1,214,433)			(\$1,214,433)		
Domestic Violence Programs	1,170						
Future Project Revenue							
Bonds Sold						9,969,922	
Roads- Impact Fees						589,612	
Parks- Impact fees						175,468	
Schools- Impact Fees						4,633,344	
Transfer Tax						4,364,860	
Other, Including Federal and State Grants	58,773					16,356,415	
Total Reserved Fund Balances	\$1,550,496	(\$1,214,433)	\$0	\$0	(\$1,214,433)	\$38,716,101	\$0
Unreserved							
Designated	\$20,910,209	\$0	\$896,546	\$45,299	\$941,845	\$662,112	\$22,036,072
Undesignated	12,188,643	0	0	0	0	0	0
Total Unreserved Fund Balances	33,098,852	0	896,546	45,299	941,845	662,112	22,036,072
Total Fund Balances (deficit)	\$34,649,348	(\$1,214,433)	\$896,546	\$45,299	(\$272,588)	\$39,378,213	\$22,036,072

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

8. Fund balances (continued)

The reserve for fund balance represents:

Encumbrances - The amount of outstanding purchase orders at June 30, 2005.

Inventory - The amount of inventory at June 30, 2005, carried as an asset.

Fixed assets - The cost of land purchased at tax sales by The County Commissioners for St. Mary's County carried as an asset at June 30, 2005.

Retirement of long-term obligations - The amount of future revenue to be used for the retirement of long-term obligations.

Domestic violence programs - The amount of marriage license fees committed for domestic violence programs by resolution.

Future project revenue - The amount of revenue previously collected which is anticipated to be used for future capital projects. Amounts have been collected from bonds, transfer tax and other sources.

Other - The amount of funds committed for general fund expenditures.

The designated fund balance is composed of:

Budgetary (Non-GAAP) Basis

Appropriation for FY 2006 operating budget	\$ 3,026,965
Bond rating reserve - 6% of FY 2006 budgeted general fund revenues	8,895,181
Rainy day fund	1,250,000
Economic stabilization reserve	<u>7,500,000</u>
	20,672,146
 Adjustments to modified accrual basis	 <u>238,063</u>
	<u><u>\$20,910,209</u></u>

Economic stabilization reserve – The Board of County Commissioners have designated an economic stabilization reserve, set at \$7.5 million. This reserve is intended to position the County to address unbudgeted costs or needs that arise due to the impending Base Re-alignment and Closure (BRAC) process as well as uncertainty of State funding, especially for school construction. It is the intention of the Board to decide on the use of unused funds no later than June 1, 2006; which is coincident with approval of the FY2007 budget.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans

Primary Government

Plan description

The employees of the County are covered by the State Retirement and Pension System of Maryland (the System), the administrator of an agent multiple-employer public employee retirement system established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators and employees of participating governmental units. Responsibility for the administration and operation of the System is vested in a 14-member Board of Trustees. The State of Maryland is obligated for the payment of all pension annuities, retirement allowances, refunds, reserves and other benefits of the System. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. The System is a component unit of the State of Maryland's financial reporting entity and is included in the State's financial statements as a pension trust fund. The County's total payroll for the year ended June 30, 2005 was \$29,887,433, of which \$17,556,669 was covered under the System.

The System comprises the Teachers' Retirement System, Employees' Retirement System, Teachers' Pension System, Employees' Pension System, State Police Retirement System, Judges Retirement System, Natural Resources Pension System and the Local Fire and Police System.

The Employees' Retirement System was established on October 1, 1941, to provide retirement allowances and other benefits to State employees and the employees of participating governmental units. Current members of this System include State correctional officers, members of the Maryland General Assembly, and employees who have not elected to transfer to the applicable Employees' Pension System.

The Employees' Pension System was established on January 1, 1980. As a result, State employees (other than correctional officers), and employees of participating governmental units hired after December 31, 1979, become members of their applicable Pension System as a condition of employment. Members of the Employees' Retirement System have the opportunity to irrevocably transfer to their respective Pension System. For those transferring, all prior service credit and member contributions above the social security wage base are transferred from the applicable retirement system to the corresponding pension system. Member contributions up to the social security wage base are refunded to the members.

Plan benefits

Retirement allowances are computed using the highest three years' average final salary (AFS) and the actual number of years of accumulated creditable service. Pension allowances are computed using both the highest three consecutive years AFS and the actual number of years of accumulated creditable service. Various retirement options are available under each System which ultimately determine how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's or spouse's attained age and similar actuarial factors.

The Teachers' and Employees' Retirement Systems' members are eligible for full retirement benefits upon attaining the age of 60, or upon accumulating 30 years of eligibility service, regardless of age. The annual retirement allowance equals 1/55 (1.8%) of a member's AFS multiplied by the number of years of accumulated service credit. A member may retire with reduced benefits after completing 25 years of eligibility service.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Primary Government (continued)

Plan benefits (continued)

The Teachers' and Employees' Pension Systems' members are eligible for full retirement benefits upon attaining at least age 62 with specified years of eligibility service, or upon accumulating 30 years of eligibility service regardless of age. The annual pension allowance is equal to .8% of a member's AFS up to the Social Security Integration Level (SSIL), plus 1.5% of a member's AFS in excess of the SSIL, multiplied by the number of years of accumulated service credit. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the 35 calendar years ending with the year the retiree separates from service. A member may retire with reduced benefits after attaining age 55 and completing 15 years of eligibility service.

Retirement and pension allowances are increased annually to provide for changes in the cost of living in accordance with prescribed formulae. Such adjustments are based on the annual change in the Consumer Price Index, except that annual pension allowance increases are limited to 3% of the initial allowance.

The System has adopted Governmental Accounting Standards Board (GASB) Statement No.25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

Funding status and progress

Pension benefit obligation is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems. The measure is independent of the actuarial funding method used to determine contributions to the System.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 2004, The significant actuarial assumptions used in the actuarial valuations include (a) rate of return on the investment of 7.75% compounded annually (adopted June 30, 2003), (b) projected salary increases of 4% per year compounded annually, attributable to inflation (adopted June 30, 2003), (c) additional projected salary increases ranging from 0.00% to 11.96% per year, attributable to seniority and merit (adopted June 30, 2003), (d) post-retirement benefit increases ranging from 3% to 4% per year depending on the system (adopted June 30, 2003), (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 1981 through 2002 (adopted June 30, 2003), and (f) an increase in the aggregate active member payroll of 4% annually (adopted June 30, 2003).

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Primary Government (continued)

Funding status and progress (continued)

At June 30, 2004, the System's unfunded pension benefit obligation (i.e., pension benefit obligation less net assets available for benefits) in accordance with GASB No. 25 was as follows:

Pension benefit obligation:

Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits

\$19,041,901,524

Current employees

17,283,802,541

Total pension benefit obligation

36,325,704,065

Net actuarial assets available for benefits

33,484,656,570

Unfunded actuarial pension benefit obligation

\$ 2,841,047,495

The schedule below (expressed in thousands) presents the actuarial value of the System's assets and the actuarial accrued liability as of June 30, 2004 and the preceding two years. The schedule is intended to help the users assess the funding status of the System.

	<u>2004</u>	June 30 <u>2003</u>	<u>2002</u>
Actuarial value of assets	\$33,484,657	\$32,631,465	\$32,323,263
Actuarial accrued liability (AAL)	<u>36,325,704</u>	<u>34,974,601</u>	<u>34,131,284</u>
Unfunded AAL	<u>\$2,841,047</u>	<u>\$2,343,136</u>	<u>\$1,808,021</u>
Funded ratio	92.18%	93.3%	94.70%
Covered payroll	\$8,069,481	\$8,134,419	\$7,867,794
Unfunded AAL as a % of payroll	35%	29%	23%
Annual pension cost	\$710,632	\$654,578	\$574,019
Percentage contributed	89%	92%	100%
Net pension obligation	\$0	\$0	\$0

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Primary Government (continued)

Contributions required and made

The State Personnel and Pensions Article of the Annotated Code of Maryland requires contributions by active members and their employers. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% (or 5% depending upon the retirement option selected) of earnable compensation. Members of the Pension Systems are required to contribute 5% of earnable compensation in excess of the social security wage base. Members of the Teachers' Pension System and State employees who are members of the Employees' Pension System are required to contribute 2% of earnable compensation.

Employer contributions totaling \$221,023,000 for fiscal year 2004 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2004. Employer contributions consisted of normal cost and amortization of the unfunded actuarial accrued liability over a 40-year period from July 1, 1980. Employee contributions, which are applied to normal cost, for fiscal year 2004 totaled approximately \$204,158,000. The County's contributions to the System for the year ended June 30, 2005 were \$1,293,453.

The computation of the pension contribution requirements for fiscal year 2004 was based on the same actuarial assumptions, benefit provisions, actuarial funding method and other significant factors used to determine pension contribution requirements in the previous year.

Historical trend information

Historical trend information which provides data about the Systems' progress made in accumulating sufficient assets to pay pension benefits when due is presented immediately following the notes to the financial statements in the System's comprehensive annual financial report for the fiscal year ended June 30, 2004.

Sheriff's Department plan

The following is information regarding the Sheriff's Retirement Plan for fiscal year 2004:

Effective date

The effective date of the plan is July 1, 1986, with amendments effective October 1, 2000.

Participation

All Sheriff's Department employees who were hired after June 30, 1986 participate in the plan. Also, each Sheriff's Department employee who was employed by St. Mary's County prior to July 1, 1986, and who participated in the Maryland State Retirement System, may elect to participate in the plan.

Participants are required to make mandatory contributions to the plan equal to 6% of annual compensation. Employee contributions are credited with interest at the rate of 4% per annum. The County pays the entire remaining cost of the plan.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Credited service

Credited service for participants hired prior to July 1, 1986, is equal to the sum of:

- a. Service subsequent to June 30, 1986, while a participant of the plan.
- b. Military service, not in excess of five years.
- c. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Retirement System.
- d. Service with the Sheriff's Department while a participant in the State of Maryland Employees' Pension System and/or Maryland Employees' Retirement System which the employee elects to buy back by paying into the plan an amount equal to employee contributions for such service, accumulated with interest. Such service is reduced by 25% for the purpose of calculating benefits if participants elect not to buy back such service.
- e. Service not with the Sheriff's Department, but while participating in the Maryland Systems stated above. Such service shall count only in eligibility and not in the benefit determination.

Credited service for participants hired subsequent to June 30, 1986, is equal to:

- a. Service while a participant of the plan; plus
- b. Military service, not in excess of five years and
- c. Any approved leave of absence up to 12 months.

In addition, for purposes of calculating the amount of the plan benefit only for a participant eligible for early, normal or late retirement, credit shall be given for unused sick leave as follows: 22 days of unused sick leave shall equal 1 month of credited service.

Final average earnings

"Final Average Earnings" is the average compensation received during three consecutive years of service, out of the ten calendar years prior to termination, which produces the highest average.

Normal retirement

Eligibility - A participant's normal retirement date is the earliest of the 62nd birthday or the completion of 25 years of service.

Amount - Unless an optional method of payment is elected, the annual normal retirement pension benefit, payable in monthly installments for life, will equal 2% of the participant's final average earnings for each year of credited service not in excess of 35 years.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Early retirement

Eligibility - A participant who retires prior to becoming eligible for normal retirement but on or after completion of 20 years of credited service.

Amount - The amount of the early retirement pension is determined in the same manner as for normal retirement.

A participant may elect to have benefits commence on his Normal Retirement Date or any month following termination. Benefits are reduced 1/2% for each month the benefit commencement date precedes the normal retirement date.

Late retirement

Eligibility - A participant who continues to work past his normal retirement date is eligible for a postponed retirement benefit.

Amount - The amount of the postponed retirement benefit is determined in the same manner as the normal benefit, based on final average earnings and credited service at the time of actual retirement.

Disability benefit

Eligibility - A participant who is unable to perform the duties of his position by reason of physical or mental disability, which is expected to be total and permanent, is eligible for a disability benefit commencing in the month following disablement. The benefit will continue until death or recovery.

Amount - The annual benefit is equal to 1.6% of the participant's final average earnings for each year of credited service not in excess of 35 years. For line of duty disability, the annual benefit is equal to 2/3 of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions, if the disability qualifies as a catastrophic disability pursuant to the Plan. For a line of duty disability which is non-catastrophic, the annual benefit is equal to 1/3 of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions pursuant to the Plan.

Pre-retirement death benefit

Lump sum benefit

Eligibility - The participant's beneficiary will be entitled to a lump sum benefit if the participant dies prior to termination of employment.

Amount - 100% of the participant's annual compensation, plus employee contributions accumulated with interest.

Survivor's pension

Eligibility - The spouse or dependent child of a participant who dies prior to termination of employment but after completing 5 years of credited service may receive a monthly benefit commencing the first of the month following the participant's death. The benefit is payable until death or remarriage (if the beneficiary is the spouse) or as a temporary annuity (if the beneficiary is a child) payable until the child attains age 18 (23 if a full-time student).

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Survivor's pension (continued)

Amount - The amount of such benefit will be 50% of the amount determined in the same manner as the disability benefit. The beneficiary may elect to receive the lump sum death benefit in lieu of the survivor's pension.

Deferred vested benefit

Eligibility - A participant who terminates employment and has completed five years of vesting service is eligible to receive a deferred vested benefit beginning at age 62.

Amount - The amount of the participant's deferred vested pension is determined in the same manner as the normal retirement pension based on final average earnings and credited service at the participant's termination of employment. If a terminated vested participant dies prior to commencement of benefits, no benefits other than those provided in the withdrawal benefit, described below, are payable from the plan.

Withdrawal benefit

A participant who terminates employment prior to becoming eligible to receive a benefit under one of the other provisions of the plan will be eligible to receive the return of this accumulated contributions including interest to the first of the month preceding his termination of employment. A vested participant who is not eligible for benefits commencing within one month of termination may elect to withdraw his contributions and credited interest. In this event, the participant forfeits the deferred vested benefit described above.

Form of benefit

Monthly pension benefits will commence on the first of the month coincident with or next following the retirement date of the participant and continue until the first of the month in which the retired participant dies, unless an optional method of payment has been elected. If the participant dies before receiving benefits equal to the value of his accumulated employee contributions, the remainder will be paid to his beneficiary.

Optional Benefit - A participant may elect to receive a reduced benefit in lieu of the benefits to which he would otherwise be entitled, in an amount of actuarially equivalent value, as follows:

- a. Joint and Survivor - a reduced pension during the lifetime of the pensioner, starting at his actual retirement date and continuing to the pensioner's spouse at an amount which may be the same as the reduced amount payable to the participant or one-half of the reduced amount paid to the participant.
- b. Other - A participant may elect a pension payable in accordance with any other option approved by the Board of Trustees (except an "interest only" option) which is the actuarial equivalent of the normal retirement pension to which the participant was entitled at normal retirement date.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Post-retirement pension increases

Each July 1, a cost of living increase will be granted to retired participants or spouses whose benefit has been in pay status at least one year. The amount of the increase is the percentage increase in the Consumer Price Index, with a maximum increase in one year of 4%. The cost of living increase also applies to deferred benefits.

Actuarial methods and assumptions

The funding method, data and assumptions used in the determination of cost estimates are presented below:

Employee data - The employee data used in the determination of cost estimates consists of pertinent information with respect to participants as of July 1, 2004.

Valuation Date - July 1, 2004. The Board of Trustees elected to have the actuarial valuation period as of July 1, as opposed to the January 1 date formerly used. This is more timely for contribution budget considerations.

Actuarial Funding Method - The actuarial valuation has been completed using the entry age normal method.

Rate of Investment Return - An average net rate of 7.75% (prior assumption was 8%) per annum (after investment expenses are deducted) is assumed as the annual rate of investment return (including appreciation and depreciation, realized and unrealized).

Salary Scale - It has been assumed that salaries will increase at the rate of 6% per annum.

Cost of Living Increases - The cost of living is assumed to increase by 3% per year.

Annual Probability of Severance - At death - Pre-retirement mortality has been assumed to follow the 83 Group Annuity Mortality tables. Post-retirement mortality has been assumed to follow the pre-retirement mortality for employees retiring on all but total and permanent disability. Post-retirement mortality for disabled lives has been assumed to follow the pre-retirement mortality set forward 9 years.

Development of plan costs

Derivation of Normal Cost - The plan's normal cost is the sum of the individual normal costs determined for each participant, assuming the plan had always been in existence and the actuarial assumptions underlying the cost determination are exactly realized. Benefits payable under every circumstance (retirement, death, disability and termination) are included in the calculations. An allowance is also added for expenses.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Development of plan costs (continued)

The actuarial accrued liability is the sum of all normal costs which would have accumulated, if the assumed normal cost had always been contributed in the past and the actuarial assumptions had been exactly realized. The unfunded actuarial accrued liability is the actuarial accrued liability less the fund's assets at the valuation date.

Recommended contribution level

Recommended contributions are based on a 25-year amortization of the unfunded liability.

Key results:	July 1, 2004
Number of Participants:	
Active	168
Retired	24
Terminated vested	3
Disabled	<u>21</u>
Total	<u>216</u>
 Total annual compensation of active participants	 <u>\$7,881,721</u>
Actuarial accrued liability:	
Actives	\$19,569,944
Nonactives	<u>15,911,659</u>
Total	<u>\$35,481,603</u>
Assets	<u>\$21,635,590</u>
Unfunded actuarial liability	\$13,846,013
Normal cost with adjustments:	
Dollar amount	\$ 1,157,545
Percent of payroll	14.70%

The amount of the Sheriff's Department's current year covered payroll is \$8,444,844, and the Sheriff's Department's total payroll for all employees is \$10,279,383. The following employer contributions were made during the fiscal year ended June 30, 2005:

	<u>Contributions</u>	<u>% of Covered Payroll</u>
Retirement plan	\$2,036,981	24.12%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit

A length of service program for qualified active volunteer members of the St. Mary's County Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit was established effective July 1, 1980. An "active member" is defined as a person who accumulated a minimum of fifty (50) points per calendar year in accordance with a point system. This program is funded and administered by The County Commissioners for St. Mary's County.

Eligibility and benefits

a. Any person who has served as a member of any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit is eligible to receive benefits provided that:

1) The person is certified in accordance with the point system to have served as an active volunteer subsequent to December 31, 1979.

2) Any person who discontinued active volunteer service prior to July 1, 1980, may receive credit for the service after being certified in accordance with the point system.

b. Beginning July 1, 1994, active volunteer fire and rescue squads and advanced life support unit personnel may select from two Length of Service program benefit options. Selection of a benefit option by the individual is irrevocable. The options are:

1) Any person who has reached the age of sixty (60) and who has completed a minimum of twenty (20) years of certified active volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit, or combination thereof, shall receive one hundred seventy-five dollars (\$175) per month, for life. Payments will begin in the month following eligibility.

An additional payment of five dollars (\$5) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

2) Any person who has reached the age of fifty-five (55) and who has completed a minimum of twenty (20) years of certified volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit or combination thereof, shall receive one hundred twenty-five (\$125) per month for life.

An additional payment of five dollars (\$5) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit (continued)

Eligibility and benefits (continued)

- c. In the event that any active volunteer becomes disabled during the course of his or her service while actively engaged in providing such services and in the event that the disability prevents the volunteer from pursuing his or her normal occupation and in the event that the disability is of a permanent nature as certified by the Maryland Workmen's Compensation Commission or other competent medical authority as designated by The County Commissioners for St. Mary's County, then the volunteer is entitled to receive the minimum benefits prescribed above and any such benefits as he or she may be entitled to regardless of his or her age or length of service. These benefits will begin on the first day of the month following the establishment of the permanency of his or her disability.
- d. In the event that any qualified volunteer shall die while receiving benefits, then his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's benefits. These benefits terminate upon death or remarriage of the spouse.
- e. In the event that a qualified volunteer dies prior to receiving any benefits under this section, his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's earned benefits. These benefits terminate upon death or remarriage of the spouse.
- f. In the event that an active volunteer dies in the line of duty, a burial benefit up to two thousand five hundred dollars (\$2,500) is payable.
- g. In the event that any active volunteer (herein defined as one who has at least two (2) years of qualifying service in the five (5) preceding years) attains the age of seventy (70) years and fails to achieve the required twenty (20) years of service, then the volunteer is entitled to a monthly benefit of the number of years of credited service completed, multiplied by four dollars (\$4).

Point system

- a. In order to qualify for benefits, points are credited to each volunteer as follows:
 - 1) One (1) point is credited for each hour of attendance in a recognized training course, provided that not more than twenty (20) points may be credited for all training courses attended per year.
 - 2) One (1) point is credited for each company or county drill that is a minimum of two (2) hours in duration attended in its entirety, provided that not more than twenty-five (25) points may be credited for all drills attended per year.
 - 3) One (1) point is credited for each official company or county meeting pertaining to St. Mary's County fire services or rescue services attended, provided that not more than fifteen (15) points may be credited for all meetings attended per year.
 - 4) One (1) point is credited for each call to which a volunteer responds, provided that not more than forty (40) points may be credited for all calls responded to per year.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit (continued)

Point system (continued)

5) Twenty-five (25) points are credited for completion of a one-year term as an appointed or elected officer in any of the fire or rescue service organizations of St. Mary's County, provided that not more than one (1) office shall be counted in any calendar year.

6) One-half (1/2) of a point is credited for each hour of acceptable collateral duties, such as but not limited to apparatus and building maintenance, official standby and fire prevention, provided that not more than twenty-five (25) points may be credited for all collateral duties performed per year.

7) A volunteer member who serves or has served full-time military service in the armed forces of the United States receives credit at the rate of five (5) points for each month served, provided that not more than fifty (50) points can be credited for any calendar year. A maximum of four (4) years of creditable service may be acquired in this manner. The volunteer member must have been an active member for one (1) year prior to enlistment. The volunteer member must be reinstated within six (6) months after discharge.

This length of service program is funded by The County Commissioners by annual appropriations. The total contribution for the fiscal year ended June 30, 2005 was \$409,913.

Component Units

St. Mary's County Public Schools

Pension Plans

Plan description

The employees of the School System are covered by one of the following pension plans affiliated with the State Retirement and Pension System of Maryland, an agent multiple-employer public employee retirement system administered by the State Retirement Agency:

- The Teachers' Retirement System of the State of Maryland,
- The Employees' Retirement System of the State of Maryland,
- The Pension System for Teachers of the State of Maryland, or
- The Pension System for Employees of the State of Maryland

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Plan description (continued)

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the "Pension System for Teachers of the State of Maryland" and the "Pension System for Employees of the State of Maryland." Prior to this date, all teachers and related positions were required to be members of the "Teachers' Retirement System of the State of Maryland," and classified positions were members of the "Employees' Retirement System of the State of Maryland." All School System employees who were members of the "Retirement System" may remain in that System, or they may elect to join the "Pension System." All teachers hired within the State after December 31, 1979, must join the "Pension System for Teachers." All classified employees hired within the State after December 31, 1979, must join the "Pension System for Employees." The "Employees' Retirement System" and the "Pension System for Employees" cover those employees not covered by the teachers' plans. These employees are principally custodial, maintenance, and food service employees.

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension system. Benefits generally vest after 5 years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 1-410-625-5555.

Funding policy

Both the "Retirement System" and the "Pension System" for teachers and classified employees are jointly contributory. Under the "Retirement System" employees contribute 4% - 7% of their total gross salary, and under the "Pension System" employees contribute 2% of their gross salary. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Annual pension cost

St. Mary's County School System contributions totaling \$632,674 or 0.7% of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$6,675,959 or 7.9% of covered payroll for fiscal year 2005, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2004. Significant actuarial assumptions used, include (a) a rate of return on the investment of present and future assets of 7.75 percent per year compounded annually, (b) projected salary increases of 4.0 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00 percent to 11.96 percent per year, attributable to seniority/merit, (d) post-retirement benefit increases ranging from 3 percent to 4 percent per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 1981 to 2002, and (f) the aggregate active member payroll is assumed to increase by 4 percent annually.

The actuarial value of assets was determined using a five-year moving average. Under this method, the year end actuarial asset value equals one-fifth of the current fiscal year end fair value, plus four-fifths of the expected market value. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 16-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate layers over a 25-year period. A three-year trend of the School System's annual pension cost is as follows:

Fiscal Year Ended June 30,	Total Annual Pension Cost (APC)	APC Contributed By School System	APC Contributed By State	Percentage of APC Contributed	Net Pension Obligation
2003	\$6,042,763	\$364,836	\$5,677,927	100%	\$0
2004	6,666,750	423,543	6,243,207	100	0
2005	7,308,633	632,674	6,675,959	100	0

The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by GASB Statement No. 24.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County

Retirement and pension plan

Description

All qualified career employees of the Library are required to join the Maryland State Teachers' Pension Plan or the Maryland State Employees' Pension Plan. Some employees hired before January 1, 1980 have retained membership in the Maryland State Teachers' or Employees' Retirement Systems. All plans have provisions for early retirement, death and disability benefits. Participants become eligible for a vested retirement allowance after 5 years of service. The Plans are an agent multiple-employer public employee retirement system. The State Retirement and Pension System of Maryland is the administrator of the Systems. The System was established and benefits are provided by the State Personnel and Pensions Article of the Annotated Code of Maryland. The separately issued financial statements of the System may be obtained by contacting the administrator.

Maryland State Pension Systems

Participants in the Pension Plans contribute 2% of their earnings. Pensions normally start at age 62 or after 30 years of service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three years' pay. Cost of living increases are limited to 3% per annum.

Maryland State Retirement Systems

Participants in the Retirement Systems contribute a fixed percentage of salary. Persons leaving the Library after 5 years of service may withdraw their contributions, or the contributions may be left in the retirement fund until age 60, when the individual would be eligible for a reduced retirement allowance. An employee may retire at age 60 or after 30 years of service and be eligible for full benefits. Reduced benefits are paid to employees retiring before age 60 after 25 years of service. Benefits are based upon the average of the employees' highest three years' pay.

Funding Policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute from 5% to 7% of compensation. Members of the pension systems are required to contribute 2% of compensation.

Contribution rates are established by annual actuarial valuations. The unfunded actuarial liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as the June 30, 2000 actuarial valuation is being amortized over the remaining 16-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. The equivalent single amortization period is 30 years. The State of Maryland, the Maryland Automobile Insurance Fund and Injured Workers' Insurance Fund and 135 participating governmental units make all of the employer and other contributions to the System.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County (continued)

Retirement and pension plan (continued)

Funding Policy (continued)

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2005, the Library's total payroll and payroll for covered employees were \$1,553,636 and \$1,449,926, respectively. No contributions were made by the Library for the year ended June 30, 2005.

For fiscal year 2005, the State contributed approximately \$128,702 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement Number 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 8.88% of covered payroll.

Actuarial Assumptions

- a. Return on investment of 7.75% compounded annually (adopted June 30, 2003)
- b. Projected salary increases of 4% compounded annually due to inflation (adopted June 30, 2003)
- c. Salary increases due to seniority and merit are projected at 0.00-11.96% per annum (adopted June 30, 2003)
- d. Postretirement benefit increases are projected at 3-4% per annum depending on the system (adopted June 30, 2003)
- e. Rates of mortality, termination, disablement and retirement are based on actual experience from 1981 through 2002 (adopted June 30, 2003)
- f. Member payroll assumed to increase 4% annually (adopted June 30, 2003)

Trend information

	<u>2004</u>	June 30 <u>2003</u>	<u>2002</u>
Actual pension cost	\$ 710,632	\$ 654,578	\$ 574,019
Percentage contributed	89%	92%	100%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission

Retirement and pension plan

On March 18, 2004, MetCom adopted a Section 457 plan. Under the terms of the plan, employees may contribute up to 25% of their salary, up to the contribution limits, to the plan. No employer contributions are made to this plan.

Effective July 1, 2004, MetCom joined the Maryland State Retirement and Pension System. Under the terms of entry into the system, MetCom will grant 100% credit for prior service of eligible employees. The actuarial cost of entry into the Maryland State Retirement and Pension System for service prior to June 30, 2004, was \$3,392,774.

Description

All qualified career employees of MetCom are required to join the Maryland State Employees' Pension Plan. The plans have provisions for early retirement, death and disability benefits. Participants become eligible for a vested retirement allowance after 5 years of service. The Plans are an agent multiple-employer public employee retirement system. The State Retirement and Pension System of Maryland is the administrator of the Systems. The System was established and benefits are provided by the State Personnel and Pensions Article of the Annotated Code of Maryland. The separately issued financial statements of the System may be obtained by contacting the administrator.

Maryland State Pension Systems

Participants in the Pension Plans contribute 2% of their earnings. Pensions normally start at age 62 or after 30 years of service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three years' pay. Cost of living increases are limited to 3% per annum.

Maryland State Retirement Systems

Participants in the Retirement Systems contribute a fixed percentage of salary. Persons leaving MetCom after 5 years of service may withdraw their contributions, or the contributions may be left in the retirement fund until age 60, when the individual would be eligible for a reduced retirement allowance. An employee may retire at age 60 or after 30 years of service and be eligible for full benefits. Reduced benefits are paid to employees retiring before age 60 after 25 years of service. Benefits are based upon the average of the employees' highest three years' pay.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission (continued)

Funding policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute from 5% to 7% of compensation. Members of the pension systems are required to contribute 2% of compensation.

Contribution rates are established by annual actuarial valuations. The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 16-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000, is being amortized in separate annual layers over a 25-year period. The equivalent single amortization period is 30 years. The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and 135 participating governmental units make all of the employer and other contributions to the System.

MetCom provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2005, MetCom's total payroll and payroll for covered employees were \$2,968,469 and \$2,637,382, respectively. MetCom's contribution to the System for the year ended June 30, 2005, was \$194,477.

Actuarial assumptions

- a. Return on investment of 7.75% compounded annually (adopted June 30, 2003).
- b. Projected salary increases of 4% compounded annually due to inflation (adopted June 30, 2003).
- c. Salary increases due to seniority and merit are projected at 0.00-11.96% per annum (adopted June 30, 2003).
- d. Postretirement benefit increases are projected at 3-4% per annum depending on the system (adopted June 30, 2003).
- e. Rates of mortality, termination, disablement and retirement are based on actual experience from 1981 through 2002 (adopted June 30, 2003).
- f. Member payroll assumed to increase 4% annually (adopted June 30, 2003).

Trend information

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Actual pension cost	\$ 710,632	\$ 654,578	\$ 574,019
Percentage contributed	89%	92%	100%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

10. Segment information for enterprise funds

The County maintains three enterprise funds. Recreation services are accounted for in the recreation revolving fund, while the Wicomico Municipal Golf Course receives user service charges for the use of facilities, which include a golf course and a restaurant. The Medical Adult Daycare Center provides a wide range of supportive health and social services during the day to the mentally or physically handicapped adults of St. Mary's County in order to prevent or postpone institutionalization. Segment information for the year ended June 30, 2005 is as follows:

	<u>Medical Adult Daycare</u>	<u>Wicomico Municipal Golf Course</u>	<u>Recreation Revolving Fund</u>	<u>Total Enterprise Funds</u>
Operating revenue	\$218,461	\$1,085,154	\$2,292,579	\$3,596,194
Depreciation	0	98,761	5,583	104,344
Operating income (loss)	(598,247)	76,708	132,119	389,420
Change in net assets	(54,320)	94,563	165,823	206,066
Plant, property and equipment additions	0	47,135	2,618	49,753
Net working capital	(643,325)	909,645	50,689	317,009
Total assets	139,171	3,662,193	415,285	4,216,649
Total equity	(643,325)	3,235,315	65,698	2,657,688

11. Interfund receivables

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2005:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Primary Government</u>		
<u>General Fund</u>		
Special Revenue Fund		\$ 13,356
Capital Projects Fund		37,746,526
Enterprise Fund		812,244
<u>Special Revenue Funds</u>		
General Fund	\$ 13,356	
<u>Capital Projects Funds</u>		
General Fund	37,746,526	
<u>Enterprise Funds</u>		
General Fund	<u>812,244</u>	<u> </u>
Total due from/to other funds	<u>\$38,572,126</u>	<u>\$38,572,126</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

11. Interfund receivables (continued)

Component Units

Component Unit-St. Mary's County Building Authority Commission	\$165,809	
Component Unit-Board of Library Trustees for St. Mary's County		\$133,795
Primary Government-General Fund	<u> </u>	<u>32,014</u>
Total due from Primary Government to Component Unit	<u>\$165,809</u>	<u>\$165,809</u>

12. Mortgage receivable

The mortgage receivable amount of \$3,630,000 reported represents amounts owed to the County by St. Mary's Hospital for the payment of the St. Mary's County Refunding Hospital Bonds of 1993 and 1996. The County is reimbursed by the Hospital as payment becomes due.

The mortgage receivable amount of \$20,000,000 reported represents amounts owed to the County by St. Mary's Hospital for the payment of the St. Mary's County Hospital Bonds of 2003. The County is reimbursed by the Hospital as payment becomes due.

13. Commitments and contingencies

Primary Government

There are several pending lawsuits in which the County is involved. The County attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements of the County.

The County participates in a number of federally assisted grant programs, principal of which are the Departments of Education, Health and Human Services and Health and Mental Hygiene grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for the year ended June 30, 2005, have not yet been completed. Accordingly, the County's compliance with applicable grant requirements will be verified in connection with performing the County's Single Audit. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

Component Units

St. Mary's County Public Schools

Legal Proceedings

In the normal course of operations, the School System is subject to lawsuits and claims. In the opinion of management, the disposition of such lawsuits and claims will not have a material effect on the School System's financial position or results of operations.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

13. Commitments and contingencies (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

School Construction

As of June 30, 2005, the School System had entered into various school construction commitments which are not reflected in the Statement of Net Assets or Balance Sheet – Governmental Funds, since they will be funded by the State of Maryland or County bond issues, totaling approximately \$7,941,701.

Grant Program

The School System participates in a number of state and federally assisted grant programs which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations for the current year. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

Board of Library Trustees for St. Mary's County

Grant Audit

The Library receives federal funds, which are passed through the State of Maryland to the Library for specific purposes. The grants are subject to review and audit by the Maryland State Department of Education. Such audits could result in a request for reimbursement by the State for expenditures disallowed under the terms and conditions of the granting agency. In the opinion of the Library's management, such disallowances, if any, will not be significant.

Support

The Library receives a substantial amount of its support from intergovernmental sources. A significant reduction in the level of this support, were this to occur, might have an effect on the Library's programs and activities.

14. Post-employment benefits

St. Mary's County Government retirees, retirees' family members and the family members of deceased employees under age 65 are eligible for health, prescription drug and vision care insurance benefits. Those over age 65 are eligible for a Medicare supplement, including health, prescription drug and vision care insurance benefits.

Eligible persons include employees with a minimum of five (5) years of eligible County Service entering an immediate retirement; employees with a minimum of ten (10) years of eligible County service placed on a deferred retirement; family members of deceased employees; and family members of retirees.

The County's contribution rate for retirees is prorated at 1/16th for each year of eligible County service up to a maximum contribution rate of 90%. The County's contribution for disabled retirees is 90% regardless of length of service.

Family members of deceased employees may continue benefits at 100% of the premium cost.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2005

14. Post-employment benefits (continued)

The authority for health care benefits is contained within the County's Personnel Policies and Procedures manual. It is not a statutory or contractual requirement and may be changed or modified by the Board of County Commissioners.

The County's cost for the post-employment benefits are currently being paid on a pay-as-you-go basis. During the fiscal year ended June 30, 2005, there was an average of 167 people participating in post-employment health and life benefits at an annual cost to the County of \$1,020,498.

There are no significant matters or additional information impacting on retiree post-employment benefits.

15. Landfill closure and postclosure cost

State and federal laws and regulations require The County Commissioners for St. Mary's County to place a final cover on landfill sites when the site stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, The County Commissioners for St. Mary's County report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,950,000 reported as landfill closure and postclosure care liability at June 30, 2005, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

Estimated closure and postclosure costs were taken from a 1990 Cost Analysis, for cell numbers three and five, and from current contract commitments for closure for cell numbers one, two and four. A 3% inflation factor was assumed. Closure costs are expected to be funded by a bond issue or other form of debt in the year of closing. Postclosure costs are budgeted and paid annually.

16. Pass-through proceeds

In accordance with Government Accounting Standards Board Statement Number 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, the County recognizes revenue and expenditures for pass-through proceeds. For the year ended June 30, 2005, the County has recognized pass-through revenues and expenditures in the amount of \$3,125,169 from Walden Sierra, Inc., Three Oaks Homeless Shelter, So. MD. Tri-County Community Action Committee and St. Mary's County Housing Authority.

17. Risk management

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and related disasters. The County is a member of the Local Government Insurance Trust (LGIT) sponsored by the Maryland Municipal League (MML) and the Maryland Association of Counties. The LGIT is a self-insured public entity risk pool offering general liability, excess liability, business auto liability, police legal liability, public official liability, environmental liability and property coverage.

LGIT is capitalized at an actuarially determined level to provide financial stability for its local government members and to reduce the possibility of assessment. The trust is owned by the participating counties and cities and managed by a Board of Trustees elected by the members.

Annual premiums are assessed for the various policy coverages. During fiscal year 2005, the County paid premiums of \$673,488 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000 for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES
AND OTHER FINANCING SOURCES AND USES
BUDGET (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		Variance
REVENUES				
Property Taxes	\$57,921,861	\$57,921,861	\$58,187,880	\$266,019
Other Local Taxes	59,665,000	59,665,000	66,998,952	7,333,952
Highway User Revenues	5,413,912	5,413,912	6,217,472	803,560
Licenses and Permits	1,298,718	1,298,718	1,288,530	(10,188)
State/Federal Grants	5,513,758	7,962,409	5,852,959	(2,109,450)
Charges for Services	5,858,696	5,840,276	5,221,939	(618,337)
Fines and Forfeitures	224,944	224,944	216,458	(8,486)
Other Revenues	818,586	687,117	1,250,634	563,517
Sub-total	<u>136,715,475</u>	<u>139,014,237</u>	<u>145,234,824</u>	<u>6,220,587</u>
Pass-Throughs	0	0	3,125,169	3,125,169
TOTAL GENERAL FUND REVENUES	<u>\$136,715,475</u>	<u>\$139,014,237</u>	<u>\$148,359,993</u>	<u>\$9,345,756</u>
EXPENDITURES				
General Government	\$16,675,108	\$16,589,780	\$15,690,553	\$899,227
Public Safety	22,170,657	23,351,834	22,147,827	1,204,007
Public Works	8,134,717	8,641,814	7,640,738	1,001,076
Health	1,146,712	1,160,551	1,160,411	140
Social Services	3,303,770	3,376,940	3,300,461	76,479
Primary and Secondary Education	60,551,393	60,616,343	60,608,593	7,750
Post-Secondary Education	2,152,456	2,152,456	2,152,456	0
Parks, Recreation, and Culture	2,680,856	2,611,256	2,534,418	76,838
Libraries	1,666,464	1,666,464	1,666,464	0
Conservation of Natural Resources	299,821	297,054	276,734	20,320
Housing	1,170,538	1,050,840	811,271	239,569
Economic Development and Opportunity	2,975,549	3,258,906	2,257,913	1,000,993
Debt Service	12,754,986	12,754,986	12,075,518	679,468
Inter-governmental	48,936	48,936	48,936	0
Other	1,043,000	1,043,000	809,481	233,519
Sub-total	<u>136,774,963</u>	<u>138,621,160</u>	<u>133,181,774</u>	<u>5,439,386</u>
Pass-Throughs	0	0	3,125,169	(3,125,169)
TOTAL GENERAL FUND EXPENDITURES	<u>\$136,774,963</u>	<u>\$138,621,160</u>	<u>\$136,306,943</u>	<u>\$2,314,217</u>
OTHER FINANCING SOURCES AND USES				
Use of Fund Balance to Fund Operations	1,834,641	1,992,441	0	(1,992,441)
Transfer to Capital Projects	(500,000)	(500,000)	(500,000)	0
Reserves	(1,275,153)	(1,885,518)	0	1,885,518
TOTAL OTHER FINANCING SOURCES AND USES	<u>59,488</u>	<u>(393,077)</u>	<u>(500,000)</u>	<u>(106,923)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	<u>\$0</u>	<u>\$0</u>	<u>\$11,553,050</u>	<u>\$11,553,050</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SHERIFF'S OFFICE RETIREMENT PLAN
 FOR THE YEAR ENDED JUNE 30, 2005

Schedules of employer contributions and funding progress for the Sheriff's Office Retirement Plan are presented below:

Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
06/30/99	\$ 596,605	100%	\$0
06/30/00	683,423	100%	0
06/30/01	786,339	100%	0
06/30/02	932,745	100%	0
06/30/03	1,204,825	100%	0
06/30/04	1,652,971	100%	0
06/30/05	2,036,981	100%	0

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/97	\$11,027,088	\$11,986,552*	\$959,464	92.0%	\$4,433,660	21.6%
01/01/99	16,531,918	16,704,552	172,634	99.0%	5,358,227	3.2%
01/01/01	18,744,434	20,948,384	2,203,950	89.5%	6,040,098	36.5%
01/01/03	18,680,033	29,154,913	10,474,880	64.1%	7,165,684	146.2%
Before Assumption Change						
07/01/04	21,635,590	34,171,854	12,536,264	63.3%	7,881,721	159.1%
After Assumption Change						
07/01/04	21,635,590	35,481,603	13,846,013	61.0%	7,881,721	175.7%

* This liability was calculated using the entry age normal method. The projected unit credit method was used for later years.

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Support	Total Non-Major
ASSETS				
Due from other funds	\$0	\$1,193,032	\$33,922	\$1,226,954
Special tax assessments receivable, current portion	923	0	0	923
Notes receivable, Fire and Rescue loans, current portion	0	221,871	0	221,871
Emergency Support taxes receivable	0	0	20,023	20,023
Notes receivable, Fire and Rescue loans (net of current portion)	0	1,014,527	0	1,014,527
Special tax assessments receivable (net of current portion)	2,194,940	0	0	2,194,940
Total Assets	<u>\$2,195,863</u>	<u>\$2,429,430</u>	<u>\$53,945</u>	<u>\$4,679,238</u>
LIABILITIES AND FUND BALANCES				
Accounts payable	\$0	\$296,486	\$8,646	\$305,132
Deferred revenue	2,196,699	1,236,398	0	3,433,097
Due to other funds	1,213,597	0	0	1,213,597
Total Liabilities	<u>\$3,410,296</u>	<u>\$1,532,884</u>	<u>\$8,646</u>	<u>\$4,951,826</u>
FUND BALANCES				
Reserved	(\$1,214,433)	\$0	\$0	(\$1,214,433)
Unreserved, designated	0	896,546	45,299	941,845
Total Fund Balances	<u>(\$1,214,433)</u>	<u>\$896,546</u>	<u>\$45,299</u>	<u>(\$272,588)</u>
Total Liabilities and Fund Balances	<u>\$2,195,863</u>	<u>\$2,429,430</u>	<u>\$53,945</u>	<u>\$4,679,238</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2005

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Support	Total Non-Major
REVENUES				
Intergovernmental	\$0	\$230,528	\$0	\$230,528
Special assessments	179,554	0	0	179,554
Other	0	21,702	1,057,681	1,079,383
	<u>179,554</u>	<u>252,230</u>	<u>1,057,681</u>	<u>1,489,465</u>
EXPENDITURES				
Other	0	296,486	865,654	1,162,140
Debt Service	58,148	0	146,728	204,876
	<u>58,148</u>	<u>296,486</u>	<u>1,012,382</u>	<u>1,367,016</u>
Excess of Revenues Over (Under) Expenditures	<u>121,406</u>	<u>(44,256)</u>	<u>45,299</u>	<u>122,449</u>
Other Financing Sources and Uses	<u>0</u>	<u>2,250,000</u>	<u>0</u>	<u>2,250,000</u>
Net Change in Fund Balances	<u>121,406</u>	<u>2,205,744</u>	<u>45,299</u>	<u>2,372,449</u>
FUND BALANCES				
Beginning of Year	(1,335,839)	(1,309,198)	0	(2,645,037)
End of Year	<u>(\$1,214,433)</u>	<u>\$896,546</u>	<u>\$45,299</u>	<u>(\$272,588)</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		Variance
PROPERTY TAXES				
Real and personal property				
Real Property Taxes	\$53,212,536	\$53,212,536	\$52,745,447	(\$467,089)
Personal Property	242,985	242,985	157,788	(85,197)
Public Utilities	2,439,507	2,439,507	2,642,342	202,835
Ordinary Business Corporations	2,186,864	2,186,864	2,502,174	315,310
Additions and Abatements	(337,454)	(337,454)	(162,217)	175,237
Penalties and Interest	330,000	330,000	511,487	181,487
State Homeowners Credit (Circuit Breaker)	484,318	484,318	439,110	(45,208)
Homeowners Tax Credit (County)	(484,318)	(484,318)	(465,361)	18,957
Other Tax Credits	(152,577)	(152,577)	(182,890)	(30,313)
Total Property Taxes	\$57,921,861	\$57,921,861	\$58,187,880	\$266,019
Income Tax				
Local Income Tax	\$49,675,000	\$49,675,000	\$54,148,444	\$4,473,444
Other Local Taxes				
Recordation Taxes	6,000,000	6,000,000	9,541,063	3,541,063
Energy Taxes	3,200,000	3,200,000	2,496,406	(703,594)
Public Accommodations Tax	470,000	470,000	478,712	8,712
Trailer Park Tax	200,000	200,000	229,727	29,727
Admissions and Amusement	120,000	120,000	104,600	(15,400)
Total Other Local Taxes	\$9,990,000	\$9,990,000	\$12,850,508	\$2,860,508
State-Shared Taxes - Highway Users	\$5,413,912	\$5,413,912	\$6,217,472	\$803,560
TOTAL TAXES	\$123,000,773	\$123,000,773	\$131,404,304	\$8,403,531
LICENSES AND PERMITS				
Business	242,290	242,290	270,814	28,524
Marriage/Animal Licenses	11,700	11,700	11,145	(555)
Other	443,728	443,728	461,349	17,621
CATV Franchise Fees	601,000	601,000	545,222	(55,778)
TOTAL LICENSES AND PERMITS	\$1,298,718	\$1,298,718	\$1,288,530	(\$10,188)
INTER-GOVERNMENTAL				
General Government	424,015	644,988	490,860	(154,128)
Public Safety	2,200,445	3,481,633	2,816,741	(664,892)
Public Works	922,041	1,463,003	1,159,056	(303,947)
Social Services	925,105	948,464	882,734	(65,730)
Parks, Recreation and Culture	30,000	25,000	25,674	674
Economic Development & Opportunity	1,012,152	1,399,321	477,894	(921,427)
TOTAL INTER-GOVERNMENTAL	\$5,513,758	\$7,962,409	\$5,852,959	(\$2,109,450)

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
CHARGES FOR SERVICES				
General Government	1,716,542	1,716,642	2,142,953	\$426,311
Public Safety	1,485,242	1,485,242	933,053	(552,189)
Public Works	1,084,162	1,054,162	937,640	(116,522)
Social Services	106,400	106,400	127,448	21,048
Parks, Recreation and Culture	264,812	249,591	213,853	(35,738)
Reimbursement - Housing Authority	1,201,538	1,228,239	866,992	(361,247)
TOTAL CHARGES FOR SERVICES	5,858,696	5,840,276	5,221,939	(618,337)
FINES AND FORFEITURES				
General Government	220,944	220,944	214,368	(6,576)
Public Safety	4,000	4,000	2,090	(1,910)
TOTAL FINES AND FORFEITURES	\$224,944	\$224,944	\$216,458	(\$8,486)
OTHER REVENUES				
General Government				
Interest	536,786	537,252	1,093,882	556,630
Other	58,000	58,000	89,427	31,427
Grant Reserve	150,000	16,065	0	(16,065)
Contributions and Donations	73,800	75,800	67,325	(8,475)
TOTAL OTHER REVENUES	\$818,586	\$687,117	\$1,250,634	\$563,517
TOTAL, BEFORE PASS-THROUGH PROCEEDS	\$136,715,475	\$139,014,237	\$145,234,824	\$6,220,587
Pass-through Proceeds	0	0	3,125,169	3,125,169
OTHER FINANCING SOURCES				
Appropriation of Fund Balance	1,834,641	1,992,441	0	(1,992,441)
TOTAL REVENUES INCLUDING PASS-THROUGHS	\$138,550,116	\$141,006,678	\$148,359,993	\$7,353,315

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
GENERAL GOVERNMENT				
Legislative/County Commissioners				
Legislative/County Commissioners	\$323,504	\$317,022	\$300,595	\$16,427
County Administrator	317,176	313,030	309,332	3,698
Public Information	284,309	278,251	273,704	4,547
County Attorney	453,555	449,979	427,414	22,565
Legislative/County Commissioners	<u>1,378,544</u>	<u>1,358,282</u>	<u>1,311,045</u>	<u>47,237</u>
Department of Finance				
Director of Finance	464,408	449,566	436,387	13,179
Accounting	420,204	397,491	376,339	21,152
Auditing	50,000	47,800	40,250	7,550
Procurement	237,020	232,903	227,448	5,455
Copy Center	38,440	38,440	31,718	6,722
Department of Finance	<u>1,210,072</u>	<u>1,166,200</u>	<u>1,112,142</u>	<u>54,058</u>
Information Technology				
	<u>1,853,719</u>	<u>1,815,268</u>	<u>1,735,139</u>	<u>80,129</u>
Human Resources				
Human Resources	538,821	527,794	408,027	119,767
Risk Management	773,255	778,480	769,665	8,815
Human Resources	<u>1,312,076</u>	<u>1,306,274</u>	<u>1,177,692</u>	<u>128,582</u>
Department of Facilities Management				
Capital Projects	164,764	111,715	111,385	330
Building Services	2,658,401	2,618,589	2,558,045	60,544
Carter State Reimbursement	460,720	460,720	406,762	53,958
Department of Facilities Management	<u>3,283,885</u>	<u>3,191,024</u>	<u>3,076,192</u>	<u>114,832</u>
Dept of Land Use/Growth Management				
Administration	452,076	440,077	404,260	35,817
Comprehensive Planning	503,735	501,630	449,075	52,555
Development Services	508,817	474,895	466,234	8,661
Planning Commission	22,615	22,615	21,118	1,497
Boards and Commissions	19,340	19,340	15,906	3,434
Historical Preservation	2,120	2,120	1,196	924
Grants	16,366	10,000	50,418	(40,418)
Dept of Land Use/Growth Management	<u>1,525,069</u>	<u>1,470,677</u>	<u>1,408,207</u>	<u>62,470</u>
Department of PW and Transportation				
Development Review	194,116	193,372	185,109	8,263
Mailroom/Messenger Services	106,448	105,259	104,764	495
Vehicle Maintenance Shop	1,068,889	1,042,554	1,095,804	(53,250)
Department of PW and Transportation	<u>1,369,453</u>	<u>1,341,185</u>	<u>1,385,677</u>	<u>(44,492)</u>
Department of Bldg Permit Services				
Permit Services	252,360	224,978	201,765	23,213
Inspections & Compliance	459,194	435,982	412,812	23,170
Board of Electrical Examiners	8,695	8,695	6,763	1,932
Department of Bldg Permit Services	<u>720,249</u>	<u>669,655</u>	<u>621,340</u>	<u>48,315</u>
Circuit Court				
Administration	771,289	768,143	696,929	71,214
Law Library	46,100	46,100	45,511	589
Grants	137,937	361,163	253,837	107,326
Orphan's Court	30,049	28,069	26,696	1,373
Circuit Court	<u>985,375</u>	<u>1,203,475</u>	<u>1,022,973</u>	<u>180,502</u>
Office of the State's Attorney				
Judicial	1,568,844	1,582,294	1,527,638	54,656
Grants	427,126	438,161	377,794	60,367
Office of the State's Attorney	<u>1,995,970</u>	<u>2,020,455</u>	<u>1,905,432</u>	<u>115,023</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
County Treasurer	\$313,696	\$317,485	\$307,040	\$10,445
Alcohol Beverages Board	158,353	161,153	174,889	(13,736)
Supervisors of Elections	559,758	559,758	446,038	113,720
Ethics Commission	8,889	8,889	6,747	2,142
Total General Government	\$16,675,108	\$16,589,780	\$15,690,553	\$899,227
PUBLIC SAFETY				
Emergency Management				
Emergency Management	150,187	151,157	140,803	10,354
Animal Control	462,733	458,603	449,215	9,388
Hurricane Isabel	0	0	(863)	863
Emergency Management	612,920	609,760	589,155	20,605
Emergency Communications Center				
Emergency Communications Center	1,450,374	1,649,755	1,334,235	315,520
Emergency Radio Communications	694,571	688,157	672,516	15,641
Grants	3,000	621,587	600,125	21,462
Emergency Communications Center	2,147,945	2,959,499	2,606,876	352,623
Office of the Sheriff				
Law Enforcement	12,028,484	11,756,211	11,294,256	461,955
Corrections	6,211,269	6,097,497	6,029,176	68,321
Training	86,200	174,837	167,181	7,656
Canine	10,775	10,775	10,581	194
Grants	873,064	1,543,255	1,248,906	294,349
Office of the Sheriff	19,209,792	19,582,575	18,750,100	832,475
Volunteer Fire Depts. & Rescue Squads	200,000	200,000	201,696	(1,696)
Total Public Safety	\$22,170,657	\$23,351,834	\$22,147,827	\$1,204,007
PUBLIC WORKS AND TRANSPORTATION				
Department of PW and Transportation				
Administration	358,299	344,576	330,056	14,520
Engineering Services	283,097	283,622	281,557	2,065
Construction & Inspections	368,738	358,499	358,901	(402)
County Highways	2,780,570	2,662,927	2,402,954	259,973
Solid Waste	2,222,691	2,315,230	2,207,327	107,903
Recycling	362,822	360,384	369,714	(9,330)
St Mary's County Airport	18,418	18,418	9,974	8,444
St. Mary's Transit System	1,727,232	2,285,308	1,668,232	617,076
Department of PW and Transportation	8,121,867	8,628,964	7,628,715	1,000,249
Maryland Dept. of Agriculture Weed Control	12,850	12,850	12,023	827
Total Public Works and Transportation	\$8,134,717	\$8,641,814	\$7,640,738	\$1,001,076

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
HEALTH				
Operating Allocation				
Mental Health Authority of St. Mary's Health Department	\$54,945	\$54,945	\$54,945	\$0
Operating Allocation	<u>1,055,817</u>	<u>1,069,656</u>	<u>1,069,544</u>	<u>112</u>
Office of the State's Attorney				
Project Graduation	<u>35,950</u>	<u>35,950</u>	<u>35,922</u>	<u>28</u>
Total Health	<u><u>\$1,146,712</u></u>	<u><u>\$1,160,551</u></u>	<u><u>\$1,160,411</u></u>	<u><u>\$140</u></u>
SOCIAL SERVICES				
Marcey Halfway House	<u>386,883</u>	<u>396,083</u>	<u>392,853</u>	<u>3,230</u>
Office on Aging				
Office on Aging	926,419	934,590	935,254	(664)
SMILE/Medical Adult Daycare	111,500	111,500	111,500	0
Grants	<u>703,909</u>	<u>725,158</u>	<u>655,371</u>	<u>69,787</u>
Office on Aging	<u>1,741,828</u>	<u>1,771,248</u>	<u>1,702,125</u>	<u>69,123</u>
Department of Social Services	<u>327,074</u>	<u>329,124</u>	<u>326,574</u>	<u>2,550</u>
Operating Allocation				
Hospice of St. Mary's	15,000	15,000	15,000	0
The ARC of Southern Maryland, Inc.	132,150	132,150	132,150	0
Big Brothers / Big Sisters	4,000	4,000	2,424	1,576
Catholic Charities	15,000	15,000	15,000	0
So. Md. Center for L.I.F.E.	15,000	15,000	15,000	0
The Center for Life Enrichment	155,908	155,908	155,908	0
Greenwell Foundation	30,000	30,000	30,000	0
St. Mary's Caring, Inc.	3,000	12,500	12,500	0
Three Oaks Center	50,000	50,000	50,000	0
Tri-County Alternatives for Youth/Families	26,250	26,250	26,250	0
Tri-County Community Action	17,751	17,751	17,751	0
Tri-County Youth Services Bureau	116,479	116,479	116,479	0
Unified Commission for Afro-Americans	0	5,000	5,000	0
Walden/Sierra	195,038	195,038	195,038	0
Women's Center	<u>72,409</u>	<u>90,409</u>	<u>90,409</u>	<u>0</u>
Operating Allocation	<u>847,985</u>	<u>880,485</u>	<u>878,909</u>	<u>1,576</u>
Total Social Services	<u><u>\$3,303,770</u></u>	<u><u>\$3,376,940</u></u>	<u><u>\$3,300,461</u></u>	<u><u>\$76,479</u></u>
PRIMARY AND SECONDARY EDUCATION				
Board of Education				
	<u>58,900,000</u>	<u>58,900,000</u>	<u>58,900,000</u>	<u>0</u>
Non-Public School Bus Transportation				
	<u>1,639,393</u>	<u>1,704,343</u>	<u>1,696,593</u>	<u>7,750</u>
Operating Allocation				
Literacy Council of St. Mary's County	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>0</u>
Total Primary and Secondary Education	<u><u>\$60,551,393</u></u>	<u><u>\$60,616,343</u></u>	<u><u>\$60,608,593</u></u>	<u><u>\$7,750</u></u>
POST-SECONDARY EDUCATION				
College of Southern Maryland				
County Funding - general operations	<u>2,096,456</u>	<u>2,096,456</u>	<u>2,096,456</u>	<u>0</u>
Operating Allocation				
St. Mary's College Scholarship Fund	6,000	6,000	6,000	0
Southern Md. Higher Education Center	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>0</u>
Operating Allocation	<u>56,000</u>	<u>56,000</u>	<u>56,000</u>	<u>0</u>
Total Post-Secondary Education	<u><u>\$2,152,456</u></u>	<u><u>\$2,152,456</u></u>	<u><u>\$2,152,456</u></u>	<u><u>\$0</u></u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
PARKS, RECREATION AND CULTURE				
Department of Recreation and Parks				
Administration	\$781,976	\$764,483	\$761,908	\$2,575
Parks Maintenance	1,417,077	1,367,316	1,303,742	63,574
Museum Division	351,803	354,457	343,093	11,364
Grants	30,000	25,000	25,675	(675)
Department of Recreation and Parks	<u>2,580,856</u>	<u>2,511,256</u>	<u>2,434,418</u>	<u>76,838</u>
Operating Allocation				
St. Mary's Co. Historical Society	12,500	12,500	12,500	0
Historic St. Mary's City Foundation	1,500	1,500	1,500	0
La Familia	1,500	1,500	1,500	0
Lexington Park Lions Club	1,500	1,500	1,500	0
Maryland Historical Society	1,000	1,000	1,000	0
Patuxent River Naval Air Museum	30,000	30,000	30,000	0
Lexington Park Rotary-Oyster Festival	5,000	5,000	5,000	0
St. Mary's County Art Council	2,000	2,000	2,000	0
Sotterley Foundation	25,000	25,000	25,000	0
St. Mary's College River Concert Series	10,000	10,000	10,000	0
Seventh District Optimist	10,000	10,000	10,000	0
Operating Allocation	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>0</u>
Total Parks, Recreation, and Culture	<u>\$2,680,856</u>	<u>\$2,611,256</u>	<u>\$2,534,418</u>	<u>\$76,838</u>
LIBRARIES				
County Funding - general operations	<u>\$1,666,464</u>	<u>\$1,666,464</u>	<u>\$1,666,464</u>	<u>\$0</u>
CONSERVATION OF NATURAL RESOURCES				
Cooperative Extension Service	143,380	143,380	119,600	23,780
Soil Conservation District	41,794	41,794	41,238	556
Conservation of Natural Resources	<u>185,174</u>	<u>185,174</u>	<u>160,838</u>	<u>24,336</u>
Allocation of Agriculture and Seafood Division of DECD (75%)	<u>93,447</u>	<u>90,680</u>	<u>89,996</u>	<u>684</u>
Operating Allocation				
Wicomico Scenic River Commission	1,000	1,000	1,000	0
Southern Md. Resource Conservation/Dev.	5,200	5,200	9,900	(4,700)
Watermen's Association	15,000	15,000	15,000	0
Operating Allocation	<u>21,200</u>	<u>21,200</u>	<u>25,900</u>	<u>(4,700)</u>
Total Conservation of Natural Resources	<u>\$299,821</u>	<u>\$297,054</u>	<u>\$276,734</u>	<u>\$20,320</u>
COMMUNITY DEVELOPMENT AND HOUSING				
Total Housing	<u>\$1,170,538</u>	<u>\$1,050,840</u>	<u>\$811,271</u>	<u>\$239,569</u>
ECONOMIC DEVELOPMENT AND OPPORTUNITY				
Dept. of Econ & Comm Development				
Administration/Office of the Director	264,990	279,610	247,076	32,534
Tourism Development	258,666	276,341	273,977	2,364
Agriculture & Seafood Development	124,596	120,906	119,994	912
Community Development	273,706	291,897	279,264	12,633
Grants	1,206,000	1,498,910	586,250	912,660
	<u>2,127,958</u>	<u>2,467,664</u>	<u>1,506,561</u>	<u>961,103</u>
Less Allocation of Agriculture and Seafood Division of DECD (75%)	<u>(93,447)</u>	<u>(90,680)</u>	<u>(89,996)</u>	<u>(684)</u>
Dept. of Econ & Comm Development	<u>2,034,511</u>	<u>2,376,984</u>	<u>1,416,565</u>	<u>960,419</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
Office of Community Services				
Community Services	\$311,386	\$306,239	\$289,983	\$16,256
Human Relations Commission	1,675	1,675	1,657	18
Commission for Women	900	900	776	124
Commission for Disabled	2,000	2,000	1,764	236
VISTA Support	54,770	54,770	48,070	6,700
Office of Community Services	<u>370,731</u>	<u>365,584</u>	<u>342,250</u>	<u>23,334</u>
Office of Community Services				
Grants	<u>427,457</u>	<u>298,488</u>	<u>282,248</u>	<u>16,240</u>
Operating Allocation				
Chamber of Commerce	20,250	20,250	20,250	0
Farmers Market	1,000	1,000	0	1,000
Navy Alliance	20,000	95,000	95,000	0
So. Md. Child Care Resource Center	7,400	7,400	7,400	0
Tri-County Council	94,200	94,200	94,200	0
Operating Allocation	<u>142,850</u>	<u>217,850</u>	<u>216,850</u>	<u>1,000</u>
Total Economic Development and Opportunity	<u>\$2,975,549</u>	<u>\$3,258,906</u>	<u>\$2,257,913</u>	<u>\$1,000,993</u>
DEBT SERVICE				
Debt Service	<u>\$12,384,986</u>	<u>\$12,384,986</u>	<u>\$12,075,518</u>	<u>\$309,468</u>
INTERGOVERNMENTAL				
Leonardtwn Tax Rebate	48,936	48,936	48,936	0
Total Inter-Governmental	<u>\$48,936</u>	<u>\$48,936</u>	<u>\$48,936</u>	<u>\$0</u>
OTHER				
Employer Contributions-Retiree Health Benefits	1,020,000	1,020,000	766,908	253,092
Unemployment Compensation	11,000	11,000	10,129	871
Bank Service Fees	12,000	12,000	32,444	(20,444)
Total Other	<u>\$1,043,000</u>	<u>\$1,043,000</u>	<u>\$809,481</u>	<u>\$233,519</u>
Total Expenditures, Before Pass-Throughs	<u>136,404,963</u>	<u>138,251,160</u>	<u>133,181,774</u>	<u>5,069,386</u>
Pass-Through Expenditures	0	0	3,125,169	(\$3,125,169)
Total Expenditures, Including Pass-Throughs	<u>\$136,404,963</u>	<u>\$138,251,160</u>	<u>\$136,306,943</u>	<u>\$1,944,217</u>
RESERVES				
Reserve - Bond Rating	\$370,000	\$370,000	\$692,252	(\$322,252)
Reserve - Grants	184,506	10,065	0	\$10,065
Reserve - Rainy Day Fund	250,000	250,000	250,000	\$0
Reserve - Emergency Appropriations	840,647	1,625,453	0	\$1,625,453
Reserves	<u>1,645,153</u>	<u>2,255,518</u>	<u>942,252</u>	<u>\$1,313,266</u>
Total Reserves	<u>\$1,645,153</u>	<u>\$2,255,518</u>	<u>\$942,252</u>	<u>\$1,313,266</u>
Total Expenditures, Including Pass-Throughs and Reserves	<u>\$138,050,116</u>	<u>\$140,506,678</u>	<u>\$137,249,195</u>	<u>\$3,257,483</u>
Transfers				
Capital Projects - General Fund Transfer	500,000	500,000	500,000	0
Total Expenditures and Other Financing Uses	<u>\$138,550,116</u>	<u>\$141,006,678</u>	<u>\$137,749,195</u>	<u>\$3,257,483</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2005

LAND PRESERVATION

Agriculture Preservation	\$2,142,242	\$2,142,242
--------------------------	-------------	-------------

HIGHWAYS

Adequate Public Facilities	\$265,390	
Asphalt Overlay	142,622	
Bridge/Culvert Replacement	164,927	
Carver School/MD 246 Signal	135,302	
Chaptico/Mechanicsville Road	110,598	
Coral Place	223	
County Mapping	80,000	
Lexington Park Sidewalk/Streetscape	187,231	
Mechanicsville Road	377,001	
Patuxent Park Subdivision	10,269	
Regional Stormwater Management	15,000	
Roadside Obstacles	13,170	
Sandy Bottom, Lawrence Hayden Road	683	
Streetscape Improvement	162,643	
Transportation Plan	76,886	
Tulagi Place Master Plan	8,696	\$1,750,641

MARINE

Hollis Lake Inlet	\$13,000	
Holly Point Shore Erosion	208,580	
Patuxent Beach Road Revetment	167,300	
St. Jeromes Creek	140,328	
Tanner Creek Dredging	916	
Thomas Road Revetment	7,351	\$537,475

PUBLIC WORKS

Adult Detention Center Booking/Inmate Processing	\$30,000	
Adult Detention Center Maintenance & Repairs	168,042	
Airport Environmental Assessment	72,125	
Airport Improvements	355,912	
Building Maintenance & Repairs	61,176	
Carter State Building Maintenance/Repair	179,000	
Charlotte Hall Senior Center	115,618	
Charlotte Hall Visitors Center	236,760	
Community College Phase 2	348,386	
County Office Building HVAC	139,193	
Courthouse Addition/Renovation	73,520	
Courthouse Humidity	147,191	
College of Southern Maryland Humidity Control	16,885	
College of Southern Maryland Wellness & Pool	149,000	
Former Lexington Park Library	16,577	
Leonardtown Library	423	
Lexington Manor North MEDAAF	1,042,506	
Lexington Manor South CDBG	731,229	
Lexington Park Library	12,464	
Mansfield Mitigation	48,634	
Parking/Site Improvements	343,974	
Patuxent River Naval Museum-New	46	
STS Bus Barn	322,500	\$4,611,161

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2005
 (CONTINUED)

PIERS AND BOAT RAMPS

Derelict Boat Removal	\$17,290	
Forest Landing	1,486	
Fox Harbor Landing	72,990	
Isabel-Piers & Wharfs	7,924	
Leonardtown Wharf	609,238	
Piney Point Public Landing	58,248	
St Inigoes Public Landing	532	
Wicomico Public Landing	87,860	
Wicomico Shores Pier Replacement	96,875	\$952,443

PUBLIC SCHOOLS

ADA Transition Plan	\$81,531	
Banneker Elementary Addition/Renovation	29,066	
Carver Elementary Addition	4,676,692	
Elementary School 235/4	143,222	
Green Holly Site Restore	50	
Greenview Knolls Parking	1,940	
Greenview Knolls Roof	36,968	
Hollywood/Chopticon Soil Erosion	3,100	
Kindergarten Addition Oakville	22,010	
Kindergarten Addition Ridge	1,166	
Kindergarten Addition Dynard	142,278	
Lexington Park Addition/Renovation	826	
Margaret Brent Addition/Renovation	3,186,216	
Mechinicsville Roof Syst. Renovation	36,283	
Mechanicsville HVAC	358	
Qualified Zone Academic Bond	1,159	
Relocation Classrooms	235,897	
Ridge Elementary Gym Addition	622	
Tech Center Addition	5,285,582	
White Marsh HVAC	2,184	\$13,887,150

RECREATION & PARKS

Chaptico Park	\$164,478	
Charlotte Hall Community Recreation Center	52,915	
Dorsey Park Improvement	5,572	
Nicolet Park Expansion	97,900	
Park Planning	1,530	
Parks ADA Access.	124,276	
Piney Point Lighthouse Park	371,787	
Three Notch Trail	479,711	
Wicomico Club House	1,373,655	\$2,671,824

SOLID WASTE

Environmental Assessment	\$27,380	
Ridge Transfer Site Acquisition	10,741	
St. Andrews Area C	196,088	
St. Andrews Area D	25,723	\$259,932

OTHER

2003 GOB Issuance Costs	\$18,760	
Funds Held in Reserve	3,058,017	\$3,076,777

Total		<u>\$29,889,645</u>
-------	--	---------------------

Included in the above total is \$4,485,461 in unexpended State and Federal projects appropriations.



CPA, LLC **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**

The County Commissioners
for St. Mary's County, Maryland
Leonardtown, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2005, which collectively comprise the County Commissioners for St. Mary's County, Maryland's basic financial statements and have issued our report thereon dated November 8, 2005. 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 County Commissioners for St. Mary's County, Maryland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County Commissioners for St. Mary's County, Maryland'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 County Commissioners, 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.

La Plata, Maryland
November 8, 2005

Murphy + Murphy, CPA, LLC