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

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT**

YEAR ENDED JUNE 30, 2006

Murphy & Murphy, CPA, LLC

The County Commissioners for St. Mary's County

June 30, 2006

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The County Commissioners for St. Mary's County

June 30, 2006

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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 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 and for the year ended June 30, 2006, 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 36% 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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, 2006, and the respective changes in financial position and, where applicable, 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 October 20, 2006, 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 considered in assessing 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 105 and 106, and the schedule of expenditures and other financing uses-budgetary (Non-GAAP) basis and actual-general fund presented on pages 107 through 111 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
October 20, 2006

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, 2006. 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 \$150.8 million (*net assets*). Approximately \$2.9 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 30% of the total net assets, or \$44.6 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 \$761,437. Other components of the net assets are \$38.7 million of restricted net assets and approximately \$67.5 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 net investment in capital assets decreased from the prior year due to the transfer of buildings to the College of Southern Maryland (\$21,148,932) and the prior period adjustment (\$4,943,630) that was recorded to write off those assets that had been previously capitalized as a part of the initial GASB34 transition, but which do not meet the threshold for capitalization.
- The Government's overall net asset position, excluding the impact of the prior period adjustment discussed previously, reflects an increase of \$12.6 million over the prior year.
- As of June 30, 2006, the County's governmental funds reported combined fund balances of \$85.7 million, an increase of \$12 million over the prior year. The capital projects fund reflected an increase of \$189,131, while the general fund and the non-major funds posted increases of \$11.6 million and \$159,798, respectively. The County's governmental fund balances at June 30, 2006 include \$39.6 million for capital projects, \$46.3 million in general funds, and a deficit of \$112,790 in other non-major funds. The general fund balance includes \$780,034 that is reserved, the largest components of which are encumbrances and inventory. In addition, the general funds reflect designations of approximately \$31 million, including a bond rating reserve of \$9.7 million and a Rainy Day Fund of \$1.375 million. The balance has been designated for use in the FY2007 budget. The significant level of designation for the FY2007 budget reflects the Board of County Commissioners' decision to utilize \$14.2 million of the fund balance to fund capital projects that, in the FY2005 and FY2006 budgets, had been programmed to be funded by the sale of general obligation bonds. This use of fund balance is estimated to save the future debt service expenses that would have been required annually of approximately \$1.14 million, which would otherwise have been required based on a 20-year bond term. Two other significant designations were to set aside \$3.5 million for future funding of a trust to cover post-employment health benefits and also \$935,366 in one-time funding, including technology initiatives. The County's undesignated fund balance is approximately \$14.5 million, and will be considered for use in the FY2008 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 as repayments are received, ultimately netting to zero. The decrease in the capital projects fund balance reflects the fact that there was no

sale of bonds in FY2006; the proceeds from the FY2005 sale were used to partially fund the capital expenditures.

- The business-type operating activities reflect a net increase in net assets of \$501,621, offset by a reduction of \$233,008 for the prior period adjustment to correct the capitalization of assets, discussed elsewhere. The following information discusses the change in net assets, exclusive of the prior period adjustment. Fee-based recreation activities posted a decrease of \$47,395; however, this is after an increase in FY2005 of \$165,823. The long-term goal of these programs is to price the fees to break-even, recognizing that individual years will vary, but no significant net assets should be accumulated. The Wicomico Golf Course reflects an increase of \$78,119. The net assets of the Medical Adult Daycare Fund increased \$470,897; however, this is attributable principally to a budgeted transfer in FY2006 from the general fund of \$589,007, to offset the accumulated deficit at June 30, 2004. Continued focus on this activity is expected in order to determine whether it can function as a self-supporting fund or to consider alternatives for services or funding.
- At June 30, 2006, the unreserved fund balance for the general fund (primary operating fund) was \$45.5 million, or 30.5% of general fund expenditures, excluding pass-throughs. Designated fund balance of the general fund was \$31 million, or 67.3% of unreserved fund balance.
- St. Mary's County Government's total general obligation indebtedness, including general obligation bonds and Water Quality loans, decreased by \$8.3 million during the fiscal year ended June 30, 2006. Additions included draws on the Water Quality Loan program financing of \$735,110, as well as \$1.7 million of exempt financing for vehicles and equipment. During the year, the County accepted the transfer of a surplus school site, which entailed the assumption of debt to be repaid to the State of \$368,769. In addition, there were other State loans for capital projects in the amount of \$242,895 and additional accruals for compensated absences of \$171,509. Payments on the debt totaled \$8.7 million, with another reduction in the amount of \$250,000, representing the revision of estimated post-closure costs of the landfill.

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, 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 100 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 101 and 102 of this report. Other supplementary information can be found on pages 103 to 113.

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 \$150.8 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 44% 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 26% 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 \$44.6 million (30% 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 \$.8 million.

ST. MARY'S COUNTY GOVERNMENT'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
ASSETS						
Current Assets	\$116,726,706	\$101,577,478	\$ 1,557,686	\$998,153	\$118,284,392	\$102,575,631
Other Non-Current Assets	23,901,016	26,839,467	0	0	23,901,016	26,839,467
Capital Assets, net of accumulated depreciation	<u>181,502,250</u>	<u>191,793,751</u>	<u>2,255,090</u>	<u>2,564,131</u>	<u>183,757,340</u>	<u>194,357,882</u>
Total Assets	<u>322,129,972</u>	<u>320,210,696</u>	<u>3,812,776</u>	<u>3,562,284</u>	<u>325,942,748</u>	<u>323,772,980</u>
LIABILITIES						
Current Liabilities	34,056,885	30,973,199	693,063	681,144	34,749,948	31,654,343
Non-current Liabilities	<u>140,196,719</u>	<u>148,760,061</u>	<u>193,412</u>	<u>223,452</u>	<u>140,390,131</u>	<u>148,983,513</u>
Total Liabilities	<u>174,253,604</u>	<u>179,733,260</u>	<u>886,475</u>	<u>904,596</u>	<u>175,140,079</u>	<u>180,637,856</u>
NET ASSETS						
Invested in capital assets, net of related debt	65,352,573	69,704,223	2,164,864	2,423,897	67,517,437	72,128,120
Restricted	38,662,401	39,717,598	0	0	38,662,401	39,717,598
Unrestricted	<u>43,861,394</u>	<u>31,055,615</u>	<u>761,437</u>	<u>233,791</u>	<u>44,622,831</u>	<u>31,289,406</u>
Total Net Assets	<u>147,876,368</u>	<u>140,477,436</u>	<u>2,926,301</u>	<u>2,657,688</u>	<u>150,802,669</u>	<u>143,135,124</u>
Total Liabilities and Net Assets	<u>\$322,129,972</u>	<u>\$320,210,696</u>	<u>\$3,812,776</u>	<u>\$3,562,284</u>	<u>\$325,942,748</u>	<u>\$323,772,980</u>

At June 30, 2006, 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:

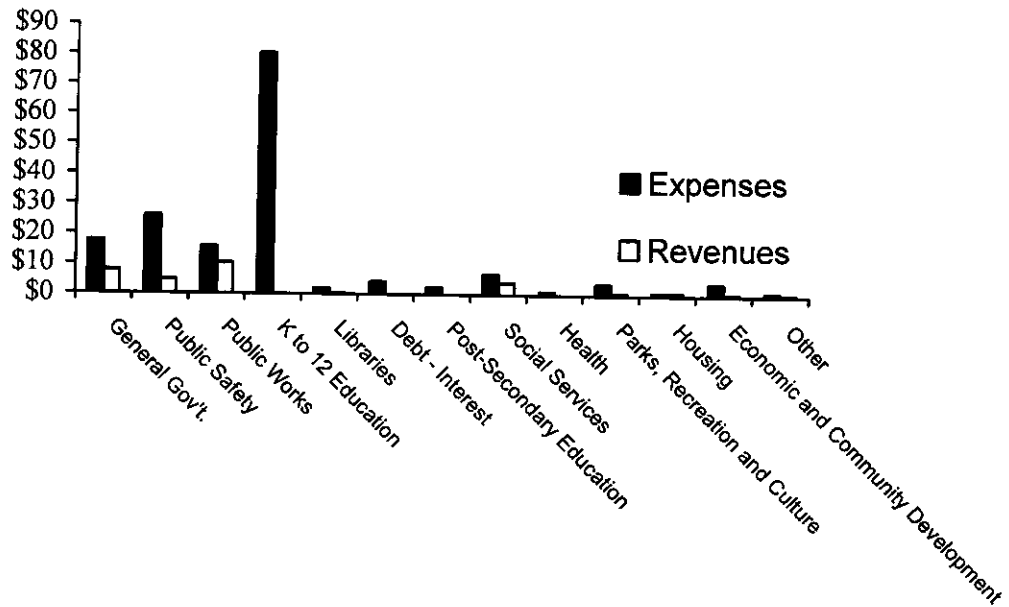
ST. MARY'S COUNTY GOVERNMENT'S CHANGES IN NET ASSETS
Years Ended June 30, 2006 and 2005

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program Revenues:						
Charges for Services	\$10,572,846	\$ 9,921,564	\$4,098,730	\$3,596,194	14,671,576	13,517,758
Operating Grants and Contributions	18,411,865	19,355,216	459,142	577,631	18,871,007	19,932,847
Capital Grants and Dedicated Fees or Taxes	1,356,046	5,588,002	0	0	1,356,046	5,588,002
General Revenues:						
Property Taxes	63,198,955	58,187,880	0	0	63,198,955	58,187,880
Income Taxes	56,687,230	54,148,444	0	0	56,687,230	54,148,444
Other Taxes	26,129,701	23,137,885	0	0	26,129,701	23,137,885
Investment Earnings	3,253,211	1,093,882	40,342	17,855	3,293,553	1,111,737
Miscellaneous	(4,103,257)	6,994,490	0	0	(4,103,257)	6,994,490
Total Revenues	<u>175,506,597</u>	<u>178,427,363</u>	<u>4,598,214</u>	<u>4,191,680</u>	<u>180,104,811</u>	<u>182,619,043</u>
Program Expenses:						
General Government	17,648,333	17,296,982	0	0	17,648,333	17,296,982
Public Safety	25,803,603	23,521,544	0	0	25,803,603	23,521,544
Public Works	12,528,095	11,787,965	0	0	12,528,095	11,787,965
Health	1,202,193	1,205,276	0	0	1,202,193	1,205,276
Social Services	6,958,356	6,073,461	0	0	6,958,356	6,073,461
Primary and Secondary Education	80,440,070	73,893,720	0	0	80,440,070	73,893,720
Post-Secondary Education	2,389,048	2,195,193	0	0	2,389,048	2,195,193
Parks, Recreation, and Culture	3,702,090	3,014,943	4,096,593	3,985,614	7,798,683	7,000,557
Housing	920,395	1,343,327	0	0	920,395	1,343,327
Libraries	1,964,882	1,789,465	0	0	1,964,882	1,789,465
Conservation of Natural Resources	314,206	276,734	0	0	314,206	276,734
Economic Development and Opportunity	3,953,972	2,136,544	0	0	3,953,972	2,136,544
Debt Interest	4,478,364	4,463,972	0	0	4,478,364	4,463,972
Inter-governmental	55,370	48,936	0	0	55,370	48,936
Other	1,038,066	1,309,481	0	0	1,038,066	1,309,481
Total Expenses	<u>163,397,043</u>	<u>150,357,543</u>	<u>4,096,593</u>	<u>3,985,614</u>	<u>167,493,636</u>	<u>154,343,157</u>
Change in Net Assets	12,109,554	28,069,820	501,621	206,066	12,611,175	28,275,886
Net Assets - Beginning	140,477,436	112,407,616	2,657,688	2,451,622	143,135,124	114,859,238
Prior Period Adjustment	(4,710,622)	0	(233,008)	0	(4,943,630)	0
Net Assets - Ending	<u>\$147,876,368</u>	<u>\$140,477,436</u>	<u>\$2,926,301</u>	<u>\$2,657,688</u>	<u>\$150,802,669</u>	<u>\$143,135,124</u>

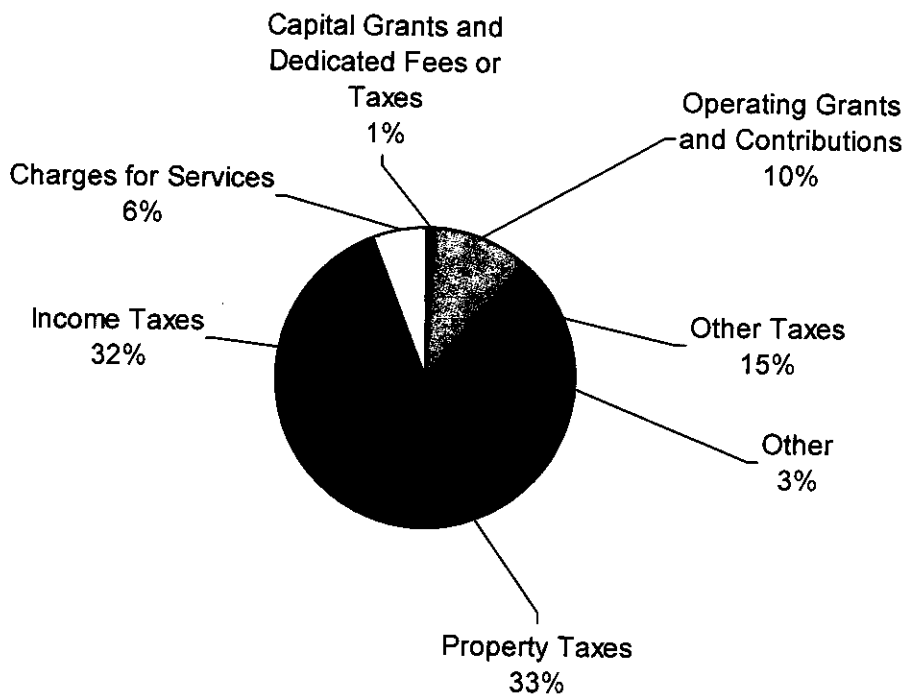
Governmental activities: Governmental activities reflected an increase in St. Mary's County Government's net assets of \$12.1 million, before the effect of the reduction due to the prior period adjustment of \$4.7 million. The governmental funds reflected a net increase of \$12 million.

Business-type activities: Business-type activities reflected an increase in net assets of \$501,621, before the effect of the prior period adjustment noted previously. Wicomico Golf Course fee-based activities and Medical Adult Daycare both posted increases, which were partially offset by the decrease in Recreation and Parks.

Expenses and Program Revenues – Governmental Activities (in millions)



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, 2006, St. Mary's County Government's governmental funds reported combined ending fund balances of \$85.7 million, an increase of \$12 million over the prior year. Approximately \$47.1 million, or 55% of this total, constitutes *unreserved fund balance*, which is available for spending at the government's discretion, including \$19.7 million for the 2007 budget. The application of this level of fund balance to the subsequent year's budget is discussed elsewhere in this section. Reserved fund balance includes \$39 million for capital projects as well as approximately \$8 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, 2006, unreserved fund balance of the general fund was \$45.5 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 30.5% of total general fund expenditures, excluding pass-throughs, while total fund balance represents 31% of that same amount. The elevated level of fund balance reflects several unusual revenue and expense deviations. These variances are largely in property 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 FY2007 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 again reduced effective July 1, 2006 from \$.872 to \$.857, and an income tax rate that is less than the maximum allowed by the State, and which was also reduced effective January 1, 2006 from 3.05% to 3.00%, the County has maintained ample capability for revenue enhancement, should future needs arise. At the close of FY2005, the Board designated \$7.5 million as an economic stabilization reserve, funded by FY2005 savings, to address costs that might occur due to BRAC and/or shortfalls in State funding for school construction. Now that the Base Realignment and Closure (BRAC) report is released, and there is little if any loss of activity on the horizon for the County, these funds became a part of the FY2007 budget, which allocated a total of \$14,228,277 of accumulated fund balance from FY2004 and FY2005 as pay-go for capital projects. Similarly, the positive fund balance generated in FY2006 will be considered in the FY2008 budget process, 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 \$11.6 million during the fiscal year ended June 30, 2006. The key factors contributing to this net positive variance are as follows:

- Property tax revenues exceeded budget by \$2.9 million, a reflection of the increase in the value and number of properties assessed.

- Recordation taxes exceeded the amount budgeted by \$4.6 million. As discussed elsewhere, the County budgets a level which is estimated to be sustainable. Significant variances result from transactional activity fluctuations, which are not expected to occur annually.
- Investment income exceeded the amount budgeted by \$2.7 million. The increased rates, reflecting general market conditions, combined with the significant unreserved balances on hand, yielded much higher than budgeted investment income.
- Positive expenditure variances were realized throughout County departments, a reflection of conservative budget estimates, strong management of expenditures to match budgeted priorities, and continued focus on efficiency and effectiveness. Significant individual items include a health insurance premium settlement (refund) under our retrospective rating arrangement that reduced employer costs by approximately \$6 million and lower than budgeted payments on exempt financing due to the deferred timing of the draws.

The capital projects fund has a total fund balance of \$39.6 million, which includes \$14.8 million of unspent bond proceeds as well as greater than budgeted collections of impact fees and transfer taxes, as well as net savings due to projects requiring less than the amount of resources budgeted. These excess funds are then available to fund projects in future approved capital budgets. For example, the FY2007 capital budget included \$8.2 million of such accumulated excess funding. Also included in this balance is \$662,000 designated in reserve, available at the direction of the Board of County Commissioners, to cover unanticipated costs, through a budgetary process.

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 \$927,371, the Recreation Activities Fund reflected net assets of \$6,494, and the Medical Adult Daycare Services reflected a deficit of \$172,428. On a combined basis, there was a \$501,621 increase in net assets, before the effect of the prior period adjustment, principally attributable to the subsidy from the general fund to the Medical Adult Daycare fund. Factors concerning these funds' finances are 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 \$101,000 higher than the original budget. The increase reflects principally the net effect of new or increased grants received. 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, originally budgeted at \$3,026,965 for FY2006.

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, 2006, amounts to \$183.8 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 net decrease in St. Mary's County Government's investment in capital assets for the fiscal year ended June 30, 2006 was \$10.6 million. This reflects reductions due to the transfer of assets to the College of Southern Maryland and the prior period adjustment. Without these two items, which totaled \$26.1 million, the net increase was \$36.7, an 18.8% increase over FY2005. 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. In this, the final transition year under GASB for implementation of Statement 34, the County corrected prior capitalized assets, principally equipment. The statements reflect a prior period adjustment of \$4.9 million for items included in the capital asset records at the time of initial implementation that, upon re-evaluation during FY2006, did not meet the cost threshold of \$5,000, and therefore should have been expensed for financial statement purposes.

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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$19,403,327	\$18,830,327	\$1,078,666	\$1,078,666	\$20,481,993	\$19,908,993
Building and Improvements	55,287,596	71,298,279	745,236	788,121	56,032,832	72,086,400
Facilities Under Construction	3,280,438	2,504,611	0	0	3,280,438	2,504,611
Solid Waste Facilities	10,739,846	10,663,660	0	0	10,739,846	10,663,660
Infrastructure	80,154,307	71,786,627	314,553	331,246	80,468,860	72,117,873
Vehicles	3,441,478	2,879,680	82,138	316,638	3,523,616	3,196,318
Furniture and Equipment	9,195,258	13,830,567	34,497	49,460	9,229,755	13,880,027
	<u>\$181,502,250</u>	<u>\$191,793,751</u>	<u>\$2,255,090</u>	<u>\$2,564,131</u>	<u>\$183,757,340</u>	<u>\$194,357,882</u>

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

- College of Southern Maryland building and improvements previously carried on the County's books were transferred to the College.
- Surplus property transfer (Carver Elementary School building, improvements, land and related debt) from St. Mary's County Public Schools to the County finalized in FY2006.
- \$3.7 million in buildings and improvements were placed in service in FY2006, including Charlotte Hall Visitors Center, Lexington Park sidewalk/streetscape project and asphalt overlay project.
- Approximately \$12 million in roads were added to the County system, including transfers from third parties.
- Improvements at Dorsey Park, Three Notch Trail, Chaptico Park and Nicolet Park, as well as Parks ADA Access improvements, were completed and capitalized in FY2006, totaling approximately \$1.1 million.
- Vehicles (with a total cost of approximately \$900,000) 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, 2006, 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, 2005</u>	<u>June 30, 2006</u>	<u>Amounts due within one year</u>
General Obligation Bonds(GOB) – County	\$113,135,000	\$105,460,000	\$7,745,000
Less: Amount Deferred on Refunding	(1,807,220)	(1,783,219)	(11,556)
Water Quality Loan	5,934,960	6,175,920	502,266
State Loans	702,241	860,128	95,085
Surplus Property Transfer of Debt	0	368,769	83,864
Exempt Financing (Equipment & Vehicles)	1,174,547	2,368,079	799,438
	<u>\$119,139,528</u>	<u>\$113,449,677</u>	<u>\$9,214,097</u>
GOB sold on behalf of St. Mary's Hospital	<u>\$23,630,000</u>	<u>\$20,835,000</u>	<u>\$1,295,000</u>

Business-Type Activities

	<u>June 30, 2005</u>	<u>June 30, 2006</u>	<u>Amounts due within one year</u>
Exempt Financing (Equipment)	<u>\$125,225</u>	<u>\$90,225</u>	<u>\$35,000</u>

St. Mary's County Government's total general obligation bonded debt decreased by a net \$10.4 million, principally due to principal payments, offset by draws for exempt financing of vehicles and equipment, as well as additions to various State loans as well as adjustment of accruals for compensated absences. Repayments include \$2,795,000 for the Hospital loans; 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 ratings were all confirmed as a part of the last bond issue in 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 capital budgets and 5-year plans to ensure it remains within the limitations.

As a part of the FY2007 budget, the Board of County Commissioners took another step to positively address debt capacity. In addition to a capital program that is monitored and evaluated based on needs, priorities, and capacity, the Board applied just over \$14 million of fund balance as pay-go for prior approved capital projects. The County's ratio of debt to assessed property value at July 1, 2006 (including the impact of the FY2007 approved budget), was estimated to be 1.55%, compared to the July 1, 2005 level of 1.84%. Additionally, the ratio is expected to decrease over the 6-year period of the capital plan. Similarly, the debt service percentage estimated for the FY2006 budget was 8.61%, while FY2007 is estimated to be 7.09%, and this ratio is also expected to decline further during the period of the 6-year plan.

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 \$1.6 billion and continues to demonstrate healthy growth, with a 5-year average annual growth of 7.2%.
- According to information released by the State, our assessable base increased 10% - the largest in recent years, compared to what had been an average annual increase of approximately 6%. This 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 a 90.7% growth in the number of technology firms since 1998. The growth in technology firms experienced in St. Mary's County since 1998 developed immediately following the consolidation of Navy aviation research, development, acquisition, testing and evaluation at NAS Pax River.
- 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 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 (\$63,250 est. 2005) is slightly below the State average, however is increasing at a similarly consistent rate as the State and the tri-county area.
- The average unemployment rate for the County is 3.4%, and remains well below that of the State or the U.S.

Measures taken in FY2005 and FY2006 to balance tax relief as well as budgetary stability were continued into the FY2007 budget process. The FY2007 budget reflected reductions in the property and energy tax rates. The sustainability of the revenue stream needed to fund future operations was evaluated on a multi-year basis, and revenues continue to be budgeted based on sustainable levels. For example, recordation and transfer tax revenues, which affect the general fund and the capital budget, respectively, far exceeded the budgeted levels. However, the FY2007 budget incorporated only a partial increase in the amount, as the Board of County Commissioners would prefer to budget at levels that have a high probability of being able to fund. This then allows any excess to be reflected as fund balance, and subsequently that excess is used to fund only non-recurring expenditures (such as pay-go capital project funding, one-time technology allocations) in the subsequent year's budget.

All of these factors were considered in preparing the St. Mary's County Government's budget for the 2007 fiscal year, resulting in a budgeted increase of 19.1%. However, this rate of increase is affected by the unusually high pay-go transfer of \$14.2 million and the set-aside of \$3.5 million to start funding the trust for retiree health. Absent these two items, the net increase would have been a more typical 7.6%. In adopting the budget for FY2007, 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 FY2008 budget process to assure that adequate and sustainable resources are identified to address prioritized needs – both capital and operating.

Continuing the discussion started in connection with the FY2007 budget, and as we approach the FY2008 budget process, we are mindful of the impact of GASB45, the treatment of other post-employment benefits (OPEB). Currently, the County and its Component Units fund post-employment benefits on a pay-as-you-go basis. The County, and each of the component units, contracted for an actuarial analysis of their post-employment liability, in anticipation of preparing for and complying with Statement 45. More detail is provided in Note 14 to the financial statements. As a part of the approved FY2007 budget, the County designated \$3.5 million from the FY 2005 surplus to initialize the OPEB trust. This amount, at a minimum, serves to partially fund the annual requirements under Statement 45. During FY2007, alternatives will be considered for both the benefit structure and the funding in order to assure timely compliance with Statement 45, including identifying cost-saving changes to reduce the liability.

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, or via email at Finance@co.saint-marys.md.us.

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government		Component Units			
	Governmental Activities	Business-Type Activities	Total	Board of Education	Library	Metropolitan Commission
ASSETS						Building Authority
Cash and cash equivalents	\$81,158,225	\$5,745	\$81,163,970	\$14,239,401	\$49,887	\$4,235,988
Internal balances	(1,351,456)	1,351,456	0	0	0	0
Restricted cash and investments	454,763	0	454,763	252,902	70,574	0
Taxes receivable	1,599,209	0	1,599,209	0	0	0
Income tax reserve, funds held by the State	17,755,295	0	17,755,295	0	0	0
Due from other governments	0	0	0	7,532,839	277,265	0
Special tax assessments receivable	1,903	0	1,903	0	0	0
Notes receivable, Fire and Rescue loans	237,472	0	237,472	0	0	0
Emergency support taxes receivable	28,325	0	28,325	0	0	0
Accounts receivable	16,240,142	176,313	16,416,455	948,514	123,439	974,363
Inventory	600,360	24,172	624,532	130,403	0	24,413
Other, including prepaid expenses	2,468	0	2,468	24,187	0	17,088
Mortgages receivable from St. Mary's Hospital	20,835,000	0	20,835,000	0	0	0
Deferred and unamortized bond issuance costs	0	0	0	0	0	0
Fire and Rescue loans receivable, net of short-term portion	1,048,191	0	1,048,191	0	0	396,823
Special tax assessments receivable, net of short-term portion	2,017,825	0	2,017,825	0	0	0
Capital assets						
Accumulated depreciation	277,533,351	3,929,337	281,462,688	279,158,984	3,149,873	96,316,778
Capital assets, net of accumulated depreciation	(96,031,101)	(1,674,247)	(97,705,348)	(70,449,760)	(1,906,761)	(29,802,212)
	181,502,250	2,255,090	183,757,340	208,709,224	1,243,112	66,514,566
Total Assets	\$322,129,972	\$3,812,775	\$325,942,748	\$231,837,470	\$1,764,278	\$72,172,720
						\$11,491,504

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, 2006

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Board of Education	Library	Metropolitan Commission	Building Authority
LIABILITIES							
Accounts payable	\$5,320,762	\$102,772	\$5,423,534	\$3,898,860	\$42,199	\$767,561	\$0
Compensation-related liabilities	2,538,435	316,835	2,855,270	12,228,588	26,303	0	0
Deferred income tax distribution	17,755,295	0	17,755,295	0	0	0	0
Deferred revenue	4,293,865	273,456	4,567,321	420,271	0	285,280	0
Other liabilities	3,709,453	0	3,709,453	159,866	0	817,559	233,958
Due to other governments	439,075	0	439,075	143,874	0	0	0
Non-current liabilities							
Due within one year	10,512,992	35,000	10,547,992	811,637	0	1,423,337	1,000,000
Due in more than one year	129,683,727	158,412	129,842,139	7,469,841	88,012	19,045,133	8,440,000
Total Liabilities	\$174,253,604	\$886,475	\$175,140,079	\$25,132,937	\$156,514	\$22,338,870	\$9,673,958
NET ASSETS							
Invested in capital assets, net of related debt	\$65,352,573	\$2,164,864	\$67,517,437	\$204,159,561	\$1,243,112	\$46,054,988	\$903,643
Restricted	38,662,401	0	38,662,401	336,874	78,180	1,902,629	209,471
Unrestricted	43,861,394	761,437	44,622,831	2,208,098	286,472	1,876,233	704,432
Total Net Assets	\$147,876,368	\$2,926,301	\$150,802,669	\$206,704,533	\$1,607,764	\$49,833,850	\$1,817,546
Total Liabilities and Net Assets	\$322,129,972	\$3,812,776	\$325,942,748	\$231,837,470	\$1,764,278	\$72,172,720	\$11,491,504

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, 2006

Program Revenues

Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes	Total Revenues
General Government	\$17,648,333	\$6,070,520	\$1,782,929	\$0	\$7,853,449
Public Safety	25,803,603	1,473,580	2,915,751	423,035	4,812,366
Public Works	12,528,095	1,251,805	9,134,066	0	10,385,871
Health	1,202,193	0	0	0	0
Social Services	6,369,349	0	4,027,289	0	4,027,289
Primary and Secondary Education	80,440,070	0	0	0	0
Post -Secondary Education	2,389,048	0	0	0	0
Parks, Recreation, and Culture	3,702,090	366,243	75,602	281,650	723,495
Libraries	1,964,882	0	0	472,016	472,016
Conservation of Natural Resources	314,206	0	0	0	0
Housing	920,395	896,007	18,141	0	914,148
Economic Development and Opportunity	3,953,972	78,415	458,087	0	536,502
Debt Interest	4,478,364	0	0	0	0
Intergovernmental	55,370	0	0	0	0
Other	1,038,066	436,276	0	179,345	615,621
TOTAL GOVERNMENTAL ACTIVITIES	\$162,808,036	\$10,572,846	\$18,411,865	\$1,356,046	\$30,340,757
Business - Type Activities					
Recreation Activity	\$2,313,076	\$2,219,694	\$45,987	\$0	\$2,265,681
Wicomico	1,122,868	1,160,645	0	0	1,160,645
Medical Adult Daycare	660,649	129,384	413,155	0	542,539
TOTAL BUSINESS-TYPE ACTIVITIES	\$4,096,593	\$3,509,723	\$459,142	\$0	\$3,968,865
TOTAL PRIMARY GOVERNMENT	\$166,904,629	\$14,082,569	\$18,871,007	\$1,356,046	\$34,309,622
Component Units:					
Board of Education	\$163,475,081	\$3,140,726	\$29,275,900	\$19,703,075	\$52,119,701
Library	2,762,069	250,331	652,217	0	\$902,548
MetCom	9,955,963	11,053,981	0	0	\$11,053,981
Building Authority	875,331	1,394,259	0	0	\$1,394,259
	\$177,068,444	\$15,839,297	\$29,928,117	\$19,703,075	\$65,470,489

General Revenues:

Property Taxes
Income Taxes
Other Taxes
Investment Earnings
Grants and Contributions Not Restricted to Specific Purposes
Value of Infrastructure Transferred to the County
Transfer (MADS Subsidy)
Miscellaneous
Total General Revenues

Transfers:

College of Southern Maryland buildings, improvements and land

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, 2006

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
(\$9,794,884)	\$0	(\$9,794,884)				
(20,991,237)	0	(20,991,237)				
(2,142,224)	0	(2,142,224)				
(1,202,193)	0	(1,202,193)				
(2,342,060)	0	(2,342,060)				
(80,440,070)	0	(80,440,070)				
(2,389,048)	0	(2,389,048)				
(2,978,595)	0	(2,978,595)				
(1,492,866)	0	(1,492,866)				
(314,206)	0	(314,206)				
(6,247)	0	(6,247)				
(3,417,470)	0	(3,417,470)				
(4,478,364)	0	(4,478,364)				
(55,370)	0	(55,370)				
(422,445)	0	(422,445)				
(\$132,467,279)	\$0	(\$132,467,279)				
\$0	(\$47,395)	(\$47,395)				
0	37,777	37,777				
0	(118,110)	(118,110)				
\$0	(\$127,728)	(\$127,728)	\$0	\$0	\$0	\$0
(\$132,467,279)	(\$127,728)	(\$132,595,007)				
\$0	\$0	\$0	(\$111,355,380)	\$0	\$0	\$0
0	0	0	\$0	(1,859,521)	0	0
0	0	0	\$0	0	1,098,018	0
0	0	0	\$0	0	0	518,928
\$0	\$0	\$0	(\$111,355,380)	(\$1,859,521)	\$1,098,018	\$518,928
\$63,198,955	\$0	\$63,198,955	\$0	\$0	\$0	\$0
56,687,230	0	56,687,230	0	0	0	0
26,129,701	0	26,129,701	0	0	0	0
3,253,211	40,342	3,293,553	545,957	7,748	160,899	11
0	0	0	125,362,592	1,781,142	0	0
11,253,790	0	11,253,790	0	0	0	0
(589,007)	589,007	0				
5,791,885	0	5,791,885	212,195	36,101	1,890,678	0
\$165,725,765	\$629,349	\$166,355,114	\$126,120,744	\$1,824,991	\$2,051,577	\$11
(\$21,148,932)	\$0	(\$21,148,932)	\$0	\$0	\$0	\$0
12,109,554	501,621	12,611,175	14,765,364	(34,530)	3,149,595	518,939
\$140,477,436	\$2,657,688	\$143,135,124	\$191,939,169	\$1,642,294	\$46,784,883	\$1,298,607
(\$4,710,622)	(\$233,008)	(\$4,943,630)			(\$100,628)	
\$147,876,368	\$2,926,301	\$150,802,669	\$206,704,533	\$1,607,764	\$49,833,850	\$1,817,546

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, 2006

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$81,158,225	\$0	\$0	\$81,158,225
Due from other funds	0	39,146,275	1,309,901	40,456,176
Taxes receivable	1,599,209	0	0	1,599,209
Emergency Support taxes receivable	0	0	28,325	28,325
Income tax reserve, funds held by the State	17,755,295	0	0	17,755,295
Special tax assessments receivable	0	0	1,903	1,903
Notes receivable, Fire and Rescue loans	0	0	237,472	237,472
Accounts receivable	12,633,578	3,606,464	0	16,240,142
Inventory	600,360	0	0	600,360
Other	2,468	0	0	2,468
Fire and Rescue loans receivable, net of short-term portion	0	0	1,048,191	1,048,191
Special tax assessments receivable, net of short-term portion	0	0	2,017,825	2,017,825
Total Assets	\$113,749,235	\$42,752,739	\$4,643,617	\$161,145,591
LIABILITIES				
Accounts payable	\$2,127,318	\$3,185,395	\$358,047	\$5,670,760
Compensation-related liabilities	2,538,435	0	0	2,538,435
Deferred income tax distribution	17,755,295	0	0	17,755,295
Deferred revenue	183,894	0	3,305,209	3,489,103
Other liabilities	3,709,453	0	0	3,709,453
Due to other funds	40,714,481	0	1,093,151	41,807,632
Due to other governments	439,075	0	0	439,075
Total Liabilities	\$67,467,951	\$3,185,395	\$4,756,407	\$75,409,753
FUND BALANCES				
Reserved	\$780,034	\$38,905,232	(\$1,084,977)	\$38,600,289
Unreserved, designated	31,021,448	662,112	972,187	32,655,747
Unreserved, undesignated	14,479,802	0	0	14,479,802
Total Fund Balances	46,281,284	39,567,344	(112,790)	85,735,838
Total Liabilities and Fund Balances	\$113,749,235	\$42,752,739	\$4,643,617	\$161,145,591

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, 2006

	General Fund	Capital Projects	Non-Major	Total
REVENUES				
Property Taxes	\$63,198,955	\$0	\$0	\$63,198,955
Income Taxes	56,687,230	0	0	56,687,230
Energy Taxes	2,689,102	0	0	2,689,102
Recordation Taxes	11,309,680	0	0	11,309,680
Transfer Taxes (including Agriculture)	0	10,035,430	0	10,035,430
Impact Fees	0	4,139,145	0	4,139,145
Other Local Taxes	935,653	0	0	935,653
Highway User Revenues	7,294,289	0	0	7,294,289
Licenses and Permits	1,267,425	0	0	1,267,425
Intergovernmental	6,705,837	3,457,070	261,028	10,423,935
Charges for Services	5,258,972	0	0	5,258,972
Fines and Forfeitures	350,397	0	0	350,397
Special Assessments	0	0	179,345	179,345
Other Revenues	7,522,082	0	1,207,552	8,729,634
Sub-total	163,219,622	17,631,645	1,647,925	182,499,192
Pass-Throughs	2,902,547	0	0	2,902,547
TOTAL GENERAL FUND REVENUES	\$166,122,169	\$17,631,645	\$1,647,925	\$185,401,739
EXPENDITURES				
General Government	\$21,327,794	\$0	\$0	\$21,327,794
Public Safety	24,514,116	0	1,245,709	25,759,825
Public Works	9,354,171	0	0	9,354,171
Health	1,202,193	0	0	1,202,193
Social Services	3,660,769	0	0	3,660,769
Primary and Secondary Education	64,446,258	15,953,774	0	80,400,032
Post-Secondary Education	2,346,763	0	0	2,346,763
Parks, Recreation, and Culture	2,976,349	0	0	2,976,349
Libraries	1,781,142	0	0	1,781,142
Conservation of Natural Resources	314,206	0	0	314,206
Housing	902,306	0	0	902,306
Economic Development and Opportunity	2,520,186	0	0	2,520,186
Capital Projects	0	6,217,755	0	6,217,755
Debt Service - Principal	8,456,262	0	164,291	8,620,553
Debt Service - Interest	4,400,237	0	78,127	4,478,364
Intergovernmental	55,370	0	0	55,370
Other	1,038,066	0	0	1,038,066
Sub-total	149,296,188	22,171,529	1,488,127	172,955,844
Pass-Throughs	2,902,495	0	0	2,902,495
TOTAL GENERAL FUND EXPENDITURES	\$152,198,683	\$22,171,529	\$1,488,127	\$175,858,339
Excess of Revenues Over (Under) Expenditures	\$13,923,486	(\$4,539,884)	\$159,798	\$9,543,400
OTHER FINANCING SOURCES AND USES				
Exempt financing proceeds	\$1,679,698	\$0	\$0	\$1,679,698
Proceeds from Water Quality Loan	0	735,110	0	735,110
State Loans	0	242,895	0	242,895
Surplus Property, Transfer of Net Debt	368,769	0	0	368,769
Capital Projects - General Fund Transfer	(3,751,010)	3,751,010	0	0
Transfer (MADS Subsidy)	(589,007)	0	0	(589,007)
Total Other Financing Sources / Uses	(\$2,291,550)	\$4,729,015	\$0	\$2,437,465
Net Change in Fund Balances	\$11,631,936	\$189,131	\$159,798	\$11,980,865
FUND BALANCE				
Beginning of the Year	\$34,649,348	\$39,378,213	(\$272,588)	\$73,754,973
End of year	<u>\$46,281,284</u>	<u>\$39,567,344</u>	<u>(\$112,790)</u>	<u>\$85,735,838</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, 2006

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

Fund Balance - Governmental Funds	\$85,735,838
Capital assets, net of accumulated depreciation, are not reported in the Balance Sheet for Governmental Funds	181,502,250
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 \$20,835,000, but does include debt applicable to assets reported in the component unit for the Board of Education	(119,361,720)
Net Assets - Governmental Activities	<u>\$147,876,368</u>

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	\$11,980,865
Depreciation expense which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(6,670,672)
Disposal of capital assets which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(153,929)
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	(3,280,755)
Repayment of debt	8,990,323
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. The amount reflected here is net of the cost of Buildings and Improvements transferred to the College of Southern Maryland in the amount of \$21,148,932.	1,243,722
Change in net assets of governmental activities	<u>\$12,109,554</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
PROPRIETARY FUNDS
JUNE 30, 2006

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Total
ASSETS				
<u>Current assets</u>				
Cash and cash equivalents	\$0	\$0	\$5,745	\$5,745
Due from other funds	0	243,371	1,227,442	1,470,813
Accounts receivable	96,135	54,882	25,296	176,313
Inventory	0	0	24,172	24,172
Total Current Assets	96,135	298,253	1,282,655	1,677,043
<u>Non-current assets</u>				
Capital assets	0	128,874	3,800,463	3,929,337
Accumulated depreciation	0	(122,104)	(1,552,143)	(1,674,247)
Capital assets, net of accumulated depreciation	0	6,770	2,248,320	2,255,090
Total Assets	\$96,135	\$305,023	\$3,530,975	\$3,932,133
LIABILITIES				
<u>Current liabilities</u>				
Due to other funds	\$119,357	\$0	\$0	\$119,357
Accounts payable	4,538	58,119	40,115	102,772
Compensation-related liabilities	118,687	78,455	119,693	316,835
Deferred revenue	0	155,185	118,271	273,456
<u>Noncurrent Liabilities</u>				
Due within one year	0	0	35,000	35,000
Due in more than one year	25,981	0	132,431	158,412
Total Liabilities	268,563	291,759	445,510	1,005,832
NET ASSETS				
Invested in capital assets, net of related debt	0	6,770	2,158,094	2,164,864
Unrestricted	(172,428)	6,494	927,371	761,437
Total Net Assets	(172,428)	13,264	3,085,465	2,926,301
Total Liabilities and Net Assets	\$96,135	\$305,023	\$3,530,975	\$3,932,133

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, 2006

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Total
OPERATING REVENUES				
Charges for Services	\$129,384	\$2,219,694	\$1,160,645	\$3,509,723
OPERATING EXPENSES				
Personal Services	438,704	\$1,416,369	\$639,855	\$2,494,928
Operating Supplies	54,738	242,849	187,045	484,632
Professional Services	5,075	254,973	70,546	330,594
Communications	0	23,684	3,313	26,997
Transportation	153,724	10,592	30,457	194,773
Repairs	0	2,262	12,298	14,560
Rentals	0	147,884	938	148,822
Public Utilities	7,437	179,586	44,054	231,077
Insurance	0	0	13,595	13,595
Miscellaneous	971	3,853	3,000	7,824
Interest Expense	0	0	3,288	3,288
Equipment	0	27,825	20,495	48,320
Depreciation	0	3,199	93,984	97,183
Total operating expenses	\$660,649	\$2,313,076	\$1,122,868	\$4,096,593
Operating Income (Loss)	(\$531,265)	(\$93,382)	\$37,777	(\$586,870)
Non-Operating Revenue				
Interest income	0	0	40,342	40,342
Grants revenue	413,155	45,987	0	459,142
General fund subsidy	589,007	0	0	589,007
Change in net assets	\$470,897	(\$47,395)	\$78,119	\$501,621
NET ASSETS				
Beginning of the year	(643,325)	65,698	3,235,315	2,657,688
Prior Period Adjustment	0	(5,039)	(227,969)	(233,008)
Beginning of the year restated	(643,325)	60,659	3,007,346	2,424,680
End of Year	(\$172,428)	\$13,264	\$3,085,465	\$2,926,301

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, 2006

	Medical Adult Daycare	Recreation Activity Fund	Wicomico	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Charges for Services	\$172,420	\$2,128,127	\$1,163,638	\$3,464,185
Personal Services	(407,821)	(1,405,722)	(599,411)	(2,412,954)
Other Expenses	(231,753)	(917,604)	(395,003)	(1,544,360)
Net Cash Provided (Used) By Operating Activities	<u>(\$467,154)</u>	<u>(\$195,199)</u>	<u>\$169,224</u>	<u>(\$493,129)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Net change in interfund loans	(535,008)	149,212	(163,416)	(539,212)
Grant revenue	413,155	45,987	0	459,142
General Operating Subsidy	589,007	0	0	589,007
Net Cash Provided (Used) By Non-Capital and Related Financing Activities	<u>\$467,154</u>	<u>\$195,199</u>	<u>(\$153,416)</u>	<u>\$508,937</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction / purchase of capital assets	0	0	(21,150)	(21,150)
Principal payments on long-term debt	0	0	(35,000)	(35,000)
Net Cash Used by Capital and Related Financing Activities	<u>\$0</u>	<u>\$0</u>	<u>(\$56,150)</u>	<u>(\$56,150)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	0	0	40,342	40,342
Net Change in Cash	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
CASH				
Beginning of Year	<u>0</u>	<u>0</u>	<u>5,745</u>	<u>5,745</u>
End of Year	<u>\$0</u>	<u>\$0</u>	<u>\$5,745</u>	<u>\$5,745</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	(\$531,265)	(\$93,382)	\$37,777	(\$586,870)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Depreciation	0	3,199	93,984	97,183
(Increase) decrease in accounts receivable	43,036	(47,189)	(13,515)	(17,668)
(Increase) decrease in inventory	0	0	(2,653)	(2,653)
Increase (decrease) in accounts payable	(9,808)	(24,096)	(3,321)	(37,225)
Increase (decrease) in compensation-related liabilities	30,883	10,647	40,444	81,974
Increase (decrease) in deferred revenue	0	(44,378)	16,508	(27,870)
Net Cash Provided (Used) By Operating Activities	<u>(\$467,154)</u>	<u>(\$195,199)</u>	<u>\$169,224</u>	<u>(\$493,129)</u>
SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES				
Total capital asset additions	\$0	\$0	\$34,927	\$34,927
Less transfer of asset from other funds	0	0	(13,777)	(13,777)
Net cash used for purchase of capital assets	<u>\$0</u>	<u>\$0</u>	<u>\$21,150</u>	<u>\$21,150</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

Sheriff's Office Retirement Plan

ASSETS

Cash and cash equivalents	\$211,615
Restricted cash and investments	<u>24,394,240</u>
Total Assets	<u>\$24,605,855</u>

NET ASSETS

Held in trust for pension benefits	<u>24,605,855</u>
Total Net Assets	<u>\$24,605,855</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 CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

Sheriff's Office Retirement Plan

ADDITIONS

Contributions - Employer	\$2,219,197
Contributions - Employee	<u>542,906</u>
	<u>2,762,103</u>
Interest and Dividends	786,531
Realized Gain	12,689
Net Unrealized Gain on Investments	<u>654,784</u>
	<u>1,454,004</u>
Net Additions	<u>\$4,216,107</u>

DEDUCTIONS

Benefits	(\$1,461,744)
Administrative	<u>(184,580)</u>
Total Deductions	<u>(\$1,646,324)</u>

Change in Net Assets	\$2,569,783
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NET ASSETS

Beginning of Year	<u>22,036,072</u>
End of Year	<u>\$24,605,855</u>

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

The County Commissioners for St. Mary's County

Index - Notes to Financial Statements

June 30, 2006

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The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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 Chief Financial Officer is responsible for the accounting for financial reporting, debt management, investment management, procurement, 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 four organizations identified on the following page 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, 2006

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.

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, 2006

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, 2006

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, 2006

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. Proprietary (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, 2006

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, 2006

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, 2006 totaled \$2,902,495. These pass-through grants are recorded as pass-through revenue in the amount of \$2,902,547 and expenditures in the amount of \$2,902,495 on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

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, 2006

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 Chief Financial Officer.
- 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 of the 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, 2006

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, 2006

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	\$10,862,081	\$44,761,476
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	597,984	338,777
Beginning of year encumbrances, rolled into FY2006	(1,009,160)	0
Appropriation from prior year rolled to FY2006 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2006	1,009,160	1,009,160
End of year encumbrances included in budget basis expenditures, not included for GAAP	<u>171,871</u>	<u>171,871</u>
GAAP Basis	<u>\$11,631,936</u>	<u>\$46,281,284</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, 2006

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.

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, 2006

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.

Proprietary funds – The deficit in the Medical Adult Daycare Fund was principally reduced in FY 2006 by a budget transfer from the general fund of \$589,007. Continued focus on this activity is expected in order to determine whether it can function as a self-supporting fund or to consider alternatives for services or funding.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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 \$43,416,507 and the collected bank balance was \$44,400,635. Of the collected bank balance, \$215,859 was covered by Federal Deposit Insurance Corporation (FDIC), and \$44,184,776 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, 2006

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	\$43,416,508
Maryland Local Government Investment Pool	37,747,462
Pension investments – Sheriff's Office Retirement Plan	
Cash and equivalents	
Cash	211,615
Temporary investments	1,788,410
Fixed income	
U.S. government and agencies	10,542,766
Mortgage-backed pass-throughs	728,703
Equities	
Corporate bonds – convertible	381,984
Common stocks	8,043,809
Closed-end fund – equity	<u>2,908,568</u>
Subtotal – Sheriff's Office Retirement Plan	24,605,855
Debt service sinking fund (St. Mary's Hospital)	<u>454,763</u>
Total investments	<u>\$106,224,588</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, 2006

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, 2006, 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 \$13,510,517, \$361,643, and \$959,105 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

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, 2006, the carrying amount of the Library's deposits was \$7,956, and the bank balances totaled \$7,606. Of the bank balances, \$7,606 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>\$ 41,931</u>	<u>\$ 41,931</u>
Restricted:		
The Vanguard Group	\$ 68,500	\$ 68,500
Mercantile Southern Maryland Bank -- Savings account	<u>2,074</u>	<u>2,074</u>
Board - restricted fund	<u>\$ 70,574</u>	<u>\$ 70,574</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

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

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.

St. Mary's County Metropolitan Commission

Deposits and investments

Deposits

The carrying amount of MetCom's deposits was \$750,116 at June 30, 2006, and the bank balances were \$1,071,878. Of the bank balances, \$100,000 was covered by federal depository insurance at June 30, 2006, with the remaining \$971,878 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	\$ 3,485,722
Cash	750,116
Petty cash	<u>150</u>
	<u>\$ 4,235,988</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. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating).

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>\$ 3,485,722</u>	<u>\$ 3,485,722</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

4. Changes in capital assets

Primary Government

A summary of changes in capital assets is as follows:

	Balance				Balance
	June 30, 2005	Additions	Prior Period Adjustment (Note 18)	Disposals & Transfers	June 30, 2006
Governmental Activities					
Capital assets not being depreciated:					
Land	\$18,830,327	\$573,000	\$0	\$0	\$19,403,327
Solid Waste Facilities	10,663,660	76,186	0	0	10,739,846
Construction In Progress	2,504,611	775,827	0	0	3,280,438
Buildings & improvements	17,320,205	3,689,650	(14,852)	(20,995,003)	0
Computer equipment	2,371,397	0	(2,371,397)	0	0
Furniture & equipment	381,191	0	(381,191)	0	0
Vehicles - licensed	30,568	0	(30,568)	0	0
Off-road vehicles	46,315	0	(46,315)	0	0
Miscellaneous equipment	1,772,823	0	(1,772,823)	0	0
Roads	1,095	0	(1,095)	0	0
Airport equipment	1,844	0	(1,844)	0	0
Bridges	71,246	0	(71,246)	0	0
Parks & recreation	17,072	0	(17,072)	0	0
Parking lots	2,219	0	(2,219)	0	0
911 system & equipment	1,423,733	0	0	0	1,423,733
Total capital assets not being depreciated	\$55,438,306	\$5,114,663	(\$4,710,622)	(\$20,995,003)	\$34,847,344
Capital assets being depreciated:					
Buildings & improvements	\$80,683,817	\$6,371,227	\$0	(\$3,689,650)	\$83,365,394
Computer equipment	1,549,032	264,506	0	0	1,813,538
Furniture & equipment	171,145	23,623	0	0	194,768
Vehicles - licensed	9,198,863	884,780	0	(365,570)	9,718,073
Off-road vehicles	1,792,856	609,015	0	(180,384)	2,221,487
Miscellaneous equipment	1,991,586	6,978	0	0	1,998,564
Roads	92,103,789	12,057,580	0	0	104,161,369
Curbing	946,791	0	0	0	946,791
Sidewalks	692,520	224,648	0	0	917,168
Guardrails	705,264	52,775	0	0	758,039
Airport infrastructure	4,457,532	0	0	0	4,457,532
Airport equipment	514,808	0	0	0	514,808
Baseball fields	707,680	0	0	0	707,680
Bridges	4,928,166	6,625	0	0	4,934,791
Parks & recreation	9,989,850	0	0	0	9,989,850
Marinas & docks	7,559,540	0	0	0	7,559,540
Irrigation systems	179,714	0	0	0	179,714
Signage	475,433	0	0	0	475,433
Parking lots	105,047	0	0	0	105,047
911 system & equipment	7,354,466	311,955	0	0	7,666,421
Total capital assets being depreciated	\$226,107,899	\$20,813,712	\$0	(\$4,235,604)	\$242,686,007
Accumulated depreciation for:					
Buildings & improvements	(\$26,705,743)	(\$1,372,055)	\$0	\$0	(\$28,077,798)
Computer equipment	(1,286,506)	(84,924)	0	0	(1,371,430)
Furniture & equipment	(41,447)	(10,468)	0	0	(51,915)
Vehicles - licensed	(7,272,542)	(497,987)	0	283,794	(7,486,735)
Off-road vehicles	(916,380)	(203,198)	0	108,231	(1,011,347)
Miscellaneous equipment	(912,269)	(187,046)	0	0	(1,099,315)
Roads	(40,572,380)	(2,811,317)	0	0	(43,383,697)

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

4. Changes in capital assets (continued)

Primary Government (continued)

	Balance		Prior Period Adjustment (Note 18)	Disposals & Transfers	Balance
	June 30, 2005	Additions			June 30, 2006
Accumulated depreciation for: (continued)					
Curbing	(\$508,174)	(\$25,621)	\$0	\$0	(\$533,795)
Sidewalks	(302,608)	(18,724)	0	0	(321,332)
Guardrails	(296,634)	(16,362)	0	0	(312,996)
Airport infrastructure	(3,573,248)	(318,281)	0	0	(3,891,529)
Airport equipment	(420,427)	(35,812)	0	0	(456,239)
Baseball fields	(300,816)	(14,025)	0	0	(314,841)
Bridges	(1,643,771)	(99,169)	0	0	(1,742,940)
Parks & recreation	(953,724)	(318,068)	0	0	(1,271,792)
Marinas & docks	(2,500,531)	(242,613)	0	0	(2,743,144)
Irrigation systems	(66,453)	(3,716)	0	0	(90,169)
Signage	(312,945)	(14,420)	0	0	(327,365)
Parking lots	(105,047)	0	0	0	(105,047)
911 equipment	(1,040,809)	(396,866)	0	0	(1,437,675)
Total accumulated depreciation	(\$89,752,454)	(\$6,670,672)	\$0	\$392,025	(\$96,031,101)
Total capital assets being depreciated, net	\$136,355,445	\$14,143,040	\$0	(\$3,843,579)	\$146,654,906
Governmental activities capital assets, net	\$191,793,751	\$19,257,703	(\$4,710,622)	(\$24,838,582)	\$181,502,250
Business-type Activities:					
Capital assets not being depreciated:					
Land	\$1,078,666	\$0	\$0	\$0	\$1,078,666
Off-road vehicles	225,477	0	(225,477)	0	0
Buildings & improvements	2,492	0	(2,492)	0	0
Computer equipment	1,139	0	(1,139)	0	0
Miscellaneous equipment	3,900	0	(3,900)	0	0
Total capital assets not being depreciated	\$1,311,674	\$0	(\$233,008)	\$0	\$1,078,666
Capital assets being depreciated:					
Buildings & improvements	\$1,707,974	\$0	\$0	\$0	\$1,707,974
Computer equipment	46,827	0	0	0	46,827
Furniture & equipment	39,359	0	0	0	39,359
Vehicles - Licensed	0	13,777	0	0	13,777
Off-road vehicles	159,492	21,150	0	0	180,642
Miscellaneous equipment	352,106	0	0	0	352,106
Irrigation systems	509,986	0	0	0	509,986
Total capital assets being depreciated	\$2,815,744	\$34,927	\$0	\$0	\$2,850,671
Accumulated depreciation for:					
Buildings & improvements	(\$922,345)	(\$40,393)	\$0	\$0	(\$962,738)
Computer equipment	(46,171)	(148)	0	0	(46,319)
Furniture & equipment	(36,802)	(307)	0	0	(37,109)
Vehicles - Licensed	0	(13,777)	0	0	(13,777)
Off-road vehicles	(68,331)	(30,173)	0	0	(98,504)
Miscellaneous equipment	(310,898)	(9,469)	0	0	(320,367)
Irrigation systems	(178,740)	(16,693)	0	0	(195,433)
Total accumulated depreciation	(\$1,563,287)	(\$110,960)	\$0	\$0	(\$1,674,247)
Total capital assets being depreciated, net	\$1,252,457	(\$76,033)	\$0	\$0	\$1,176,424
Business-type activities capital assets, net	\$2,564,131	(\$76,033)	(\$233,008)	\$0	\$2,255,090

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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	\$838,648
Public Safety	989,623
Public Works	4,024,523
Social Services	104,672
Primary and Secondary Education	40,039
Post -Secondary Education	42,285
Parks, Recreation, and Culture	442,109
Libraries	183,740
Economic Development and Opportunity	5,033
Total Depreciation - Governmental Activities	<u>\$6,670,672</u>

Business-Type Activities

Recreation Activity Fund	\$3,199
Wicomico	93,984
Total Depreciation - Business-Type Activities	<u>\$97,183</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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, 2006 is as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 761,983	\$ 1,168,185	\$ (5,025)	\$ 1,925,143
Land under financing agreement	620,149	0	0	620,149
Facilities under construction	42,807,544	17,397,705	(22,941,425)	37,263,824
	<u>44,189,676</u>	<u>18,565,890</u>	<u>(22,946,450)</u>	<u>39,809,116</u>
Capital assets being depreciated:				
Buildings and improvements	207,153,898	23,050,648	(2,104,964)	228,099,582
Furniture and equipment	3,671,952	718,539	(114,242)	4,276,249
Facilities and equipment under financing agreements	5,720,939	227,310	(179,503)	5,768,746
	<u>216,546,789</u>	<u>23,996,497</u>	<u>(2,398,709)</u>	<u>238,144,577</u>
Accumulated depreciation for:				
Buildings and improvements, including facilities under capital lease	(64,004,627)	(4,862,183)	1,382,119	(67,484,691)
Furniture and equipment, including equipment under financing agreements	(2,127,006)	(442,373)	73,909	(2,495,470)
	<u>(66,131,633)</u>	<u>(5,304,556)</u>	<u>1,456,028</u>	<u>(69,980,161)</u>
Governmental activities capital assets, net	<u>\$ 194,604,832</u>	<u>\$ 37,257,831</u>	<u>\$ (23,889,131)</u>	<u>\$207,973,532</u>
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,197,842	\$ 7,449	\$ 0	\$ 1,205,291
Accumulated depreciation for:				
Furniture and equipment	(386,784)	(82,815)	0	(469,599)
Business-type activities capital assets, net	<u>\$ 811,058</u>	<u>\$ (75,366)</u>	<u>\$ 0</u>	<u>\$ 735,692</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Assets (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2006, as follows:

Governmental activities:

Administration	\$ 31,058
Mid-Level Administration	22,629
Other Instructional Costs	118,780
Special Education	12,220
Student Personnel Services	5,503
Student Transportation Services	122,834
Operation of Plant	4,987,286
Maintenance of Plant	4,246
Total governmental activities depreciation expense	<u>\$ 5,304,556</u>

Business-type activities:

Food Services	<u>\$ 82,815</u>
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Board of Library Trustees for St. Mary's County

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2006</u>
Capital assets:				
Furnishings and Equipment	\$ 836,788	\$ 62,401	\$ (7,340)	\$ 891,849
Vehicles	17,199	15,903	0	33,102
Books	<u>2,188,514</u>	<u>266,765</u>	<u>(230,357)</u>	<u>2,224,922</u>
	<u>\$ 3,042,501</u>	<u>\$ 345,069</u>	<u>\$ (237,697)</u>	<u>\$ 3,149,873</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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 July 1, 2005	Additions	Deletions	Balance June 30, 2006
Accumulated depreciation:				
Furnishings and Equipment	\$ 460,566	\$ 142,114	\$ (7,340)	\$ 595,340
Vehicles	12,040	5,030	0	17,070
Books	<u>1,239,408</u>	<u>285,300</u>	<u>(230,357)</u>	<u>1,294,351</u>
	<u>1,712,014</u>	<u>432,444</u>	<u>(237,697)</u>	<u>1,906,761</u>
Net capital assets	<u>\$1,330,487</u>	<u>\$ (87,375)</u>	<u>\$ 0</u>	<u>\$1,243,112</u>

Governmental activities depreciation expense of \$432,444 was charged to Library services.

St. Mary's County Building Authority Commission

Capital assets

Capital assets at June 30, 2006 consisted of the following:

	Balance July 1, 2005	Additions	Balance June 30, 2006
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	3,407,292	221,156	3,628,448
State Office building	3,330,475	216,829	3,547,304
Furniture and equipment	<u>13,387</u>	<u>0</u>	<u>13,387</u>
	<u>\$ 6,751,154</u>	<u>\$ 437,985</u>	<u>\$ 7,189,139</u>
Net capital assets	<u>\$ 10,781,628</u>	<u>\$ 437,985</u>	<u>\$ 10,343,643</u>

Depreciation expense of \$437,985 was charged to activities for the fiscal year ended June 30, 2006. There were no additions or deletions of capital assets during the fiscal year ended June 30, 2006.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets:				
Utility plants	\$65,498,023	\$1,556,936	\$ 0	\$67,054,959
Water plant systems	11,920,146	425,979	0	12,346,125
Equipment	4,158,919	567,653	207,444	4,519,128
Capitalized interest	818,201	0	0	818,201
Buildings	<u>1,443,737</u>	<u>0</u>	<u>0</u>	<u>1,443,737</u>
Subtotal	83,839,026	2,550,568	207,444	86,182,150
Not being depreciated:				
Utility plant construction in process	6,325,118	1,846,602	19,396	8,152,324
Water plant construction in process	935,899	768,826	288,558	1,416,167
Land/land rights	<u>526,337</u>	<u>39,800</u>	<u>0</u>	<u>566,137</u>
	<u>91,626,380</u>	<u>5,205,796</u>	<u>515,398</u>	<u>96,316,778</u>
Accumulated depreciation:				
Utility plants	21,272,592	1,348,384	0	22,620,976
Water plant systems	3,616,696	269,472	0	3,886,168
Equipment	2,526,168	286,408	207,444	2,605,132
Capitalized interest	171,822	16,364	0	188,186
Buildings	<u>447,263</u>	<u>54,487</u>	<u>0</u>	<u>501,750</u>
	<u>28,034,541</u>	<u>1,975,115</u>	<u>207,444</u>	<u>29,802,212</u>
Net capital assets	<u>\$63,591,839</u>	<u>\$3,230,681</u>	<u>\$ 307,954</u>	<u>\$66,514,566</u>

Depreciation expense of \$1,975,115 was charged to activities as follows:

Sewer activities	\$ 1,771,530
Water activities	107,190
Engineering activities	34,185
Administrative	<u>62,210</u>
Total	<u>\$ 1,975,115</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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, 2006, was \$.872 per \$100 of assessed value based on the full valuation method. The personal property tax rate during the year ended June 30, 2006 was \$2.18 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 2004 and prior) taxes receivable. County property tax receivable as of June 30, 2006, net of the allowance for uncollectibles of \$326,375, is \$1,332,888 (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 tax 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, 2006, 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 the retrospective insurance premium refund and workers compensation insurance dividend totaling \$811,474 which will be collected subsequent to June 30, 2006, but is not available soon enough to pay for the current period's expenditures, and therefore is deferred. The remaining deferred revenue consists of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2006, and summer school tuition which is collected in advance of the corresponding expenditures which do not occur until the following fiscal year.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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 \$52,959, donated by the Federal government and included in inventory at June 30, 2006. The remaining deferred revenue represents student lunch ticket sales collected in advance for lunches which will be consumed by students in fiscal year 2007.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations

Primary Government

	June 30, 2005	Additions	Deductions	Principal Repayment	June 30, 2006	Amounts due within one year
General Obligation Bonds - County	\$113,135,000	\$0	\$0	(\$7,675,000)	\$105,460,000	\$7,745,000
Water Quality Loans	5,934,960	735,110	0	(494,150)	6,175,920	502,266
State Loans	702,241	242,895	0	(85,008)	860,128	95,085
Surplus Property Transfer of Debt	0	368,769	0	0	368,769	83,864
Exempt Financing	1,174,547	1,679,698	0	(486,166)	2,368,079	799,438
	<u>120,946,748</u>	<u>3,026,472</u>	<u>0</u>	<u>(8,740,324)</u>	<u>115,232,896</u>	<u>9,225,653</u>
General Obligation Bonds, sold on behalf of St. Mary's Hospital	<u>23,630,000</u>	<u>0</u>	<u>0</u>	<u>(2,795,000)</u>	<u>20,835,000</u>	<u>1,295,000</u>
Landfill Post-Closure Costs	2,950,000	0	(250,000)	0	2,700,000	0
Compensated Absences (long-term)	3,040,533	171,509	0	0	3,212,042	3,895
	<u>5,990,533</u>	<u>171,509</u>	<u>(250,000)</u>	<u>0</u>	<u>5,912,042</u>	<u>3,895</u>
Total	<u>\$150,567,281</u>	<u>\$3,197,981</u>	<u>(\$250,000)</u>	<u>(\$11,535,324)</u>	<u>\$141,979,938</u>	<u>\$10,524,548</u>
Less: Amount Deferred on Refunding	(1,807,220)	24,001	0	0	(1,783,219)	(11,556)
Amount Reported in Statement of Net Assets	<u>\$148,760,061</u>	<u>\$3,221,982</u>	<u>(\$250,000)</u>	<u>(\$11,535,324)</u>	<u>\$140,196,719</u>	<u>\$10,512,992</u>

Business-Type Activities

Exempt Financing	\$125,225	\$0	\$0	(\$35,000)	\$90,225	\$35,000
Compensated Absences (Long-Term)	98,227	4,960	0	0	103,187	0
Amount Reported in Statement of Net Assets	<u>\$223,452</u>	<u>\$4,960</u>	<u>\$0</u>	<u>(\$35,000)</u>	<u>\$193,412</u>	<u>\$35,000</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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, 2006

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, 2006, 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, 2006, 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>
2007	\$ 277,689
2008	277,689
2009	277,689
2010	277,689
2011	277,689
2012-2016	<u>1,275,379</u>
	<u>\$2,663,824</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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	\$ 2,241,574
Interest	294,724
Administrative fees	<u>127,526</u>
	<u>\$ 2,663,824</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, 2006, the amount drawn on the loan was \$4,222,307. 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, 2006, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2007	\$ 347,949
2008	345,853
2009	345,853
2010	345,853
2011	345,853
2012-2016	1,729,265
2017-2019	<u>927,107</u>
	<u>\$4,387,733</u>

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

Principal	\$3,934,347
Interest	304,563
Administrative fees	<u>148,823</u>
	<u>\$ 4,387,733</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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, 2006 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>
2007	\$ 86,000	\$ 5,848	\$ 91,848
2008	86,000	3,096	89,096
2009	49,696	526	50,222
	<u>\$ 221,696</u>	<u>\$ 9,470</u>	<u>\$ 231,166</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, 2006 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>
2007	\$ 122,790	\$ 6,202	\$ 128,992
2008	126,386	2,606	128,992
2009	21,421	77	21,498
	<u>\$ 270,597</u>	<u>\$ 8,885</u>	<u>\$ 279,482</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, 2006, 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>
2007	\$ 291,149	\$ 39,511	\$ 330,660
2008	301,805	28,855	330,660
2009	312,851	17,809	330,660
2010	324,301	6,359	330,660
	<u>\$1,230,106</u>	<u>\$ 92,534</u>	<u>\$1,322,640</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Primary Government (continued)

2006 Exempt Financing Equipment Lease

On May 25, 2006, The County Commissioners for St. Mary's County entered into an agreement with Suntrust Bank to borrow \$1,627,500 for the purchase of vehicles. The lease bears interest at a rate of 4.12% per annum, payable monthly. The annual requirements to amortize the 2006 Equipment Lease as of June 30, 2006, based on the final lease amount of \$1,627,500, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 299,498	\$ 64,021	\$ 363,519
2008	311,969	51,550	363,519
2009	324,959	38,560	363,519
2010	338,490	25,029	363,519
2011	<u>352,584</u>	<u>10,935</u>	<u>363,519</u>
	<u>\$1,627,500</u>	<u>\$190,095</u>	<u>\$1,817,595</u>

2006 Surplus Property, Transfer of Net Debt

On June 6, 2006, The County Commissioners for St. Mary's County entered into a public school property transfer agreement with St. Mary's County Public Schools for the transfer of George Washington Carver Elementary School. With this property transfer, the County agreed to assume the total outstanding State bond debt of \$368,769. As of June 30, 2006, the principal and interest payments are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 83,864	\$ 34,073	\$ 117,937
2008	43,240	13,374	56,614
2009	45,275	11,339	56,614
2010	47,407	9,207	56,614
2011	49,639	6,975	56,614
2012-2016	99,044	6,912	105,956
2017-2018	<u>300</u>	<u>17</u>	<u>317</u>
	<u>\$ 368,769</u>	<u>\$ 81,897</u>	<u>\$ 450,666</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Primary Government (continued)

Long-term obligations at June 30, 2006 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%	\$ 33,029
Maryland Department of Natural Resources:			
Point Breeze	1993-2017	None	97,704
Sandgates Road	1994-2015	None	56,088
Breton Bay Erosion Project	1983-2006	None	7,592
Jefferson Island #2 and #3 Erosion Projects	1985-2015	None	66,429
Tall Timbers #2 Erosion Project	1986-2012	None	37,739
Tall Timbers #3 Erosion Project	1991-2016	None	65,816
Jefferson Island Club, Inc.	1991-2016	None	125,856
Hollywood Shores	1998-2012	None	47,076
Holly Point Shores	TBD	None	242,895
Maryland Water Quality Loan	2003-2016	2.4%	2,241,574
Murray Road Revetment	2004-2028	None	79,904
Maryland Water Quality Loan	2005-2019	None	<u>3,934,346</u>
Total state loans			<u>\$7,036,048</u>

General obligation bonds:

St. Mary's Hospital Bonds of 1993	1994-2008	5.75-6.75%	\$ 1,600,000
Public Facilities Refunding Bonds of 1996	1997-2009	3.3-5.0%	545,000
St. Mary's County Consolidated Public Improvement Project and Refunding Bonds of 1997	1998-2012	4.5-4.875%	12,770,000
Consolidated Public Improvement Bonds of 1999	2000-2019	5-6%	5,065,000
2001 General Obligation Bonds	2004-2022	3.80%	21,425,000
2003 Refunding Bonds	2004-2020	3.25-5%	20,060,000
2002 St. Mary's Hospital Bonds	2006-2023	3.5-5.125%	19,235,000
2003 Public Facilities and Refunding Bonds	2006-2023	2.75-4.75%	29,935,000
Consolidated Public Improvement Bonds of 2005	2006-2025	3.75-4.25%	<u>15,660,000</u>
Total general obligation bonds			<u>\$126,295,000</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Primary Government (continued)

Total state loans and bonds	\$ 133,331,048
Surplus property transfer of debt	368,769
Accrued landfill closure and postclosure costs	2,700,000
Exempt Financing	2,368,079
Accumulated unpaid annual leave	<u>3,212,042</u>
Total	\$ 141,979,938
Less: Amount deferred on refunding	<u>\$ (1,783,219)</u>
	<u>\$ 140,196,719</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, 2006 based on the final lease amount of \$605,000, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 90,225</u>	<u>\$ 3,854</u>	<u>\$ 94,079</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Primary Government (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2006 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.	\$ 47,076
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.	7,592
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.	37,739
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.	65,816
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.	66,429
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>125,856</u>
	<u>\$350,508</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Primary Government (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2006, including interest of \$46,632,287, except for the accrued landfill closure and postclosure costs, accumulated unpaid leave benefits, exempt financing, surplus property debt and Maryland Water Quality Loans, are as follows:

Year ending June 30	General		Special Assessment		Total
	Obligation Bonds	Hospital Bonds	State Loans	Fund	
2007	\$ 12,140,660	\$ 2,250,069	\$ 34,713	\$ 57,616	\$ 14,483,058
2008	12,133,508	2,253,231	34,713	49,757	14,471,209
2009	11,524,074	2,251,936	38,622	49,490	13,864,122
2010	10,708,717	1,679,976	31,887	49,223	12,469,803
2011	10,571,572	1,675,976	28,034	48,956	12,324,538
2012-2016	40,422,036	8,369,201	133,940	95,466	49,020,643
2017-2021	33,511,435	8,422,256	84,586		42,018,277
2022-2026	11,634,040	3,376,013	68,304		15,078,357
2027-2031			57,408		57,408
	\$ 142,646,042	\$ 30,278,658	\$ 512,207	\$ 350,508	\$ 173,787,415

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

	General		Special Assessment		Total
	Obligation Bonds	Hospital Bonds	State Loans	Fund	
Principal	\$ 105,460,000	\$ 20,835,000	\$ 509,620	\$ 350,508	\$ 127,155,128
Interest	37,186,042	9,443,658	2,587	0	46,632,287
	\$ 142,646,042	\$ 30,278,658	\$ 512,207	\$ 350,508	\$ 173,787,415

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Component Units

St. Mary's County Public Schools

Long-term Liabilities

General long-term debt at June 30, 2006, 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, 2006.

	<u>Balance</u> <u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions/</u> <u>Maturities</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts due</u> <u>Within one year</u>
Governmental activities:					
Financing agreements					
Office facility construction	\$ 4,710,709	\$ 0	\$(300,341)	\$4,410,368	\$314,527
School buses and related equipment	319,909	0	(172,712)	147,197	147,197
Vehicles	0	245,000	0	245,000	43,019
	<u>\$ 5,030,618</u>	<u>\$245,000</u>	<u>\$(473,053)</u>	<u>\$4,802,565</u>	<u>\$504,743</u>
Other long-term liabilities:					
Compensated absences	\$ 3,102,305	\$623,996	\$(339,817)	\$3,386,484	\$302,673
Governmental activities:					
Long-term liabilities	<u>\$ 8,132,923</u>	<u>\$868,996</u>	<u>\$(812,870)</u>	<u>\$8,189,049</u>	<u>\$807,416</u>
Business-type activities:					
Other long-term liabilities:					
Compensated absences	\$ 72,120	\$ 48,060	\$ (27,751)	\$ 92,429	\$ 4,221

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, 2006

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, 2006:

<u>Year Ending June 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 721,495	\$ 504,743	\$ 216,752
2008	569,752	366,549	203,203
2009	569,752	383,786	185,966
2010	569,752	401,834	167,918
2011	569,752	420,732	149,020
2012-2016	2,665,848	2,224,772	441,076
2017	<u>523,911</u>	<u>500,149</u>	<u>23,762</u>
	<u>\$6,190,262</u>	<u>\$4,802,565</u>	<u>\$1,387,697</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, 2006:

<u>Balance</u> <u>July 1, 2005</u>	<u>Increase</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts due</u> <u>within one year</u>
\$ 85,346	\$ 2,666	\$ 88,012	\$ 0

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission

Long-term debt

Long-term bonds payable as of June 30, 2006 are as follows:

<u>Bonds payable</u> <u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Third Issue	1976-2006	5.0 - 6.0%	\$ 95,000	\$ 2,708
Tenth Issue	1995-2015	5.56 - 6.08%	210,000	67,810
Twelfth Issue	1996-2013	3.9 - 5.25%	1,415,000	306,074
Fourteenth Issue	2001-2029	4.125 - 5.0%	1,594,800	1,112,468
Seventeenth Issue	2006-2019	2.75 - 4.40%	5,733,292	1,689,898
Twenty-first Issue	2007-2021	3.65-4.275%	<u>1,158,700</u>	<u>408,614</u>
			10,206,792	3,587,572
Less current portion			<u>745,300</u>	<u>438,332</u>
Total			<u>\$ 9,461,492</u>	<u>\$3,149,240</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2006 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007 (current)	\$ 745,300	\$ 438,332
2008	674,700	404,662
2009	699,000	378,215
2010	728,400	350,467
2011	752,700	320,723
2012-2016	3,523,800	1,105,643
2017-2021	2,316,192	406,425
2022-2026	440,400	149,905
2027-2029	<u>326,300</u>	<u>33,200</u>
	<u>\$10,206,792</u>	<u>\$3,587,572</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

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:

<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%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

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, 2006, 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 outstanding amount of refunding bond issue number seventeen is shown net of a deferred loss on the advance refunding of \$106,708.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Twenty-first Issue

In fiscal year 2006, the Commission issued Refunding Bonds of 2006 in the principal amount of \$1,158,700. The bonds mature on May 1, in 15 annual installments, beginning in 2007 and ending in 2021. Interest rates on the bonds range from 3.65% to 4.275%. Interest is payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

This bond is not subject to prepayment by the Issuer prior to May 1, 2016. On or after May 1, 2017, this bond is subject to prepayment by the Issuer at 100%.

The bonds were issued to refund all the outstanding maturities of the Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). The Thirteenth Issue was fully refunded and \$500,000 of the Tenth Issue was fully refunded.

Current-year defeasance of debt

On April 5, 2006, MetCom issued \$1,158,700 of Refunding Bonds with a true interest cost ranging from 3.65% to 4.275% to refund certain maturities of \$620,000 in outstanding 1996 series A bonds with a coupon rate of 5.579% and \$500,000 in outstanding 1995 series A bonds with an average interest rate of 6.24%. These bonds were issued to take advantage of a favorable interest rate environment. The net proceeds (including interest and premium) of \$1,131,200 were deposited with an escrow agent to provide for all future debt service payments of the refunded bonds.

MetCom refunded these bonds at a premium to reduce its total debt service payments by \$152,325 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$110,445.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable

Notes, leases and loans payable as of June 30, 2006 are as follows:

Description	Due	Rate	Principal	Interest
Leonardtown	2010-2020	6.10 - 10%	\$ 147,373	\$ 54,785
MD Bank and Trust	2009	4.15%	82,108	7,008
MD Bank and Trust	2010	4.80%	70,438	8,778
Sixth Issue	2017	6.682%	136,931	60,767
MD Water Quality Loan #8	2012	3.45%	540,950	67,609
MD Water Quality Loan #11	2017	4.26%	2,702,863	738,717
MD Water Quality Loan #15	2020	2.70%	629,339	134,781
MD Water Quality Loan #16	2023	1.20%	485,548	48,858
MD Water Quality Loan #18	2025	1.10%	4,264,659	462,706
MD Water Quality Loan #19	2024	1.10%	288,485	29,570
MD Water Quality Loan #20	2024	1.10%	912,984	89,466
			10,261,678	1,703,045
Less current portion			678,037	241,678
Total			<u>\$ 9,583,641</u>	<u>\$ 1,461,367</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

As of June 30, 2006, 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. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$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 for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 is to be used to upgrade the Marley-Taylor WRF. Proceeds drawn at June 30, 2006 were \$4,476,590. Loan number nineteen for \$976,700 is to be used to replace the wastewater pumping station. Proceeds drawn at June 30, 2006 were \$335,940. Loan number twenty is to be used for water meter installations. As of June 30, 2006 amounts drawn on the loan were \$1,074,536. During FY2006, loan number eight was refinanced at an interest rate of 3.45%. MetCom refunded these bonds to reduce its total debt service payments by \$23,631 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$19,348.

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2006, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007 (current)	\$ 678,037	\$ 241,678
2008	698,400	222,563
2009	719,575	202,664
2010	711,563	181,912
2011	713,375	161,566
2012-2016	3,347,318	518,432
2017-2021	2,193,321	144,010
2022-2025	<u>1,200,089</u>	<u>30,220</u>
	<u>\$10,261,678</u>	<u>\$1,703,045</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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, 2006 were as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts due</u> <u>Within one year</u>
Bonds payable	\$10,786,700	\$1,158,700	\$1,738,608	\$10,206,792	\$745,300
Notes, leases and loans payable	9,420,787	1,576,150	735,259	10,261,678	678,037
Total long-term debt	<u>\$20,207,487</u>	<u>\$2,734,850</u>	<u>\$2,473,867</u>	<u>\$20,468,470</u>	<u>\$1,423,337</u>

Building Authority Commission

Long-term Debt

Changes in Long-term Debt

The changes in long-term debt for the year ended June 30, 2006 were as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>	<u>Amounts due</u> <u>within one year</u>
Bonds payable	<u>\$10,415,000</u>	<u>\$0</u>	<u>\$975,000</u>	<u>\$9,440,000</u>	<u>\$1,000,000</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 County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

Nursing Home Refunding Bonds (continued)

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</u> <u>(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, 2006

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, 2006

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, 2006

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:

Period During Which Redeemable (both dates inclusive)	<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 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, 2006

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, 2006

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, 2006 are as follows:

<u>Years</u>	<u>State Office Building</u>	<u>Nursing Home</u>	<u>Total</u>
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	635,000	555,000	1,190,000
2012-2016	1,385,000	2,205,000	3,590,000
2017	0	375,000	375,000
	<u>\$ 4,240,000</u>	<u>\$ 5,200,000</u>	<u>\$ 9,440,000</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>
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	105,518	98,241	203,759
2012-2016	100,055	240,609	340,664
2017	0	7,031	7,031
	<u>\$ 947,680</u>	<u>\$ 890,010</u>	<u>\$ 1,837,690</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

8. Fund Balances

A summary of the reserved and unreserved - designated and undesignated fund balances as of June 30, 2006 is as follows:

	Special Revenue Funds					Capital Projects Fund	Pension Trust Fund
	General Fund	Special Assessments	Fire & Rescue Revolving	Emergency Support	Total		
Reserved							
Encumbrances	\$172,456			\$7,992	\$180,448	\$3,645,150	
Inventory	600,360				600,360		
Land Tax Sale	2,468				2,468		
Retirement of Long-Term Obligations							
Domestic Violence Programs		(\$1,092,969)			(1,092,969)		
Future Project Revenue	855				855		
Bonds Sold							
Roads- Impact Fees						14,827,460	
Parks- Impact fees						1,084,605	
Schools- Impact Fees						521,033	
Transfer Tax						2,851,918	
Fees in Lieu						4,706,319	
Other, Including Federal and State Grants	3,895				3,895	250,360	
Total Reserved Fund Balances	\$780,034	(\$1,092,969)	\$0	\$7,992	(\$1,084,977)	\$11,018,387	\$0
Unreserved							
Designated	\$31,021,448	\$0	\$841,482	\$130,705	\$972,187	\$662,112	\$24,605,855
Undesignated	14,479,802	0	0	0	0	0	0
Total Unreserved Fund Balances	45,501,250	0	841,482	130,705	972,187	662,112	24,605,855
Total Fund Balances (deficit)	\$46,281,284	(\$1,092,969)	\$841,482	\$138,697	(\$112,790)	\$39,567,344	\$24,605,855

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

8. Fund balances (continued)

The reserve for fund balance represents:

Encumbrances - The amount of outstanding purchase orders at June 30, 2006.

Inventory - The amount of inventory at June 30, 2006, 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, 2006.

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 general fund designated fund balance is composed of:

Budgetary (Non-GAAP) Basis

Appropriation for FY 2007 operating budget	\$ 5,460,366
Appropriation for FY 2007 CIP/Paygo	14,228,277
Bond rating reserve - 6% of FY 2007 budgeted general fund revenues	9,652,870
Rainy day fund	<u>1,375,000</u>
	30,716,513
 Adjustments to modified accrual basis	 <u>304,935</u>
	<u><u>\$31,021,448</u></u>

The designated reserve for the FY2007 operating budget includes \$3.5 million to initially fund a trust for post-employment health benefits for County employees (see Note 14).

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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, 2006 was \$32,232,719, of which \$17,938,362 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, 2006

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, 2005. 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, 2006

9. Retirement plans (continued)

Primary Government (continued)

Funding status and progress (continued)

At June 30, 2005, 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

\$20,975,329,441

Current employees

18,158,120,326

Total pension benefit obligation

39,133,449,767

Net actuarial assets available for benefits

34,519,500,395

Unfunded actuarial pension benefit obligation

\$ 4,613,949,372

The schedule below (expressed in thousands) presents the actuarial value of the System's assets and the actuarial accrued liability as of June 30, 2005 and the preceding two years. The schedule is intended to help the users assess the funding status of the System.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Actuarial value of assets	\$34,519,500	\$33,484,657	\$32,631,465
Actuarial accrued liability (AAL)	<u>39,133,450</u>	<u>36,325,704</u>	<u>34,974,601</u>
Unfunded AAL	<u>\$4,613,950</u>	<u>\$2,841,047</u>	<u>\$2,343,136</u>
Funded ratio	88.21%	92.18%	93.3%
Covered payroll	\$8,603,761	\$8,069,481	\$8,134,419
Unfunded AAL as a % of payroll	54%	35%	29%
Annual pension cost	805,564	\$710,632	\$654,578
Percentage contributed	83%	89%	92%
Net pension obligation	\$0	\$0	\$0

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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 \$239,855,000 for fiscal year 2005 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2005. 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 2005 totaled approximately \$208,997,000. The County's contributions to the System for the year ended June 30, 2006 were \$1,366,051.

The computation of the pension contribution requirements for fiscal year 2005 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, 2005.

Sheriff's Department plan

Effective date

The effective date of the plan is July 1, 1986, with amendments effective October 2000 and September 2006.

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, 2006

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, 2006

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 the 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 the 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 the 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, 2006

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, 2006

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, 2006

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 \$10,273,378, and the Sheriff's Department's total payroll for all employees is \$11,531,918. The following employer contributions were made during the fiscal year ended June 30, 2006:

	<u>Contributions</u>	<u>% of Covered Payroll</u>
Retirement plan	\$2,216,646	26.86%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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, with rates reflected effective July 1, 2006, 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 two hundred dollars (\$200) per month, for life. Payments will begin in the month following eligibility.

An additional payment of eight dollars (\$8) 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 fifty (\$150) per month for life.

An additional payment of eight dollars (\$8) 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, 2006

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 eight dollars (\$8).

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, 2006

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, 2006 was \$370,003.

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, 2006

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, 2006

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 \$667,539 or 0.7% of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$6,935,380 or 7.8% of covered payroll for fiscal year 2006, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2005. 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 15-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
2004	\$6,666,750	\$423,543	\$6,243,207	100%	\$0
2005	7,308,633	632,674	6,675,959	100	0
2006	7,602,919	667,539	6,935,380	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, 2006

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 15-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, 2006

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, 2006, the Library's total payroll and payroll for covered employees were \$1,603,804 and \$1,487,973, respectively. No contributions were made by the Library for the year ended June 30, 2006.

For fiscal year 2006, the State contributed approximately \$135,317 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 9.09% 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

	June 30		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Actual pension cost	\$ 805,564	\$ 710,632	\$ 654,578
Percentage contributed	83%	89%	92%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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 15-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, 2006, MetCom's total payroll and payroll for covered employees were \$3,201,637 and \$2,930,626, respectively. MetCom's contribution to the System for the year ended June 30, 2006, was \$190,419.

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

	2005	June 30 2004	2003
Actual pension cost	\$ 805,564	\$ 710,632	\$ 654,578
Percentage contributed	83%	89%	92%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

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, 2006 is as follows:

	Medical Adult Daycare	Wicomico Municipal Golf Course	Recreation Revolving Fund	Total Enterprise Funds
Operating revenue	\$ 129,384	\$1,160,645	\$2,219,694	\$3,509,723
Depreciation	\$ 0	\$ 93,984	\$ 3,199	\$ 97,183
Operating income (loss)	\$(531,265)	\$ 37,777	\$ (93,382)	\$(586,870)
Change in net assets	\$ 470,897	\$ 78,119	\$ (47,395)	\$ 501,621
Plant, property and equipment additions	\$ 0	\$ 34,927	\$ 0	\$ 34,927
Net working capital	\$(146,447)	\$ 1,004,576	\$ 6,494	\$ 864,623
Total assets	\$ 96,135	\$ 3,530,975	\$ 305,023	\$3,932,133
Total equity	\$(172,428)	\$ 3,085,465	\$ 13,264	\$2,926,301

11. Interfund receivables

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2006:

	Interfund Receivables	Interfund Payables
<u>Primary Government</u>		
General Fund		
Special Revenue Fund		\$ 216,750
Capital Projects Fund		39,146,275
Enterprise Fund		1,351,456
<u>Special Revenue Funds</u>		
General Fund	\$ 216,750	
<u>Capital Projects Funds</u>		
General Fund	39,146,275	
<u>Enterprise Funds</u>		
General Fund	<u>1,351,456</u>	
Total due from/to other funds	<u>\$40,714,481</u>	<u>\$40,714,481</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

11. Interfund receivables (continued)

Component Units

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Component Unit-St. Mary's County Building Authority Commission	\$165,809	
Component Unit-Board of Library Trustees for St. Mary's County	273,266	
Primary Government-General Fund	_____	<u>\$439,075</u>
Total due to/from Primary Government to Component Unit	<u>\$439,075</u>	<u>\$439,075</u>

12. Mortgage receivable

The mortgage receivable amount 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 (\$1,600,000) and the St. Mary's County Hospital Bonds of 2003 (\$19,235,000).

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, 2006, 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, 2006

13. Commitments and contingencies (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

School Construction

As of June 30, 2006, 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 \$4,670,044.

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 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 Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

14. Post-employment benefits (continued)

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, 2006, there was an average of 149 people participating in post-employment health and life benefits at an annual cost to the County of \$1,248,602.

Other post-employment benefits

In June 2004, the Governmental Accounting Standards Board released Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. Statement 45 establishes standards for the measurement, recognition, and display of other post-employment benefit (OPEB) expenses/expenditures and related liabilities, assets and note disclosures. OPEB includes post-employment healthcare as well as other forms of post-employment benefits, such as life insurance, when provided separately from a pension plan. Under Statement 45, governments must quantify and recognize the cost of OPEB attributable to former and current employees. The County must implement this standard for the fiscal year beginning July 1, 2007.

The County, and each of the component units, contracted for an actuarial analysis of their post-employment liability, in anticipation of preparing for and complying with Statement 45. The actuarial report included the Primary Government, St. Mary's County and the following Component Units: St. Mary's County Public Schools, St. Mary's County Metropolitan Commission and the St. Mary's County Library. The valuation quantified the Unfunded Actuarial Accrued Liability (UAAL) and the annual required contribution (ARC) as of July 1, 2007, based on the current benefit structure. The following table represents those amounts:

Primary Government

	Estimated	
	<u>UAAL</u>	<u>ARC</u>
St. Mary's County Government	\$64,715,000	\$6,100,000

Component Units

	Estimated	
	<u>UAAL</u>	<u>ARC</u>
St. Mary's County Public Schools	\$81,154,000	\$7,991,000
St. Mary's County Metropolitan Commission	\$4,232,000	\$506,000
St. Mary's County Library	\$1,707,000	\$169,000

The results are based on an assumed 7.75% present value discount factor, which assumes a management policy of funding the ARC resulting in long-term investment returns. If management adopts a non-funding or partial funding policy, the discount factor will decrease, thus increasing both the UAAL and ARC. If management changes the retiree health benefit plans to reduce costs, the UAAL and ARC will decrease. Currently the County and its Component Units fund post-employment benefits on a pay-as-you-go basis. These amounts, at a minimum, serve to partially fund the annual requirements under Statement 45.

As part of the approved FY2007 budget, the County designated \$3.5 million from the FY 2006 surplus for the OPEB liability. During FY2007, alternatives will be considered for both the benefit structure and the funding in order to assure timely compliance with Statement 45.

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 \$2,700,000 reported as landfill closure and postclosure care liability at June 30, 2006, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2006

15. Landfill closure and postclosure cost (continued)

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, which generally occur under State and Federal grants. For the year ended June 30, 2006, the County has recognized pass-through revenues in the amount of \$2,902,547 and expenditures in the amount of \$2,902,495. Entities to which the funds have been passed through are: 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 2006, the County paid premiums of \$701,369 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.

18. Prior Period Adjustment

Governmental activities

A prior period adjustment in the amount of \$4,710,622 was made to the general fund to correct fund balance as of July 1, 2005, and to remove capital assets as of June 30, 2005. Capital assets removed do not meet our capitalization threshold, and should not have been capitalized. We implemented GASB 34 beginning in FY2002, and at that time, revised the capitalization threshold. These assets should not have been reflected in the financial report. This prior period adjustment represents the final adjustment required to fully implement GASB 34.

Business-type activities

A prior period adjustment in the amount of \$233,008 was made to the proprietary funds to correct fund balance as of July 1, 2005, and to remove capital assets as of June 30, 2005. Capital assets removed do not meet our capitalization threshold, and should not have been capitalized. We implemented GASB 34 beginning in FY2002. When implementing GASB 34 our capitalization policy was changed and affected both Governmental and Business-type activities. This prior period adjustment represents the final adjustment required to fully implement GASB 34 and the effects of the change in capitalization policy.

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, 2006

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
REVENUES				
Property Taxes	\$60,283,121	\$60,283,121	\$63,198,955	\$2,915,834
Income Taxes	56,350,000	56,350,000	56,687,230	337,230
Energy Taxes	3,200,000	3,200,000	2,689,102	(510,898)
Recordation Taxes	6,700,000	6,700,000	11,309,680	4,609,680
Other Local Taxes	820,000	820,000	935,653	115,653
Highway User Revenues	6,967,220	6,967,220	7,294,289	327,069
Licenses and Permits	1,456,892	1,349,305	1,267,425	(81,880)
State/Federal Grants	5,401,876	5,490,934	6,705,837	1,214,903
Charges for Services	5,751,031	6,098,970	5,258,972	(839,998)
Fines and Forfeitures	276,877	276,877	267,731	(9,146)
Investment and Other Revenues	1,045,992	716,582	3,530,719	2,814,137
Sub-total	148,253,009	148,253,009	159,145,593	10,892,584
Pass-Throughs	0	0	2,902,547	2,902,547
TOTAL GENERAL FUND REVENUES	\$148,253,009	\$148,253,009	\$162,048,140	\$13,795,131
EXPENDITURES				
General Government	\$17,900,024	\$18,310,166	\$17,121,275	\$1,188,891
Public Safety	24,736,045	24,483,226	24,141,881	341,345
Public Works	9,226,147	9,332,926	8,743,272	589,654
Health	1,217,116	1,205,122	1,202,193	2,929
Social Services	3,614,162	3,732,339	3,602,590	129,749
Primary and Secondary Education	64,461,511	64,459,811	64,446,258	13,553
Post-Secondary Education	2,296,763	2,346,763	2,346,763	0
Parks, Recreation, and Culture	3,182,494	3,111,239	2,891,273	219,966
Libraries	1,781,142	1,781,142	1,781,142	0
Conservation of Natural Resources	318,658	317,946	314,206	3,740
Housing	1,123,366	976,893	902,306	74,587
Economic Development and Opportunity	2,143,456	2,390,500	2,500,453	(109,953)
Debt Service	13,286,553	13,229,844	12,856,499	373,345
Inter-governmental	55,370	55,370	55,370	0
Other	1,172,150	1,089,850	1,038,066	51,784
Sub-total	146,514,957	146,823,137	143,943,547	2,879,590
Pass-Throughs	0	0	2,902,495	(2,902,495)
TOTAL GENERAL FUND EXPENDITURES	\$146,514,957	\$146,823,137	\$146,846,042	(\$22,905)
OTHER FINANCING SOURCES AND USES				
Use of Fund Balance to Fund Operations	3,026,965	3,127,754	0	(3,127,754)
Transfer to Capital Projects	(3,151,010)	(3,751,010)	(3,751,010)	0
Transfer (MADS Subsidy)	(589,007)	(589,007)	(589,007)	0
Reserves	(1,025,000)	(217,609)	0	217,609
TOTAL OTHER FINANCING SOURCES AND USES	(1,738,052)	(1,429,872)	(4,340,017)	(2,910,145)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	\$0	\$0	\$10,862,081	\$10,862,081

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SHERIFF'S OFFICE RETIREMENT PLAN
FOR THE YEAR ENDED JUNE 30, 2006

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
6/30/03	1,204,825	100%	0
6/30/04	1,652,971	100%	0
6/30/05	2,036,981	100%	0
6/30/06	2,219,197	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.

OTHER SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
ASSETS				
Due from other funds	\$0	\$1,191,482	\$118,419	\$1,309,901
Special tax assessments receivable, current portion	1,903	0	0	1,903
Notes receivable, Fire and Rescue loans, current portion	0	237,472	0	237,472
Emergency Support taxes receivable	0	0	28,325	28,325
Notes receivable, Fire and Rescue loans (net of current portion)	0	1,048,191	0	1,048,191
Special tax assessments receivable (net of current portion)	2,017,825	0	0	2,017,825
Total Assets	\$2,019,728	\$2,477,145	\$146,744	\$4,643,617
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$0	\$350,000	\$8,047	\$358,047
Deferred revenue	2,019,546	1,285,663	0	3,305,209
Due to other funds	1,093,151	0	0	1,093,151
Total Liabilities	\$3,112,697	\$1,635,663	\$8,047	\$4,756,407
FUND BALANCES				
Reserved	(\$1,092,969)	\$0	\$7,992	(\$1,084,977)
Unreserved, designated	0	841,482	130,705	972,187
Total Fund Balances	(\$1,092,969)	\$841,482	\$138,697	(\$112,790)
Total Liabilities and Fund Balances	\$2,019,728	\$2,477,145	\$146,744	\$4,643,617

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, 2006

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
REVENUES				
Fire and Rescue Loan Repayments	\$0	\$247,221	\$0	\$247,221
Special Assessments	179,345	0	0	179,345
Emergency Services Support Tax	0	0	1,159,837	1,159,837
Other	0	47,715	13,807	61,522
	<u>\$179,345</u>	<u>\$294,936</u>	<u>\$1,173,644</u>	<u>\$1,647,925</u>
EXPENDITURES				
Loans to Fire and Rescue	\$0	\$350,000	\$0	\$350,000
Debt Service	57,881	0	184,537	242,418
LOSAP	0	0	403,032	403,032
Operating Allocations	0	0	340,000	340,000
Advanced Life Support	0	0	94,647	94,647
Emergency Services Committee	0	0	24,977	24,977
Grants	0	0	33,053	33,053
	<u>\$57,881</u>	<u>\$350,000</u>	<u>\$1,080,246</u>	<u>\$1,488,127</u>
Net Change in Fund Balances	<u>\$121,464</u>	<u>(\$55,064)</u>	<u>\$93,398</u>	<u>\$159,798</u>
FUND BALANCES				
Beginning of Year	(1,214,433)	896,546	45,299	(272,588)
End of Year	<u>(\$1,092,969)</u>	<u>\$841,482</u>	<u>\$138,697</u>	<u>(\$112,790)</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, 2006

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
PROPERTY TAXES				
Real and personal property				
Real Property Taxes	\$55,436,491	\$55,436,491	\$57,781,815	\$2,345,324
Personal Property	258,380	258,380	168,945	(89,435)
Public Utilities	2,475,804	2,475,804	2,679,049	203,245
Ordinary Business Corporations	2,325,241	2,325,241	2,715,322	390,081
Additions and Abatements	(468,105)	(468,105)	(449,473)	18,632
Penalties and Interest	456,856	456,856	512,852	55,996
State Homeowners Credit (Circuit Breaker)	480,533	480,533	496,120	15,587
Homeowners Tax Credit (County)	(480,533)	(480,533)	(464,420)	16,113
Other Tax Credits	(201,546)	(201,546)	(241,255)	(39,709)
Total Property Taxes	\$60,283,121	\$60,283,121	\$63,198,955	\$2,915,834
Income Tax				
Local Income Tax	\$56,350,000	\$56,350,000	\$56,687,230	\$337,230
Other Local Taxes				
Recordation Taxes	6,700,000	6,700,000	11,309,680	4,609,680
Energy Taxes	3,200,000	3,200,000	2,689,102	(510,898)
Public Accommodations Tax	500,000	500,000	552,163	52,163
Trailer Park Tax	200,000	200,000	232,253	32,253
Admissions and Amusement	120,000	120,000	151,237	31,237
Total Other Local Taxes	\$10,720,000	\$10,720,000	\$14,934,435	\$4,214,435
State-Shared Taxes - Highway Users	\$6,967,220	\$6,967,220	\$7,294,289	\$327,069
TOTAL TAXES	\$134,320,341	\$134,320,341	\$142,114,909	\$7,794,568
LICENSES AND PERMITS				
Business	237,500	232,000	245,266	13,266
Marriage/Animal Licenses	11,700	11,700	11,053	(647)
Other	606,692	504,605	574,830	70,225
CATV Franchise Fees	601,000	601,000	436,276	(164,724)
TOTAL LICENSES AND PERMITS	\$1,456,892	\$1,349,305	\$1,267,425	(\$81,880)
INTER-GOVERNMENTAL				
General Government	289,390	535,558	592,490	56,932
Public Safety	2,510,964	2,211,350	3,334,103	1,122,753
Public Works	1,262,780	1,416,495	1,365,549	(50,946)
Social Services	929,457	941,519	881,252	(60,267)
Parks, Recreation and Culture	124,000	103,495	75,602	(27,893)
Economic Development & Opportunity	285,285	282,517	456,841	174,324
TOTAL INTER-GOVERNMENTAL	\$5,401,876	\$5,490,934	\$6,705,837	\$1,214,903

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, 2006
(CONTINUED)

(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
CHARGES FOR SERVICES				
General Government	\$2,088,734	\$2,370,921	\$2,240,097	(\$130,824)
Public Safety	1,028,403	1,228,403	762,140	(466,263)
Public Works	985,492	985,492	945,963	(39,529)
Social Services	104,861	106,261	121,191	14,930
Parks, Recreation and Culture	323,592	323,592	199,096	(124,496)
Reimbursement - Housing Authority	1,219,949	1,084,301	990,485	(93,816)
TOTAL CHARGES FOR SERVICES	5,751,031	6,098,970	5,258,972	(839,998)
FINES AND FORFEITURES				
General Government	272,877	272,877	260,383	(12,494)
Public Safety	4,000	4,000	7,348	3,348
TOTAL FINES AND FORFEITURES	\$276,877	\$276,877	\$267,731	(\$9,146)
OTHER REVENUES				
General Government				
Interest	536,300	536,300	3,253,422	2,717,122
Other	58,142	56,142	208,645	152,503
Grant Reserve	400,000	72,590	0	(72,590)
Contributions and Donations	51,550	51,550	68,652	17,102
TOTAL OTHER REVENUES	\$1,045,992	\$716,582	\$3,530,719	\$2,814,137
TOTAL, BEFORE PASS-THROUGH PROCEEDS	\$148,253,009	\$148,253,009	\$159,145,593	\$10,892,584
Pass-through Proceeds	0	0	2,902,547	2,902,547
OTHER FINANCING SOURCES				
Appropriation of Fund Balance	3,026,965	3,127,754	0	(3,127,754)
TOTAL REVENUES INCLUDING PASS-THROUGHS	\$151,279,974	\$151,380,763	\$162,048,140	\$10,667,377

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, 2006

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
GENERAL GOVERNMENT				
Legislative/County Commissioners				
Legislative/County Commissioners	\$339,311	\$345,185	\$322,346	\$22,839
County Administrator	363,367	361,717	332,710	29,007
Public Information	335,200	311,200	294,820	16,380
County Attorney	491,253	512,254	482,750	29,504
Legislative/County Commissioners	1,529,131	1,530,356	1,432,626	97,730
Department of Finance				
Director of Finance	493,559	484,659	474,000	10,659
Accounting	416,556	410,056	376,308	33,748
Auditing	45,360	45,360	45,080	280
Procurement	246,344	243,844	241,076	2,768
Copy Center	26,440	26,440	19,939	6,501
Department of Finance	1,228,259	1,210,359	1,156,403	53,956
Information Technology	1,937,872	1,974,358	1,950,484	23,874
Human Resources				
Human Resources	571,916	554,216	522,544	31,672
Risk Management	856,593	864,929	803,175	61,754
Human Resources	1,428,509	1,419,145	1,325,719	93,426
Department of Facilities Management				
Capital Projects	183,085	144,460	136,643	7,817
Building Services	2,895,610	3,254,347	3,002,711	251,636
Carter State Reimbursement	486,240	619,240	467,707	151,533
Department of Facilities Management	3,564,935	4,018,047	3,607,061	410,986
Dept of Land Use/Growth Management				
Administration	571,642	530,792	409,697	121,095
Comprehensive Planning	550,590	518,384	439,767	78,617
Development Services	538,519	557,468	477,763	79,705
Planning Commission	23,092	23,142	21,210	1,932
Boards and Commissions	19,340	19,340	14,724	4,616
Historical Preservation	3,060	3,060	391	2,669
Grants	71,100	20,100	62,518	(42,418)
Dept of Land Use/Growth Management	1,777,543	1,672,286	1,426,070	246,216
Department of PW and Transportation				
Development Review	294,643	310,600	225,956	84,644
Mailroom/Messenger Services	113,527	113,027	110,386	2,641
Vehicle Maintenance Shop	1,141,861	1,131,811	1,062,672	69,139
Department of PW and Transportation	1,550,031	1,555,438	1,399,014	156,424
Department of Bldg Permit Services				
Permit Services	242,682	236,082	226,754	9,328
Inspections & Compliance	463,535	499,335	474,850	24,485
Board of Electrical Examiners	8,945	8,945	6,826	2,119
Department of Bldg Permit Services	715,162	744,362	708,430	35,932
Circuit Court				
Administration	815,186	804,986	747,580	57,406
Law Library	46,100	46,100	45,561	539
Grants	207,045	257,827	333,709	(75,882)
Orphan's Court	30,530	29,430	27,929	1,501
Circuit Court	1,098,861	1,138,343	1,154,779	(16,436)
Office of the State's Attorney				
Judicial	1,657,854	1,645,432	1,588,434	56,998
Grants	429,347	426,020	404,528	21,492
Office of the State's Attorney	2,087,201	2,071,452	1,992,962	78,490

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, 2006
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
County Treasurer	\$345,010	\$338,510	\$331,603	\$6,907
Alcohol Beverages Board	203,321	203,321	192,465	10,856
Supervisors of Elections	424,495	424,495	434,274	(9,779)
Ethics Commission	9,694	9,694	9,385	309
Total General Government	\$17,900,024	\$18,310,166	\$17,121,275	\$1,188,891
PUBLIC SAFETY				
Emergency Management	223,714	213,714	200,690	13,024
Emergency Management	547,993	545,893	501,274	44,619
Animal Control	771,707	759,607	701,964	57,643
Emergency Management				
Emergency Communications Center	1,822,072	1,736,122	1,426,803	309,319
Emergency Communications Center	732,168	728,968	674,925	54,043
Emergency Radio Communications	9,000	209,638	577,524	(367,986)
Grants	2,563,240	2,674,728	2,679,352	(4,624)
Emergency Communications Center				
Office of the Sheriff	13,412,997	13,255,635	12,888,798	366,837
Law Enforcement	6,773,379	6,694,779	6,419,051	275,728
Corrections	100,410	100,410	96,436	3,974
Training	11,775	11,775	7,641	4,134
Canine	902,537	786,292	1,148,639	(362,347)
Grants	21,201,098	20,848,891	20,560,565	288,326
Office of the Sheriff				
Volunteer Fire Depts. & Rescue Squads	200,000	200,000	200,000	0
Total Public Safety	\$24,736,045	\$24,483,226	\$24,141,881	\$341,345
PUBLIC WORKS AND TRANSPORTATION				
Department of PW and Transportation	355,035	354,035	348,813	5,222
Administration	300,240	273,240	268,041	5,199
Engineering Services	410,321	411,221	394,729	16,492
Construction & Inspections	3,032,923	2,953,305	2,790,608	162,697
County Highways	2,519,739	2,579,712	2,477,450	102,262
Solid Waste	429,742	429,092	373,547	55,545
Recycling	15,679	15,679	11,843	3,836
St Mary's County Airport	2,148,668	2,302,842	2,065,081	237,761
St. Mary's Transit System	9,212,347	9,319,126	8,730,112	589,014
Department of PW and Transportation				
Maryland Dept. of Agriculture Weed Control	13,800	13,800	13,160	640
Total Public Works and Transportation	\$9,226,147	\$9,332,926	\$8,743,272	\$589,654

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, 2006
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable) Variance
	Original	Final	Actual	
HEALTH				
Operating Allocation				
Mental Health Authority of St. Mary's	\$54,945	\$54,945	\$54,945	\$0
Health Department	1,120,671	1,108,677	1,108,081	596
Operating Allocation	1,175,616	1,163,622	1,163,026	596
Office of the State's Attorney				
Project Graduation	41,500	41,500	39,167	2,333
Total Health	\$1,217,116	\$1,205,122	\$1,202,193	\$2,929
SOCIAL SERVICES				
Marcey Halfway House	412,632	412,632	413,036	(404)
Office on Aging				
Office on Aging	1,191,396	1,174,396	1,093,076	81,320
Oakley Center	54,823	60,723	56,684	4,039
SMILE	31,700	31,700	31,500	200
Grants	706,218	719,680	680,753	38,927
Office on Aging	1,984,137	1,986,499	1,862,013	124,486
Department of Social Services	342,408	342,408	338,187	4,221
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	2,554	1,446
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	3,000	3,000	0
Three Oaks Center	59,500	59,500	59,500	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	5,000	5,000	5,000	0
Walden/Sierra	195,038	310,853	310,853	0
Women's Center	84,909	84,909	84,909	0
Operating Allocation	874,985	990,800	989,354	1,446
Total Social Services	\$3,614,162	\$3,732,339	\$3,602,590	\$129,749
PRIMARY AND SECONDARY EDUCATION				
Board of Education	62,634,224	62,634,224	62,634,224	0
Non-Public School Bus Transportation	1,815,287	1,813,587	1,800,034	13,553
Operating Allocation				
Literacy Council of St. Mary's County	12,000	12,000	12,000	0
Total Primary and Secondary Education	\$64,461,511	\$64,459,811	\$64,446,258	\$13,553
POST-SECONDARY EDUCATION				
College of Southern Maryland				
County Funding - general operations	2,240,763	2,290,763	2,290,763	0
Operating Allocation				
St. Mary's College Scholarship Fund	6,000	6,000	6,000	0
Southern Md. Higher Education Center	50,000	50,000	50,000	0
Operating Allocation	56,000	56,000	56,000	0
Total Post-Secondary Education	\$2,296,763	\$2,346,763	\$2,346,763	\$0

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, 2006
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
PARKS, RECREATION AND CULTURE				
Department of Recreation and Parks				
Administration	\$896,702	\$881,202	\$849,662	\$31,540
Parks Maintenance	1,608,153	1,590,503	1,443,700	146,803
Museum Division	419,139	411,539	397,371	14,168
Grants	134,000	103,495	76,040	27,455
Department of Recreation and Parks	<u>3,057,994</u>	<u>2,986,739</u>	<u>2,766,773</u>	<u>219,966</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
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	50,000	50,000	50,000	0
SMC Forrest Cons Dist Bd.	1,000	1,000	1,000	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>124,500</u>	<u>124,500</u>	<u>124,500</u>	<u>0</u>
Total Parks, Recreation, and Culture	<u>\$3,182,494</u>	<u>\$3,111,239</u>	<u>\$2,891,273</u>	<u>\$219,966</u>
LIBRARIES				
County Funding - general operations	<u>\$1,781,142</u>	<u>\$1,781,142</u>	<u>\$1,781,142</u>	<u>\$0</u>
CONSERVATION OF NATURAL RESOURCES				
Cooperative Extension Service	150,568	150,568	147,476	3,092
Soil Conservation District	47,495	47,495	47,769	(274)
Conservation of Natural Resources	<u>198,063</u>	<u>198,063</u>	<u>195,245</u>	<u>2,818</u>
Allocation of Agriculture and Seafood (Division of DECD (75%))	<u>99,395</u>	<u>98,683</u>	<u>97,761</u>	<u>922</u>
Operating Allocation				
Wicomico Scenic River Commission	1,000	1,000	1,000	0
Southern Md. Resource Conservation/Dev	5,200	5,200	5,200	0
Watermen's Association	15,000	15,000	15,000	0
Operating Allocation	<u>21,200</u>	<u>21,200</u>	<u>21,200</u>	<u>0</u>
Total Conservation of Natural Resources	<u>\$318,658</u>	<u>\$317,946</u>	<u>\$314,206</u>	<u>\$3,740</u>
COMMUNITY DEVELOPMENT AND HOUSING				
Total Housing	<u>\$1,123,366</u>	<u>\$976,893</u>	<u>\$902,306</u>	<u>\$74,587</u>
ECONOMIC DEVELOPMENT AND OPPORTUNITY				
Dept. of Econ & Comm Development				
Administration/Office of the Director	225,876	223,526	219,189	4,337
Tourism Development	358,539	367,864	355,379	12,485
Agriculture & Seafood Development	132,527	131,577	130,348	1,229
Less Allocation of Agriculture and Seafood (see above)	(99,395)	(98,683)	(97,761)	(922)
Community Development	299,329	474,879	456,475	18,404
Grants	515,504	574,136	782,153	(208,017)
Dept. of Econ & Comm Development	<u>1,432,380</u>	<u>1,673,299</u>	<u>1,845,783</u>	<u>(172,484)</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, 2006
(CONTINUED)

	Budgeted Amounts			Favorable (Unfavorable) Variance
	Original	Final	Actual	
Office of Community Services				
Community Services	\$300,595	\$300,745	\$291,252	\$9,493
Human Relations Commission	2,233	2,233	2,232	1
Commission for Women	900	900	785	115
Commission for Disabled	2,000	2,000	1,970	30
VISTA Support	37,463	37,463	29,518	7,945
Office of Community Services	343,191	343,341	325,757	17,584
Office of Community Services				
Grants	245,285	251,260	207,313	43,947
Operating Allocation				
Farmers Market	1,000	1,000	0	1,000
Navy Alliance	20,000	20,000	20,000	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	122,600	122,600	121,600	1,000
Total Economic Development and Opportunity	\$2,143,456	\$2,390,500	\$2,500,453	(\$109,953)
DEBT SERVICE				
Debt Service	\$12,916,553	\$12,859,844	\$12,856,499	\$3,345
INTERGOVERNMENTAL				
Leonardtown Tax Rebate	55,370	55,370	55,370	0
Total Inter-Governmental	\$55,370	\$55,370	\$55,370	\$0
OTHER				
Employer Contributions-Retiree Health Benefits	1,145,150	1,062,850	1,023,481	39,369
Unemployment Compensation	11,000	11,000	(542)	11,542
Bank Service Fees	16,000	16,000	15,127	873
Total Other	\$1,172,150	\$1,089,850	\$1,038,066	\$51,784
Total Expenditures, Before Pass-Throughs	146,144,957	146,453,137	143,943,547	2,509,590
Pass-Through Expenditures	0	0	2,902,495	(\$2,902,495)
Total Expenditures, Including Pass-Throughs	\$146,144,957	\$146,453,137	\$146,846,042	(\$392,905)
RESERVES				
Reserve - Bond Rating	\$370,000	\$370,000	\$757,689	(\$387,689)
Reserve - Supplemental Expenses	400,000	92,609	0	92,609
Reserve - Rainy Day Fund	125,000	125,000	125,000	0
Reserve - Emergency Appropriations	500,000	0	0	0
Reserves	1,395,000	587,609	882,689	(295,080)
Total Reserves	\$1,395,000	\$587,609	\$882,689	(\$295,080)
Total Expenditures, Including Pass-Throughs and Reserves	\$147,539,957	\$147,040,746	\$147,728,731	(\$687,985)
Transfers				
Capital Projects - General Fund Transfer	3,151,010	3,751,010	3,751,010	0
Transfer (MADS Subsidy)	589,007	589,007	589,007	0
	3,740,017	4,340,017	4,340,017	0
Total Expenditures and Other Financing Uses	\$151,279,974	\$151,380,763	\$152,068,748	(\$687,985)

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2006

LAND PRESERVATION

Agriculture Preservation	\$3,998,343	\$3,998,343
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HIGHWAYS

Adequate Public Facilities	\$231,433	
Asphalt Overlay	465,424	
Bridge/Culvert Replacement	165,255	
Carver School/MD 246 Signal	36,605	
Chaptico/Mechanicsville Road	110,598	
Pegg Rd. Extension to Rt 5	473,455	
County Mapping	79,466	
Lexington Park Sidewalk/Streetscape	46,376	
Mechanicsville Road	368,602	
Tulagi Place Revitalization	659,495	
Regional Stormwater Management	11,251	
Roadside Obstacles	215,985	
Streetscape Improvement	151,558	
Transportation Plan	168,741	\$3,184,244

MARINE

Hollis Lake Inlet	\$13,000	
Holly Point Shore Erosion	9,820	
Patuxent Beach Road Revetment	167,300	
St. Jeromes Creek	525,328	
Gibson Road	60,000	
Thomas Road Revetment	889	\$776,337

PUBLIC WORKS

Adult Detention Center Booking/Inmate Processing	\$250,000	
Adult Detention Center Maintenance & Repairs	217,371	
Airport Environmental Assessment	15,512	
Airport Improvements	94,453	
Building Maintenance & Repairs	86,933	
Carter State Building Maintenance/Repair	508,452	
Charlotte Hall Senior Center	4,156	
Charlotte Hall Visitors Center	85,404	
Lexington Manor EDI	223,994	
County Office Building HVAC	2,205,513	
Courthouse Addition/Renovation	73,520	
Courthouse Humidity	120,797	
College of Southern Maryland Humidity Control	846,600	
Library System Assessment	36,735	
Former Lexington Park Library	3,892	
Charlotte Hall Library Parking	69,573	
Lexington Manor North MEDAAF	506,678	
Lexington Manor South CDBG	665,012	
Lexington Park Library	12,659	
Parking/Site Improvements	257,286	
Patuxent River Naval Museum-New	7,125,029	
STS Bus Barn	322,500	\$13,732,069

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

PIERS AND BOAT RAMPS

Derelict Boat Removal	\$35,745	
Patuxent River Public Landing	300,000	
Fox Harbor Landing	72,990	
Paul Ellis Landing	99,000	
Leonardtown Wharf	1,459,238	
Tall Timbers Landing/Pier	99,000	\$2,065,973

PUBLIC SCHOOLS

ADA Transition Plan	\$105,574	
Carver Elementary Addition	1,749,329	
Elementary School 235/4	828,707	
Greenview Knolls Roof	36,968	
Hollywood/Chopticon Soil Erosion	800	
Kindergarten Addition Oakville	590	
Kindergarten Addition Dynard	1,887	
Margaret Brent Addition/Renovation	423,542	
Relocation Classrooms	240,603	
Tech Center Addition	2,320,536	
Leonardtown Elementary Addition	524,784	
Kindergarten Addition Piney Point	330,177	
Kindergarten Addition Town Creek ES	225,965	
Leonardtown Middle - Relocatables	133,951	
Leonardtown High - Relocatables	126,048	
Great Mills High - Gym Floor	85,000	
Ridge Elementary - parking site mods	406,865	
Bethune Education Center - Roof	129,645	
Site Acquisition Various	3,457,964	
Relocatable Purchase - State	234,794	\$11,363,729

RECREATION & PARKS

Chaptico Park	\$723	
Charlotte Hall Community Recreation Center	19,150	
Dorsey Park Improvement	158	
Nicolet Park Expansion	3,498	
Piney Point Lighthouse Museum	238,355	
Parks ADA Access	13,778	
Piney Point Lighthouse Park	429,818	
Three Notch Trail	505,291	
Wicomico Club House	1,360,189	
Wicomico Courts Replacement	70,470	
Mansfield Property Canoe/Kayak launch	8,959	
Seventh District Park Improvements	466,626	
Parks Land Acquisition	4,000	\$3,121,015

SOLID WASTE

Environmental Assessment	\$15,205	
Solid Waste Facility	210,175	
St. Andrews Area C	9,451	
St. Andrews Area D	536,479	\$771,310

Total	\$39,013,020
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Included in the above total is \$10,816,402 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 accompanying financial statements 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 and for the year ended June 30, 2006, which collectively comprise the County Commissioners for St. Mary's County, Maryland's basic financial statements and have issued our report thereon dated October 20, 2006. 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 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
October 20, 2006

Murphy & Murphy, CPA, LLC

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