

COUNTY COUNCIL OF
DORCHESTER COUNTY, MARYLAND

FINANCIAL REPORT

JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

County Council of
Dorchester County, Maryland
Cambridge, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Dorchester County, Maryland (the "County") as of and for the year ended June 30, 2008, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the County. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dorchester County Sanitary Districts. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Dorchester County Sanitary Districts, is based solely upon the reports of the other auditors.

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

In our opinion, based on our audit and the report of 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows 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 separate report dated November 12, 2008 on our consideration of the County'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.

The management's discussion and analysis and budgetary comparison information on pages 5 through 18 and 64 through 75, 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's basic financial statements. The combining fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major 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.


Salisbury, Maryland
November 12, 2008

DORCHESTER COUNTY, MARYLAND
Management's Discussion and Analysis

INTRODUCTION

This discussion and analysis (MD&A) is designed to (a) assist readers in understanding Dorchester County, Maryland's (the County's) basic financial statements, the relationship of different types of statements, and the significant differences in the information they provide; (b) assist the reader in focusing on significant financial issues; (c) provide an overview of the County's current financial activity; (d) identify changes in the County's financial position, i.e., its ability to address the next and subsequent year's financial needs, based on currently known facts; (e) identify any material deviations from the approved budget for the fiscal year, and (f) identify individual fund issues or concerns. The MD&A is best understood if read in conjunction with the County's basic financial statements and notes to the financial statements.

FINANCIAL HIGHLIGHTS

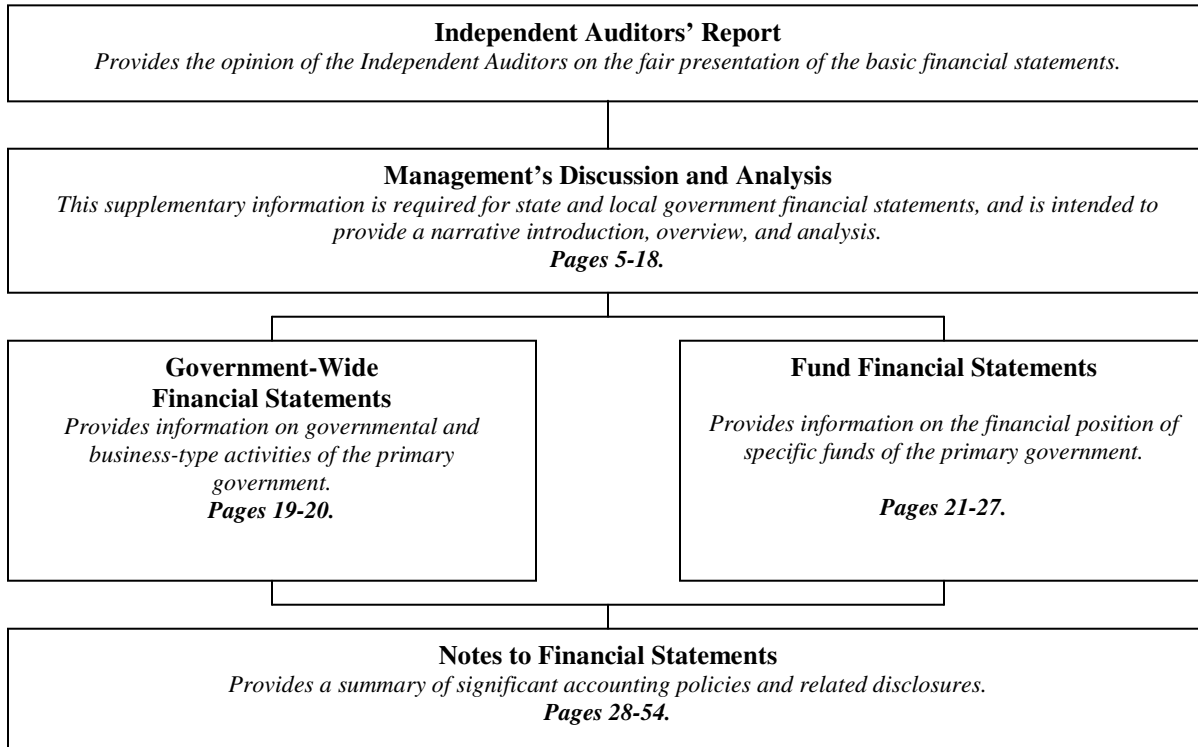
- The government-wide assets of the County exceeded its liabilities at the close of Fiscal Year 2008 (FY08) by \$58.1 million (total net assets). Of this amount, \$12.7 million (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's overall financial position has improved since the prior fiscal year. Total net assets increased by \$6.3 million or 12.3%. Contributing factors for this increase are a \$4.0 million increase in capital assets, a \$2.0 million decrease in deferred revenue, a \$1.4 million decrease in long-term debt, and a \$1.0 million increase in accounts payable and accrued expenses.
- As of the close of FY08, the County's governmental funds reported combined ending fund balances of \$15.4 million, an increase of \$0.2 million from the prior year's ending fund balances. Of the total ending fund balances, \$9.9 million is unreserved and therefore available for spending at the County's discretion.
- At the end of FY08, unreserved fund balance for the General Fund was \$4.2 million, or 9 percent of total General Fund expenditures.
- The County's government-wide long-term debt decreased by \$1.4 million during FY08. The key factors in this decrease are:
 - The issuance of a \$1.0 million loan from the Maryland Department of Transportation; and
 - The retirement of \$2.6 million in general obligation (GO) bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

The County's financial statements focus on both the County as a whole (government-wide), and on the major individual funds. "Funds" are resources segregated for the purposes of implementing specific activities or achieving certain objectives in accordance with special regulations, restrictions, or limitations. Both the government-wide and fund perspectives allow users to address relevant questions and understand changes in financial conditions. The structure of the financial statements is presented below.

This MD&A is intended to be an introduction to Dorchester County's basic financial statements. Dorchester County's basic financial statements comprise three components, including government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Organization and Flow of Financial Section Information



Government-Wide Financial Statements

The government-wide financial statements are designed to be corporate-like in that all governmental and business-type activities are reported in columns which add to a total for the primary government. The focus of the statement of net assets is designed to provide bottom line results for the County's governmental and business-type activities. This statement reports governmental funds' current financial resources (i.e., short-term spendable resources) with capital assets and long-term obligations. All infrastructure assets built or purchased by the County are included in the accompanying government-wide financial statements. The difference between the County's assets and liabilities is reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. Additionally, nonfinancial factors, such as a change in the County's property tax base or the condition of County facilities and infrastructure, should be considered to assess the overall health of the County.

The statement of activities is focused on both the gross and net cost of various functions, including governmental and business-type activities. This is intended to summarize and simplify the users' analysis of the cost of various governmental services and/or subsidy to various business-type activities. The governmental activities included reflect the County's basic services, including general government, public safety, public works and transportation, health and human services, and others. Taxes, including the property and income tax, license and permit fees, intergovernmental revenues, charges for services, fines and forfeitures, and investment income finance the majority of these services. The business-type activities reflect private sector-type operations such as airport activities and solid waste activities where fees for services or products are required or designed to recover the cost of operation, including depreciation.

The government-wide financial statements include not only the County itself (known as the Primary Government), but also legally separate entities known as Component Units. Component units, which are other governmental units over which the County Council can exercise influence and/or may be obligated to provide financial subsidy, are presented as a separate column in the government-wide statements and as individual activities in the basic and fund financial statements. The County has two component units – Dorchester County Public Schools and the Dorchester County Sanitary Districts, Inc.

Fund Financial Statements

Traditional users of governmental financial statements may find the fund financial statement presentation more familiar. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular purposes. The County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. In the fund financial statements, the focus is on major funds rather than the County as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. The County has the following two types of funds:

Governmental Funds – Most of the County’s basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances remaining at year-end that are available for spending. The governmental funds financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the County’s programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation of the fund financial statements to the government-wide financial statements is presented immediately after the fund financial statements. For example, the fund financial statements will reflect bond proceeds and interfund transfers as other financing sources, as well as capital expenditures and bond principal payments as expenditures. The reconciliation will reflect the elimination of these transactions and will incorporate the capital assets and long-term obligations (bonds and others) that are presented in the governmental activities column (in the government-wide statements). The County has 4 major governmental funds – General, Special Revenue (3), and 7 non-major funds.

Proprietary Funds – The County’s proprietary funds, which consist only of enterprise funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long-term and short-term financial information. The fund financial statements provide more detail and additional information, such as cash flows, for the County’s enterprise funds. The County has two major enterprise funds – airport and solid waste.

CONTINUED ON NEXT PAGE

**FINANCIAL ANALYSIS OF DORCHESTER COUNTY, MARYLAND:
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

A comparative analysis of government-wide financial information is presented below.

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2008 and 2007:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	\$25,000,232	\$26,671,616	\$9,620,471	\$7,826,747	\$34,620,703	\$34,498,363
Capital assets	\$44,782,434	\$40,585,884	\$14,406,796	\$14,563,629	\$59,189,230	\$55,149,513
Total assets	\$69,782,666	\$67,257,500	\$24,027,267	\$22,390,376	\$93,809,933	\$89,647,876
Liabilities:						
Long-term debt outstanding	\$19,925,568	\$21,321,277	\$542,161	\$564,793	\$20,467,729	\$21,886,070
Other liabilities	\$7,278,304	\$8,373,428	\$7,992,783	\$7,665,898	\$15,271,087	\$16,039,326
Total liabilities	\$27,203,872	\$29,694,705	\$8,534,944	\$8,230,691	\$35,738,816	\$37,925,396
Net assets:						
Invested in capital assets, net						
of related debt	\$25,957,019	\$20,271,436	\$13,908,796	\$14,033,629	\$39,865,815	\$34,305,065
Restricted	\$5,464,635	\$4,277,806	\$0	\$0	\$5,464,635	\$4,277,806
Unrestricted (deficit)	\$11,157,140	\$13,013,553	\$1,583,527	\$126,056	\$12,740,667	\$13,139,609
Total net assets	\$42,578,794	\$37,562,795	\$15,492,323	\$14,159,685	\$58,071,117	\$51,722,480

The County's total assets increased by \$4.2 million or 4.7 percent over FY07. The County's assets exceeded its liabilities at the close of FY08 by \$58.1 million. The largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for Chesapeake College in the same fashion. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to \$8.8 million at June 30, 2008. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$21.5 million.

Statement of Activities

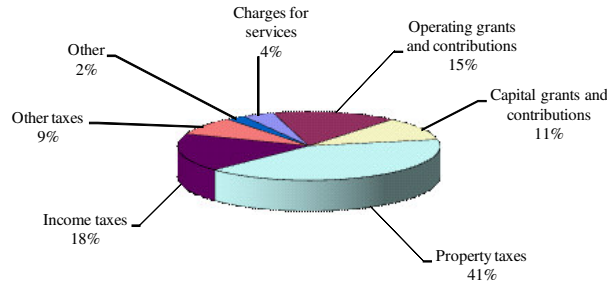
The following table summarizes the County's change in net assets for the years ended June 30, 2008 and 2007:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$2,522,653	\$2,644,399	\$5,239,774	\$4,882,020	\$7,762,427	\$7,526,419
Operating grants and contributions	\$9,828,620	\$9,320,483	\$0	\$0	\$9,828,620	\$9,320,483
Capital grants and contributions	\$7,084,445	\$4,138,368	\$492,917	\$89,261	\$7,577,362	\$4,227,629
General revenues:						
Property taxes	\$26,057,854	\$22,344,833	\$0	\$0	\$26,057,854	\$22,344,833
Income taxes	\$11,523,663	\$10,229,499	\$0	\$0	\$11,523,663	\$10,229,499
Other taxes	\$5,484,693	\$7,141,880	\$0	\$0	\$5,484,693	\$7,141,880
Other	\$1,535,431	\$868,827	\$328,735	\$238,966	\$1,864,166	\$1,107,793
Total revenues	\$64,037,359	\$56,688,289	\$6,061,426	\$5,210,247	\$70,098,785	\$61,898,536
Expenses:						
Governmental Activities:						
General government	\$5,892,044	\$4,666,792	\$0	\$0	\$5,892,044	\$4,666,792
Public safety	\$13,601,675	\$12,940,143	\$0	\$0	\$13,601,675	\$12,940,143
Social services	\$2,283,980	\$2,407,730	\$0	\$0	\$2,283,980	\$2,407,730
Public works	\$6,149,715	\$6,287,082	\$0	\$0	\$6,149,715	\$6,287,082
Miscellaneous	\$4,618,109	\$4,370,896	\$0	\$0	\$4,618,109	\$4,370,896
Recreation and parks	\$712,691	\$732,872	\$0	\$0	\$712,691	\$732,872
Natural Resources	\$504,828	\$450,637	\$0	\$0	\$504,828	\$450,637
Economic Development	\$2,693,234	\$1,054,792	\$0	\$0	\$2,693,234	\$1,054,792
Interest on Debt	\$731,067	\$851,445	\$0	\$0	\$731,067	\$851,445
Education	\$21,257,934	\$19,886,456	\$0	\$0	\$21,257,934	\$19,886,456
Intergovernmental	\$0	\$0	\$0	\$0	\$0	\$0
Business-Type Activities:						
Aviation	\$0	\$0	\$1,087,663	\$946,450	\$1,087,663	\$946,450
Solid waste	\$0	\$0	\$4,217,208	\$4,166,226	\$4,217,208	\$4,166,226
Total expenses	\$58,445,277	\$53,648,845	\$5,304,871	\$5,112,676	\$63,750,148	\$58,761,521
Increase (decrease) in net assets before transfers	\$5,592,082	\$3,039,444	\$756,555	\$97,571	\$6,348,637	\$3,137,015
Transfers	(\$576,083)	(\$468,843)	\$576,083	\$468,843	\$0	\$0
Increase (decrease) in net assets	\$5,015,999	\$2,570,601	\$1,332,638	\$566,414	\$6,348,637	\$3,137,015
Net assets – beginning of year	\$37,562,795	\$34,992,194	\$14,159,685	\$13,593,271	\$51,722,480	\$48,585,465
Net assets - end of year	\$42,578,794	\$37,562,795	\$15,492,323	\$14,159,685	\$58,071,117	\$51,722,480

Governmental Activities

Revenues for the County’s governmental activities were \$64.0 million for FY08. Sources of revenue are comprised of the following items:

**Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2008**

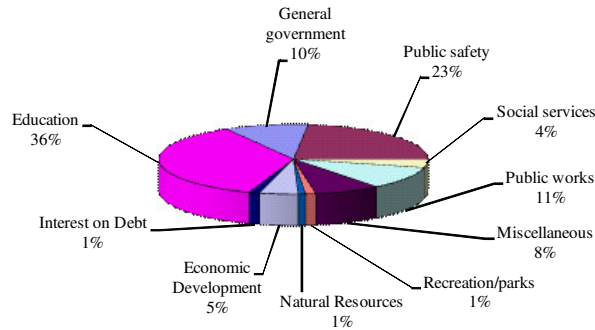


- Taxes constitute the largest source of County revenues, amounting to \$43.07 million for FY08. Property and local income tax combined comprise 59 percent of County governmental activities revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 2.62 percent of the State taxable income for calendar year 2008 and was unchanged from 2007. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: public works (\$4.3 million), general government (\$2.9 million), and social services (\$1.8 million).

A more detailed discussion of the County’s revenue results for FY08 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY08 was \$58.4 million. As the chart below indicates, education constitutes the County’s largest program and highest priority; education expenses totaled \$21.3 million. Public safety expenses totaled \$13.6 million, public works expenses totaled \$6.1 million, and miscellaneous expenses, the fourth largest expense for the County totaled \$4.6 million.

**Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2008**



The following table presents the cost and program revenues of each of the County's governmental activities as well as each activity's net cost (total cost less fees generated by the activities and activity-specific intergovernmental aid).

	Expenses		Revenues		Net Cost of Services	
	2008	2007	2008	2007	2008	2007
Education	\$21,257,934	\$19,886,456	\$0	\$0	\$21,257,934	\$19,886,456
Public safety	\$13,601,675	\$12,940,143	\$3,892,481	\$3,779,560	\$9,709,194	\$9,160,583
Public works	\$6,149,715	\$6,287,082	\$7,885,878	\$5,303,900	(\$1,736,163)	\$983,182
General government	\$5,892,044	\$4,666,792	\$3,266,057	\$2,657,976	\$2,625,987	\$2,008,816
Miscellaneous	\$4,618,109	\$4,370,896	\$0	\$0	\$4,618,109	\$4,370,896
Social services	\$2,283,980	\$2,407,730	\$1,908,494	\$2,063,308	\$375,486	\$344,422
Interest on Debt	\$731,067	\$851,445	\$0	\$0	\$731,067	\$851,445
Recreation and parks	\$712,691	\$732,872	\$322,586	\$296,182	\$390,105	\$436,690
Economic Development	\$2,693,234	\$1,054,792	\$1,948,174	\$1,840,408	\$745,060	(\$785,616)
Natural Resources	\$504,828	\$450,637	\$212,048	\$161,916	\$292,780	\$288,721
Total	\$58,445,277	\$53,648,845	\$19,435,718	\$16,103,250	\$39,009,559	\$37,545,595

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$2.5 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$9.8 million).

Business-type Activities

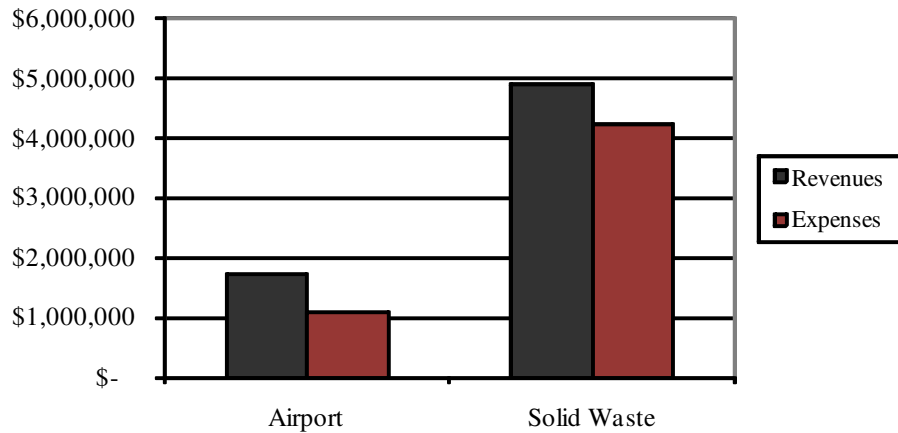
Highlights of the County's business-type activities for FY08 are as follows:

- Business-type activities experienced an increase in net assets of \$1.3 million for FY08. However, this amount is reported after total net transfers in of \$0.6 million. The components of this amount are \$309,283 in operating subsidy from the General Fund to the Airport Enterprise Fund, and \$266,800 in capital budget funding from the General Fund to the Airport Enterprise Fund.
- Charges for services to users comprise 87 percent of total business-type activities revenue, with \$4.6 million (87 percent of charges for services revenue) attributable to solid waste activities and \$0.7 million (13 percent) attributable to airport operations.

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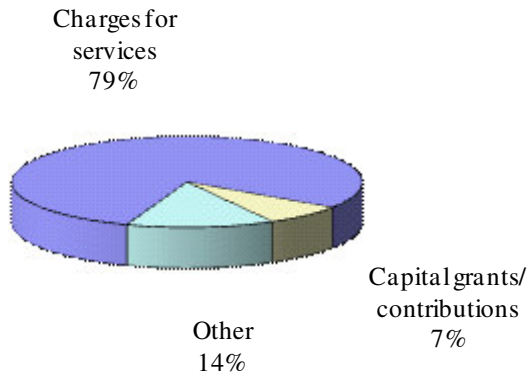
Business-type activities are shown below comparing costs to revenues generated by related services:

**Expenses and Program Revenues - Business-type Activities
For the Fiscal Year Ended June 30, 2008**



Business-type revenues by source are comprised of the following:

**Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2008**



FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the County’s governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is valuable in assessing the County’s financing requirements. In particular, the 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.

At the end of FY08, the County's governmental funds reported combined ending fund balances of \$15.4 million, an increase of \$0.2 million from the end of FY07. Of the total ending fund balances, \$9.9 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$5.5 million is unavailable for new spending because it has been reserved for prepaid expenditures (\$0.1 million) or other purposes restricted by legislation (\$5.2 million for schools and courthouse; \$0.1 million for public safety communication; \$0.1 million for Sheriff's Office).

The General Fund is the primary operating fund of the County. At the end of FY08, unreserved and undesignated fund balance of the General Fund was \$2.3 million, while total fund balance was \$4.2 million. As a measure of the General Fund's liquidity, the unreserved and undesignated fund balance represents 4.0 percent of the total General Fund expenditures and transfers out.

Other governmental funds of note are the Reserve Fund, the Building Excise Tax Fund, and the Transfer Tax Fund.

The Reserve Fund ended the year with a fund balance of \$3.0 million, which is an increase of \$0.1 million. The purpose of the Reserve Fund is to provide a fiscal means for the County to respond to potential adversities such as public emergencies, natural disasters, major unanticipated projects or economic downturns. Beginning in fiscal year 2006 and for each subsequent fiscal year, the County shall include in the budget bill an appropriation to the Strategic Reserve Fund equal to at least the lesser of \$200,000 or whatever amount is required for the Strategic Reserve Fund balance to equal 5% of the estimated General Fund operating revenues for that fiscal year.

The Building Excise Tax Fund ended the year with a fund balance of \$2.8 million. This fund was created by Dorchester County Bill Number 2004-6, effective date of September 15, 2004, which established an excise tax on new development. The proceeds of the tax are dedicated for the capital costs associated with new growth specific to schools (\$2.6 million balance), emergency communications (\$0.1 million balance), and Sheriff's Office (\$0.1 million balance).

The Transfer Tax Fund ended the year with a fund balance of \$2.6 million, which is a decrease of \$0.6 million. The purpose of this fund is to account for the proceeds of the transfer tax which is dedicated for repairs, maintenance and security of the Circuit Courthouse as well as public school capital facility expenditures.

Proprietary funds

The County's proprietary funds provide the same type of information found in the government-wide statements, but include more detail.

The Airport Enterprise Fund total net assets amounted to \$10.9 million, with unrestricted net assets of \$1.0 million, and an operating loss of \$394,425. After non-operating revenues of \$471,418 and a subsidy transfer from the General Fund of \$576,083, the fund ended FY08 with an increase in net assets of \$653,076.

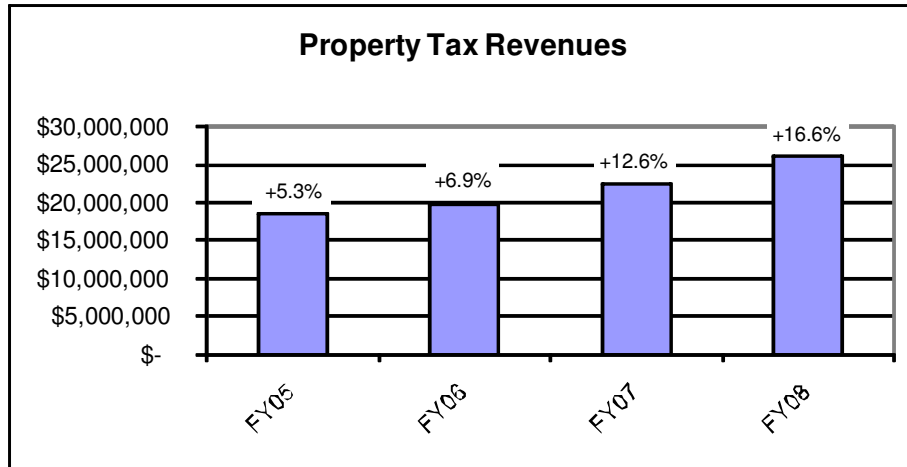
The Landfill Enterprise Fund total net assets amounted to \$4.6 million, with unrestricted net assets of \$0.6 million, and an operating income of \$0.4 million. The fund ended FY08 with an increase in net assets of \$0.7 million

A discussion of enterprise fund long-term debt can be found in the Long-Term Debt section presented later in this MD&A. Other factors concerning the finances of the enterprise funds are addressed in the discussion of the County's business-type activities.

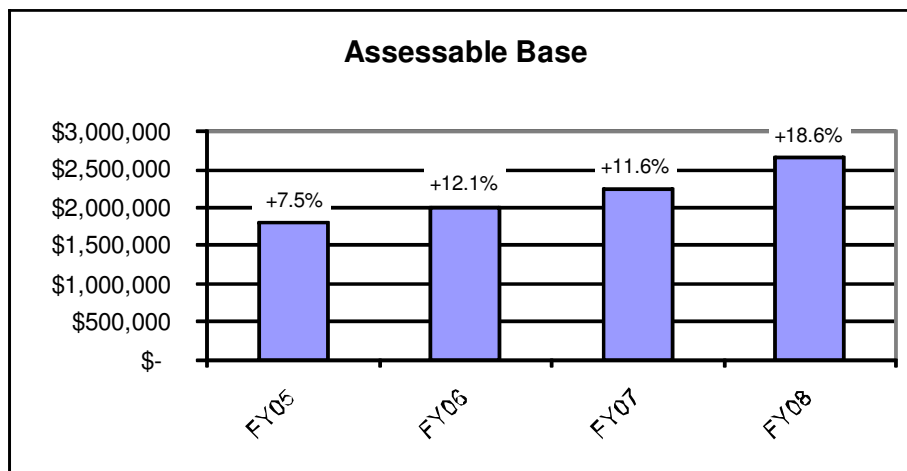
General Fund Budgetary Highlights

Actual revenues were more than budgeted by \$2.6 million, while actual expenditures were more than budgeted by \$0.5 million. Highlights of the comparison of final budget to actual figures for revenues and expenditures/transfers for the fiscal year-ended June 30, 2008, include the following:

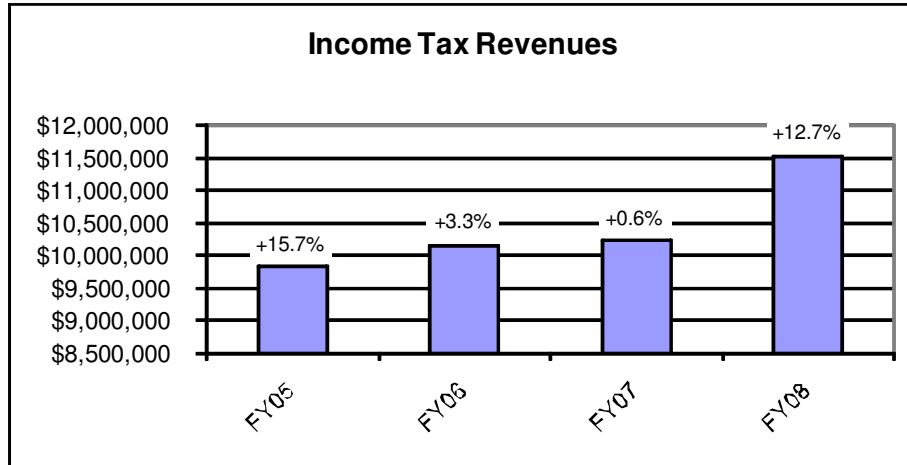
- Overview – Actual revenues for the General Fund totaled \$54.5 million and were \$2.6 million or 5.1 percent above the budget estimate for the fiscal year and 14.3 percent above actual revenues for FY07. The three major variances between budgeted revenues and actual revenues were 1) the inclusion in the budget, under miscellaneous revenues, of \$2.3 million of prior year fund balance, which is used to fund non-recurring capital expenditures but for accounting purposes does not constitute income, 2) the \$2.8 million in disaster aid for repairing roads and bridges damaged during the June 2006 floods, included within the intergovernmental-federal receipts and 3) Property Taxes – The largest revenue source for the County is property taxes. Net property tax revenue in the General Fund amounted to \$26.1 million, which was above the budget estimate by \$1.7 million or 7.0 percent and \$3.7 million or 16.6 percent above actual revenue in FY07. The increase in property tax revenue was the result of a 18.6 percent increase in the assessable base for real property from FY07 to FY08.



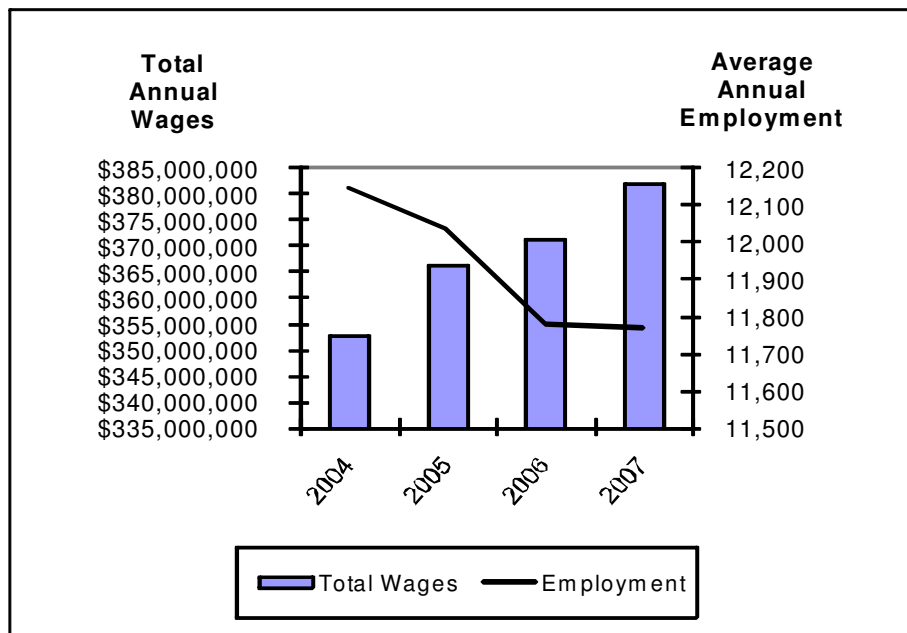
- Assessments of real property continued its strong growth with an increase of 18.6 percent in FY08, following an increase of 11.6 percent in FY07.



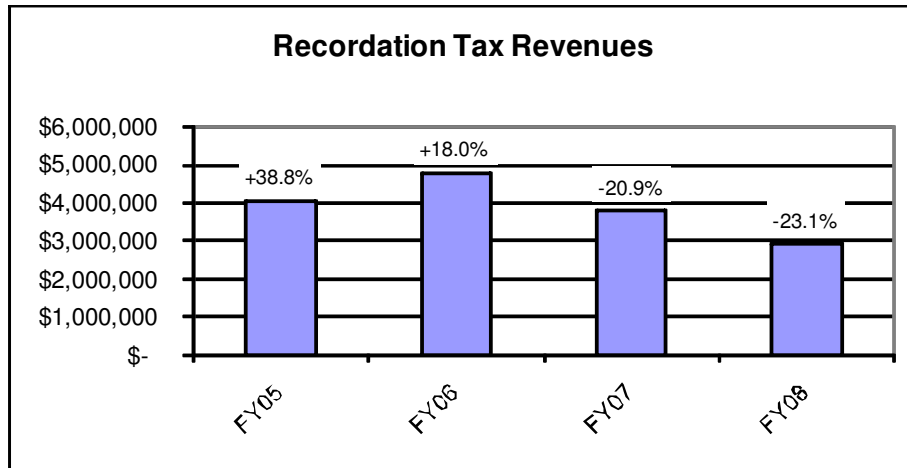
- Income Taxes – The second largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$11.5 million which were \$1.9 million or 20.0% higher than the budget estimate and \$1.3 million or 12.7 percent above actual revenues in FY07. Income taxes represent 28 percent of total tax revenues for the General Fund and 21 percent of total General Fund revenues in FY08. The local income tax rate remained unchanged at 2.62%.



- Growth in income tax revenue is attributed to growth in wages, partially offset by a slight net job loss, which continues a trend begun in calendar year (CY) 2005. Total annual payroll wages in Dorchester during CY2007 was \$381,708,912, which was an increase of \$10.6 million or 2.9%. During CY2007, the average annual employment was 11,772 jobs, which was a decrease of 11 or 0.1%. During that same time span, the average weekly wage per worker grew from \$606 to \$624, an increase of \$18 or 3.0%. The net job loss is attributed to the government sector with 62 jobs gained (of which 48 were in local government), and offset with 73 net jobs lost in the private sector (-296 in goods producing and +223 in service providing).



- Recordation Taxes – The third major revenue category in the County is the real property recordation tax. The tax receipts from this source were \$2.9 million, which was \$1.0 million or 25.8 percent below the budget estimate and \$0.9 million or 23.1 percent below actual receipts for FY07. This reduction is a result of the continuing decline in local home sales and the sustained market tightening in the mortgage finance industry. Home sales during FY08 were down 29.1% compared to FY07. This significant contraction in sales is reflected in the dramatic increase in the residential inventory-to-sales ratio. As of June 2007 this ratio of home sales to buyers was 20.3. As of June 2008, this ratio was 28.9. This means that for every 29 homes listed on the market, there was only one buyer.



- Actual expenditures of \$48 million were \$0.5 million more than the final budget, which represents less than 1 percent of the final budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2008, amounted to \$59.2 million (net of accumulated depreciation), as summarized below:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$7,636,580	\$7,624,514	\$3,023,987	\$2,742,769	\$10,660,567	\$10,367,283
Buildings and improvements	\$22,090,613	\$21,396,843	\$9,840,584	\$9,773,934	\$31,931,197	\$31,170,777
Furniture, machinery, equipment	\$19,648,457	\$18,215,115	\$3,998,356	\$3,854,310	\$23,646,813	\$22,069,425
Leasehold improvements	\$286,572	\$286,572	\$0	\$0	\$286,572	\$286,572
Infrastructure	\$38,581,763	\$37,370,619	\$6,323,510	\$6,323,510	\$44,905,273	\$43,694,129
Construction in progress	\$4,907,767	\$1,233,179	\$1,337,944	\$890,593	\$6,245,711	\$2,123,772
Total assets	\$93,151,752	\$86,126,842	\$24,524,381	\$23,585,116	\$117,676,133	\$109,711,958
Less: Accumulated depreciation	\$48,369,318	\$45,540,958	\$10,117,585	\$9,021,487	\$58,486,903	\$54,562,445
Total	\$44,782,434	\$40,585,884	\$14,406,796	\$14,563,629	\$59,189,230	\$55,149,513

Changes in the County's capital assets for FY08 are summarized as follows:

	Governmental Activities	Business-Type Activities	Total	
	2008	2008	2008	2007
Beginning Balance	\$40,585,884	\$14,563,629	\$55,149,513	\$55,395,522
Additions*	\$7,174,294	\$939,265	\$8,113,559	\$4,830,744
Retirements, net*	\$7,502	\$0	\$7,502	\$1,014,606
Depreciation expense	\$2,970,242	\$1,096,098	\$4,066,340	\$4,062,147
Ending Balance	\$44,782,434	\$14,406,796	\$59,189,230	\$55,149,513

*Presented net of transfers from construction in progress; retirements are also net of related accumulated depreciation.

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

- Reconstruction of roads and bridges damaged during the June 2006 flooding at a cost of \$4.0 million
- Continued expansion of the county-wide network technology initiative amounting to \$264,830
- 8 vehicles in the Sheriff's Office at a cost of \$224,445
- State funded acquisition of 911 Emergency Communications projects at \$0.6 million
- \$1.0 million for Public Works - Highways including \$275,679 for reconstruction of the Trenton Street boat ramp and slips and \$0.7 million for heavy equipment
- \$0.3 million for heavy equipment and cell design at the landfill
- \$0.5 million for airport expansion projects funded 95% by the Federal Aviation Administration

Additional information pertaining to the County's capital assets can be found in Notes to Financial Statements.

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2008:

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$14,440,000	\$17,020,000	\$0	\$0	\$14,440,000	\$17,020,000
Revenue bonds	\$0	\$0	\$0	\$0	\$0	\$0
Notes payable	\$4,306,206	\$3,294,448	\$498,000	\$530,000	\$4,804,206	\$3,824,448
Capital leases	\$79,209	\$0	\$0	\$0	\$79,209	\$0
Pension liability	\$622,014	\$606,099	\$0	\$0	\$622,014	\$606,099
Compensated absences	\$1,100,153	\$1,006,829	\$44,161	\$34,793	\$1,144,314	\$1,041,622
Total	\$20,547,582	\$21,927,376	\$542,161	\$564,793	\$21,089,743	\$22,492,169

At June 30, 2008, the County had outstanding general obligation bonds of \$14.4 million. General obligation (GO) bonds are backed by the issuer's pledge of its full faith, credit and taxing power for the payment of the bond. GOs are generally viewed as the most secure type of municipal security and typically finance public projects such as schools, parks, libraries, roads and county buildings. Over the last ten years, the County issued its GO bonds four times totaling \$19.6 million. Dorchester County also issues debt to finance the capital construction of Dorchester County Public Schools and Chesapeake College not otherwise financed by the State of Maryland. The County continues to maintain its status as a stable smaller government issuer of municipal securities, with the third highest credit rating possible for a local government. For its GO bonds, the County is rated A2 from Moody's Investors Service, Inc., and A from Standard and Poor's. These bond ratings, by definition, represent the County is somewhat more susceptible to the adverse effects of changes in circumstances and economic

conditions than counties in higher-rated categories. However, the County's capacity to meet its financial commitment on the bonds is still strong.

For purposes of complying with the County's continuing disclosure undertakings, this Annual Financial Report is provided to each nationally recognized municipal securities information repository.

The County had no significant bond-related debt activities during FY08.

Additional information pertaining to the County's long-term debt can be found in Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY09 budget:

- The County's economic projections in the FY09 budget assume modest growth with the County experiencing steady unemployment, a slight decline in payroll wages, and conservative growth in property assessments.
- The projection in the FY09 budget assumes that taxable personal income will remain relatively stable.
- The CY07 annual average unemployment rate for the County was 5.9 percent while the State of Maryland average was 3.6 percent. Comparatively, the CY06 rates were 5.6 percent for the County and 3.8 percent for the State. For the first three quarters of CY08, the average unemployment rate for the County was 6.2 percent versus 5.9 percent from the same period in CY07.
- The number of residential real property accounts in the County increased from 17,014 to 17,484 during FY08, an increase of 470 accounts or 2.8 percent. Of the increase, 265 accounts were improved, and 205 were unimproved.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of Dorchester County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information about the County or its component units should be addressed to Dorchester County Government, Department of Finance, 501 Court Lane, Cambridge, Maryland, 21613 or sent by email to mspears@docogonet.com.

DORCHESTER COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PRIMARY GOVERNMENT AS OF JUNE 30, 2008
COMPONENT UNITS AS OF JUNE 30, 2008

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and short-term investments	\$ 16,742,323	\$ 6,974,442	\$ 23,716,765
Receivables:			
State and local property taxes	3,082,492	-	3,082,492
Accounts receivable, net	-	1,028,751	1,028,751
Federal government	2,048,358	286,946	2,335,304
State of Maryland	537,012	11,961	548,973
Local	2,981,477	-	2,981,477
Other	631,252	-	631,252
Internal balances, net	(1,267,640)	1,267,640	-
Inventories, at cost	-	50,731	50,731
Other	244,958	-	244,958
Capital assets, net	44,782,434	14,406,796	59,189,230
Total assets	69,782,666	24,027,267	93,809,933
LIABILITIES			
Accounts payable and accrued expenses	3,812,309	223,096	4,035,405
Due to State of Maryland	287,559	-	287,559
Due to delinquent taxpayers	375,887	-	375,887
Deferred revenue	2,065,897	2,100	2,067,997
Landfill closure and postclosure care costs	-	7,767,587	7,767,587
Pension liability	622,014	-	622,014
Other	114,638	-	114,638
Long-term liabilities, due within one year			
Compensated absences	405,850	21,250	427,100
Bonds, notes and capital leases payable	2,319,071	33,000	2,352,071
Long-term liabilities, due in more than one year			
Compensated absences	694,303	22,911	717,214
Bonds, notes and capital leases payable	16,506,344	465,000	16,971,344
Total liabilities	27,203,872	8,534,944	35,738,816
NET ASSETS			
Invested in capital assets, net of related debt	25,957,019	13,908,796	39,865,815
Restricted	5,464,635	-	5,464,635
Unrestricted	11,157,140	1,583,527	12,740,667
Total Net Assets	\$ 42,578,794	\$ 15,492,323	\$ 58,071,117

The Notes to Financial Statements are an integral part of this statement.

Component Units	
Board of Education of Dorchester County	Dorchester County Sanitary Districts
\$ 3,419,522	\$ 961,082
-	-
-	63,960
419,571	-
111,763	-
467,467	-
-	-
-	-
14,304	10,290
485,313	-
55,263,041	3,821,509
<u>60,180,981</u>	<u>4,856,841</u>
2,808,631	89,825
-	-
-	-
249,031	29,341
-	-
-	-
27,000	40,881
-	-
-	25,653
896,445	8,457
-	246,848
<u>3,981,107</u>	<u>441,005</u>
55,263,041	3,549,008
604,557	145,387
332,276	721,441
<u>\$ 56,199,874</u>	<u>\$ 4,415,836</u>

DORCHESTER COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
Governmental Activities				
General government	\$ 5,892,044	\$ 79,387	\$ 2,939,762	\$ 246,908
Public safety	13,601,675	1,938,293	390,480	1,563,708
Social services	2,283,980	3,325	1,816,637	88,532
Recreation and parks	712,691	51,438	-	271,148
Natural resources	504,828	27,645	184,403	-
Economic development	2,693,234	-	187,721	1,760,453
Miscellaneous	4,618,109	-	-	-
Education	21,257,934	-	-	-
Public works	6,149,715	422,565	4,309,617	3,153,696
Interest on long-term debt	731,067	-	-	-
Total Governmental Activities	58,445,277	2,522,653	9,828,620	7,084,445
Business-Type Activities				
Airport	1,087,663	653,464	-	492,917
Landfill	4,217,208	4,586,310	-	-
Total Business-Type Activities	5,304,871	5,239,774	-	492,917
Total Primary Government	\$ 63,750,148	\$ 7,762,427	\$ 9,828,620	\$ 7,577,362
Component Units				
Board of Education of Dorchester County	62,011,793	3,249,245	64,750,885	-
Dorchester County Sanitary Districts	689,375	608,360	-	-
Total Component Units	\$ 62,701,168	\$ 3,857,605	\$ 64,750,885	\$ -

General Revenues (Expenses)

Taxes:

Property

Income

Other

Licenses and permits

Interest

Loss on disposal of assets

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning of Year

Net Assets, End of Year

The Notes to Financial Statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Board of Education of Dorchester County	Dorchester County Sanitary Districts
\$ (2,625,987)	\$ -	\$ (2,625,987)	\$ -	\$ -
(9,709,194)	-	(9,709,194)	-	-
(375,486)	-	(375,486)	-	-
(390,105)	-	(390,105)	-	-
(292,780)	-	(292,780)	-	-
(745,060)	-	(745,060)	-	-
(4,618,109)	-	(4,618,109)	-	-
(21,257,934)	-	(21,257,934)	-	-
1,736,163	-	1,736,163	-	-
(731,067)	-	(731,067)	-	-
(39,009,559)	-	(39,009,559)	-	-
-	58,718	58,718	-	-
-	369,102	369,102	-	-
-	427,820	427,820	-	-
(39,009,559)	427,820	(38,581,739)	-	-
-	-	-	5,988,337	-
-	-	-	-	(81,015)
-	-	-	5,988,337	(81,015)
26,057,854	-	26,057,854	-	-
11,523,663	-	11,523,663	-	-
5,484,693	-	5,484,693	-	-
285,357	-	285,357	-	-
627,828	280,045	907,873	181,467	25,452
(7,502)	-	(7,502)	-	-
629,748	48,690	678,438	496,086	-
44,601,641	328,735	44,930,376	677,553	25,452
(576,083)	576,083	-	-	-
44,025,558	904,818	44,930,376	677,553	25,452
5,015,999	1,332,638	6,348,637	6,665,890	(55,563)
37,562,795	14,159,685	51,722,480	49,533,984	4,471,399
\$ 42,578,794	\$ 15,492,323	\$ 58,071,117	\$ 56,199,874	\$ 4,415,836

DORCHESTER COUNTY, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2008

	General Fund	Special Revenue	Tax Funds	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 7,985,180	\$ 718,197	\$ 4,089,320	\$ 3,949,626	\$ 16,742,323
Receivables:					
State and local property taxes	3,082,492	-	-	-	3,082,492
Federal government	-	2,048,358	-	-	2,048,358
State of Maryland	-	537,012	-	-	537,012
Local	2,981,477	-	-	-	2,981,477
Other	430,201	25,666	173,997	1,388	631,252
Interfund	1,633,155	-	2,563,226	1,851,998	6,048,379
Other	41,586	-	-	203,372	244,958
Total assets	\$ 16,154,091	\$ 3,329,233	\$ 6,826,543	\$ 6,006,384	\$ 32,316,251
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 2,356,606	\$ 802,254	\$ 410,190	\$ 649,109	\$ 4,218,159
Due to State of Maryland	287,559	-	-	-	287,559
Due to delinquent taxpayers	375,887	-	-	-	375,887
Interfund payables	5,686,034	584,173	993,304	52,508	7,316,019
Due to others	19,278	-	-	-	19,278
Deferred revenue	3,128,187	1,475,020	-	29,279	4,632,486
Other	95,360	-	-	-	95,360
Total liabilities	11,948,911	2,861,447	1,403,494	730,896	16,944,748
FUND BALANCES					
Reserved for:					
Prepaid expenditures	41,586	-	-	-	41,586
Schools and courthouse	-	-	5,277,329	-	5,277,329
Public safety communication system	-	-	75,662	-	75,662
Sheriff	-	-	70,058	-	70,058
Unreserved:					
Designated for legal indemnification	100,000	-	-	-	100,000
Designated for 2009 expenditures	1,793,433	-	-	-	1,793,433
Designated for capital projects	-	-	-	1,408,019	1,408,019
Designated for other purposes	-	467,786	-	-	467,786
Undesignated	2,270,161	-	-	3,867,469	6,137,630
Total fund balances	4,205,180	467,786	5,423,049	5,275,488	15,371,503
Total liabilities and fund balances	\$ 16,154,091	\$ 3,329,233	\$ 6,826,543	\$ 6,006,384	\$ 32,316,251

The Notes to Financial Statements are an integral part of this statement.

DORCHESTER COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balances, governmental funds	\$ 15,371,503
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.	44,782,434
Certain revenues that do not provide current financial resources are reported as deferred income in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Assets.	2,566,589
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. Those liabilities consist of:	
Bonds, notes and capital leases payable	(18,825,415)
Pension liability	(622,014)
Compensated absences	(694,303)
Total long-term liabilities	<u>(20,141,732)</u>
Net assets of governmental activities in the Statement of Net Assets	<u>\$ 42,578,794</u>

The Notes to Financial Statements are an integral part of this statement.

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008**

	General Fund	Special Revenue	Tax Funds	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 41,047,912	\$ -	\$ 2,018,298	\$ -	\$ 43,066,210
Licenses and permits	285,357	-	-	-	285,357
Intergovernmental:					
Federal	2,827,897	2,475,310	-	-	5,303,207
State	7,350,429	2,971,592	-	1,277,415	11,599,436
Service charges and fees	2,533,075	-	-	-	2,533,075
Miscellaneous	474,174	33,653	-	121,921	629,748
Total revenues	54,518,844	5,480,555	2,018,298	1,399,336	63,417,033
EXPENDITURES:					
Current:					
General government	3,513,553	43,575	287,849	406,208	4,251,185
Public safety	10,523,879	381,888	267,743	782,332	11,955,842
Social services	401,605	1,878,291	-	-	2,279,896
Recreation and parks	485,031	142,913	-	3,620	631,564
Natural resources	423,183	79,415	-	-	502,598
Economic development	563,063	1,904,602	-	148,456	2,616,121
Miscellaneous	4,601,603	-	-	16,506	4,618,109
Education	18,154,243	-	2,129,826	973,865	21,257,934
Public works	5,244,001	410,113	-	81,237	5,735,351
Debt service:					
Principal	-	-	221,190	2,720,463	2,941,653
Interest	-	-	35,029	696,038	731,067
Capital outlay	4,125,096	750,502	5,040	2,293,656	7,174,294
Total expenditures	48,035,257	5,591,299	2,946,677	8,122,381	64,695,614
Excess (deficiency) of revenues over expenditures	6,483,587	(110,744)	(928,379)	(6,723,045)	(1,278,581)
OTHER FINANCING SOURCES (USES):					
Increase in pension liability	-	-	-	15,915	15,915
Note proceeds	1,013,000	-	-	439,620	1,452,620
Interest and dividends received	347,626	34,810	64,778	180,614	627,828
Transfers, net	(8,037,206)	61,900	-	7,399,223	(576,083)
Total other financing sources (uses)	(6,676,580)	96,710	64,778	8,035,372	1,520,280
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(192,993)	(14,034)	(863,601)	1,312,327	241,699
Fund balances, beginning of year	4,398,173	481,820	6,286,650	3,963,161	15,129,804
Fund balances, end of year	\$ 4,205,180	\$ 467,786	\$ 5,423,049	\$ 5,275,488	\$ 15,371,503

The Notes to Financial Statements are an integral part of this statement .

DORCHESTER COUNTY, MARYLAND

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008**

Net change in fund balances, governmental funds \$ 241,699

Amounts reported for governmental activities in the statement of activities
are different because:

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. In the current period, these amounts are:

Capital outlay	7,174,294	
Depreciation expense	<u>(2,970,242)</u>	
Excess of capital outlay over depreciation expense		4,204,052

Loan proceeds provide current financial resources to governmental funds; however,
issuing debt increases long-term liabilities in the Statement of Net Assets. In the
current period, loans of this amount were issued: (1,452,620)

Governmental funds report repayment of debt principal as an expenditure. In
contrast, the Statement of Activities treats such repayments as a reduction in
long-term liabilities.

Principal payments on long-term debt 2,941,653

In the statement of activities, losses on the disposal of capital assets are reported
as expenses of the general government function, whereas in the governmental
funds, the proceeds from the sale of capital assets increase financial resources.
Thus, the change in net assets differs from the change in fund balance by the
basis of the asset disposed. (7,502)

Because some revenues will not be collected for several months after the County's
fiscal year ends, they are not considered "available" revenues and are deferred in the
governmental funds. Deferred revenues decreased by this amount this year. (883,919)

Some items reported in the Statement of Activities do not require the use of current
financial resources and therefore are not reported as expenditures in governmental
funds. These activities consist of:

Increase in pension liability	(15,915)	
Increase in compensated absences	<u>(11,449)</u>	

Change in net assets of governmental activities \$ 5,015,999

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS**

June 30, 2008

	Business-Type Activities		
	Landfill	Airport	Total
ASSETS			
Current assets			
Cash	\$ 6,974,117	\$ 325	\$ 6,974,442
Receivables:			
Accounts, net of \$40,000 allowance (landfill) and \$12,500 allowance (airport)	932,810	95,941	1,028,751
Federal Government	-	286,946	286,946
State of Maryland	-	11,961	11,961
Interfund	645,098	624,810	1,269,908
Inventories	-	50,731	50,731
Total current assets	8,552,025	1,070,714	9,622,739
Noncurrent assets			
Capital assets at cost	11,349,096	13,175,285	24,524,381
Less accumulated depreciation	(7,258,738)	(2,858,847)	(10,117,585)
Total noncurrent assets	4,090,358	10,316,438	14,406,796
Total assets	\$ 12,642,383	\$ 11,387,152	\$ 24,029,535
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 189,239	\$ 33,857	\$ 223,096
Accrued vacation	15,820	5,430	21,250
Deferred revenue	-	2,100	2,100
Interfund payables	2,268	-	2,268
Current maturities long-term debt	2,000	31,000	33,000
Total current liabilities	209,327	72,387	281,714
Noncurrent liabilities			
Accrued vacation	20,075	2,836	22,911
Landfill - closure and postclosure	7,767,587	-	7,767,587
Long-term debt, less current maturities	-	465,000	465,000
Total noncurrent liabilities	7,787,662	467,836	8,255,498
Total liabilities	\$ 7,996,989	\$ 540,223	\$ 8,537,212
NET ASSETS			
Invested in capital assets, net of related debt	\$ 4,088,358	\$ 9,820,438	\$ 13,908,796
Unrestricted (deficit)	557,036	1,026,491	1,583,527
Total net assets	\$ 4,645,394	\$ 10,846,929	\$ 15,492,323

The Notes to Financial Statements are an integral part of this statement.

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2008**

	Business-Type Activities		
	Landfill	Airport	Totals
OPERATING REVENUES:			
Tipping fees	\$ 4,491,150	\$ -	\$ 4,491,150
Permits	95,160	-	95,160
Fuel sales	-	486,981	486,981
Hangar and tie-down rentals	-	166,483	166,483
Other	30,415	18,275	48,690
Total operating revenues	4,616,725	671,739	5,288,464
OPERATING EXPENSES:			
Salaries and related taxes	745,857	182,223	928,080
Repairs and maintenance	1,874,750	31,026	1,905,776
Rental of land, buildings and equipment	99,464	13,200	112,664
Fuel	214,079	414,399	628,478
Closure and postclosure costs accrual	281,517	-	281,517
Utilities	13,398	90,859	104,257
Depreciation	826,148	269,950	1,096,098
Other operating	161,995	64,507	226,502
Total operating expenses	4,217,208	1,066,164	5,283,372
Net operating income (loss)	399,517	(394,425)	5,092
NON-OPERATING REVENUES (EXPENSES):			
Grants - Federal government	-	479,542	479,542
Grants - state government	-	13,375	13,375
Interest income	280,045	-	280,045
Interest expense	-	(21,499)	(21,499)
Total non-operating revenues	280,045	471,418	751,463
Income before transfers	679,562	76,993	756,555
Operating transfers	-	576,083	576,083
Change in net assets	679,562	653,076	1,332,638
Net assets beginning of year	3,965,832	10,193,853	14,159,685
Net assets end of year	\$ 4,645,394	\$ 10,846,929	\$ 15,492,323

The Notes to Financial Statements are an integral part of this statement.

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2008**

	Landfill	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 4,022,181	\$ 272,078	\$ 4,294,259
Other receipts	30,415	18,275	48,690
Payments to employees	(737,723)	(180,989)	(918,712)
Payments for services	(13,398)	(90,859)	(104,257)
Payments for rentals	(99,464)	(13,200)	(112,664)
Payments for materials and supplies	(2,030,514)	(452,519)	(2,483,033)
Other payments	(161,995)	(64,507)	(226,502)
Net cash provided (used) by operating activities	1,009,502	(511,721)	497,781
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating transfers from General Fund	-	576,083	576,083
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Grant and bond receipts	-	492,917	492,917
Repayment of long-term debt	(1,000)	(31,000)	(32,000)
Purchases of property and equipment	(434,485)	(504,780)	(939,265)
Interest paid	-	(21,499)	(21,499)
Net cash used by financing activities	(435,485)	(64,362)	(499,847)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income received	280,045	-	280,045
Net increase in cash and short-term investments	854,062	-	854,062
Cash and short-term investments, beginning of year	6,120,055	325	6,120,380
Cash and short-term investments, end of year	\$ 6,974,117	\$ 325	\$ 6,974,442
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 399,517	\$ (394,425)	\$ 5,092
Adjustments:			
Depreciation	826,148	269,950	1,096,098
Landfill closure and postclosure cost accrual	281,517	-	281,517
(Increase) decrease in assets:			
Accounts receivable	(301,035)	(326,364)	(627,399)
Prepaid expenses	-	29,990	29,990
Inventory	-	8,378	8,378
Interfund receivable	(263,094)	(63,400)	(326,494)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	82,452	(37,084)	45,368
Accrued vacation	8,134	1,234	9,368
Interfund payable	(24,137)	-	(24,137)
Total adjustments	609,985	(117,296)	492,689
Net cash provided (used) by operating activities	\$ 1,009,502	\$ (511,721)	\$ 497,781

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

Note 1. Reporting Entity

Dorchester County (“the County”) is a political subdivision of the State of Maryland established in 1669 and subsequently incorporated under Article 25 of the Annotated Code of the State of Maryland and is governed by an elected five-member County Council. The County government directly provides all basic local governmental services.

Financial Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the County are not misleading. The primary government of the County consists of all funds, departments, boards, and agencies that are not legally separate from the County.

The component unit columns contain the financial data of the County’s two discretely presented component units – the Board of Education of Dorchester County and the Dorchester County Sanitary Districts. They are reported in separate columns to emphasize that they are legally separate from the County. Although these organizations are legally separate entities, they are included in the financial statements of the County because the County is financially accountable for each organization. Copies of the financial statements for the component units can be obtained from the County Council’s office in Cambridge, Dorchester County, Maryland.

The *Board of Education of Dorchester County (BOE)* is a separately elected body that administers the public school system in the county. The BOE is organized as a separate legal entity, but does not have the power to levy taxes or issue bonds. The BOE’s budget is subject to approval by the county council, and the BOE receives a significant portion of its operational and capital project funding from the County.

The *Dorchester County Sanitary Districts (DCSD)* is a body politic and corporate created by the County, is comprised of a sewer operation, two water districts and a shared facility within the County. The County owns and/or maintains most DCSD facilities and provides a significant portion of its operational funding.

Note 2. Summary of Significant Accounting Policies

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The County has elected not to follow subsequent private-sector guidance. The most significant of the County’s accounting policies are described below.

A. Basis of Presentation

The County’s basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

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. The statements distinguish between those activities of the County that are governmental in nature and those that are considered business-type activities.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

The statement of net assets presents the financial condition of the governmental and business-type activities of the County at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program.

Revenues that are not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the County.

Fund Financial Statements

During the year, the County segregates transactions related to certain County functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the County at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

The County uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary. The County does not maintain any fiduciary funds.

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County's major governmental funds:

General Fund - The General Fund is the general operating fund of the County. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Dorchester County Reserve Fund, the Special Revenue Grants Fund, which includes Local Management Board (LMB) grant activity, the Commissary Fund, the Transfer Tax Fund and the Tourism Marketing Fund are special revenue funds of the County.

Tax Funds - The Building Excise Tax fund is a special revenue fund for building excise tax revenue. Revenues in this fund are derived from an excise tax on new residential or commercial developments, and are dedicated for capital expenditures towards school construction, public safety communications, and the Sheriff's Office. The Transfer Tax fund is a special revenue fund for transfer tax revenue. The transfer tax is imposed on transfers of property at a rate of 0.75%, with the first \$30,000 of consideration exempt for residential transfers. These revenues are dedicated for courthouse debt service, maintenance and security, as well as public school facilities.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

Proprietary Fund Types

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The County's enterprise funds may be used to account for any business-type activities for which a fee is charged to external users for goods or services. The following are the County's major enterprise funds:

Landfill Fund – The Landfill fund is used to account for the fees collected at the County landfills for the dumping of waste.

Airport Fund – The Airport fund is used to account for the financial resources to be used for the operation or construction of airport facilities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the County are included on the statement of net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenues, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the County finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues-Exchange and Non-exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the County, available is defined as collected within sixty days of the fiscal year end.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

Nonexchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the County must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes, interest, grants, fees and rentals.

Deferred revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at June 30, 2008, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets and Budgetary Accounting

All funds, other than agency funds, are legally required to be budgeted and appropriated. The budget is prepared on the budgetary basis of accounting. The budget establishes a limit on the amounts that the County may appropriate and sets annual limits as to the amounts of expenditures at a level of control selected by the County. The legal level of control has been established by the County at the category level within each fund.

The budget may be amended during the year if projected increases or decreases in revenue are identified. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original budget was adopted. The amounts reported in the final budgeted amounts reflect amendments approved by the County during the year.

F. Inventory

On government-wide financial statements and the fund financial statements of proprietary funds, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

G. Property Tax

Generally, property taxes are levied as of July 1 and become delinquent on October 1. Owner-occupied residential property owners pay their tax on a semi-annual schedule, with the first and second installments due on September 30 and December 31, respectively. Taxpayers may opt to make both payments on or before September 30. Property taxes are attached as an enforceable lien and are in arrears on October 1 for non-owner occupied properties and January 1 for owner occupied properties. The County bills and collects its own taxes. County property tax revenue is recognized when collected.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical costs) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The County's infrastructure consists of roads, bridges, ramps, and wharves. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and Improvements	8 - 40 years	5 - 40 years
Furniture and Equipment	3 - 20 years	3 - 15 years
Vehicles	8 years	N/A
Infrastructure	40 - 50 years	15 - 23 years

I. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables." Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances."

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

J. Compensated Absences

Vacation and Sick Leave

Vacation benefits are earned by employees of the reporting entity based on time in service, and the rights to such benefits are vested. Sick leave is also accumulated by employees based on time in service. However, accumulated sick leave benefits do not vest and are not paid unless sickness causes employees to be absent.

Upon retirement, employees of the Board of Education (a component unit) ("Board") receive severance pay for unused sick leave accumulated for service while employed at the Board. This estimated liability is computed on the accumulated sick leave of Board employees who have 20 years of service with the Board at the rate of \$20 per day. In addition, employees are granted vacation benefits in varying amounts depending on tenure. Compensated absences are reported as accrued in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees, which are included in other accrued expenses.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Loans and capital leases are recognized as a liability on the fund financial statements when due.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the County or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

The Board applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Fund Balance Reserves

The County reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity that is available for appropriation in future periods.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the County, these revenues are charges for services for sanitary landfill, airport fuel sales and airport rental fees. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

O. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flow of cash or goods from one fund to another without a requirement for repayment are reported as Interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in enterprise funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

P. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3. Cash and Short-Term Investments

The County is authorized to invest unexpended revenues from taxation, bond sales, lawful distributions to it of funds from other governmental agencies, or any other funds properly received by it, until it determines the funds are needed for proper public purpose. The County can invest such funds in Federally insured banking institutions which pledge United States Treasury bills, notes, or other obligations to secure such deposits, or in U.S. Treasury and agency obligations, repurchase agreements, collateralized certificates of deposit, bankers acceptances, or money market mutual funds.

Primary Government

At June 30, 2008, the Primary Government had bank deposits with various commercial banks totaling \$23,984,498 (carrying value \$23,716,765). As required by law, each depository is required to pledge securities in addition to FDIC insurance at least equal to the amount on deposit at all times. The depository banks pledge collateral for specific accounts which are held in the Primary Government's name at several banks. As of June 30, 2008, all bank deposits were fully insured or collateralized. Petty cash totaled approximately \$8,300 at June 30, 2008.

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Short-Term Investments (continued)

Board of Education of Dorchester County

At June 30, 2008, the Board had bank deposits with various commercial banks totaling \$1,524,272 (carrying value \$827,353). As required by law, each depository is to pledge securities in addition to FDIC insurance at least equal to that amount on deposit at all times. The depository banks pledge collateral for specific accounts which are held in the Board's name at the Federal Reserve Bank of Boston. As of June 30, 2008, bank deposits were not fully insured or collateralized by approximately \$75,000 in one local financial institution. Investments of \$2,592,169 consist solely of U.S. Government Securities made through the State of Maryland Local Government Investment Pool (MLGIP) which provide local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 94 22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Safe Deposit and Trust Company, which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a quarterly basis and provide suggestions to enhance the pool. The MLGIP is rated AAAM by Standard and Poors. The fair value of the pool is the same as the value of the pool shares. Investments are recorded at cost, which approximates market value. Statutes authorize the Board to invest in obligations of the U.S. Treasury and U.S. Agencies, municipal securities and repurchase agreements, collateralized certificates of deposit, bankers acceptance or money market funds. The Board's exposure to investment rate and credit risk is minimal, as all investments are in cash and MLGIP and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by attempting to have all investments fully collateralized by securities.

Dorchester County Sanitary Districts

At June 30, 2008 the Dorchester County Sanitary Districts had bank deposits with various commercial banks totaling \$964,181 (carrying value \$961,082). Of the \$964,181 balance at June 30, 2008, \$200,000 was fully insured by federal depository insurance and \$703,935 was collateralized by investments that were held by a third party custodian in the Sanitary District's name. The remaining \$60,246 was uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balances at June 30, 2007	Additions	Deletions/ Transfers	Balances at June 30, 2008
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated				
Land	\$ 7,624,514	\$ 12,066	\$ -	\$ 7,636,580
Construction in progress	1,233,179	3,745,077	(70,489)	4,907,767
Total capital assets, not being depreciated	8,857,693	3,757,143	(70,489)	12,544,347
 Capital assets, being depreciated				
Buildings and improvements	21,396,843	623,281	70,489	22,090,613
Furniture and equipment	18,215,115	1,582,726	(149,384)	19,648,457
Leasehold improvements	286,572	-	-	286,572
Infrastructure assets	37,370,619	1,211,144	-	38,581,763
Total capital assets, being depreciated	77,269,149	3,417,151	(78,895)	80,607,405
Less: accumulated depreciation	(45,540,958)	(2,970,242)	141,882	(48,369,318)
Net capital assets, being depreciated	31,728,191	446,909	62,987	32,238,087
Governmental activities capital assets, net	\$40,585,884	\$ 4,204,052	\$ (7,502)	\$44,782,434

Depreciation expense was charged to governmental functions as follows:

General government	\$ 745,491
Public safety	1,645,833
Social services	4,084
Recreation and parks	81,127
Natural resources	2,230
Economic development	77,113
Public works	414,364
	\$ 2,970,242

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

	Balances at June 30, 2007	Additions	Deletions/ Transfers	Balances at June 30, 2008
BUSINESS-TYPE ACTIVITIES				
Dorchester County Landfill				
Capital assets, not being depreciated				
Land	\$ 875,187	\$ -	\$ -	\$ 875,187
Construction in progress	37,931	223,789	-	261,720
Total capital assets, not being depreciated	913,118	223,789	-	1,136,907
Capital assets, being depreciated				
Buildings and improvements	82,089	66,650	-	148,739
Machinery and equipment	3,595,894	144,046	-	3,739,940
Beulah landfill - cells	6,323,510	-	-	6,323,510
Total capital assets, being depreciated	10,001,493	210,696	-	10,212,189
Less: accumulated depreciation	(6,432,590)	(826,148)	-	(7,258,738)
Net capital assets, being depreciated	3,568,903	(615,452)	-	2,953,451
Landfill capital assets, net	\$ 4,482,021	\$ (391,663)	\$ -	\$ 4,090,358
Dorchester County Airport				
Capital assets, not being depreciated				
Land	\$ 1,867,582	\$ 281,218	\$ -	\$ 2,148,800
Construction in progress	852,662	223,562	-	1,076,224
Total capital assets, not being depreciated	2,720,244	504,780	-	3,225,024
Capital assets, being depreciated				
Buildings and improvements	9,691,845	-	-	9,691,845
Machinery and equipment	258,416	-	-	258,416
Total capital assets, being depreciated	9,950,261	-	-	9,950,261
Less: accumulated depreciation	(2,588,897)	(269,950)	-	(2,858,847)
Net capital assets, being depreciated	7,361,364	(269,950)	-	7,091,414
Airport capital assets, net	\$ 10,081,608	\$ 234,830	\$ -	\$ 10,316,438
Business-type activities capital assets, net	\$ 14,563,629	\$ (156,833)	\$ -	\$ 14,406,796

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

Capital asset activity for the component units for the year ended June 30, 2008 was as follows:

	Balances at June 30, 2007	Additions	Deletions/ Transfers	Balances at June 30, 2008
Board of Education of Dorchester County				
Governmental activities				
Capital assets, not being depreciated				
Construction in progress	\$ 975,193	\$ 8,989,154	\$ (423,584)	\$ 9,540,763
Total capital assets, not being depreciated	975,193	8,989,154	(423,584)	9,540,763
Capital assets, being depreciated				
Buildings and improvements	74,008,732	80,838	252,757	74,342,327
Furniture and equipment	932,506	146,875	165,327	1,244,708
Vehicles	831,360	52,938	(41,899)	842,399
Total capital assets, being depreciated	75,772,598	280,651	376,185	76,429,434
Less: accumulated depreciation	(29,185,210)	(1,589,556)	47,399	(30,727,367)
Net capital assets, being depreciated	46,587,388	(1,308,905)	423,584	45,702,067
Governmental activities capital assets, net	\$ 47,562,581	\$ 7,680,249	\$ -	\$ 55,242,830
Business-type activities				
Equipment	\$ 559,950	\$ -	\$ -	\$ 559,950
Accumulated depreciation	(537,322)	(2,417)	-	(539,739)
Business-type activities capital assets, net	\$ 22,628	\$ (2,417)	\$ -	\$ 20,211
Board of Education capital assets, net	\$ 47,585,209	\$ 7,677,832	\$ -	\$ 55,263,041
Dorchester County Sanitary Districts				
Capital assets, not being depreciated				
Land	\$ 2,645	\$ -	\$ -	\$ 2,645
Construction in progress	14,148	2,361	-	16,509
Total capital assets, not being depreciated	16,793	2,361	-	19,154
Capital assets, being depreciated				
Plant and equipment	7,128,907	-	-	7,128,907
Total capital assets, being depreciated	7,128,907	-	-	7,128,907
Less: accumulated depreciation	(3,164,130)	(162,422)	-	(3,326,552)
Net capital assets, being depreciated	3,964,777	(162,422)	-	3,802,355
Sanitary Districts capital assets, net	\$ 3,981,570	\$ (160,061)	\$ -	\$ 3,821,509
Total component units capital assets, net	\$ 51,566,779	\$ 7,517,771	\$ -	\$ 59,084,550

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt

The following is a summary of long-term debt transactions of the Primary Government for the year ended June 30, 2008:

	Governmental Activities	Business-Type Activities
Amounts payable at June 30, 2007	\$ 21,927,376	\$ 564,793
Borrowings from bonds, notes payable, and capital leases	1,452,620	-
Increase in pension liability (See also Note 9)	15,915	-
Increase in vested vacation benefits and compensatory time	93,324	9,368
Repayment of long-term debt and capital lease obligations	(2,941,653)	(32,000)
Amounts payable at June 30, 2008	\$ 20,547,582	\$ 542,161

Long-term debt consists of the following as of June 30, 2008:

Dorchester County Governmental Activities Long-Term Debt

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008	Amounts Due in One Year
<u>Capital Leases</u>					
Dell Financial Services capital lease agreement on the computer equipment.					
Lease due in annual installments of \$39,171 including interest at 6.46% through July 2010.	\$ -	\$ 118,380	\$ (39,171)	\$ 79,209	\$ 34,057

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008	Amounts Due in One Year
<u>Public Facilities Bonds</u>					
1996 Public Facilities Bonds due in annual principal installments of \$190,000 to \$1,065,000 through November 1, 2010; interest, payable semi-annually, from 3.5% to 6.7%.	\$ 1,730,000	\$ -	\$ (1,065,000)	\$ 665,000	\$ 210,000
Public School Capital Improvement bonds for 2002 due in annual principal installments of \$320,000 to \$650,000 through August 1, 2017; interest, payable semi-annually, from 3.5% to 4.5%.	5,620,000	-	(390,000)	5,230,000	410,000
General Improvements and Refunding Bonds of 2004, payable in annual payments from \$65,000 to \$1,050,000 through February 1, 2019; interest payable annually from 2% to 3.9%.	7,665,000	-	(915,000)	6,750,000	940,000
Public School Capital Improvement Bonds of 2000 due in annual principal installments of \$145,000 to \$300,000 through March 1, 2015; interest, payable semi-annually, from 4.5% to 5.2%.	2,005,000	-	(210,000)	1,795,000	220,000
Total public facilities bonds	\$ 17,020,000	\$ -	\$ (2,580,000)	\$ 14,440,000	\$ 1,780,000

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008	Amounts Due in One Year
<u>State of Maryland Department of Natural Resources</u>					
<u>Maryland Industrial Land Act Loans (MILA)</u>					
Maryland Industrial Land Act loan due in quarterly installments of \$15,886, including interest at 6.32%, through March 2016, secured by 5.6 acres of land and improvements located in the Chesapeake Industrial Park in Cambridge, Maryland (known as the Regina building).	\$ 401,351	\$ -	\$ (37,835)	\$ 363,516	\$ 39,928
Maryland Industrial Land Act loan due in quarterly installments of \$21,177, including interest at 4.64%, through April 2012. A final balloon payment of \$397,242 is due at maturity (known as the Connelly Building).	607,074	-	(57,619)	549,455	58,909
Total MILA loans payable	\$ 1,008,425	\$ -	\$ (95,454)	\$ 912,971	\$ 98,837

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2007	Additions	Transfers/ Reductions	Balances at June 30, 2008	Amounts Due in One Year
<u>State of Maryland Department of Natural Resources</u>					
<u>Shore Erosion Control Loans (SEC)</u>					
SEC 3-92 - Hoopersville Road Boat Ramp; due in annual installments of \$4,780 through July 2019; no interest.	\$ 57,352	\$ -	\$ (4,780)	\$ 52,572	\$ 4,780
SEC 7-92 - Middle Hoopers Island Causeway; due in annual installments of \$5,516 through July 2020; no interest.	77,224	-	(5,516)	71,708	5,516
SEC 8-92 - McCreedy's Point Road; due in annual installments of \$1,683 through July 2019; no interest.	21,885	-	(1,683)	20,202	1,683
SEC 9-92 - Hoopersville Road; due in annual installments of \$2,718 through July 2020; no interest.	35,337	-	(2,718)	32,619	2,718
SEC 3-95 - Punch Island Road; due in annual installments of \$3,519 through July 2011; no interest.	17,591	-	(3,519)	14,072	3,519
SEC 2-96 - Rooster Island; due in annual installments of \$8,207 through July 2012; no interest.	49,237	-	(8,207)	41,030	8,207
SEC 03-03 - Hoopersville Road; due in annual installments of \$8,829 through July 2032; no interest.	233,667	-	-	233,667	15,578
SEC 04-02 - Hoopers Island Road; due in annual installments of \$6,032 through July 2027; no interest.	124,532	-	(5,930)	118,602	5,930
SEC 05-03 - Taylors Island - \$350,000 total loan to be repaid in 25 annual installments of \$14,000, no interest, to begin July 1 after the completion of the project.	95,050	22,283	(25,000)	92,333	-
SEC 18-02 - Punch Island Road; \$323,957 total loan to be repaid in 25 annual installments of \$12,958, no interest, to begin July 1 after the completion of the project.	-	298,957	25,000	323,957	-
Total SEC loans payable	\$ 711,875	\$ 321,240	\$ (32,353)	\$ 1,000,762	\$ 47,931

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008	Amounts Due in One Year
<u>Notes Payable</u>					
County Commissioners of Queen Anne's County loan due in annual principal installments of \$5,500 to \$18,700 through November 2013; interest payable semi-annually at 5.91% (known as the Chesapeake College Economic Development Center).	\$ 108,900	\$ -	\$ (13,200)	\$ 95,700	\$ 13,200
County Commissioners of Queen Anne's County loan due in annual principal installments of \$20,000 to \$50,000 through January 2020; interest payable annually at 5.173% to 5.25% (known as the Learning Resource Center).	465,000	-	(25,000)	440,000	25,000
County Commissioners of Queen Anne's County loan due in annual principal installments of \$5,096 to \$12,314 through January 2023; interest payable semi-annually at 4%.	140,067	-	(5,945)	134,122	6,188
Note due in quarterly principal installments of \$24,313, plus interest at 5.33% through 2014 (known as the Delmarva Power and Light Building).	582,109	-	(67,458)	514,651	71,258
MDOT due in annual installments of \$202,600 to January 2013; no interest.	-	1,013,000	-	1,013,000	202,600
The Rippons Pier deferred purchase price due in annual principal installments of \$35,000 to \$40,000 through 2012, no interest.	235,000	-	(40,000)	195,000	40,000
Note due in quarterly installments of \$16,639 to \$27,525, including interest at 8.5%, through April 2008, secured by 22.0 acres of land (known as the new Eastern Shore State Hospital Center).	43,072	-	(43,072)	-	-
Total notes payable	1,574,148	1,013,000	(194,675)	2,392,473	358,246
Total governmental activities debt	\$ 20,314,448	\$ 1,452,620	\$ (2,941,653)	\$ 18,825,415	\$ 2,319,071

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Dorchester County Business-Type Activities Long-Term Debt

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008	Amounts Due in One Year
Dorchester County Landfill:					
Refuse and bid bonds payable	\$ 3,000	\$ -	\$ (1,000)	\$ 2,000	\$ 2,000
Dorchester County Airport:					
Airport Improvement Bonds of 2003 issued through M&T Bank for 15 years with annual payments of \$31,000 through 2018 and a final payment of \$186,000 in 2019; interest payable quarterly at 4.19%.	527,000	-	(31,000)	496,000	31,000
Total enterprise fund debt	\$ 530,000	\$ -	\$ (32,000)	\$ 498,000	\$ 33,000

Payments on bonds, notes payable, loans payable, and capital leases that pertain to the County's governmental activities are made by the debt service fund through transfers from the general fund. Payments on bonds and notes payable that pertain to the County's business-type activities are made by the fund in which the liability exists. The compensated absences liabilities that are attributable to the County's governmental activities are liquidated by the County's debt service fund through transfers from the general fund. The compensated absences attributable to the County's business-type activities are liquidated by the fund in which the liability exists.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

The annual debt service requirements for all Dorchester County long-term debt through maturity are as follows:

Governmental Activities

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 2,319,071	\$ 645,102	\$ 2,964,173
2010	2,428,417	569,174	2,997,591
2011	2,476,975	486,558	2,963,533
2012	2,611,163	396,195	3,007,358
2013	2,322,222	317,828	2,640,050
2014 - 2018	6,017,893	581,265	6,599,158
2019 - 2023	436,857	17,778	454,635
2024 - 2028	112,908	-	112,908
2029 - 2033	83,258	-	83,258
2034	16,651	-	16,651
Total governmental activities debt	<u>\$ 18,825,415</u>	<u>\$ 3,013,900</u>	<u>\$ 21,839,315</u>

Business-Type Activities

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 33,000	\$ 20,782	\$ 53,782
2010	31,000	19,484	50,484
2011	31,000	18,185	49,185
2012	31,000	16,886	47,886
2013	31,000	15,586	46,586
2014 - 2018	155,000	58,451	213,451
2019	186,000	7,793	193,793
Total business-type activities debt	<u>\$ 498,000</u>	<u>\$ 157,167</u>	<u>\$ 655,167</u>

Interest expense on all County long-term debt totaled \$752,567 for the year ended June 30, 2008.

Additionally, the County has agreed to execute a shore erosion control project loan agreement with the Maryland Department of Natural Resources for a no interest loan in the amount of \$350,000 to complete the Taylor's Island Environmental Restoration Project to be repaid over 25 years with annual payments of \$14,000 beginning on July 1 of the year in which the project is completed. Of the \$350,000 amount, \$92,333 has been borrowed and included in the governmental activities' long-term debt.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Long-term debt of the Dorchester County Sanitary Districts at June 30, 2008 consists of the following:

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008
<u>Dorchester County Sanitary Districts</u>				
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.67%. Annual level installments of principal and interest of \$9,389 through March 2020.	\$ 79,947	\$ -	\$ (4,055)	\$ 75,892
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 6.67%. Annual level installments of principal and interest of \$4,736 through March 2020.	40,330	-	(2,045)	38,285
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.67%. Annual level installments of principal and interest of \$9,816 through September 2020.	87,556	-	(3,974)	83,582
Loan payable to Bank of Eastern Shore. Annual interest rate of 6.4%. Monthly installments of principal and interest of \$488 through April 2010. Collateralized by a certificate of deposit held at the Bank of the Eastern Shore.	14,727	-	(5,064)	9,663
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 6.10%. Annual level installments of principal and interest of \$2,051 through October 2012.	10,047	-	(1,438)	8,609
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 8.18%. Annual level installments of principal and interest of \$6,898 through July 2014.	39,343	-	(3,680)	35,663
Loan payable to the State of Maryland under the Drinking Water State Water Revolving Fund. Annual interest rate of 3.13%. Annual level installments of principal and interest of \$4,653 through February 2013.	24,687	-	(3,880)	20,807
Total Sanitary Districts' debt	\$ 296,637	\$ -	\$ (24,136)	272,501
Less: current maturities				25,653
				\$ 246,848

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

The annual requirements to amortize all Dorchester County Sanitary Districts' debt outstanding as of June 30, 2008 are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2009	\$ 25,653	\$ 17,751	\$ 43,404
2010	25,781	16,142	41,923
2011	22,861	14,683	37,544
2012	24,296	13,248	37,544
2013	25,320	11,717	37,037
2014 - 2018	97,020	36,426	133,446
2019 - 2021	51,570	6,128	57,698
Total sanitary districts debt	<u>\$ 272,501</u>	<u>\$ 116,095</u>	<u>\$ 388,596</u>

Note 6. Capital Leases

Primary Government

The County entered into a lease agreement in July 2007, for the purpose of acquiring computer equipment. The original cost of the equipment acquired under the capital lease agreement was \$124,830, which included \$6,450 of capitalized shipping cost. Accumulated depreciation on the equipment as of June 30, 2008 was \$24,966. Since the lease is a financing arrangement that transfers ownership at the end of the lease, the County has recorded the present value of the future minimum lease payments and the related assets in the appropriate funds.

<u>Year Ending June 30,</u>	
2009	\$ 39,171
2010	39,171
2011	9,470
	<u>87,812</u>
Less amounts representing interest	<u>(8,603)</u>
Present value of net minimum lease payments	<u>\$ 79,209</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Long-Term Operating Lease

In July 2008, the County entered into a 2-year non-cancelable operating lease for its sanitary landfill site #2, commonly referred to as the "Golden Hill Landfill". Lease expense for 2008 was \$6,000. A final minimum lease payment of \$6,000 is due for each of the years ending June 30, 2009 and 2010.

Component Unit - Board of Education

The Board of Education of Dorchester County leases computers and copy machines for the majority of the educational system over three to five year terms.

Approximate future minimum lease commitments are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 211,000
2010	147,000
2011	146,000

Rent expense, under these leases, totaled approximately \$300,000 for the year ended June 30, 2008.

Note 8. Interfund Receivables and Payables

As a result of its operations, the County affects a variety of transactions between funds to finance operations, service debt, etc. Accordingly, to the extent that certain interfund transactions have not been paid or received as of June 30, 2008, appropriate due to/from other funds have been established.

Due to/from other funds balances as of June 30, 2008 were as follows:

<u>Primary Government</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental activities	\$ 6,048,379	\$ 7,316,019
Business-Type activities	1,269,908	2,268
<u>Total due to/from other funds</u>	<u>\$ 7,318,287</u>	<u>\$ 7,318,287</u>

Note 9. Pension Plans

Plan Description

Generally, all regular employees of the County participate in the State of Maryland Employees Retirement and Pension Systems (Employees Systems). Teachers employed by the Board generally participate in the State of Maryland Teachers Retirement and Pensions Systems (Teachers Systems). Both the Employees System and the Teachers Systems (collectively the Systems) are agent multiple-employer public retirement systems sponsored by the Maryland State Retirement and Pensions Systems and created by the Maryland General Assembly. The Maryland State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the systems. That report may be obtained by writing to the Office of Legislative Audits, State Office Building, 301 West Preston Street, Baltimore, Maryland, 21201.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension Plans (continued)

Participants in the Systems may retire with full benefits after thirty years of service regardless of age or at various ages with specified years of eligibility service for reduced benefits. Annual service retirement allowances are paid monthly to retired members in accordance with allowance options selected based on average final compensation. Participants terminating in the retirement system prior to specified retirement age are refunded their accumulated contributions plus earned interest or may defer receipt of accumulated contributions until age 60. Participants and their beneficiaries may also be eligible for disability and death benefits based on years of creditable service and average final compensation.

Funding Policy

The State Personnel and Pensions Article requires active members to contribute to the System at the rate of 4%, 5% or 7% of their covered salary depending upon the retirement option selected. The combined State contribution rate for the year ending 2008 is established by annual actuarial valuations. The current rate is 11.6% of covered payroll for teachers and 5.27% for classified employees. On-behalf payments consist of pension contributions made by the State of Maryland to the State Retirement System for applicable employees of the Board of Education. The amounts recognized as revenue and expenditures for the fiscal year ended June 30, 2008 was \$2,957,761 for the Board of Education.

Employers' Payroll and Contributions Under the Plans

The employers' current year payroll for the years ended June 30, 2008, 2007, and 2006, payroll covered under the various state plans, and contributions paid are as follows:

	2008	2007	2006
Total payroll	\$ 46,233,135	\$ 41,407,611	\$ 38,065,195
Payroll covered under the plans	42,528,763	38,687,276	34,909,116
Contributions paid:			
County payments	984,018	822,465	603,897
Board of Education payments	579,697	441,306	388,622
State On-Behalf payments:			
Board of Education	2,957,761	2,414,577	2,145,324

Funding Status

As a result of a 1997 actuarial study of the State Retirement and Pension System of Maryland, the County Commissioners of Dorchester County, Maryland (Highway Department) were identified as one of 23 municipal corporations not having enough assets in the system to fund the present value of accrued benefits for participants in the retirement system. Under rules of House Bills 1348 and 430, the County will repay the \$622,014 fund deficit (an increase of \$15,915 over the prior fiscal year) over a period of 40 years. The fiscal year 2008 annual payment was \$31,343 and will increase 5% per year until maturity at December 31, 2035. This liability has been recorded in the governmental activities column on the Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS

Note 10. Post-Employment Health Care Benefits

The County provides post-employment health care benefits to their respective retired employees. Retired employees who complete 16 years of service will receive full health care benefits (including spouse) of which the employer pays 85%. Employees with less than 16 years of service will pay on a pro-rata basis. The cost of retiree health care is recognized as an expenditure when the premiums are paid. At June 30, 2008 there were 63 retirees participating. Total cost to the County for the year ended June 30, 2008 was \$236,919.

The Board of Education of Dorchester County provides individual health insurance for its retired employees. Board employees may become eligible at retirement after 15 years of service. The amount contributed by the Board varies based on age and the number of years of service. The cost of retiree health care is recognized as an expenditure when the premiums are paid. At June 30, 2008 there were 214 retirees participating. Total cost to the Board for the year ended June 30, 2008 was \$653,215.

In April 2004, GASB issued Statement No. 43, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans. GASB Statement No. 43 addresses the financial reporting for other post-employment benefit plans. The County and the Board were not required to implement this standard as of June 30, 2008, as there was no trust established at that time.

In June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employees for Post-Employment Benefits Other Than Pensions. GASB No. 45 requires employer governments to account for and report the annual cost of other postemployment benefits in the same manner as they do for pensions. This statement is effective for the County's and Board's financial statements for periods beginning after December 15, 2007, fiscal year 2009.

The County obtained an actuarial valuation of its Post-Employment Health Benefits obligations, calculated in accordance with GASB No. 45 standards as of January 1, 2007. Based on the plan and contribution level that the County offers, the present value of future benefits, assuming a 4.5% interest rate, was estimated to be \$13.8 million, while the annual normal cost is \$1,014,000. If the unfunded accrued actuarial liability of approximately \$19.3 million were amortized over a 30-year period, the total annual required contribution (normal cost plus amortization amount and interest) would be approximately \$1.7 million.

The Board obtained an actuarial valuation of its Post-Employment Health Benefits obligations, calculated in accordance with GASB No. 45 standards as of January 1, 2007. Based on the plan and contribution level that the Board offers, the present value of future benefits, assuming a 4% interest rate, was estimated to be \$8.8 million, while the annual normal cost is \$546,000. If the unfunded accrued actuarial liability of approximately \$18.1 million were amortized over a 29-year period, the total annual required contribution (normal cost plus amortization amount and interest) would be approximately \$1.2 million.

The Dorchester County Sanitary Districts offers retirees under age 65, family, husband, and wife, parent and child, and individual plans. Effective July 1, 1991 all employees retiring will receive health care benefits paid by the District based on 16 years service to receive full benefits. Those employees with less than sixteen years will pay on a pro-rata basis. When a retiree reaches the age of 65 and has 16 years of service the District will pay full premium for "over 65 supplement" coverage. The retiree pays for full premium of coverage for his/her spouse.

The Dorchester County Sanitary Districts has elected a pay-as-you-go system to fund these benefits. For the fiscal year ended June 30, 2008 the premiums totaled \$3,802 for one retired employee. For the fiscal years ended June 30, 2007 and 2006, the premiums totaled \$7,499 and \$6,578, respectively for two retired employees. Due to the limited liability of these benefits the District has elected not to account for or report on these benefits in accordance with GASB Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans.

NOTES TO FINANCIAL STATEMENTS

Note 11. Deferred Compensation

The County offers its employees two deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all eligible County employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The County funds all amounts of compensation deferred under the Plans, at the direction of the covered employee, through investments underwritten by Variable Annuity Life Insurance Company (VALIC) and Nationwide. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the deferred compensation plan participants and are not subject to the claims of the County's general creditors.

The County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. In accordance with GASB Statement No. 32, adopted by the County in 1998, the plan's assets are not reported on the combined balance sheet of the County. A summary of the activity in the plan is presented in the supplementary information for the year ended June 30, 2008.

Note 12. Reserved and Designated Fund Equity and Restricted Retained Earnings

Reservations of fund equity show amounts that are not available for current appropriations or are legally restricted for specific uses. Within unreserved fund equity, designations are used to show the amounts within unreserved equity, which are intended to be used for specific purposes, but are not legally restricted. The purpose for each reservation or designation is indicated by the account title on the face of the balance sheet.

Use of per lot assessments totaling \$145,387 at June 30, 2008 by the Dorchester County Sanitary Districts is restricted to capital improvements, repairs and maintenance to the water system, and debt service.

Note 13. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the County to place a final cover on Dorchester County landfills when closed and to perform certain maintenance and monitoring functions at the landfill sites for thirty years after closure. It is the County's position that the State of Maryland will require continuous monitoring of all closed landfills with no termination period set for post-closure care, and as such will continue to accrue an estimate for these costs over a thirty year period.

The Secretary landfill stopped accepting waste in 1982. The landfill has been capped and only has postclosure care costs associated with it, currently estimated to be approximately \$10,900 each year for the next thirty years.

The Golden Hill landfill stopped accepting waste in 1991. The landfill has been capped and only has postclosure care costs associated with it, currently estimated to be approximately \$14,200 each year for the next thirty years.

The Old Beulah landfill stopped accepting waste in February 1996. The landfill is expected to be covered during fiscal year 2009 at an estimated total cost of approximately \$3,872,000. The County is currently waiting final approval of its plan of closure from the Maryland Department of the Environment. Postclosure care costs for this location are currently estimated to be approximately \$20,100 each year for the next thirty years.

NOTES TO FINANCIAL STATEMENTS

Note 13. Landfill Closure and Postclosure Care Costs (continued)

The closure and postclosure care costs associated with each of the aforementioned landfills are as follows:

<u>Secretary landfill</u>	
Postclosure care costs	\$ 328,224
<u>Golden Hill landfill</u>	
Postclosure care costs	425,280
<u>Old Beulah landfill</u>	
Closure costs	3,872,282
Postclosure care costs	602,616
	4,474,898
<u>New Beulah landfill - cells 1 - 4</u>	
Closure costs	2,285,352
Postclosure care costs	253,833
	2,539,185
Total closure and postclosure care costs	\$ 7,767,587

The above amounts are based on the current costs to perform all closure and postclosure care as of June 30, 2008. As noted above, the County expects to cap the Old Beulah landfill over the next fiscal year. However, actual costs may ultimately be higher than estimated costs due to inflation, changes in technology, or changes in regulations.

Though there are currently no legal restrictions on available funds, the County has approximately \$6,974,000 of currently available assets for landfill closure and postclosure care costs. The shortfalls may need to be covered by any combination of charges to future landfill users, future tax revenues, or additional borrowings.

The New Beulah landfill will consist of six cells. Cells 1 & 2 began accepting waste in November 1995 and were completely filled in 2003. Accruals of closure and postclosure care costs have been recognized. Total closure and postclosure care costs for Cells 1 & 2 are estimated to be \$1,231,285 and \$136,758, respectively.

New Beulah landfill cell 3 was completed and began accepting waste in October 2002. Accrual of closure and postclosure care costs have been recognized based on the estimated capacity used to date (88.87%). Total closure and postclosure care costs for Cell 3 are estimated to be \$911,866 and \$101,281, respectively.

New Beulah landfill cell 4 was completed and began accepting waste in January 2007. Accrual of closure and postclosure care costs have been recognized based on the estimated capacity used to date (19.99%). Total closure and postclosure care costs for Cell 4 are estimated to be \$142,201 and \$15,794, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 14. Commitments and Contingencies

Dorchester County

Grants

The County receives Federal and State grants for specific purposes that are subject to review and audit by Federal and state agencies. Such audits could result in a request for reimbursement by the Federal and state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of County management, such disallowances, if any, will not be significant to the County's combined financial statements.

Conduit Debt

In August 1999, the County issued Economic Development Revenue Bonds in the amount of \$5,000,000 to fund plant expansions at Hi-Tech Plastics in Cambridge, Maryland. While the bonds were issued through the County, there is no liability or responsibility on behalf of the County for repayment of the debt.

Risk Management

The County's risk financing techniques include participation in a public entity risk pool and the purchase of commercial insurance.

For general, property, excess and environmental liability coverage, the County is a member of the Maryland Local Government Insurance Trust (LGIT). This trust is a public entity risk pool, which is owned and directed by the local governments that subscribe to its coverages, and operates under the terms of a Trust Agreement.

Subscribers to coverage by LGIT share in the risk among participants of the pools. As a result, the County's annual premium requirements are affected by the loss experience of the various insurance pools in which it participates. Conversely, favorable performance of certain insurance pools may result in reduced premiums.

The County is fully insured for worker's compensation through commercial insurance and certain employees are bonded to limit the loss to the County in the event of employees committing acts of embezzlement or theft. In addition, due to specific exclusions in the County's insurance, the County also has commercial insurance coverage for property liability at the Airport. There has been no significant reduction in insurance coverage from the prior year by major categories of risk, and amounts of settlements have not exceeded insurance coverage for each of the past three fiscal years.

Dorchester County Sanitary Districts

The County Council of Dorchester County has guaranteed certain obligations of the Dorchester County Sanitary Districts, Inc. in the amount of \$20,807.

NOTES TO FINANCIAL STATEMENTS

Note 14. Commitments and Contingencies (continued)

Board of Education of Dorchester County

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. In the opinion of the Board, there are no approved contracts that would have a material effect on the financial statements. The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2008 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

The Board is a defendant in a lawsuit. After considering all relevant facts and the opinion of legal counsel, it is management's opinion that such litigation will not have a material adverse effect on the financial position of the Board.

Note 15. Required Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended June 30, 2008.

Fund	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General Fund	\$ 52,165,300	\$ 56,072,463	\$ 3,907,163
Special Revenue	2,787,799	5,591,299	2,803,500

See revenue and expenditure detail special revenue grants fund for detailed breakout of cost.

Funds to provide for the excess expenditures were made available from additional tax revenue, funding sources or a County match within the fund.

The debt service fund had a fund deficit of \$139,141 for the year ended June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Taxes:				
Property taxes	\$ 24,362,882	\$ 24,362,882	\$ 26,057,854	\$ 1,694,972
Income taxes	9,600,000	9,600,000	11,523,663	1,923,663
Other taxes	4,465,359	4,465,359	3,466,395	(998,964)
Total taxes	38,428,241	38,428,241	41,047,912	2,619,671
Licenses and permits	326,100	326,100	285,357	(40,743)
Intergovernmental:				
Federal	160,662	160,662	2,827,897	2,667,235
State	7,435,196	7,435,196	7,350,429	(84,767)
Service charges	2,717,379	2,717,379	2,533,075	(184,304)
Miscellaneous	2,797,682	2,807,722	474,174	(2,333,548)
Total revenues	51,865,260	51,875,300	54,518,844	2,643,544
EXPENDITURES:				
General government				
County council				
Operating personnel	294,033	294,033	271,220	22,813
Other	62,800	62,800	35,932	26,868
	356,833	356,833	307,152	49,681
Circuit court				
Operating personnel	93,123	93,123	88,733	4,390
Other	65,510	65,510	81,959	(16,449)
	158,633	158,633	170,692	(12,059)
Orphan's court				
Operating personnel	14,100	14,100	14,100	-
Other	7,210	7,210	6,746	464
	21,310	21,310	20,846	464
State's attorney				
Operating personnel	579,524	579,524	546,313	33,211
Other	138,828	138,828	105,198	33,630
	718,352	718,352	651,511	66,841
Elections				
Operating personnel	43,300	36,300	27,978	8,323
Other	400,671	407,671	359,061	48,611
	443,971	443,971	387,038	56,933
Finance & treasurer				
Operating personnel	386,404	386,404	326,055	60,349
Other	115,600	115,600	107,903	7,697
	502,004	502,004	433,958	68,046

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2008
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
General government (continued)				
Human resources				
Operating personnel	\$ 51,496	\$ 51,496	\$ 51,892	\$ (396)
Other	39,100	39,100	18,435	20,665
	<u>90,596</u>	<u>90,596</u>	<u>70,327</u>	<u>20,269</u>
Information technology				
Operating personnel	143,782	143,782	131,653	12,129
Other	66,300	66,300	17,331	48,969
	<u>210,082</u>	<u>210,082</u>	<u>148,984</u>	<u>61,098</u>
Other general government				
Operating personnel	130,299	130,299	127,528	2,771
Other	479,650	479,650	417,802	61,848
	<u>609,949</u>	<u>609,949</u>	<u>545,330</u>	<u>64,619</u>
Planning and zoning				
Operating personnel	441,562	441,562	399,201	42,361
Other	158,650	158,650	62,894	95,756
	<u>600,212</u>	<u>600,212</u>	<u>462,095</u>	<u>138,117</u>
Maintenance				
Operating personnel	169,947	169,947	163,001	6,946
Other	149,500	149,500	152,619	(3,119)
	<u>319,447</u>	<u>319,447</u>	<u>315,620</u>	<u>3,827</u>
Total general government	<u>4,031,389</u>	<u>4,031,389</u>	<u>3,513,553</u>	<u>517,836</u>
Public safety				
Sheriff				
Operating personnel	1,942,301	1,942,301	1,984,708	(42,407)
Other	482,000	482,000	613,366	(131,366)
	<u>2,424,301</u>	<u>2,424,301</u>	<u>2,598,074</u>	<u>(173,773)</u>
Volunteer fire and life support				
Other	754,991	754,991	731,409	23,582
	<u>754,991</u>	<u>754,991</u>	<u>731,409</u>	<u>23,582</u>
EMS				
Operating personnel	945,099	945,099	1,065,548	(120,449)
Other	914,116	914,116	902,678	11,438
	<u>1,859,215</u>	<u>1,859,215</u>	<u>1,968,226</u>	<u>(109,011)</u>
Detention center				
Operating personnel	2,391,476	2,391,476	2,446,895	(55,419)
Other	1,384,480	1,384,480	1,330,746	53,734
	<u>3,775,956</u>	<u>3,775,956</u>	<u>3,777,641</u>	<u>(1,685)</u>

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2008
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (continued)				
911 emergency communications				
Operating personnel	\$ 666,895	\$ 666,895	\$ 753,362	\$ (86,467)
Other	547,650	547,650	494,998	52,652
	<u>1,214,545</u>	<u>1,214,545</u>	<u>1,248,360</u>	<u>(33,815)</u>
Emergency management				
Operating personnel	44,928	44,928	44,064	864
Other	29,940	29,940	22,051	7,889
	<u>74,868</u>	<u>74,868</u>	<u>66,115</u>	<u>8,753</u>
Animal control				
Operating personnel	57,158	57,158	55,605	1,553
Other	97,700	97,700	78,449	19,251
	<u>154,858</u>	<u>154,858</u>	<u>134,054</u>	<u>20,804</u>
Total public safety	<u>10,258,734</u>	<u>10,258,734</u>	<u>10,523,879</u>	<u>(265,145)</u>
Social services				
Youth services				
Operating personnel	211,576	211,576	195,991	15,585
Other	43,074	43,074	12,612	30,462
	<u>254,650</u>	<u>254,650</u>	<u>208,603</u>	<u>46,047</u>
Other				
Other	229,375	229,375	193,002	36,373
	<u>229,375</u>	<u>229,375</u>	<u>193,002</u>	<u>36,373</u>
Total social services	<u>484,025</u>	<u>484,025</u>	<u>401,605</u>	<u>82,420</u>
Public works				
Highways & streets				
Operating personnel	1,703,003	1,662,003	1,615,596	46,407
Other	2,870,559	2,911,559	3,455,038	(543,479)
	<u>4,573,562</u>	<u>4,573,562</u>	<u>5,070,634</u>	<u>(497,072)</u>
Engineering				
Operating personnel	149,709	149,709	164,800	(15,091)
Other	15,000	15,000	8,567	6,433
	<u>164,709</u>	<u>164,709</u>	<u>173,367</u>	<u>(8,658)</u>
Total public works	<u>4,738,271</u>	<u>4,738,271</u>	<u>5,244,001</u>	<u>(505,730)</u>
Miscellaneous				
Operating personnel	25,057	25,057	1,463	23,594
Other	4,827,164	4,823,664	4,600,140	223,524
Total miscellaneous	<u>4,852,221</u>	<u>4,848,721</u>	<u>4,601,603</u>	<u>247,118</u>

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2008
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Recreation and parks				
Recreation and parks				
Operating personnel	\$ 381,154	\$ 382,254	\$ 339,704	\$ 42,550
Other	150,750	153,150	145,327	7,823
Total recreation and parks	531,904	535,404	485,031	50,373
Natural resources				
Cooperative extension service				
Other	141,755	141,755	141,755	-
Other				
Operating personnel	267,732	267,732	250,191	17,541
Other	33,725	33,725	31,237	2,488
Total natural resources	443,212	443,212	423,183	20,029
Economic development				
Economic development				
Operating personnel	146,455	146,455	126,326	20,129
Other	185,650	185,650	141,756	43,894
Other	332,105	332,105	268,082	64,023
Other	77,455	77,455	41,455	36,000
Total economic development	682,114	692,154	563,063	129,091
Education				
Board of education	17,116,770	17,116,770	17,116,771	(1)
Chesapeake college	1,037,472	1,037,472	1,037,472	-
Total education	18,154,242	18,154,242	18,154,243	(1)
Debt service				
Principal	2,694,074	2,694,074	-	2,694,074
Interest	691,205	691,205	-	691,205
Capital outlay	-	-	4,125,096	(4,125,096)
Total expenditures	47,561,391	47,571,431	48,035,257	(463,826)
Excess (deficiency) of revenues over expenditures	4,303,869	4,303,869	6,483,587	2,179,718

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2008
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OTHER FINANCING SOURCES (USES):				
Note proceeds	\$ -	\$ -	\$ 1,013,000	\$ 1,013,000
Interest and dividend	290,000	290,000	347,626	57,626
Transfers, net	(4,593,869)	(4,593,869)	(8,037,206)	(3,443,337)
Total other financing sources (uses)	(4,303,869)	(4,303,869)	(6,676,580)	(2,372,711)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (192,993)	\$ (192,993)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL
SPECIAL REVENUE - GRANTS FUND
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
REVENUES:				
Intergovernmental Federal	\$ 61,000	\$ 61,000	\$ 2,475,310	\$ 2,414,310
Intergovernmental state	2,635,569	2,661,399	2,971,592	310,193
Miscellaneous	3,500	3,500	33,653	30,153
Total revenues	2,700,069	2,725,899	5,480,555	2,754,656
EXPENDITURES:				
General government				
Salaries	-	-	37,597	(37,597)
Other	-	-	5,978	(5,978)
Total general government	-	-	43,575	(43,575)
Public safety				
Salaries	27,208	45,471	141,073	(95,602)
Other	20,261	27,828	240,815	(212,987)
Total public safety	47,469	73,299	381,888	(308,589)
Social services				
Salaries	235,988	235,988	332,164	(96,176)
Other	1,655,512	1,655,512	1,546,127	109,385
Total social services	1,891,500	1,891,500	1,878,291	13,209
Recreation and parks				
Salaries	44,500	43,000	42,234	766
Other	379,500	381,000	100,679	280,321
Total recreation and parks	424,000	424,000	142,913	281,087
Natural resources				
Salaries	67,535	67,535	27,343	40,192
Other	172,465	172,465	52,072	120,393
Total natural resources	240,000	240,000	79,415	160,585
Economic development				
Salaries	-	-	77,171	(77,171)
Other	159,000	159,000	1,827,431	(1,668,431)
Total economic development	159,000	159,000	1,904,602	(1,745,602)
Public works	-	-	410,113	(410,113)
Capital outlay	-	-	750,502	(750,502)
Total expenditures	2,761,969	2,787,799	5,591,299	(2,803,500)
Excess (deficiency) of revenues over expenditures	(61,900)	(61,900)	(110,744)	(48,844)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL
SPECIAL REVENUE - GRANTS FUND
Year Ended June 30, 2008
(continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
OTHER FINANCING SOURCES (USES):				
Interest and dividend received	\$ -	\$ -	\$ 34,810	\$ 34,810
Transfers in	61,900	61,900	61,900	-
Total other financing sources (uses)	61,900	61,900	96,710	34,810
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (14,034)	\$ (14,034)

DORCHESTER COUNTY, MARYLAND

**REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
TRANSFER TAX FUND
Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES:				
County transfer tax	\$ 2,072,573	\$ 2,072,573	\$ 1,234,965	\$ (837,608)
EXPENDITURES:				
General government				
Salaries/other	79,797	79,797	72,361	7,436
Other expenses	374,538	374,538	215,488	159,050
Total general government	454,335	454,335	287,849	166,486
Public safety				
Salaries/other	250,959	250,959	235,750	15,209
Other expenses	72,526	72,526	31,993	40,533
Total public safety	323,485	323,485	267,743	55,742
EDUCATION	1,037,795	1,037,795	998,484	39,311
Debt service:				
Principal	221,783	221,783	221,190	(593)
Interest	35,175	35,175	35,029	(146)
Capital outlay	-	-	5,040	(5,040)
Total expenditures	2,072,573	2,072,573	1,815,335	255,760
Excess of revenues over expenditures	\$ -	\$ -	\$ (580,370)	\$ (581,848)

ADDITIONAL SUPPLEMENTARY INFORMATION

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
CAPITAL FUND
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
REVENUES:				
Federal bridge revenue	\$ 368,000	\$ 368,000	\$ -	\$ (368,000)
Other state aid	200,000	200,000	-	(200,000)
Emergency Numbers Systems Board	-	-	1,277,415	1,277,415
Total revenues	568,000	568,000	1,277,415	709,415
EXPENDITURES:				
General government	499,938	484,938	475,604	9,334
Public Safety	2,153,933	2,153,933	1,770,785	383,148
Recreation and parks	41,500	41,500	12,870	28,630
Economic development	123,315	123,315	90,411	32,904
Education	5,731,924	5,731,924	973,865	4,758,059
Public works	1,275,000	1,290,000	989,098	300,902
Miscellaneous	-	-	16,506	(16,506)
Total expenditures	9,825,610	9,825,610	4,329,139	5,496,471
Excess (deficiency) of revenues over expenditures	(9,257,610)	(9,257,610)	(3,051,724)	6,205,886
OTHER FINANCING SOURCES (USES):				
Note proceeds	6,428,143	6,428,143	439,620	(5,988,523)
Interest	-	-	24,643	24,643
Operating transfers in	2,829,467	2,829,467	2,829,467	-
Total other financing sources (uses)	9,257,610	9,257,610	3,293,730	(5,963,880)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ 242,006	\$ 242,006

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
TOURISM MARKETING FUND
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
REVENUES				
Advertising support	\$ 15,000	\$ 15,000	\$ 16,662	\$ 1,662
Total revenues	15,000	15,000	16,662	1,662
EXPENDITURES				
ECONOMIC DEVELOPMENT				
Advertising and promotion	105,000	105,000	76,442	28,558
Printing and publications	-	-	30,220	(30,220)
Total expenditures	105,000	105,000	106,662	(1,662)
Deficiency of revenues over expenditures	(90,000)	(90,000)	(90,000)	-
OTHER FINANCING SOURCES				
Transfers In	90,000	90,000	90,000	-
Total other financing sources	90,000	90,000	90,000	-
Excess of revenues and other financing sources over expenditures	\$ -	\$ -	\$ -	\$ -

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
AIRPORT ENTERPRISE FUND
Year Ended June 30, 2008**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
OPERATING REVENUES:				
Fuel sales	\$ 364,000	\$ 364,000	\$ 486,981	\$ 122,981
Hanger and tie-down rentals	181,000	181,000	166,483	(14,517)
Other	10,000	10,000	18,275	8,275
Total operating revenues	555,000	555,000	671,739	116,739
OPERATING EXPENSES:				
Salaries and related taxes	204,784	204,784	182,223	22,561
Repairs and maintenance	32,243	32,243	31,026	1,217
Rental of land, buildings and equipment	13,200	13,200	13,200	-
Fuel	232,000	232,000	414,399	(182,399)
Utilities	71,980	71,980	90,859	(18,879)
Depreciation	250,000	250,000	269,950	(19,950)
Other operating	5,765,415	5,765,415	64,507	5,700,908
Total operating expenses	6,569,622	6,569,622	1,066,164	5,503,458
Net operating income (loss)	(6,014,622)	(6,014,622)	(394,425)	5,620,197
NON-OPERATING REVENUES (EXPENSES):				
Grants - Federal government	5,320,000	5,320,000	479,542	(4,840,458)
Grants - state government	140,000	140,000	13,375	(126,625)
Interest expense	(21,461)	(21,461)	(21,499)	(38)
Total non-operating revenues (expenses)	5,438,539	5,438,539	471,418	(4,967,121)
Income before transfers	(576,083)	(576,083)	76,993	653,076
Operating transfers	576,083	576,083	576,083	-
Change in net assets	\$ -	\$ -	\$ 653,076	\$ 653,076

DORCHESTER COUNTY, MARYLAND
STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
LANDFILL ENTERPRISE FUND
Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
OPERATING REVENUES:				
Tipping fees	\$ 3,120,000	\$ 3,120,000	\$ 4,491,150	\$ 1,371,150
Permits	88,686	88,686	95,160	6,474
Other	5,436,424	5,436,424	30,415	(5,406,009)
Total operating revenues	8,645,110	8,645,110	4,616,725	(4,028,385)
OPERATING EXPENSES:				
Salaries and related taxes	1,045,360	1,045,360	745,857	299,503
Repairs and maintenance	253,500	253,500	1,874,750	(1,621,250)
Rental of land, buildings and equipment	112,000	112,000	99,464	12,536
Fuel	170,000	170,000	214,079	(44,079)
Closure and postclosure costs accrual	624,000	624,000	281,517	342,483
Utilities	11,250	11,250	13,398	(2,148)
Depreciation	580,000	580,000	826,148	(246,148)
Other operating	5,899,000	5,899,000	161,995	5,737,005
Total operating expenses	8,695,110	8,695,110	4,217,208	4,477,902
Net operating income (loss)	(50,000)	(50,000)	399,517	449,517
NON-OPERATING REVENUES (EXPENSES):				
Interest income	50,000	50,000	280,045	230,045
Total non-operating revenues (expenses)	50,000	50,000	280,045	230,045
Change in net assets	\$ -	\$ -	\$ 679,562	\$ 679,562

DORCHESTER COUNTY, MARYLAND

COMBINING BALANCE SHEET

TAX FUNDS

June 30, 2008

	Building Excise Tax	Transfer Tax	Total
ASSETS			
Cash and investments	\$ 4,089,320	\$ -	\$ 4,089,320
Accounts receivable	-	173,997	173,997
Interfund receivables	-	2,563,226	2,563,226
Total assets	\$ 4,089,320	\$ 2,737,223	\$ 6,826,543
LIABILITIES			
Accounts payable and accrued expenses	\$ 293,706	\$ 116,484	\$ 410,190
Interfund payables	993,304	-	993,304
Total liabilities	1,287,010	116,484	1,403,494
FUND BALANCES			
Reserved for:			
Schools and courthouse	2,656,590	2,620,739	5,277,329
Public safety communication system	75,662	-	75,662
Sheriff	70,058	-	70,058
Total fund equity	2,802,310	2,620,739	5,423,049
Total liabilities and fund balances	\$ 4,089,320	\$ 2,737,223	\$ 6,826,543

DORCHESTER COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TAX FUNDS
Year Ended June 30, 2008

	Building Excise Tax	Transfer Tax	Total
REVENUES			
Taxes	\$ 783,333	\$ 1,234,965	\$ 2,018,298
EXPENDITURES			
General government	-	287,849	287,849
Public safety	-	267,743	267,743
Education	1,131,342	998,484	2,129,826
Debt service:			
Principal	-	221,190	221,190
Interest	-	35,029	35,029
Capital outlay	-	5,040	5,040
Total expenditures	1,131,342	1,815,335	2,946,677
Excess of revenues over expenditures	(348,009)	(580,370)	(928,379)
OTHER FINANCING SOURCES:			
Interest and dividend received	64,778	-	64,778
Deficiency of revenues and other financing sources over expenditures	(283,231)	(580,370)	(863,601)
Fund balances, beginning of year	3,085,541	3,201,109	6,286,650
Fund balances, end of year	\$ 2,802,310	\$ 2,620,739	\$ 5,423,049

DORCHESTER COUNTY, MARYLAND

**COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS**

June 30, 2008

	<u>Capital Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 507,398	\$ 419,347	\$ 926,745
Interfund receivables	-	549,753	549,753
Bond issuance costs, net	151,944	43,230	195,174
<u>Total assets</u>	<u>\$ 659,342</u>	<u>\$ 1,012,330</u>	<u>\$ 1,671,672</u>
LIABILITIES			
Accounts payable	\$ 211,145	\$ -	\$ 211,145
Interfund payables	52,508	-	52,508
<u>Total liabilities</u>	<u>263,653</u>	<u>-</u>	<u>263,653</u>
FUND BALANCES			
Unreserved:			
Designated for capital projects	395,689	1,012,330	1,408,019
<u>Total fund equity</u>	<u>395,689</u>	<u>1,012,330</u>	<u>1,408,019</u>
<u>Total liabilities and fund balances</u>	<u>\$ 659,342</u>	<u>\$ 1,012,330</u>	<u>\$ 1,671,672</u>

DORCHESTER COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
Year Ended June 30, 2008

	Capital Fund	Capital Projects Fund	Total
REVENUES			
Emergency Numbers Systems Board	\$ 1,277,415	\$ -	\$ 1,277,415
EXPENDITURES			
General government	174,816	7,205	182,021
Public Safety	782,332	-	782,332
Recreation and parks	3,620	-	3,620
Economic development	3,107	-	3,107
Education	973,865	-	973,865
Public works	81,237	-	81,237
Miscellaneous	16,506	-	16,506
Capital outlay	2,293,656		2,293,656
Total expenditures	4,329,139	7,205	4,336,344
Deficiency of revenues over expenditures	(3,051,724)	(7,205)	(3,058,929)
OTHER FINANCING SOURCES (USES)			
Note proceeds	439,620	-	439,620
Interest	24,643	7,722	32,365
Operating transfers in	2,829,467	-	2,829,467
Total other financing sources	3,293,730	7,722	3,301,452
Excess (deficiency) of revenues and other financing sources over expenditures	242,006	517	242,523
Fund balances, beginning of year	153,683	1,011,813	1,165,496
Fund balances, end of year	\$ 395,689	\$ 1,012,330	\$ 1,408,019

DORCHESTER COUNTY, MARYLAND

**COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS**

June 30, 2008

	Other Governmental Funds							Totals
	Debt Service Fund	Reserve Fund	Commissary Fund	Capital Projects Funds	Economic Development Fund	Tourism Marketing Fund	GASB 45 Trust Fund	
ASSETS								
Cash	\$ -	\$ 3,003,180	\$ 19,701	\$ 926,745	\$ -	\$ -	\$ -	\$ 3,949,626
Accounts receivable	-	-	-	-	-	1,388	-	1,388
Interfund	266,709	-	-	549,753	10,689	21,417	1,003,430	1,851,998
Prepaid expenditures	-	-	-	-	-	8,198	-	8,198
Bond issuance costs, net	-	-	-	195,174	-	-	-	195,174
Total assets	\$ 266,709	\$ 3,003,180	\$ 19,701	\$ 1,671,672	\$ 10,689	\$ 31,003	\$ 1,003,430	\$ 6,006,384
LIABILITIES								
Accounts payable	\$ -	\$ -	\$ -	\$ 211,145	\$ 1,111	\$ 31,003	\$ -	\$ 243,259
Accrued leave	405,850	-	-	-	-	-	-	405,850
Deferred revenues	-	-	19,701	-	9,578	-	-	29,279
Interfund payables	-	-	-	52,508	-	-	-	52,508
Total liabilities	405,850	-	19,701	263,653	10,689	31,003	-	730,896
FUND BALANCES								
Unreserved:								
Designated for capital projects	-	-	-	1,408,019	-	-	-	1,408,019
Undesignated	(139,141)	3,003,180	-	-	-	-	1,003,430	3,867,469
Total fund balances	(139,141)	3,003,180	-	1,408,019	-	-	1,003,430	5,275,488
Total liabilities and fund balances	\$ 266,709	\$ 3,003,180	\$ 19,701	\$ 1,671,672	\$ 10,689	\$ 31,003	\$ 1,003,430	\$ 6,006,384

DORCHESTER COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	Other Governmental Funds							Totals
	Debt Service Fund	Reserve Fund	Commissary Fund	Capital Projects Funds	Economic Development Fund	Tourism Marketing Fund	GASB 45 Trust Fund	
REVENUES								
Intergovernmental:								
State	\$ -	\$ -	\$ -	\$ 1,277,415	\$ -	\$ -	\$ -	\$ 1,277,415
Miscellaneous	4,507	-	95,054	-	5,698	16,662	-	121,921
Total revenues	4,507	-	95,054	1,277,415	5,698	16,662	-	1,399,336
EXPENDITURES								
General government	129,133	-	95,054	182,021	-	-	-	406,208
Public safety	-	-	-	782,332	-	-	-	782,332
Recreation and parks	-	-	-	3,620	-	-	-	3,620
Economic development	-	-	-	3,107	38,687	106,662	-	148,456
Miscellaneous	-	-	-	16,506	-	-	-	16,506
Education	-	-	-	973,865	-	-	-	973,865
Public works	-	-	-	81,237	-	-	-	81,237
Debt Service:								
Principal	2,720,463	-	-	-	-	-	-	2,720,463
Interest	696,038	-	-	-	-	-	-	696,038
Capital outlay	-	-	-	2,293,656	-	-	-	2,293,656
Total expenditures	3,545,634	-	95,054	4,336,344	38,687	106,662	-	8,122,381
Excess (deficiency) of revenues over expenditures	(3,541,127)	-	-	(3,058,929)	(32,989)	(90,000)	-	(6,723,045)
OTHER FINANCING SOURCES (USES)								
Increase in pension liability	15,915	-	-	-	-	-	-	15,915
Note proceeds	-	-	-	439,620	-	-	-	439,620
Interest and dividends	-	148,249	-	32,365	-	-	-	180,614
Transfers in	3,443,337	-	-	2,829,467	32,989	90,000	1,003,430	7,399,223
Total other financing sources (uses)	3,459,252	148,249	-	3,301,452	32,989	90,000	1,003,430	8,035,372
Excess of revenues and other financing sources (uses) over expenditures	(81,875)	148,249	-	242,523	-	-	1,003,430	1,312,327
Fund balance, beginning of year	(57,266)	2,854,931	-	1,165,496	-	-	-	3,963,161
Fund balance, end of year	\$ (139,141)	\$ 3,003,180	\$ -	\$ 1,408,019	\$ -	\$ -	\$ 1,003,430	\$ 5,275,488

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
DEFERRED COMPENSATION PLAN
Year Ended June 30, 2008**

	Balances, June 30, <u>2007</u>	<u>Employee</u> <u>Contributions</u>	Earnings on <u>Investments</u>	<u>Distributions</u>	<u>Gains/Losses</u>	Balances, June 30, <u>2008</u>
Assets:						
Investments	\$ 1,169,651	\$ 104,440	\$ 3,127	\$ (109,368)	\$ (27,058)	\$ 1,140,792
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Liabilities:						
Due to participants	\$ 1,169,651	\$ 104,440	\$ 3,127	\$ (109,368)	\$ (27,058)	\$ 1,140,792
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