

SOMERSET COUNTY, MARYLAND

FINANCIAL REPORT

JUNE 30, 2013

**TGMGROUP** LLC  
CERTIFIED PUBLIC ACCOUNTANTS



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INDEPENDENT AUDITORS' REPORT

The Board of County Commissioners  
Somerset County, Maryland  
Princess Anne, Maryland

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of The County Commissioners of Somerset County, Maryland (the "County") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Somerset County Sanitary District, Inc. and the Somerset County Liquor Control Board. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Somerset County Sanitary District, Inc. and the Somerset County Liquor Control Board 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also



includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Basis for Qualified Opinion on Component Unit***

The other auditors were unable to perform audit procedures of the expenditures at the Crisfield dispensary for several months during the fiscal year. The accounting records of the Crisfield dispensary were destroyed by flooding caused by Hurricane Sandy in October 2012. We were unable to obtain sufficient appropriate audit evidence about the completeness, existence, or classification financial statement assertions for expenditures at the Crisfield dispensary by performing other auditing procedures.

#### ***Opinions***

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, based on our audit and the reports 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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and Schedule of Funding Progress - Other Post-Employment Benefits, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.





### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The other supplementary information as 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basis financial statements.

The additional supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Salisbury, Maryland  
January 20, 2014





## Management's Discussion and Analysis

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Somerset County's Financial Report for fiscal year ended June 30, 2013 reflects reporting in accordance with the format brought about by the Governmental Accounting Standards Board's (GASB) Statement No. 34 for State and Local Governments. One of the requirements of GASB 34 is this discussion and analysis that will provide the following things:

- Present the year's financial highlights.
- Describe the basic financial statements.
- Present condensed government-wide financial information.
- Analyze financial position and results of operations.
- Analyze balances and transactions of individual funds.
- Provide a budgetary analysis.
- Present capital asset and long-term debt activity.
- Describe any currently known significant facts, decisions or conditions.

While this discussion and analysis provides an overview of the financial performance of Somerset County, readers are encouraged to use the information presented in this section in conjunction with the basic financial statements and notes to the financial statements.

### FINANCIAL HIGHLIGHTS

The total assets of Somerset County exceeded liabilities at the end of fiscal year 2013 by \$33 million. Of net position, \$6 million may be used to meet the ongoing obligations of the County's citizens and creditors.

The total net position of the County decreased approximately \$2.4 million during fiscal year 2013. This decrease was due to many factors, but the largest reasons were the increase in the liability for unfunded post-employment benefits of \$1 million and secondly, the excess of depreciation expense over current year capital outlay, which created a \$1.0 million reduction in net assets.

The County's total governmental funds show a fund balance of \$16 million as of the end of the fiscal year. Of this total, \$13.2 million is either committed or assigned for capital projects, debt service, other post-employment benefits, future budget purposes, or other fund purposes. Approximately \$2.8 million remains unassigned.

During 2013, short term financing continued for the completion of various school construction projects. At June 30, 2013, \$4.1 million had been borrowed for these projects, which included borrowings of approximately \$200,000 during the current year. Temporary financing continued in 2013 for the \$2.3 million Cell #4 project at the Fairmount Road Landfill, of which approximately \$2.3 million had been availed at June 30, 2013.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report consists of four sections: the independent auditor's report, required supplementary information, which includes this discussion and analysis, the basic financial statements, and OMB Circular A-133 Supplementary Information. Somerset County's basic financial statements comprise three components: 1) Government-wide Financial Statements, 2) Fund Financial Statements, and 3) Notes to the Financial Statements.





Government-wide Financial Statements provide a broad, entity-wide view of the County's financial position and changes in that position. The government-wide statements are another addition arising from GASB 34. Accountability is the paramount objective of financial reporting and two essential components of accountability are fiscal accountability and operational accountability. Fiscal accountability refers to the government's responsibility to justify compliance with public decisions concerning the raising and spending of public moneys during one budget cycle, whereas operational accountability refers to governments' responsibility to use all available resources to meet their operating goals efficiently and effectively and whether they can continue to meet those objectives in the foreseeable future.

Historically, governments have used fund accounting that achieved the goal of fiscal accountability but not operational accountability. Government-wide financial statements have now been added to assess a government's operational accountability and provide a complementary component with fund accounting.

Government-wide financial statements use a measurement focus and basis of accounting that provide both a long and short-term perspective on the County's financial health. The measurement focus reports changes in economic resources and the basis of accounting is full accrual. Therefore, these statements recognize increases or decreases in economic resources as soon as the underlying event or transaction occurs. Fund financial statements on the other hand focus on increases and decreases in current financial resources only to the extent that they reflect current cash inflows and outflows.

The government-wide statements consist of the Statement of Net Position and the Statement of Activities. The Statement of Net Position presents the County's assets, liabilities, and net position at the end of the fiscal year. The Statement of Activities presents the transactions during the fiscal year and the resulting changes in net position. The expenses and revenues attributable to each function of government are netted to show how much each function relies on general revenue sources such as taxes, interest earnings and other general revenue. Both of these statements distinguish between governmental activities and business-type activities. Governmental activities rely principally on taxes and intergovernmental revenues whereby business-type activities are intended to recover a significant portion of their costs through user fees and charges for services.

Both of the government-wide statements also present a column that summarizes and combines the financial statements of the County's Component Units. This column includes the Board of Education, the Library, the Sanitary District, the Liquor Control Board, and the Local Management Board. These are considered component units of the Primary government because they either receive substantial funding from the Primary government or the County Commissioners appoint a majority of their board members.

Fund Financial Statements segregate financial operations into separate funds for accounting purposes and provide control over resources and activities designated for specific objectives or activities. These funds are grouped into three different types: governmental, proprietary, and fiduciary funds.

Governmental Funds include the General Fund, and Special Revenue Funds, which is comprised of the Roads Department, the Economic Development Commission and other non major funds. Governmental funds focus on near-term flows of expendable resources and balances of resources available at the end of the fiscal year. The focus of governmental funds is narrower than that of the government-wide statements and both should be compared to evaluate both long and near term information.

Proprietary Funds, or enterprise funds, report on the Great Hope Golf Course and provide the same type of information as the government-wide statements, only report in more depth and detail.





Fiduciary funds account for resources held by the County for outside parties. These funds include the State Tax Fund, the Dental Fund, the Retirees Health fund, and an Agency fund which includes the following funds, States Attorneys Drug Bust Fund, States Attorneys County Property Forfeiture Fund, the Somerset County Detention Center Commissary Fund and the Somerset County Detention Center Inmate Welfare Fund.

#### Financial Data and Management's Analysis

##### Government-wide Statements

The following Statement of Net Position is a condensed version of that presented in the Financial Statements section of this report. Governmental activities include the General Fund, the Roads Department, the Economic Development Commission, and the Statewide Special Transportation Assistance Program. Business-type activities consist solely of the Great Hope Golf Course. Component units include the Board of Education, the Library, the Sanitary District, the Liquor Control Board, and the Local Management Board.

Current and other assets are a broad category of assets that are readily convertible to cash and available to pay liabilities. Restricted assets are legally restricted for a specific use that originate from Federal, State, local code, grant agreements, or other contracts. Capital assets include land, buildings, vehicles, and equipment that have an extended useful life and depreciate in value over time.

Current and other liabilities consist of obligations that will be paid with currently available resources within a year. Long-term liabilities include debt balances beyond one year on bonds, notes and capital leases and accrued liabilities for compensated absences.

Net position represents the remaining equity after subtracting liabilities from assets; and, are presented in three categories: assets invested in capital assets net of related debt, restricted net position and unrestricted net position.

Current assets amount to \$20,846,300 for the Primary Government at June 30, 2013, with \$16,462,192 in cash and cash equivalents including restricted cash. Capital assets amount to \$45,191,739, net of accumulated depreciation.

Total liabilities amount to \$33,041,307, which includes \$10,845,117 for Board of Education projects, \$12,477,847 for Landfill and Solid Waste projects and obligations, \$240,000 for the County HVAC project, and \$268,427 for Jail facilities. In addition, the balance sheet includes a liability for the unfunded annual required contribution for retirees' future post employment health care benefits that was estimated by our actuary to be \$5,039,020 for all governmental and business type entities.

Total net position amounted to \$33,219,247 of which \$27,452,461 is invested in capital assets net of related debt and \$5,544,271 is unrestricted.









**SOMERSET COUNTY MARYLAND**  
**SUMMARY OF STATEMENT OF NET POSITION**  
 June 30, 2013 and 2012

	<u>Governmental</u>		<u>Business-type</u>	
	<u>Activities</u>		<u>Activities</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 20,835,982	\$ 21,780,947	\$ 10,318	\$ 21,989
Restricted	222,515	221,396	-	-
Capital assets	43,350,767	44,359,102	1,840,972	1,905,521
Intangible assets	-	-	-	-
<b>Total assets</b>	<b>\$ 64,409,264</b>	<b>\$ 66,361,445</b>	<b>\$ 1,851,290</b>	<b>\$ 1,927,510</b>
Current and other liabilities	10,890,813	10,376,044	146,276	151,490
Long-term liabilities	21,967,769	22,142,704	36,449	-
<b>Total liabilities</b>	<b>\$ 32,858,582</b>	<b>\$ 32,518,748</b>	<b>\$ 182,725</b>	<b>\$ 151,490</b>
Net position:				
Invested in capital assets				
net of related debt	25,647,938	26,718,598	1,804,523	1,905,521
Restricted	222,515	221,396	-	-
Unrestricted	5,680,229	6,902,703	(135,958)	(129,501)
<b>Total net position</b>	<b>\$ 31,550,682</b>	<b>\$ 33,842,697</b>	<b>\$ 1,668,565</b>	<b>\$ 1,776,020</b>



Total		Component Units	
2013	2012	2013	2012
\$ 20,846,300	\$ 21,802,936	\$ 4,108,102	\$ 4,631,373
222,515	221,396	1,941,760	1,650,192
45,191,739	46,264,623	82,478,560	84,882,752
-	-	-	12,110
\$ 66,260,554	\$ 68,288,955	\$ 88,528,422	\$ 91,176,427
11,037,089	10,527,534	3,868,479	7,026,592
22,004,218	22,142,704	16,856,665	13,321,033
\$ 33,041,307	\$ 32,670,238	\$ 20,725,144	\$ 20,347,625
27,452,461	28,624,119	69,104,164	71,507,187
222,515	221,396	1,762,403	1,793,297
5,544,271	6,773,202	(3,063,289)	(2,471,682)
\$ 33,219,247	\$ 35,618,717	\$ 67,803,278	\$ 70,828,802





The Statement of Activities presented below is a condensed version of the more detailed one presented in the Financial Statements section. Program revenues are listed first followed by General revenues and then expenses attributable to each function of the County government. The Change in net position is equal to the revenues minus expenses and is added (subtracted) to Net position beginning of year to reach Net position end of year.

Governmental activities had expenses over revenues and transfers out of \$2,292,015 for the year ended June 30, 2013, primarily due to the increase in the liability for unfunded post-employment benefits of \$1,036,179 and depreciation of \$2,301,944, which exceeded capital outlay of \$1,293,609. Expenses in business-type activities exceeded revenues by \$107,455 after transfers of \$355,836 from governmental activities. The golf course operating loss is due to an insufficient level of golf course fees and memberships that was not large enough to offset salaries, maintenance and other operating expenses necessary to operate the golf course.

In the general revenue category, the disparity grant, listed under State of Maryland - Disparity Grant, is the County's third largest revenue source and amounted to \$5,290,166. The Disparity Grant is provided from the State to counties whose per capita taxable income falls below 75% of the State average.







**SOMERSET COUNTY MARYLAND**  
**STATEMENT OF ACTIVITIES**  
For the Fiscal Years Ended June 30, 2013 and 2012

	Governmental Activities		Business-type Activities	
	2013	2012	2013	2012
<b>Program Revenues</b>				
Charges for services	\$ 2,266,365	\$ 2,334,502	\$ 494,974	\$ 501,964
Operating Grants and contributions	3,132,278	2,797,250	-	-
Capital grants and contributions	871,720	222,641	-	-
	<u>6,270,363</u>	<u>5,354,393</u>	<u>494,974</u>	<u>501,964</u>
<b>General Revenues:</b>				
Property taxes	14,633,474	15,818,078	-	-
Income taxes	6,123,153	6,246,160	-	-
Other taxes	529,659	431,162	-	-
State of Maryland - Disparity Grant	5,290,166	4,908,167	-	-
Other	243,778	247,976	(665)	627
	<u>26,820,230</u>	<u>27,651,543</u>	<u>(665)</u>	<u>627</u>
<b>Total revenues</b>	<b>33,090,593</b>	<b>33,005,936</b>	<b>494,309</b>	<b>502,591</b>
<b>Expenses</b>				
General Government	6,464,679	6,523,378	-	-
Public safety	8,083,566	8,145,610	-	-
Public works	6,615,772	5,923,098	-	-
Health	871,231	943,499	-	-
Social services	247,748	262,132	-	-
Education	9,555,589	9,366,748	-	-
Recreation & culture	1,050,853	931,725	-	-
Conservation of natural resources	111,971	114,163	-	-
Economic and community development	1,011,962	608,437	-	-
Intergovernmental	260,444	261,513	-	-
Interest on long-term debt	752,957	793,528	-	-
Golf-course	-	-	957,600	1,028,793
Component units	-	-	-	-
<b>Total expenses</b>	<b>35,026,772</b>	<b>33,873,831</b>	<b>957,600</b>	<b>1,028,793</b>
<b>Transfers</b>	<b>(355,836)</b>	<b>(376,882)</b>	<b>355,836</b>	<b>376,882</b>
<b>Change in net position</b>	<b>(2,292,015)</b>	<b>(1,244,777)</b>	<b>(107,455)</b>	<b>(149,320)</b>
<b>Net position beginning of year</b>	<b>33,842,697</b>	<b>35,087,474</b>	<b>1,776,020</b>	<b>1,925,340</b>
<b>Net position end of year</b>	<b>\$ 31,550,682</b>	<b>\$ 33,842,697</b>	<b>\$ 1,668,565</b>	<b>\$ 1,776,020</b>





Total		Component Units	
2013	2012	2013	2012
\$ 2,761,339	\$ 2,836,466	\$ 4,335,361	\$ 4,154,956
3,132,278	2,797,250	42,962,936	43,596,788
871,720	222,641	557,583	3,476,580
6,765,337	5,856,357	47,855,880	51,228,324
14,633,474	15,818,078	-	-
6,123,153	6,246,160	-	-
529,659	431,162	-	-
5,290,166	4,908,167	-	-
243,113	248,603	207,625	449,862
26,819,565	27,652,170	207,625	449,862
33,584,902	33,508,527	48,063,505	51,678,186
6,464,679	6,523,378	-	-
8,083,566	8,145,610	-	-
6,615,772	5,923,098	-	-
871,231	943,499	-	-
247,748	262,132	-	-
9,555,589	9,366,748	-	-
1,050,853	931,725	-	-
111,971	114,163	-	-
1,011,962	608,437	-	-
260,444	261,513	-	-
752,957	793,528	-	-
957,600	1,028,793	-	-
-	-	51,089,030	51,775,366
35,984,372	34,902,624	51,089,030	51,775,366
-	-	-	-
(2,399,470)	(1,394,097)	(3,025,525)	(97,180)
35,618,717	37,012,814	70,828,803	70,925,982
\$ 33,219,247	\$ 35,618,717	\$ 67,803,278	\$ 70,828,802





## Governmental funds

Total governmental fund balances at the end of the fiscal year amounted to \$16,192,194 of which \$177,033 is non-spendable, \$9,700,000 is committed, \$3,529,797 is assigned and \$2,785,364 is unassigned.

The general fund constitutes the main operating fund of the Somerset County Government and reports a fiscal year ending fund balance of \$13,707,879. The general fund balance decreased by \$591,509 during fiscal year 2013. This result is significantly better than the budgeted decrease of \$3,155,665.

## Budgetary Variations

Somerset County legally adopts the General Fund budget each year in June and holds an advertised public hearing and accepts public input before finalizing and subsequently adopting it. This section highlights notable differences between the adopted budget and actual ending balances. A statement detailing the variances by budget line item of both revenues and expenditures can be found in the supplementary information section.

Property tax revenues exceeded budget by \$343,368 during fiscal year 2013. This was primarily due to improved collections after year end that reduced our deferred revenue estimate. Federal grant revenue for the Somerset Senior Center Capital Grant was less than budgeted revenue by \$278,075 due to the slow progress of this capital project during 2013. A state grant was budgeted for \$600,000 for this same project but these funds were not used during fiscal year 2013. Revenues from grants for the new Crisfield Library were budgeted in fiscal year 2013 for \$300,000, but construction on this project did not begin until the following year.

Proceeds from debt financing were \$370,635 less than the \$803,000 budgeted, due to various school projects that progressed slower than anticipated. The County appropriated \$3,155,665 of fund balance to cover an anticipated budget deficit but most of this fund balance was not needed, as mentioned above.

On the expenditure side, the County budgeted \$1,322,000 for capital projects at the new Somerset Senior Center, but only \$421,925 was expended in fiscal year 2013 due to project delays. The County budgeted \$393,153 for waterways capital projects primarily for Deal Island bulk heading and the Jenkins Creek dock but only \$158,610 was expended due to the decision to complete a project over two fiscal years to spread out the cost. The County budgeted \$600,000 for library construction at the Crisfield proposed new site, but only \$103,068 was expended due to the project progressing slower than anticipated.

The County budgeted approximately \$658,000 in fiscal year 2013 for various school construction projects, although the County portion of expenditures for the year was only \$192,213, due to project delays. Transfers to the County Roads were \$1,236,180 less than budget because the County Roads postponed projects, minimized their expenditures where possible and drew on their available Fund Balance before requesting operating transfers.

Budgeted expenditures exceeded actual debt service expenditures by \$319,212. The County had planned on entering into long term loans during fiscal year 2013 on both the Fairmount Road Landfill Cell # 4 and Washington High School construction projects. However, the long term financing was not obtained until fiscal year 2014.



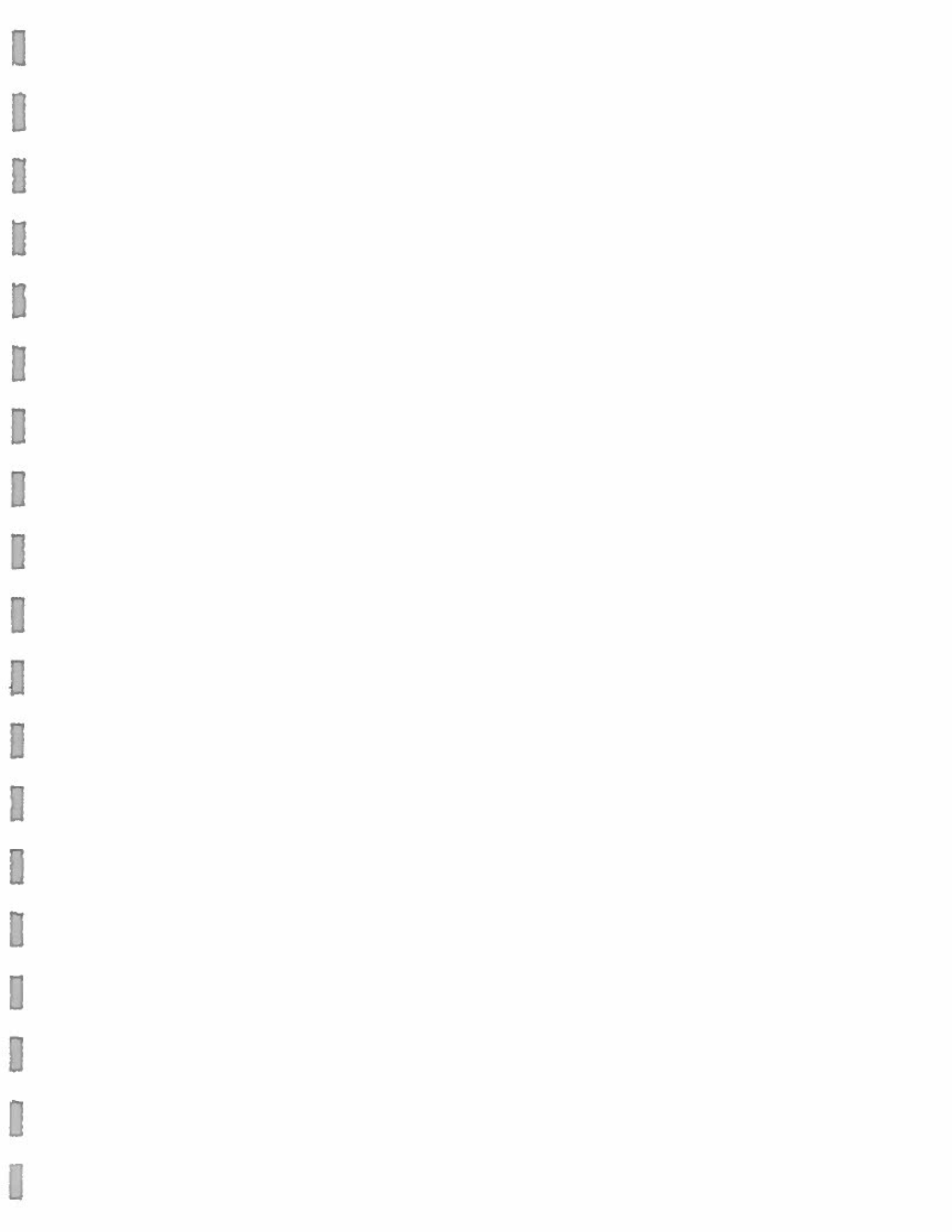


### Capital Asset and Long-term Debt Activity

The investment in capital assets for the County as of June 30, 2013 amounted to \$45,191,739 for both governmental and business-type activities. The schedule below summarizes the capital assets by category. Total additions for fiscal year 2013 amounted to \$1,426,775, which included current year capital expenditures of \$239,385 for the construction of Fairmount Road Landfill Cell #4 and \$421,925 for construction costs at the Somerset Senior Center building and \$158,610 for waterways construction costs. School construction reimbursements to the Somerset Board of Education, which are not included in the County's investment in capital assets, totaled \$192,213 for the year.

The Roads Department investment in capital assets as of June 30, 2013, totaled \$7,177,249, net of depreciation. Major additions for fiscal year 2013 included purchases of an International truck and a New Holland tractor totaling \$144,002.







**SOMERSET COUNTY MARYLAND**  
**Capital Assets**  
**(Net of Depreciation)**  
**For the Fiscal Years Ended June 30, 2013 and 2012**

	<u>Governmental</u>		<u>Business-type</u>	
	<u>Activities</u>		<u>Activities</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land (not depreciated)	\$ 3,658,092	\$ 3,658,092	\$ -	\$ -
Land improvements	-	-	1,011,871	1,090,606
Construction in Progress	594,805	2,558,690	-	-
Buildings, improvements	12,061,857	12,457,438	756,095	792,128
Improvements, non-buildings	22,491,832	20,643,012	-	-
Vehicles	459,461	483,118	-	-
Furniture, machinery, equipment	4,084,720	4,558,752	73,006	22,787
Total	\$ 43,350,767	\$ 44,359,102	\$ 1,840,972	\$ 1,905,521





Total			
2013		2012	
\$	3,658,092	\$	3,658,092
	1,011,871		1,090,606
	594,805		2,558,690
	12,817,952		13,249,566
	22,491,832		20,643,012
	459,461		483,118
	4,157,726		4,581,539
\$	45,191,739	\$	46,264,623





Long-term debt for governmental and business-type activities amounted to \$23,867,840 at the end of the fiscal year. Additions for fiscal year 2013 included \$242,786 for the Fairmount Road Landfill Cell # 4 temporary construction loan and \$189,579 for the school construction loan. Debt service for the fiscal year 2013 was \$2,000,765 which was 6.2% of the general fund actual expenditures.

#### Currently Known Facts, Decisions, or Conditions

There are no major school construction projects planned for fiscal year 2014, while total school construction budgeted for that year totals \$735,600. A new long-term loan has been financed in fiscal year 2014 with SunTrust Bank to fund school construction projects, primarily at Washington High School. The new annual debt service required on this loan is \$453,572.

Landfill construction at Cell #4 on Fairmount Road in Westover was completed in fiscal year 2013 at a total actual cost of \$2.3 million, which was under the revised budget of \$2.5 million. Loan proceeds for this project were obtained in fiscal year 2014 for \$2.3 million. In addition, \$1.5 million of Cell #3 prior loans were refinanced at more favorable rates. The annual debt service on this consolidated new USDA loan is \$171,716.

Construction has recently begun on the new \$5.2 million Crisfield library. This construction project will contain two phases and include State and county funding. Somerset County has budgeted \$370,787 in fiscal year 2014 for this project.

Somerset County has been working with the State of Maryland DBED office regarding the Lower Thorofare and Wenona Dredging project near Deal Island. A \$1.6 million grant has been approved by DBED on this project which will be of great assistance to local commercial watermen in the maritime industry.

The Roads Department does not anticipate any significant expenditures in 2014 for asphalt overlay and tar and chip. However, Bridge Construction of \$1,819,098 has been budgeted with 80% funding to come from the Federal Aid Bridge Program.

A few years back, Walmart Corporation announced their intentions to open a new distribution center on Revells Neck Road in Westover, Maryland. The property acquisition phase was finalized by Walmart during the summer of 2007 and the plan to begin construction is in their long-term plan, with the center to eventually open in a future year to be determined. The distribution center is expected to result in the addition of up to 750 new jobs to the community. In addition, the new 900,000 square foot facility is expected to increase property tax revenue by \$200,000 annually to the state and county. CDBG funds of \$1.3 million are being sought to cover the cost of the Revells Neck roadway improvements. The Somerset Sanitary District, with their engineering firm, is moving forward with the construction of a water tower and two wells that will ultimately serve the Westover/Princess Anne area, as well as Walmart. This water and sewer project is expected to be completed by May, 2014, at an estimated cost of \$6 million, of which \$3.5 million would be funded by a USDA grant and the balance funded from a USDA loan.

Chesapeake Renewable Energy, LLC has completed the installation of solar panels on a multi-use facility on Costen Road in Somerset County. Future phases include 32 acres of greenhouses and other projects to be completed at a later date. This new facility will add approximately 50 new jobs to the County.





A 50 acre Industrial Park has been proposed for the City of Crisfield. The Park would be located in the former, 73,000 square foot, Carvel Hall facility that has been annexed to the City of Crisfield. Funding from State Community Development Block Grant funds of \$1.3 million to the County, and \$600,000 in USDA RBEG funds to the City of Crisfield, have been obtained for this project. Currently, officials are working to attract an olive oil bottling company, a tomato juice processor and a Smith Island baking company to this facility.

An announcement has been made and the U.S. Department of Agriculture has awarded nearly \$13 million in USDA community facilities loans to the Maryland Hawk Corporation for the purchase of a 38 acre site located near the University of Maryland Eastern Shore. This site is to be used for the future construction of 144 units of temporary graduate housing.

Somerset Utilities, a Mid-Atlantic based privately held utility, has signed a franchise agreement with Somerset County as the initial step to bringing natural gas to the county for the first time. This agreement is the critical first step to finally making natural gas available to Somerset County, which could also boost our local economy.

During 2013, Somerset County was awarded an \$8.6 million Community Development Block Grant-Disaster Relief to be used for Hurricane Sandy recovery efforts within the County. The grant includes funding for housing rehabilitation as well as economic development related improvements. The County is also submitting possible qualifying projects for an additional \$16 million of federal funding that could be available in a second round of disaster relief. These funds have been specifically set aside by the Maryland Department of Housing and Community Development for exclusive use by Somerset County.

The Governmental Accounting Standards Board issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. This standard, which was first implemented by Somerset County in fiscal year 2009, required governments to estimate the liability for certain post-employment benefits, such as health insurance. GASB 45 also required that the annual expense be recorded on an accrual basis rather than a pay as you go basis, and any unfunded liability is required to be recorded on the Statement of Net Assets. The County, working jointly with the Board of Education, hired the firm CBIZ Benefits and Insurance Services, Inc., to prepare an actuarial study. As a result of the standard, a liability as discussed below has been recorded on the County's Statement of Net Position.

Based on the study, the County's actuarial accrued liability at July 2012, the date of the last actuarial report, was estimated to be \$11.9 million, excluding the Board of Education. If the unfunded actuarial liability was amortized over a thirty year period, for the County portion only, the total annual required contribution would be \$1,331,880.

Due to significant decreases in State funding of the Highway User Revenues over the past four years, there have been significant reductions of capital roads construction projects over this period. Moreover, County Roads efforts have been shifted to system preservation of the existing road network.

This financial report is intended to provide an overview of Somerset County's financial position and results of operation. Requests for additional information should be addressed to:

Somerset County Commissioners  
11916 Somerset Avenue, Room 111  
Princess Anne, MD 21853





**SOMERSET COUNTY, MARYLAND**  
**STATEMENT OF NET POSTION**  
**June 30, 2013**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 16,152,278	\$ 16,003	\$ 16,168,281
Investments	71,396	-	71,396
Receivables			
Property taxes, net of allowance of \$16,715	1,938,200	-	1,938,200
Accounts receivable	39,100	-	39,100
Notes receivable	101,559	-	101,559
Due from other governmental units	1,893,527	-	1,893,527
Other	426,490	1,200	427,690
Internal balances	32,302	(32,302)	-
Inventories, at cost	177,033	25,417	202,450
Other	4,097	-	4,097
Restricted assets			
Cash and cash equivalents	222,515	-	222,515
Investments	-	-	-
Receivables, net of allowance of \$211,600	-	-	-
Due from other governmental units	-	-	-
Other	-	-	-
Capital assets, not being depreciated	4,252,897	-	4,252,897
Capital assets, being depreciated, net	39,097,870	1,840,972	40,938,842
<b>Total assets</b>	<b>\$ 64,409,264</b>	<b>\$ 1,851,290</b>	<b>\$ 66,260,554</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	1,872,514	59,499	1,932,013
Due to other governmental units	899,293	-	899,293
Unearned revenue	89,368	86,777	176,145
Due to fiduciary fund	271,153	-	271,153
Other	-	-	-
Long-term liabilities			
Due within one year			
Compensated absences	100,857	-	100,857
Bonds, notes and capital leases payable	7,657,628	7,769	7,665,397
Due in more than one year			
Compensated absences	754,986	-	754,986
Bonds, notes and capital leases payable	16,173,763	28,680	16,202,443
Other post-employment benefit obligation	5,039,020	-	5,039,020
<b>Total liabilities</b>	<b>32,858,582</b>	<b>182,725</b>	<b>33,041,307</b>
<b>NET POSITION</b>			
Invested in capital assets, net of related debt	25,647,938	1,804,523	27,452,461
Restricted	222,515	-	222,515
Unrestricted	5,680,229	(135,958)	5,544,271
<b>Total net position</b>	<b>\$ 31,550,682</b>	<b>\$ 1,668,565</b>	<b>\$ 33,219,247</b>

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



Component Units				
<u>Board of Education</u>	<u>Library</u>	<u>Sanitary District</u>	<u>Liquor Control Board</u>	<u>Local Management Board</u>
\$ 643,331	\$ 489,488	\$ 129,500	\$ 44,879	\$ 184,161
-	90,797	-	-	-
-	-	-	-	-
-	-	826,496	-	55,290
-	-	-	-	-
672,105	6,197	-	-	-
579,207	-	-	-	-
-	-	-	-	-
9,563	-	-	316,907	-
28,611	-	8,787	13,117	9,666
-	-	808,231	-	-
-	-	416,039	-	-
-	-	403,451	-	-
-	-	9,750	-	-
-	-	304,289	-	-
515,547	628,737	1,394,448	-	-
52,921,982	499,911	26,517,935	-	-
\$ 55,370,346	\$ 1,715,130	\$ 30,818,926	\$ 374,903	\$ 249,117
1,652,988	64,442	377,532	90,981	106,139
-	-	214,664	115,122	26,993
94,538	-	405,662	-	-
-	-	-	-	-
-	-	326,601	1,800	-
12,000	-	24,864	-	-
-	-	337,153	17,000	-
301,757	-	140,898	-	-
-	-	13,037,243	-	-
3,125,231	251,536	-	-	-
5,186,514	315,978	14,864,617	224,903	133,132
53,437,529	1,128,648	14,537,987	-	-
-	-	1,627,721	-	134,682
(3,253,697)	270,504	(211,399)	150,000	(18,697)
\$ 50,183,832	\$ 1,399,152	\$ 15,954,309	\$ 150,000	\$ 115,985





**SOMERSET COUNTY, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**Year Ended June 30, 2013**

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
GOVERNMENTAL ACTIVITIES				
General Government	\$ 6,464,679	\$ 261,308	\$ 552,178	\$ 20,995
Public safety	8,083,566	78,659	850,905	-
Public works	6,615,772	1,836,145	598,695	451,400
Health	871,231	45,631	40,000	321,925
Social services	247,748	-	182,132	-
Education	9,555,589	-	-	-
Recreation and culture	1,050,853	44,622	-	77,400
Conservation of natural resources	111,971	-	41,940	-
Economic and community development	1,011,962	-	866,428	-
Intergovernmental	260,444	-	-	-
Interest on long-term debt	752,957	-	-	-
Total Governmental Activities	35,026,772	2,266,365	3,132,278	871,720
BUSINESS-TYPE ACTIVITIES				
Golf Course	957,600	494,974	-	-
Total Business-Type Activities	957,600	494,974	-	-
Total Primary Government	\$ 35,984,372	\$ 2,761,339	\$ 3,132,278	\$ 871,720
COMPONENT UNITS				
Board of Education	\$ 43,596,213	\$ 235,650	\$ 40,471,755	\$ 528,533
Library	912,504	10,205	1,062,719	-
Sanitary District	4,307,344	2,400,579	773,148	29,050
Liquor Control Board	1,575,403	1,688,927	-	-
Local Management Board	697,566	-	655,314	-
Total Component Units	\$ 51,089,030	\$ 4,335,361	\$ 42,962,936	\$ 557,583

**General Revenues**

Taxes:

Property

Income

Other

State of Maryland - Disparity Grant

Payments in lieu of taxes

Distributions from Somerset County Dispensary

Interest

Other

Total General Revenues

Transfers

Total general revenues and transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

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

**Net (Expense) Revenue and Changes in Net Position**

Primary Government			Component Units				
Governmental Activities	Business-Type Activities	Total	Board of Education	Library	Sanitary District	Liquor Control Board	Local Management Board
\$ (5,630,198)	\$ -	\$ (5,630,198)	\$ -	\$ -	\$ -	\$ -	\$ -
(7,154,002)	-	(7,154,002)	-	-	-	-	-
(3,729,532)	-	(3,729,532)	-	-	-	-	-
(463,675)	-	(463,675)	-	-	-	-	-
(65,616)	-	(65,616)	-	-	-	-	-
(9,555,589)	-	(9,555,589)	-	-	-	-	-
(928,831)	-	(928,831)	-	-	-	-	-
(70,031)	-	(70,031)	-	-	-	-	-
(145,534)	-	(145,534)	-	-	-	-	-
(260,444)	-	(260,444)	-	-	-	-	-
(752,957)	-	(752,957)	-	-	-	-	-
(28,756,409)	-	(28,756,409)	-	-	-	-	-
-	(462,626)	(462,626)	-	-	-	-	-
-	(462,626)	(462,626)	-	-	-	-	-
\$ (28,756,409)	\$ (462,626)	\$ (29,219,035)	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ -	\$ -	\$ (2,360,275)	\$ 160,420	\$ -	\$ -	\$ -
-	-	-	-	-	(1,104,567)	-	-
-	-	-	-	-	-	113,524	-
-	-	-	-	-	-	-	(42,252)
\$ -	\$ -	\$ -	\$ (2,360,275)	\$ 160,420	\$ (1,104,567)	\$ 113,524	\$ (42,252)
14,633,474	-	14,633,474	-	-	-	-	-
6,123,153	-	6,123,153	-	-	-	-	-
529,659	-	529,659	-	-	-	-	-
5,290,166	-	5,290,166	-	-	-	-	-
16,407	-	16,407	-	-	-	-	-
94,919	-	94,919	-	-	-	(115,122)	-
8,970	(1,095)	7,875	147,674	-	57,735	-	229
123,482	430	123,912	69,253	46,258	-	1,598	-
26,820,230	(665)	26,819,565	216,927	46,258	57,735	(113,524)	229
(355,836)	355,836	-	-	-	-	-	-
26,464,394	355,171	26,819,565	216,927	46,258	57,735	(113,524)	229
(2,292,015)	(107,455)	(2,399,470)	(2,143,348)	206,678	(1,046,832)	-	(42,023)
33,842,697	1,776,020	35,618,717	52,327,180	1,192,474	17,001,141	150,000	158,008
\$ 31,550,682	\$ 1,668,565	\$ 33,219,247	\$ 50,183,832	\$ 1,399,152	\$ 15,954,309	\$ 150,000	\$ 115,985





# SOMERSET COUNTY, MARYLAND

## BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2013

		Special Revenue Funds			
	General	Roads	Economic	Other	Total
	Fund	Board	Development	Governmental	Governmental
			Commission	Funds	Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 11,687,599	\$ 3,589,395	\$ 780,684	\$ 94,600	\$ 16,152,278
Investments	71,396	-	-	-	71,396
Receivables:					
Property taxes	1,938,200	-	-	-	1,938,200
Accounts receivable	-	39,100	-	-	39,100
Notes receivable	-	-	101,559	-	101,559
Due from other governmental units	1,759,174	58,131	-	76,222	1,893,527
Other	426,490	-	-	-	426,490
Due from other funds	2,239,584	28,710	20,208	-	2,288,502
Inventories, at cost	-	177,033	-	-	177,033
Other	4,097	-	-	-	4,097
Restricted Assets					
Cash and cash equivalents	222,515	-	-	-	222,515
<b>Total assets</b>	<b>\$ 18,349,055</b>	<b>\$ 3,892,369</b>	<b>\$ 902,451</b>	<b>\$ 170,822</b>	<b>\$ 23,314,697</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable and accrued expenses	\$ 1,724,591	\$ 84,211	\$ 10,990	\$ 52,722	\$ 1,872,514
Due to other funds	320,071	2,207,282	-	-	2,527,353
Due to other governmental units	862,539	-	1,585	35,169	899,293
Deferred revenue	1,733,975	-	26	89,342	1,823,343
<b>Total liabilities</b>	<b>4,641,176</b>	<b>2,291,493</b>	<b>12,601</b>	<b>177,233</b>	<b>7,122,503</b>
<b>FUND BALANCES</b>					
Nonspendable	-	177,033	-	-	177,033
Committed for:					
Capital projects	6,200,000	-	-	-	6,200,000
Debt Service	2,300,000	-	-	-	2,300,000
OPEB	1,200,000	-	-	-	1,200,000
Assigned for:					
Future budget	1,000,000	-	-	-	1,000,000
Future expenditures	222,515	-	-	-	222,515
Fund purpose	-	1,423,843	889,850	(6,411)	2,307,282
Unassigned	2,785,364	-	-	-	2,785,364
<b>Total fund balances</b>	<b>13,707,879</b>	<b>1,600,876</b>	<b>889,850</b>	<b>(6,411)</b>	<b>16,192,194</b>
<b>Total liabilities and fund balances</b>	<b>\$ 18,349,055</b>	<b>\$ 3,892,369</b>	<b>\$ 902,451</b>	<b>\$ 170,822</b>	<b>\$ 23,314,697</b>

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



**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2013**

Total fund balances, governmental funds	\$ 16,192,194
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Position.	43,350,767
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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 Position.	1,733,975
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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 Position. Those liabilities consist of:

Other post-employment benefit obligation	(5,039,020)	
Bond, notes and capital leases payable	(23,831,391)	
Compensated absences	(855,843)	
Total long-term liabilities		(29,726,254)

Net position of governmental activities in the Statement of Net Position	\$ <u>31,550,682</u>
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**SOMERSET COUNTY, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

**Year Ended June 30, 2013**

	General	Special Revenue Funds			Total
		Roads	Economic	Other	
	<u>Fund</u>	<u>Board</u>	<u>Development</u>	<u>Governmental</u>	<u>Governmental</u>
<b>REVENUE</b>			<u>Commission</u>	<u>Funds</u>	<u>Funds</u>
Taxes					
Local - property	\$ 14,822,293	\$ -	\$ -	\$ -	\$ 14,822,293
Local - income	6,123,153	-	-	-	6,123,153
Local - other	529,659	-	-	-	529,659
State shared	-	250,463	-	-	250,463
Licenses and permits	144,326	-	-	-	144,326
Intergovernmental					
Federal	1,008,659	157,378	-	488,020	1,654,057
State	6,655,159	163,129	-	457,699	7,275,987
Local	121,326	-	-	59,624	180,950
Charges for services	1,544,522	577,517	-	-	2,122,039
Fines and forfeitures	7,892	-	-	-	7,892
Miscellaneous	124,560	10,816	28,156	5,061	168,593
Total revenue	31,081,549	1,159,303	28,156	1,010,404	33,279,412
<b>EXPENDITURES</b>					
Current					
General government	5,661,278	-	-	-	5,661,278
Public safety	7,173,628	-	-	-	7,173,628
Public works	1,938,420	2,835,019	-	-	4,773,439
Health	849,474	-	-	-	849,474
Social services	32,206	-	-	215,542	247,748
Education	9,452,521	-	-	-	9,452,521
Recreation and culture	765,705	-	-	-	765,705
Conservation of natural resources	101,609	-	-	-	101,609
Economic and community development	-	-	208,683	801,273	1,009,956
Intergovernmental	260,444	-	-	-	260,444
Debt service					
Principal retirement	1,247,808	-	-	-	1,247,808
Interest and fiscal charges	752,957	-	-	-	752,957
Capital outlay	1,712,237	150,344	-	-	1,862,581
Total expenditures	29,948,287	2,985,363	208,683	1,016,815	34,159,148
Excess of revenues over (under) expenditures	1,133,262	(1,826,060)	(180,527)	(6,411)	(879,736)
<b>OTHER FINANCING (USES) SOURCES</b>					
Proceeds from debt financing	432,365	-	-	-	432,365
Operating transfers, net	(2,157,136)	1,600,000	201,300	-	(355,836)
Total other financing (uses) sources	(1,724,771)	1,600,000	201,300	-	76,529
Net change in fund balances	(591,509)	(226,060)	20,773	(6,411)	(803,207)
Fund balances, beginning	14,299,388	1,826,936	869,077	-	16,995,401
Fund balances, ending	\$ 13,707,879	\$ 1,600,876	\$ 889,850	\$ (6,411)	\$ 16,192,194

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

**RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2013**

Net change in fund balances, governmental funds \$ (803,207)

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	1,293,609	
Depreciation expense	(2,301,944)	
Excess of depreciation expense over capital outlay	(1,008,335)	(1,008,335)

Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, loans of this amount were issued. (432,365)

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 changed by this amount this year. (188,819)

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. 1,247,808

The change in estimated landfill closure costs recorded in governmental activities and related expenditures increase or decrease a liability on the government-wide statements, but are not a use of current financial resources in the governmental funds. (64,500)

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 other post-employment benefits	(1,036,179)	
Change in compensated absences	(6,418)	
	(1,042,597)	(1,042,597)

Change in net assets of governmental activities \$ (2,292,015)



**SOMERSET COUNTY, MARYLAND**  
**STATEMENT OF FUND NET POSITION**  
**BUSINESS-TYPE ACTIVITIES**  
**June 30, 2013**

	<u>Enterprise Fund</u>
	<u>Golf</u>
	<u>Course</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 16,003
Membership receivables	1,200
Inventory	25,417
Total current assets	42,620
Noncurrent assets	
Capital assets at cost	4,990,866
Less accumulated depreciation	(3,149,894)
Total noncurrent assets	1,840,972
Total assets	1,883,592
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable and accrued expenses	59,499
Due to other funds	32,302
Unearned revenue	86,777
Current maturities of long-term debt	7,769
Total current liabilities	186,347
Noncurrent liabilities	
Noncurrent portion of long-term debt	28,680
Total liabilities	215,027
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	1,804,523
Unrestricted deficit	(135,958)
Total net position	\$ 1,668,565

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





**SOMERSET COUNTY, MARYLAND**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN**  
**FUND NET POSITION**  
**BUSINESS-TYPE ACTIVITIES**  
**Year Ended June 30, 2013**

	<u>Enterprise Fund</u>
	<u>Golf</u>
	<u>Course</u>
<b>OPERATING REVENUE</b>	
Charges for services	\$ 494,974
Other operating	430
<b>Total operating revenue</b>	<b>495,404</b>
<b>OPERATING EXPENSES</b>	
Salaries and related taxes	465,838
Repairs and maintenance	42,379
Supplies	151,377
Utilities	50,735
Insurance	41,768
Depreciation and amortization	120,378
Other operating	85,125
<b>Total operating expenses</b>	<b>957,600</b>
<b>Net operating loss</b>	<b>(462,196)</b>
<b>NON-OPERATING (EXPENSES) REVENUE</b>	
Financial expense, net	(1,095)
<b>Total non-operating expenses</b>	<b>(1,095)</b>
<b>Loss before contributions, distributions and transfers</b>	<b>(463,291)</b>
<b>Operating transfers, net</b>	<b>355,836</b>
<b>Change in net position</b>	<b>(107,455)</b>
<b>Total net position, beginning</b>	<b>1,776,020</b>
<b>Total net position, ending</b>	<b>\$ 1,668,565</b>

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



**SOMERSET COUNTY, MARYLAND**

**STATEMENT OF CASH FLOWS  
BUSINESS-TYPE ACTIVITIES**

**Year Ended June 30, 2013**

	<u>Enterprise Fund</u>
	<u>Golf</u>
	<u>Course</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 502,246
Payments to suppliers	(275,550)
Payments to employees	(466,249)
Other payments	(171,826)
Net cash used by operating activities	(411,379)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Operating transfers	355,836
Net cash provided by noncapital financing activities	355,836
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Proceeds from long-term debt	41,481
Principal paid on long-term debt	(5,032)
Interest paid on long-term debt	(1,150)
Disposal of capital assets	77,337
Additions of capital assets	(133,166)
Net cash used by capital and related financing activities	(20,530)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	55
Net cash provided by investing activities	55
Net decrease in cash and cash equivalents	(76,018)
Cash and cash equivalents, beginning	92,021
Cash and cash equivalents, ending	\$ 16,003

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	989	990	991	992	993	994	995	996	997	998	999	1000	1001	1002	1003	1004	1005	1006	1007	1008	1009	1010	1011	1012	1013	1014	1015	1016	1017	1018	1019	1020	1021	1022	1023	1024	1025	1026	1027	1028	1029	1030	1031	1032	1033	1034	1035	1036	1037	1038	1039	1040	1041	1042	1043	1044	1045	1046	1047	1048	1049	1050	1051	1052	1053	1054	1055	1056	1057	1058	1059	1060	1061	1062	1063	1064	1065	1066	1067	1068	1069	1070	1071	1072	1073	1074	1075	1076	1077	1078	1079	1080	1081	1082	1083	1084	1085	1086	1087	1088	1089	1090	1091	1092	1093	1094	1095	1096	1097	1098	1099	1100	1101	1102	1103	1104	1105	1106	1107	1108	1109	1110	1111	1112	1113	1114	1115	1116	1117	1118	1119	1120	1121	1122	1123	1124	1125	1126	1127	1128	1129	1130	1131	1132	1133	1134	1135	1136	1137	1138	1139	1140	1141	1142	1143	1144	1145	1146	1147	1148	1149	1150	1151	1152	1153	1154	1155	1156	1157	1158	1159	1160	1161	1162	1163	1164	1165	1166	1167	1168	1169	1170	1171	1172	1173	1174	1175	1176	1177	1178	1179	1180	1181	1182	1183	1184	1185	1186	1187	1188	1189	1190	1191	1192	1193	1194	1195	1196	1197	1198	1199	1200	1201	1202	1203	1204	1205	1206	1207	1208	1209	1210	1211	1212	1213	1214	1215	1216	1217	1218	1219	1220	1221	12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**SOMERSET COUNTY, MARYLAND  
STATEMENT OF CASH FLOWS  
BUSINESS-TYPE ACTIVITIES**

**(Continued)**

**Year Ended June 30, 2013**

**Reconciliation of operating loss to net cash**

**used by operating activities:**

Operating loss	\$ (462,196)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation and amortization expense	120,378
Changes in assets and liabilities:	
Receivables, net	(59)
Accounts and other payables	(12,545)
Inventories	(191)
Unearned revenue	7,331
Due to other funds	(64,097)

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<b>Net cash used by operating activities</b>	<b>\$ (411,379)</b>
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*The Notes to Financial Statements are an integral part of this statement.*



**SOMERSET COUNTY, MARYLAND**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2013**

	State Tax Fund	Agency	Dental Fund	Retirees Health Fund
<b>ASSETS</b>				
Cash	\$ -	\$ 29,605	\$ 3,887	\$ 98,716
Property taxes receivable	178,964	-	-	-
Due from other funds	271,153	-	-	-
<b>Total assets</b>	<b>\$ 450,117</b>	<b>\$ 29,605</b>	<b>\$ 3,887</b>	<b>\$ 98,716</b>
<b>LIABILITIES</b>				
Due to other governmental units	\$ 450,117	\$ -	\$ -	\$ -
Other liabilities	-	29,605	3,887	98,716
<b>Total liabilities</b>	<b>450,117</b>	<b>29,605</b>	<b>3,887</b>	<b>98,716</b>
<b>NET POSITION</b>				
Restricted	\$ -	\$ -	\$ -	\$ -

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





## NOTES TO FINANCIAL STATEMENTS

### Note 1. Description of Somerset County, Maryland

Somerset County, Maryland (the "County") founded in 1666, is governed by a Board of Commissioners form of government and is located in Princess Anne, Maryland. The County directly provides all basic local governmental services.

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting 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 following is a summary of the more significant policies:

### Note 2. Summary of Significant Accounting Policies

#### A. 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 five discretely presented component units - the Board of Education of Somerset County, the Somerset County Liquor Control Board, the Somerset County Sanitary District, Inc., the Somerset County Library System, and the Somerset County Local Management Board. They are reported in separate columns to emphasize that they are legally separate from the County. Although these organizations are legally separate entities and have separately elected or appointed governing boards, 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 Commissioners' office in Princess Anne, Somerset County, Maryland.

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

The *Liquor Control Board of Somerset County* (the "Liquor Control Board") is a separately elected body that oversees the operation of liquor sales in the County. The Liquor Control Board is organized as a separate legal entity, but does not have the power to levy taxes or issue bonds. The



## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### A. Financial Reporting Entity (continued)

County approves the Liquor Control Board's budget. The Liquor Control Board is included as of and for the year ended April 30, 2013.

The *Somerset County Sanitary District, Inc.* (the "Sanitary District") is a body politic and corporate that was created by the Somerset County Commissioners. The Commissioner of the Sanitary District, who is appointed by the Somerset County Commissioners, exercises the powers of the Sanitary District. The County is a guarantor of the Sanitary District's debt. The Sanitary District is authorized and empowered to acquire, hold, construct, reconstruct, repair, improve, maintain, and operate water systems, sewage systems, and disposal plants for the benefit of Somerset County.

The *Somerset County Library System* (the "Library") is a separately appointed body that administers the public library system in the County. The Library is organized as a separate legal entity, but does not have the power to levy taxes or issue bonds. The County provides a significant portion of its operational funding.

The *Somerset County Local Management Board* (the "LMB") is a quasi-governmental agency of Somerset County. The LMB's purpose is to promote a safe, healthy and stable environment of all Somerset County children and families by achieving a comprehensive system of education, health and human services through public and private interagency collaboration.

Blended component units, although separate legal entities, are part of the government's operations. The following summarizes the blended component unit of the County:

Blended component unit – There is one blended component unit, which is accounted for as a special revenue fund, that is part of the government's operations that provides services related to the building, repairing, reconstructing, maintenance, and regulation of the use of the public roads and for the purchase and maintenance of equipment, land and buildings to be used for that purpose. These services are provided by the Somerset County Roads Board (the "Roads Board").

#### B. Basis of Presentation

The County's basic financial statements consist of government-wide 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 County except for fiduciary funds. The statements distinguish between those activities of the County that are governmental and those that are considered business-type activities.



## **NOTES TO FINANCIAL STATEMENTS**

### **Note 2. Summary of Significant Accounting Policies (continued)**

#### **B. Basis of Presentation (continued)**

The statement of net position 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 for business-type activities of the County. 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 which 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 business segment or governmental function is self-financing or draws from 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 a more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

#### **C. 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.

#### **GOVERNMENTAL FUNDS**

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:



## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### C. Fund Accounting (continued)

General Fund - The general fund is the general operating fund of the County. All general revenues and other receipts that are not allocated by law or contractual agreement to another fund and general operating expenditures are accounted for in this fund.

Special Revenue Fund - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The County's major special revenue funds are:

Somerset County Roads Board - The Roads Board has control over the public landings, culverts, ferries, roads, and related curbs and gutters in the County. The Roads Board is responsible for building, repairing, reconstructing, maintenance, and regulation of the use of the public roads and for the purchase and maintenance of equipment, land and buildings to be used for that purpose. The authorization to identify the specific purpose for which these funds are used rests with the Roads Board.

Economic Development Commission - The Economic Development Commission ("EDC") is a not-for-profit organization established to enhance the economic viability of the Somerset County area by promoting business attractions, assisting with business retention and expansion projects and fostering the growth of tourist related projects that would create economic opportunity and growth for Somerset County. EDC is presented as a major governmental fund in these financial statements.

In addition, the County has four non-major governmental funds: CDBG Programs, Rental Allowance Program, Special Loan Program and Commission on Aging - SSTAP.

#### PROPRIETARY FUNDS

Proprietary funds focus on the determination of changes in net position, financial position and cash flows and are classified as enterprise.

Enterprise funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The County's major enterprise fund is:

Great Hope Golf Course - The golf course fund is used to account for all financial transactions, related to the operations of the Great Hope Golf Course, a community golf course.





## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### C. Fund Accounting (continued)

##### FIDUCIARY FUND TYPES

Fiduciary funds account for assets held by the County in a trustee or agency capacity. Agency funds are custodial in nature and do not involve measurement of results of operations.

Trust and Agency Funds – Trust and Agency Funds are used to account for assets held by the County as an agent for other funds and/or other governments. These funds include the State Tax Fund, the Dental Fund, Retirees Health Fund (a private purpose trust fund), and an Agency fund, which includes the following funds, States Attorneys Drug Bust Fund, States Attorneys County Property Federal Forfeiture Fund, Somerset County Detention Center Commissary Fund and Somerset County Detention Center Inmate Welfare Fund.

#### D. Measurement Focus

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

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 generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on 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 statements for government funds.

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



## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### E. 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 60 days of the fiscal year end.

Non-exchange transactions, in which the County receives value without directly giving equal value in return, include primarily grants. Revenue from grants 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 reimbursable basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, interest and rent.

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

On governmental fund financial statements, receivables that were not collected within the available period have been reported as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated assets during the year is reported in the operating statement as an expense with a like amount reported as donated revenue. 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.



## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### F. Budgetary Process

The County follows these procedures in establishing the General Fund budgetary data reflected in the financial statements:

- (1) Prior to April 30, the County Administrator submits to the County Commissioners a proposed budget for the fiscal year commencing the following July 1. The budget includes requested expenditures and the means of financing them.
- (2) Public hearings are conducted to obtain taxpayer comments.
- (3) No later than the first Tuesday in June, the budget is legally enacted through passage of a budget resolution.
- (4) The County Administrator is not authorized to make any transfers of budgeted amounts. Any commitments, which could result in a significant over-expenditure of an appropriation, must be approved by the County Commissioners.
- (5) Formal budgets are employed as a management control device during the year for the general fund and the Roads Board-special revenue fund. Annual budgets are legally adopted and presented in the budgetary comparison schedules for the general fund and Roads Board-special revenue fund.



## **NOTES TO FINANCIAL STATEMENTS**

### **Note 2. Summary of Significant Accounting Policies (continued)**

#### **G. Cash Equivalents**

For purposes of the statement of cash flows, the enterprise funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

#### **H. Property Tax**

Property taxes are levied on July 1 and become delinquent on October 1. Taxes are assessed an interest penalty after September 30. Owner occupied residential property owners may pay their taxes annually or semiannually. The first payment must be paid by September 30. The second payment is due on or before December 31. If the second payment has not been paid by the due date, taxes are assessed interest and penalties. The County bills and collects its own taxes. County property tax revenue is recognized when collected.

#### **I. Inventories**

Board of Education inventories, consisting of expendable items held for consumption, are stated at the lower of cost or market. The cost is recorded as an expenditure item at the time the individual inventory items are used. Inventories of the Roads Board and the enterprise funds are stated at the lower of cost (moving average method) or market on a first-in, first-out basis.

#### **J. 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 position 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 maintains a capitalization threshold of \$5,000. 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.





## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### J. Capital Assets (continued)

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:

	Governmental Activities	Business-Type Activities	Discretely Presented Component Units		
			Board of Education	Library	Sanitary District
Buildings and improvements	20 - 60 years	15 - 60 years	7 - 50 years	N/A	N/A
Improvements, non-buildings	10 - 60 years	7 - 30 years	20 years	N/A	N/A
Vehicles	3 - 10 years	N/A	8 years	N/A	12 years
Furniture, machinery and equipment	5 - 20 years	5 - 10 years	5 - 15 years	5 years	3 - 10 years
Library materials	N/A	N/A	5 years	10 years	N/A
Water and sewer plant, mains and lines	N/A	N/A	N/A	N/A	40 years
Water and sewer equipment	N/A	N/A	N/A	N/A	20 - 30 years

#### K. Compensated Absences

The County accrues a liability for vested compensated absences including vacation and compensatory time with various limitations on each type of compensated absence. All accrued compensated absences liabilities are recorded in the government-wide financial statements.

County employees earn annual leave based on length of service. Annual leave accumulates, and any unused portion is paid upon termination. Annual leave generally must be taken by December 31 each year. Up to 45 days may be transferred to the next fiscal year.

Sick leave for all County employees is earned at a rate of 6.64 hours per month. There is no limit on accumulated sick leave. At termination, employees are not paid for accumulated sick leave; however, at retirement, a portion may be used as additional credited service under the retirement plan.

The entire compensated absences liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

#### L. 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.



## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### L. Accrued Liabilities and Long-Term Obligations (continued)

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.

#### M. Net Position

During fiscal year 2013, the Governmental Accounting Standards Board's Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* was implemented. This statement provides a standardized presentation for deferred outflows of resources and deferred inflows of resources and their effect on a government's net position. Net position represents the difference between assets plus deferred inflows of resources and liabilities plus deferred outflows of resources. Net investment 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 position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

Restricted resources are applied first when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

#### N. Fund Balance Reserves

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable – Amounts that cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact. Nonspendable fund balances also consist of prepaid amounts.

Restricted – Amounts that can only be spent for specific purposes because of the County charter or code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed – Amounts that can be used only for specific purposes determined by the formal action of the County Commissioners' ordinances or resolutions.



## NOTES TO FINANCIAL STATEMENTS

### Note 2. Summary of Significant Accounting Policies (continued)

#### N. Fund Balance Reserves (continued)

Assigned – Amounts that are designated by the Commissioners or management with intent to be used for specific purposes, but are neither restricted or committed by ordinance or resolution.

Unassigned – Amounts not included in other spendable classifications.

#### O. 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 golf course activities.

Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Revenues not meeting these definitions are reported as non-operating.

#### P. Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

#### Q. Interfund Receivables/Payables

On 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 position. The only interfund balances which remain on the government-wide statement of net position are those between governmental and fiduciary activities. These amounts are reflected as Due to fiduciary funds.

### Note 3. Deposits and Investments

#### A. Deposits

##### Primary Government

Deposits are maintained in a variety of financial institutions. The County Commissioners are authorized to invest unexpended revenue from taxation, bond sales, lawful distributions to it of funds from other governmental agencies, or any other funds properly received by them, until they determine the funds are needed for proper public purpose, in United States Government bonds or evidence of indebtedness, the Maryland Local Government Investment Pool, or in Federally insured banking institutions which pledge United States Treasury bills, notes or other obligations to secure such deposits.



## NOTES TO FINANCIAL STATEMENTS

### **Note 3. Deposits and Investments (continued)**

At June 30, 2013, the Primary Government had deposits with various commercial banks of \$18,124,782 (carrying value \$16,390,796). As required by law, a depository is to pledge securities, in addition to Federal Deposit Insurance Corporation ("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 County's name by their trust departments or agents. At June 30, 2013 the deposits were fully insured or collateralized. Petty cash totaled \$880 as of June 30, 2013.

#### **Board of Education**

At June 30, 2013, the Board's demand deposits, savings deposits and certificates of deposit were covered by FDIC insurance in the amount of \$264,835 and \$601,304 (carrying value \$643,331) was collateralized with federal securities held by the bank's trust department, in the Board's name. The Board's exposure to investment rate and credit risk is minimal, as all investments are in cash 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.

#### **Library**

At June 30, 2013 the Library had deposits with various commercial banks totaling \$493,974 (carrying value \$489,488), which were either fully insured or collateralized with securities held in the name of the Library.

#### **Sanitary District**

At June 30, 2013, the Sanitary District had deposits with various commercial banks totaling \$1,580,364 (carrying value \$1,353,770). All deposits were fully collateralized as of June 30, 2013.

#### **Liquor Control Board**

At April 30, 2013, the Liquor Control Board had deposits with various commercial banks totaling \$44,879 (carrying value \$44,879), which were either fully insured or collateralized with securities held in the name of the Liquor Control Board.

#### **LMB**

At June 30, 2013, the LMB had deposits with various commercial banks totaling \$184,161 (carrying value \$184,161). All deposits were fully collateralized as of June 30, 2013.

### **B. Investments**

The County is a participant in the Maryland Local Government Investment Pool (MLGIP), which provides all 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 Institutional Investments, which is under





## NOTES TO FINANCIAL STATEMENTS

### Note 3. Deposits and Investments (continued)

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 Poor's. The fair value of the pool is the same as the value of the pool shares.

At June 30, 2013, the County and the Library had investments in MLGIP of \$71,396 and \$46,975, respectively, which are recorded at fair value.

The County's exposure to investment rate and credit risk is minimal, as all investments are in cash, MLGIP, or certificates of deposit and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by having investments collateralized by securities as mentioned previously.

At June 30, 2013, the Library had investments in the Community Foundation of the Eastern Shore totaling \$43,822 (carrying value \$43,822).

### Note 4. 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, 2013, appropriate due from/to other funds have been established.

Due from/to other funds balances as of June 30, 2013 were as follows:

	Due from Other Funds	Due to Other Funds
Governmental activities	\$ 2,288,502	\$2,527,353
Business-type activities	-	32,302
Fiduciary fund	271,153	-
	<u>\$ 2,559,655</u>	<u>\$2,559,655</u>



## NOTES TO FINANCIAL STATEMENTS

### Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance June 30, 2012	Additions	Transfers and Reductions	Balance June 30, 2013
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,658,092	\$ -	\$ -	\$ 3,658,092
Construction in progress	2,558,690	523,732	(2,487,617)	594,805
Total capital assets, not being depreciated	6,216,782	523,732	(2,487,617)	4,252,897
Capital assets, being depreciated:				
Buildings and improvements	16,271,852	-	-	16,271,852
Improvements, non-buildings	54,833,615	504,749	2,487,617	57,825,981
Vehicles	3,588,187	132,690	(25,048)	3,695,829
Furniture, machinery and equipment	9,474,147	132,438	-	9,606,585
Total capital assets, being depreciated	84,167,801	769,877	2,462,569	87,400,247
Less accumulated depreciation:				
Buildings and improvements	3,814,414	395,581	-	4,209,995
Improvements, non-buildings	34,190,603	1,143,546	-	35,334,149
Vehicles	3,105,069	156,347	(25,048)	3,236,368
Furniture, machinery and equipment	4,915,395	606,470	-	5,521,865
Total accumulated depreciation	46,025,481	2,301,944	(25,048)	48,302,377
Total capital assets, being depreciated, net	38,142,320	(1,532,067)	2,487,617	39,097,870
Governmental activities capital assets, net	\$ 44,359,102	\$ (1,008,335)	\$ -	\$ 43,350,767
	Balance June 30, 2012	Additions	Transfers and Reductions	Balance June 30, 2013
<b>Business-Type Activities:</b>				
<b>Great Hope Golf Course</b>				
Capital assets, being depreciated:				
Land improvements	\$ 3,087,313	\$ 6,244	\$ -	\$ 3,093,557
Buildings and improvements	1,424,141	62,701	(131,942)	1,354,900
Furniture, machinery and equipment	483,088	64,221	(4,900)	542,409
Total capital assets, being depreciated	4,994,542	133,166	(136,842)	4,990,866
Less accumulated depreciation:				
Land improvements	1,996,707	84,979	-	2,081,686
Buildings and improvements	632,013	22,867	(56,075)	598,805
Furniture, machinery and equipment	460,301	12,532	(3,430)	469,403
Total accumulated depreciation	3,089,021	120,378	(59,505)	3,149,894
Total capital assets, being depreciated, net	1,905,521	12,788	(77,337)	1,840,972
Business-type activities capital assets, net	\$ 1,905,521	\$ 12,788	\$ (77,337)	\$ 1,840,972



## NOTES TO FINANCIAL STATEMENTS

### Note 5. Capital Assets (continued)

	Balance June 30, 2012	Additions	Transfers and Reductions	Balance June 30, 2013
<b>Board of Education</b>				
Capital assets, not being depreciated:				
Land	\$ 493,252	\$ -	\$ -	\$ 493,252
Construction in progress	-	22,295	-	22,295
Total capital assets, not being depreciated	493,252	22,295	-	515,547
Capital assets, being depreciated:				
Land improvements	3,124,905	19,910	-	3,144,815
Buildings and improvements	69,668,406	510,795	-	70,179,201
Library materials	2,753,379	10,314	-	2,763,693
Vehicles	179,693	-	-	179,693
Furniture, machinery and equipment	3,851,110	47,673	-	3,898,783
Total capital assets, being depreciated	79,577,493	588,692	-	80,166,185
Less accumulated depreciation:				
Land improvements	2,536,206	142,812	-	2,679,018
Buildings and improvements	16,923,318	1,607,263	-	18,530,581
Library materials	2,646,522	42,083	-	2,688,605
Vehicles	131,063	11,059	-	142,122
Furniture, machinery and equipment	2,980,493	223,384	-	3,203,877
Total accumulated depreciation	25,217,602	2,026,601	-	27,244,203
Total capital assets, being depreciated, net	54,359,891	(1,437,909)	-	52,921,982
Total Board of Education capital assets, net	\$ 54,853,143	\$ (1,415,614)	\$ -	\$ 53,437,529



## NOTES TO FINANCIAL STATEMENTS

### Note 5. Capital Assets (continued)

	Balance June 30, 2012	Additions	Transfers and Reductions	Balance June 30, 2013
<b>Library</b>				
Capital assets, not being depreciated:				
Land	\$ 195,060	\$ -	\$ -	\$ 195,060
Construction in progress	209,724	223,953	-	433,677
Total capital assets, not being depreciated	404,784	223,953	-	628,737
Capital assets, being depreciated:				
Books and media	860,801	70,253	(64,342)	866,712
Furniture, machinery and equipment	224,050	13,721	(4,540)	233,231
Total capital assets, being depreciated	1,084,851	83,974	(68,882)	1,099,943
Less accumulated depreciation:				
Books and media	412,434	86,376	(64,342)	434,468
Furniture, machinery and equipment	151,722	18,382	(4,540)	165,564
Total accumulated depreciation	564,156	104,758	(68,882)	600,032
Total capital assets, being depreciated, net	520,695	(20,784)	-	499,911
Total Library capital assets, net	\$ 925,479	\$ 203,169	\$ -	\$ 1,128,648

	Balance June 30, 2012	Additions	Transfers and Reductions	Balance June 30, 2013
<b>Sanitary District</b>				
Capital assets, not being depreciated:				
Land	\$ 17,512	\$ -	\$ -	\$ 17,512
Construction in progress	2,785,545	150,997	(1,559,606)	1,376,936
Total capital assets, not being depreciated	2,803,057	150,997	(1,559,606)	1,394,448
Capital assets, being depreciated:				
Sewage treatment plants and lines	38,499,652	-	-	38,499,652
Water plants and lines	10,563,192	1,559,606	-	12,122,798
Equipment and vehicles	3,174,868	22,333	-	3,197,201
Total capital assets, being depreciated	52,237,712	1,581,939	-	53,819,651
Less accumulated depreciation:				
Sewage treatment plants and lines	18,353,163	1,057,291	-	19,410,454
Water plants and lines	5,600,927	180,310	-	5,781,237
Equipment and vehicles	1,982,549	127,476	-	2,110,025
Total accumulated depreciation	25,936,639	1,365,077	-	27,301,716
Total capital assets, being depreciated, net	26,301,073	216,862	-	26,517,935
Total Sanitary District capital assets, net	\$ 29,104,130	\$ 367,859	\$ (1,559,606)	\$ 27,912,383





## NOTES TO FINANCIAL STATEMENTS

### Note 5. Capital Assets (continued)

	Balance June 30, 2012	Additions	Transfers and Reductions	Balance June 30, 2013
<b>LMB</b>				
Capital assets, being depreciated:				
Furniture, machinery and equipment	\$ 16,411	\$ -	\$ -	\$ 16,411
Less accumulated depreciation:				
Furniture, machinery and equipment	16,411	-	-	16,411
Total LMB capital assets, net	\$ -	\$ -	\$ -	\$ -

Depreciation expense was charged to governmental functions as follows:

General government	\$ 396,672
Public safety	474,743
Public works	1,344,916
Recreation and culture	72,212
Health	11,395
Economic and community development	2,006
Total depreciation expense	<u>\$ 2,301,944</u>

### Note 6. Notes Payable and Long-Term Debt

#### Sanitary District

Notes payable of the Sanitary District consists of unsecured demand notes due a bank. Amounts borrowed are used to pay construction costs until either the Federal or State grant amounts are received, or until long-term financing can be obtained for the local share portion of project costs.

#### Liquor Control Board

The Liquor Control Board has a line of credit with Hebron Savings Bank for \$150,000 with interest at 5%. At April 30, 2013, there was \$17,000 outstanding on the line.

#### Primary Government

The County obtained temporary financing of \$4.1 million for the construction costs at the Landfill Cell #4 in Fairmount, of which \$2,274,282 had been drawn down at June 30, 2013.





## NOTES TO FINANCIAL STATEMENTS

### Note 6. Notes Payable and Long-Term Debt (continued)

Notes payable and long-term debt at June 30, 2013 is comprised of the following issues:

	Interest Rate	Fiscal Year Issued	Fiscal Year Matures
<b><u>Primary Government</u></b>			
<b><u>Governmental Activities</u></b>			
<b><u>Bonds and Notes Payable</u></b>			
Landfill Bond of 1997	4.50	1998	2030
Maryland Water Quality Financing Admin - Landfill Closure	2.00	2002	2021
USDA - Permanent Financing Cell 2	4.38	2004	2044
BB&T - Refinancing	4.17	2005	2020
USDA RDA - Smith Island Incinerator	4.25	2006	2020
M&T Bank - Board of Education - Phase I	4.19	2006	2021
M&T Bank - Board of Education - Phase II	3.91	2007	2017
Bank of America - Board of Education Capital 2009	3.89	2008	2025
Bank of America - Board of Education Capital 2008	3.44	2009	2019
USDA - Cell 3 Loan 1	4.25	2009	2049
USDA - Cell 3 Loan 2	4.38	2009	2049
USDA - Cell 3 Loan 3	4.13	2009	2049
M&T Bank - Board of Education Capital 2010	2.44	2010	2014
MEA - County Complex HVAC	0.00	2010	2021
PNC - Cell 4 Interim Financing	variable	2011	2014
 <b><u>Other</u></b>			
County Commissioners - capital lease obligation	3.40	2011	2013
County Commissioners - landfill closure/post-closure care costs	-	-	-
 Total Governmental Activities			
 <b><u>Business -type Activities</u></b>			
<b><u>Other</u></b>			
County Commissioners - capital lease obligation	5.00	2013	2018
County Commissioners - capital lease obligation	5.00	2013	2018

# NOTES TO FINANCIAL STATEMENTS

<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding June 30, 2013</u>	<u>Amount Due in One Year</u>
\$ 3,300,000	\$ 2,171,882	\$ -	\$ 81,944	\$ 2,089,938	\$ 85,730
2,151,215	1,119,406	-	114,756	1,004,650	148,032
1,765,000	1,607,114	-	23,759	1,583,355	24,645
1,783,654	1,029,456	-	119,474	909,982	124,535
100,000	64,260	-	6,422	57,838	6,699
2,000,000	1,345,839	-	125,836	1,220,003	131,181
1,700,000	932,323	-	172,259	760,064	179,086
2,300,000	2,005,813	-	127,196	1,878,617	132,049
4,000,000	2,657,855	-	387,977	2,269,878	401,494
2,200,000	2,120,459	-	24,933	2,095,526	26,010
910,800	878,784	-	10,063	868,721	10,553
688,000	662,422	-	7,996	654,426	8,331
6,000,000	3,885,422	189,579	-	4,075,001	4,075,001
300,000	270,000	-	30,000	240,000	30,000
4,100,000	2,031,496	242,786	-	2,274,282	2,274,282
45,653	15,193	-	15,193	-	-
-	1,784,610	64,500	-	1,849,110	
	<u>\$ 24,582,334</u>	<u>\$ 496,865</u>	<u>\$ 1,247,808</u>	<u>\$ 23,831,391</u>	<u>\$ 7,657,628</u>
20,981	-	20,981	1,261	19,720	3,894
20,500	-	20,500	3,771	16,729	3,875
	<u>-</u>	<u>41,481</u>	<u>5,032</u>	<u>36,449</u>	<u>7,769</u>





## NOTES TO FINANCIAL STATEMENTS

### Note 6. Notes Payable and Long-Term Debt (continued)

	<u>Interest</u> <u>Rate</u>	<u>Fiscal Year</u> <u>Issued</u>	<u>Fiscal Year</u> <u>Matures</u>
<b><u>Proprietary Fund Types</u></b>			
<b><u>Sanitary District</u></b>			
<b><u>Long-Term Debt</u></b>			
<b><u>General Bonded Debt</u></b>			
Jacksonville Subdistrict	5.00	1981	2021
Rumbley-Frenchtown Subdistrict	5.00	1982	2022
Infrastructure Bond	2.00-4.63	1994	2024
Fairmount-Rumbley-Frenchtown District	4.50	1994	2034
Princess Anne Subdistrict	5.25	1995	2035
Jacksonville Subdistrict	3.44	1995	2015
Crisfield Peripheral Sewer Project	4.50	1996	2026
Princess Anne Subdistrict	4.50	2003	2042
Princess Anne Subdistrict	4.50	2004	2013
Jacksonville Subdistrict	0.00	2005	2035
Princess Anne Subdistrict	4.13	2007	2047
Princess Anne Subdistrict	4.13	2007	2047
Princess Anne Subdistrict	3.88	2013	2023
Princess Anne Subdistrict	4.00	1998	2013
Princess Anne Subdistrict	4.00	2006	2013
Princess Anne Subdistrict	4.38	2010	2048
Fairmount Subdistrict	5.00	1980	2013
Princess Anne Subdistrict	3.50	2013	2053
Princess Anne Subdistrict	3.50	2013	2053
Princess Anne Subdistrict	3.13	2013	2053
Princess Anne Subdistrict	4.19	2013	2023
<b><u>State Loans</u></b>			
Water tanks - Princess Anne	5.80	1994	2027
<b>Total Sanitary District</b>			



## NOTES TO FINANCIAL STATEMENTS

<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding June 30, 2013</u>
\$ 299,000	\$ 107,001	\$ -	\$ 12,303	\$ 94,698
10,000	4,044	-	377	3,667
1,825,200	1,198,100	-	89,000	1,109,100
333,000	252,129	-	6,727	245,402
350,000	255,728	-	7,596	248,132
189,836	36,832	-	11,865	24,967
323,000	259,151	-	6,236	252,915
1,402,082	1,018,733	-	30,361	988,372
57,400	11,638	-	6,846	4,792
32,000	24,533	-	1,067	23,466
2,770,900	2,617,130	-	34,662	2,582,468
365,700	345,404	-	4,575	340,829
80,000	76,793	-	4,554	72,239
1,700,000	1,641,073	-	1,641,073	-
2,000,000	1,168,171	-	1,168,171	-
4,200,000	4,117,339	-	44,062	4,073,277
270,000	5,313	-	5,313	-
1,228,250	-	1,228,250	-	1,228,250
427,118	-	427,118	-	427,118
2,525,900	-	1,399,245	-	1,399,245
30,000	-	30,000	2,165	27,835
327,411	237,009	-	9,385	227,624
<hr/>				
\$ 13,376,121	\$ 3,084,613	\$ 3,086,338	\$ 13,374,396	



## NOTES TO FINANCIAL STATEMENTS

### Note 6. Notes Payable and Long-Term Debt (continued)

A summary of debt service requirements to maturity by years for long-term debt is approximately as follows:

#### Primary Government

Years Ending June 30,	Principal	Interest	Total
2014	\$ 7,657,628	\$ 762,913	\$ 8,420,541
2015	1,355,117	593,153	1,948,270
2016	1,403,695	546,384	1,950,079
2017	1,454,157	497,805	1,951,962
2018	1,297,363	447,346	1,744,709
2019 - 2023	3,441,660	1,644,520	5,086,180
2024 - 2028	1,768,822	1,117,120	2,885,942
2029 - 2033	2,093,305	800,318	2,893,623
2034 - 2038	1,047,651	604,143	1,651,794
2039 - 2043	1,260,618	400,093	1,660,711
2044 - 2048	963,736	164,528	1,128,264
2049 - 2053	87,639	10,090	97,729
<hr/>			
Total governmental activities	\$ 23,831,391	\$ 7,588,413	\$ 31,419,804

Interest expense on all indebtedness totaled \$752,957 for the County.



## NOTES TO FINANCIAL STATEMENTS

### Note 6. Notes Payable and Long-Term Debt (continued)

#### Discretely Presented Component Units

##### Sanitary District

Years Ending June 30,	Principal	Interest	Total
2014	\$ 337,153	\$ 590,476	\$ 927,629
2015	343,609	580,427	924,036
2016	340,251	570,164	910,415
2017	350,648	559,430	910,078
2018	361,497	548,750	910,247
2019 - 2023	1,908,042	2,568,397	4,476,439
2024 - 2028	1,866,381	2,094,022	3,960,403
2029 - 2033	1,907,387	1,618,836	3,526,223
2034 - 2038	1,713,606	1,247,312	2,960,918
2039 - 2043	1,739,615	788,612	2,528,227
2044 - 2048	1,798,966	359,008	2,157,974
2049 - 2053	707,241	43,947	751,188
Total Sanitary District	<u>\$ 13,374,396</u>	<u>\$ 11,569,381</u>	<u>\$ 24,943,777</u>

Interest expense on all indebtedness totaled \$495,360 for the Sanitary District.

### Note 7. Leases

#### Primary Government

##### Long-Term Debt

The County has entered into two long-term capital leases for the purpose of acquiring equipment. Since these leases are a financing arrangement which transfers ownership at the end of the term, the County has recorded these lease obligations and the related assets in the appropriate fund. The original cost of assets acquired under these capital leases is \$20,981 and \$20,500 with accumulated depreciation of \$1,049 and \$4,100.

##### Liquor Control Board

The Liquor Control Board had entered into a five year lease for their Crisfield location with monthly rent payments of \$975 per month through February 2017, however, effective June 2012, the Board voted to discontinue rental of the wine store and consolidate all inventory into the traditional liquor store and thereby reducing the monthly rental expense to \$800 per month.



## NOTES TO FINANCIAL STATEMENTS

### Note 7. Leases (continued)

The Liquor Control Board entered into a lease for the Princess Anne store with annual rental payments of \$6,500 through February 2014.

#### LMB

In June 2009 the LMB entered into an agreement with the County for the use of office space. Under the terms of the agreement the LMB made an advance payment in the amount of \$25,000 to be used toward the renovation of the office space in return for five years of free rent. The payment of \$25,000 was recorded as a prepaid expense and is being amortized to rent expense evenly over sixty months in accordance with generally accepted accounting principles. The LMB began occupying the new space in October 2009 and began amortizing the advance payment as of that date. Lease expense for the year ended June 30, 2012 was \$5,000.

### Note 8. Net Position

#### Sanitary District

Restricted for debt service - This restriction was created to segregate a portion of net position for debt service, including both principal and interest payments. The reservation was established to satisfy legal restrictions imposed by various bond agreements.

### Note 9. Retirement and Pension Plans

The County provides pension benefits for all full-time employees through the State of Maryland Employees Retirement and Pension Systems (Employees Systems). Teachers employed by the Board of Education generally participate in the State of Maryland Teachers Retirement and Pensions Systems (Teachers Systems). Both the Employees Systems and the Teachers Systems (collectively the Systems) are cost sharing multiple-employer public retirement systems sponsored by the Maryland State Retirement and Pension 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. Retirement and Pensions 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 creditable 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 and before completing five years of creditable service 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**

Effective July 1, 2011 with pension reform measures enacted through legislation, the State Personnel and Pensions Article requires active members to contribute to the System at the rate of 7% of their covered salary, under the Alternative Contributory Pension Selection option that was chosen by the County. The Reformed Contributory Pension Benefit was created through legislation with an effective date of July 1, 2011 and any person hired on or after July 1, 2011 can enter the System with a contribution rate of 7% of their covered salary. The combined employer contribution rate for the year ending 2013 is established by annual actuarial valuations. 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 and the Library. The amounts recognized as revenue and expenditures for the fiscal year ended June 30, 2013 was \$2,340,000 and \$55,597 for the Board of Education and the Library, respectively.



## NOTES TO FINANCIAL STATEMENTS

### Note 9. Retirement and Pension Plans (continued)

#### Employer's Payroll and Contributions Under the Plan

The employer's current year payroll for the years ended June 30, 2013, 2012, and 2011, payroll covered under the various state plans, and contributions paid are as follows:

	2013	2012	2011
Total Payroll	\$ 23,827,040	\$ 23,924,473	\$ 24,086,998
Payroll covered under the plans	21,517,231	21,884,688	21,805,248
Contributions paid:			
County payments	686,925	839,592	809,691
Board of Education payments	276,822	304,875	301,519
State On-Behalf payments:			
Board of Education	2,340,000	2,955,532	3,061,622
Library	55,597	54,767	55,330

### Note 10. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible County employees, permits 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 plan, at the direction of the covered employee, through investments underwritten by Nationwide Retirement Solutions Incorporated (NRS).

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 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.



## NOTES TO FINANCIAL STATEMENTS

### Note 10. Deferred Compensation Plan (continued)

A summary of the activity in the plan for the year ended June 30, 2013, is as follows:

Balance, beginning of year	\$ 1,820,491
Employee contributions	208,940
Earnings on investments	205,944
Distributions	<u>(36,203)</u>
Balance, end of year	<u>\$ 2,199,172</u>

### Note 11. Other Post-Employment Benefits

The County and Board of Education administer a single-employer defined benefit healthcare plan ("the Plan"). The Plan provides healthcare insurance for eligible retirees and their spouses through the County's and Board of Education's group health insurance plan, which covers both active and retired members.

The County's employees are eligible to participate in the Plan upon retirement at the appropriate ages and years of service. As of July 2012, the date of the last actuarial valuation, approximately 56 retirees were receiving benefits and an estimated 190 active employees were potentially eligible to receive future benefits.

The Board of Education's benefit provisions are based on contractual agreements with employee groups. Employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teacher's pension system, which are 15 years of service up to age 55 or 10 years of service at age 60. As of July 2012, the date of the last actuarial valuation, approximately 224 retirees were receiving benefits, and an estimated 397 active employees are potentially eligible to receive future benefits.

The Library's employees are eligible to participate in the Plan upon retirement at the appropriate ages and years of service. As of July 2012, the date of the last actuarial valuation, approximately 3 retirees were receiving benefits and an estimated 6 active employees were potentially eligible to receive future benefits.

The County and Library pay retiree healthcare premiums based on the plan selected. The County and Library pay 90% of the premium for individual plans and 75% of the premium for family plans. The retiree pays the remaining premium. For fiscal year 2013, the County and Library contributed \$234,935 and \$23,519 to the plans for 56 and 3 eligible retirees, respectively.

The Board of Education pays retiree healthcare premiums up to the greater of \$250 per month or 50% of the total premium. For fiscal year 2013, the Board of Education contributed \$652,607 to the plan for 198 eligible retirees.



## NOTES TO FINANCIAL STATEMENTS

### Note 11. Other Post-Employment Benefits (continued)

The County's and Board of Education's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The County and Board of Education pay post-retirement benefits (normal cost) from the General Fund.

The following table shows the components of the County and its Component Units' annual OPEB cost for the year, the amounts actually contributed to the plan, and changes in the County and its Component Units' net OPEB obligation. The Liquor Control Board and the Sanitary District are not included as the employees of these Component Units pay 100% of their insurance costs.

	County	Board of Education	Library
Annual required contribution	\$ 1,331,880	\$ 1,336,567	\$ 74,485
Interest on net pension obligation	180,128	147,063	9,234
Adjustment to annual required contribution	(240,894)	(156,847)	(13,871)
Annual OPEB cost (expense)	1,271,114	1,326,783	69,848
Contribution made	(234,935)	(652,607)	(23,519)
Increase (decrease) in net OPEB obligation	1,036,179	674,176	46,329
Net OPEB obligations, beginning of year	4,002,841	2,451,055	205,207
Net OPEB obligations, end of year	<u>\$ 5,039,020</u>	<u>\$ 3,125,231</u>	<u>\$ 251,536</u>

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 1,271,114	18.48%	\$ 5,039,020
2012	1,251,070	17.34%	4,002,841





## NOTES TO FINANCIAL STATEMENTS

### Note 11. Other Post-Employment Benefits (continued)

The Board of Education's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<b>2013</b>	<b>\$ 1,326,783</b>	<b>49.19%</b>	<b>\$ 3,125,231</b>
2012	1,370,523	57.37%	2,451,055

The Library's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation was as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<b>2013</b>	<b>\$ 69,848</b>	<b>33.67%</b>	<b>\$ 251,536</b>
2012	77,207	29.93%	205,207

As of July 2012, the most recent actuarial valuation date of the County, the plan was zero percent funded. The actuarial accrued liability for benefits was \$11,872,984, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$6,000,589, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 197.86%.

As of July 2012, the most recent actuarial valuation date of the Board of Education, the plan was zero percent funded. The actuarial accrued liability for benefits was \$16,871,130, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$19,689,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 86 percent.

As of July 2012, the most recent actuarial valuation date of the Library, the plan was zero percent funded. The actuarial accrued liability for benefits was \$770,165, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$393,920, and the ratio of the unfunded actuarial accrued liability to the covered payroll was approximately 196%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined



## NOTES TO FINANCIAL STATEMENTS

### Note 11. Other Post-Employment Benefits (continued)

regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 2012 actuarial valuation of the County and Library, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 7.0% and 4.5% investment rates of return (net of administrative expenses) based on the County's and Library's own investments; an annual healthcare cost trend of 8% percent initially, reduced by decrements to ultimate rate of 5% after three years. The remaining amortization period at July 1, 2012 was 26 years.

In the July 2012 actuarial valuation of the Board of Education, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 6% investment rate of return (net of administrative expenses) based on the Board of Education's own investments; an annual healthcare cost trend of 8% percent initially, reduced by decrements to ultimate rate of 5% after three years of medical and drug insurance. The UAAL is being amortized on a level of percentage of payroll basis over a 30 year period. The remaining amortization period at July 1, 2012 was 26 years.

### Note 12. Risk Management

#### Primary Government

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County's risk financing techniques include participation in a public entity pool and the purchase of commercial insurance.

For general, property, excess and environmental liability coverage, the County became 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 will be affected by the loss experience of the various



## NOTES TO FINANCIAL STATEMENTS

### Note 12. Risk Management (continued)

insurance pools in which it participates. The County may be required to make additional assessments from time to time. These amounts would be recorded as an expenditure when they are probable and can be reasonably estimated. Conversely, favorable performance of certain insurance pools may result in reduced premiums.

The County is fully insured for workers' compensation through commercial insurance, and employees are bonded to limit the loss to the County in the event of employees committing acts of embezzlement or theft. 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.

#### Board of Education

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board is a member of the Maryland Association of Boards' of Education Group Insurance Pool ("the Pool"), a public entity risk pool currently operating as a common risk management and insurance program for fourteen of the twenty-four Boards of Education in the State of Maryland. The Pool was formed in 1986 when several of the boards of education through Maryland joined together to pool their casualty risks. Property insurance coverage was added in 1988 and workers compensation in 2000. The Board pays an annual premium to the Pool for its property and casualty insurance coverage. It is intended for the Pool to be self-sustaining through member premiums. Reinsurance is carried through commercial companies for claims which exceed coverage limits as specified in the agreement. Should the Pool encounter deficits in its casualty and/or property funds, the deficit(s) may be made up from additional assessments of boards participating in the deficit pool in an amount equal to the ratio of each board's annual premium to the total annual premium contributed by all boards in the year in which the deficit occurred. The Board continues to carry commercial insurance for all other risks of loss, including workers' compensation, employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in the last three years.

The Board is a member of the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self-sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 16% as recommended conservative reserve. As of December 31, 2012 the Board's funds held by ESMEC exceeded the recommended conservative reserve by \$2,227,251. The Board used \$254,102 of the excess conservative reserve balance to pay November 2012 and December 2012. All funds held by ESMEC are restricted to being used only for health care expenses.



## NOTES TO FINANCIAL STATEMENTS

### Note 13. On-Behalf Payments

#### Board of Education

The State of Maryland contributed \$2,340,000 into the State Retirement System on behalf of the Board's teachers during the year ended June 30, 2013, and the amount is reported as both revenues and expenditures on the statement of activities.

#### Library

The State of Maryland contributed \$55,597 into the State Retirement System on behalf of the Library's employees during the year ended June 30, 2013, and the amount is reported as both revenues and expenditures on the statement of activities.

### Note 14. Commitments and Contingencies

#### Primary Government

In the normal course of operations, the County receives grant funds from various Federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The County is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the financial position of the County.

The County Commissioners have guaranteed certain obligations of the Sanitary District.

The County entered into a two year real property lease beginning March 1, 2012 and terminating February 28, 2014 which requires a \$8,800 per year lease payment.

#### Sanitary District

The Sanitary District participates in a number of Federal and State assisted programs. These programs primarily consist of grants and loans from the U.S. Departments of Agriculture and Environmental Protection and the Maryland Department of the Environment. These programs are subject to program compliance audits by the grantors or their representatives. The audit for open programs has not yet been concluded.

Accordingly, the Sanitary District's compliance with the applicable grant requirements will be established at some future date. The amount, if any, of expenditures for projects which may be





## NOTES TO FINANCIAL STATEMENTS

### Note 14. Commitments and Contingencies (continued)

disallowed by the granting agencies cannot be determined at this time although the Sanitary District expects such amount, if any, to be immaterial.

#### Princess Anne Subdistrict

The Princess Anne area was experiencing significant growth. However, it has virtually stopped recently. Additional water supplies are still necessary. Legal proceedings resulted in an agreement, "thus" obtaining the necessary permits and the construction has now started. Adequate water allocation will be available upon completion.

The Princess Anne sewer system has adequate sewer allocation at this time. The Maryland Department of the Environment may require the wastewater plant be upgraded for additional nitrogen and phosphorus removal as a result of the Chesapeake Bay TMDL. The nitrogen and phosphorus amounts removed by the plant are generally at the limits of technology. The permit limit is currently a pounds limit of nitrogen and phosphorus. The wastewater plant currently meets the discharge permit. The Maryland Department of the Environment imposes fines for exceeding the discharge permit.

A preliminary engineering survey has been completed to determine any changes necessary to meet the Chesapeake Bay TMDL changes. The survey is currently under review by the Maryland Department of the Environment.

To further insure that permit limits will not be exceeded, and that the water and sewer system is not overburdened, all new Princess Anne construction is approved on a project-by-project basis. The District has entered into an agreement with the Town of Princess Anne not to issue building or occupancy permits until the District approves all plans within town limits.

The Somerset County Technical and Community Services Office, in conjunction with the District, approves out-of-town building and occupancy permits and compliance with state created propriety funding areas (PFA's).

The Hawk and Loretta Road wells were completed.

#### Fairmount Subdistrict

The preliminary planning and engineering study for the Fairmount wastewater plant is complete and under review at The Maryland Department of the Environment. The study will address compliance with anticipated Maryland Department of the Environment discharge permit changes while allowing for local growth. During the study a concept of closing the Fairmount plant and pumping to the Westover Collection system was contemplated. There are advantages to the idea but it may not be allowed by the Maryland Watershed Implementation Plan.



## NOTES TO FINANCIAL STATEMENTS

### **Note 14. Commitments and Contingencies (continued)**

In-house maintenance includes ongoing checking for rain inflow and leaking breather vents in the vacuum system. The rainfall inflow overwhelms the pumping capacity and shuts down the system, which causes electrical, labor, and maintenance costs to be increased.

#### **Smith Island**

The preliminary planning and engineering study for the Smith Island sewage facilities has been completed and is being reviewed by the Maryland Department of the Environment. The study has recommended closing the Tylerton wastewater plant and pumping to a rebuilt facility at Ewell.

### **Note 15. Landfill Closure and Post-Closure Care Costs**

State and Federal laws and regulations require the County to perform certain maintenance and monitoring functions at its landfill sites following closure.

The County's Westover Landfill was at full capacity as of June 30, 1998 and capping and closure of that project was completed in 2005. The estimated post-closure care costs for a thirty year period of \$929,410 have been included in long-term debt at June 30, 2013. Post-closure care costs will be paid from General Fund revenues.

The Fairmount Road Landfill was opened in January 1998. Closure costs and post-closure care costs are estimated at \$1,080,894 and \$929,410, respectively. At June 30, 2013, approximately 46% of the landfill capacity had been used. Under the prescribed allocation method determined annually based on the landfill capacity used to date, \$919,700 has been included in long-term debt.

The County has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2012. The County expects to satisfy these requirements as of June 30, 2013 using the same criteria.

Due to inflation and changes in technology, laws or regulations, estimated closure and post-closure care costs may change in the future.



REQUIRED SUPPLEMENTARY INFORMATION



# SOMERSET COUNTY, MARYLAND

## REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY COMPARISON SCHEDULE - GENERAL FUND Year Ended June 30, 2013

	Original/ Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>REVENUE</b>			
Taxes	\$ 21,079,925	\$ 21,475,105	\$ 395,180
Licenses and permits	141,800	144,326	2,526
Intergovernmental	8,979,188	7,785,144	(1,194,044)
Charges for services	1,586,700	1,544,522	(42,178)
Fines and forfeitures	20,000	7,892	(12,108)
Miscellaneous	169,400	124,560	(44,840)
Total revenue	31,977,013	31,081,549	(895,464)
<b>EXPENDITURES</b>			
General government	7,459,731	6,224,871	1,234,860
Public safety	7,066,105	7,180,372	(114,267)
Public works	2,933,277	2,694,147	239,130
Health	934,271	856,234	78,037
Social services	34,119	32,206	1,913
Education	10,137,249	9,644,734	492,515
Recreation and culture	1,380,106	952,905	427,201
Conservation of natural resources	101,576	101,609	(33)
Intergovernmental	265,425	260,444	4,981
Debt service	2,319,977	2,000,765	319,212
Total expenditures	32,631,836	29,948,287	2,683,549
Excess of revenue (under) over expenditures	(654,823)	1,133,262	1,788,085
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from long-term financing	803,000	432,365	(370,635)
Operating transfers, net	(3,303,842)	(2,157,136)	1,146,706
Fund balance appropriated	3,155,665	-	(3,155,665)
Total other financing sources (uses)	654,823	(1,724,771)	(2,379,594)
Net change in fund balance	\$ -	(591,509)	\$ (591,509)
Fund balance - beginning		14,299,388	
Fund balance - ending		\$ 13,707,879	





**SOMERSET COUNTY, MARYLAND**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE - SPECIAL REVENUE FUND  
BUDGETARY BASIS  
ROADS BOARD  
Year Ended June 30, 2013**

	Original/ Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>REVENUE</b>			
Taxes	\$ 256,148	\$ 250,463	\$ (5,685)
Intergovernmental			
Federal	1,455,278	157,378	(1,297,900)
State	181,129	163,129	(18,000)
Charges for services	592,645	577,517	(15,128)
Interest	5,000	527	(4,473)
Miscellaneous	7,500	10,289	2,789
<u>Total revenue</u>	<u>2,497,700</u>	<u>1,159,303</u>	<u>(1,338,397)</u>
<b>EXPENDITURES</b>			
Current	3,723,976	2,835,019	888,957
Capital outlay	1,935,900	150,344	1,785,556
<u>Total expenditures</u>	<u>5,659,876</u>	<u>2,985,363</u>	<u>2,674,513</u>
<u>(Deficiency) excess of revenue over expenditures</u>	<u>(3,162,176)</u>	<u>(1,826,060)</u>	<u>1,336,116</u>
<b>OTHER FINANCING SOURCES</b>			
Operating transfers, net	2,836,180	1,600,000	(1,236,180)
Fund balance appropriated	325,996	-	(325,996)
<u>Total other financing sources</u>	<u>3,162,176</u>	<u>1,600,000</u>	<u>(1,562,176)</u>
<u>Deficiency of revenue and other financing sources over expenditures</u>	<u>\$ -</u>	<u>\$ (226,060)</u>	<u>\$ (226,060)</u>



# SOMERSET COUNTY, MARYLAND

## REQUIRED SUPPLEMENTARY INFORMATION

### SCHEDULE OF FUNDING PROGRESS-OTHER POST EMPLOYMENT BENEFITS

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
<b>County</b>							
2013	July 2012	\$ -	\$ 11,872,984	\$ 11,872,984	0.00%	\$6,000,589	197.86%
2012	July 2010	-	10,482,385	10,482,385	0.00%	6,170,549	169.88%
2011	July 2010	-	10,482,385	10,482,385	0.00%	5,835,659	179.63%
<b>Board of Education</b>							
2013	July 2012	-	16,871,130	16,871,130	0.00%	19,689,000	85.69%
2012	July 2010	-	14,626,357	14,626,357	0.00%	23,924,473	61.14%
2011	July 2010	-	14,626,357	14,626,357	0.00%	24,086,998	60.72%
<b>Library</b>							
2013	July 2012	-	770,165	770,165	0.00%	393,920	195.51%
2012	July 2010	-	776,098	776,098	0.00%	368,244	210.76%
2011	July 2010	-	822,139	822,139	0.00%	368,762	222.95%

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

Years Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<b>County</b>			
2013	\$ 1,271,114	18.48%	\$ 5,039,020
2012	1,251,070	17.34%	4,002,841
2011	1,251,070	18.12%	2,968,735
<b>Board of Education</b>			
2013	1,326,783	49.19%	3,125,231
2012	1,370,523	57.37%	2,451,055
2011	1,370,523	46.77%	1,866,779
<b>Library</b>			
2013	69,848	33.67%	251,536
2012	77,207	29.93%	205,207
2011	83,131	27.67%	151,109



ADDITIONAL SUPPLEMENTARY INFORMATION



# SOMERSET COUNTY, MARYLAND

## REVENUE DETAIL BUDGET AND ACTUAL GENERAL FUND

Year Ended June 30, 2013

	Original/ Final Budget	Actual	Variance Positive (Negative)
<b>TAXES</b>			
Property	\$ 14,228,925	\$ 14,453,459	\$ 224,534
Penalties and interest	250,000	368,834	118,834
	14,478,925	14,822,293	343,368
Income tax	6,069,000	6,123,153	54,153
Other			
Admissions and amusements	24,000	16,292	(7,708)
Recordation	440,000	441,941	1,941
Bay Restoration fund fee	13,000	13,320	320
Assessments - room tax	55,000	58,106	3,106
	532,000	529,659	(2,341)
	21,079,925	21,475,105	395,180
<b>LICENSES AND PERMITS</b>			
Cable franchise fees	95,000	95,855	855
Alcoholic beverages	30,000	29,271	(729)
Traders	15,000	16,960	1,960
Other	1,800	2,240	440
	141,800	144,326	2,526
<b>INTERGOVERNMENTAL</b>			
Federal			
Transportation Program	200,000	200,000	-
Airport Program	147,603	58,187	(89,416)
FEMA grant	65,433	116,036	50,603
Civil defense/emergency services	188,314	249,033	60,719
Sheriff - Fingerprinting grant	-	16,938	16,938
Sheriff - Bar code system	-	4,600	4,600
Soil conservation planner	42,471	41,940	(531)
Somerset Senior Center Capital grant	600,000	321,925	(278,075)
State of Maryland			
Fire, rescue and ambulance	213,033	208,752	(4,281)
Disparity Grant	5,290,167	5,290,166	(1)
State's Attorney	106,000	136,519	30,519
Police protection	94,976	85,379	(9,597)
Waterways	290,773	207,825	(82,948)
Program Open Space	-	77,400	77,400
Technical and Community Services	56,000	31,915	(24,085)
Family Services	381,550	314,930	(66,620)
Airport	3,885	1,530	(2,355)
Tourism	19,839	17,899	(1,940)
Juror / Circuit Court Cost	30,000	35,078	5,078
Somerset Senior Center Capital grant	600,000	-	(600,000)
Library	300,000	-	(300,000)





# SOMERSET COUNTY, MARYLAND

## REVENUE DETAIL BUDGET AND ACTUAL GENERAL FUND

(Continued)

Year Ended June 30, 2013

	Original/ Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>INTERGOVERNMENTAL (continued)</b>			
State of Maryland (continued)			
Juvenile drug court	\$ 37,517	\$ 36,832	\$ (685)
Civil defense/emergency services	118,892	154,924	36,032
Sex Offender Program	7,793	6,000	(1,793)
City of Crisfield - airport grant	1,942	767	(1,175)
Tarsa grant	-	7,843	7,843
Health Department Cleaning grant	60,000	40,000	(20,000)
LEPC Grant	-	1,400	1,400
Local			
Payments in lieu of taxes	43,000	16,407	(26,593)
Crisfield Housing Authority	10,000	10,000	-
Somerset County Dispensary	70,000	94,919	24,919
	8,979,188	7,785,144	(1,194,044)
<b>CHARGES FOR SERVICES</b>			
General Government	253,800	240,263	(13,537)
Mosquito control	45,000	45,631	631
Landfill tipping and permit fees	1,287,900	1,258,628	(29,272)
	1,586,700	1,544,522	(42,178)
<b>FINES AND FORFEITURES</b>			
	20,000	7,892	(12,108)
<b>MISCELLANEOUS</b>			
Rents and concessions	33,500	33,834	334
Telephone concessions	28,000	23,765	(4,235)
Interest	100,000	8,970	(91,030)
Proceeds from sale of capital assets	-	7,550	7,550
Other	7,900	50,441	42,541
	169,400	124,560	(44,840)
<b>OTHER FINANCING SOURCES</b>			
Proceeds from debt financing	803,000	432,365	(370,635)
Fund balance appropriated	3,155,665	-	(3,155,665)
	3,958,665	432,365	(3,526,300)
<b>TOTAL REVENUE AND OTHER FINANCING SOURCES</b>			
	\$ 35,935,678	\$ 31,513,914	\$ (4,421,764)





# SOMERSET COUNTY, MARYLAND

## EXPENDITURE DETAIL BUDGET AND ACTUAL GENERAL FUND Year Ended June 30, 2013

	Original/ Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>GENERAL GOVERNMENT</b>			
<b>LEGISLATIVE</b>			
County Commissioners	\$ 60,561	\$ 60,680	\$ (119)
Clerk to County Commissioners	223,822	213,528	10,294
	284,383	274,208	10,175
<b>JUDICIAL</b>			
Truancy Court	223,755	194,914	28,841
Circuit Court	191,109	162,404	28,705
Juvenile Drug Court	37,517	36,796	721
Family Services	157,795	117,292	40,503
Orphans' Court	17,824	17,061	763
State's Attorney	908,946	891,828	17,118
Law Library	20,000	21,850	(1,850)
	1,556,946	1,442,145	114,801
<b>ELECTION</b>			
Board of Supervision of Elections	14,604	15,255	(651)
Registration and election	504,077	369,851	134,226
	518,681	385,106	133,575
<b>FINANCIAL ADMINISTRATION</b>			
Supervision	75,939	68,022	7,917
Tax collection and disbursement of funds	284,159	287,141	(2,982)
Internal auditing	117,243	107,832	9,411
Auditing and accounting	46,000	65,293	(19,293)
Licensing	20,135	19,505	630
	543,476	547,793	(4,317)
<b>LEGAL</b>			
	97,959	105,719	(7,760)
<b>PERSONNEL</b>			
	216,050	200,695	15,355
<b>PLANNING AND ZONING</b>			
	830,074	753,976	76,098

Salaries and Other Operating <u>Expenses</u>	Capital <u>Outlay</u>
\$ 60,680	\$ -
213,528	-
<hr/> 274,208	<hr/> -
194,914	-
162,404	-
36,796	-
117,292	-
17,061	-
891,828	-
21,850	-
<hr/> 1,442,145	<hr/> -
15,255	-
342,564	27,287
<hr/> 357,819	<hr/> 27,287
68,022	-
287,141	-
107,832	-
65,293	-
19,505	-
<hr/> 547,793	<hr/> -
105,719	-
<hr/> 195,390	<hr/> 5,305
753,976	-
<hr/>	<hr/>





**SOMERSET COUNTY, MARYLAND****EXPENDITURE DETAIL  
BUDGET AND ACTUAL  
GENERAL FUND  
(Continued)****Year Ended June 30, 2013**

	Original/ Final <u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
<b>GENERAL SERVICES</b>			
County building	\$ 2,269,820	\$ 1,380,538	\$ 889,282
Data processing	261,200	252,087	9,113
Tourism	316,008	291,297	24,711
	2,847,028	1,923,922	923,106
<b>MISCELLANEOUS</b>			
Information Technology	153,345	134,181	19,164
Financial ERP software	37,718	95,148	(57,430)
Community promotions	99,250	99,250	-
Public Officers Association	19,250	21,000	(1,750)
Health benefits retirees	148,571	156,186	(7,615)
Other general government	107,000	85,542	21,458
	565,134	591,307	(26,173)
<b>Total General Government</b>	<b>7,459,731</b>	<b>6,224,871</b>	<b>1,234,860</b>
<b>PUBLIC SAFETY</b>			
Sheriff	2,109,156	2,237,595	(128,439)
Ambulance and fire	920,933	916,152	4,781
Correction	2,532,149	2,469,580	62,569
Other protection			
911 communication	1,286,439	1,343,483	(57,044)
Animal protection	217,428	213,562	3,866
	7,066,105	7,180,372	(114,267)
<b>PUBLIC WORKS</b>			
Waste collection and disposal	1,683,516	1,792,606	(109,090)
Highway, streets and waterways	557,999	305,039	252,960
Transportation	691,762	596,502	95,260
	2,933,277	2,694,147	239,130
<b>HEALTH</b>	934,271	856,234	78,037
<b>SOCIAL SERVICES</b>	34,119	32,206	1,913
<b>EDUCATION</b>	10,137,249	9,644,734	492,515



Salaries and Other Operating <u>Expenses</u>	Capital <u>Outlay</u>
\$ 916,725	\$ 463,813
252,087	-
291,297	-
<hr/> 1,460,109	<hr/> 463,813
134,181	-
27,960	67,188
99,250	-
21,000	-
156,186	-
85,542	-
<hr/> 524,119	<hr/> 67,188
<hr/> 5,661,278	<hr/> 563,593
2,237,595	-
916,152	-
2,462,836	6,744
1,343,483	-
213,562	-
<hr/> 7,173,628	<hr/> 6,744
1,553,221	239,385
96,351	208,688
288,848	307,654
<hr/> 1,938,420	<hr/> 755,727
<hr/> 849,474	<hr/> 6,760
<hr/> 32,206	<hr/> -
<hr/> 9,452,521	<hr/> 192,213





**SOMERSET COUNTY, MARYLAND**

**EXPENDITURE DETAIL  
BUDGET AND ACTUAL  
GENERAL FUND**

**(Continued)**

**Year Ended June 30, 2013**

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>RECREATION AND CULTURE</b>	\$ 1,380,106	\$ 952,905	\$ 427,201
<b>CONSERVATION OF NATURAL RESOURCES</b>	101,576	101,609	(33)
<b>INTERGOVERNMENTAL</b>	265,425	260,444	-
<b>DEBT SERVICE</b>	2,319,977	2,000,765	319,212
<b>OTHER FINANCING USES</b>			
Operating transfers			
County Roads Department	2,836,180	1,600,000	1,236,180
Economic Development Commission	195,000	201,300	(6,300)
Golf Course - transfers	272,662	355,836	(83,174)
	3,303,842	2,157,136	1,146,706
<b>TOTAL EXPENDITURES AND OTHER FINANCING USES</b>	\$ 35,935,678	\$ 32,105,423	\$ 3,825,274

Salaries and Other Operating <u>Expenses</u>	Capital <u>Outlay</u>
\$ 765,705	\$ 187,200
101,609	-
260,444	-
2,000,765	-
1,600,000	-
201,300	-
355,836	-
2,157,136	-
\$ 30,393,186	\$ 1,712,237



# SOMERSET COUNTY, MARYLAND

## BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS SPECIAL REVENUE FUNDS

June 30, 2013

ASSETS					Commission on Aging - SSTAP	Special Loan Program	Rental Allowance Program	CDBG Programs	Total Nonmajor Governmental Funds
Cash and cash equivalents									
Receivables	\$	8,084	\$	46,397	\$	40,119	\$	-	\$ 94,600
Due from other governmental units		32,864		15,000		-		28,358	76,222
Total assets	\$	40,948	\$	61,397	\$	40,119	\$	28,358	\$ 170,822

### LIABILITIES AND FUND BALANCE

LIABILITIES									
Accounts payable and accrued expenses	\$	40,722	\$	12,000	\$	-	\$	-	\$ 52,722
Due to other governmental units		6,811		-		-		28,358	35,169
Deferred revenue		126		49,097		40,119		-	89,342
Total liabilities		47,659		61,097		40,119		28,358	177,233
FUND BALANCE									
Assigned		(6,711)		300		-		-	(6,411)
Total fund balance		(6,711)		300		-		-	(6,411)
Total liabilities and fund balance	\$	40,948	\$	61,397	\$	40,119	\$	28,358	\$ 170,822





**SOMERSET COUNTY, MARYLAND**

**STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS**

**Year Ended June 30, 2013**

	CDBG Programs	Rental Allowance Program	Special Loan Program	Commission on Aging - SSTAP	Total Nonmajor Governmental Funds
<b>REVENUE</b>					
Intergovernmental					
Federal	\$ 488,020	\$ -	\$ -	\$ -	488,020
State	-	33,810	306,442	117,447	457,699
Local	-	-	-	59,624	59,624
Miscellaneous	100	300	-	4,661	5,061
<b>Total revenue</b>	<b>488,120</b>	<b>34,110</b>	<b>306,442</b>	<b>181,732</b>	<b>1,010,404</b>
<b>EXPENDITURES</b>					
Current					
Social services	-	33,810	-	181,732	215,542
Economic and community development	494,831	-	306,442	-	801,273
<b>Total expenditures</b>	<b>494,831</b>	<b>33,810</b>	<b>306,442</b>	<b>181,732</b>	<b>1,016,815</b>
Excess (deficiency) of revenue over expenditures	(6,711)	300	-	-	(6,411)
Fund balances, beginning	-	-	-	-	-
Fund balances, ending	\$ (6,711)	\$ 300	\$ -	\$ -	\$ (6,411)



# SOMERSET COUNTY, MARYLAND

## GENERAL FUND - TAXES RECEIVABLE

June 30, 2013

(Unaudited)

	Tax Rate	Total Assessed Value of Taxable Property	Tax Levy	Collected		Balance June 30, 2013
				Amount	Percent	
REAL AND PERSONAL PROPERTY TAXES						
2000-2001 Levy	2.45	263,158,345	6,427,148	6,426,762	99.99	386
2001-2002 Levy	A	666,425,523	6,581,234	6,580,533	99.99	701
2002-2003 Levy	B	692,852,746	7,070,691	7,070,123	99.99	568
2003-2004 Levy	B	734,197,905	7,413,853	7,413,853	100.00	-
2004-2005 Levy	B	787,036,208	7,922,359	7,922,359	100.00	-
2005-2006 Levy	C	903,657,773	8,963,959	8,963,631	100.00	328
2006-2007 Levy	D	1,106,824,697	10,493,110	10,490,960	99.98	2,150
2007-2008 Levy	D	1,337,327,950	12,581,499	12,573,089	99.93	8,410
2008-2009 Levy	E	1,568,418,115	14,464,986	14,440,156	99.83	24,830
2009-2010 Levy	F	1,683,987,794	15,188,742	15,170,574	99.88	18,168
2010-2011 Levy	G	1,699,240,830	15,037,565	14,985,596	99.65	51,969
2011-2012 Levy	G	1,616,536,797	14,319,322	14,187,424	99.08	131,898
2012-2013 Levy	G	1,457,734,602	12,946,815	11,539,926	89.13	1,406,889
						1,646,297

## CORPORATE TAXES

2000-2001 Levy	2.45	66,651,000	1,609,994	1,605,679	99.73	4,315
2001-2002 Levy	A	67,000,140	1,618,012	1,617,129	99.95	883
2002-2003 Levy	B	68,632,290	1,586,645	1,586,130	99.97	515
2003-2004 Levy	B	66,109,090	1,501,437	1,497,406	99.73	4,031
2004-2005 Levy	B	58,704,930	1,490,057	1,487,357	99.82	2,700
2005-2006 Levy	C	59,295,350	1,486,284	1,475,293	99.26	10,991
2006-2007 Levy	D	64,167,890	1,520,906	1,490,692	98.01	30,214
2007-2008 Levy	D	65,157,950	1,511,292	1,465,693	96.98	45,599
2008-2009 Levy	E	67,770,460	1,538,019	1,528,246	99.36	9,773
2009-2010 Levy	F	59,364,950	1,541,422	1,540,464	99.94	958
2010-2011 Levy	G	67,314,350	1,486,601	1,424,988	95.86	61,613
2011-2012 Levy	G	68,712,250	1,521,566	1,514,014	99.50	7,552
2012-2013 Levy	G	66,886,140	1,477,682	1,405,611	95.12	72,071
						251,215
						1,897,512
2013-2014 Real, Personal, and Corporate Taxes						57,403
Less: Allowance for doubtful accounts						(16,715)
						\$ 1,938,200

A Real property - tax rate \$.98  
Personal property - tax rate \$2.45

E Real property - tax rate \$.92  
Personal property - tax rate \$2.30

B Real property - tax rate \$1.010  
Personal property - tax rate \$2.525

F Real property - tax rate \$.90  
Personal property - tax rate \$2.25

C Real property - tax rate \$.99  
Personal property - tax rate \$2.475

G Real property - tax rate \$.8837  
Personal property - tax rate \$2.20925

D Real property - tax rate \$.94  
Personal property - tax rate \$2.35





# SOMERSET COUNTY, MARYLAND

## GENERAL FUND - PROPERTY TAX LEVIES AND COLLECTIONS Years Ended June 30, 2013 (Unaudited)

<u>Fiscal Year Ended June 30,</u>	<u>County Tax Rate</u>	<u>Assessable Base</u>	<u>County Tax Levy</u>	<u>Collections</u>	<u>% of Levy Collected in Year of Levy</u>	<u>Delinquent Tax Collections</u>
2013	F	\$ 1,527,554,512	\$ 14,424,497	\$ 12,945,537	89.75	\$ 1,470,348
2012	F	1,685,249,047	15,843,761	14,008,327	88.42	781,885
2011	F	1,766,555,180	16,543,705	14,755,506	89.19	1,956,859
2010	E	1,743,352,744	16,533,458	14,463,621	87.48	1,672,784
2009	D	1,636,188,575	16,035,577	14,406,126	89.84	1,088,535
2008	C	1,402,485,900	14,124,631	12,880,576	91.19	1,164,433
2007	C	1,170,992,587	11,932,210	10,905,746	91.40	850,623
2006	B	962,953,123	10,438,625	9,530,897	91.30	782,731
2005	A	845,741,138	9,411,347	8,584,764	91.22	576,800
2004	A	800,306,995	9,120,407	8,232,003	90.26	528,519

A Real property - tax rate \$1.010  
Personal property - tax rate \$2.525

E Real property - tax rate \$.90  
Personal property - tax rate \$2.25

B Real property - tax rate \$.99  
Personal property - tax rate \$2.475

F Real property - tax rate \$.8837  
Personal property - tax rate \$2.209

C Real property - tax rate \$.94  
Personal property - tax rate \$2.350

D Real property - tax rate \$.92  
Personal property - tax rate \$2.30

<u>Total Tax Collections</u>	<u>Total Collections as a % of Current Levy</u>	<u>Tax Credits Allowed</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes as a % of Current Levy</u>
\$ 14,415,885	99.94	-	\$1,897,512	13.15
14,790,212	93.35	-	2,243,129	14.16
16,712,365	101.02	-	2,046,377	12.37
16,136,405	97.60	-	2,308,088	13.96
15,494,661	96.63	-	1,839,329	11.47
14,045,009	99.44	-	1,368,815	9.69
11,756,369	98.53	-	1,134,237	9.51
10,313,628	98.80	-	1,170,964	11.22
9,161,564	97.35	-	1,062,028	11.28
8,760,522	96.05	10,276	1,149,228	12.60





# SOMERSET COUNTY, MARYLAND

## GENERAL FUND - PROPERTY ASSESSED VALUES

June 30, 2013

(Unaudited)

Fiscal Year Ended <u>June 30,</u>	Assessed Values					
	Real Property		Personal Property			<u>Total</u>
	<u>Full Year</u>	<u>Partial Year</u>	<u>Locally Assessed</u>	<u>Ordinary Business Corporations</u>	<u>Railroads &amp; Public Utilities</u>	
2013	\$1,452,719,887	\$ 5,014,715	\$ 2,933,770	\$ 29,600,550	\$ 37,285,590	\$1,527,554,512
2012	1,611,332,127	2,156,870	3,047,800	32,754,490	35,957,760	1,685,249,047
2011	1,690,889,068	5,306,102	3,045,660	32,693,140	34,621,210	1,766,555,180
2010	1,678,787,893	2,099,401	3,100,500	32,393,030	26,971,920	1,743,352,744
2009	1,557,641,238	7,341,367	3,435,510	32,331,310	35,439,150	1,636,188,575
2008	1,328,129,762	7,599,868	1,598,320	29,997,770	35,160,180	1,402,485,900
2007	1,105,398,297	8,528,357	1,426,400	28,327,380	35,840,510	1,179,520,944
2006	887,831,254	14,152,899	1,673,620	25,857,140	33,438,210	962,953,123
2005	775,659,526	9,523,532	1,853,150	25,738,870	32,966,060	845,741,138
2004	727,328,548	3,382,047	3,487,310	31,780,060	34,329,030	800,306,995





**SOMERSET COUNTY, MARYLAND**

**GOVERNMENTAL FUND TYPES (REPORTING ENTITY)  
EXPENDITURES BY FUNCTION  
Ten Years Ended June 30, 2013  
(Unaudited)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
General government	\$ 6,224,871	\$ 6,196,467	\$ 7,703,494	\$ 7,254,288
Public safety	7,180,372	7,345,080	6,860,081	6,450,898
Public works	5,679,510	5,884,871	6,787,158	5,506,532
Health	856,234	936,925	787,669	867,709
Social services	247,748	262,132	263,668	266,251
Education	30,610,825	34,765,635	38,224,555	38,775,560
Recreation and culture	1,455,405	1,712,502	1,213,025	1,414,972
Conservation of natural resources	101,609	103,822	92,616	98,986
Economic and community development	1,009,956	605,428	1,111,777	613,964
Intergovernmental	260,444	261,513	16,425	16,425
Debt service	2,000,765	1,996,979	2,030,275	3,402,683
Miscellaneous	-	-	-	-
	<u>\$ 55,627,739</u>	<u>\$ 60,071,354</u>	<u>\$ 65,090,743</u>	<u>\$ 64,668,268</u>

<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$ 6,934,514	\$ 5,645,971	\$ 5,537,766	\$ 4,442,356	\$ 4,552,966	\$ 4,236,659
7,163,067	7,480,440	5,495,784	7,713,669	5,744,174	4,569,665
8,286,294	8,442,044	8,186,668	6,604,149	5,731,706	10,270,004
910,734	866,672	815,280	698,623	650,820	684,390
297,273	288,348	261,848	244,380	250,421	246,532
33,055,052	35,844,134	39,704,671	31,724,379	31,628,592	29,241,235
1,405,340	2,370,891	1,260,129	1,066,796	975,234	927,772
120,435	69,450	78,029	110,155	106,780	86,670
558,026	583,845	667,222	995,761	985,339	786,936
16,425	16,425	16,425	16,425	16,425	16,425
9,150,200	5,390,376	3,123,229	3,164,086	2,854,114	2,653,059
268,657	8,659	9,072	16,944	8,690	14,171
<u>\$ 68,166,017</u>	<u>\$ 67,007,255</u>	<u>\$ 65,156,123</u>	<u>\$ 56,797,723</u>	<u>\$ 53,505,261</u>	<u>\$ 53,733,518</u>



**SOMERSET COUNTY, MARYLAND**

**STATEMENT OF REVENUE AND EXPENSES**

**PROPRIETARY FUND TYPE**

**Years Ended June 30, 2013 and 2012**

	Primary Government Enterprise Fund Golf Course	
	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUE</b>		
Charges for services:		
Green fees	\$ 138,206	\$ 156,452
Cart fees	158,878	171,190
Driving range	12,716	12,487
Membership dues	93,986	85,976
Concessions	91,188	75,859
Miscellaneous	430	583
<b>Total operating revenue</b>	<b>495,404</b>	<b>502,547</b>
<b>OPERATING EXPENSES</b>		
Salaries and related taxes	465,838	463,030
Repairs and maintenance	42,379	61,230
Supplies	151,377	148,431
Utilities	50,735	53,036
Insurance	41,768	51,188
Depreciation and amortization	120,378	155,568
Other operating	85,125	96,310
<b>Total operating expenses</b>	<b>957,600</b>	<b>1,028,793</b>
<b>Net operating loss</b>	<b>(462,196)</b>	<b>(526,246)</b>
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Financial expense, net	(1,095)	44
Operating transfers, net	355,836	376,882
<b>Net non-operating revenue</b>	<b>354,741</b>	<b>376,926</b>
<b>Net loss</b>	<b>\$ (107,455)</b>	<b>\$ (149,320)</b>





OMB CIRCULAR A-133 SUPPLEMENTARY FINANCIAL INFORMATION



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Board of County Commissioners  
Somerset County, Maryland  
Princess Anne, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Somerset County, Maryland as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Somerset County, Maryland's basic financial statements and have issued our report thereon dated January 16, 2014. Our report was modified to include a reference to other auditors. Other auditors audited the financial statements of the Somerset County Sanitary District and the Liquor Control Board of Somerset County, as described in our report on Somerset County, Maryland's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Somerset County, Maryland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Somerset County, Maryland's internal control. Accordingly, we do not express an opinion on the effectiveness of the Somerset County, Maryland's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify



any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### Compliance and Other Matters

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

#### Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Salisbury, Maryland  
January 20, 2014



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133

The Board of County Commissioners  
Somerset County, Maryland  
Princess Anne, Maryland

Report on Compliance for Each Major Federal Program

We have audited Somerset County, Maryland's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Somerset County, Maryland's major federal programs for the year ended June 30, 2013. Somerset County, Maryland's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Somerset County, Maryland's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with audit standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Somerset County, Maryland's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Somerset County, Maryland's compliance.

Opinion on Each Major Federal Program

In our opinion, Somerset County, Maryland, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.





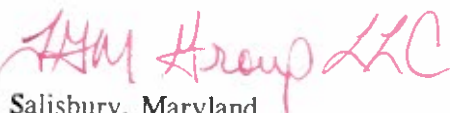
## Report on Internal Control Over Compliance

Management of Somerset County, Maryland is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Somerset County, Maryland's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Somerset County, Maryland's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected, on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

  
Salisbury, Maryland  
January 20, 2014



**SOMERSET COUNTY, MARYLAND**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2013**

<u>Description</u>	<u>Catalog of Federal Domestic Assistance Numbers</u>	<u>Passthrough Grantor's Numbers</u>	<u>Expenditures</u>
<b><u>Department of Housing and Urban Development</u></b>			
Passed through Maryland Department of Housing and Community Development:			
Housing Rehabilitation	14.218	MD-13-CD-21	\$ 207,145
Somerset Senior Center	14.228	MD-12-CD-33	321,925
Hurricane Housing Assistance	14.269	MD-13-CD-4	280,875
			809,945
<b><u>Department of Homeland Security</u></b>			
Passed through State Department of Housing and Community Development:			
Emergency Services Grant	97.067		249,033
Passed through State of Maryland Department of Emergency Management:			
FEMA	97.036		116,036
FEMA	97.036		157,378
			273,414
			522,447
<b><u>Department of Justice</u></b>			
Passed through the State of Maryland Governor's Office of Crime Control and Prevention:			
BJAG - Sheriff Bar Code System	16.738	BJAG-2009-1108	4,600
Sheriff's Finger Printing Grant	16.803	BJRA-2009-1190	16,938
			21,538
<b><u>Department of Agriculture, Natural Resources</u></b>			
<b><u>Conservation Service</u></b>			
Passed through the Maryland Department of Agriculture			
Soil Conservation	10.917		41,940
<b><u>Department of Transportation</u></b>			
Passed through the State Highway Administration			
Airport Improvement Program	20.106	3-24-0012-09	58,187
Passed through the Maryland Department of Human Resources			
Federal Transit - Formula Grants	20.507		200,000
			258,187
Total Expenditures of Federal Awards			\$1,654,057



SOMERSET COUNTY, MARYLAND

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2013

**Note 1. Basis of Accounting**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Somerset County, Maryland and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



## SOMERSET COUNTY, MARYLAND

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2013

#### A. Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of Somerset County, Maryland.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Somerset County, Maryland, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Somerset County, Maryland expresses an unmodified opinion on all major federal programs.
6. No audit findings relative to the major federal award programs for Somerset County, Maryland were disclosed during the audit.
7. The program tested as major programs include:  
  
Somerset Senior Center - CFDA #14.128  
Hurricane Housing Assistance - CFDA #14.269
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Somerset County, Maryland qualified as a low-risk auditee.

#### B. Findings - Financial Statement Audit

None

#### C. Findings and Questioned Costs - Major Federal Award Programs Audit

None

