

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

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

YEAR ENDED JUNE 30, 2012



Murphy & Murphy, CPA, LLC

The County Commissioners for St. Mary's County

June 30, 2012

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The County Commissioners for St. Mary's County

June 30, 2012

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Murphy & Murphy, CPA, LLC
Certified Public Accountants

Independent Auditor's Report

To the County Commissioners for St. Mary's County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's Commissioners for St. Mary's County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the St. Mary's County Public Schools, which represent 34%, 39% and 46%, respectively, of the assets, net assets, and revenues of the total reporting entity. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the St. Mary's County Public Schools, is based on the report of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedules of employer contributions and funding progress for the Sheriff's Office Retirement Plan and the Retiree Health Benefit Plan on pages 3 through 13 and 105 through 107, respectively, 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 and the other auditors 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County Commissioners for St. Mary's County, Maryland's financial statements as a whole. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, and information schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements, and the schedules on pages 110-118 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
November 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Financial Report of St. Mary's County, Maryland presents a narrative overview and analysis of the financial activities of St. Mary's County Government for the fiscal year ended June 30, 2012. We encourage readers to use the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets of St. Mary's County Government exceeded its liabilities at the close of the most recent fiscal year by \$254.5 million (*net assets*). Approximately \$17.1 million, or 6.7%, is attributable to the County's enterprise funds, which include business-type activities for Solid Waste and Recycling (SW&R), Recreation and Parks recreation activities, and the Wicomico Golf Course. Approximately 26% of the total net assets, or \$65.9 million (*unrestricted net assets*), may be used to meet ongoing obligations to citizens and creditors. Other components of the net assets are \$41.9 million of restricted net assets and approximately \$146.8 million of net investment in capital assets. The net investment in capital assets represents the capitalized assets, net of accumulated depreciation and outstanding debt.
- The Government's overall net asset position reflects an increase of \$14.9 million over the prior year.
- As of June 30, 2012, the County's governmental funds reported combined fund balances of \$93.8 million, an increase of \$13.5 million over the prior year. The general fund reflected an increase of \$13.5 million. The capital projects fund reflected a decrease of \$669,095, reflecting the use of funds collected in the prior years to pay for capital projects. The fund balance for the non-major funds increased \$641,831. The County's governmental fund balances at June 30, 2012 include \$31.5 million for capital projects, \$60 million in general funds, and \$2.3 million for the other non-major funds. The general fund balance of \$60 million includes: \$786,922 of inventory that is nonspendable as well as \$30.5 million which is committed to the following: almost \$8 million for the NextGen contract, \$11.9 million for the Bond Rating Reserve, and \$10,060,000 budgeted for use in the Approved FY2013 Budget. In addition, the general fund reflects assigned designations of approximately \$2.7 million which includes encumbrances and a Rainy Day Fund of \$1.625 million. The County's unassigned fund balance is approximately \$24.9 million, of which \$19.6 million reflects funds accumulated over the prior four years. During that time, the County, recognizing both the economic reality and the State's fiscal difficulties, chose to retain a fund balance as a measure of flexibility should revenues or State funding decline, or should the State shift costs to the County. In the intervening years, the State has reduced its allocations significantly as well as shifted significant costs to the County. During that same period, the County based its recurring expenditure budget using sustainable revenue levels, thus avoiding recurring cost commitments that could not be funded by recurring revenues. With the FY2013 budget, the State's actions with respect to County funding and cost shifts were identified. Though significant, the County expects to rely on its recurring revenues, balanced by continued cost control measures, to fund the reduced allocations and cost shifts. There remains uncertainty with respect to the federal budget situation, with the possibility that sequestration may disproportionately affect St. Mary's County, given the federal presence in the County. The County deems it prudent to stay the course with respect to basic government services, while maintaining reserves adequate to cushion against changes over which it has little influence. As a part of the FY2013 budget process, the County approved a plan for the use of fund balance that covers the next four years, and has adequate balances that can be used to mitigate the impact or at least allow the County to transition to the new levels, without undue and/or unnecessary disruption to citizen services. The non-major funds are special purpose funds that correspond to special assessments, the Emergency Services Support Fund, and a revolving loan fund set up to assist volunteer fire and rescue squads in their acquisition of capital assets. The special assessments fund reflects a deficit because expenditures are incurred by the County and then are reimbursed by various entities pursuant to written agreements over varying periods of time, which correspond to the underlying asset.
- The business-type operating activities reflect a net increase in net assets of \$1.3 million. Fee-based recreation activities posted an increase of \$140,187. This fund is an accumulation of a large number of recreation activities, and fees are adjusted so that the fund, over the long term, breaks even, with no significant net assets being

accumulated. Fee-based solid waste and recycling activities posted an increase of \$1 million, of which \$725,676 is the funding for the landfill extraction system capital project. Beginning with the FY2012 budget, the County's subsidy for this activity was set at \$1 million annually, with any changes in funding needed coming through expenditure adjustment or revenue enhancement. The Wicomico Golf Course reflects an increase of \$113,463, principally due to the refund of prior years' amusement taxes erroneously paid. The enterprise funds are reviewed for sustainability, as a part of the annual budget process.

- At June 30, 2012, the unassigned fund balance for the general fund (primary operating fund) was \$24.9 million, or 13.6% of general fund expenditures, excluding pass-throughs. Assigned fund balance of the general fund was \$3.8 million, or less than 1% of the general fund total fund balance.
- Governmental activities' total general obligation indebtedness, including general obligation bonds and Water Quality loans, decreased by \$8.4 million during the fiscal year ended June 30, 2012. The net change in General Obligation Bonds for capital projects included an increase of \$2.4 million due to the refunding of the 2002 and 2003 bonds. Payments on the debt totaled \$9.2 million. A reduction in the amount of \$350,000 was made, representing the revision of estimated post-closure costs of the landfill, and there was a net increase in the accrual for compensated absences of \$3,857.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to St. Mary's County Government's basic financial statements. St. Mary's County Government's basic financial statements comprise three components:

1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required and non-required supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of St. Mary's County Government that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of St. Mary's County Government include general government, public safety, public works, health, social services, economic development, agricultural land preservation and recreation and parks, community services, planning and zoning, and permits and inspections. The business-type activities of St. Mary's County Government in FY2012 include Wicomico Golf Course, Solid Waste and Recycling Activities and the Recreation Activities, including an indoor swimming pool.

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

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

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

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

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

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

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

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

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support St. Mary's County Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Fiduciary Funds are established for retiree benefit trusts, specifically the Sheriff's Office Retirement plan and the Retiree Benefit Trust of St. Mary's County, Maryland, which addresses the County's retiree health benefits. The basic fiduciary fund financial statements can be found on pages 24 to 27 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 28 to 104 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning St. Mary's County Government's progress in funding its obligations to retiree benefits. Required supplementary information can be found on pages 105 to 107 of this report. Other supplementary information can be found on pages 108 to 118.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's overall financial condition and position. In the case of St. Mary's County, assets exceeded liabilities by \$254.5 million at the close of the current fiscal year. St. Mary's County Government's net assets are divided into three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Approximately 57.7% of the County's net assets reflect its investment in capital assets net of depreciation (e.g., land and easements, buildings, machinery, equipment, infrastructure and improvements), less any outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent 16.4% of total net assets. Restricted net assets are resources that are subject to external restrictions on how they may be used. Unrestricted net assets of the government have a balance of \$65.9 million (25.9% of total net assets) which may be used to meet the government's ongoing obligations to citizens and creditors.

ST. MARY'S COUNTY GOVERNMENT'S NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
ASSETS						
Current Assets	\$141,230,389	\$138,177,584	\$ 1,968,164	\$ 1,422,436	\$143,198,553	\$139,600,020
Other Non-Current Assets	16,247,102	17,738,086	-	-	16,247,102	17,738,086
Capital Assets, net of accumulated depreciation	<u>224,245,584</u>	<u>224,459,873</u>	<u>17,247,860</u>	<u>16,782,374</u>	<u>241,493,444</u>	<u>241,242,247</u>
Total Assets	<u>\$381,723,075</u>	<u>\$380,375,543</u>	<u>\$19,216,024</u>	<u>\$18,204,810</u>	<u>\$400,939,099</u>	<u>\$398,580,353</u>
LIABILITIES						
Current Liabilities	\$ 31,821,529	\$ 35,067,206	\$ 764,944	\$ 907,481	\$ 32,586,473	\$ 35,974,687
Non-current Liabilities	<u>112,537,989</u>	<u>121,577,277</u>	<u>1,347,970</u>	<u>1,492,238</u>	<u>113,885,959</u>	<u>123,069,515</u>
Total Liabilities	<u>144,359,518</u>	<u>156,644,483</u>	<u>2,112,914</u>	<u>2,399,719</u>	<u>146,472,432</u>	<u>159,044,202</u>
NET ASSETS						
Invested in Capital Assets, net of related debt	129,966,153	122,092,297	16,791,147	15,456,973	146,757,300	137,549,270
Restricted	41,851,526	32,417,221	-	-	41,851,526	32,417,221
Unrestricted	<u>65,545,878</u>	<u>69,221,542</u>	<u>311,963</u>	<u>348,118</u>	<u>65,857,841</u>	<u>69,569,660</u>
Total Net Assets	<u>237,363,557</u>	<u>223,731,060</u>	<u>17,103,110</u>	<u>15,805,091</u>	<u>254,466,667</u>	<u>239,536,151</u>
Total Liabilities and Net Assets	<u>\$381,723,075</u>	<u>\$380,375,543</u>	<u>\$19,216,024</u>	<u>\$18,204,810</u>	<u>\$400,939,099</u>	<u>\$398,580,353</u>

At June 30, 2012, St. Mary's County Government reports positive balances in all three categories of net assets as a whole.

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

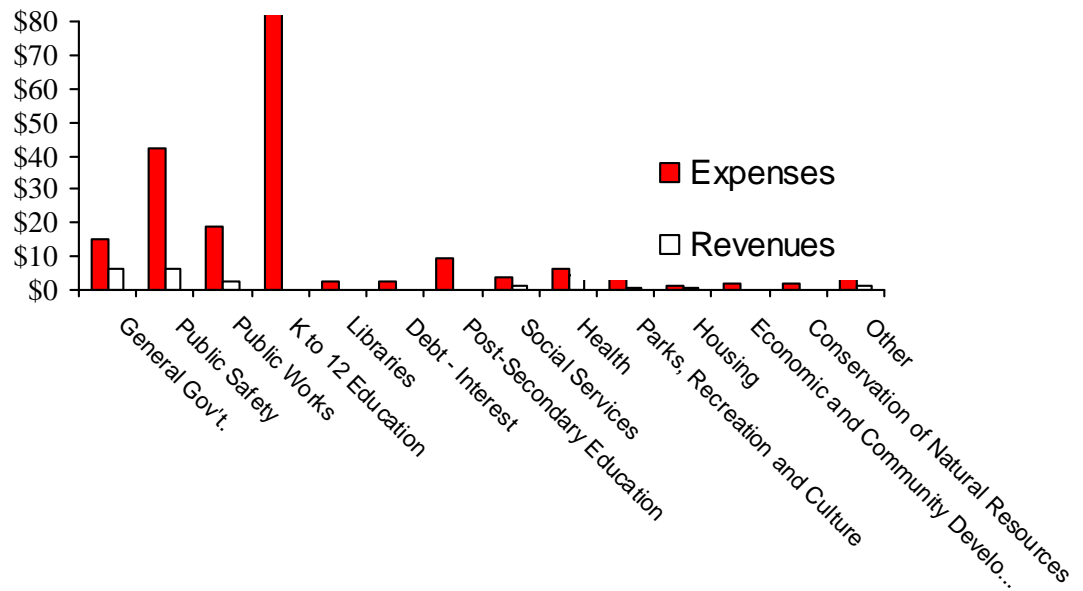
ST. MARY'S COUNTY GOVERNMENT'S CHANGES IN NET ASSETS
Years Ended June 30, 2012 and 2011

	<u>Governmental Activities</u>		<u>Business –Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Program Revenues:						
Charges for Services	\$ 9,394,212	\$ 8,521,987	\$ 3,945,221	\$ 3,874,086	\$ 13,339,433	\$ 12,396,073
Environment/Solid Waste Fees	-	-	2,334,540	2,301,720	2,334,540	2,301,720
Operating Grants and Contributions	13,880,813	12,586,681	33,003	34,633	13,913,816	12,621,314
Capital Grants and Dedicated Fees or Taxes	946,541	766,038	-	-	946,541	766,038
General Revenues:						
Property Taxes	100,051,274	99,665,820	-	-	100,051,274	99,665,820
Income Taxes	76,289,036	71,984,221	-	-	76,289,036	71,984,221
Other Taxes	12,747,631	12,972,066	-	-	12,747,631	12,972,066
Investment Earnings	38,019	93,833	682	2,074	38,701	95,907
Subsidies to Enterprise Funds	(1,000,000)	(1,433,272)	1,000,000	1,433,272	-	-
Roads Constructed by Third Parties	2,947,876	15,941,376	-	-	2,947,876	15,941,376
Capital Transfer	(725,676)	-	725,676	-	-	-
Miscellaneous, principally Capital Projects Funding	<u>5,012,863</u>	<u>1,960,248</u>	<u>148,536</u>	<u>-</u>	<u>5,161,399</u>	<u>1,960,248</u>
Total Revenues	<u>\$219,582,589</u>	<u>\$222,983,509</u>	<u>\$ 8,187,658</u>	<u>\$ 7,645,785</u>	<u>\$227,770,247</u>	<u>\$230,704,783</u>
Program Expenses:						
General Government	15,116,620	17,976,509	-	-	15,116,620	17,976,509
Public Safety	42,320,576	39,581,406	-	-	42,320,576	39,581,406
Public Works	18,895,688	14,696,656	3,451,951	3,562,906	22,347,639	18,259,562
Health	6,500,709	6,010,655	-	-	6,500,709	6,010,655
Social Services	3,973,080	4,369,211	-	-	3,973,080	4,369,211
Primary and Secondary Education	84,868,901	81,976,717	-	-	78,948,347	81,976,717
Post-Secondary Education	3,689,715	3,571,790	-	-	9,610,269	3,571,790
Parks, Recreation, and Culture	4,692,300	5,017,640	3,437,688	3,567,384	8,129,988	8,585,024
Housing	2,477,029	1,073,581	-	-	2,477,029	1,073,581
Libraries	1,752,592	2,475,994	-	-	1,752,592	2,475,994
Conservation of Natural Resources	946,677	1,635,410	-	-	946,677	1,635,410
Economic Development and Opportunity	1,823,623	2,179,987	-	-	1,823,623	2,179,987
Interest on Debt	2,720,218	2,366,806	-	-	2,720,218	2,442,295
Other, principally Retirees' Health	<u>6,747,331</u>	<u>5,123,093</u>	<u>-</u>	<u>-</u>	<u>6,747,331</u>	<u>5,123,093</u>
Total Expenses	<u>\$196,525,059</u>	<u>\$188,055,455</u>	<u>\$ 6,889,639</u>	<u>\$ 7,130,290</u>	<u>\$203,414,698</u>	<u>\$195,261,234</u>
Increase/(Decrease) in Net Assets	23,057,530	34,928,054	1,298,019	515,495	24,355,549	35,443,549
Net Assets - Beginning	223,731,060	188,803,006	15,805,091	15,289,596	239,536,151	204,092,602
Prior Period Adjustment	<u>(9,425,033)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,425,033)</u>	<u>-</u>
Net Assets - Ending	<u>\$237,363,557</u>	<u>\$223,731,060</u>	<u>\$17,103,110</u>	<u>\$15,805,091</u>	<u>\$254,466,667</u>	<u>\$239,536,151</u>

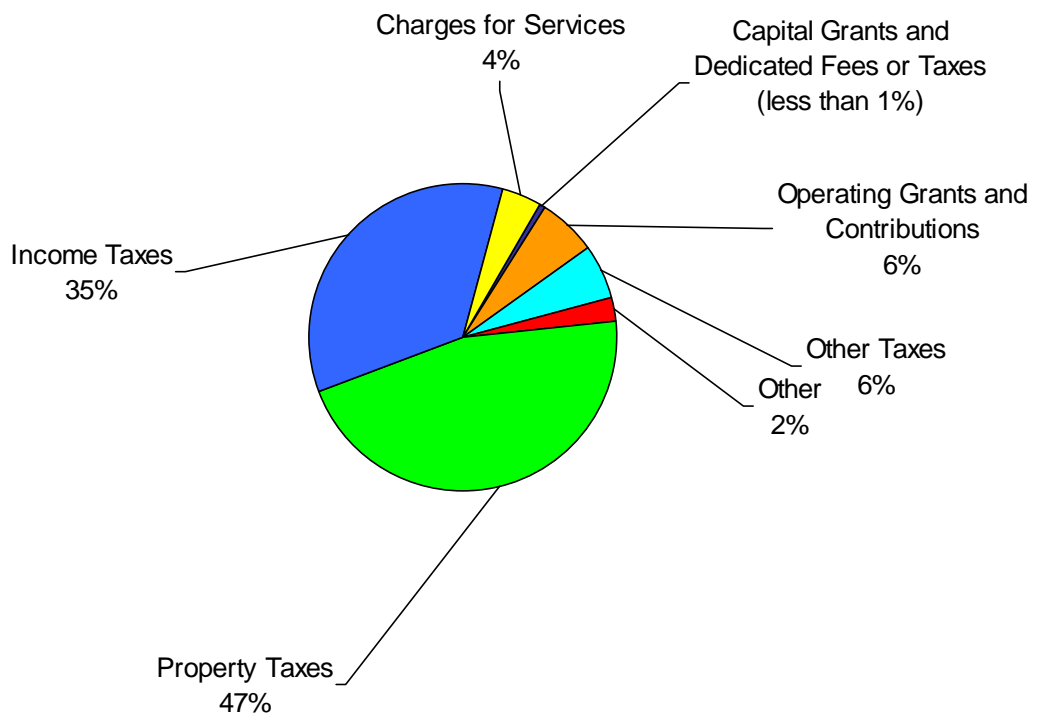
Governmental activities: Governmental activities reflected an increase in net assets of \$13.6 million. The governmental funds reflected a net increase of \$13.5 million.

Business-type activities: Business-type activities reflected an increase in net assets of \$1.3 million. Wicomico Golf Course, Recreation and Parks, and Solid Waste and Recycling fee-based activities all posted increases.

Expenses and Program Revenues – Governmental Activities (in millions)



Revenues By Source – Governmental Activities



Financial Analysis of the Government's Funds

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

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

As of June 30, 2012, St. Mary's County Government's governmental funds reported combined ending fund balances of \$93.8 million, an increase of \$13.5 million over the prior year. The Capital Projects fund accounts for \$31.5 million. Approximately \$32.6 million, or 34.8% of this total, constitutes *assigned and unassigned fund balances*, which are available for spending at the government's discretion. Of this \$32.6 million, the Board of County Commissioners has identified \$16.8 million to be applied in the FY2014 to FY2016 budgets for pay-go funding for capital projects as well as the pay-down of OPEB-related liabilities for both the County and the Board of Education. The OPEB funding would be in addition to the scheduled full funding of the annual actuarially-determined OPEB cost for the County. There remains the designation of \$1.625 million for the Rainy Day fund. The application of fund balance to the subsequent year's budget and these designations are discussed elsewhere in this section. Restricted and committed fund balances include \$27.2 million for capital projects, \$11.9 million for the Bond Rating Reserve, and the FY2013 budgeted items of \$7.5 million for pay-go funding of a capital project to address potential infrastructure needs related to federal facilities as well as a supplemental funding of \$3 million to pay-down OPEB liabilities. Nonspendable fund balance includes \$786,922 committed to liquidate inventories.

The general fund is the chief operating fund of St. Mary's County Government and is central to the budget process and management of current resources. At June 30, 2012, assigned and unassigned fund balances of the general fund were \$28.7 million. As a measure of the general fund's liquidity, it may be useful to compare both assigned and unassigned fund balances and total fund balance to total fund expenditures. Assigned and unassigned fund balances represent 15.7% of total general fund expenditures, excluding pass-throughs, while total fund balance represents 32.7% of that same amount.

In addressing the budget to actual variances, this section focuses generally on comparisons to the original approved budget. The "other supplementary information" on pages 110 through 116 reflects the original and revised budgets as well as the actual results in more detail. FY2012 actual results reflect a positive variance in revenues, before pass-throughs, of \$10.6 million. The income tax is the significant variance at \$10.8 million. The County adopted its FY2012 budget utilizing a 2% growth rate applied to FY2011 revenues that were 8% below budget at the time. Subsequently, with distributions from the State in June through November 2011, it became apparent that the growth rates for FY2011 as well as FY2012 could have been set at 5%. In addition to the impact of the lower growth rate, the FY2012 results include almost \$4.1 million related to the distribution by the State of unallocated revenues as well as interest, penalties, and fiduciary returns. The FY2013 budget for income tax revenue is based upon an annual growth rate of 5% applied to calendar/tax year 2010 results based on returns filed, to which the County added \$2.3 million related to the unallocated revenues, interest/penalties, and fiduciary returns. As the information on pages 110 through 116 shows, there are a variety of smaller offsetting variances; these were considered when developing the revenue budget for FY2013. The County will continue to monitor closely the developments in property and income taxes, as these are such a significant component of funding. Given the economy, it is likely that the rate of growth in property taxes will be minimal, due to the contraction of assessed values and the slower rate of growth. As for income taxes, the County will budget based on its specific taxable income statistics, as provided by the State, rather than the State's distributions, which are based on State-wide cash flow.

Expense variances fall into several categories. The FY2012 budget included \$2.5 million in operating costs for the NextGen implementation, which were not spent because the contract for the implementation could only be started in FY2013. There were debt service savings due to deferral of the vehicle replacement financing as well as the refunding that yielded \$.7 million, and \$2 million from refunds of health and risk insurance premiums. Unspent funds

in the Sheriff's budget were \$1.2 million, with the largest variances being position costs and fuel. County departments realized savings in fuel, utilities, and non-public student bus contracts of about \$900,000, combined, a reflection of estimated increased costs higher than actual. Estimates for FY2013 budget have been tightened. When Irene hit early in FY2012, the County authorized the use of \$3.3 million of fund balance to cover the unbudgeted cost, to be able to respond to citizen needs before knowing whether there would be a grant from FEMA. Subsequently, the County received \$2.3 million, compared to payments of \$2.5 million. These budget savings were utilized to provide funding supplemental to that already budgeted for the County's OPEB Trust (\$1.7 million), the Sheriff's Retirement Trust (\$805,000), transfer pay-go funding for capital projects, and in turn, reduce bonds needed (\$3.6 million). Using these savings to reduce the liabilities for retiree benefits and capital projects helps to reduce future annual outlays by about \$450,000.

While the County's financial situation is strong and sustainable, the County continues to take a very conservative approach – continuing to focus on expense reduction measures, both as a part of budget adoption, and also throughout the operational year. The use of selected budget savings to pay down liabilities instead of increasing recurring cost is a good indicator of the County's conservative approach. Savings are not re-aligned to spend on recurring costs that carry future funding commitments. Instead, the savings are used to pay down liabilities to reduce future annual costs, or allowed to accrue to fund balance to fund future non-recurring costs. This reflects the County's disciplined approach to budgeting, including adherence to budgeted activities, judicious review of supplemental budget requests, use of an encumbrance-based approach, continued focus on efficiency and effectiveness, and prudent fiscal management at all levels.

Recurring expenses must be supported by recurring revenues in order to be sustainable. Historically, the County's philosophy is to build a budget based on sustainable levels of revenues, and use any excess generated in one year to fund non-recurring items in a subsequent budget. As indicated previously, the County has retained significant fund balance to position it to be able to address the uncertain future caused by the economy, especially as it relates to State and Federal funding. The fund balance position is re-assessed as a part of the annual budget process. As a part of the FY2013 budget, the County Commissioners approved a fund balance plan that utilizes funds not needed for operating reserves for transfers to retiree benefit trusts and pay-go for capital over the next several years. Higher reserves at this time will enable us to soften the impact of further cuts or cost shifts, allowing some additional time to implement longer term-cost reduction measures, as might be appropriate. With the low property tax rate and an income tax rate that is less than the maximum allowed by the State, the County has maintained ample capacity for revenue enhancement should future needs arise, and the circumstances warrant it.

The fund balance of St. Mary's County Government's general fund increased by \$13.5 million during the fiscal year ended June 30, 2012. The single largest component of this was the income tax variance. The other variances are discussed previously and could generally be described as savings generated by continued belt-tightening efforts.

The capital projects fund has a total fund balance of \$31.5 million. This balance reflects the accumulated unspent balances of impact fees, recordation taxes, transfer taxes, and pay-go, which has been appropriated for specific projects, but remains unspent as of June 30, 2012. These funds have been budgeted, and the capital projects are in progress.

Proprietary funds: St. Mary's County Government's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, the Wicomico Golf Course Fund reflected unrestricted net assets of \$108,999. The Recreation Activities Fund reflected unrestricted net assets of \$217,327, and the unrestricted net assets of the Solid Waste and Recycling Fund reflected \$711,313. On a combined basis, there was a \$689,521 increase in unrestricted net assets. Factors concerning these funds' finances are addressed in the discussion of St. Mary's County Government's business-type activities.

General Fund Budgetary Highlights

The final budget for the General fund was approximately \$3.4 million more than the original budget. The supplemental appropriation of \$3.3 million, to address the costs associated with Irene is the principal component. There were also changes in grants, including several that had been budgeted and not received.

Capital Asset and Debt Administration

- Capital assets:** St. Mary's County Government's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$241 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure and land development rights. The net increase in St. Mary's County Government's investment in capital assets for the fiscal year ended June 30, 2012 was \$251,197. It should be noted that the capital asset balances include the County's infrastructure (i.e., roads), as the County has fully implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 31,772,335	\$ 31,631,509	\$ 1,078,666	\$ 1,078,666	\$ 32,851,001	\$ 32,710,175
Building and Improvements	60,841,646	61,115,471	2,904,072	2,986,800	63,745,718	64,102,271
Facilities Under Construction	6,380,721	7,112,555	-	-	6,380,721	7,112,555
Solid Waste Facilities	-	-	12,248,547	11,522,871	12,248,547	11,522,871
Infrastructure	115,097,289	113,852,409	214,390	231,084	115,311,679	114,166,472
Vehicles	2,438,116	3,048,843	780,147	935,476	3,218,263	3,984,319
Equipment	<u>7,715,477</u>	<u>7,699,086</u>	<u>22,038</u>	<u>27,477</u>	<u>7,737,515</u>	<u>7,643,584</u>
	<u>\$224,245,584</u>	<u>\$224,459,873</u>	<u>\$17,247,860</u>	<u>\$16,782,374</u>	<u>\$241,493,444</u>	<u>\$241,242,247</u>

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

- Approximately \$6.2 million in roads costs were capitalized, including \$3 million in roads developed/constructed by third parties.
- Chancellor's Run Activity Center was re-built and renovated, a net increase to the asset cost of \$950,000.
- A new landfill extraction system at St. Andrews Area D was capitalized in FY2012, at approximately \$660,000.

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

Long-term debt: At June 30, 2012, St. Mary's County Government had the following total general obligation bonded debt, and other similar obligations outstanding, as set forth in the table below. The full faith and credit and unlimited taxing power of the County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the bonds.

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

Primary Government

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Amounts due within one year</u>
General Obligation Bonds(GOB) – County	\$ 96,770,000	\$ 91,422,000	\$ 7,537,000
Less: Amount Deferred on Refunding	(2,153,430)	(3,032,000)	(202,460)
Water Quality Loan	3,580,310	3,035,094	554,304
State Loans	2,075,527	1,910,639	121,500
Surplus Property Transfer of Debt	99,343	47,366	46,159
Exempt Financing (Equipment & Vehicles)	<u>1,045,826</u>	<u>296,332</u>	<u>296,332</u>
	<u>\$ 101,417,576</u>	<u>\$ 93,679,431</u>	<u>\$ 8,352,835</u>
GOB sold on behalf of St. Mary's Hospital	<u>\$ 14,985,000</u>	<u>\$ 14,030,000</u>	<u>\$ 14,030,000</u>

Business-Type Activities

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>Amounts due within one year</u>
Exempt Financing (Equipment)	<u>\$ 1,325,399</u>	<u>\$ 1,182,389</u>	<u>\$ 89,065</u>

St. Mary's County Government's total general obligation bonded debt decreased by a net \$7.8 million, principally due to principal payments, State loans for capital projects, and adjustments of accruals for compensated absences. Repayments include \$955,000 for the Hospital loans; the Hospital fully reimburses the County for costs and debt service payments related thereto; the debt service is not funded by general funds of the County.

St. Mary's County Government has an AA+ rating from Fitch Ratings, an "AA" from Standard and Poors and an "Aa2" rating from Moody's Investors Service, Inc. Rating reviews issued by the agencies have typically cited the County's low debt burden with rapid amortization, careful management of the capital program, healthy reserves, budget flexibility, a stable economy, and prudent fiscal policies. The County's debt policy, adopted by the Board, provides that the ratio of debt to assessed value not exceed 2%, and debt service as a percent of current general fund revenue not exceed 10%. The County is well within these parameters, and monitors capital budgets and 5-year plans to ensure it remains within the limitations.

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

Economic Factors and Next Year's Budgets and Rates

- The FY2013 budget is \$201.1 million. The property tax income is based on information provided by the State as to estimated taxable assessed value of \$11.5 billion, a small increase over the prior year's estimate of \$11.4 billion. The impact of triennial assessments that show declines on average of almost 20% in the full value are somewhat mitigated by the County's cap of 5%, because the drastic increase in the assessed values of the prior year weren't fully incorporated into the revenues. However, this trend is expected to have a dampening effect on the future years' estimates of property tax income, especially when combined with slower growth. Initial billings for FY2013 are comparable to the estimates. The income taxes were budgeted at \$76 million. While this represents an increase of 16% over the FY2012 budget, it approximates the actual cash distributions made by the State for FY2012. Preliminary indications, based on the first of the four large distributions made by the State, indicate that budget will be met.
- Though the County may be impacted by the general and State economic situation, the activities and operations of the Patuxent Naval Air Base thus far have had a stabilizing effect. The number of jobs and related services are relatively stable, and the number and diversity of technology companies increases each year. This stability, and even modest growth for Base-related jobs, is projected to continue. However, given the federal budget situation, sequestration, etc. the County will monitor closely both the impact of budget cuts generally but also as

they affect the local installation and related businesses. It is likely that the specific impact will not be known until sometime during 2013. This is a significant reason for the County fund balance to be retained and cost containment efforts to continue, to position the County to deal with the outcome.

- The population growth for the County continues to be one of the highest in the State.
- The County ranks at or near the top in the State for growth in the labor force, average weekly wages, and median household income. We consistently post unemployment rates that are well below State averages. These factors indicate a solid and stable economy.
- Tourism continues to grow and diversify, with increases in the number of visitors and hotel rooms. This reflects promotion of the County's assets through the Welcome Center and media campaigns such as Maryland's 375th. The County's accommodations tax continues to reflect strong growth.
- Development is proceeding, helping to diversify the County's tax base.

Each budget cycle includes reviews of both the operating and capital spending plans for sustainability and affordability. The County's debt policy is conservative and is a significant consideration in budget deliberations. The County has used its fund balance in the previous years to pay for capital projects, rather than borrow, and also to pay down its unfunded accrued liability for retiree health obligations. The County has funded the full required actuarially determined annual contribution for OPEB annually since FY2008 out of recurring revenues. Additionally, the County has used operating budget savings to make supplemental contributions to the OPEB Trust and to increase its pay-go funding of capital projects and reduce the debt needed. Each of these actions served to reduce future annual expenditures. As indicated in the development of the fund balance plan in May 2012, it is expected that during the FY2014 and FY2015 budget cycles, as the economic picture, including the State and Federal budget, becomes clearer, the County will again address the levels of fund balance and reserves, with the intent to apply fund balance to non-recurring items such as pay-go financing or supplemental contributions to OPEB, both of which reduce future annual costs.

The Board intends to continue its use of multi-year outlooks and sustainability reviews as a part of the budget process, accompanied by interim reviews of selected revenues and expenditures. It is expected that cost-saving measures will continue, and that savings will be used to reduce future costs. County Departments (which does not include Law Enforcement or Corrections) staffing in the FY2013 budget is at 1999 levels, achieved through use of technology as well as operational stream-lining and privatization. These reviews are not focused simply on the operating budget, but include the review of capital projects that can often have significant operational impacts beyond the debt service needed to repay any related borrowings. Given the State and Federal budget situation and the economy, the Board recognizes that its plan must be scalable to accommodate the economic conditions of the near term. With conservative financial practices, continued focus on cost-saving measures during regular financial reviews, and tight expenditure controls, the County retains the flexibility and capacity to manage through these challenging times. Tax rates for FY2013 remained unchanged, and property tax rates are among the lowest in the State. The County retains tax flexibility and capacity for the future, even given the potential declines in the full value assessments. However, it is the goal to manage our way through these tough times through a variety of measures, a balanced approach that considers the needs and priorities of our citizens. The continued focus will be to assure that adequate and sustainable resources are identified to address prioritized needs – both capital and operating – now and for the future.

Requests for Information

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
ASSETS							
Cash and cash equivalents	\$ 93,639,182	\$ 184,175	\$ 93,823,357	\$ 23,793,843	\$ 731,797	\$ 9,191,395	\$ -
Internal balances	(1,496,517)	1,496,517	-	-	-	-	-
Restricted cash and investments	-	-	-	81,837	158,790	-	2,078,985
Taxes receivable	3,270,095	-	3,270,095	-	-	-	-
Income tax reserve, funds held by the State	9,666,086	-	9,666,086	-	-	-	-
Due from other governments	-	-	-	4,587,240	-	-	198,154
Notes receivable, Fire and Rescue loans	333,023	-	333,023	-	-	-	-
Accounts receivable	16,814,392	242,816	17,057,208	3,150,062	99,379	2,065,066	62,562
Inventory	786,922	37,633	824,555	237,971	-	260,355	-
Prepaid, post-retirement benefit (OPEB)	17,848,485	-	17,848,485	-	137,442	283,984	-
Other, principally prepaid expenses	368,721	7,023	375,744	48,883	-	37,608	-
Mortgages receivable from St. Mary's Hospital	14,030,000	-	14,030,000	-	-	-	-
Deferred and unamortized bond issuance costs	-	-	-	-	-	613,681	115,898
Fire and Rescue loans receivable, net of short-term portion	1,166,260	-	1,166,260	-	-	-	-
Special tax assessments receivable, net of short-term portion	1,050,842	-	1,050,842	-	-	-	-
Capital assets	363,983,593	21,652,773	385,636,366	350,658,486	4,970,437	149,756,709	8,686,544
Accumulated depreciation	(139,738,009)	(4,404,913)	(144,142,922)	(113,373,454)	(3,591,986)	(46,296,903)	(4,861,665)
Capital assets, net of accumulated depreciation	<u>224,245,584</u>	<u>17,247,860</u>	<u>241,493,444</u>	<u>237,285,032</u>	<u>1,378,451</u>	<u>103,459,806</u>	<u>3,824,879</u>
Total Assets	\$ <u>381,723,075</u>	\$ <u>19,216,024</u>	\$ <u>400,939,099</u>	\$ <u>269,184,868</u>	\$ <u>2,505,859</u>	\$ <u>115,911,895</u>	\$ <u>6,280,478</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2012

	Primary Government			Component Units			
	Governmental Activities	Business-Type Activities	Total	Public Schools	Library	Metropolitan Commission	Building Authority
LIABILITIES							
<u>Current liabilities</u>							
Accounts payable	\$ 7,695,564	\$ 275,893	\$ 7,971,457	\$ 4,800,678	\$ 135,778	\$ 850,952	\$ -
Compensation-related liabilities	6,951,592	277,147	7,228,739	14,864,425	82,037	-	-
Deferred income tax distribution	9,666,086	-	9,666,086	-	-	-	-
Deferred revenue	2,733,683	197,424	2,931,107	1,432,938	8,494	81,043	-
Other liabilities	4,576,450	14,480	4,590,930	-	-	970,381	31,567
Due to other governments	198,154	-	198,154	258,320	-	-	-
<u>Non-current liabilities</u>							
Due within one year	22,404,041	89,065	22,493,106	555,935	-	2,269,532	1,295,000
Due in more than one year	90,133,948	1,258,905	91,392,853	28,614,067	107,472	25,058,625	1,430,000
Total Liabilities	144,359,518	2,112,914	146,472,432	50,526,363	333,781	29,230,533	2,756,567
NET ASSETS							
Invested in capital assets, net of related debt	129,966,153	16,791,147	146,757,300	237,285,032	1,378,451	76,131,649	1,099,877
Restricted	41,851,526	-	41,851,526	79,776	103,552	5,317,660	2,277,139
Unrestricted	65,545,878	311,963	65,857,841	(18,706,303)	690,075	5,232,053	146,895
Total Net Assets	237,363,557	17,103,110	254,466,667	218,658,505	2,172,078	86,681,362	3,523,911
Total Liabilities and Net Assets	\$ 381,723,075	\$ 19,216,024	\$ 400,939,099	\$ 269,184,868	\$ 2,505,859	\$ 115,911,895	\$ 6,280,478

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions / Programs	Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Dedicated Fees or Taxes	Total Revenues
General Government	\$ 15,116,620	\$ 5,014,363	\$ 1,315,339	\$ -	\$ 6,329,702
Public Safety	42,320,576	1,387,991	5,000,459	-	6,388,450
Public Works	18,895,688	844,639	1,570,753	-	2,415,392
Health	6,500,709	-	4,696,808	-	4,696,808
Social Services	3,973,080	7,493	1,054,720	-	1,062,213
Primary and Secondary Education	84,868,901	-	-	-	-
Post -Secondary Education	3,689,715	-	-	-	-
Parks, Recreation, and Culture	4,692,300	224,008	35,740	216,497	476,245
Libraries	2,477,029	-	-	-	-
Conservation of Natural Resources	1,752,592	-	-	613,202	613,202
Housing	946,677	941,888	-	-	941,888
Economic Development and Opportunity	1,823,623	73,650	206,994	-	280,644
Debt Interest	2,720,218	-	-	-	-
Other, principally OPEB	6,747,331	900,180	-	116,842	1,017,022
TOTAL GOVERNMENTAL ACTIVITIES	196,525,059	9,394,212	13,880,813	946,541	24,221,566
Business - Type Activities					
Recreation Activity	2,035,444	2,142,628	33,003	-	2,175,631
Wicomico	1,402,244	1,366,489	-	-	1,366,489
Solid Waste/Recycling	3,451,951	2,770,644	-	-	2,770,644
TOTAL BUSINESS-TYPE ACTIVITIES	6,889,639	6,279,761	33,003	-	6,312,764
TOTAL PRIMARY GOVERNMENT	203,414,698	15,673,973	13,913,816	946,541	30,534,330
Component Units:					
Public Schools	225,683,591	3,610,592	38,578,997	8,349,934	50,539,523
Library	3,391,861	303,882	847,140	-	1,151,022
MetCom	15,491,760	16,885,854	-	-	16,885,854
Building Authority	405,957	740,421	-	-	740,421
	<u>244,973,169</u>	<u>21,540,749</u>	<u>39,426,137</u>	<u>8,349,934</u>	<u>69,316,820</u>

General Revenues:

Property Taxes
Income Taxes
Other - including energy, recordation and transfer taxes
Investment Earnings
Grants and Contributions Not Restricted to Specific Purposes
Subsidies to enterprise funds
Roads constructed by third parties
Capital transfer
Miscellaneous, principally capital projects funding
Total General Revenues

Increase/(Decrease) in Net Assets

Net Assets - Beginning
Prior Period Adjustment
Net Assets - Ending

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units			
Governmental Activities	Business-Type Activities	Total	Public Schools	Library	MetCom	Building Authority
\$ (8,786,918)	\$ -	\$ (8,786,918)	\$ -	\$ -	\$ -	\$ -
(35,932,126)	-	(35,932,126)	-	-	-	-
(16,480,296)	-	(16,480,296)	-	-	-	-
(1,803,901)	-	(1,803,901)	-	-	-	-
(2,910,867)	-	(2,910,867)	-	-	-	-
(84,868,901)	-	(84,868,901)	-	-	-	-
(3,689,715)	-	(3,689,715)	-	-	-	-
(4,216,055)	-	(4,216,055)	-	-	-	-
(2,477,029)	-	(2,477,029)	-	-	-	-
(1,139,390)	-	(1,139,390)	-	-	-	-
(4,789)	-	(4,789)	-	-	-	-
(1,542,979)	-	(1,542,979)	-	-	-	-
(2,720,218)	-	(2,720,218)	-	-	-	-
(5,730,309)	-	(5,730,309)	-	-	-	-
<u>(172,303,493)</u>	<u>-</u>	<u>(172,303,493)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	140,187	140,187	-	-	-	-
-	(35,755)	(35,755)	-	-	-	-
<u>-</u>	<u>(681,307)</u>	<u>(681,307)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>(576,875)</u>	<u>(576,875)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(172,303,493)</u>	<u>(576,875)</u>	<u>(172,880,368)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	(175,144,068)	-	-	-
-	-	-	-	(2,240,839)	-	-
-	-	-	-	-	1,394,094	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>334,464</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(175,144,068)</u>	<u>(2,240,839)</u>	<u>1,394,094</u>	<u>334,464</u>
100,051,274	-	100,051,274	-	-	-	-
76,289,036	-	76,289,036	-	-	-	-
12,747,631	148,536	12,896,167	-	-	-	-
38,019	682	38,701	8,158	7,167	34,955	22,824
-	-	-	160,301,664	2,281,038	-	-
(1,000,000)	1,000,000	-	-	-	-	-
2,947,876	-	2,947,876	-	-	-	-
(725,676)	725,676	-	-	-	-	-
<u>5,012,863</u>	<u>-</u>	<u>5,012,863</u>	<u>3,773,541</u>	<u>5,504</u>	<u>3,291,473</u>	<u>-</u>
<u>195,361,023</u>	<u>1,874,894</u>	<u>197,235,917</u>	<u>164,083,363</u>	<u>2,293,709</u>	<u>3,326,428</u>	<u>22,824</u>
23,057,530	1,298,019	24,355,549	(11,060,705)	52,870	4,720,522	357,288
223,731,060	15,805,091	239,536,151	229,719,210	2,119,208	81,960,840	3,166,623
(9,425,033)	-	(9,425,033)	-	-	-	-
<u>\$ 237,363,557</u>	<u>\$ 17,103,110</u>	<u>\$ 254,466,667</u>	<u>\$ 218,658,505</u>	<u>\$ 2,172,078</u>	<u>\$ 86,681,362</u>	<u>\$ 3,523,911</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

	General Fund	Capital Projects	Non-Major	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 93,639,182	\$ -	\$ -	\$ 93,639,182
Due from other funds	-	31,716,786	2,501,281	34,218,067
Taxes receivable	3,179,771	-	89,146	3,268,917
Income tax reserve, funds held by the State	9,666,086	-	-	9,666,086
Special tax assessments receivable	-	-	1,178	1,178
Notes receivable, Fire and Rescue loans	-	-	333,023	333,023
Accounts receivable	15,605,041	1,209,351	-	16,814,392
Inventory	786,922	-	-	786,922
Other	368,721	-	-	368,721
Fire and Rescue loans receivable, net of short-term portion	-	-	1,166,260	1,166,260
Special tax assessments receivable, net of short-term portion	-	-	1,050,842	1,050,842
Total Assets	\$ 123,245,723	\$ 32,926,137	\$ 5,141,730	\$ 161,313,590
LIABILITIES				
Accounts payable	\$ 6,206,295	\$ 1,471,954	\$ 26,163	\$ 7,704,412
Compensation-related liabilities	6,951,592	-	-	6,951,592
Deferred income tax distribution	9,666,086	-	-	9,666,086
Deferred revenue	177,061	4,964	2,551,658	2,733,683
Other liabilities	4,567,602	-	-	4,567,602
Due to other funds	35,430,686	-	283,898	35,714,584
Due to other governments	198,154	-	-	198,154
Total Liabilities	63,197,476	1,476,918	2,861,719	67,536,113
FUND BALANCES				
Nonspendable	786,922	-	-	786,922
Restricted	77,454	27,148,521	-	27,225,975
Committed	30,466,705	66,365	2,566,977	33,100,047
Assigned	3,819,813	4,234,333	(286,966)	7,767,180
Unassigned	24,897,353	-	-	24,897,353
Total Fund Balances	60,048,247	31,449,219	2,280,011	93,777,477
Total Liabilities and Fund Balances	\$ 123,245,723	\$ 32,926,137	\$ 5,141,730	\$ 161,313,590

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Non-Major</u>	<u>Total</u>
REVENUES				
Property Taxes	\$ 100,043,223	\$ -	\$ -	\$ 100,043,223
Income Taxes	76,289,036	-	-	76,289,036
Energy Taxes	1,174,826	-	-	1,174,826
Recordation Taxes	4,286,638	-	-	4,286,638
Transfer Taxes	-	4,151,361	-	4,151,361
Agricultural/Development Taxes	-	416,688	-	416,688
Impact Fees	-	3,120,830	-	3,120,830
Other Local Taxes	1,234,524	-	-	1,234,524
Highway User Revenues	372,661	-	-	372,661
Licenses and Permits	1,498,956	-	-	1,498,956
Intergovernmental	12,421,869	1,234,702	431,529	14,088,100
Charges for Services	4,955,917	-	-	4,955,917
Fines and Forfeitures	185,070	-	-	185,070
Special Assessments	-	-	172,492	172,492
Other Revenues	202,216	260,027	1,983,437	2,445,680
Sub-total	<u>202,664,936</u>	<u>9,183,608</u>	<u>2,587,458</u>	<u>214,436,002</u>
Pass-Throughs	136,859	-	-	136,859
TOTAL GENERAL FUND REVENUES	<u>202,801,795</u>	<u>9,183,608</u>	<u>2,587,458</u>	<u>214,572,861</u>
EXPENDITURES				
General Government	19,234,482	2,542,642	-	21,777,124
Public Safety	36,536,138	-	1,823,112	38,359,250
Public Works	7,743,653	3,983,139	-	11,726,792
Health	6,374,143	-	-	6,374,143
Social Services	3,903,105	-	-	3,903,105
Primary and Secondary Education	78,938,358	5,920,554	-	84,858,912
Post -Secondary Education	3,647,430	-	-	3,647,430
Parks, Recreation, and Culture	3,489,742	344,696	-	3,834,438
Libraries	2,281,038	-	-	2,281,038
Conservation of Natural Resources	372,923	1,379,669	-	1,752,592
Housing	946,677	-	-	946,677
Economic Development and Opportunity	1,547,966	-	-	1,547,966
Debt Service - Principal and Interest	11,619,482	163,948	207,515	11,990,945
Other	6,747,317	-	-	6,747,317
Sub-total	<u>183,382,454</u>	<u>14,334,648</u>	<u>2,030,627</u>	<u>199,747,729</u>
Pass-Throughs	136,859	-	-	136,859
TOTAL GENERAL FUND EXPENDITURES	<u>183,519,313</u>	<u>14,334,648</u>	<u>2,030,627</u>	<u>199,884,588</u>
Excess of Revenues Over (Under) Expenditures	<u>19,282,482</u>	<u>(5,151,040)</u>	<u>556,831</u>	<u>14,688,273</u>
OTHER FINANCING SOURCES AND USES				
Exempt financing proceeds	-	165,588	-	165,588
State Loans	-	383,484	-	383,484
Subsidies to Enterprise Funds	(1,000,000)	-	-	(1,000,000)
Subsidy to Emergency Radio Communications	(85,000)	-	85,000	-
Construction in Progress-SW/REC Landfill Extraction System	-	(725,676)	-	(725,676)
Capital Projects - General Fund Pay-Go	(4,658,549)	4,658,549	-	-
Total Other Financing Sources / Uses	<u>(5,743,549)</u>	<u>4,481,945</u>	<u>85,000</u>	<u>(1,176,604)</u>
Net Increase/(Decrease) in Fund Balances	13,538,933	(669,095)	641,831	13,511,669
FUND BALANCE				
Beginning of the Year	46,509,314	32,118,314	1,638,180	80,265,808
End of Year	<u>\$ 60,048,247</u>	<u>\$ 31,449,219</u>	<u>\$ 2,280,011</u>	<u>\$ 93,777,477</u>

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

The County Commissioners for St. Mary's County
Reconciliations of the Governmental Funds to the Governmental Activities
For the Year Ended June 30, 2012

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

Fund Balance - Governmental Funds	\$ 93,777,477
Capital assets, net of accumulated depreciation, are not reported in the Balance Sheet for Governmental Funds	224,245,584
Prepaid OPEB is not reported in the Balance Sheet for governmental funds	17,848,485
Debt, including bonds, loans, capital leases and the long-term portion of compensated absences, is not reported in the Balance Sheet for Governmental Funds. The amount reflected here is net of mortgages receivable from St. Mary's Hospital of \$14,030,000, but does include debt applicable to assets reported in the component unit for the Board of Education	<u>(98,507,989)</u>
Net Assets - Governmental Activities	<u>\$ 237,363,557</u>
Amounts reported for change in Fund Balances - Governmental Funds are different from change in Net Assets of Governmental Activities because:	
Net increase/(decrease) in fund balances - total governmental funds	\$ 13,511,669
Depreciation expense which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(8,531,979)
Disposal of capital assets which is reported in the statement of activities, but not reflected as an expenditure for governmental activities	(737,195)
Issuance of long-term debt, excluding amounts which are offset by mortgages receivable from St. Mary's Hospital, and effect of refunding	(1,629,695)
Repayment of debt	9,713,983
Increase in prepaid OPEB not reported on balance sheet for governmental funds	1,675,862
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	<u>9,054,885</u>
Increase/(decrease) in net assets of governmental activities	<u>\$ 23,057,530</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2012

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
ASSETS				
<u>Current assets</u>				
Cash and cash equivalents	\$ -	\$ 184,175	\$ -	\$ 184,175
Due from other funds	401,132	24,118	1,071,267	1,496,517
Accounts receivable	14,084	162,674	66,058	242,816
Inventory	-	37,633	-	37,633
Other, prepaids	-	7,023	-	7,023
Total Current Assets	<u>415,216</u>	<u>415,623</u>	<u>1,137,325</u>	<u>1,968,164</u>
<u>Non-current assets</u>				
Capital assets	143,994	6,439,014	15,069,765	21,652,773
Accumulated depreciation	<u>(129,816)</u>	<u>(2,238,605)</u>	<u>(2,036,492)</u>	<u>(4,404,913)</u>
Capital assets, net of accumulated depreciation	<u>14,178</u>	<u>4,200,409</u>	<u>13,033,273</u>	<u>17,247,860</u>
Total Assets	<u>\$ 429,394</u>	<u>\$ 4,616,032</u>	<u>\$ 14,170,598</u>	<u>\$ 19,216,024</u>
LIABILITIES				
<u>Current liabilities</u>				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Accounts payable	58,531	40,476	191,366	290,373
Compensation-related liabilities	51,431	78,460	147,256	277,147
Deferred revenue	87,927	109,497	-	197,424
<u>Noncurrent Liabilities</u>				
Due within one year	-	49,572	39,493	89,065
Due in more than one year	-	<u>1,171,515</u>	<u>87,390</u>	<u>1,258,905</u>
Total Liabilities	<u>197,889</u>	<u>1,449,520</u>	<u>465,505</u>	<u>2,112,914</u>
NET ASSETS				
Invested in capital assets, net of related debt	14,178	3,057,513	12,993,780	16,065,471
Unrestricted	<u>217,327</u>	<u>108,999</u>	<u>711,313</u>	<u>1,037,639</u>
Total Net Assets	<u>231,505</u>	<u>3,166,512</u>	<u>13,705,093</u>	<u>17,103,110</u>
Total Liabilities and Net Assets	<u>\$ 429,394</u>	<u>\$ 4,616,032</u>	<u>\$ 14,170,598</u>	<u>\$ 19,216,024</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
OPERATING REVENUES				
Charges for Services	\$ 2,142,628	\$ 1,366,489	\$ 436,104	\$ 3,945,221
Environmental/Solid Waste Fees	-	-	2,334,540	2,334,540
	<u>2,142,628</u>	<u>1,366,489</u>	<u>2,770,644</u>	<u>6,279,761</u>
OPERATING EXPENSES				
Personal Services	1,164,971	642,246	1,009,948	2,817,165
Operating Supplies	184,435	274,362	41,523	500,320
Professional Services	234,638	87,627	1,097,533	1,419,798
Communications	13,405	2,645	3,923	19,973
Transportation	8,208	29,848	81,393	119,449
Rentals	157,141	37,860	14,089	209,090
Public Utilities	237,901	59,168	23,180	320,249
Other Operating Costs	12,509	18,131	-	30,640
Tipping Fees	-	-	979,533	979,533
Retiree Health Benefits (OPEB)	-	60,000	63,000	123,000
Interest Expense	-	65,668	2,695	68,363
Equipment	20,511	1,358	-	21,869
Depreciation	1,725	123,331	135,134	260,190
Total operating expenses	<u>2,035,444</u>	<u>1,402,244</u>	<u>3,451,951</u>	<u>6,889,639</u>
Operating Income (Loss)	107,184	(35,755)	(681,307)	(609,878)
Non-Operating Revenue				
Other	-	149,218	-	149,218
Construction in Progress-SW/REC Landfill Extraction System	-	-	725,676	725,676
Grants revenue	33,003	-	-	33,003
General fund subsidy	-	-	1,000,000	1,000,000
Increase/(Decrease) in net assets	<u>140,187</u>	<u>113,463</u>	<u>1,044,369</u>	<u>1,298,019</u>
NET ASSETS				
Beginning of the Year	<u>91,318</u>	<u>3,053,049</u>	<u>12,660,724</u>	<u>15,805,091</u>
End of Year	<u>\$ 231,505</u>	<u>\$ 3,166,512</u>	<u>\$ 13,705,093</u>	<u>\$ 17,103,110</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	Recreation Activity Fund	Wicomico	Solid Waste/Recycling	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Charges for Services	\$ 2,059,103	\$ 1,201,063	\$ 2,770,682	\$ 6,030,848
Personal Services	(1,193,572)	(660,708)	(1,028,069)	(2,882,349)
Other Expenses	(861,190)	(616,282)	(2,315,608)	(3,793,080)
Net Cash Provided (Used) By Operating Activities	<u>4,341</u>	<u>(75,927)</u>	<u>(572,995)</u>	<u>(644,581)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES				
Net change in interfund loans	(37,344)	(26,246)	394,810	331,220
Grant revenue	33,003	-	-	33,003
General Operating Subsidy	-	-	1,000,000	1,000,000
Net Cash Provided (Used) By Non-Capital and Related Financing Activities	<u>(4,341)</u>	<u>(26,246)</u>	<u>1,394,810</u>	<u>1,364,223</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Construction / purchase of capital assets	-	-	(725,676)	(725,676)
Principal payments on long-term debt	-	(46,871)	(96,139)	(143,010)
Net Cash Used by Capital and Related Financing Activities	<u>-</u>	<u>(46,871)</u>	<u>(821,815)</u>	<u>(868,686)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	-	682	-	682
Other	-	148,536	-	148,536
Net Increase/(Decrease) in Cash	-	174	-	174
CASH				
Beginning of Year	-	184,001	-	184,001
End of Year	<u>\$ -</u>	<u>\$ 184,175</u>	<u>\$ -</u>	<u>\$ 184,175</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Operating Income (Loss)	\$ 107,184	\$ (35,755)	\$ (681,307)	\$ (609,878)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES				
Depreciation	1,725	123,331	135,134	260,190
(Increase) decrease in accounts receivable	(6,583)	(157,876)	38	(164,421)
(Increase) decrease in inventory	-	13,323	-	13,323
Increase (decrease) in accounts payable	7,558	8,022	(8,441)	7,139
Increase (decrease) in compensation-related liabilities	(28,601)	(19,422)	(18,419)	(66,442)
Increase (decrease) in deferred revenue	(76,942)	(7,550)	-	(84,492)
Net Cash Provided (Used) By Operating Activities	<u>\$ 4,341</u>	<u>\$ (75,927)</u>	<u>\$ (572,995)</u>	<u>\$ (644,581)</u>
SCHEDULE OF NON CASH INVESTING AND FINANCING ACTIVITIES				
Total capital asset additions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (725,676)</u>	<u>\$ (725,676)</u>
Net cash used for purchase of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (725,676)</u>	<u>\$ (725,676)</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - SHERIFF'S OFFICE RETIREMENT PLAN
JUNE 30, 2012

	<u>Sheriff's Office Retirement Plan</u>
ASSETS	
Cash and cash equivalents	\$ 5,018,373
Restricted cash and investments	<u>41,854,881</u>
Total Assets	<u>\$ 46,873,254</u>
NET ASSETS	
Held in trust for pension benefits	<u>\$ 46,873,254</u>
Total Net Assets	<u>\$ 46,873,254</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - SHERIFF'S OFFICE RETIREMENT PLAN
FOR THE YEAR ENDED JUNE 30, 2012

	Sheriff's Office Retirement Plan
ADDITIONS	
Contributions - Employer	\$ 4,211,077
Voluntary Supplemental Contribution - Employer	805,000
Contributions - Employee	<u>943,462</u>
	<u>5,959,539</u>
Interest and Dividends	1,106,097
Realized Gain	915,900
Net Unrealized Loss on Investments	<u>(2,829,531)</u>
	<u>(807,534)</u>
Net Additions	<u>5,152,005</u>
DEDUCTIONS	
Benefits	(2,642,417)
Administrative Costs	<u>(264,224)</u>
Total Deductions	<u>(2,906,641)</u>
Increase/(Decrease) in Net Assets	2,245,364
NET ASSETS	
Beginning of Year	<u>44,627,890</u>
End of Year	<u>\$ 46,873,254</u>

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 STATEMENT OF FIDUCIARY NET ASSETS - RETIREE BENEFIT TRUST OF ST. MARY'S COUNTY, MARYLAND
 JUNE 30, 2012

	Retiree Benefit Trust of St. Mary's County, Maryland
ASSETS	
Restricted cash and investments	\$ 34,859,799
Employer contribution receivable	60,622
Total Assets	\$ 34,920,421
LIABILITIES	
Accounts payable	\$ 102
Total Liabilities	102
NET ASSETS	
Held in trust for other post-employment benefits	34,920,319
Total Liabilities and Net Assets	\$ 34,920,421

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - RETIREE BENEFIT TRUST OF
ST. MARY'S COUNTY, MARYLAND
YEAR ENDED JUNE 30, 2012

	Retiree Benefit Trust of St. Mary's County, Maryland
ADDITIONS	
Contributions to the Trust - Employer	\$ 3,369,524
Voluntary Supplemental Contribution - Employer	1,676,862
Payments to Retirees - Employer	2,030,476
	7,076,862
Interest and Dividends	1,108,167
Realized Gain	13,442
Net Unrealized Loss on Investments	(712,194)
	409,415
Net Additions	7,486,277
DEDUCTIONS	
Benefits Paid Directly to Retirees	(2,030,476)
Administrative Costs	(96,957)
Total Deductions	(2,127,433)
Increase/(Decrease) in Net Assets	5,358,844
NET ASSETS	
Beginning of Year	29,561,475
End of Year	\$ 34,920,319

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

The County Commissioners for St. Mary's County

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June 30, 2012

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The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

1. Reporting entity and summary of significant accounting policies

Reporting entity

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

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

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

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

Discretely presented component units

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Discretely presented component units (continued)

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

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

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

St. Mary's County Building Authority Commission was created by the Maryland General Assembly as an instrumentality of the County to acquire title to property within St. Mary's County for construction, renovation, or rehabilitation. The Building Authority Commission currently owns and leases property to the State of Maryland. Until June 2010, they also owned and leased property to the St. Mary's Nursing Center, Inc.

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

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

St. Mary's County Public Schools
23160 Moakley Street
Leonardtown, Maryland 20650

St. Mary's County Metropolitan Commission
23121 Camden Way
California, Maryland 20619

St. Mary's County Building Authority Commission
41770 Baldrige Street
P.O. Box 653, Chesapeake Building
Leonardtown, Maryland 20650

St. Mary's County Library
23250 Hollywood Road
Leonardtown, Maryland 20650

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Financial Statements

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

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

Government-wide Statements

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Fund Financial Statements

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

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

Governmental Funds

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

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

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those applicable to businesses in the private sector. Proprietary (Enterprise) Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to cover similar costs.

Fiduciary Funds

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Basis of Accounting and Measurement Focus

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

Basis of Accounting

- a. Accrual Basis – Both governmental and business-type activities are presented using the accrual basis of accounting in the government-wide financial statements and the proprietary and fiduciary fund financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.
- b. Modified Accrual Basis – The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Measurable" means knowing or able to reasonably estimate the amount. "Available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year-end. All other revenue items are considered to be measurable and available only when cash is received by the County. Expenditures (including capital outlay) are recorded when the related liability is incurred. However, debt service expenditures (principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when due.

Measurement Focus

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Accounting policies

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

Fund accounting

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

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

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

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

The amount of grant funds passed through the County to the St. Mary's County Housing Authority for the fiscal year ended June 30, 2012 totaled \$136,859. These pass-through grants are recorded as pass-through revenues and expenditures in the amount of \$136,859 on the Statement of Revenues and Expenditures.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Budget and budgetary accounting

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

- a. Prior to April 1 of each year, The County Commissioners for St. Mary's County shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance by June 1.
- d. All revisions that alter the expenditures of each fund must be approved by The County Commissioners for St. Mary's County or the Chief Financial Officer.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund, special assessment fund and enterprise funds.
- f. The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America, except that appropriations of fund balance are treated as other financing sources. Budget comparisons presented for the general fund in this report are on a non-GAAP basis. The capital projects funds' budgets are prepared on a project-length basis, and accordingly, annual budgetary comparisons are not presented in the financial statements. The enterprise funds' budgets are flexible annual operating budgets. Budgetary comparisons are not presented in the financial statements for the enterprise funds.
- g. The budgeted amounts are as adopted, including amendments, by The County Commissioners for St. Mary's County.

Encumbrances

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

Cash, cash equivalents and investments

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Cash, cash equivalents and investments (continued)

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

Long-term receivables

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

Full-time employees can earn annual leave at a rate of from 80 hours per year (one through five years of service) up to a maximum of 200 hours per year (if over twenty years of service). Leave for permanent part-time employees is prorated according to the number of hours worked.

There are no requirements that annual leave be taken; however, the maximum permissible accumulation to be carried into the new calendar year is 360 hours for full-time employees and 180 hours for permanent part-time employees. At calendar year end, any hours in excess of 360 hours for full-time employees and 180 hours for permanent part-time employees are deducted from the employees' annual leave balance and credited to their sick leave balance. At termination, employees are paid for any accumulated annual leave.

Full-time and permanent part-time employees earn sick leave based upon the number of hours worked, with a maximum of 120 hours earned per year. There is no limit to the accumulation of sick leave. At termination, employees are not paid for accumulated sick leave, nor is credit provided for employees that retire on early retirements. However, at regular retirement, employees who have been employed by the County for five years are eligible to receive service credit at a rate of one month for every 160 hours of unused sick leave. Persons that are reinstated in the County service within one year from the time of their separation shall receive full credit for all sick leave accumulated at time of separation.

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

Use of estimates

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Budget basis of accounting

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

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

	Net Change in Fund Balance	End of Year Fund Balance
Budgetary Basis – General Fund	\$ 17,012,707	\$ 58,209,241
Minor revolving funds and general financing that relate to activities resulting from fees, fines, and other revenue sources that are not an element of the budget basis reporting	(24,777)	783,296
Beginning of year encumbrances, rolled into FY2012	(534,294)	-
Appropriation from prior year rolled to FY2012 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2012	534,294	534,294
Budgeted use of fund balance	(3,970,413)	-
End of year encumbrances included in budget basis expenditures, not included for GAAP	521,416	521,416
GAAP Basis	\$ 13,538,933	\$ 60,048,247

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Basis of presentation

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

Capital assets

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

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

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

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

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

Primary Government

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

Component Units

St. Mary's County Public Schools

Buildings and improvements	20-50 years
Furniture and equipment	5-15 years

St. Mary's County Library

Leasehold improvements	50 years
Furnishings and equipment	5 years
Vehicles	5 years
Books	7 years

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

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

Capital assets (continued)

Component Units (continued)

St. Mary's County Metropolitan Commission

Utility plants	18-50 years
Water plant systems	18-50 years
Equipment	3-10 years
Capitalized interest	50 years
Buildings	20-30 years

St. Mary's County Building Authority Commission

Buildings	40 years
Furniture and equipment	10 years

Inventory and prepaid expenditures

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

Long-term obligations

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

2. Deficit fund equity

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

3. Cash, cash equivalents and investments

Primary Government

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

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

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

Cash Deposits

At year end, the carrying amount of the County's deposits was \$88,588,039 and the collected bank balance was \$90,964,185. Of the collected bank balance, \$90,833,853 was covered by Federal Deposit Insurance Corporation (FDIC), and \$130,332 was covered by collateral held either in the pledging bank's trust department or by the pledging bank's agent.

Investments

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

3. Cash, cash equivalents and investments (continued)

Primary Government (continued)

Investments (continued)

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

<u>Investment Type</u>	<u>Fair Value</u>
U.S. government securities – Cash Deposits and Treasuries	\$ 88,599,739
Maryland Local Government Investment Pool (MLGIP)	5,223,620
Retiree Benefit Trust (OPEB):	
Cash	\$ 2,146,489
Common Stock/Equity Funds	20,104,821
Fixed Income:	
Bond Funds	11,863,805
Venture/Limited Partnership/Closely Held	<u>744,684</u>
Subtotal – Retiree Benefit Trust (OPEB)	34,859,799
Pension investments – Sheriff's Office Retirement Plan:	
Cash	\$ 5,018,373
Fixed income:	
Government and agencies	4,197,210
Bond Funds	11,060,229
Common stock	19,812,709
Venture/Limited Partnership/Closely Held	<u>6,784,733</u>
Subtotal – Sheriff's Office Retirement Plan	<u>46,873,254</u>
Total investments	<u>\$ 175,556,412</u>

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

3. Cash, cash equivalents and investments (continued)

Investments (continued)

Component Units

St. Mary's County Public Schools

Custodial credit risk

Custodial credit risk for deposits is the risk that in the event of bank failure, the School System's deposits may not be returned to it. Maryland State Law prescribes that local government units such as the School System must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. As of June 30, 2012, all of the School System's deposits were either covered by federal depository insurance or were covered by collateral held by the School System's agent in the School System's name.

Short-term investments

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

At June 30, 2012, short-term investments consist primarily of deposits in the MLGIP. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The carrying amount and market value were \$16,607,943, \$405,384, and \$783,850 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

St. Mary's County Library

Cash deposits and investments

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

At June 30, 2012, the carrying amount of the Library's deposits was \$437,262, and the bank balances totaled \$446,648. All of the bank balances in financial institutions were covered by federal depository insurance at June 30, 2012.

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

	<u>Carrying Amount</u>	<u>Market Value</u>
Unrestricted:		
Investment in Maryland Local Government Investment Pool	<u>\$ 294,087</u>	<u>\$ 294,087</u>
Restricted:		
The Vanguard Group	<u>\$ 158,790</u>	<u>\$ 158,790</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

St. Mary's County Library (continued)

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

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

St. Mary's County Metropolitan Commission

Deposits and investments

Deposits

The carrying amount of MetCom's deposits was \$6,027,381 at June 30, 2012, and the bank balance was \$6,716,733. Of the bank balances, \$250,000 was covered by federal depository insurance at June 30, 2012, with the remaining \$6,466,733 adequately covered by collateral. State statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Cash and cash equivalents consisted of the following:

Investments	\$ 3,163,214
Cash	6,027,381
Petty cash	<u>800</u>
	<u>\$ 9,191,395</u>

Investments

State statutes authorize MetCom to invest in obligations of the United States government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligations. All of the funds were invested in the Maryland Local Government Investment Pool (MLGIP) which qualifies under the statutes. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating).

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

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

	<u>Carrying Amount</u>	<u>Market Value</u>
MLGIP	<u>\$ 3,163,214</u>	<u>\$ 3,163,214</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

4. Changes in capital assets

Primary Government

A summary of changes in capital assets is as follows:

	Balance June 30, 2011	Additions	Transfers/ Disposals	Balance June 30, 2012
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 31,631,509	\$ 140,826	\$ -	\$ 31,772,335
Construction In Progress	7,112,555	-	(731,834)	6,380,721
911 system & equipment	<u>1,423,733</u>	<u>-</u>	<u>-</u>	<u>1,423,733</u>
Total capital assets not being depreciated	<u>40,167,797</u>	<u>140,826</u>	<u>(731,834)</u>	<u>39,576,789</u>
Capital assets being depreciated:				
Buildings & improvements	96,899,617	1,431,175	-	98,330,792
Computer equipment	1,992,753	118,200	-	2,110,953
Other equipment	251,481	-	-	251,481
Vehicles - licensed	10,731,970	194,416	(236,002)	10,690,384
Off-road vehicles	1,814,237	31,000	-	1,845,237
Miscellaneous equipment	4,058,348	639,127	(5,600)	4,691,875
Roads	154,352,444	6,212,822	-	160,565,266
Curbing	946,791	-	-	946,791
Sidewalks	982,973	-	-	982,973
Guardrails	1,050,409	172,243	-	1,222,652
Airport infrastructure	4,588,593	6,742	-	4,595,335
Airport equipment	579,104	-	-	579,104
Baseball fields	802,670	-	-	802,670
Bridges	6,476,889	-	-	6,476,889
Parks & recreation	12,953,732	-	-	12,953,732
Marinas & docks	7,956,153	-	-	7,956,153
Irrigation systems	179,714	62,139	-	241,853
Signage	475,433	-	-	475,433
Parking lots	792,088	46,195	-	838,283
911 system & equipment	<u>7,848,948</u>	<u>-</u>	<u>-</u>	<u>7,848,948</u>
Total capital assets being depreciated	<u>315,734,347</u>	<u>8,914,059</u>	<u>(241,602)</u>	<u>324,406,804</u>
Accumulated depreciation for:				
Buildings & improvements	(35,784,146)	(1,705,000)	-	(37,489,146)
Computer equipment	(1,942,219)	(42,641)	-	(1,984,860)
Other equipment	(122,155)	(14,332)	-	(136,487)
Vehicles - licensed	(8,064,796)	(789,269)	230,641	(8,623,424)
Off-road vehicles	(1,432,568)	(41,513)	-	(1,474,081)
Miscellaneous equipment	(2,370,180)	(271,115)	5,600	(2,635,695)
Roads	<u>(61,312,587)</u>	<u>(4,297,188)</u>	<u>-</u>	<u>(65,609,775)</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

4. Changes in capital assets (continued)

Primary Government

A summary of changes in capital assets is as follows:

	Balance June 30, 2011	Additions	Transfers/ Disposals	Balance June 30, 2012
Accumulated depreciation for: (continued)				
Curbing	\$ (650,226)	\$ (19,524)	\$ -	\$ (669,750)
Sidewalks	(427,769)	(21,411)	-	(449,180)
Guardrails	(415,946)	(24,945)	-	(440,891)
Airport infrastructure	(4,459,795)	(22,783)	-	(4,482,578)
Airport equipment	(496,125)	(8,735)	-	(504,860)
Baseball fields	(387,820)	(15,925)	-	(403,745)
Bridges	(2,262,645)	(129,847)	-	(2,392,492)
Parks & recreation	(3,117,058)	(408,319)	-	(3,525,377)
Marinas & docks	(4,009,979)	(255,248)	-	(4,265,227)
Irrigation systems	(108,749)	(4,752)	-	(113,501)
Signage	(388,265)	(7,976)	-	(396,241)
Parking lots	(164,641)	(47,343)	-	(211,984)
911 equipment	(3,524,602)	(404,113)	-	(3,928,715)
	<u>(131,442,271)</u>	<u>(8,531,979)</u>	<u>236,241</u>	<u>(139,738,009)</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>184,292,076</u>	<u>382,080</u>	<u>(5,361)</u>	<u>184,668,795</u>
Governmental activities capital assets, net	<u>\$ 224,459,873</u>	<u>\$ 522,906</u>	<u>\$ (737,195)</u>	<u>\$ 224,245,584</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 1,078,666	\$ -	\$ -	\$ 1,078,666
Construction in progress	-	725,676	(725,676)	-
Solid waste facilities	11,522,871	725,676	-	12,248,547
Total capital assets not being depreciated	<u>12,601,537</u>	<u>1,451,352</u>	<u>(725,676)</u>	<u>13,327,213</u>
Capital assets being depreciated:				
Buildings & improvements	4,324,284	-	-	4,324,284
Computer equipment	57,188	-	-	57,188
Other equipment	39,359	-	-	39,359
Vehicles - Licensed	1,950,623	-	-	1,950,623
Off-road vehicles	1,093,742	-	-	1,093,742
Miscellaneous equipment	350,378	-	-	350,378
Irrigation systems	509,986	-	-	509,986
Total capital assets being depreciated	<u>8,325,560</u>	<u>-</u>	<u>-</u>	<u>8,325,560</u>
Accumulated depreciation for:				
Buildings & improvements	(1,337,484)	(82,728)	-	(1,420,212)
Computer equipment	(50,944)	(2,498)	-	(53,442)
Other equipment	(38,115)	(130)	-	(38,245)
Vehicles - Licensed	(1,464,009)	(98,873)	-	(1,562,882)
Off-road vehicles	(644,880)	(56,456)	-	(701,336)
Miscellaneous equipment	(330,389)	(2,811)	-	(333,200)
Irrigation systems	(278,902)	(16,694)	-	(295,596)
Total accumulated depreciation	<u>(4,144,723)</u>	<u>(260,190)</u>	<u>-</u>	<u>(4,404,913)</u>
Total capital assets being depreciated, net	<u>4,180,837</u>	<u>(260,190)</u>	<u>-</u>	<u>3,920,647</u>
Business-type activities capital assets, net	<u>\$ 16,782,374</u>	<u>\$ 1,191,162</u>	<u>\$ (725,676)</u>	<u>\$ 17,247,860</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

4. Changes in capital assets (continued)

Primary Government (continued)

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

Governmental Activities

General Government	\$ 989,143
Public Safety	1,289,386
Public Works	5,202,167
Social Services	97,084
Post -Secondary Education	42,285
Parks, Recreation, and Culture	712,910
Libraries	195,991
Economic Development and Opportunity	<u>3,013</u>
Total Depreciation - Governmental Activities	<u>\$ 8,531,979</u>

Business-Type Activities

Recreation Activity Fund	\$ 1,725
Solid Waste/Recycling	135,134
Wicomico	<u>123,331</u>
Total Depreciation - Business-Type Activities	<u>\$ 260,190</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

4. Changes in capital assets (continued)

Component Units

St. Mary's County Public Schools

Capital Assets

Capital asset activity for the year ended June 30, 2012 is as follows:

	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions/Transfers</u>	<u>Balance</u> <u>June 30, 2012</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 2,545,293	\$ -	\$ -	\$ 2,545,293
Construction in process	<u>648,894</u>	<u>6,279,997</u>	<u>(2,295,066)</u>	<u>4,633,825</u>
	<u>3,194,187</u>	<u>6,279,997</u>	<u>(2,295,066)</u>	<u>7,179,118</u>
Capital assets being depreciated:				
Buildings and improvements	330,879,336	865,664	2,295,066	334,040,066
Furniture and equipment	<u>7,590,226</u>	<u>397,336</u>	<u>(165,424)</u>	<u>7,822,138</u>
	<u>338,469,562</u>	<u>1,263,000</u>	<u>2,129,642</u>	<u>341,862,204</u>
Accumulated depreciation for:				
Buildings and improvements	(99,974,248)	(7,333,375)	-	(107,307,623)
Furniture and equipment	<u>(4,600,697)</u>	<u>(601,603)</u>	<u>165,424</u>	<u>(5,036,876)</u>
	<u>(104,574,945)</u>	<u>(7,934,978)</u>	<u>165,424</u>	<u>(112,344,499)</u>
Governmental activities capital assets, net	<u>\$ 237,088,804</u>	<u>\$ (391,981)</u>	<u>\$ -</u>	<u>\$ 236,696,823</u>
Business-type activities				
Capital assets being depreciated:				
Furniture and equipment	\$ 1,569,053	\$ 48,111	\$ -	\$ 1,617,164
Accumulated depreciation for:				
Furniture and equipment	<u>(926,042)</u>	<u>(102,913)</u>	<u>-</u>	<u>(1,028,955)</u>
Business-type activities capital Assets, net	<u>\$ 643,011</u>	<u>\$ (54,802)</u>	<u>\$ -</u>	<u>\$ 588,209</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Assets (continued)

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2012, as follows:

Governmental activities:	
Administration	\$ 100,020
Mid-Level Administration	22,429
Other Instructional Costs	152,826
Special Education	8,796
Student Personnel Services	682
Student Transportation Services	131,858
Operation of Plant	7,513,344
Maintenance of Plant	<u>5,023</u>
Total governmental activities depreciation expense	<u>\$ 7,934,978</u>
Business-type activities:	
Food Services	<u>\$ 102,913</u>

St. Mary's County Library

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets:				
Furnishings and Equipment	\$ 1,029,768	\$ 20,981	\$ 110,539	\$ 940,210
Leasehold Improvements	87,735	-	-	87,735
Vehicles	33,102	-	-	33,102
Books	<u>3,833,852</u>	<u>403,927</u>	<u>328,389</u>	<u>3,909,390</u>
	<u>4,984,457</u>	<u>424,908</u>	<u>438,928</u>	<u>4,970,437</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

4. Changes in capital assets (continued)

Component Units (continued)

St. Mary's County Library (continued)

Capital assets and depreciation (continued)

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Accumulated depreciation:				
Furnishings and Equipment	\$ 939,044	\$ 41,767	\$ 110,539	\$ 870,272
Leasehold Improvements	1,755	1,755	-	3,510
Vehicles	33,102	-	-	33,102
Books	<u>2,600,055</u>	<u>413,436</u>	<u>328,389</u>	<u>2,685,102</u>
	<u>3,573,956</u>	<u>456,958</u>	<u>438,928</u>	<u>3,591,986</u>
Net capital assets	<u>\$ 1,410,501</u>	<u>\$ (32,050)</u>	<u>\$ -</u>	<u>\$ 1,378,451</u>

Governmental activities depreciation expense of \$456,958 was charged to Library services.

St. Mary's County Building Authority Commission

Capital assets

Capital assets at June 30, 2012 consisted of the following:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets:				
State Office building	\$ 8,673,157	\$ -	\$ -	\$ 8,673,157
Furniture and equipment	<u>13,387</u>	<u>-</u>	<u>-</u>	<u>13,387</u>
	<u>8,686,544</u>	<u>-</u>	<u>-</u>	<u>8,686,544</u>
Accumulated depreciation:				
State Office building	4,631,449	216,829	-	4,848,278
Furniture and equipment	<u>13,387</u>	<u>-</u>	<u>-</u>	<u>13,387</u>
	<u>4,644,836</u>	<u>216,829</u>	<u>-</u>	<u>4,861,665</u>
Net capital assets	<u>\$ 4,041,708</u>	<u>\$ 216,829</u>	<u>\$ -</u>	<u>\$ 3,824,879</u>

Depreciation expense of \$216,829 was charged to activities for the fiscal year ended June 30, 2012. There were no additions of capital assets during the fiscal year ended June 30, 2012.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

4. Changes in capital assets (continued)

St. Mary's County Metropolitan Commission

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2012 was as follows:

Capital assets:	Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2012</u>
Utility plants	\$ 89,228,325	\$ 2,583,942	\$ -	\$ 91,812,267
Water plant systems	28,230,231	2,087,638	-	30,317,869
Equipment	6,976,230	888,786	259,322	7,605,694
Capitalized interest	818,201	-	-	818,201
Buildings	<u>3,794,273</u>	<u>-</u>	<u>1,000</u>	<u>3,793,273</u>
Subtotal	129,047,260	5,560,366	260,322	134,347,304
Not being depreciated:				
Utility plant construction in process	7,130,296	2,956,911	1,306,964	8,780,243
Water plant construction in process	4,502,571	2,455,668	963,764	5,994,475
Land/land rights	<u>634,687</u>	<u>-</u>	<u>-</u>	<u>634,687</u>
	<u>141,314,814</u>	<u>10,972,945</u>	<u>2,531,050</u>	<u>149,756,709</u>
Accumulated depreciation:				
Utility plants	31,022,783	2,083,731	-	33,106,514
Water plant systems	6,451,376	828,070	-	7,279,446
Equipment	4,240,833	629,332	257,561	4,612,604
Capitalized interest	270,006	16,364	-	286,370
Buildings	<u>840,023</u>	<u>171,946</u>	<u>-</u>	<u>1,011,969</u>
	<u>42,825,021</u>	<u>3,729,443</u>	<u>257,561</u>	<u>46,296,903</u>
Net capital assets	<u>\$ 98,489,793</u>	<u>\$ 7,243,502</u>	<u>\$ 2,273,489</u>	<u>\$ 103,459,806</u>

Depreciation expense of \$3,729,443 was charged to activities as follows:

Sewer activities	\$ 2,417,334
Water activities	1,094,016
Engineering activities	65,755
Administrative	<u>152,338</u>
Total	<u>\$ 3,729,443</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

5. Property tax

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied each July 1, and the taxpayer has the option to pay in full without interest by September 30 or elect a semiannual payment option. If a semiannual payment option is elected, the first payment is payable without interest by September 30 and the second payment, including a service charge, is payable without interest by December 31. Interest is charged for each month or fraction thereof that taxes remain unpaid beginning October 1 on accounts under the annual payment option or January 1 for accounts under the semiannual payment option. Maryland law grants the Treasurer of St. Mary's County the power to immediately advertise and sell any real property after the taxes are delinquent for a period of one year. Property taxes are levied at rates enacted by the Commissioners in the annual budget based on the assessed value of the property as determined by the Maryland State Department of Assessments and Taxation, an agency of the government of the State of Maryland. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice and, then only after public hearings. The real property tax rate during the year ended June 30, 2012, was \$.857 per \$100 of assessed value based on the full valuation method. The personal property tax rate during the year ended June 30, 2012 was \$2.1425 per \$100 of assessed value. The County Treasurer bills and collects all property taxes.

A 100% allowance for uncollectibles is established for prior year taxes receivable. County property tax receivable as of June 30, 2011, net of the allowance for uncollectibles of \$694,954, is \$2,641,128 (this amount does not include state and emergency services taxes receivable). On October 1, a 3% penalty is assessed, and interest begins accruing at a rate of 1% for each month that real and personal property taxes are delinquent (unless taxpayer has elected semiannual payment option as described above).

6. Special tax assessment receivable and deferred revenue

Primary Government

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

As of June 30, 2012, the amount of delinquent special assessment receivables due from taxpayers was \$245.

Component Units

St. Mary's County Public Schools

General Fund

Deferred revenue primarily consists of the retrospective insurance premium refund totaling \$1,789,517 and MABE insurance claim of \$8,658 which will be collected subsequent to June 30, 2012, but is not available soon enough to pay for the current period's expenditures, and therefore is deferred. The remaining deferred revenue consists of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2012 of \$1,203,903, and summer school tuition of \$14,650, which is collected in advance of the corresponding expenditures which do not occur until the following fiscal year.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

6. Special tax assessment receivable and deferred revenue (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Projects Fund

Deferred revenue primarily consists of funds received for a removal security to be used either towards the purchase of, or removal of an installed solar generating facility upon the expiration of a solar power purchase agreement in the amount of \$81,837. The remaining deferred revenue consists of revenue received in advance from the County for expenditures associated with relocatable classrooms of \$2,120.

Enterprise Fund

Deferred revenue of \$121,770 represents student lunch ticket sales collected in advance for lunches which will be consumed by students in fiscal year 2013.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations

Primary Government

Governmental Activities

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Repayment</u>	<u>June 30, 2012</u>	<u>Amounts due within one year</u>
General Obligation Bonds - County	\$ 96,770,000	\$ 34,357,000	\$ 31,885,000	\$ (7,820,000)	\$ 91,422,000	\$ 7,537,000
Water Quality Loans	3,580,310	-	-	(545,216)	3,035,094	554,304
State Loans	2,075,527	32,408	86,409	(110,887)	1,910,639	121,500
Surplus Property Transfer of Debt	99,343	-	-	(51,977)	47,366	46,159
Exempt Financing	<u>1,045,826</u>	<u>-</u>	<u>-</u>	<u>(749,494)</u>	<u>296,332</u>	<u>296,332</u>
	<u>103,571,006</u>	<u>34,389,408</u>	<u>31,971,409</u>	<u>(9,277,574)</u>	<u>96,711,431</u>	<u>8,555,295</u>
General Obligation Bonds, sold on behalf of St. Mary's Hospital	<u>14,985,000</u>	<u>-</u>	<u>-</u>	<u>(955,000)</u>	<u>14,030,000</u>	<u>14,030,000</u>
Landfill Post-Closure Costs	950,000	-	350,000	-	600,000	-
Compensated Absences (Long-Term)	<u>4,224,701</u>	<u>3,857</u>	<u>-</u>	<u>-</u>	<u>4,228,558</u>	<u>21,206</u>
	<u>5,174,701</u>	<u>3,857</u>	<u>350,000</u>	<u>-</u>	<u>4,828,558</u>	<u>21,206</u>
Total	<u>123,730,707</u>	<u>34,393,265</u>	<u>32,321,409</u>	<u>(10,232,574)</u>	<u>115,569,989</u>	<u>22,606,501</u>
Less: Amount Deferred on Refunding 2002	(1,593,430)	1,593,430	-	-	-	-
Less: Amount Deferred on Refunding 2009	(560,000)	-	-	-	(560,000)	(44,385)
Less: Amount Deferred on Refunding 2011	<u>-</u>	<u>-</u>	<u>2,472,000</u>	<u>-</u>	<u>(2,472,000)</u>	<u>(158,075)</u>
Amount Reported in Statement of Net Assets	<u>\$ 121,577,277</u>	<u>\$ 35,986,695</u>	<u>\$ 34,793,409</u>	<u>\$ (10,232,574)</u>	<u>\$ 112,537,989</u>	<u>\$ 22,404,041</u>
 <u>Business-Type Activities</u>						
Exempt Financing	\$ 1,325,399	\$ -	\$ -	\$ (143,010)	\$ 1,182,389	\$ 89,065
Compensated Absences (Long-Term)	<u>166,839</u>	<u>-</u>	<u>1,258</u>	<u>-</u>	<u>165,581</u>	<u>-</u>
Amount Reported in Statement of Net Assets	<u>\$ 1,492,238</u>	<u>\$ -</u>	<u>\$ 1,258</u>	<u>\$ (143,010)</u>	<u>\$ 1,347,970</u>	<u>\$ 89,065</u>

For governmental activities, compensated absences are generally liquidated by the governmental fund to which the liability relates.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities

General obligation bonds

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

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

In October 2009, the Hospital merged into the MedStar Health System. The 2002 Hospital Bonds were defeased as of November 17, 2011 and will be fully redeemed on October 1, 2012.

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

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

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

The bonds may be prepaid at the following premiums:

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

General obligation bonds (continued)

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

On November 8, 2011, the 2002 Refunding Bonds and the 2003 Public Facilities and Refunding Bonds were refunded in the 2011 General Obligation Refunding Bonds for \$34,357,000. The 2002 Refunding Bonds will mature on October 1 in 8 installments beginning in 2013 and ending in 2019. The 2003 Refunding Bonds will mature on November 1 in 12 installments beginning in 2013 and ending in 2023. Both the 2002 and 2003 Refunding Bonds carry interest rates ranging from 2.25-2.41%.

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

On February 28, 2008, the County did a current refunding of part of the 1997 General Obligation Consolidated Public Improvement and Refunding Bonds with the same maturity date ending in fiscal year 2012 with an annual interest rate of 2.4%. The estimated savings of principal and interest are \$399,579. The final payment was paid in 2010 on the 1997 General Obligation Consolidated Public Improvement and Refunding Bonds.

On November 17, 2009, the County issued General Obligation Bonds of \$13,055,000 Series A Tax Exempt Bonds, \$16,945,000 Series B Build America Bonds, and a \$15,645,000 Series C Refunding Bond. The Bonds will mature on July 15, in 20 annual serial installments, beginning in the year 2010 and ending in the year 2030. Interest on the Bonds is payable semiannually on each January 15 and July 15 to maturity with an average interest rate of 3.09%.

The Series B, Build America Bonds, are taxable with a bi-annual credit of 35% of the interest from the Internal Revenue Service.

The Series C Refunding Bond of \$15,645,000 is an advanced refunding on the 2001 General Obligation Bond, on principal payments of \$15,085,000. The last payment for the un-refunded portion of the 2001 General Obligation Bond is in 2012.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

2001 Maryland Water Quality Loan

On September 29, 2000, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$3,338,383 for landfill post-closure costs, St. Andrews Landfill area B, cells 1, 2 and 4. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears interest at a rate of 2.4% per annum payable semiannually. Principal payments are due annually through 2016 starting February 1, 2002. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2012, based on the final loan amount of \$3,225,318, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2013	\$ 243,426	\$ 21,510	\$ 12,753	\$ 277,689
2014	249,268	15,668	12,753	277,689
2015	255,251	9,686	12,753	277,690
2016	<u>148,312</u>	<u>3,559</u>	<u>12,753</u>	<u>164,624</u>
	<u>\$ 896,257</u>	<u>\$ 50,423</u>	<u>\$ 51,012</u>	<u>\$ 997,692</u>

2004 Maryland Water Quality Loan

On May 26, 2004, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$4,332,759 for landfill post-closure costs, St. Andrews Landfill area B, cells 3 and 5. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears an interest rate of 1.10% per annum, payable semiannually. Principal payments are due annually through 2019 beginning February 1, 2006. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2012, based on the final loan amount of \$4,222,304, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Administrative Fee</u>	<u>Total</u>
2013	\$ 310,878	\$ 23,527	\$ 11,448	\$ 345,853
2014	314,298	20,107	11,448	345,853
2015	317,755	16,650	11,448	345,853
2016	321,250	13,155	11,448	345,853
2017	324,784	9,621	11,448	345,853
2018-2019	<u>549,872</u>	<u>8,485</u>	<u>22,896</u>	<u>581,253</u>
	<u>\$2,138,837</u>	<u>\$ 91,545</u>	<u>\$ 80,136</u>	<u>\$2,310,518</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

2006 Surplus Property, Transfer of Net Debt

On June 6, 2006, The County Commissioners for St. Mary's County entered into a public school property transfer agreement with St. Mary's County Public Schools for the transfer of George Washington Carver Elementary School. With this property transfer, the County agreed to assume the total outstanding State bond debt of \$368,769. As of June 30, 2012, the principal and interest payments through 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 46,159	\$ 2,189	\$ 48,348
2014	628	49	677
2015	137	21	158
2016	142	16	158
2017	147	11	158
2018	<u>153</u>	<u>6</u>	<u>159</u>
	<u>\$ 47,366</u>	<u>\$ 2,292</u>	<u>\$ 49,658</u>

2008 Exempt Financing Equipment Lease

On April 10, 2008, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$3,155,000 for the purchase of vehicles. The lease bears interest at a rate of 2.82% per annum, payable bi-annually through 2013. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2008 Equipment Lease as of June 30, 2012, based on the final lease amount of \$3,155,000, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	<u>\$ 296,332</u>	<u>\$ 4,178</u>	<u>\$ 300,510</u>
	<u>\$ 296,332</u>	<u>\$ 4,178</u>	<u>\$ 300,510</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Primary Government (continued)

Governmental Activities (continued)

Long-term obligations at June 30, 2012 consist of the following:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Amount</u>
<u>MD Water Quality Loans and Other State Loans:</u>			
Maryland Department of Natural Resources:			
Point Breeze	1993-2017	None	\$ 48,852
Sandgates Road	1994-2015	None	18,696
Tall Timbers #3 Erosion Project	1991-2016	None	26,328
Jefferson Island Club, Inc.	1991-2016	None	40,725
Holly Point Shores	2008-2032	None	200,570
Maryland Water Quality Loan	2003-2016	2.4%	896,257
Murray Road Revetment	2004-2028	None	58,112
Maryland Water Quality Loan	2005-2019	None	2,138,837
Piney Point Lighthouse	2009-2024	None	463,418
Villas on Water Edge	2009-2029	None	422,408
Kingston Creek II	2010-2037	None	263,591
North Patuxent Beach	2009-2024	None	367,939
Total state loans			<u>4,945,733</u>
<u>General obligation bonds</u>			
2002 St. Mary's Hospital Bonds	2006-2023	3.5-5.125%	14,030,000
Consolidated Public Improvement Bonds of 2005	2006-2025	3.75-4.25%	11,740,000
2008 Refunding Bonds	2008-2013	2.4%	2,135,000
2009 Refunding Bonds, Series A	2010-2019	2.5-4.0%	10,600,000
2009 Bonds, BAB, Series B	2020-2029	4.519%-5.7%*	16,945,000
*Rate shown does not reflect 35% rebate			
2009 Refunding Bonds, Series C	2010-2021	2-5%	15,645,000
2011 Refunding Bonds	2012-2023	2.25-2.41%	34,357,000
Total general obligation bonds			<u>105,452,000</u>
Total state loans and bonds			110,397,733
Surplus property transfer of debt			47,366
Accrued landfill closure and postclosure costs			600,000
Exempt Financing			296,332
Accumulated unpaid annual leave			4,228,558
Sub-total			<u>115,569,989</u>
Less: Amount deferred on refunding			(3,032,000)
Net			<u>\$ 112,537,989</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Primary Government (continued)

Business-Type Activities

2008 Exempt Financing Equipment Lease

On April 10, 2008, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$3,155,000 for the purchase of vehicles. The lease bears interest at a rate of 2.82% per annum, payable bi-annually through 2013. In FY2008, a new business-type activity fund was established for Solid Waste/Recycling. This lease was prorated between primary government and business-type activities based on the cost of the underlying assets acquired using the financing. The annual requirements to amortize the 2008 Equipment Lease (Business-Type portion only) as of June 30, 2012, based on the final lease amount of \$3,155,000, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 39,493	\$ 557	\$ 40,050
	<u>\$ 39,493</u>	<u>\$ 557</u>	<u>\$ 40,050</u>

Wicomico Shores Improvement Bond of 2007

On June 29, 2007, The County Commissioners for St. Mary's County entered into an agreement with SunTrust Bank to borrow \$1,350,000 for the renovation of the Wicomico Shores Clubhouse. The loan bears interest at a rate of 5.62% per annum, payable monthly through 2028. The annual requirements to amortize the Wicomico Shores Improvement Bond of 2007 as of June 30, 2012, based on the final loan amount of \$1,350,000, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 49,572	\$ 62,967	\$ 112,539
2014	52,451	60,088	112,539
2015	55,454	57,085	112,539
2016	58,632	53,906	112,538
2017	62,035	50,504	112,539
2018-2022	368,144	194,548	562,692
2023-2027	487,273	75,419	562,692
2028	9,335	44	9,379
	<u>\$1,142,896</u>	<u>\$554,561</u>	<u>\$1,697,457</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Primary Government (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2012 is composed of the following loans payable to the Maryland Department of Natural Resources:

Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$6,582, without interest, guaranteed by the full faith and credit of the County.	\$ 26,328
Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of \$11,040, without interest, modified during fiscal year 1993 to twenty-two varying annual payments without interest, guaranteed by the full faith and credit of the County.	40,725
Holly Point Shore Erosion Control, originally payable in twenty-five annual installments of \$10,029 without interest, guaranteed by the full faith and credit of the County.	200,570
Villas on Waters Edge Shore Erosion, payable in twenty annual installments of \$21,796, without interest, guaranteed by the full faith and credit of the County.	422,408
Kingston Creek Waterway #2, payable in twenty-five annual installments of \$10,544, without interest, guaranteed by the full faith and credit of the County.	<u>263,591</u>
	<u>\$ 953,622</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Primary Government (continued)

The annual requirements to amortize all debt outstanding as of June 30, 2012, including interest of \$24,903,432, except for the accrued landfill closure and postclosure costs, accumulated unpaid leave benefits, exempt financing, surplus property debt and Maryland Water Quality Loans, are as follows:

<u>Years Ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 21,688,624	\$ 7,183,594	\$ 28,872,218
2014	6,972,513	2,529,221	9,501,734
2015	7,138,267	2,342,499	9,480,766
2016	7,293,665	2,152,399	9,446,064
2017	7,460,083	1,956,020	9,416,103
2018-2022	35,602,847	6,277,869	41,880,716
2023-2027	15,263,462	2,144,473	17,407,935
2028-2032	5,890,467	317,357	6,207,824
2033-2037	52,711	-	52,711
Total	\$ 107,362,639	\$ 24,903,432	\$ 132,266,071

A summary of the totals above by debt type is as follows:

	<u>General Obligation Bonds</u>	<u>Hospital Bonds</u>	<u>State Loans</u>	<u>Special Assessment Fund</u>	<u>Total</u>
Principal	\$ 91,422,000	\$ 14,030,000	\$ 957,017	\$ 953,622	\$ 107,362,639
Interest	20,437,837	4,465,595	-	-	24,903,432
	<u>\$ 111,859,837</u>	<u>\$ 18,495,595</u>	<u>\$ 957,017</u>	<u>\$ 953,622</u>	<u>\$ 132,266,071</u>

Note: June 30, 2013 reflects the fully redeemed 2002 Hospital Bonds as of October 1, 2012.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units

St. Mary's County Public Schools

Long-term Liabilities

General long-term debt at June 30, 2012, consists of accumulated compensated absences payable and net OPEB obligation. The following is a summary of changes in the School System's general long-term liabilities for the year ended June 30, 2012.

	<u>Balance June 30, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Amounts due Within one year</u>
Governmental activities:					
Compensated absences	\$ 4,125,379	\$ 172,314	\$ (294,622)	\$ 4,003,071	\$ 545,704
Net OPEB obligation	<u>18,928,217</u>	<u>12,481,000</u>	<u>(6,375,837)</u>	<u>25,033,380</u>	<u>-</u>
	<u>\$23,053,596</u>	<u>\$12,653,314</u>	<u>\$ (6,670,459)</u>	<u>\$29,036,451</u>	<u>\$ 545,704</u>
Business-type activities:					
Compensated absences	<u>\$ 105,072</u>	<u>\$ 32,261</u>	<u>\$ (3,782)</u>	<u>\$ 133,551</u>	<u>\$ 10,231</u>

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

St. Mary's County Library

Long-term debt

Long-term debt consists of accrued compensated absences. The following is a summary of the changes in long-term debt for the year ended June 30, 2012:

	<u>Balance July 1, 2011</u>	<u>Increase</u>	<u>Balance June 30, 2012</u>	<u>Amounts due within one year</u>
	\$ 138,481	\$ 31,009	\$ 107,472	\$ -

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission

Long-term debt

Long-term bonds payable as of June 30, 2012 are as follows:

Bonds payable				
<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Twelfth Issue	1996-2013	3.9 - 5.25%	\$ 235,000	\$ 12,337
Seventeenth Issue	2006-2019	2.75 - 4.40%	3,520,000	550,180
Twenty-first Issue	2007-2021	3.65 - 4.275%	755,300	158,017
Twenty-third Issue	2008-2027	3.5 - 4.25%	6,581,336	2,504,694
Twenty-seventh Issue	2011-2030	0.75% - 4.31%	5,852,083	2,532,464
Thirtieth Issue	2012-2029	2.96%	<u>1,375,249</u>	<u>1,375,249</u>
			18,318,968	7,132,941
Less current portion			<u>1,391,898</u>	<u>741,867</u>
Total			<u>\$16,927,070</u>	<u>\$6,391,074</u>

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2012 are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013 (current)	\$ 1,391,898	\$ 741,867
2014	1,198,277	693,592
2015	1,238,376	654,605
2016	1,287,695	613,366
2017	1,334,884	571,327
2018-2022	5,515,199	2,186,337
2023-2027	4,891,026	1,349,718
2028-2030	<u>1,461,613</u>	<u>322,129</u>
	<u>\$18,318,968</u>	<u>\$7,132,941</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Redemption – Twelfth Issue

Optional redemption

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

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

Fourteenth Issue

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

This bond was refinanced with SunTrust Bank effective March 15, 2012 as the Thirtieth Issue.

Seventeenth Issue

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

The bonds may be prepaid at the following premiums:

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

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

These bonds have been restated to the amount of the bond. The deferred loss on the advance refunding has been reclassified to deferred bond issue costs.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Twenty-first Issue

On April 15, 2006, the Commission issued Refunding Bonds on April 5, 2006 in the principal amount of \$1,158,700. The bonds mature on May 1, in 15 annual installments, beginning in 2007 and ending in 2021. Interest is payable on November 1, 2006 and semiannually thereafter on each May 1 and November 1 to maturity.

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

The bonds were issued to refund all the outstanding maturities of the Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). These bonds were issued with a true interest cost ranging from 3.65% to 4.275% to refund certain maturities of \$620,000 in outstanding 1996 series A bonds the Thirteenth Issue, with a coupon rate of 5.579% and \$500,000 in outstanding 1995 series A bonds the Tenth Issue, with an average interest rate of 6.24%. These bonds were issued to take advantage of a favorable interest rate environment. The net proceeds (including interest and premium) of \$1,131,200 were deposited with an escrow agent to provide for all future debt service payments of the refunded bonds.

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

Twenty-third Issue

On November 14, 2007, the Commission issued \$10,889,100 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2012, MetCom had drawn only \$8,561,736 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2008 and ending in 2027. Interest rates on the bonds range from 3.5% to 4.25%. Interest is payable on May 1, 2008 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2017. Any partial prepayment shall not be less than the outstanding balance or \$50,000, whichever is less.

Twenty-seventh Issue

On August 25, 2010, the Commission issued \$12,613,963 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2012, MetCom had drawn only \$6,838,245 of the proceeds.

The bonds mature on May 1, in 20 annual installments, beginning in 2011 and ending in 2030. Interest rates on the bonds range from 0.75% to 4.31%. Interest is payable on November 1, 2010 and semiannually thereafter on each November 1 and May 1 to maturity. The bonds may be prepaid, in whole or in part, at any time after June 1, 2020. Any partial repayment shall not be less than the outstanding balance or \$50,000, whichever is less.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Thirtieth Issue

On March 15, 2012, MetCom issued refunding bonds in the principal amount of \$1,448,492. The bonds mature on May 1, in 18 annual installments, beginning in 2012 and ending in 2029. Interest was payable May 1, 2012 and semiannually thereafter on each May 1 and November 1 until maturity.

The bonds may be prepaid at the following premiums:

<u>Period</u>	<u>Price</u>
May 1, 2020 through April 30, 2021	102%
May 1, 2012 through April 30, 2022	101%
On or after May 1, 2022	100%

The bonds were issued to refund all the outstanding maturities of Financing Bond Issue number fourteen, issued in conjunction with the Maryland Community Development Administration (CDA). These bonds were issued with an interest rate of 2.96% that may be increased up to 3.4% in the event of a decrease in the marginal maximum corporate income tax rate. The refunded bonds had a true interest cost ranging from 4.5% to 5.0%. These bonds were issued to take advantage of a favorable interest rate environment.

MetCom refunded these bonds to reduce its total debt service payments by \$249,357 and to obtain an economic gain of \$197,055.

Notes, leases, and loans payable

Notes, leases and loans payable as of June 30, 2012 are as follows:

<u>Description</u>	<u>Due</u>	<u>Rate</u>	<u>Principal</u>	<u>Interest</u>
Sixth Issue	2017	6.682%	\$ 74,323	\$ 15,540
MD Water Quality Loan #11	2017	4.26%	1,382,731	181,625
MD Water Quality Loan #15	2020	2.70%	388,030	48,610
MD Water Quality Loan #16	2023	1.20%	305,527	19,222
MD Water Quality Loan #18	2025	1.10%	3,178,821	250,123
MD Water Quality Loan #19	2024	1.10%	639,592	46,648
MD Water Quality Loan #20	2024	1.10%	798,607	43,434
MD Water Quality Loan #22	2027	1.10%	873,865	71,902
MD Water Quality Loan #25	2029	1.00%	172,160	15,885
MD Water Quality Loan #26	2030	1.00%	529,369	52,301
MD Water Quality Loan #28	2030	2.20%	424,854	94,255
SunTrust Bank Loan #29	2016	2.03%	<u>241,310</u>	<u>11,188</u>
			9,009,189	850,733
Less current portion			<u>877,634</u>	<u>159,780</u>
Total			<u>\$ 8,131,555</u>	<u>\$ 690,953</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2012, are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013 (current)	\$ 877,634	\$ 159,780
2014	897,456	139,364
2015	917,920	118,906
2016	939,053	97,769
2017	927,362	76,112
2018-2022	2,789,628	197,954
2023-2027	1,460,778	54,949
2028-2030	<u>199,358</u>	<u>5,899</u>
	<u>\$9,009,189</u>	<u>\$ 850,733</u>

As of June 30, 2012, MetCom has ten loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eight amounting to \$1,326,045 were used to finance the Marley-Taylor WRF Interim Expansion. This loan was paid in full in FY12. Proceeds from loan number eleven of \$4,177,116 were used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. Loan number fifteen for \$835,000 was drawn during the year ended June 30, 2000 for the purposes of financing an office building for the administrative use of MetCom. Loan number sixteen for \$567,680 was used to upgrade the Leonardtown wastewater treatment plant. Loan number eighteen for \$4,712,200 was used to upgrade the Marley-Taylor WRF. Loan number nineteen for \$976,700 was used to replace the Lexington Park Wastewater Pumping Station. Loan number twenty for \$1,466,576 was for water meter installations. Loan number twenty-two for \$1,136,984 was used for the Andover Road/Estates sewer projects and for arsenic remediation wells. Loan number twenty-five for \$191,593 was used for the Hollywood Water Extension to provide arsenic remediation. Loan number twenty-six for \$582,547 is to be used for Patuxent Park Sewer Line Repair and the Marley-Taylor Powered CoGeneration Project. Loan number twenty-eight for \$443,927 was used for the St. Clements Shore Well. Loan number twenty-nine is with SunTrust Bank in the amount of \$270,682 at an interest rate of 2.03%. The proceeds of this loan were used to purchase a Vactor truck.

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2012 were as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts due</u> <u>Within one year</u>
Bonds payable	\$15,915,146	\$5,498,643	\$3,094,821	\$18,318,968	\$1,391,898
Notes, leases and loans payable	<u>9,670,120</u>	<u>274,625</u>	<u>935,556</u>	<u>9,009,189</u>	<u>877,634</u>
Total long-term debt	<u>\$25,585,266</u>	<u>\$5,773,268</u>	<u>\$4,030,377</u>	<u>\$27,328,157</u>	<u>\$2,269,532</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission

Long-term Debt

Changes in Long-term Debt

The changes in long-term debt for the year ended June 30, 2012 were as follows:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts due</u> <u>within one year</u>
Bonds payable	<u>\$ 3,965,000</u>	<u>\$ -</u>	<u>\$1,240,000</u>	<u>\$ 2,725,000</u>	<u>\$ 1,295,000</u>

Nursing Home Refunding Bonds

General

The refunding bonds are dated December 2, 2003 and were issued in the aggregate principal amount of \$6,230,000.

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

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

Optional redemption

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

Nursing Home Refunding Bonds (continued)

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

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

As part of the transfer of the Nursing Center building to the St. Mary's County Nursing Home, Inc., an escrow account was established in order to implement the optional redemption on July 15, 2013. The intent is to complete the optional redemption on July 15, 2013. The proceeds of the property transfer were determined to be the amount needed to defease the bonds as of that date.

State Office Building Refunding Bonds

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

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

Redemption provisions

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Optional redemption

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

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

Mandatory extraordinary redemption

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

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

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

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

Selection of certificate to be redeemed

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Notice of redemption

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

Security and sources of payment for the certificates

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

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

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

The annual requirements to amortize the principal of all bonds outstanding as of June 30, 2012 are as follows:

<u>Years</u>	<u>State Office Building</u>	<u>Nursing Home</u>	<u>Total</u>
2013	\$ 715,000	\$ 580,000	\$ 1,295,000
2014	<u>-</u>	<u>1,430,000</u>	<u>1,430,000</u>
	<u>\$ 715,000</u>	<u>\$ 2,010,000</u>	<u>\$ 2,725,000</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

The annual requirements to amortize the interest, net of interest earned on escrow, of all bonds outstanding as of June 30, 2012 are as follows:

<u>Years</u>	<u>State Office Building</u>	<u>Nursing Home</u>	<u>Total</u>
2013	\$ 30,638	\$ 41,206	\$ 71,844
2014	<u>-</u>	<u>16,878</u>	<u>16,878</u>
	<u>\$ 30,638</u>	<u>\$ 58,084</u>	<u>\$ 88,722</u>

As part of the transfer of the asset to the St. Mary's County Nursing Center, Inc., the Nursing Center deposited funds into restricted investment accounts in an amount adequate to defease the bonds on July 15, 2013.

<u>Type of Security</u>	<u>SLGS Maturity Date</u>	<u>Par Amount</u>	<u>Interest</u>	<u>Rate</u>	<u>Net Escrow Receipts</u>	<u>Present Value to 06/28/10 @ 0.9954321%</u>
SLGS - Note	7/15/12	\$ 604,409	\$ 10,930	0.720%	\$ 615,339	\$ 602,957
SLGS - Note	1/15/13	16,797	8,755	0.960%	25,552	24,913
SLGS - Note	7/15/13	<u>1,457,778</u>	<u>8,674</u>	1.190%	<u>1,466,452</u>	<u>1,422,745</u>
		<u>\$ 2,078,984</u>	<u>\$ 28,359</u>		<u>\$ 2,107,343</u>	<u>\$ 2,050,615</u>

The Building Authority retained financial advisors to assist in the determination of amounts and rates required to equate to the debt service payments required on the bonds. The intent is to complete the optional redemption on July 15, 2013.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

8. Fund balances

A summary of the nonspendable, restricted, committed, assigned and unassigned fund balances as of June 30, 2012 is as follows:

	Special Revenue Funds			Debt Service Fund	
	General Fund	Fire & Rescue Revolving	Emergency Support	Special Assessments	Capital Projects Fund
Nonspendable					
Inventory	\$ 786,922	\$ -	\$ -	\$ -	\$ -
Total Nonspendable	<u>786,922</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted					
Domestic Violence Programs	5,850	-	-	-	-
County Matching Funds for Approved Grants	71,604	-	-	-	-
Funding Sources Specified for Capital Projects					
Land Preservation	-	-	-	-	672,813
Various Capital Projects - Transfer Tax	-	-	-	-	8,257,660
County Pay-Go	-	-	-	-	7,613,057
Roads- Impact Fees	-	-	-	-	1,750,983
Roads- Mitigation	-	-	-	-	433,333
Parks- Impact fees	-	-	-	-	883,329
Parks- Mitigation	-	-	-	-	46,753
Schools- Impact Fees	-	-	-	-	7,456,468
Schools-Mitigation	-	-	-	-	34,125
Total Restricted	<u>77,454</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,148,521</u>
Committed					
NextGen Contract	7,993,259	-	-	-	5,996,923
Bond rating reserve	11,892,240	-	-	-	-
CIP Pay-Go	7,500,000	-	-	-	-
County OPEB	1,000,000	-	-	-	-
BOE OPEB	1,000,000	-	-	-	-
Housing OPEB	1,060,000	-	-	-	-
Other, Net, Including bonds and grants	21,206	1,111,296	1,455,681	-	(5,930,558)
Total Committed	<u>30,466,705</u>	<u>1,111,296</u>	<u>1,455,681</u>	<u>-</u>	<u>66,365</u>
Assigned	3,819,813	-	-	(286,966)	4,234,333
Unassigned	24,897,353	-	-	-	-
Total Fund Balances (deficit)	<u>\$ 60,048,247</u>	<u>\$ 1,111,296</u>	<u>\$ 1,455,681</u>	<u>\$ (286,966)</u>	<u>\$ 31,449,219</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

8. Fund balances (continued)

St. Mary's County spends funds in the following order: committed, then assigned, then unassigned.

The Board of County Commissioners (BOCC) is the highest level of decision-making authority, and committed funds are established by resolution, legislation, ordinance, and/or contractual action through the budget process. Those committed amounts cannot be used for any other purpose without BOCC action.

The authority for assigning fund balance is delegated to the Finance Department by the BOCC to carry out their approved plan.

The nonspendable fund balance includes:

Inventory - The amount of inventory at June 30, 2012, carried as an asset.

The restricted fund balance includes:

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

County matching funds for approved grants – The amount of county funding that is committed as a match to grants that were budgeted in FY2011, but for which the period extends beyond June 30, 2011. These funds will be needed to meet the obligations of the grant.

Revenues appropriated for capital projects - The amount of revenue collected to date, which has been obligated through the budget process for specific capital projects, and will be used for future capital project expenses.

The committed fund balance includes:

Contractual Commitment for the NextGen system and related equipment

Bond Rating Reserve – set at a minimum of 6% of the next year's revenues

Fund balance appropriated as a part of the FY2013 budget for supplemental payments for OPEB (County, Board of Education, and Housing) as well as the transfer of pay-go funding to the FY2013 capital budget, identified for the BRAC infrastructure project.

Other – principally the balances in the special revenue funds, offset by deficits in the special assessments and capital projects funds. The capital projects deficit occurs due to the fact that the County expended capital costs in advance of the sale of bonds, which is scheduled for late FY2013.

The debt service fund assigned fund balance includes:

Retirement of long-term obligations - The amount of future revenue (collections) of Special Assessments that is legally restricted to expenditures for specified purposes. This future revenue will be used for the retirement of long-term obligations.

The general fund assigned fund balance is composed of:

Rainy Day Fund	\$1,625,000
Encumbrances (excluding NextGen contract)	1,619,648
Miscellaneous revolving fund	575,165
	<u>\$3,819,813</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

8. Fund balances (continued)

The unassigned fund balance includes \$19 million of prior year funds intentionally not appropriated in the FY2013 budget. The fund balance was accumulated as a result of actions and events that occurred beginning in FY2007 and FY2008, when due to the economy, the County experienced significant positive variances in several revenue accounts, attributable to the robust activity in the real estate market and double digit increases in assessed values. Not all of the revenue variances were committed to fund recurring operating costs, because they were at levels well above what could be expected on a recurring basis. For example, in FY2008, recordation tax reached \$13,000,000; in FY2013 that revenue is \$4,500,000. These revenues were saved to help address the economic downturn that was taking shape, including severe cuts in funding and costs shifted from the State. The Board also took a variety of actions to cut expenses, as well. And savings were not re-aligned to fund other costs, but accrued to the fund balance. Given the volatility of the economy, including the State and Federal budget situations, the Board determined that a multi-year plan to use unassigned fund balance was warranted.

The multi-year plan applies fund balance in ways that will reduce future annual operating costs for periods up to 20 years. Using fund balance instead of bonds for a capital project already in the plan translates to annual cost savings in debt service of \$750,000 for every \$10 million applied. Similar savings can be achieved by applying fund balance to pay down the accrued liability for accumulated unfunded retiree health benefits. The plan developed uses the fund balance over a 4 year period. However, the plan doesn't apply all of that fund balance because we believe it is also important to have the flexibility to address needs such as Hurricane Irene, as and when they arise. Unassigned fund balance can help avoid sudden disruption or elimination of services, by allowing time for a plan to be developed to address such changes or cost shifts from the State. And, given the still uncertain economy, it can help the County to weather negative revenue results for a limited period of time.

In May 2012, as a part of the approval of the FY2013 budget, the Board approved a multi-year plan to use fund balance, as follows:

FY2013

\$10,560,000 committed in the Approved FY2013 Budget, as outlined previously

FY2014

\$1,000,000 for supplemental funding of the County retiree health (OPEB) trust

\$2,000,000 for supplemental funding of the Board of Education retiree health (OPEB) trust

FY2015

\$1,000,000 for supplemental funding of the County retiree health (OPEB) trust

\$2,000,000 for supplemental funding of the Board of Education retiree health (OPEB) trust

\$800,000 to fund the acquisition of furniture and equipment associated with the renovation and expansion of the Adult Detention Center

FY2016

\$10 million to fund planned capital projects with pay-go instead of bonds

Each subsequent budget will include evaluation of the fund balance levels and assumptions upon which the plan was developed to determine whether it needs to be revised.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans

Primary Government

Plan description

Eligible employees of the County participate in retirement plans of the State Retirement and Pension System of Maryland (the System). The System is a cost sharing multiple-employer defined benefit pension plan administered in accordance with Article 73B of the annotated Code of Maryland by the State Retirement Agency of Maryland (SRA) to provide survivor, disability, and retirement benefits to State and local government employees, teachers, police, correctional and law enforcement officers, judges, and legislators. The SRA operates under the direction of a 14-member Board of Trustees, which establishes policy, oversees investments, and represents various employee interests. The State of Maryland is obligated for the payment of all pension annuities, retirement allowances, refunds, reserves and other benefits of the System. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. The System is a component unit of the State of Maryland's financial reporting entity and is included in the State's financial statements as a pension trust fund. The County's total payroll for the year ended June 30, 2012 was \$40,568,687, of which \$20,876,396 was covered under the System.

Eligible County employees participate in one of two plans:

- a) The Employees' Retirement System, established October 1, 1941 (closed to all new members in January 1980). Membership is a condition of employment. Members participate under one of three options: Plan A – member elected to pay a higher contribution rate (generally 7% of pay) to maintain all benefits, including unlimited cost-of-living adjustments; Plan B – member continued pre-1984 contribution rate (generally 5% of pay) to maintain all benefits except unlimited cost of living. Cost of living adjustments are capped at 5%; Plan C – member chose a combination, or two part (bifurcated) benefit. The portion of the service prior to the election is calculated at retirement as a Retirement System benefit; the portion of service after the election is calculated at retirement as a Pension System benefit.
- b) The Employee's Pension System, established January 1, 1980. Membership is a condition of employment. Members contribute 5% of earnable compensation.

Plan benefits

Members of the Employees' Retirement Systems qualify for a normal service retirement upon attaining the age of 60, regardless of service or upon accumulating 30 years of eligibility service, regardless of age. The annual retirement allowance for members who opted to join Plan A or B equals 1/55 of a member's average final compensation (AFC) for each year of creditable service. For members of Plan C (bifurcated plan), a two part calculation is required. Part of Plan C benefits are calculated using the Retirement System formula. The remainder of the benefit is calculated using the Pension System formula. A member may retire with reduced benefits after completing 25 years of eligibility service.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Primary Government (continued)

Plan benefits (continued)

1. Members of the Employees' Pension Retirement System hired prior to July 1, 2011
 - a. Members are eligible for full retirement benefits upon attaining at least age 62 with five years of eligibility service, or upon accumulating 30 years of eligibility service regardless of age. The annual pension allowance is equal to 1.2% of AFS times years of creditable service to June 30, 1998, plus 1.8% times of AFS times years of credit after July 1, 1998. A member may retire with reduced benefits at age 55 with 15 years of service.
2. Members of the Employees' Pension System hired on or after July 1, 2011 (Reformed Contributory Pension Benefit)
 - b. Eligibility for normal service retirement is determined by the Rule of 90. Members become eligible once the sum of their age and eligibility service is at least 90. The annual pension allowance is equal to 1.5% of AFS times years of creditable service to June 30, 1998, plus 1.8% times AFS times years of credit after July 1, 1998. A member may retire with reduced benefits at age 60 with 15 years of service.

Various retirement options are available under each System which ultimately determines how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's or spouse's attained age and similar actuarial factors.

Retirement and pension allowances are increased annually to provide for changes in the cost of living in accordance with prescribed formulae. Under the Reformed Contributory Pension Benefit, eligible retirees will receive a COLA capped at 2.5% when the system's investment fund earns or exceeds its assumed actuarial rate of return (currently 7.75%) or capped at 1% in years when the assumed actuarial rate is not met.

For all other plans, a two-part adjustment applies. For service earned before July 1, 2011, the COLA rate is capped at 3% and is not tied to investment performance. For service earned on or after July 1, 2011, the same caps apply as for retirees of the Reformed Contributory Pension Benefit.

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

Funding status and progress

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

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 2010. The significant actuarial assumptions used in the actuarial valuations include (a) rate of return on the investment of 7.75% compounded annually (adopted June 30, 2003), (b) projected salary increases of 3.5% per year compounded annually, attributable to inflation (adopted June 30, 2007), (c) additional projected salary increases ranging from 0.00% to 8.5% per year, attributable to seniority and merit (adopted June 30, 2007), (d) post-retirement benefit increases ranging from 2.75% to 3.5% per year depending on the system (adopted June 30, 2009), (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 2003 through 2006 (adopted June 30, 2007), and (f) an increase in the aggregate active member payroll of 3.5% annually (adopted June 30, 2007).

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Primary Government (continued)

Funding status and progress (continued)

At June 30, 2011, the System's unfunded pension benefit obligation (i.e., pension benefit obligation less net assets available for benefits) in accordance with GASB No. 25 was as follows:

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 31,901,090,890
Current employees	<u>24,016,451,922</u>
Total pension benefit obligation	55,917,542,812
Net actuarial assets available for benefits	<u>36,177,655,993</u>
Unfunded actuarial pension benefit obligation	<u>\$ 19,739,886,819</u>

The schedule below (expressed in thousands) presents the actuarial value of the System's assets and the actuarial accrued liability as of June 30, 2011 and the preceding two years. The schedule is intended to help the users assess the funding status of the System.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Actuarial value of assets	\$36,177,656	\$ 34,688,346	\$ 34,284,569
Actuarial accrued liability (AAL)	<u>55,917,543</u>	<u>54,085,081</u>	<u>52,729,171</u>
Unfunded AAL	<u>\$19,739,887</u>	<u>\$ 19,396,735</u>	<u>\$ 18,444,603</u>
Funded ratio	64.70%	64.14%	65.02%
Covered payroll	\$10,478,800	\$ 10,657,944	\$ 10,714,241
Unfunded AAL as a % of payroll	188%	182%	172%
Annual required contributions	\$2,035,401	\$ 1,519,980	\$ 1,313,560
Percentage contributed	74%	86%	84%
Net pension obligation	\$ -	\$ -	\$ -

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Primary Government (continued)

Contributions required and made

The State Personnel and Pensions Article of the Annotated Code of Maryland requires contributions by active members and their employers. Rates for required contributions by active members are established by law. Members of the Employees' Retirement Systems are required to contribute 7% (or 5% depending upon the plan option selected) of earnable compensation. Members of the Employees' Pension Systems are required to contribute 7% of earnable compensation.

Employer contributions totaling \$612,277,000 for fiscal year 2011 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2011. Employer contributions consisted of normal cost and amortization of the unfunded actuarial accrued liability in distinct layers. The UAAL which existed at July 1, 1980 is being amortized over a 40-year period. Each new layer of the UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate annual layers over a 25-year period. Employee contributions, which are applied to normal cost, for fiscal year 2011 totaled approximately \$528,028,000. The County's contributions to the System for the year ended June 30, 2012 were \$2,460,495.

Historical trend information

Historical trend information which provides data about the Systems' progress made in accumulating sufficient assets to pay pension benefits when due is presented immediately following the notes to the financial statements in the System's comprehensive annual financial report for the fiscal year ended June 30, 2011.

Sheriff's Department plan

Effective date

The effective date of the plan is July 1, 1986, with amendments effective October 2000, September 2006, June 2007 and July 2008.

Participation

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

Participants are required to make mandatory contributions to the plan equal to 8% of annual compensation. Employee contributions are credited with interest at the rate of 4% per annum. The County pays the entire remaining cost of the plan.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Credited service

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

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

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

- a. Service while a participant of the plan; plus
- b. Military service, not in excess of five years is on an incremental basis, with up to one year of service each time the participant completes four years of eligibility service, and
- c. Any approved leave of absence up to 12 months.

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

Final average earnings

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

Normal retirement

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

The amount of the annual retirement income shall be equal to the lesser of: (1) 80% of the Participant's average compensation, plus the Participant's unused sick leave, or (2) the sum of:

- (i) 2.5% of the Participant's average compensation multiplied by the number of years (and fractional years) of credited service earned by, or credited to, the Participant on and after July 1, 2008, plus
- (ii) 2.0% multiplied by all years (and fractional years) of credited service earned by, or credited to, the Participant prior to July 1, 2008.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Early retirement

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

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

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

Late retirement

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

Amount - The amount of the postponed retirement benefit is determined in the same manner as the normal benefit, based on final average earnings and credited service at the time of actual retirement subject to a maximum benefit of 80% of the Participant's average compensation.

Disability benefit

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

Amount - The annual benefit is equal to 1.6% of the participant's final average earnings for each year of credited service not in excess of 35 years. For line of duty disability, the annual benefit is equal to 66% of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions, if the disability qualifies as a catastrophic disability pursuant to the Plan. For a line of duty disability which is non-catastrophic, the annual benefit is equal to 1/2 of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions pursuant to the Plan.

Pre-retirement death benefit

Lump sum benefit

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

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

Survivor's pension

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Survivor's pension (continued)

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

Deferred vested benefit

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

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

Withdrawal benefit

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

Form of benefit

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Post-retirement pension increases

Each July 1, a 3% cost of living increase will be granted to retired participants or spouses whose benefit has been in pay status at least one year. The cost of living increase also applies to deferred benefits.

Actuarial methods and assumptions

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

Employee data - The employee data used in the determination of cost estimates consists of pertinent information with respect to participants as of July 1, 2010.

Valuation Date - July 1, 2010. The Board of Trustees elected to have the actuarial valuation period as of July 1, as opposed to the January 1 date formerly used. This is more timely for contribution budget considerations.

Actuarial Funding Method - The actuarial valuation has been completed using the projected unit credit method.

Rate of Investment Return - An average net rate of 7.5% (prior assumption was 7.75%) per annum (after investment expenses are deducted) is assumed as the annual rate of investment return (including appreciation and depreciation, realized and unrealized).

Salary Scale - Salary scale is based on years of service (lower serviced participants are assumed to have a 7% increase which grades down to an assumed 4% increase for higher serviced participants).

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

Annual Probability of Severance - At death - Pre-retirement mortality has been assumed to follow the RP-2000 Blue Collar Mortality tables. Post-retirement mortality has been assumed to follow the pre-retirement mortality for employees retiring on all but total and permanent disability. Post-retirement mortality for disabled lives has been assumed to follow the pre-retirement mortality set forward 3 years.

Development of plan costs

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Development of plan costs (continued)

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

Recommended contribution level

Recommended contributions are based on a 23-year amortization of the unfunded liability.

Key results:	<u>July 1, 2010</u>
Number of Participants:	
Active	202
Retired	37
Terminated vested	4
Refunds due	16
Disabled	<u>29</u>
Total	<u>288</u>
Total annual compensation of active participants	<u>\$ 11,780,389</u>
Actuarial accrued liability:	
Actives	\$ 34,861,527
Nonactives	<u>32,832,406</u>
Total	<u>\$ 67,693,933</u>
Assets	<u>\$ 39,168,790</u>
Unfunded actuarial liability	\$ 28,525,143
Normal cost with adjustments:	
Dollar amount	\$ 2,305,081
Percent of payroll	19.60%

The amount of the Sheriff's Department's current year covered payroll is \$14,331,648, and the Sheriff's Department's total payroll for all employees is \$14,808,510. The following employer contributions were made during the fiscal year ended June 30, 2012:

	<u>Contributions</u>	<u>% of Covered Payroll</u>
Retirement plan	\$ 4,211,077	35%
Voluntary supplemental contribution	805,000	N/A

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit

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

Eligibility and benefits

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

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

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

b. Beginning July 1, 1994, active volunteer fire and rescue squads and advanced life support unit personnel may select from two Length of Service program benefit options. Selection of a benefit option by the individual is irrevocable. The options, with rates reflected effective July 1, 2006, are:

1) Any person who has reached the age of sixty (60) and who has completed a minimum of twenty (20) years of certified active volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit, or combination thereof, shall receive two hundred dollars (\$200) per month, for life. Payments will begin in the month following eligibility.

An additional payment of eight dollars (\$8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

2) Any person who has reached the age of fifty-five (55) and who has completed a minimum of twenty (20) years of certified volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit or combination thereof, shall receive one hundred fifty dollars (\$150) per month for life.

An additional payment of eight dollars (\$8) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

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

Eligibility and benefits (continued)

- c. In the event that any active volunteer becomes disabled during the course of his or her service while actively engaged in providing such services and in the event that the disability prevents the volunteer from pursuing his or her normal occupation and in the event that the disability is of a permanent nature as certified by the Maryland Workmen's Compensation Commission or other competent medical authority as designated by The County Commissioners for St. Mary's County, then the volunteer is entitled to receive the minimum benefits prescribed above and any such benefits as he or she may be entitled to regardless of his or her age or length of service. These benefits will begin on the first day of the month following the establishment of the permanency of his or her disability.
- d. In the event that any qualified volunteer shall die while receiving benefits, then his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's benefits. These benefits terminate upon death or remarriage of the spouse.
- e. In the event that a qualified volunteer dies prior to receiving any benefits under this section, his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's earned benefits. These benefits terminate upon death or remarriage of the spouse.
- f. In the event that an active volunteer dies in the line of duty, a burial benefit up to two thousand five hundred dollars (\$2,500) is payable.
- g. In the event that any active volunteer (herein defined as one who has at least two (2) years of qualifying service in the five (5) preceding years) attains the age of seventy (70) years and fails to achieve the required twenty (20) years of service, then the volunteer is entitled to a monthly benefit of the number of years of credited service completed, multiplied by eight dollars (\$8).

Point system

In order to qualify for benefits, points are credited to each volunteer as follows:

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

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

Point system (continued)

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

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

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

This length of service program is funded by The County Commissioners by annual appropriations. The total contribution for the fiscal year ended June 30, 2012 was \$668,721.

Component Units

St. Mary's County Public Schools

Pension Plans

Plan description

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Plan description (continued)

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

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

Funding policy

Both the "Retirement System" and the "Pension System" for teachers and non-certificated employees are jointly contributory. Under the "Retirement System" employees contribute 5 percent or 7 percent of their earnable compensation and under the "Pension System" employees contribute 2 percent of their earnable compensation. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Annual pension cost

St. Mary's County School System contributions totaling \$1,428,621 or 1.2 percent of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$14,905,956 or 13.0 percent of covered payroll for fiscal year 2011, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2010. Significant actuarial assumptions used, include (a) a rate of return on the investment of present and future assets of 7.75 percent per year compounded annually, (b) projected salary increases of 3.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00 percent to 8.5 percent per year, attributable to seniority/merit, (d) post-retirement benefit increases ranging from 2.75 percent to 3.5 percent per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from June 30, 2003 through June 30, 2006, and (f) an increase in the aggregate active member payroll is assumed to increase by 3.5 percent annually.

The actuarial value of assets is measured on both a market value and an actuarial or smoothed value basis. The actuarial smoothing method explicitly recognizes each year's investment gain or loss over a 5-year period with the final actuarial value not less than 80 percent or more than 120 percent of the market value of assets. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 10-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate layers over a 25-year period. A three-year trend of the School System's annual pension cost is as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Total Annual Pension Cost (APC)</u>	<u>APC Contributed By School System</u>	<u>APC Contributed By State</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2010	13,942,472	911,235	13,031,237	100%	-
2011	16,070,915	1,386,017	14,684,898	100%	-
2012	16,334,577	1,428,621	14,905,956	100%	-

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Library

Retirement and pension plan

Description

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

Maryland State Pension Systems

Participants in the Pension Plans contribute a percentage of their earning. For members in the plan prior to June 30, 2011, pensions normally start at age 62 or after 30 years' service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three consecutive years' pay. Cost of living increases are limited to 3% per annum. For new members enrolled on and after July 1, 2011, the employee contribution will be 7%; vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; average final compensation will be a five year average; the benefit multiplier per year will be 1.5%; and, cost of living adjustments on all benefit will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not.

Maryland State Retirement Systems

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

Funding Policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute from 5% to 7% of earnable compensation. Members of the pension systems are required to contribute 5% of compensation for the year ended June 30, 2012.

Contribution rates are established by annual actuarial valuations. The unfunded actuarial liability (UAAL) is being amortized, as a level percentage of payroll, in two distinct layers. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over a 40-year period (as provided by law) from July 1, 1980. Also, as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. Each separate amortized layer has a closed amortization period.

The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and more than 150 participating governmental units make all of the employer and other contributions to the System.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Library (continued)

Retirement and pension plan (continued)

Funding Policy (continued)

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2012, the Library's total payroll and payroll for covered employees were \$1,914,489 and \$1,784,560, respectively. The Library's contribution to the System was \$175,500 for the year ended June 30, 2012.

For fiscal year 2012, the State contributed \$251,984 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement Number 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 14.12% of covered payroll.

Actuarial Assumptions

- a. Investment Rate of Return – 7.75% compounded annually
- b. Projected payroll growth – 3.5% compounded annually due to inflation
- c. COLAs – 2.75%-3.5% per annum depending on the system

Trend information

	June 30		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Annual required contribution (in thousands)	\$2,035,401	\$1,519,980	\$1,313,560
Percentage contributed	74%	86%	84%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission

Retirement and pension plan

On March 18, 2004, MetCom adopted a Section 457 plan. Under the terms of the plan, employees may contribute up to 100% of their salary, up to the contribution limits, to the plan. No employer contributions are made to this plan.

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

Description

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

Maryland State Pension Systems

For members in the plan prior to July 1, 2011, pensions normally start at age 62 or after 30 years' service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three years' pay; the benefit multiplier will be 1.2% for years of credit earned up to June 30, 1998 and 1.8% for years of earned credit after June 30, 1998. Cost of living increases are limited to 3% per annum. For members enrolled on and after July 1, 2011, vesting will require ten years of eligibility service; service retirement will be at age 65 with ten years of eligibility service or based on the Rule of 90 (age and service must equal 90); early service retirement will be age 60 with 15 years of eligibility service; average final compensation will be a five year average; the benefit multiplier per year will be 1.5%; and, cost of living adjustments on all benefit will be 2.5% in years when the System interest assumption is met and 1.0% in years when it is not.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

9. Retirement plans (continued)

Component Units (continued)

Metropolitan Commission (continued)

Funding policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the Retirement Systems are required to contribute 5% of earnable compensation for the year ended June 30, 2012.

Contribution rates are established by annual actuarial valuations. The unfunded actuarial accrued liability (UAAL) is being amortized, as a level percentage of payroll, in distinct layers. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 40-year period (as provided by law) from July 1, 1980. Also as provided by law, any new unfunded liabilities or surpluses arising during the fiscal year ended June 30, 2001, or any fiscal year thereafter, will be amortized over a 25-year period from the end of the fiscal year in which the liability or surplus arose. Each separate amortized layer has a closed amortization period.

The State of Maryland, the Maryland Automobile Insurance Fund, the Injured Workers' Insurance Fund and more than 150 participating governmental units make all of the employer and other contributions to the System.

MetCom provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2012, MetCom's total payroll and payroll for covered employees were \$5,323,531 and \$4,352,238, respectively. MetCom's contribution to the System for the year ended June 30, 2012, was \$425,888.

Actuarial assumptions

- a. Investment Rate of Return – 7.75% compounded annually
- b. Projected payroll growth – 3.5% compounded annually due to inflation
- c. COLAs – 2.75%-3.5% per annum depending on the system

Trend information

	<u>2011</u>	<u>June 30</u> <u>2010</u>	<u>2009</u>
Annual required contributions (in thousands)	\$2,035,401	\$1,519,980	\$1,313,560
Percentage contributed	74%	86%	84%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

10. Segment information for enterprise funds

The County maintains three enterprise funds. Recreation services are accounted for in the recreation revolving fund. The Wicomico Municipal Golf Course operates a golf course, restaurant, and retail shop. The Solid Waste and Recycling Divisions are responsible for solid waste management, convenience center/landfill operations and recycling. Selected segment information for the year ended June 30, 2012 is as follows:

	<u>Recreation Activity Fund</u>	<u>Wicomico Municipal Golf Course</u>	<u>Solid Waste/ Recycling Fund</u>	<u>Total Enterprise Funds</u>
Operating revenue	\$2,142,628	\$1,366,489	\$ 2,770,644	\$ 6,279,761
Depreciation	\$ 1,725	\$ 123,331	\$ 135,134	\$ 260,190
Operating income (loss)	\$ 107,184	\$ (35,755)	\$ (681,307)	\$ (609,878)
General fund operating subsidy	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Change in net assets	\$ 140,187	\$ 113,463	\$ 1,044,369	\$ 1,298,019
Plant, property and equipment additions	\$ -	\$ -	\$ 725,676	\$ 725,676
Net working capital	\$ 217,327	\$ 187,190	\$ 798,703	\$ 1,203,220
Total assets	\$ 429,394	\$4,616,032	\$14,170,598	\$19,216,024
Total equity	\$ 231,505	\$3,166,512	\$13,705,093	\$17,103,110

11. Interfund balances

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2012:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Primary Government</u>		
<u>General Fund</u>		
Special Revenue Fund	\$ -	\$ 2,501,281
Debt Service Fund	283,898	-
Capital Projects Fund	-	31,716,786
Enterprise Fund	-	1,496,517
<u>Special Revenue Funds</u>		
General Fund	2,501,281	-
<u>Debt Service Fund</u>		
General Fund	-	283,898

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

11. Interfund balances (continued)

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
<u>Capital Projects Fund</u>		
General Fund	\$ 31,716,786	\$ -
<u>Enterprise Funds</u>		
General Fund	<u>1,496,517</u>	<u>-</u>
Total due from/to other funds	<u>\$ 35,998,482</u>	<u>\$ 35,998,482</u>
<u>Component Units</u>		
Component Unit-St. Mary's County Building Authority Commission	\$ 198,154	\$ -
Primary Government-General Fund	<u>-</u>	<u>198,154</u>
Total due to/from Primary Government to Component Unit	<u>\$ 198,154</u>	<u>\$ 198,154</u>

12. Mortgage receivable

The mortgage receivable amount reported represents the amount owed to the County by St. Mary's Hospital for the payment of the St. Mary's County Hospital Bonds of 2003 in the amount of \$14,030,000. The Bonds were defeased on November 17, 2011 and will be fully redeemed on October 1, 2012.

13. Commitments and contingencies

Primary Government

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

The County participates in a number of federally assisted grant programs, principal of which are the Departments of Education, Health and Human Services and Health and Mental Hygiene grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for the year ended June 30, 2012 have not yet been completed. Accordingly, the County's compliance with applicable grant requirements will be verified in connection with performing the County's Single Audit. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

Component Units

St. Mary's County Public Schools

Legal Proceedings

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

13. Commitments and contingencies (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

School Construction

As of June 30, 2012, the School System had entered into various school construction commitments which are not reflected in the Statement of Net Assets or Balance Sheet – Governmental Funds, since they will be funded by the State of Maryland or County bond issues, totaling approximately \$1,807,000.

Grant Program

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

St. Mary's County Library

Grant Audit

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

Support

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

14. Other post-employment benefits

Primary Government

The County adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, the County recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the County's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

14. Other post-employment benefits (continued)

Primary Government (continued)

Plan description

The County provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of five years of eligible County service entering an immediate retirement, family members of retirees and family members of deceased employees. The County pays a percentage of premiums based on the date of hire and number of years of service. For employees retiring prior to July 1, 2010, the percentage ranges from 26.6% with ten years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after July 1, 2010, range from 21.25% with 15 years of service to 85% with 30 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by the Board of County Commissioners.

Membership

At June 30, membership consisted of:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Retirees and Their Beneficiaries Currently Receiving Benefits	366	359	329
Active Employees	<u>639</u>	<u>667</u>	<u>682</u>
Total	<u>1,005</u>	<u>1,026</u>	<u>1,011</u>

The County's annual other post-employment benefit (OPEB) cost 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) was calculated as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Required Contribution	\$ 5,496,000	\$ 5,264,000	\$ 5,029,000
Interest on Net OPEB	(970,000)	(970,000)	(970,000)
Adjustment to ARC	<u>874,000</u>	<u>851,000</u>	<u>829,000</u>
Annual OPEB Cost	5,400,000	5,145,000	4,888,000
Contributions Made	5,046,386	3,107,632	3,271,666
Payments to Retirees	2,030,476	2,037,368	1,616,334
Net OPEB Obligation (Prepaid), Beginning of Year	<u>(16,171,623)</u>	<u>(16,171,623)</u>	<u>(16,171,623)</u>
Net OPEB Obligation (Prepaid), End of Year	<u>\$(17,848,485)</u>	<u>\$(16,171,623)</u>	<u>\$(16,171,623)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 79,275,000	\$ 78,251,000	\$ 73,285,000
Actuarial Value of Plan Assets	<u>31,418,000</u>	<u>28,799,000</u>	<u>24,400,000</u>
Unfunded Actuarial Accrued Liability	\$ 47,857,000	\$ 49,452,000	\$ 48,885,000
Funded Ratio (Value of Plan Assets/AAL)	39.6%	36.8%	33.3%
Covered Payroll (Active Plan Members)	\$ 35,208,044	\$ 35,556,564	\$ 35,562,940
UAAL as a percentage of covered payroll	135.93%	139.08%	137.49%

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

14. Other post-employment benefits (continued)

Primary Government (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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 1, 2011 actuarial valuation (report issued March 25, 2011), the liabilities were computed using the project unit credit method, with proration to benefit eligibility method. The actuarial assumptions included a 6.0% annual rate of return and an initial annual healthcare cost trend rate of 8.0%, decreasing 1% per year to an ultimate rate of 5.2%. The UAAL is being amortized as a level percentage of projected payroll over 30 years.

Component Units

St. Mary's County Library

The Library provides post-employment health benefits to eligible retirees. The Library paid for these benefits on a pay-as-you-go basis prior to the adoption of GASB Statement No. 45 on July 1, 2007. The new standard requires that these benefits be accounted for on an accrual basis. For the year ended June 30, 2012, the cost of these post-employment benefits was \$20,450, which includes adjustments for prior year estimates.

The Library adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB Statement No. 45, the Library recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on the Library's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

Plan description

The Library provides health, prescription and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of five years of eligible Library service entering an immediate retirement, family members of retirees and family members of deceased employees. The Library pays a percentage of premiums based on the date of hire and number of years of service. For employees retiring prior to July 1, 2010, or hired before July 1, 1991, regardless of retirement date, the percentage ranges from 26.6% with five years of service to 85% with 16 or more years of service. The percentages for employees retiring on or after July 1, 2010, range from 21.25% with 10 years of service to 85% with 25 years service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by The Library Board of Trustees.

Membership

At June 30, membership consisted of:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Retirees and Beneficiaries Currently Receiving Benefits	9	8	8
Active Employees	<u>17</u>	<u>17</u>	<u>17</u>
Total	<u>26</u>	<u>25</u>	<u>25</u>

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

14. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Library (continued)

Funding Policy

During FY08, the Library established a trust fund, the Retiree Health Benefit Trust of St. Mary's County Library, to fund certain retiree health benefits. The Library's funding policy is to contribute at least the funded expenses. The Net OPEB Obligation is overpaid by \$137,442 as of June 30, 2012.

Annual OPEB Costs and Net OPEB Obligation

The Library's annual other post-employment benefit (OPEB) cost 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The net OPEB obligation (NOPEBO) was calculated as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Required Contribution	\$ 115,000	\$ 95,000	\$ 87,000
Interest on Net OPEB	(16,000)	(10,000)	(10,000)
Adjustment to ARC	<u>15,000</u>	<u>9,000</u>	<u>9,000</u>
Annual OPEB Cost	114,000	94,000	86,000
Contributions Made	(195,950)	(71,548)	(54,223)
Net OPEB Obligation, Beginning of Year	<u>(55,492)</u>	<u>(77,944)</u>	<u>(109,721)</u>
Net OPEB Obligation, End of Year	<u>\$ (137,442)</u>	<u>\$ (55,492)</u>	<u>\$ (77,944)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 1,632,000	\$ 1,415,000	\$ 1,371,000
Actuarial Value of Plan Assets	<u>360,000</u>	<u>228,498</u>	<u>283,000</u>
Unfunded Actuarial Accrued Liability	<u>\$ 1,992,000</u>	<u>\$ 1,186,502</u>	<u>\$ 1,088,000</u>
Funded Ratio (Value of Plan Assets/AAL)	22.10%	16.10%	20.64%
Covered Payroll (Active Plan Members)	\$ 1,784,560	\$ 1,832,710	\$ 1,714,008
UAAL as a percentage of covered payroll	71.28%	64.74%	63.48%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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 1, 2010 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 6% annual rate of return and an initial annual healthcare cost trend rate of 8%, decreasing gradually each year to an ultimate rate of 5.9% in 2050 and a 3.5% payroll increase. The UAAL is being amortized as a level percentage of projected payroll over 30 years, closed basis, with 26 years remaining.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

14. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Library (continued)

Actuarial Methods and Assumptions (continued)

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 and healthcare cost trends.

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial value of assets was based on the estimated July 1, 2011 asset figure of \$360,000.

Metropolitan Commission

MetCom adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2008. In adopting GASB 45, MetCom recognizes the cost of post-employment health care in the year when the employee services are received, reports the accumulated liability from the prior years and provides information useful in assessing potential demands on MetCom's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2008 liability.

During FY08, MetCom established a trust fund, the Retiree Benefit Trust of St. Mary's County Metropolitan Commission, to fund certain retiree health benefits.

Plan description

MetCom provides health, prescription, dental and vision care insurance benefits to eligible retirees, retirees' family members and the family members of deceased employees. Eligible persons include employees with a minimum of ten years of eligible MetCom service entering an immediate retirement, family members of retirees and family members of deceased employees. MetCom pays a percentage of premiums based on the date of hire and number of years of service. For employees hired prior to May 10, 2007, the percentage ranges from 53.13% with ten years of service to 85% with 16 or more years of service. The percentages for employees hired on or after May 10, 2007, range from 21.25% with 15 years of service to 85% with 30 years of service. There is no statutory or contractual requirement to provide these benefits, and they may be changed or modified by MetCom's Board of Commissioners.

Membership

At June 30, membership consisted of:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Retirees and Beneficiaries Currently Receiving Benefits	9	9	9
Active Employees	<u>76</u>	<u>62</u>	<u>60</u>
Total	<u>85</u>	<u>71</u>	<u>69</u>

Funding Policy

MetCom's Board determines how much is contributed to the OPEB Trust as part of the budget process. It is MetCom's intention to fully fund the OPEB cost each year. The FY13 operating budget includes fully funding the OPEB cost. MetCom contributed \$538,000 to the trust in FY12. The Net OPEB Obligation is overpaid by \$283,984 as of June 30, 2012.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

14. Other post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission (continued)

Annual OPEB Costs and Net OPEB Obligation

MetCom's annual other post-employment benefit (OPEB) cost 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years. The following table shows the components of MetCom's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in MetCom's net OPEB obligation:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Required Contribution	\$ 541,000	\$ 434,000	\$ 409,000
Interest on Net OPEB	(20,000)	(20,000)	(20,000)
Adjustment to ARC	<u>17,000</u>	<u>17,000</u>	<u>16,000</u>
Annual OPEB Cost	538,000	431,000	405,000
Contributions Made	538,000	431,000	405,000
Net OPEB Obligation (Prepaid), Beginning of Year	<u>(283,984)</u>	<u>(283,984)</u>	<u>(283,984)</u>
Net OPEB Obligation (Prepaid), End of Year	<u>\$ (283,984)</u>	<u>\$ (283,984)</u>	<u>\$ (283,984)</u>

The funded status of the plan was as follows:

Actuarial Accrued Liability (AAL)	\$ 5,920,000	\$ 4,476,000	\$ 3,989,000
Actuarial Value of Plan Assets	<u>2,054,000</u>	<u>1,563,818</u>	<u>1,219,000</u>
Unfunded Actuarial Accrued Liability	<u>\$ 3,866,000</u>	<u>\$ 2,912,182</u>	<u>\$ 2,770,000</u>
Funded Ratio (Value of Plan Assets/AAL)	34.70%	34.94%	30.56%
Covered Payroll (Active Plan Members)	\$ 4,162,094	\$ 3,851,158	\$ 3,670,430
UAAL as a percentage of covered payroll	92.89%	75.62%	75.47%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 member to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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 1, 2011 actuarial valuation, the liabilities were computed using the project unit credit, with proration to benefit eligibility method. The actuarial assumptions included a 7% annual rate of return. The medical cost trend varied between 8 and 5.2% using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The rates include a 3.2% rate of inflation assumption. The UAAL is being amortized as a 30-year level percentage of projected payroll, closed basis, with 26 years remaining.

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 and healthcare cost trends.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

14. Other post-employment benefits (continued)

Component Units (continued)

Metropolitan Commission (continued)

Actuarial Methods and Assumptions (continued)

Amounts determined regarding the funded status of the plan and the annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial value of assets was based on the estimated July 1, 2011 asset figure of \$2,054,000.

St. Mary's County Public Schools

Plan description

The School System provides post-employment health care and life insurance benefits (OPEB) to employees, former employees, or beneficiaries who meet retirement eligibility requirements of the pension plans. Effective July 1, 2007, by terms of a negotiated contract with employee associations, the School System partially supports the group insurance plan for retired employees who have been employed by the School System for ten (10) or more years. These negotiated agreements provide that the School System will contribute from 45 percent to 65 percent of a retirees' group health insurance premium for years of experience ranging from 10 years to 30 or more years, respectively. In addition, the School System pays 100 percent of life insurance premiums based upon 50 percent of final salary coverage.

In March 2009, the School System established the Retiree Benefit Trust of the Board of Education of St. Mary's County (Trust) in order to facilitate the partial funding of the actuarially calculated OPEB liability. The Trust is administered by the Maryland Association of Boards of Education Pooled OPEB Investment Trust. The School System reserves the right to establish and amend the provisions of the trust with respect to participants, any benefit provided thereunder, or its participation therein, in whole or in part at any time, by resolution of its governing body and upon advance written notice to the Trustees.

Funding policy

The School System is required to contribute 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 cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The current ARC rate is 7.15 percent of annual covered payroll. The ARC consisted of the normal cost of \$5,563,000 and the amortization of unfunded accrued liability of \$6,778,000. The School System contributed \$6,375,838 for the year ended June 30, 2012 including \$3,703,838 towards current healthcare and life insurance premiums and an additional \$2,672,000 to prefund future benefits.

Annual OPEB Cost and Net OPEB Obligation

The School System had an actuarial valuation performed as of May 1, 2010 to determine the funded status of the plan as of that date as well as the School System's ARC for the fiscal year ended June 30, 2012. The annual OPEB cost (expense) for the year ended June 30, 2012 was \$12,481,000 which was comprised of the ARC of \$12,431,000 discussed above plus net interest on the net OPEB obligation. A historical trend of the School System's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation is as follows:

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

14. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Annual OPEB Cost and Net OPEB Obligation (continued)

<u>Fiscal Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 13,197,000	44.16%	\$ 9,994,640
2011	14,054,000	36.43%	18,928,217
2012	12,481,000	51.08%	25,033,380

Funded Status and Funding Progress

The funded status of the plan was as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarial Accrued Liability (AAL)	\$145,876,000	\$ 168,590,000	\$ 153,381,000
Actuarial Value of Plan Assets	<u>17,077,262</u>	<u>13,330,545</u>	<u>11,607,000</u>
Unfunded Actuarial Accrued Liability	<u>\$128,798,738</u>	<u>\$ 155,259,455</u>	<u>\$ 141,774,000</u>
Funded Ratio (Value of Plan Assets/AAL)	11.71%	7.91%	7.57%
Covered Payroll (Active Plan Members)	\$114,323,669	\$ 118,024,654	\$ 114,877,552
UAAL as a percentage of covered payroll	112.66%	131.55%	123.41%

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 regarding the funded status of the plan and the annual required contributions of the School System are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

14. Other post-employment benefits (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Actuarial Methods and Assumptions (continued)

In the May 1, 2010 actuarial valuation, the projected unit credit, with proration to assumed retirement date, actuarial cost method was used. Significant actuarial assumptions used, include (a) a rate of return on the investment of 4.75 percent per year compounded annually, (b) projected salary increases of 3.5 percent compounded annually (used for amortization purposes), (c) additional projected salary increases ranging from 4.31 percent to 10.76 percent per year, attributable to seniority/merit (used for life insurance purposes), (d) annual healthcare cost trend rate of 8.02 percent initially, reduced annually to arrive at an ultimate healthcare cost trend of 4.1 percent, (e) rates of mortality based upon RP-2000 Healthy Mortality Table, (f) termination of service rates based upon age and sex, ranging from 1.0 to 15.0 percent, (g) disablement rates based on age, ranging from 0.03 percent to 0.54 percent, (h) retirement rates based on age and length of service, ranging from 1.0 percent to 24.0 percent, and (i) medical claims including prescription drugs are based on actual experience during the period from April 1, 2008 through March 31, 2010, and were projected with annual increases of 9 percent for medical claims and 12 percent for prescription drug claims. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over a period of 27 years for year ended June 30, 2012.

15. Landfill closure and postclosure cost

State and federal laws and regulations require The County Commissioners for St. Mary's County to place a final cover on landfill sites when the site stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the County Commissioners for St. Mary's County report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$600,000 reported as landfill closure and postclosure care liability at June 30, 2012, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

Estimated closure and postclosure costs were taken from a 1990 Cost Analysis, for cell numbers three and five, and from current contract commitments for closure for cell numbers one, two and four. A 3% inflation factor was assumed. Postclosure costs are budgeted and paid annually.

16. Pass-through proceeds

The amount of grant funds passed through the County to the St. Mary's County Housing Authority for the fiscal year ended June 30, 2012 totaled \$136,859. These pass-through grants are recorded as pass-through revenue in the amount of \$136,859 and expenditures in the amount of \$136,859 on the Statement of Revenues and Expenditures.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2012

17. Risk management

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

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

Annual premiums are assessed for the various policy coverages. During fiscal year 2012, the County paid premiums of \$556,486 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000,000 for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

18. Self-insurance (Worker's Compensation)

The County self-insures its worker's compensation costs and liabilities. The County establishes its funding of claims liabilities as they occur. This funding level includes provisions for legal, medical and lost wages expenses which are all classified as incremental claim adjustment expenses. Unpaid claims in the self-insurance funds include liabilities for unpaid claims based upon individual case estimates for claims reported at June 30, 2012. The unpaid claims also include liabilities for incurred but not reported (IBNR) claims as of June 30, 2012.

19. Prior Period Adjustment

Primary Government

In prior years, there was an overstatement of unrestricted net assets due to corresponding assets of interfunds. This was a result of fixed assets purchased with general fund resources transferred to proprietary funds in prior years.

20. Subsequent Events

In preparing these financial statements, the County has evaluated events and transactions for potential recognition or disclosure through November 13, 2012, the date the financial statements were to be available to be issued. No events occurred during the subsequent period requiring recognition or disclosure in these financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES
AND OTHER FINANCING SOURCES AND USES
BUDGET (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Favorable (Unfavorable)
	Original	Final		Variance
REVENUES				
Property Taxes	\$ 99,515,305	\$ 99,515,305	\$ 100,043,223	\$ 527,918
Income Taxes	65,500,000	65,500,000	76,289,036	10,789,036
Energy Taxes	1,400,000	1,400,000	1,174,826	(225,174)
Recordation Taxes	4,600,000	4,600,000	4,286,638	(313,362)
Other Local Taxes	1,125,000	1,125,000	1,234,524	109,524
Highway User Revenues	369,448	369,448	372,661	3,213
Licenses and Permits	1,416,723	1,416,723	1,498,956	82,233
State/Federal Grants	11,242,598	13,243,621	12,421,869	(821,752)
Charges for Services	5,266,949	5,340,975	4,931,991	(408,984)
Fines and Forfeitures	142,500	142,500	54,805	(87,695)
Investment and Other Revenues	221,900	204,410	106,193	(98,217)
Sub-total	<u>190,800,423</u>	<u>192,857,982</u>	<u>202,414,722</u>	<u>9,556,740</u>
Pass-Throughs	-	-	136,859	136,859
TOTAL GENERAL FUND REVENUES	<u>190,800,423</u>	<u>192,857,982</u>	<u>202,551,581</u>	<u>9,693,599</u>
EXPENDITURES				
General Government	21,893,161	21,494,869	19,400,971	2,093,898
Public Safety	38,786,815	39,558,704	36,752,050	2,806,654
Public Works	8,238,030	8,236,667	7,667,288	569,379
Health	6,397,187	6,453,659	6,374,143	79,516
Social Services	3,809,553	3,745,589	3,781,795	(36,206)
Primary and Secondary Education	79,189,700	79,187,811	78,938,358	249,453
Post-Secondary Education	3,647,430	3,647,430	3,647,430	-
Parks, Recreation, and Culture	3,868,277	3,701,695	3,549,573	152,122
Libraries	2,281,038	2,281,038	2,281,038	-
Conservation of Natural Resources	406,264	379,027	372,923	6,104
Housing	1,316,027	1,317,164	946,677	370,487
Economic Development and Opportunity	1,631,603	1,708,963	1,549,820	159,143
Debt Service	12,070,482	11,648,656	11,619,482	29,174
Inter-governmental	52,230	52,230	52,230	-
Other	5,347,237	6,737,048	6,695,101	41,947
Sub-total	<u>188,935,034</u>	<u>190,150,550</u>	<u>183,628,879</u>	<u>6,521,671</u>
Pass-Throughs	-	-	136,859	(136,859)
TOTAL GENERAL FUND EXPENDITURES	<u>188,935,034</u>	<u>190,150,550</u>	<u>183,765,738</u>	<u>6,384,812</u>
OTHER FINANCING SOURCES AND USES				
Fund Balance - Operations	682,611	4,119,411	3,970,413	(148,998)
Reserves - Grants (expenditures)	(1,000,000)	1,057,559	-	(1,057,559)
Reserves - Grants (revenues)	1,000,000	(1,057,559)	-	1,057,559
Reserves - Emergency Appropriations	(500,000)	(1,083,294)	-	1,083,294
Capital Projects - General Fund Transfer/Pay-Go	(1,048,000)	(4,658,549)	(4,658,549)	-
Solid Waste/Recycling - General Fund Transfer	(1,000,000)	(1,000,000)	(1,000,000)	-
Emergency Radio Communications - General Fund Transfer	-	(85,000)	(85,000)	-
TOTAL OTHER FINANCING SOURCES AND USES	<u>(1,865,389)</u>	<u>(2,707,432)</u>	<u>(1,773,136)</u>	<u>934,296</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,012,707</u>	<u>\$ 17,012,707</u>

See Independent Auditor's Report.

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SHERIFF'S OFFICE RETIREMENT PLAN
 FOR THE YEAR ENDED JUNE 30, 2012

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

Schedule of Employer Contributions

Fiscal Year Ended	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
06/30/03	\$1,204,825	100%	-
06/30/04	1,652,971	100%	-
06/30/05	2,036,981	100%	-
06/30/06	2,219,197	100%	-
06/30/07	2,393,713	100%	-
06/30/08	2,921,354	100%	-
06/30/09	3,823,341	100%	-
06/30/10	4,203,131	100%	-
06/30/11	4,514,584	100%	-
06/30/12*	5,016,077	119%	-

*Including \$805,000 voluntary supplemental contribution

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
01/01/03	\$18,680,033	\$29,154,913	\$10,474,880	64.1%	\$ 7,165,684	146.2%
Before Assumption Change						
07/01/04	21,635,590	34,171,854	12,536,264	63.3%	7,881,721	159.1%
After Assumption Change						
07/01/04	21,635,590	35,481,603	13,846,013	61.0%	7,881,721	175.7%
07/01/06	25,046,412	45,025,479	19,979,067	55.6%	8,596,367	232.4%
07/01/08	31,714,844	60,049,310	28,334,466	52.8%	10,254,031	276.3%
07/01/10	39,168,790	67,693,933	28,525,143	57.9%	11,780,389	242.1%

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

See Independent Auditor's Report

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 RETIREE BENEFIT TRUST
 FOR THE YEAR ENDED JUNE 30, 2012

Schedules of employer contributions and funding progress for the Retiree Benefit Trust are presented below:

Schedule of Employer Contributions

Fiscal Year Ended	Employer Contributions	Annual OPEB Costs	Percentage Contributed
06/30/08	\$14,788,623	\$4,617,000	320%
06/30/09	10,762,000	4,762,000	226%
06/30/10	4,888,000	4,888,000	100%
06/30/11	5,145,000	5,145,000	100%
06/30/12	7,076,862	5,400,000	131%

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/07	\$10,000,000	\$60,135,000	\$50,135,000	16.6%	\$34,115,335	146.96%
07/01/08	13,458,000	64,561,000	51,103,000	20.8%	35,716,358	143.08%
07/01/09	24,400,000	73,285,000	48,885,000	33.3%	35,562,940	137.46%
07/01/10	28,799,000	78,251,000	49,452,000	36.8%	35,556,564	139.08%
07/01/11	31,418,000	79,275,000	47,857,000	39.6%	35,208,044	135.93%

See Independent Auditor's Report

OTHER SUPPLEMENTARY INFORMATION

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	Special Assessments	Fire And Rescue Revolving Loan Fund	Emergency Services Support Fund	Total Non-Major
ASSETS				
Due from other funds	\$ -	\$ 1,111,296	\$ 1,389,985	\$ 2,501,281
Special tax assessments receivable, current portion	1,178	-	-	1,178
Notes receivable, Fire and Rescue loans, current portion	-	333,023	-	333,023
Emergency Support Services taxes receivable	-	-	89,146	89,146
Notes receivable, Fire and Rescue loans (net of current portion)	-	1,166,260	-	1,166,260
Special tax assessments receivable (net of current portion)	<u>1,050,842</u>	<u>-</u>	<u>-</u>	<u>1,050,842</u>
Total Assets	<u>\$ 1,052,020</u>	<u>\$ 2,610,579</u>	<u>\$ 1,479,131</u>	<u>\$ 5,141,730</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 2,713	\$ -	\$ 23,450	\$ 26,163
Deferred revenue	1,052,375	1,499,283	-	2,551,658
Due to other funds	<u>283,898</u>	<u>-</u>	<u>-</u>	<u>283,898</u>
Total Liabilities	<u>1,338,986</u>	<u>1,499,283</u>	<u>23,450</u>	<u>2,861,719</u>
FUND BALANCES				
Nonspendable	-	-	-	-
Committed	-	1,111,296	1,455,681	2,566,977
Assigned	<u>(286,966)</u>	<u>-</u>	<u>-</u>	<u>(286,966)</u>
Total Fund Balances	<u>(286,966)</u>	<u>1,111,296</u>	<u>1,455,681</u>	<u>2,280,011</u>
Total Liabilities and Fund Balances	<u>\$ 1,052,020</u>	<u>\$ 2,610,579</u>	<u>\$ 1,479,131</u>	<u>\$ 5,141,730</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	<u>Special Assessments</u>	<u>Fire And Rescue Revolving Loan Fund</u>	<u>Emergency Services Support Fund</u>	<u>Total Non-Major</u>
REVENUES				
Fire and Rescue Loan Repayments	\$ -	\$ 452,805	\$ -	\$ 452,805
Special Assessments	172,492	-	-	172,492
Emergency Services Support Tax	-	-	1,889,230	1,889,230
Other	-	9,208	63,723	72,931
	<u>172,492</u>	<u>462,013</u>	<u>1,952,953</u>	<u>2,587,458</u>
EXPENDITURES				
Loans to Fire and Rescue	-	-	-	-
Debt Service	38,440	-	169,075	207,515
LOSAP	-	-	701,913	701,913
Operating Allocations	-	-	422,211	422,211
Advanced Life Support	-	-	512,001	512,001
Emergency Services Committee	-	-	129,704	129,704
Grants	-	-	57,283	57,283
	<u>38,440</u>	<u>-</u>	<u>1,992,187</u>	<u>2,030,627</u>
Non-Operating Revenue				
General fund subsidy	-	-	85,000	85,000
	<u>-</u>	<u>-</u>	<u>85,000</u>	<u>85,000</u>
Net Increase/(Decrease) in Fund Balances	<u>134,052</u>	<u>462,013</u>	<u>45,766</u>	<u>641,831</u>
FUND BALANCES				
Beginning of Year	<u>(421,018)</u>	<u>649,283</u>	<u>1,409,915</u>	<u>1,638,180</u>
End of Year	<u>\$ (286,966)</u>	<u>\$ 1,111,296</u>	<u>\$ 1,455,681</u>	<u>\$ 2,280,011</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts			Favorable (Unfavorable)
	Original	Final	Actual	Variance
PROPERTY TAXES				
Real and personal property				
Real Property Taxes	\$ 95,064,719	\$ 95,064,719	\$ 95,789,265	\$ 724,546
Payments in Lieu of Taxes	250,000	250,000	284,580	34,580
Personal Property	162,061	162,061	155,577	(6,484)
Public Utilities	2,351,338	2,351,338	2,254,709	(96,629)
Ordinary Business Corporations	3,078,437	3,078,437	2,830,086	(248,351)
Additions and Abatements	(800,000)	(800,000)	(670,288)	129,712
Penalties and Interest	890,000	890,000	895,304	5,304
State Homeowners Credit (Circuit Breaker)	680,000	680,000	804,188	124,188
Homeowners Tax Credit (County)	(680,000)	(680,000)	(804,188)	(124,188)
Other Tax Credits	(1,481,250)	(1,481,250)	(1,496,010)	(14,760)
Total Property Taxes	<u>99,515,305</u>	<u>99,515,305</u>	<u>100,043,223</u>	<u>527,918</u>
Income Tax				
Local Income Tax	<u>65,500,000</u>	<u>65,500,000</u>	<u>76,289,036</u>	<u>10,789,036</u>
Other Local Taxes				
Recordation Taxes	4,600,000	4,600,000	4,286,638	(313,362)
Energy Taxes	1,400,000	1,400,000	1,174,826	(225,174)
Public Accommodations Tax	750,000	750,000	832,266	82,266
Trailer Park Tax	275,000	275,000	281,211	6,211
Admissions and Amusement	<u>100,000</u>	<u>100,000</u>	<u>121,047</u>	<u>21,047</u>
Total Other Local Taxes	<u>7,125,000</u>	<u>7,125,000</u>	<u>6,695,988</u>	<u>(429,012)</u>
State-Shared Taxes - Highway Users	<u>369,448</u>	<u>369,448</u>	<u>372,661</u>	<u>3,213</u>
TOTAL TAXES	<u>172,509,753</u>	<u>172,509,753</u>	<u>183,400,908</u>	<u>10,891,155</u>
LICENSES AND PERMITS				
Business	256,100	256,100	254,218	(1,882)
Marriage/Animal Licenses	12,000	12,000	10,788	(1,212)
Other	348,623	348,623	333,770	(14,853)
CATV Franchise Fees	<u>800,000</u>	<u>800,000</u>	<u>900,180</u>	<u>100,180</u>
TOTAL LICENSES AND PERMITS	<u>1,416,723</u>	<u>1,416,723</u>	<u>1,498,956</u>	<u>82,233</u>
INTER-GOVERNMENTAL				
General Government	1,059,640	978,779	785,371	(193,408)
Public Safety	3,382,708	5,473,742	4,779,147	(694,595)
Public Works	1,175,269	1,183,592	1,216,784	33,192
Social Services	852,586	830,395	868,084	37,689
Health	4,585,395	4,680,580	4,670,618	(9,962)
Parks, Recreation and Culture	125,000	30,408	35,740	5,332
Economic Development & Opportunity	<u>62,000</u>	<u>66,125</u>	<u>66,125</u>	<u>-</u>
TOTAL INTER-GOVERNMENTAL	<u>11,242,598</u>	<u>13,243,621</u>	<u>12,421,869</u>	<u>(821,752)</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
CHARGES FOR SERVICES				
General Government	\$ 1,575,588	\$ 1,575,588	\$ 1,696,727	\$ 121,139
Public Safety	1,370,850	1,432,576	1,382,608	(49,968)
Public Works	456,250	462,550	459,748	(2,802)
Social Services	218,311	224,311	171,175	(53,136)
Parks, Recreation and Culture	252,341	252,341	206,195	(46,146)
Reimbursement - Housing Authority	<u>1,393,609</u>	<u>1,393,609</u>	<u>1,015,538</u>	<u>(378,071)</u>
TOTAL CHARGES FOR SERVICES	<u>5,266,949</u>	<u>5,340,975</u>	<u>4,931,991</u>	<u>(408,984)</u>
FINES AND FORFEITURES				
General Government	138,500	138,500	48,198	(90,302)
Public Safety	<u>4,000</u>	<u>4,000</u>	<u>6,607</u>	<u>2,607</u>
TOTAL FINES AND FORFEITURES	<u>142,500</u>	<u>142,500</u>	<u>54,805</u>	<u>(87,695)</u>
OTHER REVENUES				
General Government				
Interest	127,200	127,200	35,496	(91,704)
Other	-	-	10,666	10,666
Grant Reserve	1,000,000	(1,057,559)	-	1,057,559
Contributions and Donations	<u>94,700</u>	<u>77,210</u>	<u>60,031</u>	<u>(17,179)</u>
TOTAL OTHER REVENUES	<u>1,221,900</u>	<u>(853,149)</u>	<u>106,193</u>	<u>959,342</u>
TOTAL, BEFORE PASS-THROUGH PROCEEDS	<u>191,800,423</u>	<u>191,800,423</u>	<u>202,414,722</u>	<u>10,614,299</u>
Pass-through Proceeds	<u>-</u>	<u>-</u>	<u>136,859</u>	<u>136,859</u>
OTHER FINANCING SOURCES				
Appropriation of Fund Balance	<u>682,611</u>	<u>4,119,411</u>	<u>3,970,413</u>	<u>(148,998)</u>
TOTAL REVENUES INCLUDING PASS-THROUGHS	<u>\$ 192,483,034</u>	<u>\$ 195,919,834</u>	<u>\$ 206,521,994</u>	<u>\$ 10,602,160</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
GENERAL GOVERNMENT				
Legislative/County Commissioners				
Legislative/County Commissioners	\$ 461,026	\$ 447,077	\$ 412,574	\$ 34,503
County Administrator	373,085	362,529	304,591	57,938
Public Information	240,849	236,885	184,832	52,053
County Attorney	503,384	545,186	531,692	13,494
Legislative/County Commissioners	<u>1,578,344</u>	<u>1,591,677</u>	<u>1,433,689</u>	<u>157,988</u>
Department of Finance				
Administration/Budget	662,909	650,464	636,705	13,759
Accounting	515,357	498,073	484,194	13,879
Auditing	47,400	47,400	46,945	455
Procurement	251,706	244,549	209,642	34,907
Department of Finance	<u>1,477,372</u>	<u>1,440,486</u>	<u>1,377,486</u>	<u>63,000</u>
Department of Emergency Services & Technology				
Technology	<u>2,972,623</u>	<u>2,949,261</u>	<u>2,756,132</u>	<u>193,129</u>
Department of Human Resources				
Human Resources	544,694	531,197	511,954	19,243
Risk Management	811,802	810,826	565,306	245,520
Grants	-	-	560	(560)
Department of Human Resources	<u>1,356,496</u>	<u>1,342,023</u>	<u>1,077,820</u>	<u>264,203</u>
Department of Public Works & Transportation				
Building Services	3,654,556	3,613,308	3,006,850	606,458
Carter State Office Building	589,351	589,508	467,940	121,568
Development Review	208,739	199,333	198,071	1,262
Mailroom/Messenger Services	148,272	144,060	135,615	8,445
Vehicle Maintenance Shop	1,343,240	1,317,574	1,389,278	(71,704)
Department of Public Works & Transportation	<u>5,944,158</u>	<u>5,863,783</u>	<u>5,197,754</u>	<u>666,029</u>
Department of Land Use & Growth Management				
Administration	640,912	630,896	478,914	151,982
Board of Electrical Examiners	10,600	10,600	7,824	2,776
Comprehensive Planning	630,441	651,356	644,934	6,422
Development Services	368,994	354,909	348,389	6,520
Inspections & Compliance	550,902	537,562	449,968	87,594
Permit Services	319,414	307,002	271,046	35,956
Zoning Administration	261,247	255,221	214,304	40,917
Building Code Appeals Board	1,000	1,000	853	147
Commission on the Environment	2,825	2,825	1,357	1,468
Plumbing & Gas Board	4,025	4,025	1,631	2,394
Planning Commission	25,974	25,974	19,059	6,915
Boards and Commissions	20,594	20,594	18,600	1,994
Historical Preservation	3,215	3,215	1,620	1,595
Grants	31,500	1,500	800	700
Department of Land Use & Growth Management	<u>2,871,643</u>	<u>2,806,679</u>	<u>2,459,299</u>	<u>347,380</u>
Circuit Court				
Administration	852,759	828,470	744,948	83,522
Law Library	60,666	60,666	60,175	491
Grants	719,510	659,616	636,113	23,503
Orphan's Court	35,159	37,044	32,720	4,324
Circuit Court	<u>1,668,094</u>	<u>1,585,796</u>	<u>1,473,956</u>	<u>111,840</u>
Office of the State's Attorney				
Judicial	2,228,412	2,168,956	2,017,289	151,667
Grants	534,185	499,435	475,290	24,145
Office of the State's Attorney	<u>2,762,597</u>	<u>2,668,391</u>	<u>2,492,579</u>	<u>175,812</u>
County Treasurer				
	<u>393,115</u>	<u>381,625</u>	<u>375,102</u>	<u>6,523</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
Alcohol Beverage Board	\$ 205,102	\$ 205,102	\$ 177,277	\$ 27,825
Supervisors of Elections	662,784	659,213	579,877	79,336
Ethics Commission	833	833	-	833
Total General Government	\$ 21,893,161	\$ 21,494,869	\$ 19,400,971	\$ 2,093,898
PUBLIC SAFETY				
Department of Emergency Services & Technology				
Emergency Management	287,364	287,019	267,201	19,818
Animal Control	667,615	668,248	611,518	56,730
Emergency Activation	-	2,393,000	2,351,214	41,786
Emergency Communications Center	2,269,767	2,321,901	2,228,763	93,138
Emergency Radio Communications	3,144,526	2,038,762	438,493	1,600,269
Emergency Radio Communications Subsidy	-	85,000	85,000	-
Grants	1,499,977	1,417,181	1,681,467	(264,286)
Department of Emergency Services & Technology	7,869,249	9,211,111	7,663,656	1,547,455
Office of the Sheriff				
Law Enforcement	18,674,217	18,360,563	18,205,859	154,704
Corrections	9,866,039	9,681,224	9,407,752	273,472
Training	237,355	239,769	231,945	7,824
Canine	40,400	40,400	34,424	5,976
Court Security	588,114	588,419	591,722	(3,303)
Grants	1,311,441	1,322,218	501,692	820,526
Office of the Sheriff	30,717,566	30,232,593	28,973,394	1,259,199
Volunteer Fire Depts. & Rescue Squads	200,000	200,000	200,000	-
Total Public Safety	\$ 38,786,815	\$ 39,643,704	\$ 36,837,050	\$ 2,806,654
PUBLIC WORKS				
Department of PW and Transportation				
Administration	391,192	405,684	402,911	2,773
Engineering Services	676,204	654,464	648,196	6,268
Construction & Inspections	498,047	511,935	494,069	17,866
County Highways	3,898,135	3,733,782	3,342,351	391,431
Solid Waste/Recycling Subsidy	1,000,000	1,000,000	1,000,000	-
St Mary's County Airport	41,350	40,197	19,880	20,317
St. Mary's Transit System	2,716,202	2,873,705	2,743,660	130,045
Department of PW and Transportation	9,221,130	9,219,767	8,651,067	568,700
Maryland Dept. of Agriculture Weed Control	16,900	16,900	16,221	679
Total Public Works	\$ 9,238,030	\$ 9,236,667	\$ 8,667,288	\$ 569,379
HEALTH				
Operating Allocation				
Health Department	1,610,012	1,610,012	1,609,906	106
Mosquito Control	54,000	54,000	54,000	-
Operating Allocation	1,664,012	1,664,012	1,663,906	106
Human Services				
Human Services	365,380	336,499	325,744	10,755
Marcey Halfway House	418,334	425,366	392,904	32,462
Grants	3,949,461	4,027,782	3,991,589	36,193
Human Services	4,733,175	4,789,647	4,710,237	79,410
Total Health	\$ 6,397,187	\$ 6,453,659	\$ 6,374,143	\$ 79,516

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
SOCIAL SERVICES				
Department on Aging				
Department on Aging	\$ 1,368,631	\$ 1,329,309	\$ 1,329,288	\$ 21
Grants	948,304	919,662	962,784	(43,122)
Department on Aging	<u>2,316,935</u>	<u>2,248,971</u>	<u>2,292,072</u>	<u>(43,101)</u>
Department of Social Services	<u>395,994</u>	<u>399,994</u>	<u>393,099</u>	<u>6,895</u>
Operating Allocation				
Hospice of St. Mary's	15,000	15,000	15,000	-
The ARC of Southern Maryland, Inc.	132,150	132,150	132,150	-
Catholic Charities	15,000	15,000	15,000	-
So. Md. Center for Independent Living, Inc.	15,000	15,000	15,000	-
The Center for Life Enrichment	155,908	155,908	155,908	-
Greenwell Foundation	37,800	37,800	37,800	-
St. Mary's Caring, Inc.	3,000	3,000	3,000	-
Three Oaks Center	130,000	130,000	130,000	-
Tri-County Community Action (SMTCCAC, Inc.)	17,751	17,751	17,751	-
Tri-County Youth Services Bureau	116,479	116,479	116,479	-
Unified Commission for Afro-Americans	5,000	5,000	5,000	-
Walden/Sierra	345,447	345,447	345,447	-
The So. MD Center for Family Advocacy	<u>108,089</u>	<u>108,089</u>	<u>108,089</u>	<u>-</u>
Operating Allocation	<u>1,096,624</u>	<u>1,096,624</u>	<u>1,096,624</u>	<u>-</u>
Total Social Services	<u>\$ 3,809,553</u>	<u>\$ 3,745,589</u>	<u>\$ 3,781,795</u>	<u>\$ (36,206)</u>
PRIMARY AND SECONDARY EDUCATION				
Board of Education	<u>77,045,860</u>	<u>77,045,860</u>	<u>77,045,860</u>	<u>-</u>
Non-Public School Bus Transportation	<u>2,131,840</u>	<u>2,129,951</u>	<u>1,880,498</u>	<u>249,453</u>
Operating Allocation				
Literacy Council of St. Mary's County	<u>12,000</u>	<u>12,000</u>	<u>12,000</u>	<u>-</u>
Total Primary and Secondary Education	<u>\$ 79,189,700</u>	<u>\$ 79,187,811</u>	<u>\$ 78,938,358</u>	<u>\$ 249,453</u>
POST-SECONDARY EDUCATION				
College of Southern Maryland - general operations	<u>3,602,430</u>	<u>3,602,430</u>	<u>3,602,430</u>	<u>-</u>
Operating Allocation				
Southern Md. Higher Education Center	<u>45,000</u>	<u>45,000</u>	<u>45,000</u>	<u>-</u>
Total Post-Secondary Education	<u>\$ 3,647,430</u>	<u>\$ 3,647,430</u>	<u>\$ 3,647,430</u>	<u>\$ -</u>
PARKS, RECREATION AND CULTURE				
Department of Recreation and Parks				
Administration	1,116,584	1,074,581	1,043,127	31,454
Parks Maintenance	1,992,149	1,971,440	1,893,543	77,897
Museum Division	503,144	493,866	445,763	48,103
Grants	125,000	30,408	35,740	(5,332)
Department of Recreation and Parks	<u>3,736,877</u>	<u>3,570,295</u>	<u>3,418,173</u>	<u>152,122</u>
Operating Allocation				
St. Mary's County Historical Society	11,250	11,250	11,250	-
Historic St. Mary's City Foundation	1,350	1,350	1,350	-
Patuxent River Naval Air Museum	27,000	27,000	27,000	-
Lexington Park Rotary-Oyster Festival	4,500	4,500	4,500	-
St. Mary's County Arts Council	1,800	1,800	1,800	-
Historic Sotterley, Inc.	67,500	67,500	67,500	-
St. Mary's College River Concert Series	9,000	9,000	9,000	-
Seventh District Optimist	<u>9,000</u>	<u>9,000</u>	<u>9,000</u>	<u>-</u>
Operating Allocation	<u>131,400</u>	<u>131,400</u>	<u>131,400</u>	<u>-</u>
Total Parks, Recreation and Culture	<u>\$ 3,868,277</u>	<u>\$ 3,701,695</u>	<u>\$ 3,549,573</u>	<u>\$ 152,122</u>

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
LIBRARIES				
County Funding - general operations	\$ 2,281,038	\$ 2,281,038	\$ 2,281,038	\$ -
CONSERVATION OF NATURAL RESOURCES				
Cooperative Extension Service	193,409	171,637	169,528	2,109
Soil Conservation District	55,646	55,646	54,150	1,496
Conservation of Natural Resources	249,055	227,283	223,678	3,605
Allocation of Agriculture and Seafood (Division of DECD)	131,060	125,595	123,096	2,499
Operating Allocation				
SMC Forest Conservation District Board	900	900	900	-
Southern Md. Resource Conservation/Dev. watermen's Association	7,249	7,249	7,249	-
	18,000	18,000	18,000	-
Operating Allocation	26,149	26,149	26,149	-
Total Conservation of Natural Resources	\$ 406,264	\$ 379,027	\$ 372,923	\$ 6,104
HOUSING				
Total Housing	\$ 1,316,027	\$ 1,317,164	\$ 946,677	\$ 370,487
ECONOMIC DEVELOPMENT AND OPPORTUNITY				
Department of Economic & Community Development				
Administration/Office of the Director	177,536	173,594	171,271	2,323
Tourism Development	430,874	466,377	443,060	23,317
Agriculture & Seafood Development	174,747	167,460	164,128	3,332
Less Allocation (see above)	(131,060)	(125,595)	(123,096)	(2,499)
Business Development/Lexington Park Revitalization	364,579	370,924	333,106	37,818
Grants	64,000	68,125	68,125	-
Department of Economic & Community Development	1,080,676	1,120,885	1,056,594	64,291
Office of Community Services				
Office of Community Services	309,524	302,770	185,742	117,028
Grants	108,673	150,068	176,606	(26,538)
Human Relations Commission	2,750	2,750	-	2,750
Commission for the Disabled	2,300	2,300	1,550	750
Commission for Women	3,500	6,010	5,148	862
	426,747	463,898	369,046	94,852
Operating Allocation				
Navy Alliance	27,000	27,000	27,000	-
The Promise	12,400	12,400	12,400	-
Tri-County Council	84,780	84,780	84,780	-
Operating Allocation	124,180	124,180	124,180	-
Total Economic Development and Opportunity	\$ 1,631,603	\$ 1,708,963	\$ 1,549,820	\$ 159,143

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)

	Budgeted Amounts		Actual	Favorable (Unfavorable) Variance
	Original	Final		
DEBT SERVICE				
Debt Service	\$ 12,070,482	\$ 11,648,656	\$ 11,619,482	\$ 29,174
INTER-GOVERNMENTAL				
Leonardtown Tax Rebate	52,230	52,230	52,230	-
Total Inter-Governmental	\$ 52,230	\$ 52,230	\$ 52,230	\$ -
OTHER				
Employer Contributions-Retiree Health Benefits	5,246,237	6,586,048	6,586,048	-
Unemployment Compensation	66,000	116,000	95,321	20,679
Bank Service Fees	35,000	35,000	13,732	21,268
Total Other	\$ 5,347,237	\$ 6,737,048	\$ 6,695,101	\$ 41,947
Total Expenditures, Before Pass-Throughs	189,935,034	191,235,550	184,713,879	6,521,671
Pass-Through Expenditures	-	-	136,859	(136,859)
Total Expenditures, Including Pass-Throughs	\$ 189,935,034	\$ 191,235,550	\$ 184,850,738	\$ 6,384,812
RESERVES				
Reserve - Grants	1,000,000	(1,057,559)	-	(1,057,559)
Reserve - Emergency Appropriations	500,000	1,083,294	-	1,083,294
Total Reserves	\$ 1,500,000	\$ 25,735	\$ -	\$ 25,735
Total Expenditures, Including Pass-Throughs and Reserves	\$ 191,435,034	\$ 191,261,285	\$ 184,850,738	\$ 6,410,547
Transfer				
Capital Projects - General Fund Transfer/Pay-Go	1,048,000	4,658,549	4,658,549	-
Total Expenditures and Other Financing Uses	\$ 192,483,034	\$ 195,919,834	\$ 189,509,287	\$ 6,410,547

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2012

LAND PRESERVATION

Agriculture Preservation	\$ 3,279,248	
Critical Area Planting	<u>160,157</u>	\$ 3,439,405

HIGHWAYS

FDR Blvd. Extended	\$ 4,993,145	
Patuxent Park Neighborhood Preservation	1,344,289	
Buck Hewitt Road	829,603	
Dr. Johnson Rd. Bridge Structure	722,648	
State Aid Projects	444,331	
Asphalt Overlay	411,979	
Regional Stormwater Management	158,792	
Streetscape Improvement	126,903	
Regional Water Quality & Nutrient Removal	96,387	
Traffic Control Signals	91,500	
Bridge/Culvert Replacement	57,910	
Roadside Obstacles	39,584	
Pegg Rd. Extension to Rt 5	28,529	
Mechanicsville Road	<u>4,977</u>	9,350,577

MARINE

Thomas Road Revetment	\$ 165,126	
St. Jerome's Creek Dredging	140,000	
Gibson Road	83,693	
St. Jerome's Creek Jetties	64,750	
St. Jerome's Creek Jetty Study	<u>40,582</u>	494,151

PUBLIC WORKS

ADC Minimum Security Addition	\$ 13,360,607	
800 MHz Radio Enhancement	8,232,713	
Patuxent River Naval Museum-New	5,150,378	
ADC Locking Mech. & Cameras	2,182,983	
STS Bus Barn	1,059,557	
Building Maintenance & Repairs	689,375	
Leonardtown Library Renovation	639,500	
Carter State Building Maintenance/Repair	635,914	
Emergency Communications Center Hardening	488,803	
MEA Clean Energies Grant	187,570	
Mattapany Farmers Market	162,250	
Adult Detention Center Booking/Inmate Processing	143,150	
CSM Wellness & Pool	97,005	
Airport Land Acquisition	77,940	
Parking/Site Improvements	<u>8,845</u>	33,116,590

PIERS AND BOAT RAMPS

River Springs Landing	\$ 114,050	
Fox Harbor Landing II	93,116	
St. George's Island Pier Replacement	44,914	
Derelict Boat Removal	<u>23,500</u>	275,580

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
FOR THE YEAR ENDED JUNE 30, 2012
(CONTINUED)

PUBLIC SCHOOLS

Greenview Knolls HVAC	\$ 680,683	
ADA Transition Plan	584,527	
Leonardtown HS Tennis/Track Resurfacing	498,000	
Second New Elementary School	463,483	
Oakville ES Parking Modifications	371,919	
Playground Equipment	288,414	
Leonardtown MS Renovation	271,197	
Oakville ES HVAC	242,296	
Margaret Brent MS Wastewater	221,746	
State Relocatable-site to be determined	152,787	
Site Acquisition Various	128,572	
Evergreen Elementary School	67,898	
Mechanicsville ES Bus/Parking Lot	45,872	
Security Entrances (12)	33,171	
Chopticon HS Elevator	26,175	
Site Paving and Sidewalks	23,975	
Early Childhood Center HVAC	<u>7,866</u>	\$ 4,108,581

RECREATION & PARKS

Parks Land Acquisition	1,046,552	
Charlotte Hall Athletic Fields	613,765	
Three Notch Trail	234,061	
Piney Point Lighthouse Museum	190,000	
Leonardtown Park	100,000	
Lancaster Park Improvements	75,000	
Carver Heights Park	40,557	
Recreation Facility Improvements	<u>36,920</u>	2,336,855

SOLID WASTE

Landfill Mitigation	120,507	
Convenience Center Expansion	54,293	
St. Andrews Area D	<u>29,522</u>	<u>204,322</u>

Total		<u>\$ 53,326,061</u>
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Included in the above total is \$17,654,280 in unexpended State and Federal projects appropriations.



Murphy & Murphy, CPA, LLC
Certified Public Accountants

**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**

To the County Commissioners
for St. Mary's County, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2012, which collectively comprise the County Commissioners for St. Mary's County, Maryland's basic financial statements and have issued our report thereon dated November 13, 2012. Our report includes a reference to 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. Other auditors audited the financial statements of the St. Mary's County Public Schools as described in our report on the County Commissioners for St. Mary's 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

Management of the County Commissioners for St. Mary's County Maryland, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County Commissioners for St. Mary's County, Maryland's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Commissioners for St. Mary's County, Maryland's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Commissioners for St. Mary's County, Maryland's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the County Commissioners for St. Mary's County, Maryland, in a separate letter dated November 13, 2012.

This report is intended solely for the information and use of the County Commissioners, management, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Murphy & Murphy, CPA, LLC

La Plata, Maryland
November 13, 2012