

COUNTY COUNCIL OF
DORCHESTER COUNTY, MARYLAND

FINANCIAL REPORT

JUNE 30, 2007

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INDEPENDENT AUDITORS' REPORT

County Council of
Dorchester County, Maryland
Cambridge, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Dorchester County, Maryland (the "County") as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Dorchester County, Maryland. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dorchester County Sanitary Districts. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Dorchester County Sanitary Districts, is based solely upon the reports of the other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Dorchester County, Maryland as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our separate report dated March 7, 2008 on our consideration of Dorchester County, Maryland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 18 and 64 through 74, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Salisbury, Maryland
March 7, 2008

DORCHESTER COUNTY, MARYLAND
Management's Discussion and Analysis

INTRODUCTION

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

FINANCIAL HIGHLIGHTS

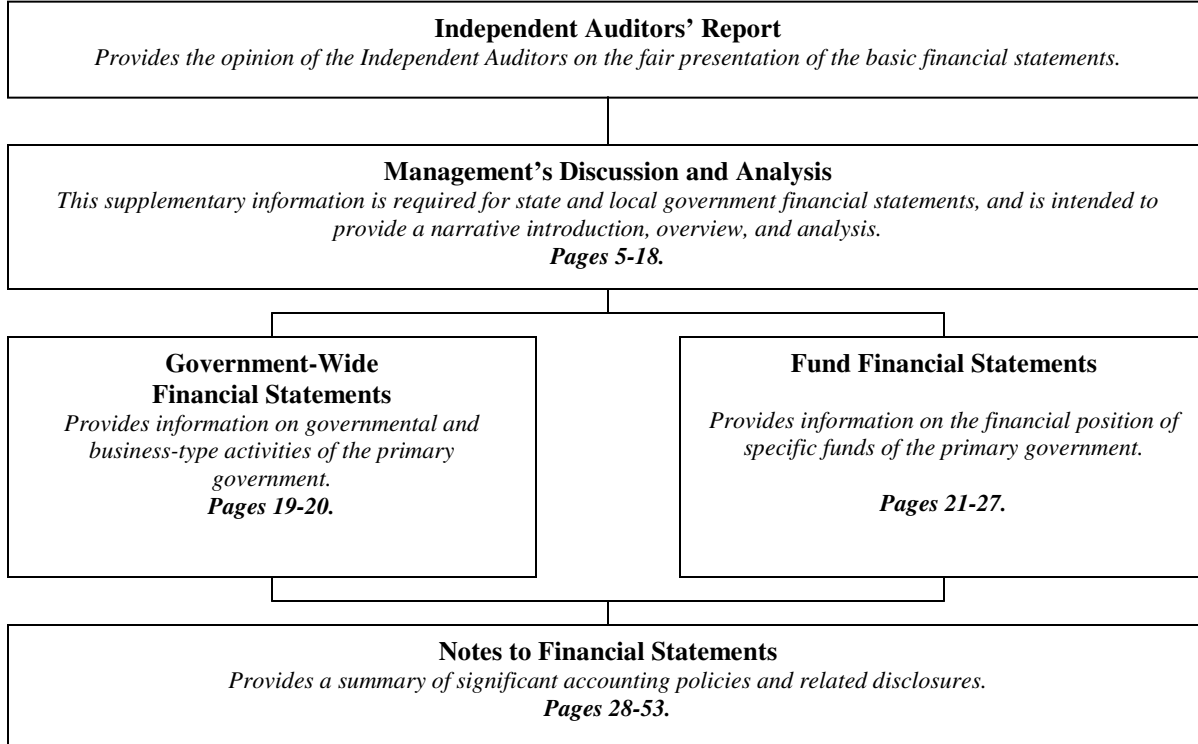
- The government-wide assets of the County exceeded its liabilities at the close of Fiscal Year 2007 (FY07) by \$51.7 million (total net assets). Of this amount, \$13.2 million (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's overall financial position has improved since the prior fiscal year. Total net assets increased by \$3.1 million or 6.4%. Contributing factors for this increase are a \$2.5 million increase in investment in capital assets, net of related debt and a \$0.7 million increase in restricted net assets.
- As of the close of FY07, the County's governmental funds reported combined ending fund balances of \$15.1 million, a decrease of \$1.0 million from the prior year's ending fund balances. Of the total ending fund balances, \$10.9 million is unreserved and therefore available for spending at the County's discretion.
- At the end of FY07, unreserved fund balance for the General Fund was \$4.3 million, or 10 percent of total General Fund expenditures.
- The County's government-wide long-term debt decreased by \$2.6 million during FY07. The key factors in this decrease are:
 - The County had no major debt issuances during the fiscal year; and
 - The retirement of \$2.5 million in general obligation (GO) bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

Organization and Flow of Financial Section Information



Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

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

CONTINUED ON NEXT PAGE

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

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

Statement of Net Assets

The following presents a summary of the Statements of Net Assets for the County as of June 30, 2007 and 2006:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$ 26,671,616	\$ 24,216,257	\$ 7,826,747	\$ 6,697,189	\$ 34,498,363	\$ 30,913,446
Capital assets	40,585,884	39,912,876	14,563,629	15,482,646	55,149,513	55,395,522
Total assets	\$ 67,257,500	\$ 64,129,133	\$ 22,390,376	\$ 22,179,835	\$ 89,647,876	\$ 86,308,968
Liabilities:						
Long-term debt outstanding	\$ 21,321,277	\$ 23,904,239	\$ 564,793	\$ 624,023	\$ 21,886,070	\$ 24,528,262
Other liabilities	8,373,428	5,232,700	7,665,898	7,962,541	16,039,326	13,195,241
Total liabilities	29,694,705	29,136,939	8,230,691	8,586,564	37,925,396	37,723,503
Net assets:						
Invested in capital assets, net of related debt	20,271,436	16,949,285	14,033,629	14,895,977	34,305,065	31,845,262
Restricted	4,277,806	3,602,857	-	-	4,277,806	3,602,857
Unrestricted (deficit)	13,013,553	14,440,052	126,056	(1,302,706)	13,139,609	13,137,346
Total net assets	\$ 37,562,795	\$ 34,992,194	\$ 14,159,685	\$ 13,593,271	\$ 51,722,480	\$ 48,585,465

The County's current and other assets increased by \$3.6 million or 11.5 percent over FY06. The County's assets exceeded its liabilities at the close of FY07 by \$51.7 million. The largest portion of the County's net assets reflects its investment in capital assets (e.g., land, buildings, improvements, furniture and equipment, infrastructure), less any related outstanding debt used to construct or acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

It is also important to note that although counties in the state of Maryland issue debt for the construction of schools, those school buildings are owned by each county's Board of Education. The County also funds projects for Chesapeake College in the same fashion. Therefore, while the County's financial statements include this outstanding debt, they do not include the capital assets funded by the debt. Debt outstanding for these entities amounted to \$9.02 million at June 30, 2007. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$22.1 million.

Statement of Activities

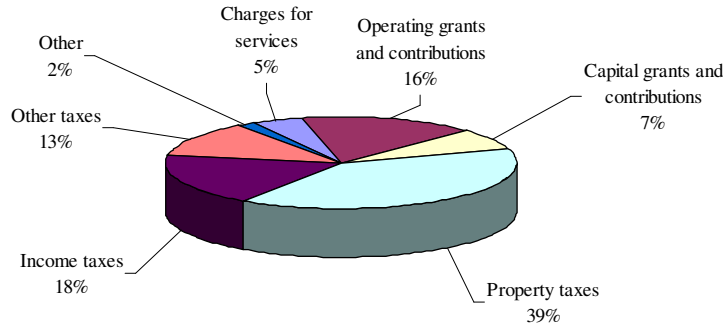
The following table summarizes the County's change in net assets for the years ended June 30, 2007 and 2006:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 2,644,399	\$ 2,608,476	\$ 4,882,020	\$ 4,715,319	\$ 7,526,419	\$ 7,323,795
Operating grants and contributions	9,320,483	8,094,191	-	-	9,320,483	8,094,191
Capital grants and contributions	4,138,368	3,215,707	89,261	2,529,439	4,227,629	5,745,146
General revenues:						
Property taxes	22,344,833	19,850,595	-	-	22,344,833	19,850,595
Income taxes	10,229,499	10,164,499	-	-	10,229,499	10,164,499
Other taxes	7,141,880	8,690,855	-	-	7,141,880	8,690,855
Other	868,827	5,519,407	238,966	474,848	1,107,793	5,994,255
Total revenues	<u>56,688,289</u>	<u>58,143,730</u>	<u>5,210,247</u>	<u>7,719,606</u>	<u>61,898,536</u>	<u>65,863,336</u>
Expenses:						
Governmental Activities:						
General government	4,666,792	2,889,505	-	-	4,666,792	2,889,505
Public safety	12,940,143	10,788,915	-	-	12,940,143	10,788,915
Social services	2,407,730	2,142,605	-	-	2,407,730	2,142,605
Public works	6,287,082	5,612,183	-	-	6,287,082	5,612,183
Miscellaneous	4,370,896	3,110,469	-	-	4,370,896	3,110,469
Recreation and parks	732,872	606,738	-	-	732,872	606,738
Natural Resources	450,637	390,808	-	-	450,637	390,808
Economic Development	1,054,792	845,842	-	-	1,054,792	845,842
Interest on Debt	851,445	975,396	-	-	851,445	975,396
Education	19,886,456	17,827,473	-	-	19,886,456	17,827,473
Intergovernmental	-	929,376	-	-	-	929,376
Business-Type Activities:						
Aviation	-	-	946,450	904,327	946,450	904,327
Solid waste	-	-	4,166,226	3,986,057	4,166,226	3,986,057
Total expenses	<u>53,648,845</u>	<u>46,119,310</u>	<u>5,112,676</u>	<u>4,890,384</u>	<u>58,761,521</u>	<u>51,009,694</u>
Increase (decrease) in net assets before transfers	3,039,444	12,024,420	97,571	2,829,222	3,137,015	14,853,642
Transfers	(468,843)	(479,893)	468,843	479,893	-	-
Increase (decrease) in net assets	<u>2,570,601</u>	<u>11,544,527</u>	<u>566,414</u>	<u>3,309,115</u>	<u>3,137,015</u>	<u>14,853,642</u>
Net assets – beginning of year	34,992,194	23,447,667	13,593,271	10,284,156	48,585,465	33,731,823
Net assets - end of year	<u>\$ 37,562,795</u>	<u>\$ 34,992,194</u>	<u>\$ 14,159,685</u>	<u>\$ 13,593,271</u>	<u>\$ 51,722,480</u>	<u>\$ 48,585,465</u>

Governmental Activities

Revenues for the County’s governmental activities were \$56.7 million for FY07. Sources of revenue are comprised of the following items:

**Revenues by Source - Governmental Activities
For the Fiscal Year Ended June 30, 2007**

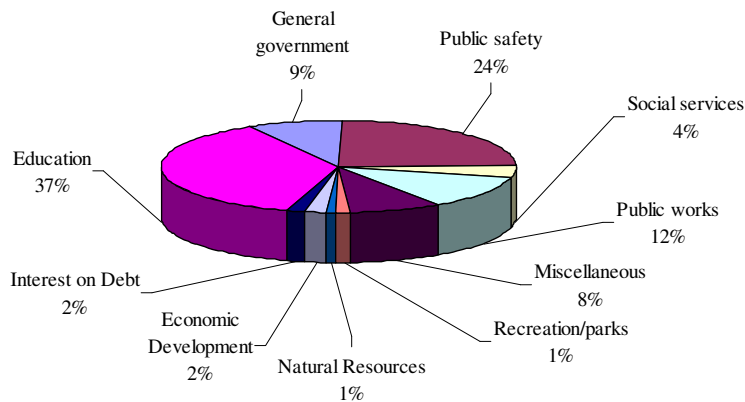


- Taxes constitute the largest source of County revenues, amounting to \$39.7 million for FY07. Property and local income tax combined comprise 57 percent of County governmental activities revenues. Each County in Maryland sets its income tax rate within parameters established by the State. The local income tax rate was 2.62 percent of the State taxable income for calendar year 2007 and was unchanged from 2006. There is no local sales tax in the State of Maryland.
- Operating grants and contributions represent primarily grants from the Federal and State governments and State aid programs. The majority of such revenues are received to fund the following County programs: public works (\$4.3 million), general government (\$2.3 million), and social services (\$1.9 million).

A more detailed discussion of the County’s revenue results for FY07 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this MD&A.

The cost of all governmental activities for FY07 was \$53.6 million. As the chart below indicates, education constitutes the County’s largest program and highest priority; education expenses totaled \$19.9 million. Public safety expenses totaled \$12.9 million and public works expenses totaled \$6.3 million.

**Expenses by Function - Governmental Activities
For the Fiscal Year Ended June 30, 2007**



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

	Expenses		Revenues		Net Cost of Services	
	2007	2006	2007	2006	2007	2006
Education	\$ 19,886,456	\$ 17,827,473	\$ -	\$ 25,235	\$ 19,886,456	\$ 17,802,238
Public safety	12,940,143	10,788,915	3,779,560	4,279,663	9,160,583	6,509,252
Public works	6,287,082	5,612,183	5,303,900	6,660,575	983,182	(1,048,392)
General government	4,666,792	2,889,505	2,657,976	625,545	2,008,816	2,263,960
Miscellaneous	4,370,896	4,039,845	-	-	4,370,896	4,039,845
Social services	2,407,730	2,142,605	2,063,308	1,767,910	344,422	374,695
Interest on Debt	851,445	975,396	-	-	851,445	975,396
Recreation and parks	732,872	606,738	296,182	161,823	436,690	444,915
Economic Development	1,054,792	845,842	1,840,408	245,398	(785,616)	600,444
Natural Resources	450,637	390,808	161,916	152,225	288,721	238,583
Total	\$ 53,648,845	\$ 46,119,310	\$ 16,103,250	\$ 13,918,374	\$ 37,545,595	\$ 32,200,936

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$2.6 million) and other governments and organizations that subsidized certain programs with grants and contributions (\$9.3 million).

Business-type Activities

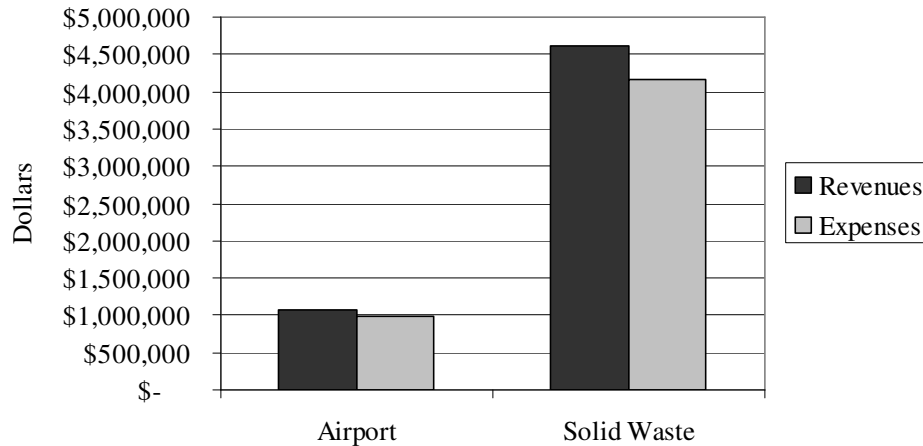
Highlights of the County's business-type activities for FY07 are as follows:

- Business-type activities experienced an increase in net assets of \$0.57 million for FY07. However, this amount is reported after total net transfers in of \$0.47 million. The components of this amount are \$333,843 in operating subsidy from the General Fund to the Airport Enterprise Fund, and \$135,000 in capital budget funding from the General Fund to the Airport Enterprise Fund.
- Charges for services to users comprise 85 percent of total business-type activities revenue, with \$4.36 million (89 percent of charges for services revenue) attributable to solid waste activities and \$0.55 million (11 percent) attributable to airport operations.

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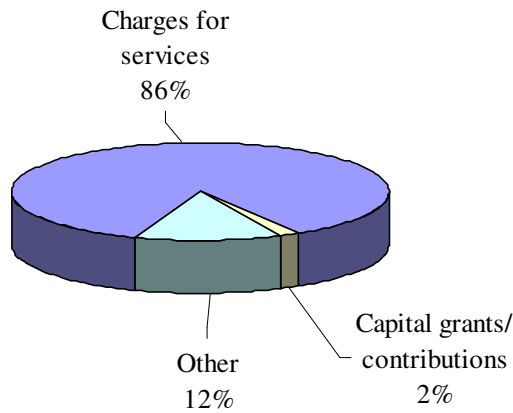
Business-type activities are shown below comparing costs to revenues generated by related services:

**Expenses and Program Revenues - Business-type Activities
For the Fiscal Year Ended June 30, 2007**



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

**Revenues by Source - Business-type Activities
For the Fiscal Year Ended June 30, 2007**



FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

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

Governmental funds

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

At the end of FY07, the County's governmental funds reported combined ending fund balances of \$15.1 million, a decrease of \$1.0 million from the end of FY06. Of the total ending fund balances, \$10.9 million constitutes the unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balances of \$4.2 million is unavailable for new spending because it has been reserved for prepaid expenditures (\$0.1) or other purposes restricted by legislation (\$2.9 million for schools; \$0.1 million for public safety communication; \$0.1 for Sheriff's Office; \$1.0 for courthouse).

The General Fund is the primary operating fund of the County. At the end of FY07, unreserved and undesignated fund balance of the General Fund was \$1.8 million, while total fund balance was \$4.4 million. As a measure of the General Fund's liquidity, the unreserved and undesignated fund balance represents 3.5 percent of the total General Fund expenditures and transfers out.

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

The Reserve Fund ended the year with a fund balance of \$2.9 million, which is an increase of \$0.1 million. The purpose of the Reserve Fund is to provide a fiscal means for the County to respond to potential adversities such as public emergencies, natural disasters, major unanticipated projects or economic downturns. Beginning in fiscal year 2006 and for each subsequent fiscal year, the County shall include in the budget bill an appropriation to the Strategic Reserve Fund equal to at least the lesser of \$200,000 or whatever amount is required for the Strategic Reserve Fund balance to equal 5% of the estimated General Fund operating revenues for that fiscal year.

The Building Excise Tax Fund ended the year with a fund balance of \$3.1. This fund was created by Dorchester County Bill Number 2004-6, effective date of September 15, 2004, which established an excise tax on new development. The proceeds of the tax are dedicated for the capital costs associated with new growth specific to schools (\$2.9 million), emergency communications (\$0.1 million), and Sheriff's Office (\$0.1 million).

The Transfer Tax Fund ended the year with a fund balance of \$3.2 million, which is an increase of \$0.5 million. The purpose of this fund is to account for the proceeds of the transfer tax which is dedicated for repairs, maintenance and security of the Circuit Courthouse as well as public school capital facility expenditures.

Proprietary funds

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

The Airport Enterprise Fund total net assets amounted to \$10.2 million, with unrestricted net assets of \$0.6 million, and an operating loss was \$409,824. After non-operating revenues of \$66,296 and a subsidy transfer from the General Fund of \$468,843, the fund ended FY07 with an increase in net assets of \$125,315.

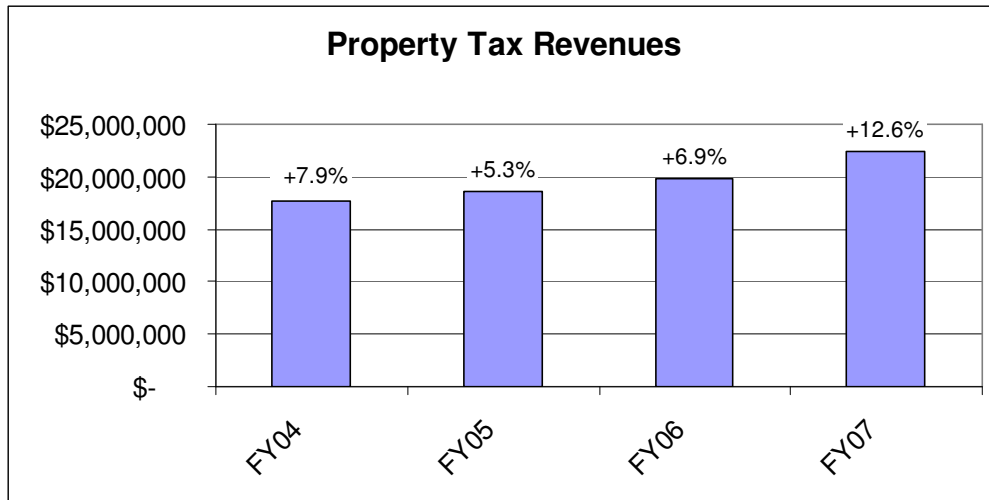
The Landfill Enterprise Fund total net assets amounted to \$4.0 million, with unrestricted net deficit of (\$0.5 million), and an operating income of \$0.2 million. The fund ended FY07 with an increase in net assets of \$0.4 million

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

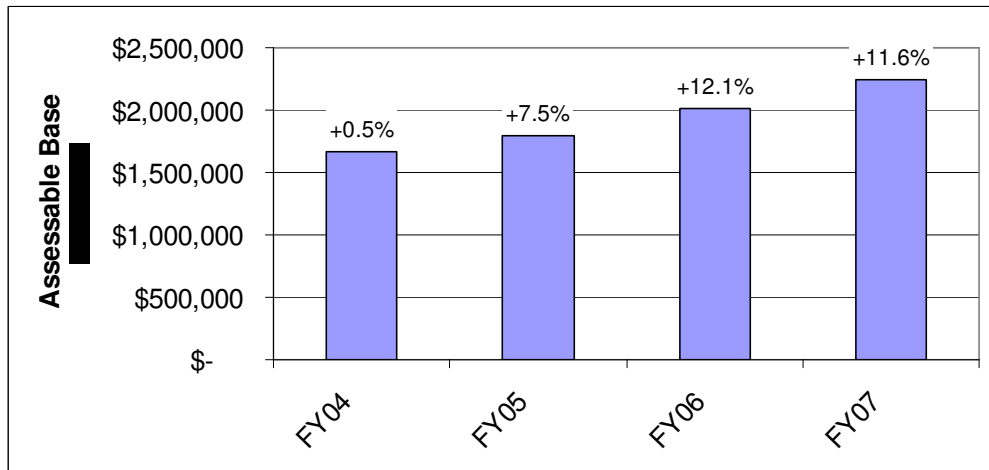
General Fund Budgetary Highlights

Actual revenues were less than budgeted by \$3.9 million, while actual expenditures were less than budgeted by \$3.5 million. Highlights of the comparison of final budget to actual figures for revenues and expenditures/transfers for the fiscal year-ended June 30, 2007, include the following:

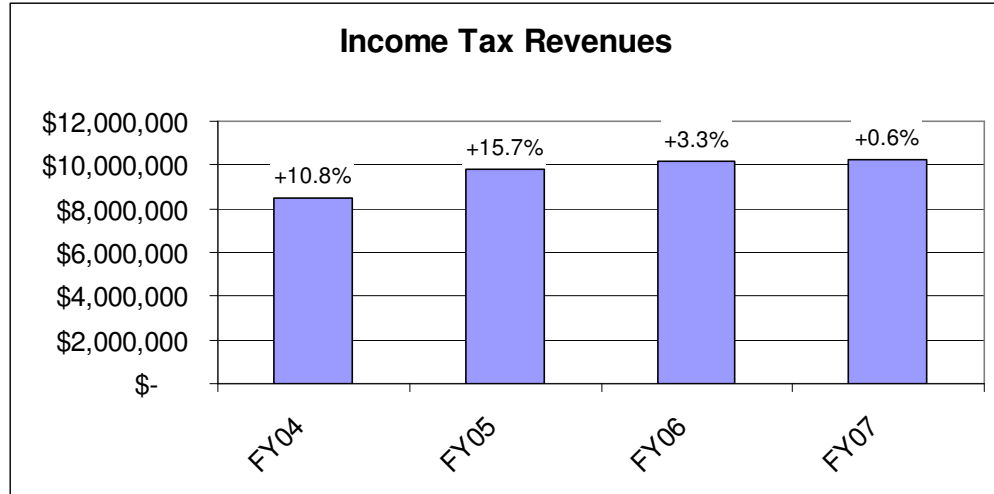
- Overview – Actual revenues for the General Fund totaled \$47.7 million and were 7.6 percent below the budget estimate for the fiscal year and 0.4 percent above actual revenues for FY06. The two major variances between budgeted revenues and actual revenues were the inclusion in the budget of \$4.5 million of prior year fund balance, which is used to fund non-recurring capital expenditures but for accounting purposes does not constitute income, and public safety service charges (\$0.5 million above the budget estimate).
- Property Taxes – The largest revenue source for the County is property taxes. Net property tax revenue in the General Fund amounted to \$22.3 million in FY07, which was above the budget estimate by \$0.5 million or 2.0 percent and \$2.5 million or 12.6 percent above actual revenue in FY06. The increase in property tax revenue was the result of a 11.6 percent increase in the assessable base for real property from FY06 to FY07.



- Assessments of real property continued its strong growth with an increase of 11.6 percent in FY07, following an increase of 12.1 percent in FY06.



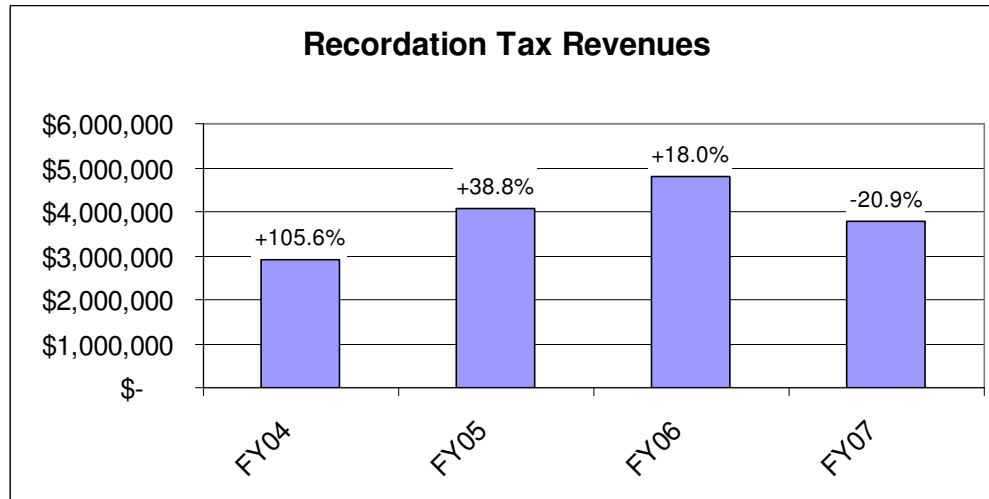
- Income Taxes – The second largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$10.2 million which were \$0.5 million lower than budget estimate and 0.6 percent above actual revenues in FY06. Income taxes represent 28 percent of total tax revenues for the General Fund and 21 percent of total General Fund revenues in FY07. The local income tax rate remained unchanged at 2.62%.



- Growth in income tax revenue is attributed to growth in wages, partially offset by a slight net job loss, which continues a trend begun in calendar year (CY) 2005. Total annual payroll wages in Dorchester during CY2006 was \$371,102,861, which was an increase of \$5.0 million or 1.4%. During CY2006, the average annual employment was 11,783 jobs, which was a decrease of 252 or 2.1%. During that same time span, the average weekly wage per worker grew from \$585 to \$606, an increase of \$21 or 3.6%. The net job loss is primarily attributed to the education and health services sector with 186 jobs lost, the professional and business services sector with 186 jobs lost, and the leisure and hospitality sector with 53 jobs gained.



- Recordation Taxes – The third major revenue category in the County is the real property recordation tax. The tax receipts from this source were \$3.8 million, which was 5.2 percent below the budget estimate and 20.9 percent below FY06. Collections from recordation taxes experienced a significant decline in FY07 due primarily to a drop in local home sales and the onset of market tightening in the mortgage finance industry. Home sales during FY07 were down 19% compared to FY06. This significant contraction in sales is reflected in the dramatic increase in the residential inventory-to-sales ratio. As of June 2006 this ratio of home sales to buyers was 9.9. As of June 2007, this ratio was 20.3. This means that for every 20 homes listed on the market, there was only one buyer.



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2007, amounted to \$55.1 million (net of accumulated depreciation), as summarized below:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$ 7,624,514	\$ 6,981,598	\$ 2,742,769	\$ 2,722,769	\$ 10,367,283	\$ 9,704,367
Buildings and improvements	21,396,843	20,997,481	9,773,934	9,814,134	31,170,777	30,811,615
Furniture, machinery, equipment	18,215,115	15,692,968	3,854,310	3,509,614	22,069,425	19,202,582
Leasehold improvements	286,572	286,572	-	-	286,572	286,572
Infrastructure	37,370,619	35,492,086	6,323,510	6,323,510	43,694,129	41,815,596
Construction in progress	1,233,179	3,615,194	890,593	792,773	2,123,772	4,407,967
Total assets	86,126,842	83,065,899	23,585,116	23,162,800	109,711,958	106,228,699
Less: Accumulated depreciation	45,540,958	43,153,023	9,021,487	7,680,154	54,562,445	50,833,177
Total	\$ 40,585,884	\$ 39,912,876	\$ 14,563,629	\$ 15,482,646	\$ 55,149,513	\$ 55,395,522

Changes in the County's capital assets for FY07 are summarized as follows:

	Governmental	Business-Type	Total	
	Activities	Activities	2007	2006
Beginning Balance	\$ 39,912,876	\$ 15,482,646	\$ 55,395,522	\$ 45,923,033
Additions*	4,354,478	476,266	4,830,744	13,052,167
Retirements, net*	976,081	38,525	1,014,606	348,901
Depreciation expense	2,705,389	1,356,758	4,062,147	3,230,777
Ending Balance	\$ 40,585,884	\$ 14,563,629	\$ 55,149,513	\$ 55,395,522

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

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

- Continued expansion of the county-wide network technology initiative amounting to \$219,681
- 4 replacement vehicles and other capital expenditures in the Sheriff's Office at a cost of \$265,739
- State funded acquisition of 911 Emergency Communications equipment at \$0.5 million
- \$0.6 million in the Public Works - Highways including \$0.3 million for heavy equipment and \$0.3 million for a shoreline erosion project at Taylor's Island
- \$1.6 million for acquisition of park land funded by the State of Maryland
- \$0.4 million for heavy equipment at the landfill

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

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2007:

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 17,020,000	\$ 19,515,000	\$ -	\$ -	\$ 17,020,000	\$ 19,515,000
Notes payable	3,294,448	3,372,063	530,000	560,500	3,824,448	3,932,563
Capital leases	-	76,528	-	26,169	-	102,697
Pension liability	606,099	589,926	-	-	606,099	589,926
Compensated absences	1,006,829	940,648	34,793	37,354	1,041,622	978,002
Total	\$ 21,927,376	\$ 24,494,165	\$ 564,793	\$ 624,023	\$ 22,492,169	\$ 25,118,188

At June 30, 2007, the County had outstanding general obligation bonds of \$17.0 million. General obligation (GO) bonds are backed by the issuer's pledge of its full faith, credit and taxing power for the payment of the bond. GOs are generally viewed as the most secure type of municipal security and typically finance public projects such as schools, parks, libraries, roads and county buildings. Over the last ten years, the County issued its GO bonds four times totaling \$35.4 million. Dorchester County also issues debt to finance the capital construction of Dorchester County Public Schools and Chesapeake College not otherwise financed by the State of Maryland. The County continues to maintain its status as a stable smaller government issuer of municipal securities, with the third highest credit rating possible for a local government. For its GO bonds, the County is rated A2 from Moody's Investors Service, Inc., and A from Standard and Poor's.

These bond ratings, by definition, represent the County is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than counties in higher-rated categories. However, the County's capacity to meet its financial commitment on the bonds is still strong.

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

The County had no significant bond-related debt activities during FY07.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following economic factors are reflected in the County's FY08 budget:

- The County's economic projections in the FY08 budget assume modest growth with the County experiencing steady unemployment, a modest decline in payroll wages, and continued residential development.
- Total payroll employment decreased 2.1 percent in CY06, the latest calendar year for which data is available. For the first quarter of CY07, total payroll employment remained level compared to the same period in CY06.
- Total payroll wages increased 1.4 percent in CY06, the latest calendar year for which data is available. For the first quarter of CY07, total payroll wages increased by 5.6 percent compared to the same period in CY06.
- The projection in the FY08 budget assumes that personal income will decline by 10 percent.
- The CY05 annual average unemployment rate for the County was 5.7 percent while the State of Maryland average was 3.9 percent. Comparatively, the CY05 rates were 5.3 percent for the County and 4.1 percent for the State. For the first half of CY07, the average unemployment rate for the County was 6.3 percent versus 5.6 percent from the same period in CY06.
- The number of residential real property accounts in the County increased from 16,211 to 17,014 during FY07, an increase of 803 accounts or 5 percent. Of the increase, 336 accounts were improved, and 467 were unimproved.

REQUESTS FOR INFORMATION

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

DORCHESTER COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PRIMARY GOVERNMENT AS OF JUNE 30, 2007
COMPONENT UNITS AS OF JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and short-term investments	\$ 18,857,741	\$ 6,120,380	\$ 24,978,121
Receivables:			
State and local property taxes	3,963,586	-	3,963,586
Accounts receivable, net	-	671,565	671,565
Federal government	517,994	28,694	546,688
State of Maryland	944,273	-	944,273
Local	2,558,976	-	2,558,976
Other	427,262	-	427,262
Internal balances	(917,009)	917,009	-
Inventories, at cost	-	59,109	59,109
Other	318,793	29,990	348,783
Capital assets, net	40,585,884	14,563,629	55,149,513
Total assets	67,257,500	22,390,376	89,647,876
LIABILITIES			
Accounts payable and accrued expenses	2,884,311	177,728	3,062,039
Due to State of Maryland	124,788	-	124,788
Due to delinquent taxpayers	500,575	-	500,575
Deferred revenue	4,181,954	2,100	4,184,054
Landfill closure and postclosure care costs	-	7,486,070	7,486,070
Pension liability	606,099	-	606,099
Other	75,701	-	75,701
Long-term liabilities, due within one year			
Compensated absences	323,975	17,764	341,739
Bonds, notes and capital leases payable	2,890,774	34,000	2,924,774
Long-term liabilities, due in more than one year			
Compensated absences	682,854	17,029	699,883
Bonds, notes and capital leases payable	17,423,674	496,000	17,919,674
Total liabilities	29,694,705	8,230,691	37,925,396
NET ASSETS			
Invested in capital assets, net of related debt	20,271,436	14,033,629	34,305,065
Restricted	4,215,503	-	4,215,503
Unrestricted	13,075,856	126,056	13,201,912
Total Net Assets	\$ 37,562,795	\$ 14,159,685	\$ 51,722,480

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

Component Units	
Board of Education of Dorchester County	Dorchester County Sanitary Districts
\$ 5,204,694	\$ 863,406
-	-
-	57,802
348,103	-
48,942	-
411,785	-
-	-
-	-
18,964	14,700
360,773	-
47,585,209	3,981,571
<u>53,978,470</u>	<u>4,917,479</u>
3,050,607	88,071
-	-
-	-
504,834	29,816
-	-
-	-
25,000	23,736
-	-
-	24,136
864,045	7,820
-	272,501
<u>4,444,486</u>	<u>446,080</u>
47,585,209	3,684,934
888,044	142,357
1,060,731	644,108
<u>\$ 49,533,984</u>	<u>\$ 4,471,399</u>

DORCHESTER COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Function/Program	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest	Primary Government			Component Units		
					Governmental Activities	Business-Type Activities	Total	Board of Education of Dorchester County	Dorchester County Sanitary Districts	
Governmental Activities										
General government	\$ 4,666,792	\$ 88,975	\$ 2,310,628	\$ 258,373	\$ (2,008,816)	\$ -	\$ (2,008,816)	\$ -	\$ -	
Public safety	12,940,143	2,226,398	478,672	1,074,491	(9,160,583)	-	(9,160,583)	-	-	
Social services	2,407,730	2,550	1,894,291	166,467	(344,422)	-	(344,422)	-	-	
Recreation and parks	732,872	51,940	-	244,242	(436,690)	-	(436,690)	-	-	
Natural resources	450,637	23,681	138,235	-	(288,721)	-	(288,721)	-	-	
Economic development	1,054,792	-	201,330	1,639,078	785,616	-	785,616	-	-	
Miscellaneous	4,370,896	-	-	-	(4,370,896)	-	(4,370,896)	-	-	
Education	19,886,456	-	-	-	(19,886,456)	-	(19,886,456)	-	-	
Public works	6,287,082	250,856	4,297,328	755,716	(983,182)	-	(983,182)	-	-	
Interest on long-term debt	851,445	-	-	-	(851,445)	-	(851,445)	-	-	
Total Governmental Activities	53,648,845	2,644,399	9,320,483	4,138,368	(37,545,595)	-	(37,545,595)	-	-	
Business-Type Activities										
Airport	946,450	535,173	-	89,261	-	(322,016)	(322,016)	-	-	
Landfill	4,166,226	4,346,847	-	-	-	180,621	180,621	-	-	
Total Business-Type Activities	5,112,676	4,882,020	-	89,261	-	(141,395)	(141,395)	-	-	
Total Primary Government	\$ 58,761,521	\$ 7,526,419	\$ 9,320,483	\$ 4,227,629	(37,545,595)	(141,395)	(37,686,990)	-	-	
Component Units										
Board of Education of Dorchester County	55,943,593	3,153,036	52,617,691	-	-	-	-	(172,866)	-	
Dorchester County Sanitary Districts	686,573	579,236	-	-	-	-	-	-	(107,337)	
Total Component Units	\$ 56,630,166	\$ 3,732,272	\$ 52,617,691	\$ -	-	-	-	(172,866)	(107,337)	
General Revenues (Expenses)										
Taxes:										
Property					22,344,833	-	22,344,833	-	-	
Income					10,229,499	-	10,229,499	-	-	
Other					7,141,880	-	7,141,880	-	-	
Licenses and permits					325,863	-	325,863	-	-	
Interest					815,776	242,599	1,058,375	214,567	20,301	
Loss on disposal of assets					(976,081)	(38,525)	(1,014,606)	-	-	
Other					703,269	34,892	738,161	477,702	-	
Total General Revenues					40,585,039	238,966	40,824,005	692,269	20,301	
Transfers					(468,843)	468,843	-	-	-	
Total General Revenues and Transfers					40,116,196	707,809	40,824,005	692,269	20,301	
Change in Net Assets					2,570,601	566,414	3,137,015	519,403	(87,036)	
Net Assets, Beginning of Year					34,992,194	13,593,271	48,585,465	49,014,581	4,558,435	
Net Assets, End of Year					\$ 37,562,795	\$ 14,159,685	\$ 51,722,480	\$ 49,533,984	\$ 4,471,399	

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

DORCHESTER COUNTY, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2007

	General Fund	Special Revenue	Tax Funds	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and short-term investments	\$ 11,151,372	\$ 682,467	\$ 3,241,210	\$ 3,782,692	\$ 18,857,741
Receivables:					
State and local property taxes	3,963,586	-	-	-	3,963,586
Federal government	-	517,994	-	-	517,994
State of Maryland	-	944,273	-	-	944,273
Local	2,558,976	-	-	-	2,558,976
Other	140,470	128,837	148,887	9,068	427,262
Interfund	140,335	547,809	3,104,360	839,778	4,632,282
Other	99,909	-	-	218,884	318,793
Total assets	\$ 18,054,648	\$ 2,821,380	\$ 6,494,457	\$ 4,850,422	\$ 32,220,907
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	\$ 1,232,307	\$ 1,015,297	\$ 192,636	\$ 768,046	\$ 3,208,286
Due to State of Maryland	124,788	-	-	-	124,788
Due to delinquent taxpayers	500,575	-	-	-	500,575
Interfund payables	5,432,456	39,329	15,171	62,335	5,549,291
Due to others	35,779	-	-	-	35,779
Deferred revenue	6,290,648	1,284,934	-	56,880	7,632,462
Other	39,922	-	-	-	39,922
Total liabilities	13,656,475	2,339,560	207,807	887,261	17,091,103
FUND BALANCES					
Reserved for:					
Prepaid expenditures	96,687	-	-	-	96,687
Schools	-	-	2,925,093	-	2,925,093
Public safety communication system	-	-	83,310	-	83,310
Sheriff	-	-	77,139	-	77,139
Courthouse	-	-	1,033,275	-	1,033,275
Unreserved:					
Designated for legal indemnification	100,000	-	-	-	100,000
Designated for 2007 expenditures	2,262,467	-	-	-	2,262,467
Designated for capital projects	-	-	-	1,165,496	1,165,496
Designated for highway use	145,586	-	-	-	145,586
Designated for other purposes	-	481,820	-	-	481,820
Undesignated (deficit)	1,793,433	-	2,167,834	2,797,665	6,758,932
Total fund balances	4,398,173	481,820	6,286,650	3,963,161	15,129,804
Total liabilities and fund balances	\$ 18,054,648	\$ 2,821,380	\$ 6,494,457	\$ 4,850,422	\$ 32,220,907

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

DORCHESTER COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balances, governmental funds		\$ 15,129,804
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.		40,585,884
Certain revenues that do not provide current financial resources are reported as deferred income in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Assets.		3,450,508
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. Those liabilities consist of:		
Bonds, notes and capital leases payable	(20,314,448)	
Pension liability	(606,099)	
Compensated absences	(682,854)	
Total long-term liabilities		<u>(21,603,401)</u>
Net assets of governmental activities in the Statement of Net Assets		<u>\$ 37,562,795</u>

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

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007**

	General Fund	Special Revenue	Tax Funds	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes	\$ 36,974,221	\$ -	\$ 2,741,991	\$ -	\$ 39,716,212
Licenses and permits	325,863	-	-	-	325,863
Intergovernmental:					
Federal	762,671	1,310,846	-	-	2,073,517
State	6,518,233	4,286,104	-	563,027	11,367,364
Service charges and fees	2,662,369	-	-	-	2,662,369
Miscellaneous	438,519	58,801	-	205,949	703,269
Total revenues	47,681,876	5,655,751	2,741,991	768,976	56,848,594
EXPENDITURES:					
Current:					
General government	3,461,781	-	251,902	584,606	4,298,289
Public safety	10,295,400	806,042	211,381	91,733	11,404,556
Social services	370,411	2,033,030	-	-	2,403,441
Recreation and parks	486,443	119,181	-	59,266	664,890
Natural resources	405,274	45,363	-	-	450,637
Economic development	517,525	304,564	-	166,395	988,484
Miscellaneous	4,354,390	-	-	16,506	4,370,896
Education	17,856,075	-	656,144	1,374,237	19,886,456
Public works	5,292,691	513,304	-	99,259	5,905,254
Debt service:					
Principal	-	-	173,562	2,710,581	2,884,143
Interest	-	-	41,829	809,616	851,445
Capital outlay	155,094	1,959,882	56,266	2,183,236	4,354,478
Total expenditures	43,195,084	5,781,366	1,391,084	8,095,435	58,462,969
Excess (deficiency) of revenues over expenditures	4,486,792	(125,615)	1,350,907	(7,326,459)	(1,614,375)
OTHER FINANCING SOURCES (USES):					
Increase in pension liability	-	-	-	16,173	16,173
Note proceeds	-	-	-	235,000	235,000
Interest and dividends received	512,100	34,963	59,362	209,351	815,776
Transfers, net	(8,708,931)	93,826	-	8,146,262	(468,843)
Total other financing sources (uses)	(8,196,831)	128,789	59,362	8,606,786	598,106
Excess (deficiency) of revenues over over expenditures and other financing sources (uses)	(3,710,039)	3,174	1,410,269	1,280,327	(1,016,269)
Fund balances, beginning of year	8,108,212	478,646	4,876,381	2,682,834	16,146,073
Fund balances, end of year	\$ 4,398,173	\$ 481,820	\$ 6,286,650	\$ 3,963,161	\$ 15,129,804

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

DORCHESTER COUNTY, MARYLAND

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007**

Net change in fund balances, governmental funds \$ (1,016,269)

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

Governmental funds report capital outlays as expenditures. However, in the Statement
of Activities, the cost of those assets is allocated over their estimated useful lives and
reported as depreciation expense. In the current period, these amounts are:

Capital outlay	4,354,478	
Depreciation expense	<u>(2,705,389)</u>	
Excess of capital outlay over depreciation expense		1,649,089

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

Hoopersville Road Loan	(235,000)
------------------------	-----------

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

Principal payments on long-term debt	2,884,143
--------------------------------------	-----------

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

(976,081)

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

322,403

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

Increase in pension liability	(16,173)
Increase in compensated absences	<u>(41,511)</u>

Change in net assets of governmental activities \$ 2,570,601

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS**

June 30, 2007

	Business-Type Activities		
	Landfill	Airport	Total
ASSETS			
Current assets			
Cash	\$ 6,120,055	\$ 325	\$ 6,120,380
Receivables:			
Accounts, net of \$40,000 allowance (landfill)	631,775	39,790	671,565
Federal Government	-	28,694	28,694
Interfund	382,004	561,410	943,414
Prepaid expenditures	-	29,990	29,990
Inventories	-	59,109	59,109
Total current assets	7,133,834	719,318	7,853,152
Noncurrent assets			
Capital assets at cost	10,914,611	12,670,505	23,585,116
Less accumulated depreciation	(6,432,590)	(2,588,897)	(9,021,487)
Total noncurrent assets	4,482,021	10,081,608	14,563,629
Total assets	\$ 11,615,855	\$ 10,800,926	\$ 22,416,781
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 106,787	\$ 70,941	\$ 177,728
Accrued vacation	13,253	4,511	17,764
Deferred revenue	-	2,100	2,100
Interfund payables	26,405	-	26,405
Current maturities long-term debt	3,000	31,000	34,000
Total current liabilities	149,445	108,552	257,997
Noncurrent liabilities			
Accrued vacation	14,508	2,521	17,029
Landfill - closure and postclosure	7,486,070	-	7,486,070
Long-term debt, less current maturities	-	496,000	496,000
Total noncurrent liabilities	7,500,578	498,521	7,999,099
Total liabilities	\$ 7,650,023	\$ 607,073	\$ 8,257,096
NET ASSETS			
Invested in capital assets, net of related debt	\$ 4,479,021	\$ 9,554,608	\$ 14,033,629
Unrestricted (deficit)	(513,189)	639,245	126,056
Total net assets	\$ 3,965,832	\$ 10,193,853	\$ 14,159,685

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

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 Year Ended June 30, 2007**

	Business-Type Activities		
	Landfill	Airport	Totals
OPERATING REVENUES:			
Tipping fees	\$ 4,258,928	\$ -	\$ 4,258,928
Permits	87,919	-	87,919
Fuel sales	-	362,566	362,566
Hangar and tie-down rentals	-	172,607	172,607
Other	17,879	17,013	34,892
Total operating revenues	4,364,726	552,186	4,916,912
OPERATING EXPENSES:			
Salaries and related taxes	736,546	170,347	906,893
Repairs and maintenance	1,872,214	52,870	1,925,084
Rental of land, buildings and equipment	118,396	13,200	131,596
Fuel	119,069	275,516	394,585
Closure and postclosure costs accrual	(155,008)	-	(155,008)
Utilities	10,383	82,614	92,997
Depreciation	1,082,918	273,840	1,356,758
Other operating	381,434	93,623	475,057
Total operating expenses	4,165,952	962,010	5,127,962
Net operating income (loss)	198,774	(409,824)	(211,050)
NON-OPERATING REVENUES (EXPENSES):			
Grants - Federal government	-	87,708	87,708
Grants - state government	-	1,553	1,553
Interest income	242,599	-	242,599
Interest expense	(274)	(22,965)	(23,239)
Total non-operating revenues	242,325	66,296	308,621
Income before transfers	441,099	(343,528)	97,571
Operating transfers	-	468,843	468,843
Change in net assets	441,099	125,315	566,414
Net assets beginning of year	3,524,733	10,068,538	13,593,271
Net assets end of year	\$ 3,965,832	\$ 10,193,853	\$ 14,159,685

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

DORCHESTER COUNTY, MARYLAND

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2007

	Landfill	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 4,556,127	\$ 213,013	\$ 4,769,140
Other receipts	17,879	17,013	34,892
Payments to employees	(736,387)	(173,067)	(909,454)
Payments for services	(10,383)	(82,614)	(92,997)
Payments for rentals	(118,396)	(13,200)	(131,596)
Payments for materials and supplies	(2,250,019)	(330,297)	(2,580,316)
Other payments	(381,434)	(55,098)	(436,532)
Net cash provided (used) by operating activities	1,077,387	(424,250)	653,137
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating transfers from General Fund	-	468,843	468,843
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Grant and bond receipts	-	89,261	89,261
Repayment of long-term debt	(25,669)	(31,000)	(56,669)
Purchases of property and equipment	(396,376)	(79,889)	(476,265)
Interest paid	(274)	(22,965)	(23,239)
Net cash used by financing activities	(422,319)	(44,593)	(466,912)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income received	242,599	-	242,599
Net increase in cash and short-term investments	897,667	-	897,667
Cash and short-term investments, beginning of year	5,222,388	325	5,222,713
Cash and short-term investments, end of year	\$ 6,120,055	\$ 325	\$ 6,120,380
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 198,774	\$ (409,824)	\$ (211,050)
Adjustments:			
Depreciation	1,082,917	273,840	1,356,757
Landfill closure and postclosure cost accrual	(155,008)	-	(155,008)
Loss on disposal of property and equipment	-	38,525	38,525
(Increase) decrease in assets:			
Accounts receivable	149,636	173,081	322,717
Prepaid expenses	-	(29,990)	(29,990)
Inventory	-	(28,206)	(28,206)
Interfund receivable	59,644	(467,035)	(407,391)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	(169,714)	28,079	(141,635)
Accrued vacation	159	(2,720)	(2,561)
Deferred revenue	-	-	-
Interfund payable	(89,021)	-	(89,021)
Total adjustments	878,613	(14,426)	864,187
Net cash provided (used) by operating activities	\$ 1,077,387	\$ (424,250)	\$ 653,137

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Reporting Entity

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

Financial Reporting Entity

For financial reporting purposes, based on the standards established by GASB Statement No. 39, *The Financial Reporting Entity*, the County includes the various departments, agencies, and other organizational units governed directly by the County Council of Dorchester County, Maryland as the Primary Government. The component units are included in the reporting entity because the Primary Government approves budgetary requests, provides a significant amount of funding, appoints members of the boards of the various organizations, or guarantees repayment of debt issued by the various organizations.

The component units column in the combined financial statements includes the financial data of the Board of Education of Dorchester County and the Dorchester County Sanitary Districts as the County’s discretely presented component units, which have a fiscal year-end of June 30. Copies of the financial statements for the component units can be obtained from the County Council’s office in Cambridge, Dorchester County, Maryland.

Note 2. Summary of Significant Accounting Policies

The financial statements of the County are prepared in conformity with generally accepted accounting principles (GAAP) as applied to local government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County has elected not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its business-type activities.

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Fund Types

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

Proprietary Fund Types

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

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

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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

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

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

Property taxes for which there was an enforceable legal claim at June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

E. Budgets and Budgetary Accounting

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

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

F. Inventory

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

G. Property Tax

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

H. Capital Assets

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

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

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

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

I. Interfund Receivables and Payables

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

J. Compensated Absences

Vacation and Sick Leave

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

Upon retirement, employees of the Board of Education (a component unit) ("Board") receive severance pay for unused sick leave accumulated for service while employed at the Board. This estimated liability is computed on the accumulated sick leave of Board employees who have 20 years of service with the Board at the rate of \$20 per day. Employees are granted vacation benefits in varying amounts depending on tenure. In addition, the accrued leave account includes vacation days earned by certain employees but not used by June 30, 2007.

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

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

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

M. Fund Balance Reserves

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

N. Operating Revenues and Expenses

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

O. Interfund Transactions

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

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

P. Estimates

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

Note 3. Cash and Short-Term Investments

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

Primary Government

At June 30, 2007, the Primary Government had bank deposits with various commercial banks totaling \$25,795,836 (carrying value \$24,978,121). As required by law, each depository is required to pledge securities in addition to FDIC insurance at least equal to the amount on deposit at all times. The depository banks pledge collateral for specific accounts which are held in the Primary Government's name at several banks. As of June 30, 2007, all bank deposits were fully insured or collateralized. Petty cash totaled approximately \$8,100 at June 30, 2007.

NOTES TO FINANCIAL STATEMENTS

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

Board of Education of Dorchester County

At June 30, 2007, the Board had bank deposits with various commercial banks totaling \$1,519,390 (carrying value \$1,045,344). As required by law, each depository is to pledge securities in addition to FDIC insurance at least equal to that amount on deposit at all times. The depository banks pledge collateral for specific accounts which are held in the Board's name at the Federal Reserve Bank of Boston. As of June 30, 2007, bank deposits were not fully insured or collateralized by approximately \$53,000 in one local financial institution. Investments of \$4,159,350 consist solely of U.S. Government Securities made through the State of Maryland Local Government Investment Pool which provide local government units of the State a safe investment vehicle for shore-term investment of funds. The State Legislature created MLGIP with the passage of Article 94 22G of the Annotated Code of Maryland. The MLGIP is managed by Mercantile Safe Deposit and Trust Company, a Baltimore based financial institution, which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a quarterly basis and provide suggestions to enhance the pool. The MLGIP is rated AAAM by Standard and Poors. The fair value of the pool is the same as the value of the pool shares. Investments are recorded at cost, which approximates market value. Statutes authorize the Board to invest in obligations of the U.S. Treasury and U.S. Agencies, municipal securities and repurchase agreements, collateralized certificates of deposit, bankers acceptance or money market funds. The Board's exposure to investment rate and credit risk is minimal, as all investments are in cash and MLGIP and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by attempting to have all investments fully collateralized by securities.

Dorchester County Sanitary Districts

At June 30, 2007 the Dorchester County Sanitary Districts had bank deposits with various commercial banks totaling \$865,353 (carrying value \$863,406), which were either fully insured or collateralized with securities held in the name of the Dorchester County Sanitary Districts.

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balances at June 30, 2006	Additions	Deletions/ Transfers	Balances at June 30, 2007
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated				
Land	\$ 6,981,598	\$ 1,600,116	\$ (957,200)	\$ 7,624,514
Construction in progress	3,615,194	977,143	(3,359,158)	1,233,179
Total capital assets, not being depreciated	10,596,792	2,577,259	(4,316,358)	8,857,693
Capital assets, being depreciated				
Buildings and improvements	20,997,481	393,194	6,168	21,396,843
Furniture and equipment	15,692,968	1,363,255	1,158,892	18,215,115
Leasehold improvements	286,572	-	-	286,572
Infrastructure assets	35,492,086	20,770	1,857,763	37,370,619
Total capital assets, being depreciated	72,469,107	1,777,219	3,022,823	77,269,149
Less: accumulated depreciation	(43,153,023)	(2,705,389)	317,454	(45,540,958)
Net capital assets, being depreciated	29,316,084	(928,170)	3,340,277	31,728,191
Governmental activities capital assets, net	\$ 39,912,876	\$ 1,649,089	\$ (976,081)	\$ 40,585,884

During fiscal year 2007, the County donated the Macey's Lane School to a qualified not-for-profit organization. The net carrying amount of \$957,200 has been reported as a direct expense on the statement of activities and the related assets account has been reduced to zero.

Depreciation expense was charged to governmental functions as follows:

General government	\$ 649,395
Public safety	1,535,587
Social services	4,289
Recreation and parks	67,982
Economic development	66,308
Public works	381,828
	<u>\$ 2,705,389</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

	Balances at June 30, 2006	Additions	Deletions/ Transfers	Balances at June 30, 2007
BUSINESS-TYPE ACTIVITIES				
Dorchester County Landfill				
Capital assets, not being depreciated				
Land	\$ 875,187	\$ -	\$ -	\$ 875,187
Construction in progress	-	37,931	-	37,931
Total capital assets, not being depreciated	875,187	37,931	-	913,118
Capital assets, being depreciated				
Buildings and improvements	82,089	-	-	82,089
Machinery and equipment	3,251,198	358,446	(13,750)	3,595,894
Beulah landfill - cells	6,323,510	-	-	6,323,510
Total capital assets, being depreciated	9,656,797	358,446	(13,750)	10,001,493
Less: accumulated depreciation	(5,363,422)	(1,082,918)	13,750	(6,432,590)
Net capital assets, being depreciated	4,293,375	(724,472)	-	3,568,903
Landfill capital assets, net	\$ 5,168,562	\$ (686,541)	\$ -	\$ 4,482,021
Dorchester County Airport				
Capital assets, not being depreciated				
Land	\$ 1,847,582	\$ 20,000	\$ -	\$ 1,867,582
Construction in progress	792,773	59,889	-	852,662
Total capital assets, not being depreciated	2,640,355	79,889	-	2,720,244
Capital assets, being depreciated				
Buildings and improvements	9,732,045	-	(40,200)	9,691,845
Machinery and equipment	258,416	-	-	258,416
Total capital assets, being depreciated	9,990,461	-	(40,200)	9,950,261
Less: accumulated depreciation	(2,316,732)	(273,840)	1,675	(2,588,897)
Net capital assets, being depreciated	7,673,729	(273,840)	(38,525)	7,361,364
Airport capital assets, net	\$ 10,314,084	\$ (193,951)	\$ (38,525)	\$ 10,081,608
Business-type activities capital assets, net	\$ 15,482,646	\$ (880,492)	\$ (38,525)	\$ 14,563,629

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

Capital asset activity for the component units for the year ended June 30, 2007 was as follows:

	Balances at June 30, 2006	Additions	Deletions/ Transfers	Balances at June 30, 2007
Board of Education of Dorchester County				
Governmental activities				
Capital assets, not being depreciated				
Construction in progress	\$ 2,826,561	\$ 2,273,364	\$ (4,124,732)	\$ 975,193
Total capital assets, not being depreciated	2,826,561	2,273,364	(4,124,732)	975,193
Capital assets, being depreciated				
Buildings and improvements	69,661,063	277,552	4,070,117	74,008,732
Furniture and equipment	857,861	20,030	54,615	932,506
Vehicles	723,569	118,946	(11,155)	831,360
Total capital assets, being depreciated	71,242,493	416,528	4,113,577	75,772,598
Less: accumulated depreciation	(27,677,578)	(1,518,787)	11,155	(29,185,210)
Net capital assets, being depreciated	43,564,915	(1,102,259)	4,124,732	46,587,388
Governmental activities capital assets, net	\$ 46,391,476	\$ 1,171,105	\$ -	\$ 47,562,581
Business-type activities				
Equipment	\$ 551,050	\$ 8,900	\$ -	\$ 559,950
Accumulated depreciation	(535,202)	(2,120)	-	(537,322)
Business-type activities capital assets, net	\$ 15,848	\$ 6,780	\$ -	\$ 22,628
Board of Education capital assets, net	\$ 46,407,324	\$ 1,177,885	\$ -	\$ 47,585,209
Dorchester County Sanitary Districts				
Capital assets, not being depreciated				
Land	\$ 2,645	\$ -	\$ -	\$ 2,645
Construction in progress	11,457	2,691	-	14,148
Total capital assets, not being depreciated	14,102	2,691	-	16,793
Capital assets, being depreciated				
Plant and equipment	7,127,771	2,162	(1,025)	7,128,908
Total capital assets, being depreciated	7,127,771	2,162	(1,025)	7,128,908
Less: accumulated depreciation	(3,001,007)	(164,148)	1,025	(3,164,130)
Net capital assets, being depreciated	4,126,764	(161,986)	-	3,964,778
Sanitary Districts capital assets, net	\$ 4,140,866	\$ (159,295)	\$ -	\$ 3,981,571
Total component units capital assets, net	\$ 50,532,342	\$ 1,011,810	\$ -	\$ 51,544,152

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt

The following is a summary of long-term debt transactions of the Primary Government for the year ended June 30, 2007:

	Governmental Activities	Business-Type Activities
Amounts payable at June 30, 2006	\$ 24,494,165	\$ 624,023
Borrowings from bonds, notes payable, and capital leases	235,000	500
Increase in pension liability (See also Note 9)	16,173	-
Increase (decrease) in vested vacation benefits and compensatory time	66,181	(2,561)
Repayment of long-term debt and capital lease obligations	(2,884,143)	(57,169)
Amounts payable at June 30, 2007	\$ 21,927,376	\$ 564,793

Long-term debt consists of the following as of June 30, 2007:

Dorchester County Governmental Activities Long-Term Debt

	Balances at June 30, 2006	Additions	Reductions	Balances at June 30, 2007	Amounts Due in One Year
<u>Capital Leases</u>					
SunTrust Leasing Corporation capital lease agreement on 911 dispatch equipment, due in annual installments of \$79,274, including interest of 3.58% through December 2006.	\$ 76,528	\$ -	\$ (76,528)	\$ -	\$ -
	\$ 76,528	\$ -	\$ (76,528)	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2006	Additions	Reductions	Balances at June 30, 2007	Amounts Due in One Year
Public Facilities Bonds					
1995 Public Facilities Bonds due in annual principal installments of \$185,000 to \$535,000 through February 1, 2015; interest, payable semi-annually, from 4.7% to 6.1%.	\$ 330,000	\$ -	\$ (330,000)	\$ -	\$ -
1996 Public Facilities Bonds due in annual principal installments of \$190,000 to \$1,065,000 through November 1, 2010; interest, payable semi-annually, from 3.5% to 6.7%.	2,735,000	-	(1,005,000)	1,730,000	1,065,000
Public School Capital Improvement bonds for 2002 due in annual principal installments of \$320,000 to \$650,000 through August 1, 2017; interest, payable semi-annually, from 3.5% to 4.5%.	5,990,000	-	(370,000)	5,620,000	390,000
General Improvements and Refunding Bonds of 2004, payable in annual payments from \$65,000 to \$1,050,000 beginning Feb 1, 2005; interest payable annually from 2% to 3.9%.	8,255,000	-	(590,000)	7,665,000	915,000
Public School Capital Improvement Bonds of 2000 due in annual principal installments of \$145,000 to \$300,000 through March 1, 2015; interest, payable semi-annually, from 4.5% to 5.2%.	2,205,000	-	(200,000)	2,005,000	210,000
Total public facilities bonds	\$ 19,515,000	\$ -	\$(2,495,000)	\$17,020,000	\$ 2,580,000

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2006	Additions	Reductions	Balances at June 30, 2007	Amounts Due in One Year
<u>State of Maryland Department of Natural Resources</u>					
<u>Maryland Industrial Land Act Loans (MILA)</u>					
Maryland Industrial Land Act loan due in quarterly installments of \$15,886, including interest at 6.32%, through March 2016, secured by 5.6 acres of land and improvements located in the Chesapeake Industrial Park in Cambridge, Maryland (known as the Regina	\$ 437,643	\$ -	\$ (36,292)	\$ 401,351	\$ 37,686
Maryland Industrial Land Act loan due in quarterly installments of \$21,177, including interest at 4.64%, through April 2012. A final balloon payment of \$397,242 is due at maturity (known as the Connelly Building).	661,931	-	(54,857)	607,074	56,253
Total MILA loans payable	\$ 1,099,574	\$ -	\$ (91,149)	\$ 1,008,425	\$ 93,939

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2006	Additions	Reductions	Balances at June 30, 2007	Amounts Due in One Year
<u>State of Maryland Department of Natural Resources</u>					
<u>Shore Erosion Control Loans (SEC)</u>					
SEC 3-92 - Hoopersville Road Boat Ramp; due in annual installments of \$4,780 through July 2019; no interest.	\$ 62,132	\$ -	\$ (4,780)	\$ 57,352	\$ 4,780
SEC 7-92 - Middle Hoopers Island Causeway; due in annual installments of \$5,516 through July 2020; no interest.	82,740	-	(5,516)	77,224	5,516
SEC 8-92 - McCready's Point Road; due in annual installments of \$1,683 through July 2019; no interest.	23,568	-	(1,683)	21,885	1,683
SEC 9-92 - Hoopersville Road at Middle Hoopers Island; due in annual installments of \$2,718 through July 2020;	38,055	-	(2,718)	35,337	2,718
SEC 3-95 - Punch Island Road; due in annual installments of \$3,519 through July 2011; no interest.	21,110	-	(3,519)	17,591	3,519
SEC 2-96 - Rooster Island; due in annual installments of \$8,207 through July 2012; no interest.	57,444	-	(8,207)	49,237	8,207
SEC 03-03 - Hoopersville Road; due in annual installments of \$8,829 through July, 2032, no interest.	233,667	-	-	233,667	15,578
SEC 04-02 - Hoopers Island Road; due in annual installments of \$6,032 through July 2027; no interest.	130,462	-	(5,930)	124,532	6,032
SEC 05-03 - Tayors Island - \$350,000 total loan to be repaid in 25 annual installments of \$14,000, no interest, to begin July 1 after the completion of the project.	95,050	-	-	95,050	14,000
Total SEC loans payable	\$ 744,228	\$ -	\$ (32,353)	\$ 711,875	\$ 62,033

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at		Balances at		Amounts Due
	June 30, 2006	Additions	Reductions	June 30, 2007	in One Year
<u>Notes Payable</u>					
County Commissioners of Queen Anne's County loan due in annual principal installments of \$5,500 to \$18,700 through November 2013; interest payable semi-annually at 5.91% (known as the Chesapeake College Economic Development Center).	\$ 121,000	\$ -	\$ (12,100)	\$ 108,900	\$ 13,200
County Commissioners of Queen Anne's County loan due in annual principal installments of \$20,000 to \$50,000 through January 2020; interest payable annually at 5.173% to 5.25% (known as the Learning Resource Center).	490,000	-	(25,000)	465,000	25,000
County Commissioners of Queen Anne's County loan due in annual principal installments of \$5,096 to \$12,314 through January 2023; interest payable semi-annually at 4%.	145,709	-	(5,642)	140,067	5,945
Note due in quarterly principal installments of \$24,313, plus interest at 5.33% through 2014 (known as the Delmarva Power and Light Building).	646,185	-	(64,076)	582,109	67,585
SunTrust Bank loan for camera system in Detention Center due in quarterly principal installments of \$16,367, plus interest at 4.05%, through 2006.	14,790	-	(14,790)	-	-
The Rippons Pier deferred purchase price due in annual principal installments of \$35,000 to \$40,000 through 2012, no interest.	-	235,000	-	235,000	-
Note due in quarterly installments of \$16,639 to \$27,525, including interest at 8.5%, through April 2008, secured by 22.0 acres of land (known as the new Eastern Shore State Hospital Center).	110,577	-	(67,505)	43,072	43,072
Total notes payable	1,528,261	235,000	(189,113)	1,574,148	154,802
Total governmental activities debt	\$ 22,963,591	\$ 235,000	\$(2,884,143)	\$ 20,314,448	\$ 2,890,774

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Dorchester County Business-Type Activities Long-Term Debt

	Balances at June 30, 2006	Additions	Reductions	Balances at June 30, 2007	Amounts Due in One Year
Dorchester County Landfill:					
Tri-axle roll-off truck note payable due in quarterly installments of \$5,956, including interest at 4.25%, through June 2007.	\$ 26,169	\$ -	\$ (26,169)	\$ -	\$ -
Refuse and bid bonds payable	2,500	500	-	3,000	3,000
Total landfill long-term debt	<u>28,669</u>	<u>500</u>	<u>(26,169)</u>	<u>3,000</u>	<u>3,000</u>
Dorchester County Airport:					
Airport Improvement Bonds of 2003 issued through M&T Bank for 15 years with annual payments of \$31,000 through 2018 and a final payment of \$186,000 in 2019; interest payable quarterly at 4.19%.	558,000	-	(31,000)	527,000	31,000
Total enterprise fund debt	<u>\$ 586,669</u>	<u>\$ 500</u>	<u>\$ (57,169)</u>	<u>\$ 530,000</u>	<u>\$ 34,000</u>

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

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

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

Governmental Activities

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 2,890,774	\$ 779,753	\$ 3,670,527
2009	2,080,957	688,459	2,769,416
2010	2,171,917	615,909	2,787,826
2011	2,248,423	536,774	2,785,197
2012	2,393,597	448,075	2,841,672
2013 - 2017	7,250,257	1,142,589	8,392,846
2018 - 2022	1,118,524	331,572	1,450,096
2023 - 2027	132,958	270,118	403,076
2028 - 2032	257,235	206,184	463,419
2033 - 2036	375,905	65,650	441,555
Total	<u>20,920,547</u>	<u>5,085,083</u>	<u>26,005,630</u>
Less: pension liability	<u>(606,099)</u>	<u>(1,347,292)</u>	<u>(1,953,391)</u>
Total governmental activities debt	<u>\$ 20,314,448</u>	<u>\$ 3,737,791</u>	<u>\$ 24,052,239</u>

Business-Type Activities

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 34,000	\$ 22,081	\$ 56,081
2009	31,000	20,782	51,782
2010	31,000	19,484	50,484
2011	31,000	18,185	49,185
2012	31,000	16,886	47,886
2013 - 2017	155,000	64,945	219,945
2018 - 2019	217,000	16,885	233,885
Total business-type activities debt	<u>\$ 530,000</u>	<u>\$ 179,248</u>	<u>\$ 709,248</u>

Interest expense on all County long-term debt totaled \$874,685 for the year ended June 30, 2007.

Additionally, the County has agreed to execute a shore erosion control project loan agreement with the Maryland Department of Natural Resources for a no interest loan in the amount of \$350,000 to complete the Taylor's Island Environmental Restoration Project to be repaid over 24 years with annual payments of \$14,000 beginning on July 1 of the year in which the project is completed. Of the \$350,000 amount, \$95,050 has been borrowed and included in the governmental activities' long-term debt.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Long-term debt of the Dorchester County Sanitary Districts at June 30, 2007 consists of the following:

	Balances at June 30, 2006	Additions	Reductions	Balances at June 30, 2007
<u>Dorchester County Sanitary Districts</u>				
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.67%. Annual level installments of principal and interest of \$9,389 through March 2020.	\$ 83,748	\$ -	\$ (3,801)	\$ 79,947
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 6.67%. Annual level installments of principal and interest of \$4,736 through March 2020.	42,247	-	(1,917)	40,330
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.67%. Annual level installments of principal and interest of \$9,816 through September 2020.	91,281	-	(3,725)	87,556
Loan payable to Bank of Eastern Shore. Annual interest rate of 6.4%. Monthly installments of principal and interest of \$488 through April 2010. Collateralized by a certificate of deposit held at the Bank of the Eastern Shore.	19,482	-	(4,755)	14,727
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 6.10%. Annual level installments of principal and interest of \$2,051 through October 2012.	11,403	-	(1,356)	10,047
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 8.18%. Annual level installments of principal and interest of \$6,898 through July 2014.	42,745	-	(3,402)	39,343
Loan payable to the State of Maryland under the Drinking Water State Water Revolving Fund. Annual interest rate of 3.13%. Annual level installments of principal and interest of \$4,653 through February 2013.	28,450	-	(3,763)	24,687
Total Sanitary Districts' debt	\$ 319,356	\$ -	\$ (22,719)	296,637
Less: current maturities				24,136
				\$ 272,501

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

The annual requirements to amortize all Dorchester County Sanitary Districts' debt outstanding as of June 30, 2007 are as follows:

Year Ending June 30	Principal	Interest	Totals
2008	\$ 24,136	\$ 19,267	\$ 43,403
2009	25,653	17,751	43,404
2010	25,781	16,142	41,923
2011	22,861	14,683	37,544
2012	24,296	13,248	37,544
2013 - 2017	103,122	43,420	146,542
2018 - 2021	70,788	10,851	81,639
Total sanitary districts debt	\$ 296,637	\$ 135,362	\$ 431,999

Note 6. Capital Leases

Primary Government

The County entered into a lease agreement in December 2001, for the purpose of acquiring 911 dispatch equipment. The original cost of the equipment acquired under the capital lease agreement was \$357,035. Since the lease is a financing arrangement that transfer ownership at the end of the lease, the County has recorded the present value of the future minimum lease payments and the related assets in the appropriate funds. The final lease payment was made in December 2006.

Note 7. Long-Term Operating Lease

In July 2005, the County entered into a 3-year non-cancelable operating lease for its sanitary landfill site #2, commonly referred to as the "Golden Hill Landfill". Lease expense for 2007 was \$6,000. A final minimum lease payment of \$6,000 is due for the year ending June 30, 2008.

Component Unit - Board of Education

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

Approximate future minimum lease commitments are as follows:

<u>Year Ending June 30,</u>	
2008	\$ 157,000
2009	68,000
2010	4,000

Rent expense, under these leases, totaled approximately \$158,000 for the year ended June 30, 2007.

NOTES TO FINANCIAL STATEMENTS

Note 8. Interfund Receivables and Payables

As a result of its operations, the County affects a variety of transactions between funds to finance operations, service debt, etc. Accordingly, to the extent that certain interfund transactions have not been paid or received as of June 30, 2007, appropriate due to/from other funds have been established.

Due to/from other funds balances as of June 30, 2007 were as follows:

Primary Government	Due from Other Funds	Due to Other Funds
Governmental activities	\$ 4,632,282	\$ 5,549,291
Business-Type activities	943,414	26,405
Total due to/from other funds	\$ 5,575,696	\$ 5,575,696

Note 9. Pension Plans

Plan Description

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

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

Funding Policy

The State Personnel and Pensions Article requires active members to contribute to the System at the rate of 3%, 5% or 7% of their covered salary depending upon the retirement option selected. The combined State contribution rate for the year ending 2007 is established by annual actuarial valuations. The current rate is 9.71% of covered payroll for teachers and 6.83% for classified employees. On-behalf payments consist of pension contributions made by the State of Maryland to the State Retirement System for applicable employees of the Board of Education. The amounts recognized as revenue and expenditures for the fiscal year ended June 30, 2007 was \$2,414,577 for the Board of Education.

NOTES TO FINANCIAL STATEMENTS

Note 9. Pension Plans (continued)

Employer's Payroll and Contributions Under the Plan

The employer's current year payroll for the years ended June 30, 2007, 2006, and 2005, payroll covered under the various state plans, and contributions paid are as follows:

	2007	2006	2005
Total payroll	\$ 41,407,611	\$ 38,065,195	\$ 36,582,950
Payroll covered under the plans	38,687,276	34,909,116	31,367,258
Contributions paid:			
County payments	822,465	603,897	581,100
Board of Education payments	441,306	388,622	380,049
State On-Behalf payments:			
Board of Education	2,414,577	2,145,324	2,125,281

Funding Status

As a result of a 1997 actuarial study of the State Retirement and Pension System of Maryland, the County Commissioners of Dorchester County, Maryland (Highway Department) were identified as one of 23 municipal corporations not having enough assets in the system to fund the present value of accrued benefits for participants in the retirement system. Under rules of House Bills 1348 and 430, the County will repay the \$606,099 fund deficit (an increase of \$16,173 over the prior fiscal year) over a period of 40 years. The fiscal year 2007 annual payment was \$29,851 and will increase 5% per year until maturity at December 31, 2035. This liability has been recorded in the governmental activities column on the Statement of Net Assets.

Note 10. Post-Employment Health Care Benefits

The County provides post-employment health care benefits to their respective retired employees. Retired employees who complete 16 years of service will receive full health care benefits (including spouse) of which the employer pays 85%. Employees with less than 16 years of service will pay on a pro-rata basis.

The Board of Education of Dorchester County provides post-employment health care benefits to retired employees with 15 years of service. The amount contributed varies based on age and the number of years of service.

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

NOTES TO FINANCIAL STATEMENTS

Note 10. Post-Employment Health Care Benefits (continued)

The cost of post-employment health care benefits is recognized as an expenditure or an expense, as applicable, as the premiums are paid. Total premiums paid and participants as of and for the year ended June 30, 2007 are as follows:

	Premiums	Participants
Dorchester County	\$ 241,955	65
Dorchester County Sanitary Districts	7,499	2
Board of Education of Dorchester	495,852	206

Note 11. Deferred Compensation

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

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

The County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. In accordance with GASB Statement No. 32, adopted by the County in 1998, the plan's assets are not reported on the combined balance sheet of the County. A summary of the activity in the plan is presented in the supplementary information for the year ended June 30, 2007.

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

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

Use of per lot assessments totaling \$142,357 at June 30, 2007 by the Dorchester County Sanitary Districts is restricted to capital improvements, repairs and maintenance to the water system, and debt service.

NOTES TO FINANCIAL STATEMENTS

Note 13. Landfill Closure and Postclosure Care Costs

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

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

The Golden Hill landfill stopped accepting waste in 1991. The landfill began the final cover process during fiscal year 1996 and capping was completed in fiscal year 2000. Postclosure care costs for this location are currently estimated to be approximately \$14,200 each year for the next thirty years.

The Old Beulah landfill stopped accepting waste in February 1996. The landfill is expected to be covered during fiscal year 2008 at an estimated total cost of approximately \$3,759,000. The County is currently waiting final approval of its plan of closure from the Maryland Department of the Environment. Postclosure care costs for this location are currently estimated to be approximately \$20,100 each year for the next thirty years.

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

<u>Secretary landfill</u>	
Postclosure care costs	\$ 328,224
<u>Golden Hill landfill</u>	
Postclosure care costs	425,280
<u>Old Beulah landfill</u>	
Closure costs	3,759,497
Postclosure care costs	602,616
	4,362,113
<u>New Beulah landfill - cells 1 - 4</u>	
Closure costs	2,127,108
Postclosure care costs	243,345
	2,370,453
Total closure and postclosure care costs	\$ 7,486,070

NOTES TO FINANCIAL STATEMENTS

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

The above amounts are based on the current costs to perform all closure and postclosure care as of June 30, 2007. As noted above, the County expects to cap the Old Beulah landfill over the next fiscal year. However, actual costs may ultimately be higher than estimated costs due to inflation, changes in technology, or changes in regulations.

Though there are currently no legal restrictions on available funds, the County has approximately \$6,120,000 of currently available assets for landfill closure and postclosure care costs. The shortfalls may need to be covered by any combination of charges to future landfill users, future tax revenues, or additional borrowings.

The New Beulah landfill will consist of six cells. Cells 1 & 2 began accepting waste in November 1995 and were completely filled in 2003. Accruals of closure and postclosure care costs have been recognized. Total closure and postclosure care costs for Cells 1 & 2 are estimated to be \$1,195,423 and \$136,758, respectively.

New Beulah landfill cell 3 was completed and began accepting waste in October 2002. Accrual of closure and postclosure care costs have been recognized based on the estimated capacity used to date (88.87%). Total closure and postclosure care costs for Cell 3 are estimated to be \$885,306 and \$101,281, respectively.

New Beulah landfill cell 4 was completed and began accepting waste in January 2007. Accrual of closure and postclosure care costs have been recognized based on the estimated capacity used to date (6.71%). Total closure and postclosure care costs for Cell 4 are estimated to be \$46,379 and \$5,306, respectively.

Note 14. Commitments and Contingencies

Dorchester County

Grants

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

Conduit Debt

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

Risk Management

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

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

NOTES TO FINANCIAL STATEMENTS

Note 14. Commitments and Contingencies (continued)

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

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

Dorchester County Sanitary Districts

The County Council of Dorchester County has guaranteed certain obligations of the Dorchester County Sanitary Districts, Inc. in the amount of \$24,687.

Board of Education of Dorchester County

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. In the opinion of the Board, there are no approved contracts that would have a material effect on the financial statements. The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2007 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

Note 15. Required Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended June 30, 2007.

Fund	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General Fund	\$ 51,845,961	\$ 51,904,015	\$ 58,054
Special Revenue	2,517,181	5,781,366	3,264,185

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

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

The debt service fund had a fund deficit of \$57,266 at the year ended June 30, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2007
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Taxes:				
Property taxes	\$ 21,893,457	\$ 21,893,457	\$ 22,344,833	\$ 451,376
Income taxes	10,700,000	10,700,000	10,229,499	(470,501)
Other taxes	4,438,000	4,438,000	4,399,889	(38,111)
Total taxes	37,031,457	37,031,457	36,974,221	(57,236)
Licenses and permits	350,565	350,565	325,863	(24,702)
Intergovernmental:				
Federal	166,018	203,018	762,671	559,653
State	6,820,118	7,093,327	6,518,233	(575,094)
Service charges	2,069,638	2,069,638	2,662,369	592,731
Miscellaneous	4,834,023	4,834,023	438,519	(4,395,504) (a)
Total revenues	51,271,819	51,582,028	47,681,876	(3,900,152)
EXPENDITURES:				
General government				
County council				
Operating personnel	290,487	290,487	290,632	(145)
Other	64,600	65,359	53,972	11,387
	355,087	355,846	344,604	11,242
Circuit court				
Operating personnel	89,509	89,509	90,290	(781)
Other	79,154	79,154	44,105	35,049
	168,663	168,663	134,395	34,268
Orphan's court				
Operating personnel	14,100	14,100	12,600	1,500
Other	7,210	7,210	6,403	807
	21,310	21,310	19,003	2,307
State's attorney				
Operating personnel	538,797	538,797	573,879	(35,082)
Other	128,500	128,500	91,173	37,327
	667,297	667,297	665,052	2,245
Elections				
Operating personnel	40,200	40,200	47,862	(7,662)
Other	425,295	425,295	318,461	106,834
	465,495	465,495	366,323	99,172
Finance & treasurer				
Operating personnel	377,491	377,491	343,670	33,821
Other	107,900	108,200	98,561	9,639
	485,391	485,691	442,231	43,460

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2007
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
General government (continued)				
Human resources				
Operating personnel	\$ 49,515	\$ 49,515	\$ 51,496	\$ (1,981)
Other	39,100	39,100	18,845	20,255
	<u>88,615</u>	<u>88,615</u>	<u>70,341</u>	<u>18,274</u>
Information technology				
Operating personnel	138,222	138,222	143,752	(5,530)
Other	75,700	75,700	27,242	48,458
	<u>213,922</u>	<u>213,922</u>	<u>170,994</u>	<u>42,928</u>
Other general government				
Operating personnel	138,309	138,309	126,019	12,290
Other	398,550	398,550	433,048	(34,498)
	<u>536,859</u>	<u>536,859</u>	<u>559,067</u>	<u>(22,208)</u>
Planning and zoning				
Operating personnel	388,738	388,738	343,809	44,929
Other	184,000	154,000	64,339	89,661
	<u>572,738</u>	<u>542,738</u>	<u>408,148</u>	<u>134,590</u>
Maintenance				
Operating personnel	144,143	144,143	145,956	(1,813)
Other	127,100	127,100	135,667	(8,567)
	<u>271,243</u>	<u>271,243</u>	<u>281,623</u>	<u>(10,380)</u>
Total general government	<u>3,846,620</u>	<u>3,817,679</u>	<u>3,461,781</u>	<u>355,898</u>
Public safety				
Sheriff				
Operating personnel	1,724,120	1,724,120	1,888,155	(164,035)
Other	391,000	391,000	544,381	(153,381)
	<u>2,115,120</u>	<u>2,115,120</u>	<u>2,432,536</u>	<u>(317,416)</u>
Volunteer fire and life support				
Other	739,491	752,322	751,478	844
	<u>739,491</u>	<u>752,322</u>	<u>751,478</u>	<u>844</u>
EMS				
Operating personnel	886,463	886,463	1,026,354	(139,891)
Other	882,784	882,784	955,351	(72,567)
	<u>1,769,247</u>	<u>1,769,247</u>	<u>1,981,705</u>	<u>(212,458)</u>
Detention center				
Operating personnel	2,309,384	2,309,384	2,387,962	(78,578)
Other	1,077,560	1,077,560	1,313,098	(235,538)
	<u>3,386,944</u>	<u>3,386,944</u>	<u>3,701,060</u>	<u>(314,116)</u>

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2007
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (continued)				
911 emergency communications				
Operating personnel	\$ 613,708	\$ 633,165	\$ 760,617	\$ (127,452)
Other	497,150	497,157	475,457	21,700
	<u>1,110,858</u>	<u>1,130,322</u>	<u>1,236,074</u>	<u>(105,752)</u>
Emergency management				
Operating personnel	43,231	43,231	43,712	(481)
Other	25,100	25,093	21,218	3,875
	<u>68,331</u>	<u>68,324</u>	<u>64,930</u>	<u>3,394</u>
Animal control				
Operating personnel	54,056	54,056	56,076	(2,020)
Other	85,960	85,960	71,541	14,419
	<u>140,016</u>	<u>140,016</u>	<u>127,617</u>	<u>12,399</u>
Total public safety	<u>9,330,007</u>	<u>9,362,295</u>	<u>10,295,400</u>	<u>(933,105)</u>
Social services				
Youth services				
Operating personnel	226,226	226,226	146,159	80,067
Other	21,850	21,850	10,565	11,285
	<u>248,076</u>	<u>248,076</u>	<u>156,724</u>	<u>91,352</u>
Other				
Other	163,988	193,988	213,687	(19,699)
	<u>163,988</u>	<u>193,988</u>	<u>213,687</u>	<u>(19,699)</u>
Total social services	<u>412,064</u>	<u>442,064</u>	<u>370,411</u>	<u>71,653</u>
Public works				
Highways & streets				
Operating personnel	1,854,789	1,854,789	1,692,450	162,339
Other	3,434,983	3,745,192	3,514,257	230,935
	<u>5,289,772</u>	<u>5,599,981</u>	<u>5,206,707</u>	<u>393,274</u>
Engineering				
Operating personnel	61,581	61,581	79,068	(17,487)
Other	11,225	11,225	6,916	4,309
	<u>72,806</u>	<u>72,806</u>	<u>85,984</u>	<u>(13,178)</u>
Total public works	<u>5,362,578</u>	<u>5,672,787</u>	<u>5,292,691</u>	<u>380,096</u>
Miscellaneous				
Operating personnel	25,057	25,057	-	25,057
Other	4,287,016	4,243,429	4,354,390	(110,961)
Total miscellaneous	<u>4,312,073</u>	<u>4,268,486</u>	<u>4,354,390</u>	<u>(85,904)</u>

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2007
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Recreation and parks				
Recreation and parks				
Operating personnel	\$ 341,234	\$ 339,834	\$ 357,034	\$ (17,200)
Other	129,838	131,238	129,409	1,829
Total recreation and parks	471,072	471,072	486,443	(15,371)
Natural resources				
Cooperative extension service				
Other	130,640	130,640	130,640	-
	130,640	130,640	130,640	-
Other				
Operating personnel	255,494	255,494	242,351	13,143
Other	33,725	33,725	32,283	1,442
	289,219	289,219	274,634	14,585
Total natural resources	419,859	419,859	405,274	14,585
Economic development				
Economic development				
Operating personnel	95,751	95,751	99,582	(3,831)
Other	98,150	98,150	81,620	16,530
	193,901	193,901	181,202	12,699
Other				
Other	71,955	71,955	64,408	7,547
	71,955	71,955	64,408	7,547
Tourism				
Operating personnel	182,787	182,787	179,602	3,185
Other	98,900	104,900	92,313	12,587
	281,687	287,687	271,915	15,772
Total economic development	547,543	553,543	517,525	36,018
Education				
Board of education	16,865,863	16,865,863	16,865,863	-
Chesapeake college	990,212	990,212	990,212	-
Total education	17,856,075	17,856,075	17,856,075	-
Debt service				
Principal	2,924,650	2,924,650	-	2,924,650 (b)
Interest	888,245	888,245	-	888,245 (c)
Capital outlay	-	-	155,094	(155,094)
Total expenditures	46,370,786	46,676,755	43,195,084	3,481,671
Excess (deficiency) of revenues over expenditures	4,901,033	4,905,273	4,486,792	(418,481)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2007
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OTHER FINANCING SOURCES (USES):				
Interest and dividend	\$ 263,933	\$ 263,933	\$ 512,100	\$ 248,167
Transfers, net	(5,164,966)	(5,169,206)	(8,708,931)	(3,539,725)
Total other financing sources (uses)	(4,901,033)	(4,905,273)	(8,196,831)	(3,291,558)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (3,710,039)	\$ (3,710,039)

- (a) Budget includes \$3,602,857 of appropriated prior year surplus and \$878,917 of prior year unexpended highway user revenues.
- (b) Actual amounts for principal payments on debt service of \$2,710,581 are included in the debt service fund.
- (c) Actual amounts for interest payments on debt service of \$809,616 are included in the debt service fund.

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL
SPECIAL REVENUE - GRANTS FUND
Year Ended June 30, 2007
(continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES:				
Intergovernmental Federal	\$ 126,365	\$ 126,365	\$ 1,310,846	\$ 1,184,481
Intergovernmental state	2,318,566	2,318,566	4,286,104	1,967,538
Miscellaneous	-	-	58,801	58,801
Total revenues	2,444,931	2,444,931	5,655,751	3,210,820
EXPENDITURES:				
Public safety				
Salaries	153,377	153,377	149,470	3,907
Other	43,438	43,438	656,572	(613,134) (d)
Total public safety	196,815	196,815	806,042	(609,227)
Social services				
Salaries	397,526	397,526	376,706	20,820
Other	1,353,340	1,353,340	1,656,324	(302,984)
Total social services	1,750,866	1,750,866	2,033,030	(282,164)
Recreation and parks				
Salaries	44,500	44,500	56,613	(12,113)
Other	289,000	289,000	62,568	226,432
Total recreation and parks	333,500	333,500	119,181	214,319
Natural resources				
Salaries	39,000	39,000	35,313	3,687
Other	11,000	11,000	10,050	950
Total natural resources	50,000	50,000	45,363	4,637
Economic development				
Salaries	-	-	72,165	(72,165)
Other	148,000	186,000	232,399	(46,399)
Total economic development	148,000	186,000	304,564	(118,564)
Public works	-	-	513,304	(513,304) (e)
Capital outlay	-	-	1,959,882	(1,959,882) (f)
Total expenditures	2,479,181	2,517,181	5,781,366	(3,264,185)
Excess (deficiency) of revenues over expenditures	(34,250)	(72,250)	(125,615)	(53,365)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL
SPECIAL REVENUE - GRANTS FUND
Year Ended June 30, 2007
(continued)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable
				(Unfavorable)
OTHER FINANCING SOURCES (USES):				
Interest and dividend received	\$ -	\$ -	\$ 34,963	\$ 34,963
Transfers in	34,250	72,250	93,826	21,576
Total other financing sources (uses)	34,250	72,250	128,789	56,539
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ 3,174	\$ 3,174

- (d) Unbudgeted expenditures of \$258,051 related to unbudgeted revenue received for a hazard mitigation grant.
- (e) Unbudgeted expenditures related to unbudgeted pass-through grants received.
- (f) Unbudgeted capital outlay of \$1,600,116 for the purchase of park land funded by the State of Maryland.

DORCHESTER COUNTY, MARYLAND

REVENUE AND EXPENDITURE DETAIL

BUDGET AND ACTUAL

TRANSFER TAX FUND

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
REVENUES:				
County transfer tax	\$ 1,835,555	\$ 1,835,555	\$ 1,722,212	\$ (113,343)
EXPENDITURES:				
General government				
Salaries/other	72,909	72,909	59,679	13,230
Other expenses	129,000	129,000	192,223	(63,223)
Total general government	201,909	201,909	251,902	(49,993)
Public safety				
Salaries/other	219,495	219,495	203,527	15,968
Other expenses	10,000	10,000	7,854	2,146
Total public safety	229,495	229,495	211,381	18,114
EDUCATION	1,188,760	1,188,760	515,646	673,114
Debt service:				
Principal	173,562	173,562	173,562	-
Interest	41,829	41,829	41,829	-
Capital outlay	-	-	56,266	(56,266)
Total expenditures	1,835,555	1,835,555	1,250,586	584,969
Excess of revenues over expenditures	\$ -	\$ -	\$ 471,626	\$ 471,626

ADDITIONAL SUPPLEMENTARY INFORMATION

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
CAPITAL FUND
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
REVENUES:				
Federal bridge revenue	\$ 2,634,750	\$ 2,634,750	\$ -	\$ (2,634,750) (g)
Other state aid	30,000	30,000	60,746	30,746
Emergency Numbers Systems Board	-	-	563,027	563,027
Total revenues	2,664,750	2,664,750	623,773	(2,040,977)
EXPENDITURES:				
General government	562,300	542,300	800,403	(258,103)
Public Safety	1,196,897	1,132,897	1,273,670	(140,773)
Recreation and parks	105,100	105,100	105,603	(503)
Economic development	54,600	54,600	-	54,600
Education	1,342,401	1,342,401	1,374,237	(31,836)
Public works	4,858,575	4,878,575	698,376	4,180,199 (h)
Miscellaneous	-	-	16,506	(16,506)
Total expenditures	8,119,873	8,055,873	4,268,795	3,787,078
Excess (deficiency) of revenues over expenditures	(5,455,123)	(5,391,123)	(3,645,022)	1,746,101
OTHER FINANCING SOURCES (USES):				
Note proceeds	878,250	878,250	235,000	(643,250)
Interest	-	-	52,420	52,420
Operating transfers in	4,576,873	4,512,873	4,512,873	-
Total other financing sources (uses)	5,455,123	5,391,123	4,800,293	(590,830)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ 1,155,271	\$ 1,155,271

(g) Federal grant revenues of \$2,634,750 not received.

(h) Expenditures below budget due to Federal funding not received.

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
TOURISM MARKETING FUND
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
REVENUES				
Advertising support	\$ 15,000	\$ 15,000	\$ 45,387	\$ 30,387
Total revenues	15,000	15,000	45,387	30,387
EXPENDITURES				
ECONOMIC DEVELOPMENT				
Advertising and promotion	100,000	100,000	109,421	(9,421)
Printing and publications	-	-	20,966	(20,966)
Total expenditures	100,000	100,000	130,387	(30,387)
Deficiency of revenues over expenditures	(85,000)	(85,000)	(85,000)	-
OTHER FINANCING SOURCES				
Transfers In	85,000	85,000	85,000	-
Total other financing sources	85,000	85,000	85,000	-
Excess of revenues and other financing sources over expenditures	\$ -	\$ -	\$ -	\$ -

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
AIRPORT ENTERPRISE FUND
Year Ended June 30, 2007**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES:				
Fuel sales	\$ 344,000	\$ 344,000	\$ 362,566	\$ 18,566
Hanger and tie-down rentals	165,450	165,450	172,607	7,157
Other	8,000	8,000	17,013	9,013
Total operating revenues	517,450	517,450	552,186	34,736
OPERATING EXPENSES:				
Salaries and related taxes	192,980	192,980	170,347	22,633
Repairs and maintenance	27,558	27,558	52,870	(25,312)
Rental of land, buildings and equipment	13,200	13,200	13,200	-
Fuel	225,000	225,000	275,516	(50,516)
Utilities	71,350	71,350	82,614	(11,264)
Depreciation	250,000	250,000	273,840	(23,840)
Other operating	5,350,705	5,350,705	93,623	5,257,082 (i)
Total operating expenses	6,130,793	6,130,793	962,010	5,168,783
Net operating income (loss)	(5,613,343)	(5,613,343)	(409,824)	5,203,519
NON-OPERATING REVENUES (EXPENSES):				
Grants - Federal government	5,035,000	5,035,000	87,708	(4,947,292) (j)
Grants - state government	132,500	132,500	1,553	(130,947)
Interest expense	(23,000)	(23,000)	(22,965)	35
Total non-operating revenues (expenses)	5,144,500	5,144,500	66,296	(5,078,204)
Income before transfers	(468,843)	(468,843)	(343,528)	125,315
Operating transfers	468,843	468,843	468,843	-
Change in net assets	\$ -	\$ -	\$ 125,315	\$ 125,315

(i) Costs of \$5,300,000 budgeted, but not yet expended due to lack of grant funding.

(j) Federal grant revenues of \$5,035,000 budgeted, but not yet received.

DORCHESTER COUNTY, MARYLAND
STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
LANDFILL ENTERPRISE FUND
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
OPERATING REVENUES:				
Tipping fees	\$ 2,687,865	\$ 2,687,865	\$ 4,258,928	\$ 1,571,063 (k)
Permits	75,000	75,000	87,919	12,919
Other	998,072	998,072	17,879	(980,193)
Total operating revenues	3,760,937	3,760,937	4,364,726	603,789
OPERATING EXPENSES:				
Salaries and related taxes	999,937	999,937	736,546	263,391
Repairs and maintenance	202,500	202,500	1,872,214	(1,669,714) (l)
Rental of land, buildings and equipment	158,500	158,500	118,396	40,104
Fuel	100,000	100,000	119,069	(19,069)
Closure and postclosure costs accrual	125,000	125,000	(155,008)	280,008
Utilities	9,000	9,000	10,383	(1,383)
Depreciation	580,000	580,000	1,082,918	(502,918)
Other operating	1,636,000	1,636,000	381,434	1,254,566
Total operating expenses	3,810,937	3,810,937	4,165,952	(355,015)
Net operating income (loss)	(50,000)	(50,000)	198,774	248,774
NON-OPERATING REVENUES (EXPENSES):				
Interest income	50,000	50,000	242,599	192,599
Interest expense	-	-	(274)	(274)
Total non-operating revenues (expenses)	50,000	50,000	242,325	192,325
Change in net assets	\$ -	\$ -	\$ 441,099	\$ 441,099

(k) Bay Organics, LLC related unbudgeted revenues of \$1,360,366

(l) Bay Organics, LLC related unbudgeted expenses of \$1,709,289

DORCHESTER COUNTY, MARYLAND

COMBINING BALANCE SHEET

TAX FUNDS

June 30, 2007

	Building Excise Tax	Transfer Tax	Total
ASSETS			
Cash and investments	\$ 3,241,210	\$ -	\$ 3,241,210
Accounts receivable	-	148,887	148,887
Interfund receivables	-	3,104,360	3,104,360
Total assets	\$ 3,241,210	\$ 3,253,247	\$ 6,494,457
LIABILITIES			
Accounts payable and accrued expenses	\$ 140,498	\$ 52,138	\$ 192,636
Interfund payables	15,171	-	15,171
Total liabilities	155,669	52,138	207,807
FUND BALANCES			
Reserved for:			
Schools	2,925,093	-	2,925,093
Public safety communication system	83,310	-	83,310
Sheriff	77,139	-	77,139
Courthouse	-	1,033,275	1,033,275
Unreserved:			
Undesignated	-	2,167,834	2,167,834
Total fund equity	3,085,541	3,201,109	6,286,650
Total liabilities and fund balances	\$ 3,241,210	\$ 3,253,247	\$ 6,494,457

DORCHESTER COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
TAX FUNDS
Year Ended June 30, 2007

	Building Excise Tax	Transfer Tax	Total
REVENUES			
Taxes	\$ 1,019,779	\$ 1,722,212	\$ 2,741,991
EXPENDITURES			
General government	-	251,902	251,902
Public safety	-	211,381	211,381
Education	140,498	515,646	656,144
Debt service:			
Principal	-	173,562	173,562
Interest	-	41,829	41,829
Capital outlay	-	56,266	56,266
Total expenditures	140,498	1,250,586	1,391,084
Excess of revenues over expenditures	879,281	471,626	1,350,907
OTHER FINANCING SOURCES:			
Interest and dividend received	59,362	-	59,362
Excess of revenues and other financing sources over expenditures	938,643	471,626	1,410,269
Fund balances, beginning of year	2,146,898	2,729,483	4,876,381
Fund balances, end of year	\$ 3,085,541	\$ 3,201,109	\$ 6,286,650

DORCHESTER COUNTY, MARYLAND

COMBINING BALANCE SHEET

CAPITAL PROJECTS FUNDS

June 30, 2007

	<u>Capital Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
ASSETS			
Cash and investments	\$ 480,632	\$ 411,625	\$ 892,257
Accrued interest receivable	2,123	-	2,123
Interfund receivables	-	549,753	549,753
Bond issuance costs, net	168,449	50,435	218,884
<u>Total assets</u>	<u>\$ 651,204</u>	<u>\$ 1,011,813</u>	<u>\$ 1,663,017</u>
LIABILITIES			
Accounts payable	\$ 435,186	\$ -	\$ 435,186
Interfund payables	62,335	-	62,335
<u>Total liabilities</u>	<u>497,521</u>	<u>-</u>	<u>497,521</u>
FUND BALANCES			
Unreserved:			
Designated for capital projects	153,683	1,011,813	1,165,496
<u>Total fund equity</u>	<u>153,683</u>	<u>1,011,813</u>	<u>1,165,496</u>
<u>Total liabilities and fund balances</u>	<u>\$ 651,204</u>	<u>\$ 1,011,813</u>	<u>\$ 1,663,017</u>

DORCHESTER COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
Year Ended June 30, 2007

	Capital Fund	Capital Projects Fund	Total
REVENUES			
Other state aid	\$ 60,746	\$ -	\$ 60,746
Emergency Numbers Systems Board	563,027	-	563,027
Total revenues	623,773	-	623,773
EXPENDITURES			
General government	444,558	7,205	451,763
Public Safety	91,733	-	91,733
Recreation and parks	59,266	-	59,266
Education	1,374,237	-	1,374,237
Public works	99,259	-	99,259
Miscellaneous	16,506	-	16,506
Capital outlay	2,183,236	-	2,183,236
Total expenditures	4,268,795	7,205	4,276,000
Deficiency of revenues over expenditures	(3,645,022)	(7,205)	(3,652,227)
OTHER FINANCING SOURCES (USES)			
Note proceeds	235,000	-	235,000
Interest	52,420	9,570	61,990
Operating transfers in	4,512,873	-	4,512,873
Total other financing sources	4,800,293	9,570	4,809,863
Excess (deficiency) of revenues and other financing financing sources over expenditures	1,155,271	2,365	1,157,636
Fund balances, beginning of year	(1,001,588)	1,009,448	7,860
Fund balances, end of year	\$ 153,683	\$ 1,011,813	\$ 1,165,496

DORCHESTER COUNTY, MARYLAND

**COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS**

June 30, 2007

	Other Governmental Funds						Totals
	Debt Service Fund	Reserve Fund	Commissary Fund	Capital Projects Funds	Economic Development Fund	Tourism Marketing Fund	
ASSETS							
Cash	\$ -	\$ 2,854,931	\$ 35,504	\$ 892,257	\$ -	\$ -	\$ 3,782,692
Accounts receivable	-	-	-	2,123	-	6,945	9,068
Interfund	266,709	-	-	549,753	15,276	8,040	839,778
Bond issuance costs, net	-	-	-	218,884	-	-	218,884
Total assets	\$ 266,709	\$ 2,854,931	\$ 35,504	\$ 1,663,017	\$ 15,276	\$ 14,985	\$ 4,850,422
LIABILITIES							
Accounts payable	\$ -	\$ -	\$ -	\$ 435,186	\$ -	\$ 8,885	\$ 444,071
Accrued leave	323,975	-	-	-	-	-	323,975
Deferred revenues	-	-	35,504	-	15,276	6,100	56,880
Interfund payables	-	-	-	62,335	-	-	62,335
Total liabilities	323,975	-	35,504	497,521	15,276	14,985	887,261
FUND BALANCES							
Unreserved:							
Designated for capital projects	-	-	-	1,165,496	-	-	1,165,496
Undesignated	(57,266)	2,854,931	-	-	-	-	2,797,665
Total fund balances	(57,266)	2,854,931	-	1,165,496	-	-	3,963,161
Total liabilities and fund balances	\$ 266,709	\$ 2,854,931	\$ 35,504	\$ 1,663,017	\$ 15,276	\$ 14,985	\$ 4,850,422

DORCHESTER COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	Other Governmental Funds						Totals
	Debt Service Fund	Reserve Fund	Commissary Fund	Capital Projects Funds	Economic Development Fund	Tourism Marketing Fund	
REVENUES							
Intergovernmental:							
State	\$ -	\$ -	\$ -	\$ 563,027	\$ -	\$ -	\$ 563,027
Miscellaneous	18,949	-	73,867	60,746	7,000	45,387	205,949
Total revenues	18,949	-	73,867	623,773	7,000	45,387	768,976
EXPENDITURES							
General government	58,976	-	73,867	451,763	-	-	584,606
Public safety	-	-	-	91,733	-	-	91,733
Recreation and parks	-	-	-	59,266	-	-	59,266
Economic development	-	-	-	-	36,008	130,387	166,395
Miscellaneous	-	-	-	16,506	-	-	16,506
Education	-	-	-	1,374,237	-	-	1,374,237
Public works	-	-	-	99,259	-	-	99,259
Debt Service:							
Principal	2,710,581	-	-	-	-	-	2,710,581
Interest	809,616	-	-	-	-	-	809,616
Capital outlay	-	-	-	2,183,236	-	-	2,183,236
Total expenditures	3,579,173	-	73,867	4,276,000	36,008	130,387	8,095,435
Excess (deficiency) of revenues over expenditures	(3,560,224)	-	-	(3,652,227)	(29,008)	(85,000)	(7,326,459)
OTHER FINANCING SOURCES (USES)							
Increase in pension liability	16,173	-	-	-	-	-	16,173
Note proceeds	-	-	-	235,000	-	-	235,000
Interest and dividends	-	147,361	-	61,990	-	-	209,351
Transfers in	3,519,381	-	-	4,512,873	29,008	85,000	8,146,262
Total other financing sources (uses)	3,535,554	147,361	-	4,809,863	29,008	85,000	8,606,786
Excess of revenues and other financing sources (uses) over expenditures	(24,670)	147,361	-	1,157,636	-	-	1,280,327
Fund balance, beginning of year	(32,596)	2,707,570	-	7,860	-	-	2,682,834
Fund balance, end of year	\$ (57,266)	\$ 2,854,931	\$ -	\$ 1,165,496	\$ -	\$ -	\$ 3,963,161

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
DEFERRED COMPENSATION PLAN**

Year Ended June 30, 2007

	Balances, June 30, <u>2006</u>	Employee Contributions	Earnings on Investments	Distributions	Gains/Losses	Balances, June 30, <u>2007</u>
Assets:						
Investments	\$ 971,076	\$ 147,260	\$ 68,452	\$ (49,386)	\$ 32,249	\$ 1,169,651
Liabilities:						
Due to participants	\$ 971,076	\$ 147,260	\$ 68,452	\$ (49,386)	\$ 32,249	\$ 1,169,651