

**COUNTY COUNCIL OF  
DORCHESTER COUNTY, MARYLAND**

**FINANCIAL REPORT**

**JUNE 30, 2011**

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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, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dorchester County Sanitary Districts. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Dorchester County Sanitary Districts, is based solely upon the reports of the other auditors.

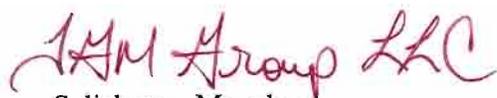
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our separate report dated February 13, 2012 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The additional supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Salisbury, Maryland

February 13, 2012

Dorchester County, Maryland  
Management's Discussion and Analysis  
June 30, 2011

Management is pleased to present this narrative overview and analysis of the financial activities of Dorchester County, Maryland (the County) for the fiscal year ended June 30, 2011. The following discussion focuses on the County's primary government and, unless otherwise noted, component unit information is not included.

**FINANCIAL HIGHLIGHTS**

- The government-wide assets of the County exceeded its liabilities at the close of Fiscal Year 2011 (FY11) by \$48.7 million (total net assets). That amount is net of a \$15.0 million unrestricted deficit. The deficit occurs because the County issues debt to fund the construction of assets owned by Dorchester County Public Schools and Chesapeake College. Debt outstanding for these entities amounted to \$26.1 million at June 30, 2011. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$11.1 million.
- The County's government-wide net assets decreased by \$3.3 million.
- As of the close of FY11, the County's governmental funds reported combined ending fund balances of \$9.7 million, a decrease of \$8.6 million from the prior year's ending fund balances. Of the total ending fund balances, \$5.1 million remains in the General Fund of the County as unassigned, which represents approximately 10.5% of total general fund expenditures for fiscal year 2011.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the County's financial statements, which include government-wide and fund statements, as well as notes to the financial statements.

Government-Wide Financial Statements

Similar to private-sector reporting, government-wide financial statements are designed to provide a broad overview of the financial position of the County. They include a **statement of net assets** and a **statement of activities**. These statements appear on pages 19 and 20 of this report.

The statement of net assets shows the County's assets less its liabilities at June 30, 2011. The difference between the assets and liabilities is reported as net assets. Changes in net assets over time may be helpful in indicating an improving or deteriorating financial position. Additionally, nonfinancial factors, such as a change in the County's property tax base or the condition of the County's facilities, should be considered to assess the overall health of the County.

The statement of activities follows the statement of net assets and presents information on how net assets changed during the fiscal year. The statement presents all underlying events, which give rise to the change, regardless of the timing of the related cash flows.

Both statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements of the County (known as the primary government) include general government, public safety, public works, education, social services, natural resources, recreation/parks, and economic development. The government-wide financial statements also include the legally separate component units for which the County is financially accountable. Financial information for these component units is reported separately from the primary government.

Fund Financial Statements

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

Dorchester County, Maryland  
Management's Discussion and Analysis  
June 30, 2011

**Governmental funds** – Governmental funds, presented on pages 21 to 24, essentially account for the same functions as those reported under the governmental activities in the government-wide financial statements. However, this set of financial statements focuses on events that produce near-term inflows and outflows of spendable resources as well as on the balances of spendable resources available at the end of the fiscal year and is a narrower focus than the government-wide statements. This information may be useful in evaluating the County's near-term financing requirements and available resources.

By comparing functions between the two sets of statements for governmental funds and governmental activities, readers can discern the long-term impact of near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

Governmental funds individually presented in the County's basic financial statements include three major funds: the General Fund, the Special Revenue Grants Fund, and the Capital Fund. The remaining three funds have been combined and presented in one column as "Other Governmental Funds." Combining statements for these other governmental funds are presented on pages 74 and 75 of this report.

**Proprietary funds** – The proprietary funds, included on pages 25 to 27 of this report, include those business-type activities within the primary government that are intended to be self-supporting. Both of the County's proprietary funds are enterprise funds, which provide services to citizens in exchange for user fees. The County uses enterprise funds to account for solid waste and airport operations, both of which are considered major funds of the County.

**Fiduciary funds** – The County uses a fiduciary fund to account for resources held for the benefit of parties outside the County government. Although these funds are presented with the fund statements, they do not appear in the government-wide financial statements because the resources of these funds are not available to support the programs of the County. This fund is presented on pages 28 and 29 in this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in both government-wide and fund financial statements. Notes are presented on pages 30 to 59 of this report.

Other Information

This report also includes supplementary information in the form of combining and individual statements and schedules, which present more detailed views of the General Fund, Special Revenue Grants Fund, Transfer Tax Fund, Capital Fund, enterprise funds, and fiduciary funds. Additionally included are schedules relating to the funding progress of the County's post-employment benefits trust fund, the Local Management Board, and deferred compensation. This information is presented on pages 60 to 77 of this report.

Dorchester County, Maryland  
Management's Discussion and Analysis  
June 30, 2011

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, changes in net assets over time is a useful indicator of financial position. The County's total net assets as of June 30, 2011 were \$48.7 million. Investment in capital assets such as land, roads, bridges, buildings, machinery and equipment accounts for \$63.3 million of net assets. The amount is presented less any outstanding debt related to the acquisition and accumulated depreciation of those assets. The County uses capital assets to provide services to the citizens, and consequently, these assets are not available for future spending. Although assets are reported net of related debt, the capital assets themselves cannot be used to liquidate that liability, and other resources will be needed to repay any associated debt.

**Schedule of Net Assets  
June 30, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Assets:</b>						
Current and other assets	\$20,085,095	\$27,518,490	\$11,019,290	\$12,478,345	\$31,104,385	\$39,996,835
Capital assets	\$51,331,623	\$47,378,546	\$18,693,858	\$17,055,306	\$70,025,481	\$64,433,852
<b>Total assets</b>	<b>\$71,416,718</b>	<b>\$74,897,036</b>	<b>\$29,713,148</b>	<b>\$29,533,651</b>	<b>\$101,129,866</b>	<b>\$104,430,687</b>
<b>Liabilities:</b>						
Long-term liabilities	\$36,668,036	\$37,857,782	\$452,966	\$493,941	\$37,121,002	\$38,351,723
Other liabilities	\$6,477,337	\$5,464,268	\$8,834,262	\$8,675,348	\$15,311,599	\$14,139,616
<b>Total liabilities</b>	<b>\$43,145,373</b>	<b>\$43,322,050</b>	<b>\$9,287,228</b>	<b>\$9,169,289</b>	<b>\$52,432,601</b>	<b>\$52,491,339</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	\$45,010,598	\$39,543,104	\$18,289,858	\$16,620,306	\$63,300,456	\$56,163,410
Restricted	\$442,832	\$3,753,753	\$0	\$0	\$442,832	\$3,753,753
Unrestricted (deficit)	(\$17,182,085)	(\$11,721,871)	\$2,136,062	\$3,744,056	(\$15,046,023)	(\$7,977,815)
<b>Total net assets</b>	<b>\$28,271,345</b>	<b>\$31,574,986</b>	<b>\$20,425,920</b>	<b>\$20,364,362</b>	<b>\$48,697,265</b>	<b>\$51,939,348</b>

Restricted net assets are resources subject to external restriction on how they may be used to meet the County's ongoing obligations to citizens and creditors. As indicated earlier, the County's governmental activities unrestricted net assets deficit is primarily attributable to outstanding debt that has been issued to fund construction costs of assets owned by the Dorchester County Public Schools and Chesapeake College. Counties in the State of Maryland issue and report the debt for school construction; however, the buildings are not owned or reported by the County. All other governmental and business-type activities had positive net asset balances as of June 30, 2011.

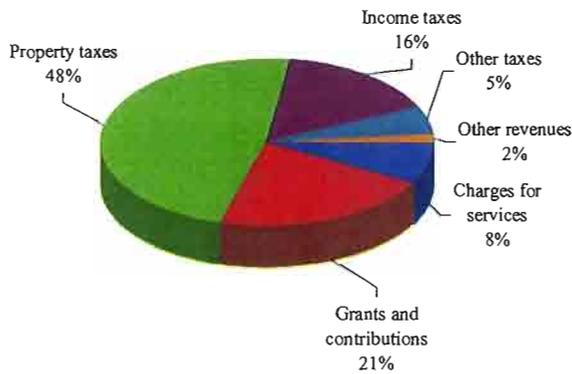
As reflected above, the County's government-wide net assets decreased from \$51.9 million to \$48.7 million, a decrease of \$3.2 million. This decrease is attributable to two factors:

1. The distribution of bond proceeds during FY 2011 to the Board of Education; these proceeds were reflected in FY 2010 as cash (a current asset).
2. The increase in other post-employment benefits obligation of \$2.1 million.

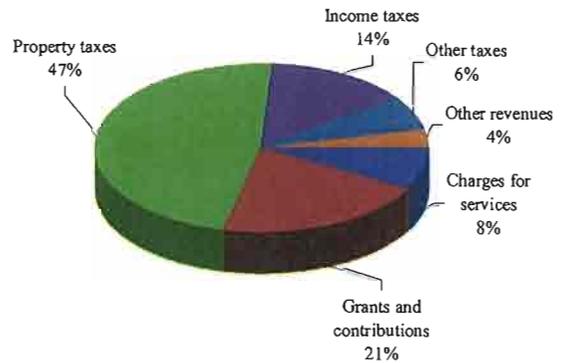
Dorchester County, Maryland  
 Management's Discussion and Analysis  
 June 30, 2011

The following represents revenues by source and expenses by function of primary government for the years ended June 30, 2011 and June 30, 2010.

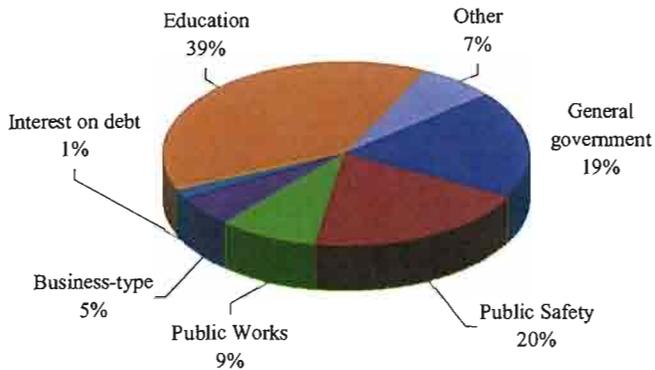
**Revenue by Source FY 2011**



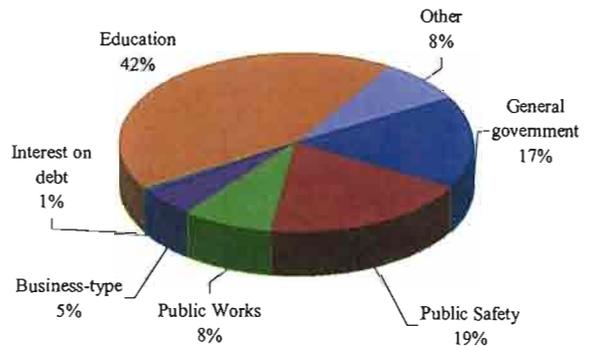
**Revenue by Source FY 2010**



**Expenses by Function FY2011**



**Expenses by Function FY2010**



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Management's Discussion and Analysis  
June 30, 2011

**Schedule of Changes in Net Assets  
For the years ended June 30, 2011 and 2010**

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$2,219,530	\$2,078,303	\$2,814,078	\$2,926,160	\$5,033,608	\$5,004,463
Operating grants and contributions	\$5,809,048	\$6,198,013	\$0	\$0	\$5,809,048	\$6,198,013
Capital grants and contributions	\$7,274,969	\$3,316,041	\$193,226	\$3,249,605	\$7,468,195	\$6,565,646
<b>General revenues:</b>						
Property taxes	\$29,563,733	\$29,277,032	\$0	\$0	\$29,563,733	\$29,277,032
Income taxes	\$9,880,600	\$8,636,162	\$0	\$0	\$9,880,600	\$8,636,162
Other taxes	\$3,219,603	\$3,887,098	\$0	\$0	\$3,219,603	\$3,887,098
Other revenues	\$701,862	\$2,063,567	\$329,690	\$182,959	\$1,031,552	\$2,246,526
<b>Total revenues</b>	<b>\$58,669,345</b>	<b>\$55,456,216</b>	<b>\$3,336,994</b>	<b>\$6,358,724</b>	<b>\$62,006,339</b>	<b>\$61,814,940</b>
<b>Expenses:</b>						
General government	\$12,268,670	\$11,332,059	\$0	\$0	\$12,268,670	\$11,332,059
Public safety	\$12,896,254	\$13,030,555	\$0	\$0	\$12,896,254	\$13,030,555
Social services	\$2,356,897	\$2,811,961	\$0	\$0	\$2,356,897	\$2,811,961
Public works	\$5,841,600	\$5,695,512	\$0	\$0	\$5,841,600	\$5,695,512
Recreation and parks	\$658,284	\$744,044	\$0	\$0	\$658,284	\$744,044
Natural resources	\$448,684	\$513,643	\$0	\$0	\$448,684	\$513,643
Economic development	\$857,091	\$1,240,456	\$0	\$0	\$857,091	\$1,240,456
Interest on debt	\$1,046,121	\$563,099	\$0	\$0	\$1,046,121	\$563,099
Education	\$25,219,763	\$29,099,013	\$0	\$0	\$25,219,763	\$29,099,013
Airport	\$0	\$0	\$853,556	\$813,428	\$853,556	\$813,428
Solid waste	\$0	\$0	\$2,801,502	\$2,607,909	\$2,801,502	\$2,607,909
<b>Total expenses</b>	<b>\$61,593,364</b>	<b>\$65,030,342</b>	<b>\$3,655,058</b>	<b>\$3,421,337</b>	<b>\$65,248,422</b>	<b>\$68,451,679</b>
Transfers	(\$379,622)	(\$437,261)	\$379,622	\$437,261	\$0	\$0
<b>Change in net assets</b>	<b>(\$3,303,641)</b>	<b>(\$10,011,387)</b>	<b>\$61,558</b>	<b>\$3,374,648</b>	<b>(\$3,242,083)</b>	<b>(\$6,636,739)</b>
Net assets – beginning of year	\$31,574,986	\$41,586,373	\$20,364,362	\$16,989,714	\$51,939,348	\$58,576,087
Net assets - end of year	\$28,271,345	\$31,574,986	\$20,425,920	\$20,364,362	\$48,697,265	\$51,939,348

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Management's Discussion and Analysis  
June 30, 2011

**Governmental Activities**

The County's total revenue from governmental activities increased from \$55.4 million in FY 2010 to \$58.6 million in FY 2011, an increase of \$3.2 million or 5.8 percent.

Property and income taxes combined comprise 67 percent of governmental activities revenues. The property tax rate was 89.6 cents per \$100 of assessed value for FY 2011 and was unchanged from FY 2010. Income taxes increased by \$1.2 million or 14.4 percent. The local income tax rate was 2.62 percent of the State taxable income for calendar year 2011 and was unchanged from 2010.

The expense of all governmental activities decreased from \$65.0 million in FY 2010 to \$61.6 million in FY 2011, a decrease of \$3.4 million or 5.3 percent.

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	
	2011	2010	2011	2010	2011	2010
Education	\$25,219,763	\$29,099,013	\$0	\$0	\$25,219,763	\$29,099,013
Public safety	\$12,896,254	\$13,030,555	\$3,365,921	\$2,716,107	\$9,530,333	\$10,314,448
Public works	\$5,841,600	\$5,695,512	\$3,988,136	\$3,040,838	\$1,853,464	\$2,654,674
General government	\$12,268,670	\$11,332,059	\$3,216,795	\$3,000,013	\$9,051,875	\$8,332,046
Social services	\$2,356,897	\$2,811,961	\$1,793,438	\$2,267,960	\$563,459	\$544,001
Interest on Debt	\$1,046,121	\$563,099	\$0	\$0	\$1,046,121	\$563,099
Recreation and parks	\$658,284	\$744,044	\$118,090	\$131,809	\$540,194	\$612,235
Economic Development	\$857,091	\$1,240,456	\$2,646,693	\$269,962	(\$1,789,602)	\$970,494
Natural Resources	\$448,684	\$513,643	\$174,474	\$165,668	\$274,210	\$347,975
<b>Total</b>	<b>\$61,593,364</b>	<b>\$65,030,342</b>	<b>\$15,303,547</b>	<b>\$11,592,357</b>	<b>\$46,289,817</b>	<b>\$53,437,985</b>

A more detailed discussion of the County's revenue and expense results for FY 2011 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this analysis.

**Business-type Activities**

Highlights of the County's business-type activities for FY11 are as follows:

- Net assets of business-type activities increased from \$20.36 million to \$20.43 million, an increase of \$61,558 for FY 2011. Airport activities produced a positive net change in assets of \$179,479 and landfill activities resulted in a negative change in net assets of (\$117,921).
- Charges for services to users comprise 91 percent of total business-type activities operating revenue, with \$2.4 million (84 percent of charges for services revenue) attributable to solid waste activities and \$0.4 million (16 percent) attributable to airport operations.

Dorchester County, Maryland  
Management's Discussion and Analysis  
June 30, 2011

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

**Governmental funds**

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the County's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. In particular, the unassigned fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2011, County governmental funds reported total fund balances of \$9.7 million, a decrease of \$8.6 million from the end of FY 2010. Unassigned governmental fund balances total \$5.1 million.

The General Fund is the primary operating fund of the County. At June 30, 2011, total fund balance in the general fund was \$5.4 million of which \$5.1 million was unassigned. The general fund balance decreased by \$1.5 million as a result of current fiscal year operations.

The following key factors were responsible for the changes:

- Total revenues of \$47.4 million exceeded the FY 2011 budget by \$0.5 million or 1.1 percent.
- Total expenditures of \$48.4 million were below the FY 2011 budget by \$0.8 million or 1.7 percent.
- Other financing sources (uses) of (\$0.5) million were below the FY 2011 budget by \$2.8 million. This variance reflects the budgeted withdrawal of \$3.0 million from the Reserve Fund which for accounting purposes does not constitute revenue.

The County implemented Statement of Governmental Accounting Standards (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011. GASB 54 requires the County to record its designated revenue stabilization funds as part of the unassigned fund balance. Prior to implementing this standard (2010 and prior) revenue stabilization funds were recorded as a separate special revenue fund called the "Reserve Fund". At the end of fiscal year 2011, the County has designated \$3.1 million of its unassigned governmental fund balance for revenue stabilization arrangements, which is a decrease of \$1.5 million from the prior year. The purpose of the revenue stabilization 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.

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

The Building Excise Tax Fund ended the year with a fund balance of \$1.6 million. This fund was created by Dorchester County Bill Number 2004-6, effective date of September 15, 2004, which established an excise tax on new development. The proceeds of the tax are dedicated for the capital costs associated with new growth specific to schools (\$1.3 million balance), emergency communications (\$0.2 million balance), and Sheriff's Office (\$0.1 million balance).

The Transfer Tax Fund ended the year with a fund balance of \$2.0 million, which is unchanged from prior year. 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**

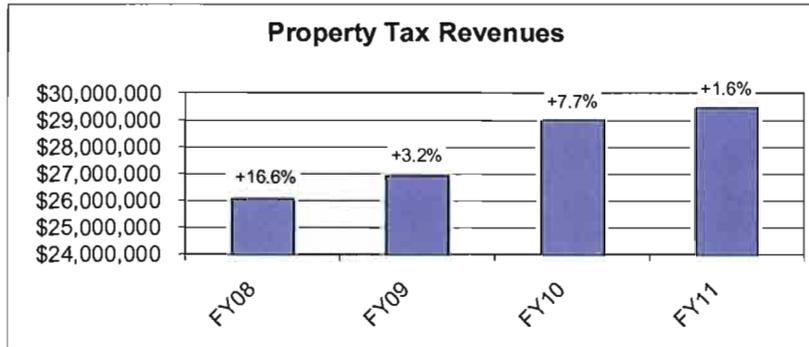
Airport Enterprise Fund – At June 30, 2011, total net assets amounted to \$15.1 million, with unrestricted net assets of \$1.5 million, and an operating loss of \$0.4 million. After non-operating revenues and transfers of \$0.6 million, the fund ended FY 2011 with an increase in net assets of \$0.2 million.

Landfill Enterprise Fund – At June 30, 2011, total net assets amounted to \$5.4 million, with unrestricted net assets of \$0.6 million, and an operating loss of \$0.2 million. After non-operating revenues of \$0.1 million, the fund ended FY 2011 with an decrease in net assets of \$0.1 million.

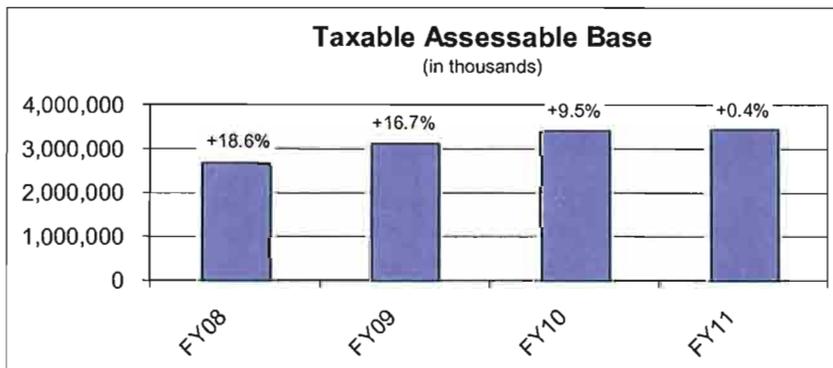
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June 30, 2011

**Budget Variations**

Property Taxes - The largest revenue source for the County is property taxes. Net property tax revenue in the General Fund amounted to \$29.4 million, which was below the budget estimate by \$0.5 million or 1.7 percent and \$0.5 million or 1.6 percent above actual revenue in FY 2010. As there was no change in tax rate, the increase in property tax revenue was the result of a 0.4 percent increase in the assessable base for real property for FY 2011, offset by the value change in homestead credit which limits year to year tax increases on primary residents to 5%.

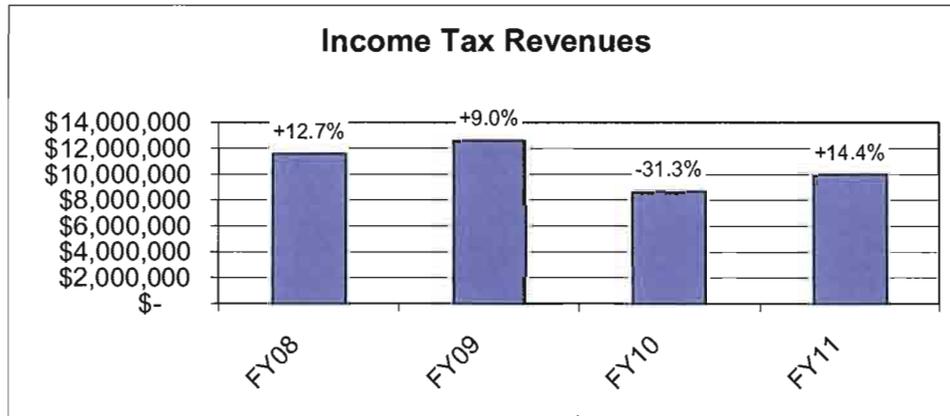


The assessment of real property for FY 2011 was relatively unchanged from FY 2010, reflecting a change of only 0.4 percent, following an increase of 9.5 percent in FY 2010.

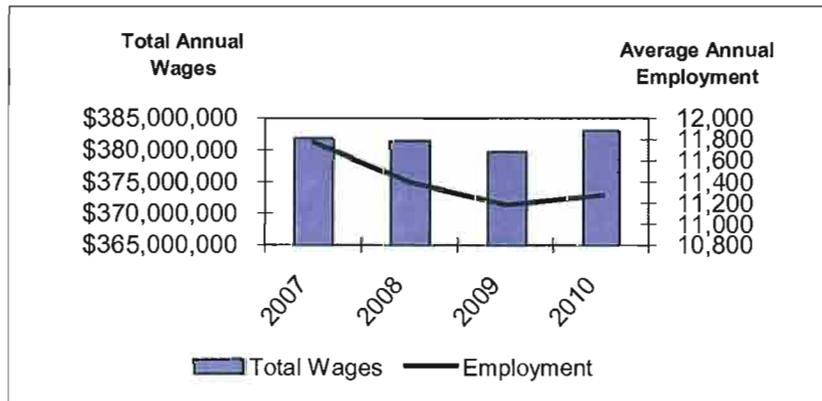


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 June 30, 2011

Income Taxes - The second largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$9.9 million which was \$1.3 million or 14.9 percent above budget and \$1.2 million or 14.4 percent above actual revenues in FY 2010. The local income tax rate remained unchanged at 2.62%.



The growth in income tax revenue is primarily attributed to non-wage income, augmented by modest increases in net employment (92 jobs or 0.8 percent in CY 2010) and total annual payroll wages (\$3.3 million or 0.9 percent in CY 2010). The average weekly wage per worker during CY 2010 remained unchanged at \$653.



General Fund actual expenditures of \$48.4 million were below the FY 2011 budget by \$0.8 million or 1.7 percent and \$1.2 million or 2.6 percent above actual FY 2010.

Dorchester County, Maryland  
Management's Discussion and Analysis  
June 30, 2011

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The County's investment in capital assets as of June 30, 2011, amounted to \$70.0 million (net of accumulated depreciation), as summarized below:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	\$12,789,715	\$12,789,715	\$3,026,987	\$3,026,987	\$15,816,702	\$15,816,702
Buildings and improvements	\$22,207,180	\$22,208,613	\$9,840,584	\$9,840,584	\$32,047,764	\$32,049,197
Furniture, machinery, equipment	\$21,942,302	\$21,186,650	\$4,175,171	\$4,118,805	\$26,117,473	\$25,305,455
Leasehold improvements	\$286,572	\$286,572	\$0	\$0	\$286,572	\$286,572
Infrastructure	\$42,603,570	\$42,639,938	\$8,511,474	\$6,323,510	\$51,115,044	\$48,963,448
Construction in progress	\$8,990,217	\$2,765,705	\$5,464,017	\$5,931,654	\$14,454,234	\$8,697,359
Total assets	\$108,819,556	\$101,877,193	\$31,018,233	\$29,241,540	\$139,837,789	\$131,118,733
Less: Accumulated depreciation	\$57,487,933	\$54,498,647	\$12,324,375	\$12,186,234	\$69,812,308	\$66,684,881
Total	\$51,331,623	\$47,378,546	\$18,693,858	\$17,055,306	\$70,025,481	\$64,433,852

Changes in the County's capital assets for FY 2011 are summarized as follows:

	Governmental Activities	Business-Type Activities	Total	
	2011	2011	2011	2010
Beginning Balance	\$47,378,546	\$17,055,306	\$64,433,852	\$62,759,073
Additions*	\$6,960,501	\$2,738,975	\$9,699,476	\$5,789,147
Retirements, net*	\$0	\$35,325	\$35,325	\$0
Depreciation expense	\$3,007,424	\$1,065,098	\$4,072,522	\$4,114,368
Ending Balance	\$51,331,623	\$18,693,858	\$70,025,481	\$64,433,852

\*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:

- \$3.8 million in construction of the business and technology park,
- \$2.0 million in construction of shoreline erosion in Elliott's Island,
- \$1.5 million in construction of a new cell at the landfill.

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

Dorchester County, Maryland  
Management's Discussion and Analysis  
June 30, 2011

**Long-Term Debt**

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2011:

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
General obligation bonds	\$28,885,000	\$31,635,000	\$0	\$0	\$28,885,000	\$31,635,000
Notes payable	\$3,532,353	\$4,050,429	\$404,000	\$435,000	\$3,936,353	\$4,485,429
Capital leases	\$0	\$8,896	\$0	\$0	\$0	\$8,896
Pension liability	\$667,174	\$652,668	\$0	\$0	\$667,174	\$652,668
OPEB Obligation	\$2,589,842	\$452,807	\$0	\$0	\$2,589,842	\$452,807
Compensated absences	\$993,667	\$1,057,982	\$48,966	\$58,941	\$1,042,633	\$1,116,923
<b>Total</b>	<b>\$36,668,036</b>	<b>\$37,857,782</b>	<b>\$452,966</b>	<b>\$493,941</b>	<b>\$37,121,002</b>	<b>\$38,351,723</b>

At June 30, 2011, the County had outstanding general obligation bonds of \$28.9 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 twelve years, the County issued its GO bonds four times totaling \$40.5 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.

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

Dorchester County, Maryland  
Management's Discussion and Analysis  
June 30, 2011

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Dorchester County, like most local jurisdictions around the state, continues to face difficult economic circumstances. Combined with severe reductions in State aid, the top priority of the FY 2012 budget was the preservation of essential services the County provides and funds, not only for the 2012 budget, but for future budgets as well. The County's share of highway user revenues for 2012 continues to reflect a 90% reduction of more than \$4 million, as the State uses these funds to address their own structural deficit.

To address these circumstances, the County FY 2012 budget reflects a range of cost saving strategies, including workforce reductions, temporary salary reductions, replacement of capital and staff at critical needs level only, across the board reductions in departmental and agency costs, and an 8 cent property tax rate increase to partially replace the lost highway user revenues.

These measures have resulted in an adopted operating budget totaling \$53.3 million, which is \$1.3 million, or 2.4% below the FY2011 adopted operating budget.

Significant features of the FY 2012 budget addressed the structural deficit caused by the reduction of highway user revenues, and to partially restore funds withdrawn from revenue stabilization arrangements.

Address the Structural Deficit

A structural deficit is defined as an imbalance when annual recurring expenditures exceed annual recurring revenues. Beginning in Fiscal 2008, when the State began reducing the County's share of highway user revenues, the County has struggled with a structural deficit which has grown to exceed \$4.0 million. During these years, the County instituted multiple cost saving strategies designed to reduce our recurring expenditures. Past strategies have included employee furloughs, staff reduction through attrition, efficiency initiatives, across the board reductions to departments and agencies, and withdrawals from our designated revenue stabilization funds. Those strategies, while significant, were designed to last until the highway user revenues were restored. Unfortunately, the reduction of highway user revenues has been made permanent by the State, which continues to address its own structural deficit. Consequently, our plan to address the structural deficit transitioned away from strategies of a temporary nature to those of a sustainable nature. Our FY 2012 budget reflects sustainable change in both expenditure reductions and revenue increases.

The FY 2012 budget includes over \$2.5 million in recurring expenditures reductions. Employee furloughs will continue, further reductions to departments and agencies, and staff reduction by early retirement and layoff are included. All reductions are designed to minimize impact to services the County provides to residents.

The final step in our strategy is the adopted real property tax rate of \$0.976 per \$100 of assessed value, which is 8 cents higher than the previous fiscal year. Property taxes are the main source of funding for the majority of services directly provided by County government and its related agencies. Taxpayers will continue to benefit from the 5% county homestead credit, which will provide an estimated \$ 2.0 million of tax relief in Fiscal 2012. The rate increase will generate \$2.6 million in additional tax revenue. The average real property tax bill will increase \$120. Despite this change the County's adopted tax rate for the upcoming year will maintain our position as one of the lowest average property tax bills among all Maryland counties.

Restoration of Funds Withdrawn From Revenue Stabilization Funds.

It is essential that governments maintain adequate levels of reserves to mitigate current and future risks (e.g., revenue shortfalls and unanticipated emergency expenditures) and to ensure stable tax rates. Bond rating agencies carefully monitor fund balance levels, among other criteria, to evaluate a government's continued creditworthiness and bond rating. The County's fiscal policies require the designated revenue stabilization fund portion of the unassigned governmental fund balance, at minimum, equal 5% of our budgeted general fund revenues. Stabilization policies such as this are generally recognized as a best practice within governmental financial management. The adopted budget reflects an increase to the unassigned governmental fund balance totaling \$0.98 million, which is designated for revenue stabilization arrangements.

Dorchester County, Maryland  
Management's Discussion and Analysis  
June 30, 2011

**REQUESTS FOR INFORMATION**

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

Dorchester County, Maryland  
Management's Discussion and Analysis  
June 30, 2011

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**DORCHESTER COUNTY, MARYLAND**  
**STATEMENT OF NET ASSETS**  
**PRIMARY GOVERNMENT AS OF JUNE 30, 2011**  
**COMPONENT UNITS AS OF JUNE 30, 2011**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and short-term investments	\$ 11,148,408	\$ 10,405,490	\$ 21,553,898
Receivables:			
State and local property taxes	4,230,261	-	4,230,261
Accounts receivable, net	-	410,029	410,029
Federal government	2,001,863	220,215	2,222,078
State of Maryland	721,580	6,379	727,959
Local	1,413,607	-	1,413,607
Other	257,292	-	257,292
Internal balances, net	75,127	(75,127)	-
Inventories, at cost	-	52,304	52,304
Other	236,957	-	236,957
Nondepreciable capital assets	21,779,932	8,491,004	30,270,936
Depreciable capital assets, net	29,551,691	10,202,854	39,754,545
<b>Total assets</b>	<b>71,416,718</b>	<b>29,713,148</b>	<b>101,129,866</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	3,604,354	182,764	3,787,118
Due to State of Maryland	789,287	-	789,287
Due to delinquent taxpayers	409,276	-	409,276
Deferred revenue	1,562,108	5,350	1,567,458
Other	112,312	-	112,312
Long-term liabilities, due within one year:			
Compensated absences	421,030	22,955	443,985
Bonds, notes and capital leases payable	3,381,423	32,000	3,413,423
Long-term liabilities, due in more than one year:			
Compensated absences	572,637	26,011	598,648
Bonds, notes and capital leases payable	29,035,930	372,000	29,407,930
Landfill closure and postclosure care costs	-	8,646,148	8,646,148
Pension liability	667,174	-	667,174
Other post-employment benefits obligation	2,589,842	-	2,589,842
<b>Total liabilities</b>	<b>43,145,373</b>	<b>9,287,228</b>	<b>52,432,601</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	45,010,598	18,289,858	63,300,456
Restricted	442,832	-	442,832
Unrestricted	(17,182,085)	2,136,062	(15,046,023)
<b>Total Net Assets</b>	<b>\$ 28,271,345</b>	<b>\$ 20,425,920</b>	<b>\$ 48,697,265</b>

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

Component Units	
Board of Education of Dorchester County	Dorchester County Sanitary Districts
\$ 5,880,621	\$ 1,233,117
-	-
-	78,282
1,352,247	-
8,216	-
778,058	-
551,450	742,116
-	-
17,241	-
1,423	-
27,148,559	6,709,948
64,687,819	4,403,184
<u>100,425,634</u>	<u>13,166,647</u>
3,322,523	1,110,068
-	-
-	-
1,762,159	23,497
21,500	6,671
89,391	-
-	54,694
2,378,784	-
-	2,180,030
-	-
-	-
-	-
<u>7,574,357</u>	<u>3,374,960</u>
91,836,378	8,878,408
256,957	-
757,942	913,279
<u>\$ 92,851,277</u>	<u>\$ 9,791,687</u>

**DORCHESTER COUNTY, MARYLAND**

**STATEMENT OF ACTIVITIES**

**Year Ended June 30, 2011**

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
<b>Governmental Activities</b>				
General government	\$ 12,268,670	\$ 331,996	\$ 2,486,376	\$ 398,423
Public safety	12,896,254	1,494,887	671,065	1,199,969
Social services	2,356,897	2,000	1,791,438	-
Recreation and parks	658,284	46,672	12,485	58,933
Natural resources	448,684	34,063	140,411	-
Economic development	857,091	-	242,206	2,404,487
Education	25,219,763	-	-	-
Public works	5,841,600	309,912	465,067	3,213,157
Interest on long-term debt	1,046,121	-	-	-
<b>Total Governmental Activities</b>	<b>61,593,364</b>	<b>2,219,530</b>	<b>5,809,048</b>	<b>7,274,969</b>
<b>Business-Type Activities</b>				
Airport	853,556	446,278	-	193,226
Landfill	2,801,502	2,367,800	-	-
<b>Total Business-Type Activities</b>	<b>3,655,058</b>	<b>2,814,078</b>	<b>-</b>	<b>193,226</b>
<b>Total Primary Government</b>	<b>\$ 65,248,422</b>	<b>\$ 5,033,608</b>	<b>\$ 5,809,048</b>	<b>\$ 7,468,195</b>
<b>Component Units</b>				
Board of Education of Dorchester County	65,456,262	3,458,872	57,364,506	11,826,105
Dorchester County Sanitary Districts	761,642	694,691	-	3,774,293
<b>Total Component Units</b>	<b>\$ 66,217,904</b>	<b>\$ 4,153,563</b>	<b>\$ 57,364,506</b>	<b>\$ 15,600,398</b>

**General Revenues (Expenses)**

Taxes:

Property

Income

Other

Interest

Donated assets

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning of Year

Net Assets, End of Year

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

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Board of Education of Dorchester County	Dorchester County Sanitary Districts
\$ (9,051,875)	\$ -	\$ (9,051,875)	\$ -	\$ -
(9,530,333)	-	(9,530,333)	-	-
(563,459)	-	(563,459)	-	-
(540,194)	-	(540,194)	-	-
(274,210)	-	(274,210)	-	-
1,789,602	-	1,789,602	-	-
(25,219,763)	-	(25,219,763)	-	-
(1,853,464)	-	(1,853,464)	-	-
(1,046,121)	-	(1,046,121)	-	-
(46,289,817)	-	(46,289,817)	-	-
-	(214,052)	(214,052)	-	-
-	(433,702)	(433,702)	-	-
-	(647,754)	(647,754)	-	-
(46,289,817)	(647,754)	(46,937,571)	-	-
-	-	-	7,193,221	-
-	-	-	-	3,707,342
-	-	-	7,193,221	3,707,342
29,563,733	-	29,563,733	-	-
9,880,600	-	9,880,600	-	-
3,219,603	-	3,219,603	-	-
38,846	59,582	98,428	9,795	29,086
34,301	-	34,301	-	-
628,715	270,108	898,823	671,819	552
43,365,798	329,690	43,695,488	681,614	29,638
(379,622)	379,622	-	-	-
42,986,176	709,312	43,695,488	681,614	29,638
(3,303,641)	61,558	(3,242,083)	7,874,835	3,736,980
31,574,986	20,364,362	51,939,348	84,976,442	6,054,707
<u>\$ 28,271,345</u>	<u>\$ 20,425,920</u>	<u>\$ 48,697,265</u>	<u>\$ 92,851,277</u>	<u>\$ 9,791,687</u>

**DORCHESTER COUNTY, MARYLAND**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2011**

	General Fund	Special Revenue Grants Fund	Capital Fund
<b>ASSETS</b>			
Cash and short-term investments	\$ 7,774,267	\$ 738,841	\$ 805,221
Receivables:			
State and local property taxes	4,230,261	-	-
Federal government	-	662,299	1,339,564
State of Maryland	-	721,580	-
Local	1,413,607	-	-
Other	121,794	116	-
Interfund	1,092,594	54,831	47,000
Other	16,336	-	220,621
<b>Total assets</b>	<b>\$ 14,648,859</b>	<b>\$ 2,177,667</b>	<b>\$ 2,412,406</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 1,168,384	\$ 774,596	\$ 1,844,981
Due to State of Maryland	789,287	-	-
Due to delinquent taxpayers	409,276	-	-
Interfund payables	2,633,302	48,388	336,399
Due to others	72,444	-	-
Deferred revenue	4,123,104	899,688	-
Other	27,705	12,163	-
<b>Total liabilities</b>	<b>9,223,502</b>	<b>1,734,835</b>	<b>2,181,380</b>
<b>FUND BALANCES</b>			
Nonspendable	16,336	-	220,621
Restricted for:			
Grants	-	442,832	-
Committed for:			
Schools and courthouse	-	-	-
Public safety communication system	-	-	-
Sheriff	-	-	-
Assigned for:			
Future budget	311,480	-	-
Fund purpose	-	-	10,405
Unassigned	5,097,541	-	-
<b>Total fund balances</b>	<b>5,425,357</b>	<b>442,832</b>	<b>231,026</b>
<b>Total liabilities and fund balances</b>	<b>\$ 14,648,859</b>	<b>\$ 2,177,667</b>	<b>\$ 2,412,406</b>

Other Governmental Funds	Total Governmental Funds
\$ 1,830,079	\$ 11,148,408
-	4,230,261
-	2,001,863
-	721,580
-	1,413,607
135,382	257,292
1,903,004	3,097,429
-	236,957
<u>\$ 3,868,465</u>	<u>\$ 23,107,397</u>
\$ 237,423	\$ 4,025,384
-	789,287
-	409,276
4,213	3,022,302
-	72,444
38,611	5,061,403
-	39,868
<u>280,247</u>	<u>13,419,964</u>
-	236,957
-	442,832
3,310,705	3,310,705
142,288	142,288
135,225	135,225
-	311,480
-	10,405
-	5,097,541
<u>3,588,218</u>	<u>9,687,433</u>
<u>\$ 3,868,465</u>	<u>\$ 23,107,397</u>

*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, 2011**

Total fund balances, governmental funds		\$ 9,687,433
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.		51,331,623
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.		3,499,295
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	(32,417,353)	
Pension liability	(667,174)	
Compensated absences	(572,637)	
Other post-employment benefits obligation	<u>(2,589,842)</u>	
Total long-term liabilities		<u>(36,247,006)</u>
Net assets of governmental activities in the Statement of Net Assets		<u>\$ 28,271,345</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, 2011**

	General Fund	Special Revenue Grants Fund	Capital Fund
<b>REVENUES:</b>			
Taxes	\$ 41,482,075	\$ -	\$ -
Licenses and permits	221,392	-	-
Intergovernmental:			
Federal	150,778	3,963,677	2,394,574
State	3,006,995	2,388,126	1,179,867
Service charges and fees	1,998,138	-	-
Miscellaneous	512,389	25,773	-
<b>Total revenues</b>	<b>47,371,767</b>	<b>6,377,576</b>	<b>3,574,441</b>
<b>EXPENDITURES:</b>			
Current:			
General government	3,668,648	65,806	-
Public safety	10,289,894	337,765	258,611
Social services	514,793	1,840,224	-
Recreation and parks	473,082	93,158	-
Natural resources	395,205	39,110	-
Economic development	501,955	259,049	-
Miscellaneous	5,500,182	-	28,908
Education	19,206,091	-	5,757,687
Public works	3,652,537	1,694,791	265
Debt service:			
Principal	3,163,277	-	-
Interest	1,025,765	-	-
Capital outlay	23,947	2,105,721	4,830,833
<b>Total expenditures</b>	<b>48,415,376</b>	<b>6,435,624</b>	<b>10,876,304</b>
Excess (deficiency) of revenues over expenditures	(1,043,609)	(58,048)	(7,301,863)
<b>OTHER FINANCING SOURCES (USES):</b>			
Note proceeds	-	-	38,380
Donated assets	-	-	34,301
Net change in pension liability	14,506	-	-
Interest and dividends received	18,420	1,383	14,892
Transfers, net	(526,099)	50,000	96,477
<b>Total other financing sources (uses)</b>	<b>(493,173)</b>	<b>51,383</b>	<b>184,050</b>
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(1,536,782)	(6,665)	(7,117,813)
Fund balances, beginning of year	6,962,139	449,497	7,348,839
<b>Fund balances (deficit), end of year</b>	<b>\$ 5,425,357</b>	<b>\$ 442,832</b>	<b>\$ 231,026</b>

Other Governmental Funds	Total Governmental Funds
\$ 1,043,254	\$ 42,525,329
-	221,392
-	6,509,029
-	6,574,988
-	1,998,138
90,553	628,715
<u>1,133,807</u>	<u>58,457,591</u>
337,018	4,071,472
285,257	11,171,527
-	2,355,017
-	566,240
-	434,315
-	761,004
-	5,529,090
255,985	25,219,763
-	5,347,593
152,075	3,315,352
20,356	1,046,121
-	6,960,501
<u>1,050,691</u>	<u>66,777,995</u>
<u>83,116</u>	<u>(8,320,404)</u>
-	38,380
-	34,301
-	14,506
4,151	38,846
-	(379,622)
<u>4,151</u>	<u>(253,589)</u>
87,267	(8,573,993)
<u>3,500,951</u>	<u>18,261,426</u>
<u>\$ 3,588,218</u>	<u>\$ 9,687,433</u>

*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, 2011**

Net change in fund balances, governmental funds \$ (8,573,993)

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	6,960,501	
Depreciation expense	<u>(3,007,424)</u>	
Excess of capital outlay over depreciation expense		3,953,077

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: (38,380)

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 3,315,352

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. 138,607

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	(14,506)
Decrease in compensated absences	53,237
Change in other post-employment benefits obligation	<u>(2,137,035)</u>

Change in net assets of governmental activities \$ (3,303,641)

**DORCHESTER COUNTY, MARYLAND**

**STATEMENT OF FUND NET ASSETS**

**PROPRIETARY FUNDS**

**June 30, 2011**

	Business-Type Activities		
	Landfill	Airport	Total
<b>ASSETS</b>			
Current assets			
Cash	\$ 10,405,165	\$ 325	\$ 10,405,490
Receivables:			
Accounts, net of \$126,786 allowance (landfill) and \$6,500 allowance (airport)	337,185	72,844	410,029
Federal government	-	220,215	220,215
State of Maryland	-	6,379	6,379
Interfund	(1,292,354)	1,217,227	(75,127)
Inventories	-	52,304	52,304
<b>Total current assets</b>	<b>9,449,996</b>	<b>1,569,294</b>	<b>11,019,290</b>
Noncurrent assets			
Capital assets at cost	13,471,438	17,546,795	31,018,233
Less accumulated depreciation	(8,683,712)	(3,640,663)	(12,324,375)
<b>Total noncurrent assets</b>	<b>4,787,726</b>	<b>13,906,132</b>	<b>18,693,858</b>
<b>Total assets</b>	<b>\$ 14,237,722</b>	<b>\$ 15,475,426</b>	<b>\$ 29,713,148</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued expenses	\$ 172,139	\$ 10,625	\$ 182,764
Accrued vacation	17,204	5,751	22,955
Deferred revenue	-	5,350	5,350
Current maturities long-term debt	1,000	31,000	32,000
<b>Total current liabilities</b>	<b>190,343</b>	<b>52,726</b>	<b>243,069</b>
Noncurrent liabilities			
Accrued vacation	20,368	5,643	26,011
Landfill - closure and postclosure	8,646,148	-	8,646,148
Long-term debt, less current maturities	-	372,000	372,000
<b>Total noncurrent liabilities</b>	<b>8,666,516</b>	<b>377,643</b>	<b>9,044,159</b>
<b>Total liabilities</b>	<b>\$ 8,856,859</b>	<b>\$ 430,369</b>	<b>\$ 9,287,228</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 4,786,726	\$ 13,503,132	\$ 18,289,858
Unrestricted	594,137	1,541,925	2,136,062
<b>Total net assets</b>	<b>\$ 5,380,863</b>	<b>\$ 15,045,057</b>	<b>\$ 20,425,920</b>

*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, 2011**

	Business-Type Activities		
	Landfill	Airport	Totals
<b>OPERATING REVENUES:</b>			
Tipping fees	\$ 2,272,055	\$ -	\$ 2,272,055
Permits	95,745	-	95,745
Fuel sales	-	264,056	264,056
Hangar and tie-down rentals	-	182,222	182,222
Other	256,199	13,909	270,108
<b>Total operating revenues</b>	<b>2,623,999</b>	<b>460,187</b>	<b>3,084,186</b>
<b>OPERATING EXPENSES:</b>			
Salaries and related taxes	1,076,844	200,654	1,277,498
Repairs and maintenance	291,458	38,494	329,952
Rental of land, buildings and equipment	48,261	13,200	61,461
Fuel	168,451	199,610	368,061
Closure and postclosure costs accrual	325,640	-	325,640
Utilities	16,419	93,042	109,461
Depreciation	808,096	257,002	1,065,098
Other operating	66,333	34,089	100,422
<b>Total operating expenses</b>	<b>2,801,502</b>	<b>836,091</b>	<b>3,637,593</b>
<b>Net operating income (loss)</b>	<b>(177,503)</b>	<b>(375,904)</b>	<b>(553,407)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>			
Grants - Federal government	-	188,271	188,271
Grants - state government	-	4,955	4,955
Interest income	59,582	-	59,582
Interest expense	-	(17,465)	(17,465)
<b>Total non-operating revenues</b>	<b>59,582</b>	<b>175,761</b>	<b>235,343</b>
Income before transfers	(117,921)	(200,143)	(318,064)
Operating transfers	-	379,622	379,622
Change in net assets	(117,921)	179,479	61,558
Net assets beginning of year	5,498,784	14,865,578	20,364,362
<b>Net assets end of year</b>	<b>\$ 5,380,863</b>	<b>\$ 15,045,057</b>	<b>\$ 20,425,920</b>

*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, 2011**

	Landfill	Airport	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers	\$ 2,248,478	\$ 623,314	\$ 2,871,792
Other receipts	256,199	13,909	270,108
Payments to employees	(1,085,517)	(201,956)	(1,287,473)
Payments for services	(16,419)	(93,042)	(109,461)
Payments for rentals	(48,261)	(13,200)	(61,461)
Payments for materials and supplies	(773,752)	(311,162)	(1,084,914)
Other payments	(66,333)	(34,089)	(100,422)
Net cash provided (used) by operating activities	514,395	(16,226)	498,169
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>			
Increase (decrease) in interfund receivable	1,682,412	(293,852)	1,388,560
Operating transfers from General Fund	-	379,622	379,622
Net cash provided by non-capital financing activities	1,682,412	85,770	1,768,182
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Grant and bond receipts	-	193,226	193,226
Repayment of long-term debt	-	(31,000)	(31,000)
Purchases of property and equipment	(2,524,670)	(214,305)	(2,738,975)
Proceeds from sale of property and equipment	255,500	-	255,500
Interest paid	-	(17,465)	(17,465)
Net cash used by financing activities	(2,269,170)	(69,544)	(2,338,714)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest income received	59,582	-	59,582
Net cash provided by investing activities	59,582	-	59,582
<b>Net decrease in cash and short-term investments</b>	<b>(12,781)</b>	<b>-</b>	<b>(12,781)</b>
<b>Cash and short-term investments, beginning of year</b>	<b>10,417,946</b>	<b>325</b>	<b>10,418,271</b>
<b>Cash and short-term investments, end of year</b>	<b>\$ 10,405,165</b>	<b>\$ 325</b>	<b>\$ 10,405,490</b>
<b>Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities:</b>			
Operating loss	\$ (177,503)	\$ (375,904)	\$ (553,407)
Adjustments:			
Depreciation	808,096	257,002	1,065,098
Gain on disposal of property and equipment	(220,175)	-	(220,175)
Landfill closure and postclosure cost accrual	325,640	-	325,640
(Increase) decrease in assets:			
Accounts receivable	(119,322)	178,105	58,783
Inventory	-	(1,069)	(1,069)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	(93,668)	(73,058)	(166,726)
Accrued vacation	(8,673)	(1,302)	(9,975)
Total adjustments	691,898	359,678	1,051,576
Net cash provided (used) by operating activities	\$ 514,395	\$ (16,226)	\$ 498,169

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

**DORCHESTER COUNTY, MARYLAND**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**June 30, 2011**

	Other Post-Employment Benefits Trust Fund
<b>ASSETS</b>	
Cash	\$ 2,224,474
Total assets	2,224,474
 <b>NET ASSETS</b>	
Net assets held in trust for other post-employment benefits	\$ 2,224,474

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

**DORCHESTER COUNTY, MARYLAND**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUND**  
**Year Ended June 30, 2011**

	Other Post-Employment Benefits Trust Fund
	Fund
<b>ADDITIONS:</b>	
Investment income	
Interest	\$ 7,772
Total additions	7,772
Change in net assets	7,772
Net assets beginning of year	2,216,702
Net assets end of year	\$ 2,224,474

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

## NOTES TO FINANCIAL STATEMENTS

### Note 1. Reporting Entity

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

#### Financial Reporting Entity

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

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

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

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

### Note 2. Summary of Significant Accounting Policies

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

#### A. Basis of Presentation

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

## NOTES TO FINANCIAL STATEMENTS

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

#### 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.

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

#### Fund Financial Statements

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

#### 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 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 Special Revenue Grants Fund, which includes Local Management Board (LMB) grant activity, the Tax funds (see more detail below), and the Commissary fund are all special revenue funds of the County.

## NOTES TO FINANCIAL STATEMENTS

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

Capital Funds – The Capital funds account for the purchase, construction or renovation of capital assets, including educational facilities, roads, and similar governmental capital assets (other than those financed by the proprietary funds).

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.

#### **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.

#### **Fiduciary Fund Types**

Fiduciary funds account for assets held by the County in a trustee capacity.

Other Post-Employment Benefits Trust Fund – Trust funds are used to account for assets held by the County as an agent for other funds.

## NOTES TO FINANCIAL STATEMENTS

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

#### 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.

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

## NOTES TO FINANCIAL STATEMENTS

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

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

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

Property taxes for which there was an enforceable legal claim at June 30, 2011, but which were levied to finance fiscal year 2011 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.

### **G. Property Tax**

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

## NOTES TO FINANCIAL STATEMENTS

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

#### 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	10 - 40 years	20 - 40 years
Furniture and Equipment	3 - 40 years	3 - 15 years
Vehicles	1 - 10 years	3 - 8 years
Infrastructure	10 - 50 years	5 - 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."

#### J. Compensated Absences

##### Vacation and Sick Leave

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

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

## NOTES TO FINANCIAL STATEMENTS

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

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

#### M. Fund Balance Reserves

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

Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

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

Committed – Amounts that can be used only for specific purposes determined by formal action by the County Council ordinance or resolutions.

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

Unassigned – Amounts not included in other spendable classifications.

Nonspendable fund balances consist of prepaid amounts and unamortized bond issue cost.

## 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. For the Board, these revenues are sales for food service. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities 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.

#### Q. Cash and Cash Equivalents

For purposes of the statement of cash flows for the proprietary fund, all highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

### 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, 2011, the County had bank deposits with various commercial banks totaling \$21,927,158 (carrying value \$21,553,898). As required by law, each depository is 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 County's name at several banks. At June 30, 2011, bank deposits were fully insured or collateralized. The County's exposure to investment rate risk, credit risk, and custodial risk is minimal as all deposits are in cash.

## NOTES TO FINANCIAL STATEMENTS

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

#### Board of Education of Dorchester County

At June 30, 2011, the Board had bank deposits with various commercial banks totaling \$2,307,597 (carrying value \$1,796,342). As of June 30, 2011, bank deposits were fully insured by the Federal Deposit Insurance Corporation (FDIC).

Investments of \$4,084,279 consist of \$4,012,321 U.S. Government Securities made through the State of Maryland Local Government Investment Pool (MLGIP) which provide local government units of the State a safe investment vehicle for short-term investment of funds and \$71,958 in other investments, which are immaterial to disclose separately in the financial statements. The State Legislature created MLGIP with the passage of Article 94 22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Safe Deposit and Trust Company, which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a quarterly basis and provide suggestions to enhance the pool. The MLGIP is rated AAA 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. Cash is invested pursuant to the Annotated Code of Maryland and County Code.

#### Dorchester County Sanitary Districts

At June 30, 2011 the Dorchester County Sanitary Districts had bank deposits with various commercial banks totaling \$1,238,306 (carrying value \$1,233,117). Of the bank balance, \$692,582 was covered by federal depository insurance, and \$545,724 was covered by collateral segregated on the books of local banks, but not in the Sanitary District's name.

NOTES TO FINANCIAL STATEMENTS

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balances at June 30, 2010	Additions	Deletions/ Transfers	Balances at June 30, 2011
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 12,789,715	\$ -	\$ -	\$ 12,789,715
Construction in progress	2,765,705	6,224,512	-	8,990,217
<b>Total capital assets, not being depreciated</b>	<b>15,555,420</b>	<b>6,224,512</b>	<b>-</b>	<b>21,779,932</b>
<b>Capital assets, being depreciated</b>				
Buildings and improvements	22,208,613	11,308	(12,741)	22,207,180
Furniture and equipment	21,186,650	679,798	75,854	21,942,302
Leasehold improvements	286,572	-	-	286,572
Infrastructure assets	42,639,938	44,883	(81,251)	42,603,570
<b>Total capital assets, being depreciated</b>	<b>86,321,773</b>	<b>735,989</b>	<b>(18,138)</b>	<b>87,039,624</b>
Less: accumulated depreciation	(54,498,647)	(3,007,424)	18,138	(57,487,933)
<b>Net capital assets, being depreciated</b>	<b>31,823,126</b>	<b>(2,271,435)</b>	<b>-</b>	<b>29,551,691</b>
<b>Governmental activities capital assets, net</b>	<b>\$47,378,546</b>	<b>\$ 3,953,077</b>	<b>\$ -</b>	<b>\$ 51,331,623</b>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 584,310
Public safety	1,724,727
Social services	1,880
Recreation and parks	92,044
Natural resources	14,369
Economic development	96,087
Public works	494,007
	<u>\$ 3,007,424</u>

NOTES TO FINANCIAL STATEMENTS

**Note 4. Capital Assets (continued)**

	Balances at June 30, 2010	Additions	Deletions/ Transfers	Balances at June 30, 2011
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Dorchester County Landfill</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 875,187	\$ -	\$ -	\$ 875,187
Construction in progress	701,225	1,522,146	(2,187,964)	35,407
<b>Total capital assets, not being depreciated</b>	<b>1,576,412</b>	<b>1,522,146</b>	<b>(2,187,964)</b>	<b>910,594</b>
<b>Capital assets, being depreciated</b>				
Buildings and improvements	148,739	-	-	148,739
Machinery and equipment	3,860,389	1,002,524	(962,282)	3,900,631
Beulah landfill - cells	6,323,510	-	2,187,964	8,511,474
<b>Total capital assets, being depreciated</b>	<b>10,332,638</b>	<b>1,002,524</b>	<b>1,225,682</b>	<b>12,560,844</b>
Less: accumulated depreciation	(8,802,573)	(808,096)	926,957	(8,683,712)
<b>Net capital assets, being depreciated</b>	<b>1,530,065</b>	<b>194,428</b>	<b>2,152,639</b>	<b>3,877,132</b>
<b>Landfill capital assets, net</b>	<b>\$ 3,106,477</b>	<b>\$ 1,716,574</b>	<b>\$ (35,325)</b>	<b>\$ 4,787,726</b>
<b>Dorchester County Airport</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 2,151,800	\$ -	\$ -	\$ 2,151,800
Construction in progress	5,230,429	198,181	-	5,428,610
<b>Total capital assets, not being depreciated</b>	<b>7,382,229</b>	<b>198,181</b>	<b>-</b>	<b>7,580,410</b>
<b>Capital assets, being depreciated</b>				
Buildings and improvements	9,691,845	-	-	9,691,845
Machinery and equipment	258,416	16,124	-	274,540
<b>Total capital assets, being depreciated</b>	<b>9,950,261</b>	<b>16,124</b>	<b>-</b>	<b>9,966,385</b>
Less: accumulated depreciation	(3,383,661)	(257,002)	-	(3,640,663)
<b>Net capital assets, being depreciated</b>	<b>6,566,600</b>	<b>(240,878)</b>	<b>-</b>	<b>6,325,722</b>
<b>Airport capital assets, net</b>	<b>\$ 13,948,829</b>	<b>\$ (42,697)</b>	<b>\$ -</b>	<b>\$ 13,906,132</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 17,055,306</b>	<b>\$ 1,673,877</b>	<b>\$ (35,325)</b>	<b>\$ 18,693,858</b>

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

Capital asset activity for the component units for the year ended June 30, 2011 was as follows:

	Balances at June 30, 2010	Additions	Deletions/ Transfers	Balances at June 30, 2011
<b>Board of Education of Dorchester County</b>				
<b>Governmental activities</b>				
<b>Capital assets, not being depreciated</b>				
Construction in progress	\$ 16,885,239	\$ 10,263,320	\$ -	\$ 27,148,559
Total capital assets, not being depreciated	16,885,239	10,263,320	-	27,148,559
<b>Capital assets, being depreciated</b>				
Buildings and improvements	99,637,450	216,013	-	99,853,463
Furniture and equipment	2,374,082	74,540	-	2,448,622
Vehicles	808,092	-	-	808,092
Total capital assets, being depreciated	102,819,624	290,553	-	103,110,177
Less: accumulated depreciation	(35,351,902)	(3,084,037)	-	(38,435,939)
Net capital assets, being depreciated	67,467,722	(2,793,484)	-	64,674,238
<b>Governmental activities capital assets, net</b>	<b>\$ 84,352,961</b>	<b>\$ 7,469,836</b>	<b>\$ -</b>	<b>\$ 91,822,797</b>
<b>Business-type activities</b>				
Equipment	\$ 36,250	\$ -	\$ -	\$ 36,250
Accumulated depreciation	(20,666)	(2,003)	-	(22,669)
<b>Business-type activities capital assets, net</b>	<b>\$ 15,584</b>	<b>\$ (2,003)</b>	<b>\$ -</b>	<b>\$ 13,581</b>
<b>Board of Education capital assets, net</b>	<b>\$ 84,368,545</b>	<b>\$ 7,467,833</b>	<b>\$ -</b>	<b>\$ 91,836,378</b>
<b>Dorchester County Sanitary Districts</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 2,645	\$ -	\$ -	\$ 2,645
Construction in progress	2,083,264	4,624,039	-	6,707,303
Total capital assets, not being depreciated	2,085,909	4,624,039	-	6,709,948
<b>Capital assets, being depreciated</b>				
Intangible assets	-	1,044,000	-	1,044,000
Plant and equipment	7,145,752	25,607	(7,107)	7,164,252
Total capital assets, being depreciated	7,145,752	1,069,607	(7,107)	8,208,252
Less: accumulated depreciation	(3,649,764)	(161,463)	6,159	(3,805,068)
Net capital assets, being depreciated	3,495,988	908,144	(948)	4,403,184
<b>Sanitary Districts capital assets, net</b>	<b>\$ 5,581,897</b>	<b>\$ 5,532,183</b>	<b>\$ (948)</b>	<b>\$ 11,113,132</b>
<b>Total component units capital assets, net</b>	<b>\$ 89,950,442</b>	<b>\$ 13,000,016</b>	<b>\$ (948)</b>	<b>\$ 102,949,510</b>

## 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, 2011:

	Governmental Activities	Business-Type Activities
Amounts payable at June 30, 2010	\$ 37,857,782	\$ 493,941
Borrowings from bonds, notes payable, and capital leases	-	-
Increase in pension liability (See also Note 9)	14,506	-
Decrease in accrued compensated absences	(64,315)	(9,975)
Increase in other post-employment benefits obligation (See also Note 10)	2,137,035	-
Repayment of bonds, notes payable, and capital leases	(3,276,972)	(31,000)
Amounts payable at June 30, 2011	\$ 36,668,036	\$ 452,966

Long-term debt consists of the following as of June 30, 2011:

#### Dorchester County Governmental Activities Long-Term Debt

	Balances at June 30, 2010	Additions	Reductions	Balances at June 30, 2011	Amounts Due in One Year
<u>Capital Leases</u>					
Dell Financial Services capital lease agreement on the computer equipment. Lease due in annual installments of \$39,171 including interest at 6.46% through July 2010.	\$ 8,896	\$ -	\$ (8,896)	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

**Note 5. Long-Term Debt (continued)**

	Balances at June 30, 2010	Additions	Reductions	Balances at June 30, 2011	Amounts Due in One Year
<u>Public Facilities Bonds</u>					
1996 Public Facilities Bonds due in annual principal installments of \$190,000 to \$1,065,000 through November 1, 2010; interest, payable semi-annually, from 3.5% to 6.7%.	\$ 230,000	\$ -	\$ (230,000)	\$ -	\$ -
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%.	4,385,000	-	(455,000)	3,930,000	480,000
General Improvements and Refunding Bonds of 2004, payable in annual payments from \$65,000 to \$1,050,000 through February 1, 2019; interest payable annually from 2% to 3.9%.	4,845,000	-	(995,000)	3,850,000	1,020,000
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%.	1,345,000	-	(240,000)	1,105,000	255,000
Consolidated Public Improvement Bonds of 2010 due in annual principal installments of \$810,000 to \$1,435,000 through February 1, 2030; interest payable semi-annually, from 1% to 6%.	20,830,000	-	(830,000)	20,000,000	810,000
<b>Total public facilities bonds</b>	<b>31,635,000</b>	<b>-</b>	<b>(2,750,000)</b>	<b>28,885,000</b>	<b>2,565,000</b>
<u>State of Maryland Department of Natural Resources Maryland Industrial Land Act Loans (MILA)</u>					
Maryland Industrial Land Act loan due in quarterly installments of \$21,177, including interest at 4.64%, through April 2012. The final balloon payment of \$360,031 was paid in July, 2011 (known as the Connelly Building).	427,512	-	(67,481)	360,031	360,031
<b>Total MILA loans payable</b>	<b>\$ 427,512</b>	<b>\$ -</b>	<b>\$ (67,481)</b>	<b>\$ 360,031</b>	<b>\$ 360,031</b>

NOTES TO FINANCIAL STATEMENTS

**Note 5. Long-Term Debt (continued)**

	Balances at June 30, 2010	Additions	Transfers/ Reductions	Balances at June 30, 2011	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.	\$ 43,012	\$ -	\$ (4,780)	\$ 38,232	\$ 4,780
SEC 7-92 - Middle Hoopers Island Causeway; due in annual installments of \$5,516 through July 2020; no interest.	60,676	-	(5,516)	55,160	5,516
SEC 8-92 - McCready's Point Road; due in annual installments of \$1,683 through July 2019; no interest.	16,836	-	(1,683)	15,153	1,683
SEC 9-92 - Hoopersville Road; due in annual installments of \$2,718 through July 2020; no interest.	27,183	-	(2,718)	24,465	2,718
SEC 3-95 - Punch Island Road; due in annual installments of \$3,519 through July 2011; no interest.	7,034	-	(3,519)	3,515	3,515
SEC 2-96 - Rooster Island; due in annual installments of \$8,207 through July 2012; no interest.	24,616	-	(8,207)	16,409	8,207
SEC 03-03 - Hoopersville Road; due in annual installments of \$8,829 through July 2032; no interest.	461,880	-	(19,245)	442,635	19,245
SEC 04-02 - Hoopers Island Road; due in annual installments of \$5,930 through July 2027; no interest.	106,742	-	(5,930)	100,812	5,930
SEC 05-03 - Taylors Island; due in annual installments of \$14,593 through July 2035; no interest.	350,240	-	(14,593)	335,647	14,593
SEC 18-02 - Punch Island Road; due in annual installments of \$12,965 through July 2035; no interest.	310,992	-	(12,965)	298,027	12,958
<b>Total SEC loans payable</b>	<b>\$ 1,409,211</b>	<b>\$ -</b>	<b>\$ (79,156)</b>	<b>\$ 1,330,055</b>	<b>\$ 79,145</b>

## NOTES TO FINANCIAL STATEMENTS

### Note 5. Long-Term Debt (continued)

	Balances at June 30, 2010	Additions	Reductions	Balances at June 30, 2011	Amounts Due in One Year
<u>Notes Payable</u>					
County Commissioners of Queen Anne's County loan due in annual principal installments of \$5,500 to \$18,700 through November 2013; interest payable semi-annually at 5.91% (known as the Chesapeake College Economic Development Center).	\$ 68,200	\$ -	\$ (15,400)	\$ 52,800	\$ 16,500
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).	385,000	-	(30,000)	355,000	30,000
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%.	121,383	-	(6,855)	114,528	7,219
Note due in quarterly principal installments of \$24,313, plus interest at 5.33% through 2014 (known as the Delmarva Power and Light Building).	368,373	-	(79,184)	289,189	83,528
MDOT due in annual installments of \$200,000 to January 2013; no interest.	1,155,750	-	(200,000)	955,750	200,000
The Rippons Pier deferred purchase price due in annual principal installments of \$35,000 to \$40,000 through 2012, no interest.	115,000	-	(40,000)	75,000	40,000
<b>Total notes payable</b>	<b>2,213,706</b>	<b>-</b>	<b>(371,439)</b>	<b>1,842,267</b>	<b>377,247</b>
<b>Total governmental activities debt</b>	<b>\$ 35,694,325</b>	<b>\$ -</b>	<b>\$ (3,276,972)</b>	<b>\$ 32,417,353</b>	<b>\$ 3,381,423</b>

During 2011, the City of Cambridge ceased its emergency medical services ("EMS") and the County assumed those duties. As part of this agreement the County received \$72,681 in equipment, recorded at cost within the capital fund and also assumed \$38,380 in debt which was paid in full by the County during 2011.

NOTES TO FINANCIAL STATEMENTS

**Note 5. Long-Term Debt (continued)**

Dorchester County Business-Type Activities Long-Term Debt

	Balances at June 30, 2010	Additions	Reductions	Balances at June 30, 2011	Amounts Due in One Year
<b>Dorchester County Landfill:</b>					
Refuse and bid bonds payable	\$ 1,000	\$ -	\$ -	\$ 1,000	\$ 1,000
<b>Dorchester County Airport:</b>					
Airport Improvement Bonds of 2003 issued through BB&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%.	434,000	-	(31,000)	403,000	31,000
Total enterprise fund debt	\$ 435,000	\$ -	\$ (31,000)	\$ 404,000	\$ 32,000

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

NOTES TO FINANCIAL STATEMENTS

**Note 5. Long-Term Debt (continued)**

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

Governmental Activities

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 3,381,423	\$ 981,007	\$ 4,362,430
2013	3,103,880	898,093	4,001,973
2014	3,156,929	812,000	3,968,929
2015	2,490,465	720,388	3,210,853
2016	1,786,909	646,254	2,433,163
2017 - 2021	6,768,873	2,527,373	9,296,246
2022 - 2026	5,947,652	1,624,333	7,571,985
2027 - 2031	5,640,843	526,305	6,167,148
2032 - 2036	140,379	-	140,379
Total governmental activities debt	<u>\$ 32,417,353</u>	<u>\$ 8,735,753</u>	<u>\$ 41,153,106</u>

Business-Type Activities

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 32,000	\$ 16,886	\$ 48,886
2013	31,000	15,587	46,587
2014	31,000	14,288	45,288
2015	31,000	12,989	43,989
2016	31,000	11,690	42,690
2017 - 2019	248,000	27,277	275,277
Total business-type activities debt	<u>\$ 404,000</u>	<u>\$ 98,717</u>	<u>\$ 502,717</u>

Interest expense on all County long-term debt totaled \$1,063,586 for the year ended June 30, 2011.

NOTES TO FINANCIAL STATEMENTS

**Note 5. Long-Term Debt (continued)**

Long-term debt of the Dorchester County Sanitary Districts at June 30, 2011 consists of the following:

	Balances at June 30, 2010	Additions	Reductions	Balances at June 30, 2011
<u>Dorchester County Sanitary Districts</u>				
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.6726%. Annual installments of principal and interest of \$9,389 began March 30, 1993 and continue to March 30, 2020.	\$ 66,954	\$ -	\$ (4,922)	\$ 62,032
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 6.6726%. Annual installments of principal and interest of \$4,736 began March 30, 1993, and continue to March 30, 2020.	33,776	-	(2,483)	31,293
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.6726%. Interest only payments of \$8,207 due September 17, 1991 and 1992. Annual installments of principal and interest of \$9,816 began September 17, 1993, and continue to September 17, 2020.	74,822	-	(4,824)	69,998
Loan payable to the State of Maryland under the Water Quality Loan of 1974; due in annual installments of \$2,051 including interest of 6.09956% until October 2012.	5,463	-	(1,718)	3,745
Loan payable to the State of Maryland under the Water Quality Loan of 1974 due in annual installments of \$6,898 including interest of 8.178824% until July 2014.	22,716	-	-	22,716
Loan payable to the State of Maryland under the Drinking Water State Water Revolving Fund; due in annual installments of \$4,653 including interest of 3.13% until February 2013.	12,677	-	(4,256)	8,421
Loan payable in the amount of \$2,044,000 to the National Bank of Cambridge. Interest only due quarterly at a rate of 3.45%, until August 31, 2011. To be refinanced with subsequent USDA loan.	379,356	-	(379,356)	-
Loan payable in the amount of \$290,000 to the USDA. Due in quarterly installments of \$2,874 including interest of 2.5%, until March 2051.	-	290,000	(1,061)	288,939
Loan payable in the amount of \$1,754,000 to the USDA. Due in quarterly installments of \$17,383 including interest of 2.5%, until March 2051.	-	1,754,000	(6,420)	1,747,580
Total Sanitary Districts' debt	<u>\$ 595,764</u>	<u>\$ 2,044,000</u>	<u>\$ (405,040)</u>	<u>2,234,724</u>
Less: current maturities				54,694
				<u>\$ 2,180,030</u>

## 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, 2011 are as follows:

Year Ending June 30	Principal	Interest	Totals
2012	\$ 54,694	\$ 64,358	\$ 119,052
2013	56,486	62,081	118,567
2014	52,693	59,822	112,515
2015	54,917	57,473	112,390
2016	50,474	47,443	97,917
2017 - 2021	269,868	241,456	511,324
2022 - 2026	205,103	200,651	405,754
2027 - 2031	232,323	172,817	405,140
2032 - 2036	263,155	141,985	405,140
2037 - 2041	298,079	107,061	405,140
2042 - 2046	337,635	67,505	405,140
2047 - 2051	359,297	17,715	377,012
Total Sanitary Districts' debt	<u>\$ 2,234,724</u>	<u>\$ 1,240,367</u>	<u>\$ 3,475,091</u>

### Note 6. Capital Leases

#### Primary Government

The County entered into a lease agreement in July 2007, for the purpose of acquiring computer equipment. The original cost of the equipment acquired under the capital lease agreement was \$124,830, which included \$6,450 of capitalized shipping cost. Accumulated depreciation on the equipment as of June 30, 2011 was \$99,864. The capital lease was paid in full as of June 30, 2011.

### Note 7. Long-Term Operating Lease

The County has leases for several vehicles, equipment and properties each with separate terms.

Approximate future minimum lease commitments are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 232,000
2013	123,000
2014	106,000
2015	89,000
2016	76,000

Rent expense under these leases totaled approximately \$258,000 for the year ended June 30, 2011.

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Long-Term Operating Lease (continued)

#### Component Unit - Board of Education

The Board leases computers, copy machines and internet access service 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>	
2012	\$ 655,000
2013	516,000
2014	89,000
2015	8,000
2016	8,000

Rent expense under these leases, totaled approximately \$750,000 for the year ended June 30, 2011.

### 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, 2011, appropriate due to/from other funds have been established.

Due to/from other funds balances as of June 30, 2011 were as follows:

<b>Primary Government</b>	Due from Other Funds	Due to Other Funds
Governmental activities	\$ 3,097,429	\$ 3,022,302
Business-Type activities	-	75,127
Total due to/from other funds	\$ 3,097,429	\$ 3,097,429

### 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 cost sharing multiple-employer public retirement systems sponsored by the Maryland State Retirement and Pensions Systems and created by the Maryland General Assembly. The Maryland State Retirement Agency issues a publicly available financial report that includes financial statements and required supplementary information for the systems. That report may be obtained by writing to the Office of Legislative Audits, State Office Building, 301 West Preston Street, Baltimore, Maryland, 21201.

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Pension Plans (continued)

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

#### Funding Policy

The State Personnel and Pensions Article requires active members to contribute to the System at the rate of 5% or 7% of their covered salary depending upon the retirement option selected. The combined State contribution rate for the year ending 2011 is established by annual actuarial valuations. The current rate is 14.34% of covered payroll for teachers and 7.3% 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, 2011 was \$4,308,318 for the Board of Education.

#### Employers' Payroll and Contributions Under the Plans

The employers' current year payroll for the years ended June 30, 2011, 2010, and 2009, payroll covered under the various state plans, and contributions paid are as follows:

	2011	2010	2009
Total payroll	\$ 42,890,662	\$ 43,573,508	\$ 45,183,285
Payroll covered under the plans	40,766,848	42,099,803	42,415,710
Contributions paid:			
County payments	1,506,436	1,179,202	1,105,473
Board of Education payments	590,265	562,394	545,587
State On-Behalf payments:			
Board of Education	4,308,318	3,940,669	3,146,098

#### 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 \$667,174 fund deficit (an increase of \$14,506 over the prior fiscal year) over a period of 40 years. The fiscal year 2011 annual payment was \$36,284 and will increase 5% per year until maturity at December 31, 2035. This liability has been recorded in the governmental activities column on the Statement of Net Assets.

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Pension Plans (continued)

#### Dorchester County Sanitary Districts

All full-time employees of the Sanitary Districts are considered and treated as employees of the County and as such come under the benefit package of the County including retirement and health benefits. Part-time employees are not considered County employees, are paid by the Sanitary District, and receive no benefits. The Sanitary District reimburses the County for all payroll costs of the full-time employees including pension and post-employment health care benefits. Pension cost for the year ended June 30, 2011 and 2010 were \$5,190 and \$1,924, respectively. Post-employment health care cost for the year ended June 30, 2011 and 2010 were \$6,388 and \$2,662, respectively.

### Note 10. Post-Employment Health Care Benefits

#### Plan Description

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

The County's employees are eligible upon retirement for employees with 30 years of service at any age or employees who have attained age 55 with at least 16 years of service if enrolled in the active medical plan immediately prior to retiring. Participants are eligible for medical and prescription drug benefits. The spouse of an eligible retiree is also eligible to receive benefits from this plan. Benefits continue for the lifetime of the retiree. Surviving spouses after 1996 are eligible for COBRA coverage for 36 months after the death of the retiree or until Medicare eligibility. As of July 1, 2010, the date of the last actuarial valuation of the plan, included 74 retirees, 266 active employees and 28 dependents, for a total of 368 participants.

The Board's benefit provisions are based on contractual agreements with employee groups. Employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teachers' pension system, which are age 55 with 15 years of service, 30 years of service or age 62 with 5 years of service. The Board is required to perform an actuarial valuation of its post-employment benefits other than pensions at least biennially. As of February 1, 2010, the date of the last actuarial valuation, approximately 227 retirees were receiving benefits, and an estimated 600 active employees are potentially eligible to receive future benefits. The Plan does not issue a stand alone report.

#### Funding Policy

The County's eligible employees and their dependents can elect coverage in the Plan. Pre-65 retirees pay the same percentage of the premiums charged as an active for both themselves and their dependents. Post-65 retirees pay 15% of the premiums charged for both themselves and their dependents. Surviving spouses must pay 100% of the premium to continue coverage. For fiscal year 2011, the County contributed \$477,397 to the plan for the eligible retirees.

The Board pays retiree healthcare premiums based on years-of-service ranging from \$2,801 for 15 years of service to \$3,534 for 30 plus years of service until the retiree reaches age 65 up to a maximum of \$4,513 per year based on years of service. The retiree pays the remaining premium, including the cost of eligible dependents. For fiscal year 2011, the Board contributed \$962,609 to the plan for 246 eligible retirees.

## NOTES TO FINANCIAL STATEMENTS

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

#### Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the County and Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County and Board's net OPEB obligation.

	<b>Board</b>	<b>County</b>
Annual required contribution	\$ 1,540,000	\$ 2,621,248
Interest on net OPEB obligation	32,000	22,640
Amortization of net OPEB obligation	-	(29,456)
Adjustment to annual required contribution	(30,000)	-
Annual OPEB cost (expense)	1,542,000	2,614,432
Contributions made	(962,609)	(477,397)
Increase (decrease) in net OPEB Obligation	579,391	2,137,035
Net OPEB obligation, beginning of year	1,045,440	452,807
Net OPEB obligation, end of year	\$ 1,624,831	\$ 2,589,842

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

#### County

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation / (Benefit)
2009	\$ 1,704,933	148.84%	\$ (832,633)
2010	1,704,933	24.60%	452,807
2011	2,614,432	18.26%	2,589,842

#### Board

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 1,174,000	66.42%	\$ 394,254
2010	1,469,000	55.67%	1,045,440
2011	1,542,000	65.53%	1,624,831

NOTES TO FINANCIAL STATEMENTS

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

**Funding Status and Funding Progress**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>County</b>							
2009	July 1, 2008	\$ -	\$ 15,302,442	\$ 15,302,442	0.0%	\$ 13,581,270	113%
2010	July 1, 2008	-	15,302,442	15,302,442	0.0%	13,581,270	113%
2011	July 1, 2010	2,216,702	24,831,086	22,614,384	8.9%	13,203,055	171%
<b>Board</b>							
2009	January 1, 2007	-	18,101,000	18,101,000	0.0%	29,061,884	62%
2010	February 1, 2010	-	23,385,000	23,385,000	0.0%	30,573,404	76%
2011	February 1, 2010	-	23,385,000	23,385,000	0.0%	30,573,404	76%

The increase in the Board's UAAL from the last study in the actuarial accrued liability of \$5,284,000 is due to changes in the fixed dollar subsidy, population growth, updated State retirement and pension system assumptions and a change in the medical trend assumptions.

The increase in the County's UAAL from the last study in the actuarial accrued liability of \$9,528,644 is due to changes in the discount rate from 7% to 5% and annual per capita cost assumptions were updated to reflect changes in plan experience.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the July 1, 2010 actuarial valuation of the County, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a funded rate of 5%; an annual healthcare cost trend of 8.58% initially, reduced by decrements to ultimate rate of 5.0%. Assets are valued at their market values. The UAAL is being amortized on a closed level dollar amortization over a 30 year period. The remaining amortization period at July 1, 2011 was 27 years.

## NOTES TO FINANCIAL STATEMENTS

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

In the February 1, 2010 actuarial valuation of the Board, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4 percent investment rate of return (net of administrative expenses) based on the Board's own investments; an annual healthcare cost trend rate of 8.3 percent initially, reduced by decrements to an ultimate rate of 6.7 percent after five years and an ultimate rate of 5.10% of medical and drug insurance and payroll growth of 4%. The UAAL is being amortized on a level of percentage of payroll basis over a 29 year period. The remaining amortization period at July 1, 2010 was 28 years.

### **Note 11. Deferred Compensation**

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

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

The County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. In accordance with GASB Statement No. 32, adopted by the County in 1998, the plan's assets are not reported on the combined balance sheet of the County. A summary of the activity in the plan is presented in the additional supplementary information for the year ended June 30, 2011.

### **Note 12. 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 \$11,240 each year for the next thirty years.

The Golden Hill landfill stopped accepting waste in 1991. The landfill has been capped and only has postclosure care costs associated with it, currently estimated to be approximately \$14,760 each year for the next thirty years.

The Old Beulah landfill stopped accepting waste in 1996. The cost to cap the landfill is expected to be approximately \$4,231,000. 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 \$20,680 each year for the next thirty years.

## NOTES TO FINANCIAL STATEMENTS

### Note 12. Landfill Closure and Postclosure Care Costs (continued)

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

<u>Secretary landfill</u>	
Postclosure care costs	\$ 337,200
<u>Golden Hill landfill</u>	
Postclosure care costs	442,800
<u>Old Beulah landfill</u>	
Closure costs	4,231,346
Postclosure care costs	620,400
	4,851,746
<u>New Beulah landfill - cells 1 - 4</u>	
Closure costs	2,752,739
Postclosure care costs	261,663
	3,014,402
Total closure and postclosure care costs	\$ 8,646,148

The above amounts are based on the current costs to perform all closure and postclosure care as of June 30, 2011. 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 \$10,405,000 of currently available assets for landfill closure and postclosure care costs. The shortfalls, if any, 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 approximately \$1,345,000 and \$128,000, respectively.

New Beulah landfill cell 3 was completed and began accepting waste in 2003. 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 approximately \$1,121,000 and \$107,000, respectively.

New Beulah landfill cell 4 was completed and began accepting waste in 2007. Accrual of closure and postclosure care costs have been recognized based on the estimated capacity used to date (51.26%). Total closure and postclosure care costs for Cell 4 are estimated to be approximately \$777,000 and \$74,000, respectively.

New Beulah landfill cell 5 was completed and began accepting waste in 2011. Accrual of closure and postclosure care costs have been recognized based on the estimated capacity used to date (1.61%). Total closure and postclosure care costs for Cell 5 are estimated to be approximately \$733,000 and \$70,000, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 13. 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.

##### Risk Management

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

### Note 13. Commitments and Contingencies (continued)

#### Board of Education of Dorchester County

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. In the opinion of the Board, there are no approved contracts that would have a material effect on the financial statements. The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2011 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 has active construction projects as of June 30, 2011. These projects are additions and/or renovations to school buildings. At June 30, 2011, the Board's commitments with contractors are as follows:

Projects	Expenditures to Date	Remaining Commitments
Dorchester School of Technology	\$ 25,200,817	\$ 3,799,305

#### Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In 1986, the Maryland Association of Boards of Education Group Insurance Pool (the "Pool") was formed when several Maryland boards of education joined together to pool their casualty risks. Property insurance coverage was added in 1988 and workers compensation in fiscal year 2000. The Board pays an annual premium to the Pool each year which is calculated by an actuary. It is intended that the Pool be self-sustaining through member premiums. Reinsurance is carried through commercial companies for claims which exceed coverage limits as specified in the agreement. Should the Pool encounter deficits in its casualty and/or property funds, such deficits may be made up from assessments of the participating boards on a pro rata basis.

The Board continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. The Board purchases health insurance from a provider through a modified retrospective rating arrangement agreement. Settled claims have not exceeded insurance coverage for each of the past three fiscal years.

In September 2001, the Board joined the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self-sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 16% as a recommended conservative reserve. As of February 28, 2011 the Board's funds held by ESMEC exceeded the recommended conservative reserve by \$4,124,437. All funds held by ESMEC are restricted to being used only for health care expenses.

## NOTES TO FINANCIAL STATEMENTS

### Note 13. Commitments and Contingencies (continued)

#### 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 \$8,421.

### Note 14. Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended June 30, 2011.

Fund	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
Special Revenue Grants	\$ 1,895,309	\$ 6,435,624	\$ 4,540,315
Transfer Tax	634,454	737,519	103,065

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**DORCHESTER COUNTY, MARYLAND**  
**REVENUE AND EXPENDITURES DETAIL**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property taxes	\$ 29,938,117	\$ 29,938,117	\$ 29,425,126	\$ (512,991)
Income taxes	8,600,000	8,600,000	9,880,600	1,280,600
Other taxes	2,269,386	2,269,386	2,176,349	(93,037)
<b>Total taxes</b>	<b>40,807,503</b>	<b>40,807,503</b>	<b>41,482,075</b>	<b>674,572</b>
Licenses and permits	219,025	219,025	221,392	2,367
Intergovernmental:				
Federal	106,893	106,893	150,778	43,885
State	3,042,842	3,042,842	3,006,995	(35,847)
Service charges	2,340,741	2,350,971	1,998,138	(352,833)
Miscellaneous	346,266	346,566	512,389	165,823
<b>Total revenues</b>	<b>46,863,270</b>	<b>46,873,800</b>	<b>47,371,767</b>	<b>497,967</b>
<b>EXPENDITURES:</b>				
General government				
County council				
Operating personnel	255,377	255,377	265,411	(10,034)
Other	46,670	46,670	25,503	21,167
	302,047	302,047	290,914	11,133
Circuit court				
Operating personnel	92,303	92,303	92,795	(492)
Other	67,540	67,540	71,306	(3,766)
	159,843	159,843	164,101	(4,258)
Orphan's court				
Operating personnel	14,100	14,100	14,100	-
Other	7,029	7,029	6,913	116
	21,129	21,129	21,013	116
State's attorney				
Operating personnel	601,698	601,698	597,378	4,320
Other	118,716	118,716	96,233	22,483
	720,414	720,414	693,611	26,803
Elections				
Operating personnel	28,600	28,600	26,312	2,288
Other	497,056	497,056	437,153	59,903
	525,656	525,656	463,465	62,191
Finance & treasurer				
Operating personnel	386,334	386,334	393,342	(7,008)
Other	103,994	107,974	108,470	(496)
	490,328	494,308	501,812	(7,504)

**DORCHESTER COUNTY, MARYLAND**  
**REVENUE AND EXPENDITURES DETAIL**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**Year Ended June 30, 2011**  
**(continued)**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
General government (continued)				
Human resources				
Operating personnel	\$ 51,383	\$ 51,383	\$ 51,392	\$ (9)
Other	36,150	36,150	15,234	20,916
	<u>87,533</u>	<u>87,533</u>	<u>66,626</u>	<u>20,907</u>
Information technology				
Operating personnel	163,055	163,055	163,086	(31)
Other	59,565	59,565	54,710	4,855
	<u>222,620</u>	<u>222,620</u>	<u>217,796</u>	<u>4,824</u>
Other general government				
Operating personnel	39,236	39,236	36,929	2,307
Other	425,632	425,632	389,759	35,873
	<u>464,868</u>	<u>464,868</u>	<u>426,688</u>	<u>38,180</u>
Planning and zoning				
Operating personnel	437,762	437,762	486,033	(48,271)
Other	105,467	105,467	53,294	52,173
	<u>543,229</u>	<u>543,229</u>	<u>539,327</u>	<u>3,902</u>
Maintenance				
Operating personnel	157,640	157,640	143,158	14,482
Other	145,975	145,975	140,137	5,838
	<u>303,615</u>	<u>303,615</u>	<u>283,295</u>	<u>20,320</u>
<b>Total general government</b>	<u>3,841,282</u>	<u>3,845,262</u>	<u>3,668,648</u>	<u>176,614</u>
Public safety				
Sheriff				
Operating personnel	1,860,624	1,860,624	1,966,998	(106,374)
Other	590,070	590,070	565,502	24,568
	<u>2,450,694</u>	<u>2,450,694</u>	<u>2,532,500</u>	<u>(81,806)</u>
Volunteer fire and life support				
Other	745,962	745,962	696,541	49,421
	<u>745,962</u>	<u>745,962</u>	<u>696,541</u>	<u>49,421</u>
EMS				
Operating personnel	1,727,714	1,733,964	1,806,053	(72,089)
Other	625,894	626,194	526,558	99,636
	<u>2,353,608</u>	<u>2,360,158</u>	<u>2,332,611</u>	<u>27,547</u>
Detention center				
Operating personnel	2,219,136	2,219,136	2,238,385	(19,249)
Other	1,363,100	1,363,100	1,230,710	132,390
	<u>3,582,236</u>	<u>3,582,236</u>	<u>3,469,095</u>	<u>113,141</u>

**DORCHESTER COUNTY, MARYLAND**  
**REVENUE AND EXPENDITURES DETAIL**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**Year Ended June 30, 2011**  
**(continued)**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (continued)				
911 emergency communications				
Operating personnel	\$ 669,961	\$ 669,961	\$ 657,026	\$ 12,935
Other	506,387	506,387	416,568	89,819
	<u>1,176,348</u>	<u>1,176,348</u>	<u>1,073,594</u>	<u>102,754</u>
Emergency management				
Operating personnel	43,632	43,632	52,215	(8,583)
Other	33,402	33,402	27,592	5,810
	<u>77,034</u>	<u>77,034</u>	<u>79,807</u>	<u>(2,773)</u>
Animal control				
Operating personnel	55,048	55,048	62,623	(7,575)
Other	114,855	114,855	43,123	71,732
	<u>169,903</u>	<u>169,903</u>	<u>105,746</u>	<u>64,157</u>
Total public safety	<u>10,555,785</u>	<u>10,562,335</u>	<u>10,289,894</u>	<u>272,441</u>
Social services				
Youth services				
Operating personnel	195,836	195,836	224,255	(28,419)
Other	21,458	21,458	12,496	8,962
	<u>217,294</u>	<u>217,294</u>	<u>236,751</u>	<u>(19,457)</u>
Other				
Other	260,307	260,307	278,042	(17,735)
	<u>260,307</u>	<u>260,307</u>	<u>278,042</u>	<u>(17,735)</u>
Total social services	<u>477,601</u>	<u>477,601</u>	<u>514,793</u>	<u>(37,192)</u>
Public works				
Highways & streets				
Operating personnel	1,445,654	1,445,654	1,284,570	161,084
Other	2,347,071	2,347,071	2,230,572	116,499
	<u>3,792,725</u>	<u>3,792,725</u>	<u>3,515,142</u>	<u>277,583</u>
Engineering				
Operating personnel	111,746	111,746	127,969	(16,223)
Other	13,800	13,800	9,426	4,374
	<u>125,546</u>	<u>125,546</u>	<u>137,395</u>	<u>(11,849)</u>
Total public works	<u>3,918,271</u>	<u>3,918,271</u>	<u>3,652,537</u>	<u>265,734</u>
Miscellaneous				
Other	5,749,538	5,749,538	5,500,182	249,356
Total miscellaneous	<u>5,749,538</u>	<u>5,749,538</u>	<u>5,500,182</u>	<u>249,356</u>

**DORCHESTER COUNTY, MARYLAND**  
**REVENUE AND EXPENDITURES DETAIL**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**Year Ended June 30, 2011**  
**(continued)**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Recreation and parks				
Recreation and parks				
Operating personnel	\$ 353,433	\$ 348,933	\$ 321,494	\$ 27,439
Other	151,600	156,100	151,588	4,512
Total recreation and parks	505,033	505,033	473,082	31,951
Natural resources				
Cooperative extension service				
Other	140,000	140,000	140,000	-
	140,000	140,000	140,000	-
Other				
Operating personnel	230,606	230,606	240,905	(10,299)
Other	23,543	23,543	14,300	9,243
	254,149	254,149	255,205	(1,056)
Total natural resources	394,149	394,149	395,205	(1,056)
Economic development				
Economic development				
Operating personnel	137,003	137,003	135,296	1,707
Other	135,174	85,697	53,361	32,336
	272,177	222,700	188,657	34,043
Other				
Other	21,405	21,405	21,405	-
	21,405	21,405	21,405	-
Tourism				
Operating personnel	102,016	112,016	113,680	(1,664)
Other	107,540	97,540	178,213	(80,673)
	209,556	209,556	291,893	(82,337)
Total economic development	503,138	453,661	501,955	(48,294)
Education				
Board of Education	17,929,545	17,929,545	17,929,545	-
Chesapeake College	1,276,546	1,276,546	1,276,546	-
Total education	19,206,091	19,206,091	19,206,091	-
Debt service				
Principal	3,094,681	3,094,681	3,163,277	(68,596)
Interest	1,024,952	1,024,952	1,025,765	(813)
Capital outlay	-	-	23,947	(23,947)
Total expenditures	49,270,521	49,231,574	48,415,376	816,198
Excess (deficiency) of revenues over expenditures	(2,407,251)	(2,357,774)	(1,043,609)	1,314,165

**DORCHESTER COUNTY, MARYLAND**  
**REVENUE AND EXPENDITURES DETAIL**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**Year Ended June 30, 2011**  
(continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>OTHER FINANCING SOURCES (USES):</b>				
Increase in pension liability	\$ (36,284)	\$ (36,284)	\$ 14,506	\$ 50,790
Interest and dividend	21,039	21,039	18,420	(2,619)
Transfers, net	2,422,496	2,373,019	(526,099)	(2,899,118)
Total other financing sources (uses)	2,407,251	2,357,774	(493,173)	(2,850,947)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (1,536,782)	\$ (1,536,782)

**DORCHESTER COUNTY, MARYLAND**  
**REVENUE AND EXPENDITURES DETAIL**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE - GRANTS FUND**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
<b>REVENUES:</b>				
Intergovernmental Federal	\$ 14,000	\$ 14,000	\$ 3,963,677	\$ 3,949,677
Intergovernmental state	1,831,309	1,831,309	2,388,126	556,817
Miscellaneous	-	-	25,773	25,773
Total revenues	1,845,309	1,845,309	6,377,576	4,532,267
<b>EXPENDITURES:</b>				
General government				
Salaries	-	-	37,515	(37,515)
Other	-	-	28,291	(28,291)
Total general government	-	-	65,806	(65,806)
Public safety				
Salaries	-	-	97,802	(97,802)
Other	45,500	45,500	239,963	(194,463)
Total public safety	45,500	45,500	337,765	(292,265)
Social services				
Salaries	269,116	269,116	228,248	40,868
Other	1,308,193	1,308,193	1,611,976	(303,783)
Total social services	1,577,309	1,577,309	1,840,224	(262,915)
Recreation and parks				
Salaries	28,200	28,200	46,189	(17,989)
Other	25,300	25,300	46,969	(21,669)
Total recreation and parks	53,500	53,500	93,158	(39,658)
Natural resources				
Salaries	34,837	34,837	13,580	21,257
Other	4,163	4,163	25,530	(21,367)
Total natural resources	39,000	39,000	39,110	(110)
Economic development				
Salaries	-	-	67,388	(67,388)
Other	180,000	180,000	191,661	(11,661)
Total economic development	180,000	180,000	259,049	(79,049)
Public works				
Salaries	-	-	24,903	(24,903)
Other	-	-	1,669,888	(1,669,888)
Total public works	-	-	1,694,791	(1,694,791)
Capital outlay	-	-	2,105,721	(2,105,721)
Total expenditures	1,895,309	1,895,309	6,435,624	(4,540,315)
Excess (deficiency) of revenues over expenditures	(50,000)	(50,000)	(58,048)	(8,048)

**DORCHESTER COUNTY, MARYLAND**  
**REVENUE AND EXPENDITURES DETAIL**  
**BUDGET AND ACTUAL**  
**SPECIAL REVENUE - GRANTS FUND**  
**Year Ended June 30, 2011**  
**(continued)**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>OTHER FINANCING SOURCES (USES):</b>				
Interest and dividend received	\$ -	\$ -	\$ 1,383	\$ 1,383
Transfers in	50,000	50,000	50,000	-
Total other financing sources (uses)	50,000	50,000	51,383	1,383
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (6,665)	\$ (6,665)

**DORCHESTER COUNTY, MARYLAND**

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	15,302,442	15,302,442	0.0%	13,581,270	113%
2010	July 1, 2008	-	15,302,442	15,302,442	0.0%	13,581,270	113%
2011	July 1, 2010	2,216,702	24,831,086	22,614,384	8.9%	13,203,055	171%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 1,704,933	148.84%	\$(832,633)
2010	1,704,933	24.60%	452,807
2011	2,614,432	18.26%	2,589,842

**ADDITIONAL SUPPLEMENTARY INFORMATION**

**DORCHESTER COUNTY, MARYLAND**

**REVENUE AND EXPENDITURE DETAIL  
BUDGET AND ACTUAL  
TRANSFER TAX FUND  
Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>REVENUES:</b>				
County transfer tax	\$ 634,454	\$ 634,454	\$ 805,494	\$ 171,040
<b>EXPENDITURES:</b>				
General government				
Salaries/other	76,894	76,894	69,901	6,993
Other expenses	138,000	138,000	176,564	(38,564)
Total general government	214,894	214,894	246,465	(31,571)
Public safety				
Salaries/other	247,129	247,129	252,697	(5,568)
Other expenses	-	-	32,560	(32,560)
Total public safety	247,129	247,129	285,257	(38,128)
<b>EDUCATION</b>				
	-	-	33,366	(33,366)
Debt service:				
Principal	152,075	152,075	152,075	-
Interest	20,356	20,356	20,356	-
Total expenditures	634,454	634,454	737,519	(103,065)
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ 67,975	\$ 67,975

**DORCHESTER COUNTY, MARYLAND**  
**REVENUE AND EXPENDITURE DETAIL**  
**BUDGET AND ACTUAL**  
**CAPITAL FUND**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
<b>REVENUES:</b>				
Emergency Numbers Systems Board	\$ -	\$ -	\$ 1,179,867	\$ 1,179,867
Intergovernmental:				
Federal	-	-	2,394,574	2,394,574
Total revenues	-	-	3,574,441	3,574,441
<b>EXPENDITURES:</b>				
Current:				
Public Safety	-	-	258,611	(258,611)
Economic development	2,000,000	2,000,000	-	2,000,000
Education	47,000	47,000	5,757,687	(5,710,687)
Public works	40,000	40,000	265	39,735
Miscellaneous	-	-	28,908	(28,908)
Capital outlay	-	-	4,830,833	(4,830,833)
Total expenditures	2,087,000	2,087,000	10,876,304	(8,789,304)
Excess (deficiency) of revenues over expenditures	(2,087,000)	(2,087,000)	(7,301,863)	(5,214,863)
<b>OTHER FINANCING SOURCES (USES):</b>				
Note proceeds	2,000,000	2,000,000	38,380	(1,961,620)
Donated assets	40,000	40,000	34,301	(5,699)
Interest	-	-	14,892	14,892
Operating transfers in	47,000	47,000	96,477	49,477
Total other financing sources (uses)	2,087,000	2,087,000	184,050	(1,902,950)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (7,117,813)	\$ (7,117,813)

**DORCHESTER COUNTY, MARYLAND**

**STATEMENT OF REVENUES AND EXPENSES**

**BUDGET AND ACTUAL**

**AIRPORT ENTERPRISE FUND**

**Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
<b>OPERATING REVENUES:</b>				
Fuel sales	\$ 397,500	\$ 397,500	\$ 264,056	\$ (133,444)
Hanger and tie-down rentals	180,000	180,000	182,222	2,222
Other	10,000	10,000	13,909	3,909
<b>Total operating revenues</b>	<b>587,500</b>	<b>587,500</b>	<b>460,187</b>	<b>(127,313)</b>
<b>OPERATING EXPENSES:</b>				
Salaries and related taxes	207,764	207,764	200,654	7,110
Repairs and maintenance	2,877,654	2,877,654	38,494	2,839,160
Rental of land, buildings and equipment	13,200	13,200	13,200	-
Fuel	246,000	246,000	199,610	46,390
Utilities	87,140	87,140	93,042	(5,902)
Depreciation	250,000	250,000	257,002	(7,002)
Other operating	34,955	34,955	34,089	866
<b>Total operating expenses</b>	<b>3,716,713</b>	<b>3,716,713</b>	<b>836,091</b>	<b>2,880,622</b>
<b>Net operating income (loss)</b>	<b>(3,129,213)</b>	<b>(3,129,213)</b>	<b>(375,904)</b>	<b>2,753,309</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Grants - Federal government	-	-	188,271	188,271
Grants - state government	2,771,052	2,771,052	4,955	(2,766,097)
Interest expense	(21,461)	(21,461)	(17,465)	3,996
<b>Total non-operating revenues (expenses)</b>	<b>2,749,591</b>	<b>2,749,591</b>	<b>175,761</b>	<b>(2,573,830)</b>
Income (loss) before transfers	(379,622)	(379,622)	(200,143)	179,479
Operating transfers	379,622	379,622	379,622	-
<b>Change in net assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 179,479</b>	<b>\$ 179,479</b>

**DORCHESTER COUNTY, MARYLAND**  
**STATEMENT OF REVENUES AND EXPENSES**  
**BUDGET AND ACTUAL**  
**LANDFILL ENTERPRISE FUND**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
<b>OPERATING REVENUES:</b>				
Tipping fees	\$ 2,748,271	\$ 2,748,271	\$ 2,272,055	\$ (476,216)
Permits	90,000	90,000	95,745	5,745
Other	5,156,000	5,156,000	256,199	(4,899,801)
<b>Total operating revenues</b>	<b>7,994,271</b>	<b>7,994,271</b>	<b>2,623,999</b>	<b>(5,370,272)</b>
<b>OPERATING EXPENSES:</b>				
Salaries and related taxes	1,128,271	1,128,271	1,076,844	51,427
Repairs and maintenance	272,000	272,000	291,458	(19,458)
Rental of land, buildings and equipment	57,000	57,000	48,261	8,739
Fuel	150,000	150,000	168,451	(18,451)
Closure and postclosure costs accrual	624,000	624,000	325,640	298,360
Utilities	16,500	16,500	16,419	81
Depreciation	580,000	580,000	808,096	(228,096)
Other operating	5,186,500	5,186,500	66,333	5,120,167
<b>Total operating expenses</b>	<b>8,014,271</b>	<b>8,014,271</b>	<b>2,801,502</b>	<b>5,212,769</b>
<b>Net operating income (loss)</b>	<b>(20,000)</b>	<b>(20,000)</b>	<b>(177,503)</b>	<b>(157,503)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Interest income	20,000	20,000	59,582	39,582
<b>Total non-operating revenues (expenses)</b>	<b>20,000</b>	<b>20,000</b>	<b>59,582</b>	<b>39,582</b>
<b>Change in net assets</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (117,921)</b>	<b>\$ (117,921)</b>

**DORCHESTER COUNTY, MARYLAND**

**COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS**

**June 30, 2011**

	Other Governmental Funds			
	Building Excise Tax Fund	Transfer Tax Fund	Commissary Fund	Total
<b>ASSETS</b>				
Cash and investments	\$ 1,791,468	\$ -	\$ 38,611	\$ 1,830,079
Accounts receivable	-	135,382	-	135,382
Interfund receivables	-	1,903,004	-	1,903,004
<b>Total assets</b>	<b>\$ 1,791,468</b>	<b>\$ 2,038,386</b>	<b>\$ 38,611</b>	<b>\$ 3,868,465</b>
<b>LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 222,619	\$ 14,804	\$ -	\$ 237,423
Deferred revenues	-	-	38,611	38,611
Interfund payables	4,213	-	-	4,213
<b>Total liabilities</b>	<b>226,832</b>	<b>14,804</b>	<b>38,611</b>	<b>280,247</b>
<b>FUND BALANCES</b>				
Committed for:				
Schools and courthouse	1,287,123	2,023,582	-	3,310,705
Public safety communication system	142,288	-	-	142,288
Sheriff	135,225	-	-	135,225
<b>Total fund equity</b>	<b>1,564,636</b>	<b>2,023,582</b>	<b>-</b>	<b>3,588,218</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,791,468</b>	<b>\$ 2,038,386</b>	<b>\$ 38,611</b>	<b>\$ 3,868,465</b>

**DORCHESTER COUNTY, MARYLAND**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
Year Ended June 30, 2011**

	Other Governmental Funds			Total
	Building Excise Tax Fund	Transfer Tax Fund	Commissary Fund	
<b>REVENUES</b>				
Taxes	\$ 237,760	\$ 805,494	\$ -	\$ 1,043,254
Miscellaneous	-	-	90,553	90,553
Total revenues	237,760	805,494	90,553	1,133,807
<b>EXPENDITURES</b>				
General government	-	246,465	90,553	337,018
Public safety	-	285,257	-	285,257
Education	222,619	33,366	-	255,985
Debt service:				-
Principal	-	152,075	-	152,075
Interest	-	20,356	-	20,356
Total expenditures	222,619	737,519	90,553	1,050,691
Excess (deficiency) of revenues over expenditures	15,141	67,975	-	83,116
<b>OTHER FINANCING SOURCES:</b>				
Interest and dividend received	4,151	-	-	4,151
Total other financing sources	4,151	-	-	4,151
Excess (deficiency) of revenues and other financing sources over expenditures	19,292	67,975	-	87,267
Fund balances, beginning of year	1,545,344	1,955,607	-	3,500,951
Fund balances, end of year	\$ 1,564,636	\$ 2,023,582	\$ -	\$ 3,588,218

**DORCHESTER COUNTY, MARYLAND**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
DEFERRED COMPENSATION PLAN  
Year Ended June 30, 2011**

	Balances, June 30, <u>2010</u>	Employee <u>Contributions</u>	Earnings on <u>Investments</u>	<u>Distributions</u>	<u>Gains/Losses</u>	Balances, June 30, <u>2011</u>
Assets:						
Investments	\$ 1,287,147	\$ 221,997	\$ 119,261	\$ (248,271)	\$ 44,060	\$ 1,424,194
Liabilities:						
Due to participants	\$ 1,287,147	\$ 221,997	\$ 119,261	\$ (248,271)	\$ 44,060	\$ 1,424,194

**DORCHESTER COUNTY, MARYLAND**  
**SCHEDULE OF REVENUES AND EXPENDITURES -**  
**AS REQUIRED BY THE GOC FOR LMB OFFICES**  
**ON BEHALF OF THE CHILDREN'S CABINET**  
**Year Ended June 30, 2011**

**REVENUES**

Intergovernmental:	
State	\$ 374,272
<b>Total GOC revenues</b>	<b>374,272</b>

**EXPENDITURES**

Public safety	
Substance abuse prevention	19,450
<b>Total public safety</b>	<b>19,450</b>
Social services	
After school program	9,874
Youth services bureau	66,030
School based behavioral health	80,000
Teen pregnancy	50,000
Administration	65,000
<b>Total social services</b>	<b>270,904</b>
Recreation and parks	
After school program - Quest	74,945
<b>Total recreation and parks</b>	<b>74,945</b>
<b>Total GOC expenditures</b>	<b>365,299</b>
<b>Excess (deficiency) of GOC revenues over expenditures</b>	<b>\$ 8,973</b>

This schedule represents the GOC monies recorded within the Special Revenue Grants Fund reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds page 23 of these financial statements.