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

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
WITH
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2004

The County Commissioners for St. Mary's County, Maryland

June 30, 2004

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The County Commissioners for St. Mary's County

June 30, 2004

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Independent Auditor's Report

County Commissioners for St. Mary's County, Maryland
Leonardtown, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2004, which collectively comprise the County Commissioners for St. Mary's County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's Commissioners for St. Mary's County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of St. Mary's County, Maryland, which represents 36% of the assets and 45% of the revenues of the total reporting entity. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions on the financial statements, insofar as they relate to the amounts included for the Board of Education of St. Mary's County, Maryland, is based solely on the report of the other auditors.

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

In our opinion, based on our audit and the report of the 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 fiduciary fund activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of June 30, 2004, 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 report dated December 3, 2004, on our consideration of the County Commissioners for St. Mary's County, Maryland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The management's discussion and analysis, the statement of revenues, expenditures, encumbrances and other financing sources and uses – budget (NON-GAAP) basis and actual – general fund, and the schedules of employer contributions and funding progress for the Sheriff's Office Retirement Plan are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County Commissioners for St. Mary's County, Maryland's, basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedule of revenues and other financing sources budgetary (Non-GAAP) basis and actual general fund presented on pages 103 and 104, and the schedule of expenditures and other financing uses budgetary (Non-GAAP) basis and actual general fund presented on pages 105 through 109 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

La Plata, Maryland
December 3, 2004

Murphy + Murphy, CPA, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Annual Financial Report of St. Mary's County, Maryland presents a narrative overview and analysis of the financial activities of St. Mary's County Government for the fiscal year ended June 30, 2004. We encourage readers to use the information presented here in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

- The assets of St. Mary's County Government exceeded its liabilities at the close of the most recent fiscal year by \$114.9 million (*net assets*). Approximately \$2.5 million, or approximately 2%, is attributable to the County's enterprise funds, which include business-type activities for medical adult daycare services, recreation and parks and the Wicomico Golf Course. Approximately 15.4% of the total net assets, or \$17.7 million (*unrestricted net assets*) may be used to meet ongoing obligations to citizens and creditors. Virtually all of the unrestricted net assets are related to governmental activities. The unrestricted net assets for the enterprise funds total \$1,180, reflecting principally the net effect of the accumulated deficit for medical adult daycare services offset by the positive net assets for the recreation and park-related enterprise activities. Other components of the net assets are \$26.5 million of restricted net assets and approximately \$70.6 million of net investment in capital assets. The net investment in capital assets represents the capitalized assets, net of accumulated depreciation and outstanding debt.
- The Government's overall net asset position reflects an increase of \$28.6 million over the prior year.
- As of June 30, 2004, the County's governmental funds reported combined fund balances of \$46.9 million, an increase of \$28.1 million over the prior year. The capital projects fund reflected an increase of \$19.9 million, while the general fund and the non-major funds posted an increase of \$8.6 million and a decrease of \$.4 million, respectively. The County's governmental fund balances at June 30, 2004 include \$27 million for capital projects, \$22.5 million in general funds, and a deficit of \$2.6 million in other non-major funds. The general fund balance includes approximately \$.8 million that is reserved, the largest components of which are encumbrances and inventory. In addition, the general funds reflect designations of approximately \$11.2 million, including a bond rating reserve of \$8.2 million and a Rainy Day Fund of \$1 million. The balance has been designated for other purposes, including use in the 2005 budget. The County's undesignated fund balance is approximately \$10.5 million. The non-major funds are special purpose funds that correspond to special assessments and a revolving loan fund set up to assist volunteer fire and rescue squads in their acquisition of capital assets, including rolling stock and buildings. These funds, by design, require the expenditures to be incurred by the County and then are reimbursed by various entities pursuant to written agreements over varying periods of time, which correspond to the underlying asset. These funds reflect deficits that increase when loans are extended, as they were during FY2004, and decrease, ultimately netting to zero, as repayments are received. The increase in the capital projects fund balance is attributable to the sale early in FY2004 of general obligation bonds to finance already incurred as well as future capital project expenditures, as identified in the project budgets and in the bond resolution.
- The business-type operating activities reflect a net decrease in net assets of \$54,803, which is comprised of an increase in net assets attributable to the Wicomico Golf Course of approximately \$95,002, offset by losses in both the recreation activities and the adult daycare services. The recreation activities are intended to function at a near break-even, though individual years do vary. FY2004 included the start-up of the indoor swimming pool, which was anticipated to incur a deficit in the early years, but to ultimately become a break-even operation. Generally, the activity fees are developed based on a break-even philosophy and the estimated level of

participation in the numerous individual programs and activities. The medical adult daycare fund reflected a decrease in net assets of \$78,805, compared to a decrease in FY2003 of \$135,775. This improved operation reflects efforts by the Department on Aging to improve the operation of the daycare activities with the goal of break-even. Wicomico Golf Course's operating income in FY2004 was almost double the FY2003 results, largely because FY2003 reflected a lower than typical number of rounds played, presumably due to difficult weather conditions throughout the fiscal year.

- At June 30, 2004, unreserved fund balance for the general fund (primary operating fund) was \$21.7 million, or 16.9% of general fund expenditures, excluding pass-throughs. Designated fund balance of the general fund was \$11.2 million, or 51.5% of unreserved fund balance.
- St. Mary's County Government's total general obligation indebtedness, including general obligation bonds and Water Quality loans, increased by \$12.6 million during the fiscal year ended June 30, 2004. Principal activities were a new bond issue, including a refunding, which was a net increase of \$23 million in September 2003; exempt financing for equipment of \$1 million; additional Water Quality loan borrowings of \$548,000, reduced by principal repayments of \$7.6 million. In addition, the FY2004 financial statements reflect a reduction to the liability recognized in prior years for landfill closure costs. This reduction of \$4.75 million results from the County's action during FY2004 to cap the landfill, reducing the exposure reflected as a liability.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to St. Mary's County Government's basic financial statements. St. Mary's County Government's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required and non-required supplementary information in addition to the basic financial statements themselves.

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

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

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

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

The government-wide financial statements include not only St. Mary's County Government itself (known as the *primary government*), but also legally separate component units. St. Mary's County Government has the following component units: St. Mary's County Board of Education, St. Mary's County Board of Library Trustees, the Metropolitan Commission, and the Building Authority. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The government-wide financial statements can be found on pages 13 to 16 of this report.

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

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

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

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

St. Mary's County Government adopts an annual appropriated budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund, the County's primary fund. The basic governmental fund financial statements can be found on pages 17 to 19 of this report.

Proprietary funds: Proprietary funds, also known as *Enterprise funds*, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. St. Mary's County Government uses enterprise funds to account for its Medical Adult Daycare Services as well as the Wicomico Golf Course and fee-based Recreation Activities. The proprietary fund financial statements can be found on pages 20 to 22 of this report.

Fiduciary funds: Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support St. Mary's County Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 23 and 24 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are part of the basic financial statements and can be found on pages 25 to 98 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning St. Mary's County Government's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 99 and 100 of this report. Other supplementary information can be found on pages 101 to 111.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's overall financial condition and position. In the case of St. Mary's County, assets exceeded liabilities by \$114.9 million at the close of the current fiscal year. St. Mary's County Government's net assets are divided into three categories: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Approximately 61.5% of the County's net assets reflect its investment in capital assets net of depreciation (e.g. land and easements, buildings, machinery, equipment, infrastructure and improvements), less any unmatured debt used to acquire those assets. The County uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Restricted net assets represent 23% of total net assets. Restricted net assets are resources that are subject to external restrictions on how they may be used. Unrestricted net assets of the government have a balance of \$17.7 million (15.5% of total net assets) which may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, the unrestricted net assets for business-type activities have a balance of \$2.5 million.

ST. MARY'S COUNTY GOVERNMENT'S NET ASSETS

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|---|--------------------------------|----------------------|---------------------------------|--------------------|----------------------|----------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| ASSETS | | | | | | |
| Current Assets | \$72,404,151 | \$48,539,398 | \$715,777 | \$580,404 | \$73,119,928 | \$49,119,802 |
| Other Non-Current Assets | 29,126,098 | 30,705,654 | 0 | 0 | 29,126,098 | 30,705,654 |
| Capital Assets, net of accumulated depreciation | <u>178,269,997</u> | <u>165,043,311</u> | <u>2,610,859</u> | <u>2,534,352</u> | <u>180,880,856</u> | <u>167,577,663</u> |
| Total Assets | <u>279,800,246</u> | <u>244,288,363</u> | <u>3,326,636</u> | <u>3,114,756</u> | <u>283,126,882</u> | <u>247,403,119</u> |
| LIABILITIES | | | | | | |
| Current Liabilities | 29,064,716 | 32,881,688 | 714,597 | 608,331 | 29,779,313 | 33,490,019 |
| Non-current Liabilities | <u>138,327,914</u> | <u>127,625,981</u> | <u>160,417</u> | <u>0</u> | <u>138,488,331</u> | <u>127,625,981</u> |
| Total Liabilities | <u>167,392,630</u> | <u>160,507,669</u> | <u>875,014</u> | <u>608,331</u> | <u>168,267,644</u> | <u>161,116,000</u> |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | 68,195,891 | 67,418,795 | 2,450,442 | 2,534,352 | 70,646,333 | 69,953,147 |
| Restricted | 26,502,037 | 6,152,493 | 0 | 0 | 26,502,037 | 6,152,493 |
| Unrestricted | <u>17,709,688</u> | <u>10,209,406</u> | <u>1,180</u> | <u>(27,927)</u> | <u>17,710,868</u> | <u>10,181,479</u> |
| Total Net Assets | <u>112,407,616</u> | <u>83,780,694</u> | <u>2,451,622</u> | <u>2,506,425</u> | <u>114,859,238</u> | <u>86,287,119</u> |
| Total Liabilities and Net Assets | <u>\$279,800,246</u> | <u>\$244,288,363</u> | <u>\$3,326,636</u> | <u>\$3,114,756</u> | <u>\$283,126,882</u> | <u>\$247,403,119</u> |

At June 30, 2004, St. Mary's County Government is able to report positive balances in all three categories of net assets as a whole.

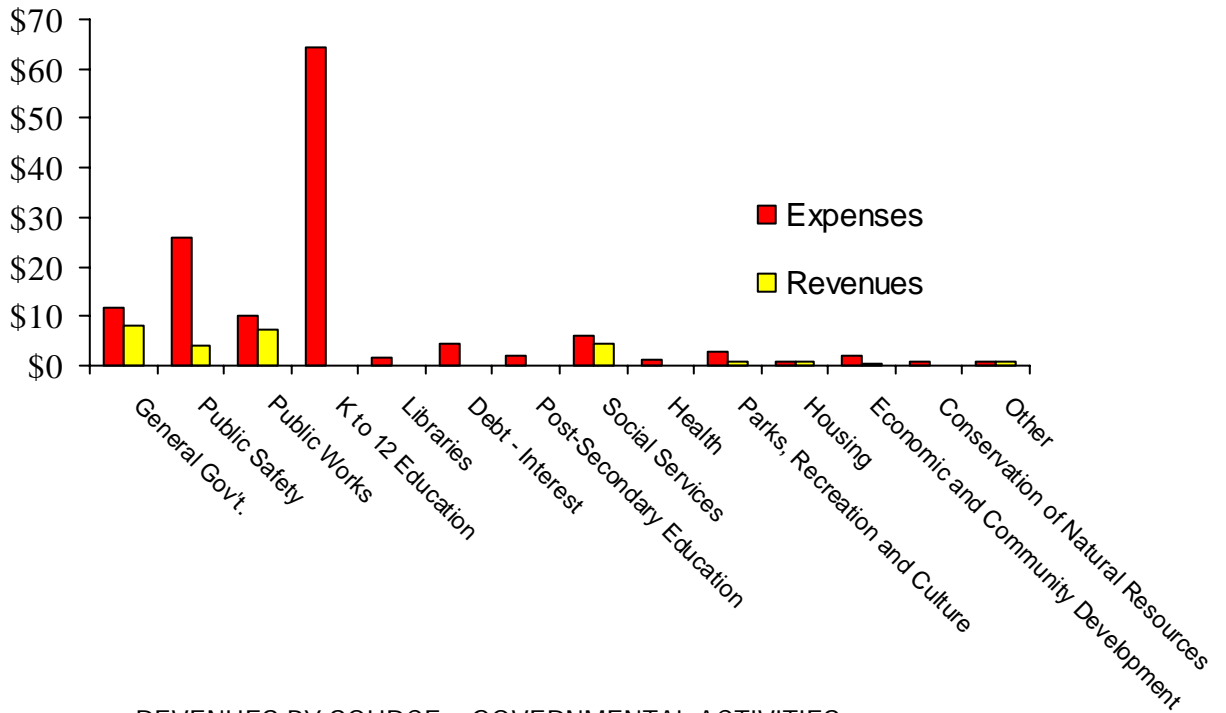
The following table indicates the changes in net assets for governmental and business-type activities:

ST. MARY'S COUNTY GOVERNMENT'S CHANGES IN NET ASSETS
Year Ended June 30

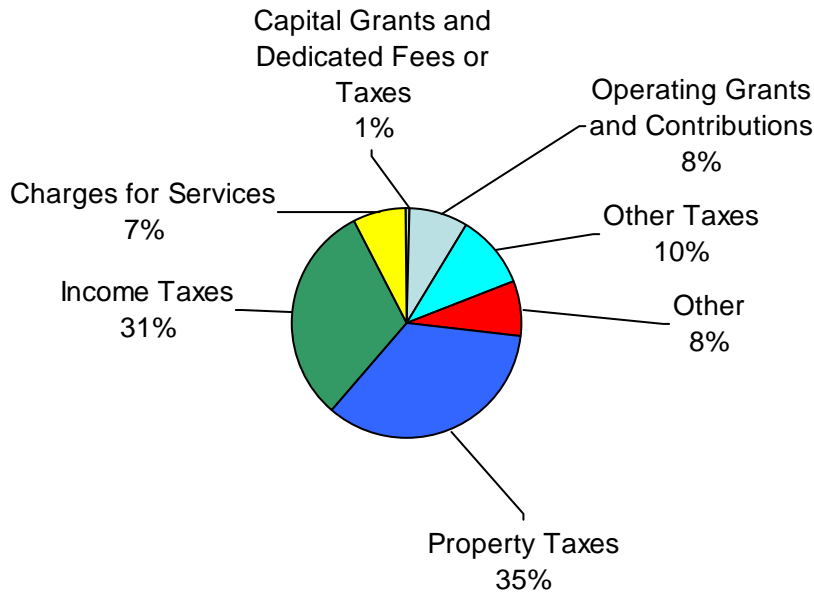
| | <u>Governmental Activities</u> | | <u>Business -Type Activities</u> | | <u>Total</u> | |
|--|--------------------------------|---------------------|----------------------------------|--------------------|----------------------|---------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Program Revenues: | | | | | | |
| Charges for Services | \$12,106,719 | \$8,738,802 | \$4,068,931 | \$3,822,560 | \$16,175,650 | \$12,561,362 |
| Operating Grants and Contributions | 13,737,746 | 13,087,654 | 0 | 0 | 13,737,746 | 13,087,654 |
| Capital Grants and Dedicated Fees or Taxes | 951,002 | 3,431,289 | 0 | 0 | 951,002 | 3,431,289 |
| General Revenues: | | | | | | |
| Property Taxes | 56,179,450 | 53,661,892 | 0 | 0 | 56,179,450 | 53,661,892 |
| Income Taxes | 51,352,963 | 43,748,902 | 0 | 0 | 51,352,963 | 43,748,902 |
| Other Taxes | 16,650,367 | 14,373,018 | 0 | 0 | 16,650,367 | 14,373,018 |
| Investment Earnings | 348,710 | 330,973 | 4,578 | 11,294 | 353,288 | 342,267 |
| Miscellaneous | <u>12,219,470</u> | <u>5,169,231</u> | <u>0</u> | <u>0</u> | <u>12,219,470</u> | <u>5,169,231</u> |
| Total Revenues | <u>163,546,427</u> | <u>142,541,761</u> | <u>4,073,509</u> | <u>3,833,854</u> | <u>167,619,936</u> | <u>146,375,615</u> |
| Program Expenses: | | | | | | |
| General | | | | | | |
| Government | 11,595,951 | 11,509,106 | 0 | 0 | 11,595,951 | 11,509,106 |
| Public Safety | 25,949,377 | 10,982,635 | 0 | 0 | 25,949,377 | 10,982,635 |
| Public Works | 10,065,172 | 11,978,257 | 0 | 0 | 10,065,172 | 11,978,257 |
| Health | 1,151,286 | 1,234,300 | 0 | 0 | 1,151,286 | 1,234,300 |
| Social Services | 5,984,736 | 5,860,173 | 0 | 0 | 5,984,736 | 5,860,173 |
| Primary and Secondary Education | 64,256,427 | 66,133,146 | 0 | 0 | 64,256,427 | 66,133,146 |
| Post-Secondary Education | 2,116,500 | 4,135,535 | 0 | 0 | 2,116,500 | 4,135,535 |
| Parks, Recreation, and Culture | 2,890,412 | 2,735,644 | 4,128,312 | 3,936,255 | 7,018,724 | 6,671,899 |
| Housing | 821,950 | 3,895,062 | 0 | 0 | 821,950 | 3,895,062 |
| Libraries | 1,634,103 | 4,262,055 | 0 | 0 | 1,634,103 | 4,262,055 |
| Conservation of Natural Resources | 851,504 | 773,516 | 0 | 0 | 851,504 | 773,516 |
| Economic Development and Opportunity | 2,115,564 | 1,618,445 | 0 | 0 | 2,115,564 | 1,618,445 |
| Debt Interest | 4,508,127 | 4,655,302 | 0 | 0 | 4,508,127 | 4,655,302 |
| Inter-governmental | 48,129 | 45,487 | 0 | 0 | 48,129 | 45,487 |
| Other | <u>930,267</u> | <u>782,123</u> | <u>0</u> | <u>0</u> | <u>930,267</u> | <u>782,123</u> |
| Total Expenses | <u>134,919,505</u> | <u>130,600,786</u> | <u>4,128,312</u> | <u>3,936,255</u> | <u>139,047,817</u> | <u>134,537,041</u> |
| Change in Net Assets | 28,626,922 | 11,940,975 | (54,803) | (102,401) | 28,572,119 | 11,838,574 |
| Reclassification | 0 | 374,425 | 0 | (374,425) | 0 | 0 |
| Net Assets- Beginning | <u>83,780,694</u> | <u>71,465,294</u> | <u>2,506,425</u> | <u>2,983,251</u> | <u>86,287,119</u> | <u>74,448,545</u> |
| Net Assets - Ending | <u>\$112,407,616</u> | <u>\$83,780,694</u> | <u>\$2,451,622</u> | <u>\$2,506,425</u> | <u>\$114,859,238</u> | <u>\$86,287,119</u> |

Governmental activities: Governmental activities reflected an increase in St. Mary's County Government's net assets of \$28.6 million. The governmental funds reflected a net increase of \$28.1 million.

EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



Business-type activities: Business-type activities reflected a decrease in net assets of approximately \$54,000. Individually, the Wicomico Golf Course posted an increase, which was offset by decreases in both the recreation activity funds and the adult daycare net assets.

Financial Analysis of the Government's Funds

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

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

As of June 30, 2004, St. Mary's County Government's governmental funds reported combined ending fund balances of \$46.9 million, an increase of \$28.1 million over the prior year. Approximately \$20.4 million, or 43.5% of this total, constitutes *unreserved fund balance*, which is available for spending at the government's discretion, including \$1.8 million for the 2005 budget. Reserved fund balance includes \$27 million for capital projects as well as approximately \$806,000 committed to liquidate encumbrances, for inventories or dedicated for a variety of restricted purposes. The reserved fund balance does not significantly affect the availability of fund resources for future use.

The general fund is the chief operating fund of St. Mary's County Government and is central to the budget process and management of current resources. At June 30, 2004, unreserved fund balance of the general fund was \$21.7 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 16.9% of total general fund expenditures, excluding pass-throughs, while total fund balance represents 17.5% of that same amount. The elevated level of fund balance reflects several unusual revenue and expense deviations which occurred during FY2004, representing significant positive results when compared to amounts budgeted, as described below. Generally, it is the County's philosophy that taxes and fees should be charged to match current programs and levels of activities rather than to build fund balances. With the low property tax rate, which was reduced effective July 1, 2004 from \$.908 to \$.878, and an income tax rate that is less than the maximum allowed by the State, and which was also reduced effective January 1, 2005 from 3.1% to 3.05%, the County has maintained ample capability for revenue enhancement, should future needs arise.

The fund balance of St. Mary's County Government's general fund increased by \$8.5 million during the fiscal year ended June 30, 2004, compared to a budgeted reduction of \$2.4 million. The key factors contributing to this net positive variance are as follows:

- Income tax revenues exceeded budget by \$3.8 million, including \$2.5 million that represented accelerated distributions from the State to the County of local income tax collections that generally would be distributed in a later year. Recordation tax revenues exceeded budget by \$2.9 million, a reflection of the extremely high level of activity that has occurred in St. Mary's County for several years.
- Positive expenditure variances were realized throughout County departments, a reflection of conservative budget estimates, strong management of expenditures to match budgeted priorities, and the direction by the new Board of County Commissioners to consolidate for efficiency and limit or defer filling vacancies, and other measures, wherever possible. Savings realized in personal services totaled approximately \$1.7 million, excluding grants. Some of these measures were taken in anticipation of the need to fund unexpected outlays related to Hurricane Isabel. However, though expenses topped \$1 million, the County was able to realize both recovery from the Government and savings in its own accounts, so as to cover virtually all operating outlays, using less than \$10,000 of the Commissioners' reserve for emergency appropriations.
- Debt service was approximately \$1.4 million less than budget, reflecting the timing of issuance of general obligation bonds and the positive impact of the refunding.
- Though the budget for FY2004 also included reserves of \$1 million for additions to the Rainy Day Fund (\$394,592) and for emergency appropriations during FY2004 (\$624,640), these were not required. The Commissioners added to the Rainy Day Fund, using the fund balance generated in FY2003.

The Capital Project Fund has a total fund balance of \$27 million, which is reserved for future capital project expenditures. Included in this amount is an approximate \$662,000 reserve for capital projects. These funds are not specified to one project but are set aside from accumulated transfer tax collections and are available, at the direction of the Board of County Commissioners, to cover unanticipated costs. Unspent bond proceeds of \$5.3 million make up 19.6% of the fund balance.

Proprietary funds: St. Mary's County Government's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, unrestricted net assets of the Wicomico Golf Course Fund accounted for \$.7 million, the Recreation Activities Fund reflected a deficit of approximately \$118,000, and the Medical Adult Daycare Services reflected a deficit of \$589,000. On a combined basis, there was a \$54,803 decrease in net assets, principally attributable to the Medical Adult Daycare Services Fund as well as the Recreation Activity Fund. Factors concerning these funds' finances have been addressed in the discussion of St. Mary's County Government's business-type activities.

General Fund Budgetary Highlights

The final budget for the General Fund was \$872,815 higher than the original budget. The increase reflects principally new or increased grants received. During the year, revenues exceeded budget and expenditures were less than budgetary estimates. Because of these positive variances, there was no need to draw upon the appropriated use of fund balance for operations, though that was originally budgeted at \$2.4 million for FY2004.

Capital Asset and Debt Administration

Capital assets: St. Mary's County Government's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$180.9 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, improvements, machinery and equipment, and infrastructure and land development rights. The total increase in St. Mary's County Government's investment in capital assets for the fiscal year ended June 30, 2004, was \$13.3 million, a 7.9% increase over FY2003. It should be noted that the fixed asset balances reflect the County's infrastructure. (i.e., roads), as the County has fully implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement 34.

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

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|-------------------------------|--------------------------------|----------------------|---------------------------------|--------------------|----------------------|----------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Land | \$11,614,581 | \$11,614,581 | \$1,078,666 | \$1,078,666 | \$12,693,247 | \$12,693,247 |
| Building and Improvements | 69,036,996 | 65,828,366 | 830,065 | 870,275 | 69,867,061 | 66,698,641 |
| Facilities Under Construction | 9,657,186 | 7,084,049 | 0 | 0 | 9,657,186 | 7,084,049 |
| Solid Waste Facilities | 6,378,024 | 6,378,024 | 0 | 0 | 6,378,024 | 6,378,024 |
| Infrastructure | 64,965,369 | 56,866,157 | 348,306 | 365,366 | 65,313,675 | 57,231,523 |
| Vehicles | 2,452,148 | 2,702,438 | 308,965 | 65,238 | 2,761,113 | 2,767,676 |
| Furniture and Equipment | 14,165,693 | 14,569,696 | 44,857 | 154,807 | 14,210,550 | 14,724,503 |
| | <u>\$178,269,997</u> | <u>\$165,043,311</u> | <u>\$2,610,859</u> | <u>\$2,534,352</u> | <u>\$180,880,856</u> | <u>\$167,577,663</u> |

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

- \$4.5 million in buildings and improvements were placed in service in FY2004, including phase two of College of Southern Maryland, as well as humidity control at College of Southern Maryland, St. Clements Museum expansion and the renovation of the Archives/Election Building.
- Approximately \$8.4 million in roads were added to the County system, of which 7 million were by transfers from third parties, at no cost to the County
- 23 vehicles (with a total value of approximately \$500,000) were purchased to replace aging vehicles for the Sheriff's Department and St. Mary's Transit System.
- Great Mills Public Swimming Pool (valued at approximately \$2 million) was added to the County system by transfer from a third party, at no cost to the County.

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

Long-term debt: At June 30, 2004, St. Mary's County Government had total general obligation bonded debt outstanding of \$104 million. In addition, the County had similar obligations outstanding totaling \$4.9 million, through State and other programs such as the Water Quality Loan Program, as well as exempt financing of equipment and vehicles. The full faith and credit and unlimited taxing power of the County are irrevocably pledged to the levy and collection of taxes in order to provide for the payment of principal and interest due on the bonds.

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

Primary Government

| | <u>June 30, 2003</u> | <u>June 30, 2004</u> | <u>Amounts due within one year</u> |
|--|----------------------|----------------------|--|
| General Obligation Bonds – County | \$86,980,000 | \$104,270,000 | \$7,395,000 |
| Less: Amount Deferred on Refunding | (1,845,000) | (1,830,777) | 23,557 |
| Water Quality Loan | 2,845,760 | 3,197,792 | 201,357 |
| State Loans | 872,118 | 787,209 | 84,969 |
| Transportation | 137,974 | 0 | 0 |
| Exempt Financing (Equipment Leases) | <u>0</u> | <u>899,882</u> | <u>201,902</u> |
| | <u>\$88,990,852</u> | <u>\$107,324,106</u> | <u>\$7,906,785</u> |
| General Obligation Bonds, sold on behalf of St. Mary's Hospital | <u>\$27,435,000</u> | <u>\$25,565,000</u> | <u>\$1,935,000</u> |

Business-Type Activities

| | <u>June 30, 2003</u> | <u>June 30, 2004</u> | <u>Amounts due within one year</u> |
|-------------------------------------|----------------------|----------------------|--|
| Exempt Financing (Equipment Leases) | <u>\$0</u> | <u>\$160,417</u> | <u>\$35,000</u> |

St. Mary's County Government's total general obligation bonded debt decreased by \$7.7 million, based on the principal payments. This included \$1.9 million in principal payments related to bonds issued on behalf of the St. Mary's Hospital. The Hospital fully reimburses the County for costs and debt service payments related thereto; the debt service is not funded by general funds of the County.

St. Mary's County Government has maintained an "AA-" rating from Standard and Poor's, an "AA" rating from Fitch Ratings, and an "Aa3" rating from Moody's Investors Service, Inc. These were all confirmed in August 2003, as a part of the bond issue that was sold in August and closed in September 2003.

The debt affordability guidelines for St. Mary's County Government were set by the Board of County Commissioners, on the advice of Davenport and Co., LLC, the County's financial advisor. The guidelines were approved at a debt to assessed value of 2% and debt service as a percent of current general fund revenue of 12%. The County is within these parameters and monitors its capital budgets and 5-year plans to ensure that the County remains within the limitations.

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

Economic Factors and Next Year's Budgets and Rates

- Net taxable income for calendar year 2003 (the latest data available) for County residents was approximately \$1.472 billion and continues to demonstrate a strong trend, averaging more than 6% growth annually.
- Assessable base has reflected an average annual increase of approximately 5% and reflects both increased assessed values and a growth in the assessable base due to new construction.
- The business community in St. Mary's County has grown significantly following the realignment of Naval Air Systems Command with 66% growth in the number of technology firms since 1998.
- The largest private employers in the County have increased their number of employees, and the Navy-related employment is expected to continue to grow.
- Department of Defense capital improvement in St. Mary's County exceeds \$440 million from FY2000 through FY2005.
- Tourism has been strong, with increased numbers of visitors; there are 3 proposed hotels in the developmental stages, 2 to be opened in 2005.
- Commercial office space has increased; large office management corporations like Corporate Offices Properties Trust have made significant investments in the region and are opening a local office to manage their holdings.
- Median household income (\$59,700) is slightly above the State average
- The average unemployment rate for the County is less than 3%, while the average unemployment rate for the State of Maryland exceeds 4%.
- Several measures were taken as a part of the FY2005 budget process to restructure revenues and provide some tax relief. This included reducing the property tax rate, effective July 1, 2004, from \$.908 to \$.878; the impact to citizens was partially offset by the initiation of an Emergency Services Tax, ranging from \$.024 to \$.027 depending upon the district. Additionally, effective January 1, 2005, the Commissioners reduced the local income tax rate from 3.1% to 3.05%. Actions were taken to increase certain fees to more closely correspond to costs incurred for certain services. These measures were taken after consideration by the Board of County Commissioners of the multi-year outlook and its commitments, including but not limited to debt service and the funding of the Bridge to Excellence 5-year agreement reached with the Board of Education to provide funding for public schools.

All of these factors were considered in preparing the St. Mary's County Government's budget for the 2005 fiscal year, resulting in a budgeted increase of 4.3%. This rate of increase reflects this Board of County Commissioners' efforts to prioritize services, and improve the efficiency and effectiveness of operations. In adopting the budget for FY2005, the County considered some key elements of a long-term projection process. The local economy is expected to continue to be strong and reflect positive growth, and the Board expects to more fully incorporate multi-year projections into its FY2006 budget process to assure that adequate resources are identified to address prioritized needs.

Requests for Information

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

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THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF NET ASSETS
JUNE 30, 2004

| | Primary Government | | | Component Units | | | |
|--|-------------------------|-----------------------------|----------------------|----------------------|--------------------|----------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total | Board of Education | Library | Metropolitan Commission | Building Authority |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$44,081,963 | \$5,745 | \$44,087,708 | \$13,930,272 | \$75,283 | \$5,924,166 | \$347 |
| Internal balances | (473,378) | 473,378 | 0 | 0 | 0 | 0 | 0 |
| Restricted cash and investments | 427,784 | 0 | 427,784 | 4,681 | 28,650 | 0 | 0 |
| Taxes receivable | 2,009,761 | 0 | 2,009,761 | 0 | 0 | 0 | 0 |
| Income tax reserve, funds held by the State | 12,912,164 | 0 | 12,912,164 | 0 | 0 | 0 | 0 |
| Due from other governments | 0 | 0 | 0 | 6,738,350 | 310,443 | 0 | 165,809 |
| Special tax assessments receivable | 59,581 | 0 | 59,581 | 0 | 0 | 0 | 0 |
| Notes receivable, Fire and Rescue loans | 220,295 | 0 | 220,295 | 0 | 0 | 0 | 0 |
| Accounts receivable | 12,736,055 | 223,118 | 12,959,173 | 501,473 | 36,284 | 560,397 | 663,580 |
| Inventory | 414,267 | 13,536 | 427,803 | 112,669 | 0 | 78,894 | 0 |
| Other, including prepaid expenses | 15,659 | 0 | 15,659 | 67,528 | 27,181 | 4,214 | 0 |
| Mortgages receivable from St. Mary's Hospital | 25,565,000 | 0 | 25,565,000 | 0 | 0 | 0 | 0 |
| Deferred and unamortized bond issuance costs | 0 | 0 | 0 | 0 | 0 | 407,072 | 473,953 |
| Notes receivable, Fire and Rescue loans, net of short-term portion | 1,246,631 | 0 | 1,246,631 | 0 | 0 | 0 | 0 |
| Special tax assessments receivable, net of short-term portion | 2,314,467 | 0 | 2,314,467 | 0 | 0 | 0 | 0 |
| Capital assets | 261,593,108 | 4,077,666 | 265,670,774 | 243,793,942 | 2,929,919 | 87,166,559 | 17,532,782 |
| Accumulated depreciation | (83,323,111) | (1,466,807) | (84,789,918) | (61,261,581) | (1,477,257) | (26,610,321) | (6,313,169) |
| Capital assets, net of accumulated depreciation | <u>178,269,997</u> | <u>2,610,859</u> | <u>180,880,856</u> | <u>182,532,361</u> | <u>1,452,662</u> | <u>60,556,238</u> | <u>11,219,613</u> |
| Total Assets | <u>\$279,800,246</u> | <u>\$3,326,636</u> | <u>\$283,126,882</u> | <u>\$203,887,334</u> | <u>\$1,930,503</u> | <u>\$67,530,981</u> | <u>\$12,523,302</u> |

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

| | Primary Government | | | Component Units | | | |
|---|-------------------------|--------------------------|---------------|--------------------|-------------|-------------------------|--------------------|
| | Governmental Activities | Business-Type Activities | Total | Board of Education | Library | Metropolitan Commission | Building Authority |
| LIABILITIES | | | | | | | |
| Accounts payable | \$4,509,252 | \$156,512 | \$4,665,764 | \$4,861,680 | \$60,302 | \$968,171 | \$0 |
| Compensation-related liabilities | 2,036,834 | 277,621 | 2,314,455 | 10,740,304 | 41,885 | 186,731 | 0 |
| Deferred income tax distribution | 12,912,164 | 0 | 12,912,164 | 0 | 0 | 0 | 0 |
| Deferred revenue | 4,620,314 | 280,464 | 4,900,778 | 666,752 | 0 | 83,466 | 0 |
| Other liabilities | 4,509,900 | 0 | 4,509,900 | 184,864 | 0 | 506,823 | 306,948 |
| Due to other governments | 476,252 | 0 | 476,252 | 128,416 | 0 | 0 | 0 |
| <u>Non-current liabilities</u> | | | | | | | |
| Due within one year | 9,855,482 | 35,000 | 9,890,482 | 713,760 | 0 | 716,944 | 1,000,000 |
| Due in more than one year | 128,472,432 | 125,417 | 128,597,849 | 7,660,154 | 68,473 | 16,084,066 | 10,415,000 |
| Total Liabilities | \$167,392,630 | \$875,014 | \$168,267,644 | \$24,955,930 | \$170,660 | \$18,546,201 | \$11,721,948 |
| NET ASSETS | | | | | | | |
| - | | | | | | | |
| Invested in capital assets, net of related debt | 68,195,891 | 2,450,442 | 70,646,333 | 177,252,850 | 1,452,662 | 43,755,230 | (195,387) |
| Restricted | 26,502,037 | 0 | 26,502,037 | 82,473 | 74,933 | 1,590,851 | 221,842 |
| Unrestricted | 17,709,688 | 1,180 | 17,710,868 | 1,596,081 | 232,248 | 3,638,699 | 774,899 |
| Total Net Assets | \$112,407,616 | \$2,451,622 | \$114,859,238 | \$178,931,404 | \$1,759,843 | \$48,984,780 | \$801,354 |
| Total Liabilities and Net Assets | \$279,800,246 | \$3,326,636 | \$283,126,882 | \$203,887,334 | \$1,930,503 | \$67,530,981 | \$12,523,302 |

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Program Revenues

| Functions / Programs | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Dedicated Fees or Taxes | Total Revenues |
|---------------------------------------|----------------------|----------------------|------------------------------------|--|---------------------|
| General Government | \$11,595,951 | \$7,304,296 | \$984,133 | \$0 | \$8,288,429 |
| Public Safety | 25,949,377 | 1,507,477 | 2,323,817 | 13,272 | 3,844,566 |
| Public Works | 10,065,172 | 1,423,113 | 5,760,829 | 0 | 7,183,942 |
| Health | 1,151,286 | 138,133 | 0 | 0 | 138,133 |
| Social Services | 5,984,736 | 0 | 4,303,224 | 0 | 4,303,224 |
| Primary and Secondary Education | 64,256,427 | 0 | 0 | 0 | 0 |
| Post -Secondary Education | 2,116,500 | 0 | 0 | 0 | 0 |
| Parks, Recreation, and Culture | 2,890,412 | 229,768 | 22,702 | 700,498 | 952,968 |
| Housing | 821,950 | 812,980 | 0 | 0 | 812,980 |
| Libraries | 1,634,103 | 0 | 0 | 57,426 | 57,426 |
| Conservation of Natural Resources | 851,504 | 0 | 0 | 0 | 0 |
| Economic Development and Opportunity | 2,115,564 | 0 | 343,041 | 0 | 343,041 |
| Debt Interest | 4,508,127 | 0 | 0 | 0 | 0 |
| Inter-governmental | 48,129 | 0 | 0 | 0 | 0 |
| Other | 930,267 | 690,952 | 0 | 179,806 | 870,758 |
| TOTAL GOVERNMENTAL ACTIVITIES | \$134,919,505 | \$12,106,719 | \$13,737,746 | \$951,002 | \$26,795,467 |
| | | | | | |
| Business - Type Activities | | | | | |
| Recreation Activity | \$2,239,418 | \$2,139,814 | \$28,604 | \$0 | \$2,168,418 |
| Wicomico | 1,026,318 | 1,116,742 | 0 | 0 | 1,116,742 |
| Medical Adult Daycare | 862,576 | 148,951 | 634,820 | 0 | 783,771 |
| TOTAL BUSINESS-TYPE ACTIVITIES | \$4,128,312 | \$3,405,507 | \$663,424 | \$0 | \$4,068,931 |
| TOTAL PRIMARY GOVERNMENT | \$139,047,817 | \$15,512,226 | \$14,401,170 | \$951,002 | \$30,864,398 |
| | | | | | |
| Component Units: | | | | | |
| Board of Education | \$138,544,173 | \$2,852,290 | \$24,087,370 | \$17,322,380 | \$44,262,040 |
| Library | 2,550,413 | 160,320 | 656,291 | 0 | \$816,611 |
| MetCom | 8,828,713 | 9,899,736 | 0 | 0 | \$9,899,736 |
| Building Authority | 1,073,835 | 1,390,997 | 0 | 0 | \$1,390,997 |
| | \$150,997,134 | \$14,303,343 | \$24,743,661 | \$17,322,380 | \$56,369,384 |

General Revenues:

Property Taxes
Income Taxes
Other Taxes
Investment Earnings
Grants and Contributions Not Restricted to Specific Purposes
Miscellaneous
Total General Revenues

Changes in Net Assets

Net Assets - Beginning
Net Assets - Ending

Net (Expense) Revenue and Changes in Net Assets

| Primary Government | | | Component Units | | | |
|----------------------------|-----------------------------|------------------------|-----------------------|----------------------|---------------------|--------------------|
| Governmental Activities | Business-Type Activities | Total | Board of Education | Library | MetCom | Building Authority |
| (\$3,307,522) | \$0 | (\$3,307,522) | | | | |
| (\$22,104,811) | 0 | (22,104,811) | | | | |
| (\$2,881,230) | 0 | (2,881,230) | | | | |
| (\$1,013,153) | 0 | (1,013,153) | | | | |
| (\$1,681,512) | 0 | (1,681,512) | | | | |
| (\$64,256,427) | 0 | (64,256,427) | | | | |
| (\$2,116,500) | 0 | (2,116,500) | | | | |
| (\$1,937,444) | 0 | (1,937,444) | | | | |
| (\$8,970) | 0 | (8,970) | | | | |
| (\$1,576,677) | 0 | (1,576,677) | | | | |
| (\$851,504) | 0 | (851,504) | | | | |
| (\$1,772,523) | 0 | (1,772,523) | | | | |
| (\$4,508,127) | 0 | (4,508,127) | | | | |
| (\$48,129) | 0 | (48,129) | | | | |
| (\$59,509) | 0 | (59,509) | | | | |
| <u>(\$108,124,038)</u> | <u>\$0</u> | <u>(\$108,124,038)</u> | | | | |
| \$0 | (\$71,000) | (\$71,000) | | | | |
| 0 | 90,424 | 90,424 | | | | |
| 0 | (78,805) | (78,805) | | | | |
| <u>\$0</u> | <u>(\$59,381)</u> | <u>(\$59,381)</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>\$0</u> |
| <u>(\$108,124,038)</u> | <u>(\$59,381)</u> | <u>(\$108,183,419)</u> | | | | |
| \$0 | \$0 | \$0 | (\$94,282,133) | \$0 | \$0 | \$0 |
| 0 | 0 | 0 | \$0 | (1,733,802) | 0 | 0 |
| 0 | 0 | 0 | \$0 | 0 | 1,071,023 | 0 |
| 0 | 0 | 0 | \$0 | 0 | 0 | 317,162 |
| <u>\$0</u> | <u>\$0</u> | <u>\$0</u> | <u>(\$94,282,133)</u> | <u>(\$1,733,802)</u> | <u>\$1,071,023</u> | <u>\$317,162</u> |
| \$56,179,450 | \$0 | \$56,179,450 | \$0 | \$0 | \$0 | \$0 |
| 51,352,963 | 0 | 51,352,963 | 0 | 0 | 0 | 0 |
| 16,650,367 | 0 | 16,650,367 | 0 | 0 | 0 | 0 |
| 348,710 | 4,578 | 353,288 | 100,798 | 2,516 | 60,379 | 13 |
| 0 | 0 | 0 | 107,463,294 | 1,634,103 | 0 | 0 |
| 12,219,470 | 0 | 12,219,470 | 81,412 | 9,309 | 119,460 | 0 |
| <u>\$136,750,960</u> | <u>\$4,578</u> | <u>\$136,755,538</u> | <u>\$107,645,504</u> | <u>\$1,645,928</u> | <u>\$179,839</u> | <u>\$13</u> |
| 28,626,922 | (54,803) | 28,572,119 | 13,363,371 | (87,874) | 1,250,862 | 317,175 |
| \$83,780,694 | \$2,506,425 | \$86,287,119 | \$165,568,033 | \$1,847,717 | \$47,733,918 | \$484,179 |
| <u>\$112,407,616</u> | <u>\$2,451,622</u> | <u>\$114,859,238</u> | <u>\$178,931,404</u> | <u>\$1,759,843</u> | <u>\$48,984,780</u> | <u>\$801,354</u> |

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

| | General Fund | Capital Projects | Non-Major | Total Governmental Funds |
|--|---------------------|---------------------|--------------------|--------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$44,081,963 | \$0 | \$0 | \$44,081,963 |
| Due to/from other funds | 0 | 28,364,035 | 0 | 28,364,035 |
| Taxes receivable | 2,009,761 | 0 | 0 | 2,009,761 |
| Income tax reserve, funds held by the State | 12,912,164 | 0 | 0 | 12,912,164 |
| Special tax assessments receivable | 0 | 0 | 59,581 | 59,581 |
| Notes receivable, Fire and Rescue loans | 0 | 0 | 220,295 | 220,295 |
| Accounts receivable | 11,509,211 | 1,226,844 | 0 | 12,736,055 |
| Inventory | 414,267 | 0 | 0 | 414,267 |
| Other, including prepaid expenses | 15,659 | 0 | 0 | 15,659 |
| Notes receivable, Fire and Rescue loans, net of short-term portion | 0 | 0 | 1,246,631 | 1,246,631 |
| Special tax assessments receivable, net of short-term portion | 0 | 0 | 2,314,467 | 2,314,467 |
| Total Assets | \$70,943,025 | \$29,590,879 | \$3,840,974 | \$104,374,878 |
| LIABILITIES | | | | |
| Accounts payable | \$1,996,370 | \$2,512,882 | \$0 | \$4,509,252 |
| Compensation-related liabilities | 2,050,531 | 0 | 0 | 2,050,531 |
| Deferred income tax distribution | 12,912,164 | 0 | 0 | 12,912,164 |
| Deferred revenue | 305,097 | 46,112 | 3,841,320 | 4,192,529 |
| Other liabilities | 4,509,900 | 0 | 0 | 4,509,900 |
| Due to other funds | 26,192,722 | 0 | 2,644,691 | 28,837,413 |
| Due to other governments | 476,252 | 0 | 0 | 476,252 |
| Total Liabilities | \$48,443,036 | \$2,558,994 | \$6,486,011 | \$57,488,041 |
| FUND BALANCES | | | | |
| Reserved | \$805,991 | \$27,031,885 | (\$1,335,839) | \$26,502,037 |
| Unreserved, designated | 18,667,033 | 0 | (1,309,198) | 17,357,835 |
| Unreserved, undesignated | 3,026,965 | 0 | 0 | 3,026,965 |
| Total Fund Balances | 22,499,989 | 27,031,885 | (2,645,037) | 46,886,837 |
| Total Liabilities and Fund Balances | \$70,943,025 | \$29,590,879 | \$3,840,974 | \$104,374,878 |

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

| | General Fund | Capital Projects | Non-Major | Total |
|---|-----------------------------------|-----------------------------------|------------------------------------|-----------------------------------|
| REVENUES | | | | |
| Property Taxes | \$56,179,452 | \$0 | \$0 | \$56,179,452 |
| Other Local Taxes | 62,249,608 | 6,062,588 | 0 | 68,312,196 |
| Highway User Revenues | 4,705,465 | 0 | 0 | 4,705,465 |
| Licenses and Permits | 1,604,784 | 0 | 0 | 1,604,784 |
| Intergovernmental | 5,285,845 | 1,076,683 | 199,501 | 6,562,029 |
| Charges for Services | 5,109,259 | 6,616,372 | 0 | 11,725,631 |
| Fines and Forfeitures | 286,677 | 0 | 0 | 286,677 |
| Special Assessments | 0 | 0 | 179,806 | 179,806 |
| Other Revenues | 539,979 | 9,849,208 | 9,764 | 10,398,951 |
| Sub-total | <u>135,961,069</u> | <u>23,604,851</u> | <u>389,071</u> | <u>159,954,991</u> |
| Pass-Throughs | 3,330,956 | 0 | 0 | 3,330,956 |
| TOTAL GENERAL FUND REVENUES | <u>\$139,292,025</u> | <u>\$23,604,851</u> | <u>\$389,071</u> | <u>\$163,285,947</u> |
| EXPENDITURES | | | | |
| General Government | \$14,545,297 | \$0 | \$0 | \$14,545,297 |
| Public Safety | 23,949,803 | 0 | 710,500 | 24,660,303 |
| Public Works | 7,408,871 | 0 | 0 | 7,408,871 |
| Health | 1,106,421 | 0 | 0 | 1,106,421 |
| Social Services | 3,223,060 | 0 | 0 | 3,223,060 |
| Primary and Secondary Education | 57,856,774 | 6,399,653 | 0 | 64,256,427 |
| Post -Secondary Education | 2,073,763 | 0 | 0 | 2,073,763 |
| Parks, Recreation, and Culture | 2,348,960 | 0 | 0 | 2,348,960 |
| Libraries | 1,634,103 | 0 | 0 | 1,634,103 |
| Conservation of Natural Resources | 289,431 | 0 | 0 | 289,431 |
| Housing | 812,400 | 0 | 0 | 812,400 |
| Economic Development and Opportunity | 1,569,305 | 0 | 0 | 1,569,305 |
| Capital Projects | 0 | 20,548,708 | 0 | 20,548,708 |
| Debt Service - Principal | 5,641,836 | 0 | 58,415 | 5,700,251 |
| Debt Service - Interest | 5,004,177 | 0 | 0 | 5,004,177 |
| Inter-governmental | 48,129 | 0 | 0 | 48,129 |
| Other | 930,267 | 0 | 0 | 930,267 |
| Sub-total | <u>128,442,597</u> | <u>26,948,361</u> | <u>768,915</u> | <u>156,159,873</u> |
| Pass-Throughs | 3,331,007 | 0 | 0 | 3,331,007 |
| TOTAL GENERAL FUND EXPENDITURES | <u>\$131,773,604</u> | <u>\$26,948,361</u> | <u>\$768,915</u> | <u>\$159,490,880</u> |
| Excess of Revenues Over (Under) Expenditures | <u>7,518,421</u> | <u>(3,343,510)</u> | <u>(379,844)</u> | <u>3,795,067</u> |
| OTHER FINANCING SOURCES AND USES | | | | |
| Proceeds from issuance New/Refunding Loan | \$0 | \$33,985,000 | \$0 | \$33,985,000 |
| Proceeds from issuance of WQ Loan | 0 | 548,671 | 0 | 548,671 |
| Exempt financing proceeds | 1,030,000 | 0 | 0 | 1,030,000 |
| Payment to refunded debt escrow agent and other related costs | 0 | (11,572,614) | 0 | (11,572,614) |
| Premium on refunded debt | 0 | 277,614 | 0 | 277,614 |
| Total Other Financing Sources / Uses | <u>\$1,030,000</u> | <u>\$23,238,671</u> | <u>\$0</u> | <u>\$24,268,671</u> |
| Net Change in Fund Balances | <u>8,548,421</u> | <u>19,895,161</u> | <u>(379,844)</u> | <u>28,063,738</u> |
| FUND BALANCE | | | | |
| Beginning of the Year | \$13,951,568 | \$7,136,724 | (\$2,265,193) | \$18,823,099 |
| End of year | <u><u>\$22,499,989</u></u> | <u><u>\$27,031,885</u></u> | <u><u>(\$2,645,037)</u></u> | <u><u>\$46,886,837</u></u> |

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

The County Commissioners for St. Mary's County
Reconciliations of the Governmental Funds to the Governmental Activities
For the Year Ended June 30, 2004

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

| | |
|--|---------------|
| Fund Balance - Governmental Funds | \$46,886,837 |
| Fixed Assets, net of accumulated depreciation, are not reported in the Balance Sheet for Governmental Funds | 178,269,997 |
| Debt, including bonds, loans, capital leases and the long-term portion of compensated absences, is not reported in the Balance Sheet for Governmental Funds. The amount reflected here is net of mortgages receivable from St. Mary's Hospital of \$25,565,000, but does include debt applicable to assets reported in the component unit for the Board of Education | (112,749,218) |
| Net Assets - Governmental Activities | \$112,407,616 |

Amounts reported for change in Fund Balances - Governmental Funds are different from change in Net Assets of Governmental Activities because:

| | |
|---|--------------|
| Net change in fund balances - total governmental funds | \$28,063,738 |
| Depreciation expense which is reported in the statement of activities, but not reflected as an expenditure for governmental activities | (6,253,691) |
| Disposal of fixed assets which is reported in the statement of activities, but not reflected as an expenditure for governmental activities | (13,257) |
| Issuance of long-term debt, excluding amounts which are offset by mortgages receivable from St. Mary's Hospital, and effect of refunding. This does include debt applicable to assets reported in the component unit for the Board of Education | (20,211,806) |
| Repayment of debt | 7,548,303 |
| 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. | 19,493,635 |
| Change in net assets of governmental activities | \$28,626,922 |

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
BALANCE SHEET
PROPRIETARY FUNDS
JUNE 30, 2004

| | <u>Medical Adult Daycare</u> | <u>Recreation Activity Fund</u> | <u>Wicomico</u> | <u>Total</u> |
|---|------------------------------|---------------------------------|--------------------|--------------------|
| ASSETS | | | | |
| <u>Current assets</u> | | | | |
| Cash and cash equivalents | \$0 | \$0 | \$5,745 | \$5,745 |
| Due to/from other funds | 0 | 252,197 | 926,191 | 1,178,388 |
| Accounts receivable | 209,472 | 7,012 | 6,634 | 223,118 |
| Inventory | 0 | 0 | 13,536 | 13,536 |
| Total Current Assets | <u>209,472</u> | <u>259,209</u> | <u>952,106</u> | <u>1,420,787</u> |
| <u>Non-current assets</u> | | | | |
| Capital assets | 0 | 134,296 | 3,943,370 | 4,077,666 |
| Accumulated depreciation | 0 | (116,322) | (1,350,485) | (1,466,807) |
| Capital assets, net of accumulated depreciation | <u>0</u> | <u>17,974</u> | <u>2,592,885</u> | <u>2,610,859</u> |
| Total Assets | <u>\$209,472</u> | <u>\$277,183</u> | <u>\$3,544,991</u> | <u>\$4,031,646</u> |
| LIABILITIES | | | | |
| <u>Current liabilities</u> | | | | |
| Due to/from other funds | \$705,010 | \$0 | \$0 | \$705,010 |
| Accounts payable | 8,238 | 114,779 | 33,495 | 156,512 |
| Compensation-related liabilities | 85,229 | 78,077 | 114,315 | 277,621 |
| Deferred revenue | 0 | 184,452 | 96,012 | 280,464 |
| <u>Noncurrent Liabilities</u> | | | | |
| Due within one year | 0 | 0 | 35,000 | 35,000 |
| Due in more than one year | 0 | 0 | 125,417 | 125,417 |
| Total liabilities | <u>798,477</u> | <u>377,308</u> | <u>404,239</u> | <u>1,580,024</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 0 | 17,974 | 2,432,468 | 2,450,442 |
| Unrestricted | (589,005) | (118,099) | 708,284 | 1,180 |
| Total Net Assets | <u>(589,005)</u> | <u>(100,125)</u> | <u>3,140,752</u> | <u>2,451,622</u> |
| Total Liabilities and Net Assets | <u>\$209,472</u> | <u>\$277,183</u> | <u>\$3,544,991</u> | <u>\$4,031,646</u> |

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

| | Medical Adult Daycare | Recreation Activity Fund | Wicomico | Total |
|--|-----------------------|--------------------------|--------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Charges for Services | \$138,844 | \$2,175,011 | \$1,115,318 | \$3,429,173 |
| Personal Services | (591,571) | (1,405,687) | (557,988) | (2,555,246) |
| Other Expenses | (233,442) | (829,903) | (329,947) | (1,393,292) |
| Net Cash Provided By (Used In) Operating Activities | <u>(\$686,169)</u> | <u>(\$60,579)</u> | <u>\$227,383</u> | <u>(\$519,365)</u> |
| CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Net change in interfund loans | 51,349 | 34,395 | (212,871) | (127,127) |
| Grant revenue | 634,820 | 27,704 | 0 | 662,524 |
| Net Cash Provided By (Used In) Non-Capital and Related Financing Activities | <u>\$686,169</u> | <u>\$62,099</u> | <u>(\$212,871)</u> | <u>\$535,397</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Construction / purchase of capital assets | 0 | (2,420) | (280,260) | (282,680) |
| Contributions | 0 | 900 | 0 | 900 |
| Principal payments on long term debt | 0 | 0 | (14,583) | (14,583) |
| Proceeds from capital debt | 0 | 0 | 175,000 | 175,000 |
| Disposal of fixed assets net of accumulated depreciation | 0 | 0 | 100,751 | 100,751 |
| Net Cash Used by Capital and Related Financing Activities | <u>\$0</u> | <u>(\$1,520)</u> | <u>(\$19,092)</u> | <u>(\$20,612)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Interest income | 0 | 0 | 4,578 | 4,578 |
| Net Decrease in Cash | \$0 | \$0 | (\$2) | (\$2) |
| CASH | | | | |
| Beginning of Year | 0 | 0 | 5,747 | 5,747 |
| End of Year | <u>\$0</u> | <u>\$0</u> | <u>\$5,745</u> | <u>\$5,745</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY(USED IN) OPERATING ACTIVITIES | | | | |
| Operating Income (Loss) | (713,625) | (99,604) | 90,424 | (722,805) |
| ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | | | |
| Depreciation | 0 | 6,100 | 99,323 | 105,423 |
| (Increase) decrease in accounts receivable | (10,108) | 2,871 | (868) | (8,105) |
| (Increase) decrease in inventory | 0 | 0 | (151) | (151) |
| Increase (decrease) in accounts payable | 6,297 | (21,386) | 6,681 | (8,408) |
| Increase (decrease) in compensation-related liabilities | 31,267 | 19,114 | 32,530 | 82,911 |
| Increase (decrease) in deferred revenue | 0 | 32,326 | (556) | 31,770 |
| Net Cash Provided By (Used In) Operating Activities | <u>(\$686,169)</u> | <u>(\$60,579)</u> | <u>\$227,383</u> | <u>(\$519,365)</u> |

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2004

| | <u>Sheriff's Office Retirement Plan</u> |
|------------------------------------|---|
| ASSETS | |
| Cash and cash equivalents | \$84,617 |
| Restricted cash and investments | 19,136,395 |
| Total Assets | <u>\$19,221,012</u> |
| NET ASSETS | |
| Held in trust for pension benefits | 19,221,012 |
| Total Net Assets | <u><u>\$19,221,012</u></u> |

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

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2004

| | Sheriff's Office Retirement Plan |
|------------------------------------|-------------------------------------|
| ADDITIONS | |
| Contributions - Employer | \$1,596,389 |
| Contributions - Employee | 684,167 |
| | 2,280,556 |
| Interest and Dividends | 728,557 |
| Realized Loss | (86,723) |
| Net Unrealized Gain on Investments | 782,494 |
| | 1,424,328 |
| Net Additions | \$3,704,884 |
| DEDUCTIONS | |
| Benefits | (1,154,088) |
| Administrative | (151,140) |
| | (\$1,305,228) |
| Change in Net Assets | \$2,399,656 |
| NET ASSETS | |
| Beginning of Year | 16,821,356 |
| End of Year | \$19,221,012 |

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

The County Commissioners for St. Mary's County

Notes to Financial Statements Index

June 30, 2004

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The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

1. Reporting entity and summary of significant accounting policies

Reporting entity

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

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

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

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

Discretely presented component units

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Discretely presented component units (continued)

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

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

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

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

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

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

Administrative Offices

Board of Education of St. Mary's County
23160 Moakley Street
Leonardtown, Maryland 20650

St. Mary's County Metropolitan Commission
43990 Commerce Avenue
Hollywood, Maryland 20636

St. Mary's County Building Authority Commission
23115 Leonard Hall Drive
P.O. Box 653, Governmental Center
Leonardtown, Maryland 20650

Board of Library Trustees for St. Mary's County
23250 Hollywood Road
Leonardtown, Maryland 20650

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Financial Statements

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

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

Government-wide Statements

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Government-wide Statements (continued)

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

Fund Financial Statements

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

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

Governmental Funds

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are similar to those applicable to businesses in the private sector. The following is a description of the proprietary funds of the County:

Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to cover similar costs.

Fiduciary Funds

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

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

Basis of Accounting and Measurement Focus

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

Basis of Accounting

- a. Accrual Basis – Both governmental and business-type activities are presented using the accrual basis of accounting in the government-wide financial statements and the proprietary and fiduciary fund financial statements. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Basis of Accounting (continued)

- b. Modified Accrual Basis – The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Measurable” means knowing or able to reasonably estimate the amount. “Available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days after year-end. All other revenue items are considered to be measurable and available only when cash is received by the County. Expenditures (including capital outlay) are recorded when the related liability is incurred. However, debt service expenditures (principal and interest), as well as expenditures related to compensated absences and claims and judgments, are recorded only when due.

Measurement Focus

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

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

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

Accounting policies

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Fund accounting

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

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

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

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

The amount of grant funds passed through the County to Walden Sierra, Inc., Three Oaks Homeless Shelter, Tri-County Community Action Committee, St. Mary's County Housing Authority, St. Mary's County Community Development Corporation, Inc., Ridge Volunteer Fire Department, and the Metropolitan Commission for the fiscal year ended June 30, 2004 totaled \$3,331,007. These pass-through grants are recorded as pass-through revenue in the amount of \$3,330,955 and expenditures in the amount of \$3,331,007 on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Budget and budgetary accounting

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

- a. Prior to April 1 of each year, The County Commissioners for St. Mary's County shall have prepared a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. The budget is legally enacted through passage of an ordinance by June 1.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Budget and budgetary accounting (continued)

- d. All revisions that alter the expenditures of each fund must be approved by The County Commissioners for St. Mary's County or the Director of Finance.
- e. Formal budgetary integration is employed as a management control device during the year for the general fund, special assessment fund and enterprise funds.
- f. Budgets for the special revenue funds and the capital projects fund are adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America. The budget for the general fund is adopted on a basis consistent with accounting principles generally accepted (GAAP) in the United States of America, except that appropriations of fund balance are treated as other financing sources. Budget comparisons presented for the general fund in this report are on a non-GAAP basis. The capital projects funds' budgets are prepared on a project-length basis, and accordingly, annual budgetary comparisons are not presented in the financial statements. The enterprise funds' budgets are flexible annual operating budgets. Budgetary comparisons are not presented in the financial statements for the enterprise funds.
- g. The budgeted amounts are as adopted, including amendments, by The County Commissioners for St. Mary's County.

Encumbrances

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

Cash, cash equivalents and investments

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Inventory and prepaid expenditures

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

Long-term receivables

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

Accumulated unpaid annual leave

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

There are no requirements that annual leave be taken; however, the maximum permissible accumulation to be carried into the new calendar year is forty-five days for full-time employees and twenty-two and one-half days for permanent part-time employees. At termination, employees are paid for any accumulated annual leave.

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

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

Use of estimates

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Budget basis of accounting

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

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

| | Net Change in Fund Balance | End of Year Fund Balance |
|---|-------------------------------|-----------------------------|
| Budgetary Basis – General Fund | \$8,141,841 | \$21,646,954 |
| Minor revolving funds and general financing that relate to activities resulting from fees, fines, and other revenue sources that are not an element of the budget basis reporting | 45,596 | 153,591 |
| Beginning of year encumbrances, rolled into FY2004 | (338,460) | 0 |
| Appropriation from prior year rolled to FY2004 in order to cover the encumbrances. This is reflected in the revised budget appropriations for FY2004 | 338,460 | 338,460 |
| End of year encumbrances included in budget basis expenditures, not included for GAAP | 360,984 | 360,984 |
| GAAP Basis | \$8,548,421 | \$22,499,989 |

Basis of presentation

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Capital assets

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

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

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

The method of depreciation being used for all governmental-type assets placed in service as a result of GASB Statement No. 34 is the straight-line half-year convention. Only assets greater than or equal to \$5,000 will be depreciated. Assets greater than or equal to \$1,000 but less than \$5,000 will be tracked for inventory purposes only.

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

Primary Government

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

Component Units

St. Mary's County Public Schools

| | |
|-------------------------------------|-------------|
| Buildings and improvements | 20-50 years |
| Furniture and equipment | 5-15 years |
| Property under financing agreements | 5-50 years |

Board of Library Trustees for St. Mary's County

| | |
|---------------------------|---------|
| Furnishings and equipment | 5 years |
| Vehicles | 5 years |
| Books | 7 years |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

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

Capital assets (continued)

Component Units (continued)

St. Mary's County Metropolitan Commission

| | |
|----------------------|-------------|
| Utility plants | 18-50 years |
| Water plant systems | 18-50 years |
| Equipment | 3-10 years |
| Capitalized interest | 50 years |
| Buildings | 25 years |

St. Mary's County Building Authority Commission

| | |
|-------------------------|----------|
| Buildings | 40 years |
| Furniture and equipment | 10 years |

Inventory

Inventory is valued at the lower of cost (first-in, first-out method) or market. The inventories are recorded as expenditures when consumed rather than when purchased. Governmental fund-type inventories are offset by a fund balance reserve, which indicates that they do not constitute "available spendable resources," even though they are a component of net current assets.

Long-term obligations

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

2. Deficit fund equity

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

3. Cash, cash equivalents and investments

Primary Government

Various cash accounts and investments are held by the County Commissioners for St. Mary's County. Each fund type's portion of the cash, cash equivalents and investments is displayed on the balance sheet as "cash, cash equivalents and investments", or "restricted cash and investments".

Deposits

At year end, the carrying amount of the County's deposits was \$25,747,310 and the collected bank balance was \$26,269,555. Of the collected bank balance, \$213,910 was covered by Federal Deposit Insurance Corporation (FDIC), and \$26,055,655 was covered by collateral held either in the pledging bank's trust department or by the pledging bank's agent.

The collateral for the County's deposits is categorized to give an indication of the level of risk assumed by the County at year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the County or its agents in the County's name. Category 2 includes uninsured and unregistered deposits for which the securities are held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty's trust department or agent, but not in the County's name.

| <u>Bank Deposit Covered by</u> | <u>1</u> | <u>Category</u> | | <u>Collected Bank Balance</u> | <u>Collateral Market Value</u> |
|--|---------------------|-----------------|------------|-------------------------------|--------------------------------|
| | | <u>2</u> | <u>3</u> | | |
| U.S. Government and Agency issue investments | \$26,055,655 | \$0 | \$0 | \$26,055,655 | \$26,055,655 |
| FDIC | 213,910 | 0 | 0 | 213,910 | 213,910 |
| Uninsured or Uncollateralized | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| | <u>\$26,269,565</u> | <u>\$0</u> | <u>\$0</u> | <u>\$26,269,565</u> | <u>\$26,269,565</u> |

Statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized. Depository institutions must be approved for use by The County Commissioners for St. Mary's County.

Investments

Statutes authorize the County to invest in obligations of the United States government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligation.

The County's investments are categorized to give an indication of the level of credit risk assumed by the County at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's trust department in the County's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker's trust department or agent but not in the County's name.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

3. Cash, cash equivalents and investments (continued)

Investments (continued)

| <u>Description</u> | <u>1</u> | <u>Category</u> <u>2</u> | <u>3</u> | <u>Carrying Balance</u> | <u>Market Value</u> |
|--|---------------------|-----------------------------|------------|-------------------------|---------------------|
| Pension Trust Fund | \$19,221,012 | \$0 | \$0 | \$19,221,012 | \$19,221,012 |
| St. Mary's Hospital sinking fund | <u>427,784</u> | <u>0</u> | <u>0</u> | <u>427,784</u> | <u>427,784</u> |
| | <u>\$19,648,796</u> | <u>\$0</u> | <u>\$0</u> | \$19,648,796 | \$19,648,796 |
| Suntrust | | | | \$ 9,058,783 | \$ 9,058,783 |
| Investment in Maryland Local Gov't Pool | | | | <u>\$ 9,281,615</u> | <u>\$ 9,281,615</u> |
| Total investments | | | | <u>\$37,989,194</u> | <u>\$37,989,194</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

3. Cash, cash equivalents and investments (continued)

Investments (continued)

Component Units

St. Mary's County Public Schools

Cash

Maryland State Law prescribes that local government units such as the School System must deposit its cash in banks transacting business in the State of Maryland, and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance levels with collateral whose market value is at least equal to the deposits. Compliance is summarized as follows:

| | Governmental Activities | Business-Type Activities | Fiduciary Responsibilities | Total |
|--|----------------------------|-----------------------------|-------------------------------|------------|
| Carrying amount of cash deposits | \$ 58,675 | \$ 131,959 | \$ 492,281 | \$ 682,915 |
| Bank balance of cash deposits | 215,329 | 131,959 | 593,844 | 941,132 |
| Amount covered by FDIC | 115,401 | 70,477 | 582,318 | 768,196 |
| Amount collateralized with securities held by an agent of the pledging financial institution in the School System's name | 99,928 | 61,482 | 11,526 | 172,936 |

Investments

Statutes authorize the School System to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations.

At June 30, 2004, investments consist primarily of deposits in the Maryland Local Government Investment Pool. The carrying amount and market value were \$13,403,412, \$340,907, and \$937,794 for governmental activities, business-type activities, and fiduciary responsibilities, respectively.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County

Cash deposits and investments

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

At June 30, 2004, the carrying amount of the Library's deposits was \$4,120, and the bank balances totaled \$3,770. Of the bank balances, \$3,770 was covered by federal deposit insurance.

The Library's investments are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Library or its agent in the Library's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's trust department in the Library's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker's trust department or agent but not in the Library's name. Investment pools managed by other governments or investments in mutual funds are disclosed but not categorized.

| | <u>Carrying Amount</u> | <u>Market Value</u> |
|--|----------------------------|-------------------------|
| Unrestricted: | | |
| Investment in Maryland Local Government Investment Pool | <u>\$ 28,650</u> | <u>\$ 28,650</u> |
| Restricted: | | |
| The Vanguard Group | \$ 67,105 | \$ 67,105 |
| First National Bank of St. Mary's – Savings account | <u>4,058</u> | <u>4,058</u> |
| | <u>\$ 71,163</u> | <u>\$ 71,163</u> |
| | <u>Category</u> | |
| | <u>1</u> | <u>2</u> |
| | <u>3</u> | |
| First National Bank of St. Mary's – Savings account | <u>\$ 4,058</u> | <u>\$ 0</u> |
| | <u>\$ 4,058</u> | <u>\$ 0</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

3. Cash, cash equivalents and investments (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County (continued)

Cash deposits and investments (continued)

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

St. Mary's County Metropolitan Commission

Deposits and investments

Deposits

The carrying amount of MetCom's deposits was \$555,244 at June 30, 2004, and the bank balances were \$649,479. Of the bank balances, \$100,000 was covered by federal depository insurance at June 30, 2004, with the remaining \$549,479 adequately covered by collateral. State statutes authorize secured time deposits in Maryland banks and require uninsured deposits to be fully collateralized.

Cash and cash equivalents consisted of the following:

| | |
|-------------|---------------------|
| Investments | \$ 5,368,772 |
| Cash | 555,244 |
| Petty cash | <u>150</u> |
| | <u>\$ 5,924,166</u> |

Investments

State statutes authorize MetCom to invest in obligations of the United States government, federal government agency obligations, and repurchase agreements secured by direct government or agency obligations. All of the funds were invested in the Maryland Local Government Investment Pool (MLGIP) which qualifies under the statutes.

| | <u>Carrying Amount</u> | <u>Market Value</u> |
|-------|------------------------|---------------------|
| MLGIP | <u>\$ 5,368,772</u> | <u>\$ 5,368,772</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

4. Changes in fixed assets

Primary Government

A summary of changes in capital assets is as follows:

| | Balance June 30, 2003 | Additions | Deletions | Balance June 30, 2004 |
|---|--------------------------|---------------------|----------------------|--------------------------|
| Governmental Activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$11,614,581 | | | \$11,614,581 |
| Solid Waste Facilities | 6,378,024 | | | 6,378,024 |
| Construction In Progress | 7,084,049 | 9,393,722 | (6,820,585) | 9,657,186 |
| Buildings & improvements | 17,320,205 | | | 17,320,205 |
| Computer equipment | 2,235,202 | 62,041 | | 2,297,243 |
| Furniture & equipment | 375,320 | 5,871 | | 381,191 |
| Vehicles - licensed | 28,068 | 2,500 | | 30,568 |
| Off-road vehicles | 46,315 | | | 46,315 |
| Miscellaneous equipment | 1,409,123 | 196,936 | | 1,606,059 |
| Roads | 0 | 1,095 | | 1,095 |
| Airport equipment | 1,844 | | | 1,844 |
| Bridges | 60,000 | 8,746 | | 68,746 |
| Parks & recreation | 17,072 | | | 17,072 |
| Parking lots | 2,219 | | | 2,219 |
| 911 system & equipment | 1,423,733 | | | 1,423,733 |
| Total capital assets not being depreciated | \$47,995,755 | \$9,670,911 | (\$6,820,585) | \$50,846,081 |
| Capital assets being depreciated: | | | | |
| Buildings & improvements | \$72,595,494 | \$4,499,971 | | \$77,095,465 |
| Computer equipment | 1,543,459 | | | 1,543,459 |
| Furniture & equipment | 147,522 | | | 147,522 |
| Vehicles - licensed | 8,353,297 | 560,871 | (363,256) | 8,550,912 |
| Off-road vehicles | 1,393,075 | | | 1,393,075 |
| Miscellaneous equipment | 1,744,480 | 119,142 | | 1,863,622 |
| Roads | 78,345,449 | 8,420,148 | | 86,765,597 |
| Curbing | 946,791 | | | 946,791 |
| Sidewalks | 692,520 | | | 692,520 |
| Guardrails | 682,362 | 22,902 | | 705,264 |
| Airport infrastructure | 4,392,856 | | | 4,392,856 |
| Airport equipment | 514,808 | | | 514,808 |
| Baseball fields | 697,680 | | | 697,680 |
| Bridges | 4,888,710 | 34,456 | | 4,923,166 |
| Parks & recreation | 2,201,909 | 2,944,856 | | 5,146,765 |
| Marinas & docks | 7,252,865 | | | 7,252,865 |
| Irrigation systems | 138,751 | 40,963 | | 179,714 |
| Signage | 475,433 | | | 475,433 |
| Parking lots | 105,047 | | | 105,047 |
| 911 system & equipment | 7,354,466 | | | 7,354,466 |
| Total capital assets being depreciated | \$194,466,974 | \$16,643,309 | (\$363,256) | \$210,747,027 |
| Accumulated depreciation for: | | | | |
| Buildings & improvements | (\$24,087,333) | (\$1,291,341) | | (\$25,378,674) |
| Computer equipment | (1,041,885) | (157,320) | | (1,199,205) |
| Furniture & equipment | (25,514) | (7,376) | | (32,890) |
| Vehicles - licensed | (6,486,911) | (674,927) | 349,999 | (6,811,839) |
| Off-road vehicles | (631,406) | (125,477) | | (756,883) |
| Miscellaneous equipment | (531,773) | (183,223) | | (714,996) |
| Roads | (35,583,857) | (2,376,371) | | (37,960,228) |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

4. Changes in fixed assets (continued)

Primary Government (continued)

| | Balance | | | Balance |
|--|----------------|---------------|---------------|----------------|
| | June 30, 2003 | Additions | Deletions | June 30, 2004 |
| Accumulated depreciation for: (continued) | | | | |
| Curbing | (\$454,671) | (\$26,751) | | (\$481,422) |
| Sidewalks | (269,856) | (16,376) | | (286,232) |
| Guardrails | (264,702) | (15,823) | | (280,525) |
| Airport infrastructure | (2,665,642) | (452,186) | | (3,117,828) |
| Airport equipment | (326,045) | (47,191) | | (373,236) |
| Baseball fields | (272,584) | (14,066) | | (286,650) |
| Bridges | (1,443,372) | (100,002) | | (1,543,374) |
| Parks & recreation | (592,937) | (115,731) | | (708,668) |
| Marinas & docks | (2,019,018) | (238,201) | | (2,257,219) |
| Irrigation systems | (79,574) | (3,098) | | (82,672) |
| Signage | (282,247) | (15,349) | | (297,596) |
| Parking lots | (105,047) | | | (105,047) |
| 911 equipment | (255,045) | (392,882) | | (647,927) |
| Total accumulated depreciation | (\$77,419,419) | (\$6,253,691) | \$349,999 | (\$83,323,111) |
| Total capital assets being depreciated, net | \$117,047,555 | \$10,389,618 | (\$13,257) | \$127,423,916 |
| Governmental activities capital assets, net | \$165,043,310 | \$20,060,529 | (\$6,833,842) | \$178,269,997 |
| Business-type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$1,078,666 | | | \$1,078,666 |
| Off-road vehicles | 0 | 225,477 | | 225,477 |
| Buildings & improvements | 0 | 2,492 | | 2,492 |
| Computer equipment | 0 | 1,139 | | 1,139 |
| Miscellaneous equipment | 0 | 1,282 | | 1,282 |
| Total capital assets not being depreciated | \$1,078,666 | \$230,390 | \$0 | \$1,309,056 |
| Capital assets being depreciated: | | | | |
| Buildings & improvements | \$1,707,974 | | | \$1,707,974 |
| Computer equipment | 46,827 | | | 46,827 |
| Furniture & equipment | 39,359 | | | 39,359 |
| Off-road vehicles | 84,469 | 39,049 | | 123,518 |
| Miscellaneous equipment | 551,377 | 13,242 | (223,673) | 340,946 |
| Irrigation systems | 509,986 | | | 509,986 |
| Total capital assets being depreciated | \$2,939,992 | \$52,291 | (\$223,673) | \$2,768,610 |
| Accumulated depreciation for: | | | | |
| Buildings & improvements | (\$837,699) | (\$42,702) | | (\$880,401) |
| Computer equipment | (45,747) | (212) | | (45,959) |
| Furniture & equipment | (33,746) | (1,528) | | (35,274) |
| Off-road vehicles | (19,231) | (20,799) | | (40,030) |
| Miscellaneous equipment | (403,263) | (23,122) | 122,922 | (303,463) |
| Irrigation systems | (144,620) | (17,060) | | (161,680) |
| Total accumulated depreciation | (\$1,484,306) | (\$105,423) | \$122,922 | (\$1,466,807) |
| Total capital assets being depreciated, net | \$1,455,686 | (\$53,132) | (\$100,751) | \$1,301,803 |
| Business-type activities capital assets, net | \$2,534,352 | \$177,258 | (\$100,751) | \$2,610,859 |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

4. Changes in fixed assets (continued)

Primary Government (continued)

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

Governmental Activities

| | |
|--|--------------------|
| General Government | \$795,286 |
| Public Safety | 1,136,811 |
| Public Works | 3,718,281 |
| Health | 44,865 |
| Social Services | 76,076 |
| Primary and Secondary Education | 92,437 |
| Post -Secondary Education | 42,737 |
| Parks, Recreation, and Culture | 222,977 |
| Libraries | 123,001 |
| Economic Development and Opportunity | 1,220 |
| Total Depreciation - Governmental Activities | <u>\$6,253,691</u> |

Business-Type Activities

| | |
|---|------------------|
| Recreation Activity Fund | \$6,100 |
| Wicomico | 99,323 |
| Total Depreciation - Business-Type Activities | <u>\$105,423</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

4. Changes in fixed assets (continued)

Component Units

St. Mary's County Public Schools

Capital Assets

Capital asset activity for the year ended June 30, 2004 is as follows:

| | Balance June 30, 2003 | Additions | Deletions | Balance June 30, 2004 |
|---|--------------------------|----------------------|-----------------------|--------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 761,983 | \$ 0 | \$ 0 | \$ 761,983 |
| Land under financing agreement | 620,149 | 0 | 0 | 620,149 |
| Facilities under construction | 13,257,166 | 15,677,099 | (1,197,096) | 27,737,169 |
| Facilities under construction and financing agreements | <u>2,594,268</u> | <u>44,390</u> | <u>(2,638,658)</u> | <u>0</u> |
| | <u>17,233,566</u> | <u>15,721,489</u> | <u>(3,835,754)</u> | <u>29,119,301</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 202,225,319 | 2,661,189 | 0 | 204,886,508 |
| Furniture and equipment | 2,508,768 | 823,714 | (137,228) | 3,195,254 |
| Facilities and equipment under financing agreements | <u>3,433,022</u> | <u>2,638,658</u> | <u>(539,886)</u> | <u>5,531,794</u> |
| | <u>208,167,109</u> | <u>6,123,561</u> | <u>(677,114)</u> | <u>213,613,556</u> |
| Accumulated depreciation for: | | | | |
| Buildings and improvements, including facilities under capital lease | (54,348,497) | (4,783,335) | 0 | (59,131,832) |
| Furniture and equipment, including equipment under financing agreements | <u>(1,568,520)</u> | <u>(366,900)</u> | <u>121,926</u> | <u>(1,813,494)</u> |
| | <u>(55,917,017)</u> | <u>(5,150,235)</u> | <u>121,926</u> | <u>(60,945,326)</u> |
| Governmental activities capital assets, net | <u>\$ 169,483,658</u> | <u>\$ 16,694,815</u> | <u>\$ (4,390,942)</u> | <u>\$181,787,531</u> |
| Business-type activities | | | | |
| Capital assets being depreciated: | | | | |
| Furniture and equipment | <u>\$ 1,073,774</u> | <u>\$ 0</u> | <u>\$ (12,689)</u> | <u>\$ 1,061,085</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

4. Changes in fixed assets (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Capital Assets (continued)

| | Balance June 30, 2003 | Additions | Deletions | Balance June 30, 2004 |
|--|--------------------------|-------------|-----------|--------------------------|
| Accumulated depreciation for: | | | | |
| Furniture and equipment | (255,895) | (73,049) | 12,689 | (316,255) |
| Business-type activities capital assets, net | \$ 817,879 | \$ (73,049) | \$ 0 | \$ 744,830 |

Depreciation expense was charged in the Statement of Activities for the year ended June 30, 2004, as follows:

Governmental activities:

| | |
|--|---------------------|
| Administration | \$ 34,917 |
| Mid-Level Administration | 19,829 |
| Other Instructional Costs | 47,788 |
| Special Education | 6,889 |
| Student Personnel Services | 7,726 |
| Student transportation services | 148,744 |
| Operation of plant | 4,828,701 |
| Maintenance of plant | 55,641 |
| Total governmental activities depreciation expense | <u>\$ 5,150,235</u> |

Business-type activities:

| | |
|---------------|-----------------|
| Food services | <u>\$73,049</u> |
|---------------|-----------------|

Board of Library Trustees for St. Mary's County

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2004 was as follows:

| | Balance <u>July 1, 2003</u> | Additions | Deletions | Balance <u>June 30, 2004</u> |
|---------------------------|--------------------------------|----------------|------------------|---------------------------------|
| Capital assets: | | | | |
| Furnishings and Equipment | \$ 766,778 | \$ 46,036 | \$ (15,449) | \$ 797,365 |
| Vehicles | 17,199 | 0 | 0 | 17,199 |
| Books | <u>2,077,381</u> | <u>204,670</u> | <u>(166,696)</u> | <u>2,115,355</u> |
| | <u>2,861,358</u> | <u>250,706</u> | <u>(182,145)</u> | <u>2,929,919</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

4. Changes in fixed assets (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County (continued)

Capital assets and depreciation (continued)

| | Balance <u>July 1, 2003</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2004</u> |
|------------------------------|--------------------------------|--------------------|------------------|---------------------------------|
| Accumulated depreciation: | | | | |
| Furnishings and Equipment | \$ 206,401 | \$ 132,251 | \$ (15,449) | \$ 323,203 |
| Vehicles | 5,160 | 3,440 | 0 | 8,600 |
| Books | <u>1,037,863</u> | <u>274,287</u> | <u>(166,696)</u> | <u>1,145,454</u> |
| | <u>1,249,424</u> | <u>409,978</u> | <u>(182,145)</u> | <u>1,477,257</u> |
| Net capital assets | <u>\$1,611,934</u> | <u>\$(159,272)</u> | <u>\$ 0</u> | <u>\$1,452,662</u> |

Governmental activities depreciation expense of \$409,978 was charged to Library services.

St. Mary's County Building Authority Commission

Capital assets

Capital assets at June 30, 2004 consisted of the following:

| | |
|---------------------------|----------------------|
| Capital assets: | |
| Nursing Home building | \$ 8,846,238 |
| State Office building | 8,673,157 |
| Furniture and equipment | <u>13,387</u> |
| | <u>17,532,782</u> |
| Accumulated depreciation: | |
| Nursing Home building | 3,186,136 |
| State Office building | 3,113,646 |
| Furniture and equipment | <u>13,387</u> |
| | <u>6,313,169</u> |
| Net capital assets | <u>\$ 11,219,613</u> |

Depreciation expense of \$437,985 was charged to activities for the fiscal year ended June 30, 2004. There were no additions or deletions of capital assets during the fiscal year ended June 30, 2004.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

4. Changes in fixed assets (continued)

St. Mary's County Metropolitan Commission

Capital assets and depreciation

Capital asset activity for the year ended June 30, 2004 was as follows:

| | <u>Balance</u> <u>July 1, 2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2004</u> |
|---------------------------------------|---------------------------------------|--------------------|-------------------|--|
| Capital assets: | | | | |
| Utility plants | \$64,962,701 | \$ 116,621 | \$ 0 | \$65,079,322 |
| Water plant systems | 9,653,192 | 646,502 | 0 | 10,299,694 |
| Equipment | 3,565,530 | 357,869 | 414 | 3,922,985 |
| Capitalized interest | 818,201 | 0 | 0 | 818,201 |
| Buildings | <u>1,414,137</u> | <u>0</u> | <u>0</u> | <u>1,414,137</u> |
| Subtotal | 80,413,761 | 1,120,992 | 414 | 81,534,339 |
| Not being depreciated: | | | | |
| Utility plant construction in process | 1,534,482 | 1,543,008 | 56,649 | 3,020,841 |
| Water plant construction in process | 1,141,145 | 1,313,834 | 369,937 | 2,085,042 |
| Land/land rights | <u>526,337</u> | <u>0</u> | <u>0</u> | <u>526,337</u> |
| | <u>83,615,725</u> | <u>3,977,834</u> | <u>427,000</u> | <u>87,166,559</u> |
| Accumulated depreciation: | | | | |
| Utility plants | 18,633,824 | 1,313,607 | 0 | 19,947,431 |
| Water plant systems | 3,274,429 | 362,852 | 0 | 3,637,281 |
| Equipment | 2,207,217 | 271,629 | 0 | 2,478,846 |
| Capitalized interest | 139,094 | 16,364 | 0 | 155,458 |
| Buildings | <u>340,509</u> | <u>50,796</u> | <u>0</u> | <u>391,305</u> |
| | <u>24,595,073</u> | <u>2,015,248</u> | <u>0</u> | <u>26,610,321</u> |
| Net capital assets | <u>\$59,020,652</u> | <u>\$1,962,586</u> | <u>\$ 427,000</u> | <u>\$60,556,238</u> |

Depreciation expense of \$2,015,248 was charged to activities as follows:

| | |
|------------------|---------------------|
| Sewer activities | \$ 1,843,371 |
| Water activities | 82,207 |
| Administrative | <u>89,670</u> |
| Total | <u>\$ 2,015,248</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

5. Property tax

Property taxes attach as an enforceable lien on property as of July 1. Taxes are levied each July 1, and the taxpayer has the option to pay in full without interest by September 30 or elect a semiannual payment option. If a semiannual payment option is elected, the first payment is payable without interest by September 30 and the second payment, including a service charge, is payable without interest by December 31. Interest is charged for each month or fraction thereof that taxes remain unpaid beginning October 1 on accounts under the annual payment option or January 1 for accounts under the semiannual payment option. Maryland law grants the Treasurer of St. Mary's County the power to immediately advertise and sell any real property after the taxes are delinquent for a period of one year. Property taxes are levied at rates enacted by the Commissioners in the annual budget based on the assessed value of the property as determined by the Maryland State Department of Assessments and Taxation, an agency of the government of the State of Maryland. The rates of levy cannot exceed the constant yield tax rate furnished by the Maryland State Department of Assessments and Taxation without public notice and, then only after public hearings. The real property tax rate during the year ended June 30, 2004, was \$.908 per \$100 of assessed value based on the full valuation method. The personal property tax rate during the year ended June 30, 2004 was \$2.27 per \$100 of assessed value. The County bills and collects all property taxes.

A 100% allowance for uncollectibles is established for prior year (fiscal year 2002 and prior) taxes receivable. County property tax receivable as of June 30, 2004, net of the allowance for uncollectibles of \$558,290, is \$1,698,337 (this amount does not include state and fire taxes receivable). On October 1, a 3% penalty is assessed, and interest begins accruing at a rate of 1% for each month that real and personal property taxes are delinquent (unless taxpayer has elected semiannual payment option as described above).

6. Special assessment receivable and deferred revenue

Primary Government

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

As of June 30, 2004, there were no delinquent special assessment receivables due from taxpayers.

Component Units

St. Mary's County Public Schools

General Fund

Deferred revenue consists primarily of revenues received under restricted programs in excess of the expenditures under those programs at June 30, 2004. Additionally, summer school tuition which is collected in advance is included in deferred revenue since the corresponding expenditures do not occur until the following fiscal year.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

6. Special assessment receivable and deferred revenue (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Enterprise Fund

Deferred revenue consists of commodities in the amount of \$87,180, donated by the Federal government and included in inventory at June 30, 2004. The remaining deferred revenue of \$15,000, represents student lunch ticket sales collected in advance for lunches which will be consumed by students in fiscal year 2005.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations

Primary Government

| | June 30, 2003 | Additions | Deductions | Principal Repayment | June 30, 2004 | Amounts due within one year |
|--|----------------------|---------------------|-----------------------|------------------------|----------------------|--------------------------------|
| General Obligation Bonds - County | \$86,980,000 | \$33,985,000 | (\$10,830,000) | (\$5,865,000) | \$104,270,000 | \$7,395,000 |
| Water Quality Loan | 2,845,760 | 548,671 | 0 | (196,639) | 3,197,792 | 201,357 |
| State Loans | 872,118 | 0 | 0 | (84,909) | 787,209 | 84,969 |
| Transportation | 137,974 | 0 | 0 | (137,974) | 0 | 0 |
| Exempt Financing | 0 | 1,030,000 | 0 | (130,118) | 899,882 | 201,902 |
| | <u>90,835,852</u> | <u>35,563,671</u> | <u>(10,830,000)</u> | <u>(6,414,640)</u> | <u>109,154,883</u> | <u>7,883,228</u> |
| General Obligation Bonds, sold on behalf of St. Mary's Hospital | 27,435,000 | 0 | 0 | (1,870,000) | 25,565,000 | 1,935,000 |
| Landfill Post-Closure Costs | 7,500,000 | 0 | (4,750,000) | 0 | 2,750,000 | 0 |
| 911 Contract | 1,133,664 | 0 | 0 | (1,133,664) | 0 | 0 |
| Compensated Absences (long-term) | 2,566,465 | 122,343 | 0 | 0 | 2,688,808 | 13,697 |
| | <u>11,200,129</u> | <u>122,343</u> | <u>(4,750,000)</u> | <u>(1,133,664)</u> | <u>5,438,808</u> | <u>13,697</u> |
| Total | <u>\$129,470,981</u> | <u>\$35,686,014</u> | <u>(\$15,580,000)</u> | <u>(\$9,418,304)</u> | <u>\$140,158,691</u> | <u>\$9,831,925</u> |
| Less: Amount Deferred on Refunding | (1,845,000) | 14,223 | 0 | 0 | (1,830,777) | 23,557 |
| Amount Reported in Statement of Net Assets | <u>\$127,625,981</u> | <u>\$35,700,237</u> | <u>(\$15,580,000)</u> | <u>(\$9,418,304)</u> | <u>\$138,327,914</u> | <u>\$9,855,482</u> |

Business-Type Activities

| | | | | | | |
|--|------------|------------------|------------|-------------------|------------------|-----------------|
| Exempt Financing | \$0 | \$175,000 | \$0 | (\$14,583) | \$160,417 | \$35,000 |
| Amount Reported in Statement of Net Assets | <u>\$0</u> | <u>\$175,000</u> | <u>\$0</u> | <u>(\$14,583)</u> | <u>\$160,417</u> | <u>\$35,000</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Primary Government (continued)

General obligation bonds

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

On July 15, 2001, The County Commissioners for St. Mary's County issued Consolidated Public Improvement Bonds in the amount of \$25,000,000. The bonds bear interest at rates of 4-5.50% per annum, payable January 1 and July 1, beginning January 1, 2002. Principal payments of varying amounts are payable July 1, commencing July 1, 2002.

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

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

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

As a result of the advance refunding, the County reduced its total debt service requirements by \$2,381,398, which resulted in an economic gain of \$619,442.

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

As a result of the advance refunding, the County reduced its total debt service requirements by \$401,792, which resulted in an economic gain of \$126,067.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Primary Government (continued)

General obligation bonds

The bonds may be prepaid at the following premiums:

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

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

The County has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase United States government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the County's government-wide financial statements. As of June 30, 2004, the amount of debt outstanding removed from long-term debt amounted to \$23,665,000.

2001 Maryland Water Quality Loan

On September 29, 2000, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$3,338,383 for landfill post-closure costs, St. Andrews Landfill area B, cells 1, 2 and 4. The final loan amount has been determined and a new amortization schedule has been formally placed in effect. The loan bears interest at a rate of 2.4% per annum payable semiannually. Principal payments are due annually starting February 1, 2002. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2004, based on the final loan amount of \$3,225,318, are as follows:

2001 Maryland Water Quality Loan

| <u>Year ending June 30,</u> | <u>Amount</u> |
|-----------------------------|--------------------|
| 2005 | \$ 277,689 |
| 2006 | 277,689 |
| 2007 | 277,689 |
| 2008 | 277,689 |
| 2009 | 277,689 |
| 2010-2014 | 1,388,444 |
| 2015-2016 | <u>442,313</u> |
| | <u>\$3,219,202</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Primary Government (continued)

2001 Maryland Water Quality Loan (continued)

The totals are composed of principal, interest and administrative fees as follows:

| | |
|---------------------|--------------------|
| Principal | \$2,649,121 |
| Interest | 417,049 |
| Administrative fees | <u>153,032</u> |
| | <u>\$3,219,202</u> |

2004 Maryland Water Quality Loan

On May 26, 2004, The County Commissioners for St. Mary's County entered into an agreement with the Maryland Water Quality Financing Administration to borrow an amount not to exceed \$4,332,759 for landfill post-closure costs, St. Andrews Landfill area B, cells 3 and 5. As of June 30, 2004, the amount drawn on the loan was \$548,671. The loan bears an interest rate of 1.10% per annum, payable semiannually. An initial principal payment of \$1,000 is due August 1, 2005. Subsequent principal payments are due annually beginning February 1, 2006. Once the final loan amount has been determined, a new amortization schedule will be formally placed in effect. The annual requirements to amortize the Maryland Water Quality Loan as of June 30, 2004, based on the total proceeds of \$4,332,759, are as follows:

| <u>Year ending June 30,</u> | <u>Amount</u> |
|-----------------------------|--------------------|
| 2005 | \$ 41,669 |
| 2006 | 347,436 |
| 2007 | 347,441 |
| 2008 | 347,441 |
| 2009 | 347,441 |
| 2010-2014 | 1,737,207 |
| 2015-2019 | <u>1,737,207</u> |
| | <u>\$4,905,842</u> |

The totals are composed of principal, interest and administrative fees as follows:

| | |
|---------------------|--------------------|
| Principal | \$4,332,759 |
| Interest | 395,764 |
| Administrative fees | <u>177,319</u> |
| | <u>\$4,905,842</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Primary Government (continued)

2004 Exempt Financing – Equipment Lease

On December 23, 2003, The County Commissioners for St. Mary's County entered into an agreement with Suntrust Bank to borrow \$605,000 for the purchase of vehicles. The lease bears interest at a rate of 3.2% per annum payable monthly. Payments are due monthly starting February 2, 2004. This lease was pro rated amongst primary government and business-type activities at a rate of 71 and 29 percent, respectively. The annual requirements to amortize the 2004 Equipment Lease (primary government portion only) as of June 30, 2004, based on the final lease amount of \$605,000, are as follows:

2004 Equipment Lease

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|------------------|-------------------|
| 2005 | \$ 86,000 | \$ 11,352 | \$ 97,352 |
| 2006 | 86,000 | 8,600 | 94,600 |
| 2007 | 86,000 | 5,848 | 91,848 |
| 2008 | 86,000 | 3,096 | 89,096 |
| 2009 | <u>50,166</u> | <u>535</u> | <u>50,701</u> |
| | <u>\$ 394,166</u> | <u>\$ 29,431</u> | <u>\$ 423,597</u> |

2004 911 Equipment Lease

On August 19, 2003, The County Commissioners for St. Mary's County entered into an agreement with Suntrust Bank to borrow \$600,000 for the purchase of additional 911 equipment. The lease bears interest at a rate of 2.89% per annum payable monthly. Payments are due monthly starting August 19, 2003. The annual requirements to amortize the 2004 911 Lease as of June 30, 2004, based on the final lease amount of \$600,000, are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|------------------|-------------------|
| 2005 | \$ 115,823 | \$ 13,090 | \$ 128,913 |
| 2006 | 119,296 | 9,696 | 128,992 |
| 2007 | 122,790 | 6,202 | 128,992 |
| 2008 | 126,386 | 2,606 | 128,992 |
| 2009 | <u>21,421</u> | <u>77</u> | <u>21,498</u> |
| | <u>\$ 505,716</u> | <u>\$ 31,671</u> | <u>\$ 537,387</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Primary Government (continued)

Long-term obligations at June 30, 2004 consist of the following:

| <u>Description</u> | <u>Due</u> | <u>Rate</u> | <u>Amount</u> |
|---|------------|-------------|--------------------|
| <u>State loans:</u> | | | |
| Rural housing service, formerly Farmers Home Administration (Watershed Project) | 1972-2022 | 3.463% | \$ 50,966 |
| Maryland Department of Natural Resources: | | | |
| Point Breeze | 1993-2017 | None | 113,988 |
| Sandgates Road | 1994-2015 | None | 68,552 |
| Breton Bay Erosion Project | 1983-2006 | None | 22,771 |
| Jefferson Island #2 and #3 Erosion Projects | 1985-2015 | None | 94,012 |
| Tall Timbers #2 Erosion Project | 1986-2012 | None | 52,833 |
| Tall Timbers #3 Erosion Project | 1991-2016 | None | 78,978 |
| Jefferson Island Club, Inc. | 1991-2016 | None | 155,173 |
| Hollywood Shores | 1998-2012 | None | 62,768 |
| Maryland Water Quality Loan | 2003-2016 | 2.4% | 2,649,121 |
| Murray Road Revetment | 2004-2028 | None | 87,168 |
| Maryland Water Quality Loan | 2005-2019 | None | <u>548,671</u> |
| Total state loans | | | <u>\$3,985,001</u> |

Bonds:

General obligations bonds:

| | | | |
|---|-----------|------------|----------------------|
| St. Mary's Hospital Bonds of 1993 | 1994-2008 | 5.75-6.75% | \$ 2,545,000 |
| Public Facilities Bonds of 1995 | 1995-2010 | 5.2-7.0% | 865,000 |
| Public Facilities Refunding Bonds of 1996 | 1997-2009 | 3.3-5.0% | 1,755,000 |
| St. Mary's County Refunding Hospital Bonds of 1996 | 1997-2009 | 3.3-5.0% | 3,020,000 |
| St. Mary's County Consolidated Public Improvement Project and Refunding Bonds of 1997 | 1998-2012 | 4.5-4.875% | 16,570,000 |
| Consolidated Public Improvement Bonds of 1999 | 2000-2019 | 5-6% | 7,255,000 |
| 2001 General Obligation Bonds | 2004-2022 | 3.80% | 23,245,000 |
| 2003 Refunding Bonds | 2004-2020 | 3.25-5% | 20,595,000 |
| 2003 St. Mary's Hospital Bonds | 2006-2023 | 3.5-5.125% | 20,000,000 |
| 2003 Public Facilities and Refunding Bonds | 2006-2023 | 2.75-4.75% | <u>33,985,000</u> |
| Total general obligation bonds | | | <u>\$129,835,000</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Primary Government (continued)

| | |
|---|-----------------------|
| Total state loans and bonds | \$ 133,820,001 |
| Accrued landfill closure and postclosure costs | 2,750,000 |
| Exempt Financing | 899,882 |
| Accumulated unpaid annual leave employee benefits | <u>2,688,808</u> |
| Total | \$ 140,158,691 |
| Less: Amount deferred on refunding | <u>\$ (1,830,777)</u> |
| | <u>\$ 138,327,914</u> |

Business-Type Activities

Exempt Financing – Equipment Lease

On December 23, 2003, The County Commissioners for St. Mary's County entered into an agreement with Suntrust Bank to borrow \$605,000. The lease bears interest at a rate of 3.2% per annum payable monthly. Payments are due monthly starting February 2, 2004. This lease was pro rated amongst primary government and business type activities at a rate of 71 and 29 percent, respectively. The annual requirements to amortize the 2004 Equipment Lease (Business Type portion only) as of June 30, 2004, based on the final lease amount of \$605,000, are as follows:

2004 Equipment Lease

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------------------------|-------------------|------------------|-------------------|
| 2005 | \$ 35,000 | \$ 4,620 | \$ 39,620 |
| 2006 | 35,000 | 3,500 | 38,500 |
| 2007 | 35,000 | 2,380 | 37,380 |
| 2008 | 35,000 | 1,260 | 36,260 |
| 2009 | <u>20,417</u> | <u>218</u> | <u>20,635</u> |
| | <u>\$ 160,417</u> | <u>\$ 11,978</u> | <u>\$ 172,395</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Primary Government (continued)

Special assessment debt

Special assessment fund debt payable as of June 30, 2004 is composed of the following loans payable to the Maryland Department of Natural Resources:

| | |
|---|------------------|
| Hollywood Shores, Shore Erosion Control Project, payable in fifteen annual installments of \$7,846, without interest, guaranteed by the full faith and credit of the County. | \$62,768 |
| Breton Bay, Shore Erosion Control Project, payable in twenty-five annual installments of \$7,589, without interest, guaranteed by the full faith and credit of the County. | 22,771 |
| Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$7,547, without interest, guaranteed by the full faith and credit of the County. | 52,833 |
| Tall Timbers, Shore Erosion Control Project, payable in twenty-five annual installments of \$6,582, without interest, guaranteed by the full faith and credit of the County. | 78,978 |
| Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of \$10,109, without interest, modified during fiscal year 1993 to eighteen varying annual payments without interest, guaranteed by the full faith and credit of the County. | 94,012 |
| Jefferson Island, Shore Erosion Control Project, originally payable in twenty-five annual installments of \$11,040, without interest, modified during fiscal year 1993 to twenty-two varying annual payments without interest, guaranteed by the full faith and credit of the County. | <u>155,173</u> |
| | <u>\$466,535</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units

St. Mary's County Public Schools

Long-term Liabilities

General long-term debt at June 30, 2004, consists of financing agreement obligations and accumulated compensated absences payable. The interest rates on the financing agreement obligations range from 3.47% to 7.909% with maturity dates up to October 2016. The financing agreement obligations are secured by the capital assets purchased. The following is a summary of changes in the School System's general long-term liabilities for the year ended June 30, 2004.

| | <u>Balance June 30, 2003</u> | <u>Additions</u> | <u>Deductions/ Maturities</u> | <u>Balance June 30, 2004</u> | <u>Amounts due Within one year</u> |
|------------------------------------|----------------------------------|-------------------|-----------------------------------|----------------------------------|--|
| Governmental activities: | | | | | |
| Financing agreements | | | | | |
| Office facility construction | \$ 5,271,043 | \$ 0 | \$ (273,650) | \$ 4,997,393 | \$ 286,648 |
| School buses and related equipment | 445,960 | 0 | (159,161) | 286,799 | 100,972 |
| Computer equipment | 87,685 | 0 | (87,685) | 0 | 0 |
| | <u>5,804,688</u> | <u>0</u> | <u>(520,496)</u> | <u>5,284,192</u> | <u>387,620</u> |
| Other long-term liabilities: | | | | | |
| Compensated absences | <u>2,978,028</u> | <u>279,724</u> | <u>(227,392)</u> | <u>3,030,360</u> | <u>321,915</u> |
| Governmental activities: | | | | | |
| Long-term liabilities | <u>\$ 8,782,716</u> | <u>\$ 279,724</u> | <u>\$ (747,888)</u> | <u>\$ 8,314,552</u> | <u>\$ 709,535</u> |
| Business-type activities: | | | | | |
| Other long-term liabilities: | | | | | |
| Compensated absences | <u>\$ 57,978</u> | <u>\$ 19,579</u> | <u>\$ (18,195)</u> | <u>\$ 59,362</u> | <u>\$ 4,225</u> |

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Long-term Liabilities (continued)

Following is a schedule of current maturities, including interest, under financing agreements as of June 30, 2004:

| <u>Year Ending June 30,</u> | <u>Total</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|--------------------|--------------------|--------------------|
| 2005 | \$ 665,104 | \$ 387,620 | \$ 277,484 |
| 2006 | 637,099 | 406,959 | 230,140 |
| 2007 | 605,903 | 393,659 | 212,244 |
| 2008 | 524,024 | 329,466 | 194,558 |
| 2009 | 524,024 | 345,116 | 178,908 |
| 2010-2014 | 2,620,121 | 1,987,614 | 632,507 |
| 2015-2017 | 1,572,071 | 1,433,758 | 138,313 |
| | <u>\$7,148,346</u> | <u>\$5,284,192</u> | <u>\$1,864,154</u> |

Board of Library Trustees for St. Mary's County

Long-term debt

Long-term debt consists of accrued compensated absences. The following is a summary of the changes in long-term debt for the year ended June 30, 2004:

| <u>Balance</u> <u>July 1, 2003</u> | <u>Decrease</u> | <u>Balance</u> <u>June 30, 2004</u> | <u>Amounts due</u> <u>within one year</u> |
|---------------------------------------|-----------------|--|--|
| \$ 73,325 | \$ 4,852 | \$ 68,473 | \$ 0 |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission

Long-term debt

Long-term bonds payable as of June 30, 2004 are as follows:

| <u>Bonds payable</u> <u>Description</u> | <u>Due</u> | <u>Rate</u> | <u>Principal</u> | <u>Interest</u> |
|--|------------|--------------|------------------|-----------------|
| Third Issue | 1976-2006 | 5.0 - 6.0% | \$ 285,000 | \$ 24,368 |
| Tenth Issue | 1995-2020 | 5.56 – 6.08% | 798,542 | 419,861 |
| Twelfth Issue | 1996-2013 | 3.9 – 5.25% | 1,745,000 | 429,604 |
| Thirteenth Issue | 1996-2021 | 5.579% | 670,000 | 403,375 |
| Fourteenth Issue | 2001-2029 | 4.125 – 5.0% | 1,668,800 | 1,271,437 |
| Seventeenth Issue | 2006-2019 | 2.75 –4.40% | 5,989,400 | 2,150,422 |
| | | | 11,156,742 | 4,699,067 |
| Less current portion | | | 370,041 | 495,831 |
| Total | | | \$10,786,701 | \$4,203,236 |

The annual requirements to amortize principal and interest payments of all bonds outstanding as of June 30, 2004 are as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|------------------|-----------------|
| 2005 (current) | \$ 370,041 | \$ 495,831 |
| 2006 | 627,500 | 473,339 |
| 2007 | 734,300 | 446,422 |
| 2008 | 666,200 | 419,043 |
| 2009 | 688,000 | 392,037 |
| 2010-2014 | 3,690,200 | 1,483,904 |
| 2015-2019 | 3,300,201 | 704,291 |
| 2020-2024 | 563,800 | 204,005 |
| 2025-2029 | 516,500 | 80,195 |
| | \$11,156,742 | \$4,699,067 |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Sinking fund redemption

The bonds due on November 1, 2013 and 2018 are subject to mandatory sinking fund or payment at the stated maturity date, as the case may be, at a redemption price, or price at maturity, as the case may be, equal to the principal amount thereof plus accrued interest to the redemption or payment date, at maturity on each as follows:

\$1,185,000 term bonds due November 1, 2013

| <u>Year</u> | <u>Sinking Fund Installment</u> |
|-------------|---------------------------------|
| 2011 | \$ 370,000 |
| 2012 | \$ 395,000 |
| 2013 | \$ 420,000 |

\$2,515,000 term bonds due November 1, 2018

| <u>Year</u> | <u>Sinking Fund Installment</u> |
|-------------|---------------------------------|
| 2014 | \$ 440,000 |
| 2015 | \$ 470,000 |
| 2016 | \$ 500,000 |
| 2017 | \$ 535,000 |
| 2018 | \$ 570,000 |

Bonds are payable from benefit assessment charges and connection charges derived from the properties served by MetCom and interest on investments. Payment of interest and principal on bonds when due is guaranteed by St. Mary's County

Redemption – Tenth Issue – DHCD Loan

Optional redemption

Bonds that mature on or before June 1, 2005 are not subject to redemption prior to their maturities. Bonds that mature on or after June 1, 2005 are subject to redemption beginning June 1, 2005, as a whole at any time or in part on any interest payment date, in order of maturities, at the option of MetCom, at the following redemption prices expressed as a percentage of the principal amount of bonds to be redeemed plus accrued interest thereon to the date fixed for redemption:

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

| <u>Period During Which Redeemable (Both Dates Inclusive)</u> | <u>Redemption Price</u> |
|--|-------------------------|
| June 1, 2005 to May 31, 2006 | 102% |
| June 1, 2006 to May 31, 2007 | 101% |
| June 1, 2007 and thereafter | 100% |

Redemption – Twelfth Issue

Optional redemption

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

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

Redemption – Thirteenth Issue – DHCD Loan

Optional redemption

The Bonds are subject to redemption, at the option of the issuer, in whole or in part at any time, on or after June 1, 2006, during the periods and at the redemption prices, plus accrued interest on principal amount thereof to the redemption date listed below:

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Special redemption

The Bonds are subject to special redemption at the principal amount thereof, plus accrued interest thereon, at the option of the issuer, in whole or in part, at any time, without premium from (1) bond proceeds deposited in the Infrastructure Fund and not used to finance an Infrastructure Loan, and (2) amounts on deposit in the Surplus Fund.

Fourteenth Issue

On May 18, 1999, the Commission issued \$1,830,900 of Infrastructure Financing Bonds in conjunction with the Maryland Community Development Administration (CDA). As of June 30, 2004, the Commission had drawn \$1,830,900 of the proceeds.

Principal payments are due from 2001-2029. The average interest cost is 4.86%.

The bonds may be prepaid at the following premiums:

| <u>Period</u> | <u>Price</u> |
|-----------------------------------|--------------|
| June 1, 2009 through May 31, 2010 | 101% |
| June 1, 2010 through May 31, 2011 | 100-1/2% |
| After June 1, 2011 | 100% |

Seventeenth Issue

On September 4, 2003, Metcom issued Refunding Bonds of 2003 in the principal amount of \$6,105,000. The bonds mature on November 1, in 14 annual installments, beginning in 2005 and ending in 2018. Interest rates on the bonds range from 2.75% to 4.40%. Interest is payable on May 1, 2004 and semiannually thereafter on each May 1 and November 1, to Maturity.

The bonds may be prepaid at the following premiums:

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Current-year defeasance of debt

On September 4, 2003, Metcom issued \$6,105,000 of Refunding Bonds with a true interest cost of 3.92% to refund certain maturities of \$5,780,000 in outstanding 1993 series bonds with coupon rates ranging from 4.875% to 5.85%. These bonds were issued to replace the 1993 series bonds and take advantage of a favorable interest rate environment. The net proceeds (including interest and premium) of \$6,158,871 were deposited with an escrow agent to provide for all future debt service payments of the refunded bonds.

Metcom advance refunded the 1993 series bonds at a premium to reduce its total debt service payments by \$590,767 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$567,330.

The outstanding amount of refunding bond issue number seventeen is shown net of a deferred loss on the advance refunding of \$115,600.

Notes, leases, and loans payable

Notes, leases and loans payable as of June 30, 2004 are as follows:

| <u>Description</u> | <u>Due</u> | <u>Rate</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------|------------|-------------|---------------------|---------------------|
| Leonardtown | 2010-2020 | 6.10 – 10% | \$ 169,068 | \$ 82,427 |
| Sixth Issue | 2017 | 6.682% | 152,953 | 80,689 |
| MD Water Quality Loan #8 | 2012 | 4.458% | 692,295 | 145,788 |
| MD Water Quality Loan #11 | 2017 | 4.26% | 3,074,414 | 992,909 |
| MD Water Quality Loan #15 | 2020 | 2.70% | 701,576 | 161,311 |
| MD Water Quality Loan #16 | 2023 | 1.20% | 539,588 | 66,874 |
| MD Water Quality Loan #18 | 2025 | 1.10% | 204,114 | 25,464 |
| MD Water Quality Loan #19 | 2024 | 1.10% | 53,836 | 6,552 |
| MD Water Quality Loan #20 | 2024 | 1.10% | 56,424 | 6,587 |
| | | | 5,644,268 | 1,568,601 |
| Less current portion | | | 346,903 | 213,597 |
| Total | | | <u>\$ 5,297,365</u> | <u>\$ 1,355,004</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Notes, leases, and loans payable (continued)

As of June 30, 2004, MetCom has seven loans from the Maryland Water Quality Financing Administration. Proceeds from loan number eight amounting to \$1,326,045 are to be used to finance the Marley-Taylor WRF Interim Expansion. There are no more funds to be drawn on the first loan as of June 30, 2004. Proceeds from loan number eleven of \$4,275,682 are to be used to finance the Marley-Taylor WRF Wastewater Treatment Plant Upgrade and Expansion Project. As of June 30, 2004, amounts drawn on the loan were \$4,181,945. Loan number fifteen of \$835,000 was drawn during the year ended June 30, 2000 for the purposes of financing an office building for the administrative use of MetCom. Loan number sixteen of \$630,756 is to be used to upgrade the Leonardtown waste water treatment plant. Proceeds drawn at June 30, 2004 were \$567,680. Loan number eighteen for \$4,712,200 is to be used to upgrade the Marley-Taylor WRF. As of June 30, 2004, amounts drawn on the loan were \$204,114. Loan number nineteen for \$976,700 is to be used to replace the wastewater pumping station. As of June 30, 2004, amounts drawn on the loan were \$53,836. Loan number twenty is to be used for water meter installations. As of June 30, 2004, amounts drawn on the loan were \$56,424.

The annual requirements to amortize principal and interest payments on all notes, leases and loans outstanding as of June 30, 2004, are as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|--------------------|--------------------|
| 2005 (current) | \$ 346,903 | \$ 213,597 |
| 2006 | 372,958 | 201,524 |
| 2007 | 387,787 | 186,581 |
| 2008 | 403,625 | 171,181 |
| 2009 | 420,170 | 155,063 |
| 2010-2014 | 2,118,483 | 513,055 |
| 2015-2019 | 1,320,697 | 119,573 |
| 2020-2024 | 262,344 | 7,903 |
| 2025-2029 | 11,301 | 124 |
| | <u>\$5,644,268</u> | <u>\$1,568,601</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Metropolitan Commission (continued)

Changes in long-term debt

The changes in long-term debt payable for the year ended June 30, 2004 were as follows:

| | <u>Balance July 1, 2003</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2004</u> | <u>Amounts due Within one year</u> |
|------------------------------------|---------------------------------|--------------------|--------------------|----------------------------------|--|
| Bonds payable | \$11,479,584 | \$6,170,900 | \$6,493,741 | \$11,156,743 | \$370,041 |
| Notes, leases and loans payable | 5,656,144 | 314,373 | 326,250 | 5,644,267 | 346,903 |
| Total long-term debt | \$17,135,728 | \$6,485,273 | \$6,819,991 | \$16,801,010 | \$716,944 |

Building Authority Commission

Long-term Debt

Changes in Long-term Debt

The changes in long-term debt for the year ended June 30, 2004 were as follows:

| | <u>Balance July 1, 2003</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance June 30, 2004</u> | <u>Amounts due within one year</u> |
|---------------|---------------------------------|--------------------|--------------------|----------------------------------|--|
| Bonds payable | <u>\$11,880,000</u> | <u>\$6,230,000</u> | <u>\$6,695,000</u> | <u>\$11,415,000</u> | <u>\$1,000,000</u> |

Nursing Home Refunding Bonds

General

The refunding bonds are dated December 2, 2003 and were issued in the aggregate principal amount of \$6,230,000. The following principal amounts mature and bear interest each January 15 and July 15 as set forth below:

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

Nursing Home Refunding Bonds (continued)

| <u>Maturity Date</u> | <u>Principal Amounts</u> | <u>Interest</u> |
|----------------------|--------------------------|-----------------|
| 2005 | \$ 540,000 | 2.50% |
| 2006 | \$ 490,000 | 2.50% |
| 2007 | \$ 490,000 | 2.50% |
| 2008 | \$ 510,000 | 2.50% |
| 2009 | \$ 530,000 | 2.75% |
| 2010 – 2014 | \$2,580,000 | 3.00% - 3.4% |
| 2015 – 2017 | \$1,090,000 | 3.50% - 3.75% |

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

Optional redemption

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

Nursing Home Refunding Bonds (continued)

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

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

Notice of redemption

If the Commission elects to redeem all or a portion of the bonds outstanding, it will give a redemption notice to the registered owners of the bonds to be redeemed by letter mailed first class, postage prepaid, at least thirty (30) days prior to the date fixed for redemption to the addresses of such registered owners appearing on the registration books kept by the Bond Registrar; provided however, that the failure to mail the redemption notice or any defect in the notice so mailed or in the mailing thereof will not affect the validity of the redemption proceedings; and provided further, that the Commission will publish notice of redemption at least once (not less than thirty (30) days prior to the date fixed for redemption) in a financial journal or daily newspaper of general circulation in the Borough of Manhattan, New York, New York. The redemption notice will state (i) whether the bonds are redeemed in whole or in part and, if in part, the maturities and numbers of the bonds to be redeemed, (ii) that the interest on the bonds to be redeemed will cease to accrue on the date fixed for redemption, (iii) the date fixed for redemption and the redemption price, and (iv) that the bonds to be redeemed will be presented for redemption and payment on the date fixed for redemption at the principal corporate trust office of the Paying Agent.

From and after the date fixed for redemption, if notice has been duly and properly given and if funds sufficient for the payment of the redemption price and accrued interest are available on such date, the bonds designated for redemption will cease to bear interest. Upon presentation and surrender for redemption in compliance with the redemption notice, the bonds to be redeemed will be paid by the Paying Agent at the redemption price. If they are not paid upon presentation, the bonds designated for redemption will continue to bear interest at the rates stated therein until paid.

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds

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

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

Mandatory extraordinary redemption

Redemption provisions

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Optional redemption

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

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

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

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

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

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

Selection of certificate to be redeemed

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

State Office Building Refunding Bonds (continued)

Notice of redemption

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

Security and sources of payment for the certificates

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

7. Long-term obligations (continued)

Component Units (continued)

Building Authority Commission (continued)

The annual requirements to amortize the principal of all bonds outstanding as of June 30, 2004 are as follows:

| <u>Years</u> | <u>State Office Building</u> | <u>Nursing Home</u> | <u>Total</u> |
|--------------|----------------------------------|---------------------|---------------------|
| 2005 | \$ 460,000 | \$ 540,000 | \$ 1,000,000 |
| 2006 | 485,000 | 490,000 | 975,000 |
| 2007 | 510,000 | 490,000 | 1,000,000 |
| 2008 | 540,000 | 510,000 | 1,050,000 |
| 2009 | 565,000 | 530,000 | 1,095,000 |
| 2010-2014 | 2,625,000 | 2,580,000 | 5,205,000 |
| 2015-2017 | 0 | 1,090,000 | 1,090,000 |
| | <u>\$ 5,185,000</u> | <u>\$ 6,230,000</u> | <u>\$11,415,000</u> |

The annual requirements to amortize the interest of all bonds outstanding as of June 30, 2004 are as follows:

| <u>Years</u> | <u>State Office Building</u> | <u>Nursing Home</u> | <u>Total</u> |
|--------------|----------------------------------|---------------------|---------------------|
| 2005 | \$ 280,752 | \$ 204,162 | \$ 484,914 |
| 2006 | 256,220 | 168,317 | 424,537 |
| 2007 | 229,742 | 156,067 | 385,809 |
| 2008 | 201,405 | 143,567 | 344,972 |
| 2009 | 171,292 | 129,904 | 301,196 |
| 2010-2014 | 345,241 | 399,344 | 744,585 |
| 2015-2017 | 0 | 61,128 | 61,128 |
| | <u>\$ 1,484,652</u> | <u>\$ 1,262,489</u> | <u>\$ 2,747,141</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

8. Fund Balances

A summary of the reserved and unreserved - designated and undesignated fund balances as of June 30, 2004 is as follows:

| | Special Revenue Funds | | | | | |
|---|-----------------------|----------------------|-------------------------|----------------------|-----------------------|---------------------|
| | General Fund | Special Assessments | Fire & Rescue Revolving | Total | Capital Projects Fund | Pension Trust Fund |
| Reserved | | | | | | |
| Encumbrances | \$360,984 | | | | \$5,244,513 | |
| Inventory | 414,267 | | | | | |
| Land Tax Sale | 13,370 | | | | | |
| Retirement of Long-Term Obligations | | (\$1,335,839) | | (\$1,335,839) | | |
| Domestic Violence Programs | 3,675 | | | | | |
| Future Project Revenue | | | | | | |
| Bonds Sold | | | | | 5,302,190 | |
| Roads- Impact Fees | | | | | 124,168 | |
| Parks- Impact fees | | | | | 74,389 | |
| Schools- Impact Fees | | | | | 5,320,305 | |
| Transfer Tax | | | | | 3,676,555 | |
| Other, Including Federal and State Grants | 13,695 | | | | 7,289,765 | |
| Total Reserved Fund Balances | \$805,991 | (\$1,335,839) | \$0 | (\$1,335,839) | \$27,031,885 | \$0 |
| Unreserved | | | | | | |
| Designated | \$18,667,033 | \$0 | (\$1,309,198) | (\$1,309,198) | \$0 | \$19,221,012 |
| Undesignated | 3,026,965 | 0 | 0 | 0 | 0 | 0 |
| Total Unreserved Fund Balances | 21,693,998 | 0 | (1,309,198) | (1,309,198) | 0 | 19,221,012 |
| Total Fund Balances (deficit) | \$22,499,989 | (\$1,335,839) | (\$1,309,198) | (\$2,645,037) | \$27,031,885 | \$19,221,012 |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

8. Fund balances (continued)

The reserve for fund balance represents:

Encumbrances - The amount of outstanding purchase orders at June 30, 2004.

Inventory - The amount of inventory at June 30, 2004, carried as an asset.

Fixed assets - The cost of land purchased at tax sales by The County Commissioners for St. Mary's County carried as an asset at June 30, 2004.

Retirement of long-term obligations - The amount of future revenue to be used for the retirement of long-term obligations.

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

Future project revenue - The amount of revenue previously collected which is anticipated to be used for future capital projects. Amounts have been collected from bonds, transfer tax and other sources.

Other - The amount of funds committed for general fund expenditures.

The designated fund balance is composed of:

Budgetary (Non-GAAP) Basis

| | |
|---|---------------------|
| Appropriation for FY 2005 operating budget | \$ 1,834,641 |
| Bond rating reserve - 6% of FY 2005 budgeted general fund revenues | 8,202,929 |
| Rainy day fund | 1,000,000 |
| Economic stabilization reserve | <u>7,500,000</u> |
| | 18,537,570 |
| Adjustments to modified accrual basis | <u>129,463</u> |
| | <u>\$18,667,033</u> |

Economic stabilization reserve – The Board of County Commissioners have designated an economic stabilization reserve, set at \$7.5 million. This reserve is intended to position the County to address unbudgeted costs or needs that arise due to the impending Base Re-alignment and Closure (BRAC) process as well as uncertainty of State funding, especially for school construction. It is the intention of the Board to decide on the use of unused funds no later than June 1, 2006; which is coincident with approval of the FY2007 budget.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans

Primary Government

Plan description

The employees of the County are covered by the State Retirement and Pension System of Maryland (the System), the administrator of an agent multiple-employer public employee retirement system established by the State Personnel and Pensions Article of the Annotated Code of Maryland to provide retirement allowances and other benefits to State employees, teachers, police, judges, legislators and employees of participating governmental units. Responsibility for the administration and operation of the System is vested in a 14-member Board of Trustees. The State of Maryland is obligated for the payment of all pension annuities, retirement allowances, refunds, reserves and other benefits of the System. Additionally, the System is fiscally dependent on the State by virtue of the legislative and executive controls exercised with respect to its operations, policies and administrative budget. The System is a component unit of the State of Maryland's financial reporting entity and is included in the State's financial statements as a pension trust fund. The County's total payroll for the year ended June 30, 2004 was \$28,815,185, of which \$16,649,009 was covered under the System.

The System comprises the Teachers' Retirement System, Employees' Retirement System, Teachers' Pension System, Employees' Pension System, State Police Retirement System, Judges Retirement System, Natural Resources Pension System and the Local Fire and Police System.

The Employees' Retirement System was established on October 1, 1941, to provide retirement allowances and other benefits to State employees and the employees of participating governmental units. Current members of this System include State correctional officers, members of the Maryland General Assembly, and employees who have not elected to transfer to the applicable Employees' Pension System.

The Employees' Pension System was established on January 1, 1980. As a result, State employees (other than correctional officers), and employees of participating governmental units hired after December 31, 1979, become members of their applicable Pension System as a condition of employment. Members of the Employees' Retirement System have the opportunity to irrevocably transfer to their respective Pension System. For those transferring, all prior service credit and member contributions above the social security wage base are transferred from the applicable retirement system to the corresponding pension system. Member contributions up to the social security wage base are refunded to the members.

Plan benefits

Retirement allowances are computed using the highest three years' average final salary (AFS) and the actual number of years of accumulated creditable service. Pension allowances are computed using both the highest three consecutive years AFS and the actual number of years of accumulated creditable service. Various retirement options are available under each System which ultimately determine how a retiree's benefit allowance will be computed. Some of these options require actuarial reductions based on the retiree's or spouse's attained age and similar actuarial factors.

The Teachers' and Employees' Retirement Systems' members are eligible for full retirement benefits upon attaining the age of 60, or upon accumulating 30 years of eligibility service, regardless of age. The annual retirement allowance equals 1/55 (1.8%) of a member's AFS multiplied by the number of years of accumulated service credit. A member may retire with reduced benefits after completing 25 years of eligibility service.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Primary Government (continued)

Plan benefits (continued)

The Teachers' and Employees' Pension Systems' members are eligible for full retirement benefits upon attaining at least age 62 with specified years of eligibility service, or upon accumulating 30 years of eligibility service regardless of age. The annual pension allowance is equal to .8% of a member's AFS up to the Social Security Integration Level (SSIL), plus 1.5% of a member's AFS in excess of the SSIL, multiplied by the number of years of accumulated service credit. For the purpose of computing pension allowances, the SSIL is the average of the social security wage bases for the 35 calendar years ending with the year the retiree separates from service. A member may retire with reduced benefits after attaining age 55 and completing 15 years of eligibility service.

Retirement and pension allowances are increased annually to provide for changes in the cost of living in accordance with prescribed formulae. Such adjustments are based on the annual change in the Consumer Price Index, except that annual pension allowance increases are limited to 3% of the initial allowance.

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

Funding status and progress

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

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 2003, The significant actuarial assumptions used in the actuarial valuations include (a) rate of return on the investment of 7.75% compounded annually (adopted June 30, 2003), (b) projected salary increases of 4% per year compounded annually, attributable to inflation (adopted June 30, 2003), (c) additional projected salary increases ranging from 0.00% to 11.96% per year, attributable to seniority and merit (adopted June 30, 2003), (d) post-retirement benefit increases ranging from 3% to 4% per year depending on the system (adopted June 30, 2003), (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 1981 through 2002 (adopted June 30, 2003), and (f) an increase in the aggregate active member payroll of 4% annually (adopted June 30, 2003).

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Primary Government (continued)

Funding status and progress (continued)

At June 30, 2003, the System's unfunded pension benefit obligation (i.e., pension benefit obligation less net assets available for benefits) in accordance with GASB No. 25 was as follows:

Pension benefit obligation:

| | |
|---|-------------------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits | \$17,573,117,822 |
| Current employees | <u>17,401,483,044</u> |
| Total pension benefit obligation | 34,974,600,866 |
| Net actuarial assets available for benefits | <u>32,631,464,884</u> |
| Unfunded actuarial pension benefit obligation | <u>\$ 2,343,135,982</u> |

The schedule below (expressed in thousands) presents the actuarial value of the System's assets and the actuarial accrued liability as of June 30, 2003 and the preceding two years. The schedule is intended to help the users assess the funding status of the System.

| | <u>2003</u> | <u>June 30</u> <u>2002</u> | <u>2001</u> |
|-----------------------------------|---------------------|-------------------------------|-------------------|
| Actuarial value of assets | \$32,631,465 | \$32,323,263 | \$31,914,778 |
| Actuarial accrued liability (AAL) | <u>34,974,601</u> | <u>34,131,284</u> | <u>32,469,942</u> |
| Unfunded AAL | <u>\$ 2,343,136</u> | <u>\$ 1,808,021</u> | <u>\$ 555,164</u> |
| Funded ratio | 93.3% | 94.70% | 98.29% |
| Covered payroll | \$ 8,134,419 | \$ 7,867,794 | \$ 7,255,036 |
| Unfunded AAL as a % of payroll | 29% | 23% | 8% |
| Annual pension cost | \$ 654,578 | \$ 574,019 | \$ 634,309 |
| Percentage contributed | 92% | 100% | 100% |
| Net pension obligation | \$ 0 | \$ 0 | \$ 0 |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Primary Government (continued)

Contributions required and made

The State Personnel and Pensions Article of the Annotated Code of Maryland requires contributions by active members and their employers. Rates for required contributions by active members are established by law. Members of the Teachers' and Employees' Retirement Systems are required to contribute 7% (or 5% depending upon the retirement option selected) of earnable compensation. Members of the Pension Systems are required to contribute 5% of earnable compensation in excess of the social security wage base. Members of the Teachers' Pension System and State employees who are members of the Employees' Pension System are required to contribute 2% of earnable compensation.

Employer contributions totaling \$226,344,000 for fiscal year 2003 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2003. Employer contributions consisted of normal cost and amortization of the unfunded actuarial accrued liability over a 40-year period from July 1, 1980. Employee contributions, which are applied to normal cost, for fiscal year 2003 totaled approximately \$207,584,000. The County's contributions to the System for the year ended June 30, 2004 were \$846,007.

The computation of the pension contribution requirements for fiscal year 2003 was based on the same actuarial assumptions, benefit provisions, actuarial funding method and other significant factors used to determine pension contribution requirements in the previous year.

Historical trend information

Historical trend information which provides data about the Systems' progress made in accumulating sufficient assets to pay pension benefits when due is presented immediately following the notes to the financial statements in the System's comprehensive annual financial report for the fiscal year ended June 30, 2003.

Sheriff's Department plan

The following is information regarding the Sheriff's Retirement Plan for fiscal year 2004:

Effective date

The effective date of the plan is July 1, 1986, with amendments effective October 1, 2000.

Participation

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

Participants are required to make mandatory contributions to the plan equal to 6% of annual compensation. Employee contributions are credited with interest at the rate of 4% per annum. The County pays the entire remaining cost of the plan.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Credited service

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

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

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

- a. Service while a participant of the plan; plus
- b. Military service, not in excess of five years and
- c. Any approved leave of absence up to 12 months.

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

Final average earnings

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

Normal retirement

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

Amount - Unless an optional method of payment is elected, the annual normal retirement pension benefit, payable in monthly installments for life, will equal 2% of the participant's final average earnings for each year of credited service not in excess of 35 years.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Early retirement

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

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

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

Late retirement

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

Amount - The amount of the postponed retirement benefit is determined in the same manner as the normal benefit, based on final average earnings and credited service at the time of actual retirement.

Disability benefit

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

Amount - The annual benefit is equal to 1.6% of the participant's final average earnings for each year of credited service not in excess of 35 years. For line of duty disability, the annual benefit is equal to 2/3 of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions, if the disability qualifies as a catastrophic disability pursuant to the Plan. For a line of duty disability which is non-catastrophic, the annual benefit is equal to 1/3 of the participant's final earnings plus an annuity based on the amount of the participant's accumulated contributions pursuant to the Plan.

Pre-retirement death benefit

Lump sum benefit

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

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

Survivor's pension

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Survivor's pension (continued)

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

Deferred vested benefit

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

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

Withdrawal benefit

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

Form of benefit

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

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Post-retirement pension increases

Each July 1, a cost of living increase will be granted to retired participants or spouses whose benefit has been in pay status at least one year. The amount of the increase is the percentage increase in the Consumer Price Index, with a maximum increase in one year of 4%. The cost of living increase also applies to deferred benefits.

Actuarial methods and assumptions

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

Employee data - The employee data used in the determination of cost estimates consists of pertinent information with respect to participants as of July 1, 2004.

Valuation Date - July 1, 2004.

Beginning July 1, 2004, the Board of Trustees elected to have the actuarial valuation period as of July 1, as opposed to the January 1 date formerly used. This is more timely for contribution budget considerations. Since the actuarial report was received prior to the release of the FY2004 audited financial statements, the information provided in the July 1, 2004 report was used.

Actuarial Funding Method - The actuarial valuation has been completed using the entry age normal method.

Rate of Investment Return - An average net rate of 7.75% (prior assumption was 8%) per annum (after investment expenses are deducted) is assumed as the annual rate of investment return (including appreciation and depreciation, realized and unrealized).

Salary Scale - It has been assumed that salaries will increase at the rate of 6% per annum.

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

Annual Probability of Severance - At death - Pre-retirement mortality has been assumed to follow the 83 Group Annuity Mortality tables. Post-retirement mortality has been assumed to follow the pre-retirement mortality for employees retiring on all but total and permanent disability. Post-retirement mortality for disabled lives has been assumed to follow the pre-retirement mortality set forward 9 years.

Development of plan costs

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Sheriff's Department Plan (continued)

Development of plan costs (continued)

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

Recommended contribution level

Recommended contributions are based on a 25-year amortization of the unfunded liability.

| Key results: | July 1, 2004 |
|--|---------------------|
| Number of Participants: | |
| Active | 168 |
| Retired | 24 |
| Terminated vested | 3 |
| Disabled | 21 |
| Total | 216 |
| | |
| Total annual compensation of active participants | <u>\$7,881,721</u> |
| Actuarial accrued liability: | |
| Actives | \$19,569,944 |
| Nonactives | <u>15,911,659</u> |
| Total | <u>\$35,481,603</u> |
| Assets | <u>\$21,635,590</u> |
| Unfunded actuarial liability | \$13,846,013 |
| Normal cost with adjustments: | |
| Dollar amount | \$ 1,157,545 |
| Percent of payroll | 14.70% |

The amount of the Sheriff's Department's current year covered payroll is \$9,217,981, and the Sheriff's Department's total payroll for all employees is \$10,109,672. The following employer contributions were made during the fiscal year ended June 30, 2004:

| | <u>Contributions</u> | <u>% of Covered Payroll</u> |
|-----------------|----------------------|---------------------------------|
| Retirement plan | \$1,652,971 | 17.93% |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Volunteer Fire Departments, Rescue Squads and Advanced Life Support Unit

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

Eligibility and benefits

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

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

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

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

1) Any person who has reached the age of sixty (60) and who has completed a minimum of twenty (20) years of certified active volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit, or combination thereof, shall receive one hundred seventy-five dollars (\$175) per month, for life. Payments will begin in the month following eligibility.

An additional payment of five dollars (\$5) per month shall be added to the benefit for each full year of volunteer service in excess of twenty (20) years.

2) Any person who has reached the age of fifty-five (55) and who has completed a minimum of twenty (20) years of certified volunteer service with any St. Mary's County Volunteer Fire Departments, Rescue Squads or Advanced Life Support Unit or combination thereof, shall receive one hundred twenty-five (\$125) per month for life.

An additional payment of five dollars (\$5) per month shall be added to the benefit for each full year of volunteer service in excess of (20) years.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

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

Eligibility and benefits (continued)

- c. In the event that any active volunteer becomes disabled during the course of his or her service while actively engaged in providing such services and in the event that the disability prevents the volunteer from pursuing his or her normal occupation and in the event that the disability is of a permanent nature as certified by the Maryland Workmen's Compensation Commission or other competent medical authority as designated by The County Commissioners for St. Mary's County, then the volunteer is entitled to receive the minimum benefits prescribed above and any such benefits as he or she may be entitled to regardless of his or her age or length of service. These benefits will begin on the first day of the month following the establishment of the permanency of his or her disability.
- d. In the event that any qualified volunteer shall die while receiving benefits, then his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's benefits. These benefits terminate upon death or remarriage of the spouse.
- e. In the event that a qualified volunteer dies prior to receiving any benefits under this section, his or her surviving spouse is entitled to benefits equal to fifty percent (50%) of the volunteer's earned benefits. These benefits terminate upon death or remarriage of the spouse.
- f. In the event that an active volunteer dies in the line of duty, a burial benefit up to two thousand five hundred dollars (\$2,500) is payable.
- g. In the event that any active volunteer (herein defined as one who has at least two (2) years of qualifying service in the five (5) preceding years) attains the age of seventy (70) years and fails to achieve the required twenty (20) years of service, then the volunteer is entitled to a monthly benefit of the number of years of credited service completed, multiplied by four dollars (\$4).

Point system

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

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

Point system (continued)

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

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

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

This length of service program is funded by The County Commissioners by annual appropriations. The total contribution for the fiscal year ended June 30, 2004 was \$389,385.

Component Units

St. Mary's County Public Schools

Pension Plans

Plan description

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

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Plan description (continued)

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

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System, and as early as age 55 and 15 years of service from the Pension system. Benefits generally vest after 5 years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 1-410-625-5555.

Funding policy

Both the "Retirement System" and the "Pension System" for teachers and classified employees are jointly contributory. Under the "Retirement System" employees contribute 4% - 7% of their total gross salary, and under the "Pension System" employees contribute 2% of their gross salary. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Component Units (continued)

St. Mary's County Public Schools (continued)

Pension Plans (continued)

Annual pension cost

St. Mary's County School System contributions totaling \$425,543 or 0.5% of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$6,243,207 or 7.8% of covered payroll for fiscal year 2003, were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2003. Significant actuarial assumptions used, include (a) a rate of return on the investment of present and future assets of 7.75 percent per year compounded annually, (b) projected salary increases of 4.0 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00 percent to 11.96 percent per year, attributable to seniority/merit, (d) post-retirement benefit increases ranging from 3 percent to 4 percent per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 1981 to 2002, and (f) the aggregate active member payroll is assumed to increase by 4 percent annually.

The actuarial value of assets was determined using a five-year moving average. Under this method, the year end actuarial asset value equals one-fifth of the current fiscal year end fair value, plus four-fifths of the expected market value. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll in distinct pieces. The UAAL which existed as of the June 30, 2000 actuarial valuation is being amortized over the remaining 17-year period to June 30, 2020. Each new layer of UAAL arising subsequent to the year ended June 30, 2000 is being amortized in separate layers over a 25-year period. A three-year trend of the School System's annual pension cost is as follows:

| Fiscal Year Ended June 30, | Total Annual Pension Cost (APC) | APC Contributed By School System | APC Contributed By State | Percentage of APC Contributed | Net Pension Obligation |
|----------------------------|---------------------------------|----------------------------------|--------------------------|-------------------------------|------------------------|
| 2002 | \$5,541,223 | \$307,583 | \$5,233,640 | 100% | \$0 |
| 2003 | 6,042,763 | 364,836 | 5,677,927 | 100 | 0 |
| 2004 | 6,666,750 | 423,543 | 6,243,207 | 100 | 0 |

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County

Retirement and pension plan

Description

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

Maryland State Pension Systems

Participants in the Pension Plans contribute 2% of their earnings. Pensions normally start at age 62 or after 30 years of service, but with 15 or more years of service an employee can elect to have a reduced pension begin at age 55. Pensions are based upon the average of the employees' highest three years' pay. Cost of living increases are limited to 3% per annum.

Maryland State Retirement Systems

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

Funding Policy

The State Retirement and Pensions Article requires contributions by active members and their employees. Rates for required contributions by active members are established by law. Members of the retirement systems are required to contribute 7% of compensation. Members of the pension systems are required to contribute 2% of compensation.

Contribution rates are established by annual actuarial valuations. The employer contribution rates have been established as the rates necessary to fund normal costs and amortize the unfunded actuarial liability over a 40-year period from July 1, 1980. The State of Maryland, the Maryland Automobile Insurance Fund and 130 participating governmental units make all of the employer and other contributions to the System.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County (continued)

Retirement and pension plan (continued)

Funding Policy (continued)

The Library provides pension contributions for normal cost and accrued actuarial liability. For the year ended June 30, 2004, the Library's total payroll and payroll for covered employees were \$1,474,505 and \$1,391,578, respectively. No contributions were made by the Library for the year ended June 30, 2004.

For fiscal year 2004, the State contributed approximately \$124,512 to the State Retirement and Pension System on behalf of the Library. In accordance with GASB Statement Number 24, the State's contribution amount has been shown as State aid revenue and pension expenditure. The State's contribution amounted to approximately 8.95% of covered payroll.

Actuarial Assumptions

- a. Return on investment of 7.75% compounded annually (adopted June 30, 2003)
- b. Projected salary increases of 4% compounded annually due to inflation (adopted June 30, 2003)
- c. Salary increases due to seniority and merit are projected at 0.00-11.96% per annum (adopted June 30, 2003)
- d. Postretirement benefit increases are projected at 3-4% per annum depending on the system (adopted June 30, 2003)
- e. Rates of mortality, termination, disablement and retirement are based on actual experience from 1981 through 2002 (adopted June 30, 2003)
- f. Member payroll assumed to increase 4% annually (adopted June 30, 2003)

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

9. Retirement plans (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County (continued)

Retirement and pension plan (continued)

Trend information

| | <u>2003</u> | June 30 <u>2002</u> | <u>2001</u> |
|------------------------|-------------|------------------------|-------------|
| Actual pension cost | \$ 654,578 | \$ 574,019 | \$ 634,309 |
| Percentage contributed | 92% | 100% | 100% |
| Net pension obligation | \$ 0 | \$ 0 | \$ 0 |

Metropolitan Commission

Retirement Plan

MetCom provides a defined contribution contributory retirement plan for all employees with six months' service. The plan is governed by Section 403(b) of the Internal Revenue Code of 1986, as amended. Under the plan, MetCom contributes 7% of each employee's gross wages or \$750 (whichever is greater) to a tax deferred annuity account. Individual employees may contribute additional amounts up to 20% of their gross wages to the plan. Employees are immediately vested in the plan and may initiate their withdrawals at their discretion. However, if a withdrawal takes place which includes MetCom's contributions, there will be no additional contribution until the portion which represents MetCom's contribution is repaid. Contributions to this plan were \$172,876 for the fiscal year ended June 30, 2004.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

10. Segment information for enterprise funds

The County maintains three enterprise funds. Recreation services are accounted for in the recreation revolving fund, while the Wicomico Municipal Golf Course receives user service charges for the use of facilities, which include a golf course and a restaurant. The Medical Adult Daycare Center provides a wide range of supportive health and social services during the day to the mentally or physically handicapped adults of St. Mary's County in order to prevent or postpone institutionalization. Segment information for the year ended June 30, 2004 is as follows:

| | <u>Medical Adult Daycare</u> | <u>Wicomico Municipal Golf Course</u> | <u>Recreation Revolving Fund</u> | <u>Total Enterprise Funds</u> |
|---|--------------------------------------|---|--|---------------------------------------|
| Operating revenue | \$148,951 | \$1,116,742 | \$2,139,814 | \$3,405,507 |
| Depreciation | 0 | 99,323 | 6,100 | 105,423 |
| Operating income (loss) | (713,625) | 90,424 | (99,604) | (722,805) |
| Change in net assets | (78,805) | 95,002 | (71,000) | (54,803) |
| Plant, property and equipment additions | 0 | 280,260 | 2,420 | 282,680 |
| Net working capital | (589,005) | 708,284 | (118,099) | 1,180 |
| Total assets | 209,472 | 3,544,991 | 277,183 | 4,031,646 |
| Total equity | (589,005) | 3,140,752 | (100,125) | 2,451,622 |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

11. Interfund receivables

Individual fund interfund receivable and payable balances are composed of the following as of June 30, 2004:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|---|----------------------------------|-------------------------------|
| <u>Primary Government</u> | | |
| <u>General Fund</u> | | |
| Special Revenue Fund | \$ 2,644,691 | |
| Capital Projects Fund | | \$28,364,035 |
| Enterprise Fund | | 473,378 |
| <u>Special Revenue Funds</u> | | |
| General Fund | | 2,644,691 |
| <u>Capital Projects Funds</u> | | |
| General Fund | 28,364,035 | |
| <u>Enterprise Funds</u> | | |
| General Fund | 473,378 | |
| Total due from/to other funds | <u>\$31,482,104</u> | <u>\$31,482,104</u> |
| <u>Component Units</u> | | |
| Component Unit-St. Mary's County Building Authority Commission | \$165,809 | |
| Component Unit-Board of Library Trustees for St. Mary's County | 310,443 | |
| Primary Government-General Fund | | \$476,252 |
| Total due from Primary Government to Component Unit | <u>\$476,252</u> | <u>\$476,252</u> |

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

12. Mortgage receivable

The mortgage receivable amount of \$5,565,000 reported represents amounts owed to the County by St. Mary's Hospital for the payment of the St. Mary's County Refunding Hospital Bonds of 1993 and 1996. The County is reimbursed by the Hospital as payment becomes due.

The mortgage receivable amount of \$20,000,000 reported represents amounts owed to the County by St. Mary's Hospital for the payment of the St. Mary's County Hospital Bonds of 2003. The County is reimbursed by the Hospital as payment becomes due.

13. Commitments and contingencies

Primary Government

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

The County participates in a number of federally assisted grant programs, principal of which are the Departments of Education, Health and Human Services and Health and Mental Hygiene grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for the year ended June 30, 2004, have not yet been completed. Accordingly, the County's compliance with applicable grant requirements will be verified in connection with performing the County's Single Audit. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

Component Units

St. Mary's County Public Schools

Legal Proceedings

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

School Construction

As of June 30, 2004, the School System had entered into various school construction commitments which are not reflected in the Statement of Net Assets or Balance Sheet – Governmental Funds, since they will be funded by the State of Maryland or County bond issues, totaling approximately \$12,976,630.

Grant Program

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

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

13. Commitments and contingencies (continued)

Component Units (continued)

Board of Library Trustees for St. Mary's County

Grant Audit

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

Support

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

14. Post-employment benefits

St. Mary's County Government retirees, retirees' family members and the family members of deceased employees under age 65 are eligible for health, prescription drug and vision care insurance benefits. Those over age 65 are eligible for a Medicare supplement, including health, prescription drug and vision care insurance benefits.

Eligible persons include employees with a minimum of five (5) years of eligible County Service entering an immediate retirement; employees with a minimum of ten (10) years of eligible County service placed on a deferred retirement; family members of deceased employees; and family members of retirees.

The County's contribution rate for retirees is prorated at 1/16th for each year of eligible County service up to a maximum contribution rate of 90%. The County's contribution for disabled retirees is 90% regardless of length of service.

Family members of deceased employees may continue benefits at 100% of the premium cost.

The authority for health care benefits is contained within the County's Personnel Policies and Procedures manual. It is not a statutory or contractual requirement and may be changed or modified by the Board of County Commissioners.

The County Commissioners for St. Mary's County
Notes to Financial Statements
June 30, 2004

14. Post-employment benefits (continued)

The County's cost for the post-employment benefits are currently being paid on a pay-as-you-go basis. During the fiscal year ended June 30, 2004, there was an average of 154 people participating in post-employment health and life benefits at an annual cost to the County of \$987,272.

There are no significant matters or additional information impacting on retiree post-employment benefits.

15. Landfill closure and postclosure cost

State and federal laws and regulations require The County Commissioners for St. Mary's County to place a final cover on landfill sites when the site stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, The County Commissioners for St. Mary's County report a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$2,750,000 reported as landfill closure and postclosure care liability at June 30, 2004, represents the cumulative amount reported to date. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

Estimated closure and postclosure costs were taken from a 1990 Cost Analysis, for cell numbers three and five, and from current contract commitments for closure for cell numbers one, two and four. A 3% inflation factor was assumed. Closure costs are expected to be funded by a bond issue or other form of debt in the year of closing. Postclosure costs are budgeted and paid annually.

16. Pass-through proceeds

In accordance with Government Accounting Standards Board Statement Number 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, the County recognizes revenue and expenditures for pass-through proceeds. For the year ended June 30, 2004, the County has recognized pass-through revenues in the amount of \$3,330,955 and expenditures in the amount of \$3,331,007 from Walden Sierra, Inc., Three Oaks, Tri-County Community Action, St. Mary's County Housing Authority, and St. Mary's County Community Development Corporation, Inc.

17. Risk management

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

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

Annual premiums are assessed for the various policy coverages. During fiscal year 2004, the County paid premiums of \$553,691 to the trust. The agreement for the formation of LGIT provides that the trust will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

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THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES
AND OTHER FINANCING SOURCES AND USES
BUDGET (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

| | Budgeted Amounts | | Actual | Favorable (Unfavorable) |
|--|----------------------|----------------------|----------------------|----------------------------|
| | Original | Final | | Variance |
| REVENUES | | | | |
| Property Taxes | \$56,580,312 | \$56,580,312 | \$56,179,452 | (\$400,860) |
| Other Local Taxes | 56,368,000 | 56,368,000 | 62,249,608 | 5,881,608 |
| Highway User Revenues | 4,227,464 | 4,227,464 | 4,705,465 | 478,001 |
| Licenses and Permits | 1,232,950 | 1,232,950 | 1,604,784 | 371,834 |
| State/Federal Grants | 5,138,396 | 5,442,787 | 5,285,845 | (156,942) |
| Charges for Services | 5,175,390 | 5,169,987 | 5,109,259 | (60,728) |
| Fines and Forfeitures | 242,088 | 242,088 | 235,997 | (6,091) |
| Other Revenues | 1,453,889 | 1,794,383 | 523,504 | (1,270,879) |
| Sub-total | <u>130,418,489</u> | <u>131,057,971</u> | <u>135,893,914</u> | <u>4,835,943</u> |
| Pass-Throughs | 0 | 0 | 3,330,956 | 3,330,956 |
| TOTAL GENERAL FUND REVENUES | <u>\$130,418,489</u> | <u>\$131,057,971</u> | <u>\$139,224,870</u> | <u>\$8,166,899</u> |
| EXPENDITURES | | | | |
| General Government | \$16,064,141 | \$15,940,932 | \$14,531,233 | \$1,409,699 |
| Public Safety | 22,930,197 | 23,654,323 | 23,203,635 | 450,688 |
| Public Works | 7,562,828 | 7,726,313 | 7,462,084 | 264,229 |
| Health | 1,109,153 | 1,109,153 | 1,106,421 | 2,732 |
| Social Services | 3,415,734 | 3,371,441 | 3,223,880 | 147,561 |
| Primary and Secondary Education | 57,779,385 | 57,892,643 | 57,856,774 | 35,869 |
| Post-Secondary Education | 2,006,563 | 2,073,763 | 2,073,763 | 0 |
| Parks, Recreation, and Culture | 2,412,558 | 2,423,169 | 2,349,164 | 74,005 |
| Libraries | 1,652,624 | 1,634,103 | 1,634,103 | 0 |
| Conservation of Natural Resources | 294,731 | 294,731 | 289,431 | 5,300 |
| Housing | 1,084,214 | 1,087,161 | 812,400 | 274,761 |
| Economic Development and Opportunity | 1,989,533 | 1,752,176 | 1,584,725 | 167,451 |
| Debt Service | 12,031,896 | 12,031,896 | 10,646,013 | 1,385,883 |
| Inter-governmental | 48,129 | 48,129 | 48,129 | 0 |
| Other | 932,500 | 932,500 | 930,267 | 2,233 |
| Reserves | 1,496,489 | 1,711,057 | 0 | 1,711,057 |
| Sub-total | <u>132,810,675</u> | <u>133,683,490</u> | <u>127,752,022</u> | <u>5,931,468</u> |
| Pass-Throughs | 0 | 0 | 3,331,007 | (3,331,007) |
| TOTAL GENERAL FUND EXPENDITURES | <u>\$132,810,675</u> | <u>\$133,683,490</u> | <u>\$131,083,029</u> | <u>\$2,600,461</u> |
| OTHER FINANCING SOURCES AND USES | | | | |
| Use of Fund Balance to Fund Operations | <u>2,392,186</u> | <u>2,625,519</u> | <u>0</u> | <u>2,625,519</u> |
| TOTAL OTHER FINANCING SOURCES AND USES | <u>2,392,186</u> | <u>2,625,519</u> | <u>0</u> | <u>2,625,519</u> |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | | | | |
| | <u>\$0</u> | <u>\$0</u> | <u>\$8,141,841</u> | <u>\$8,141,841</u> |

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SHERIFF'S OFFICE RETIREMENT PLAN
 FOR THE YEAR ENDED JUNE 30, 2004

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

Schedule of Employer Contributions

| Fiscal Year Ended | Annual Pension Cost | Percentage of APC Contributed | Net Pension Obligation |
|----------------------|------------------------|----------------------------------|---------------------------|
| 06/30/99 | \$ 596,605 | 100% | \$0 |
| 06/30/00 | 683,423 | 100% | 0 |
| 06/30/01 | 786,339 | 100% | 0 |
| 06/30/02 | 932,745 | 100% | 0 |
| 06/30/03 | 1,204,825 | 100% | 0 |
| 06/30/04 | 1,652,971 | 100% | 0 |

Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value Of Assets | Actuarial Accrued Liability (AAL) - Entry Age | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|---|------------------------|-----------------|--------------------|---|
| 01/01/97 | \$11,027,088 | \$11,986,552* | \$959,464 | 92.0% | \$4,433,660 | 21.6% |
| 01/01/99 | 16,531,918 | 16,704,552 | 172,634 | 99.0% | 5,358,227 | 3.2% |
| 01/01/01 | 18,744,434 | 20,948,384 | 2,203,950 | 89.5% | 6,040,098 | 36.5% |
| 01/01/03 | 18,680,033 | 29,154,913 | 10,474,880 | 64.1% | 7,165,684 | 146.2% |
| Before Assumption Change | | | | | | |
| 07/01/04 | 21,635,590 | 34,171,854 | 12,536,264 | 63.3% | 7,881,721 | 159.1% |
| After Assumption Change | | | | | | |
| 07/01/04 | 21,635,590 | 35,481,603 | 13,846,013 | 61.0% | 7,881,721 | 175.7% |

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

OTHER SUPPLEMENTARY INFORMATION

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THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

| | Special Assessments | Fire And Rescue Revolving Loan Fund | Total Non-Major |
|--|------------------------|---|----------------------|
| ASSETS | | | |
| Special tax assessments receivable, current portion | \$59,581 | \$0 | \$59,581 |
| Notes receivable, Fire and Rescue loans, current portion | 0 | 220,295 | 220,295 |
| Notes receivable, Fire and Rescue loans (net of current portion) | 0 | 1,246,631 | 1,246,631 |
| Special tax assessments receivable (net of current portion) | 2,314,467 | 0 | 2,314,467 |
| Total Assets | \$2,374,048 | \$1,466,926 | 3,840,974 |
| LIABILITIES AND FUND BALANCES | | | |
| Deferred revenue | \$2,374,394 | \$1,466,926 | \$3,841,320 |
| Due to other funds | 1,335,493 | 1,309,198 | 2,644,691 |
| Total Liabilities | \$3,709,887 | \$2,776,124 | 6,486,011 |
| FUND BALANCES | | | |
| Reserved | (\$1,335,839) | \$0 | (\$1,335,839) |
| Unreserved, designated | 0 | (1,309,198) | (1,309,198) |
| Total Fund Balances | (\$1,335,839) | (\$1,309,198) | (\$2,645,037) |
| Total Liabilities and Fund Balances | \$2,374,048 | \$1,466,926 | \$3,840,974 |

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004

| | Special Assessments | Fire And Rescue Revolving Loan Fund | Total Major | Non- |
|---|------------------------|---|----------------|---------------|
| REVENUES | | | | |
| Intergovernmental | \$0 | \$199,501 | | \$199,501 |
| Special assessments | 179,806 | 0 | | 179,806 |
| Other | 0 | 9,764 | | 9,764 |
| | 179,806 | 209,265 | | 389,071 |
| EXPENDITURES | | | | |
| Other | 0 | 710,500 | | 710,500 |
| Debt Service | 58,415 | 0 | | 58,415 |
| | 58,415 | 710,500 | | 768,915 |
| EXCESS OF REVENUE OVER EXPENDITURES (EXPENDITURES OVER REVENUES) | 121,391 | (501,235) | | (379,844) |
| FUND BALANCE | | | | |
| Beginning of Year | (1,457,230) | (807,963) | | (2,265,193) |
| End of Year | (\$1,335,839) | (\$1,309,198) | | (\$2,645,037) |

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

| | Budgeted Amounts | | Actual | Favorable (Unfavorable) Variance |
|---|----------------------|----------------------|----------------------|--|
| | Original | Final | | |
| PROPERTY TAXES | | | | |
| Real and personal property | | | | |
| Real Property Taxes (Net of State Assessment) | \$51,236,787 | \$51,236,787 | \$50,682,567 | (\$54,220) |
| Personal Property | 257,824 | 257,824 | 202,462 | (55,362) |
| Public Utilities | 2,509,803 | 2,509,803 | 2,728,579 | 218,776 |
| Ordinary Business Corporations | 2,320,419 | 2,320,419 | 2,339,643 | 19,224 |
| Additions and Abatements | (336,521) | (336,521) | (208,427) | 128,094 |
| Penalties and Interest | 750,000 | 750,000 | 625,862 | (124,138) |
| State Homeowners Credit (Circuit Breaker) | 515,000 | 515,000 | 480,972 | (34,028) |
| Homeowners Tax Credit (County) | (515,000) | (515,000) | (480,205) | 34,795 |
| Other Tax Credits | (158,000) | (158,000) | (192,001) | (34,001) |
| Total Property Taxes | \$56,580,312 | \$56,580,312 | \$56,179,452 | (\$400,860) |
| Income Tax | | | | |
| Local Income Tax | \$47,500,000 | \$47,500,000 | \$51,352,963 | \$3,852,963 |
| Other Local Taxes | | | | |
| Recordation Taxes | 4,700,000 | 4,700,000 | 7,582,740 | 2,882,740 |
| Energy Taxes | 3,450,000 | 3,450,000 | 2,567,582 | (882,418) |
| Public Accommodations Tax | 400,000 | 400,000 | 483,360 | 83,360 |
| Trailer Park Tax | 200,000 | 200,000 | 178,264 | (21,736) |
| Admissions and Amusement | 118,000 | 118,000 | 84,705 | (33,295) |
| Total Other Local Taxes | \$8,868,000 | \$8,868,000 | \$10,896,651 | \$2,028,651 |
| State-Shared Taxes - Highway Users | \$4,227,464 | \$4,227,464 | \$4,705,465 | \$478,001 |
| TOTAL TAXES | \$117,175,776 | \$117,175,776 | \$123,134,531 | \$5,958,755 |
| LICENSES AND PERMITS | | | | |
| Business | 226,050 | 226,050 | 235,813 | 9,763 |
| Marriage/Animal Licenses | 12,700 | 12,700 | 10,328 | (2,372) |
| Other | 429,200 | 429,200 | 667,691 | 238,491 |
| CATV Franchise Fees | 565,000 | 565,000 | 690,952 | 125,952 |
| TOTAL LICENSES AND PERMITS | \$1,232,950 | \$1,232,950 | \$1,604,784 | \$371,834 |
| INTER-GOVERNMENTAL | | | | |
| General Government | 515,338 | 433,986 | 382,019 | (51,967) |
| Public Safety | 1,925,315 | 2,617,896 | 2,524,368 | (93,528) |
| Public Works | 918,803 | 944,215 | 1,050,464 | 106,249 |
| Social Services | 1,005,885 | 961,530 | 960,851 | (679) |
| Parks, Recreation and Culture | 23,000 | 28,532 | 22,702 | (5,830) |
| Economic Development & Opportunity | 750,055 | 456,628 | 345,441 | (111,187) |
| TOTAL INTER-GOVERNMENTAL | \$5,138,396 | \$5,442,787 | \$5,285,845 | (\$156,942) |

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)

| | Budgeted Amounts | | Actual | Favorable (Unfavorable) Variance |
|---|----------------------|----------------------|----------------------|--|
| | Original | Final | | |
| CHARGES FOR SERVICES | | | | |
| General Government | \$1,657,126 | \$1,657,226 | \$1,771,138 | \$113,912 |
| Public Safety | 1,202,133 | 1,202,133 | 1,361,393 | 159,260 |
| Public Works | 819,417 | 810,967 | 749,848 | (61,119) |
| Social Services | 107,500 | 107,500 | 138,133 | 30,633 |
| Parks, Recreation and Culture | 305,000 | 305,000 | 275,767 | (29,233) |
| Reimbursement - Housing Authority | 1,084,214 | 1,087,161 | 812,980 | (274,181) |
| TOTAL CHARGES FOR SERVICES | 5,175,390 | 5,169,987 | 5,109,259 | (60,728) |
| FINES AND FORFEITURES | | | | |
| General Government | 237,588 | 237,588 | 232,612 | (4,976) |
| Public Safety | 4,500 | 4,500 | 3,385 | (1,115) |
| TOTAL FINES AND FORFEITURES | \$242,088 | \$242,088 | \$235,997 | (\$6,091) |
| OTHER REVENUES | | | | |
| General Government | | | | |
| Interest | 1,001,789 | 1,003,619 | 348,710 | (654,909) |
| Other | 87,000 | 87,000 | 93,420 | 6,420 |
| Grant Reserve | 150,000 | 487,294 | 0 | (487,294) |
| Contributions and Donations | 215,100 | 216,470 | 81,374 | (135,096) |
| TOTAL OTHER REVENUES | \$1,453,889 | \$1,794,383 | \$523,504 | (\$1,270,879) |
| TOTAL, BEFORE PASS-THROUGH PROCEEDS | \$130,418,489 | \$131,057,971 | \$135,893,920 | \$4,835,949 |
| Pass-through Proceeds | \$0 | \$0 | \$3,330,956 | \$3,330,956 |
| OTHER FINANCING SOURCES | | | | |
| Use of Fund Balance to fund operations | \$2,392,186 | \$2,625,519 | \$0 | (\$2,625,519) |
| TOTAL REVENUES INCLUDING PASS-THROUGHS | \$132,810,675 | \$133,683,490 | \$139,224,876 | \$5,541,386 |

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

| | Budgeted Amounts | | Actual | Favorable (Unfavorable) Variance |
|-------------------------------------|------------------|------------------|------------------|--|
| | Original | Final | | |
| GENERAL GOVERNMENT | | | | |
| Legislative/County Commissioners | | | | |
| Legislative/County Commissioners | \$300,578 | \$318,678 | \$290,903 | \$27,775 |
| County Administrator | 391,799 | 329,418 | 305,371 | 24,047 |
| Public Information | 266,155 | 266,155 | 247,482 | 18,673 |
| County Attorney | 419,963 | 440,278 | 387,801 | 52,477 |
| Legislative/County Commissioners | <u>1,378,495</u> | <u>1,354,529</u> | <u>1,231,557</u> | <u>122,972</u> |
| Department of Finance | | | | |
| Director of Finance | 441,422 | 476,422 | 383,527 | 92,895 |
| Accounting | 415,217 | 415,217 | 401,756 | 13,461 |
| Auditing | 48,000 | 48,000 | 47,040 | 960 |
| Procurement | 223,275 | 223,275 | 217,396 | 5,879 |
| Copy Center | 42,990 | 42,990 | 30,556 | 12,434 |
| Department of Finance | <u>1,170,904</u> | <u>1,205,904</u> | <u>1,080,275</u> | <u>125,629</u> |
| Information Technology | | | | |
| | <u>1,513,845</u> | <u>1,533,840</u> | <u>1,406,594</u> | <u>127,246</u> |
| Human Resources | | | | |
| Human Resources | 464,482 | 464,482 | 421,315 | 43,167 |
| Risk Management | 690,651 | 696,844 | 639,082 | 57,762 |
| Substance Abuse Testing | 47,780 | 47,780 | 22,034 | 25,746 |
| Human Resources | <u>1,202,913</u> | <u>1,209,106</u> | <u>1,082,431</u> | <u>126,675</u> |
| Department of Facilities Management | | | | |
| Capital Projects | 341,157 | 191,336 | 162,283 | 29,053 |
| Building Services | 3,065,383 | 3,127,654 | 2,775,959 | 351,695 |
| Department of Facilities Management | <u>3,406,540</u> | <u>3,318,990</u> | <u>2,938,242</u> | <u>380,748</u> |
| Dept of Land Use/Growth Management | | | | |
| Administration | 454,670 | 467,801 | 413,390 | 54,411 |
| Comprehensive Planning | 424,898 | 477,919 | 435,849 | 42,070 |
| Development Services | 533,551 | 519,420 | 375,788 | 143,632 |
| Planning Commission | 22,774 | 22,774 | 21,851 | 923 |
| Boards and Commissions | 19,340 | 19,340 | 16,415 | 2,925 |
| Historical Preservation | 2,120 | 2,209 | 211 | 1,998 |
| Grants | 183,432 | 53,950 | 117,210 | (63,260) |
| Dept of Land Use/Growth Management | <u>1,640,785</u> | <u>1,563,413</u> | <u>1,380,714</u> | <u>182,699</u> |
| Department of PW and Transportation | | | | |
| Development Review | 184,768 | 184,768 | 180,032 | 4,736 |
| Mailroom/Messenger Services | 102,568 | 102,568 | 103,173 | (605) |
| Vehicle Maintenance Shop | 917,780 | 962,561 | 938,754 | 23,807 |
| Department of PW and Transportation | <u>1,205,116</u> | <u>1,249,897</u> | <u>1,221,959</u> | <u>27,938</u> |
| Department of Bldg Permit Services | | | | |
| Permit Services | 213,571 | 213,571 | 198,631 | 14,940 |
| Inspections & Compliance | 441,709 | 442,709 | 421,325 | 21,384 |
| Board of Electrical Examiners | 8,695 | 8,695 | 5,903 | 2,792 |
| Department of Bldg Permit Services | <u>663,975</u> | <u>664,975</u> | <u>625,859</u> | <u>39,116</u> |
| Circuit Court | | | | |
| Administration | 800,023 | 753,103 | 671,546 | 81,557 |
| Law Library | 46,300 | 46,300 | 44,170 | 2,130 |
| Grants | 141,544 | 132,675 | 145,158 | (12,483) |
| Orphan's Court | 30,675 | 30,675 | 29,596 | 1,079 |
| Circuit Court | <u>1,018,542</u> | <u>962,753</u> | <u>890,470</u> | <u>72,283</u> |
| Office of the State's Attorney | | | | |
| Judicial | 1,445,616 | 1,458,116 | 1,396,461 | 61,655 |
| Grants | 456,953 | 458,952 | 417,524 | 41,428 |
| Office of the State's Attorney | <u>1,902,569</u> | <u>1,917,068</u> | <u>1,813,985</u> | <u>103,083</u> |

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)

| | Budgeted Amounts | | Actual | Favorable (Unfavorable) Variance |
|--|------------------|--------------|--------------|--|
| | Original | Final | | |
| County Treasurer | \$304,652 | \$304,652 | \$281,734 | \$22,918 |
| Alcohol Beverages Board | 156,206 | 156,206 | 165,413 | (9,207) |
| Supervisors of Elections | 490,710 | 490,710 | 405,297 | 85,413 |
| Ethics Commission | 8,889 | 8,889 | 6,703 | 2,186 |
| Total General Government | \$16,064,141 | \$15,940,932 | \$14,531,233 | \$1,409,699 |
| PUBLIC SAFETY | | | | |
| Emergency Management | | | | |
| Emergency Management | 177,227 | 181,307 | 135,383 | 45,924 |
| Animal Control | 442,397 | 442,397 | 421,726 | 20,671 |
| Advanced Life Support | 134,796 | 135,157 | 132,911 | 2,246 |
| Hurricane Isabel | 0 | 560,093 | 551,293 | 8,800 |
| Emergency Services Committee | 18,470 | 18,470 | 16,207 | 2,263 |
| Grants | 280,853 | 356,766 | 396,786 | (40,020) |
| Emergency Management | 1,053,743 | 1,694,190 | 1,654,306 | 39,884 |
| Emergency Communications Center | | | | |
| Emergency Communications Center | 1,397,714 | 1,397,073 | 1,295,148 | 101,925 |
| Emergency Radio Communications | 549,682 | 556,682 | 496,376 | 60,306 |
| Fire Departments | 5,862 | 5,862 | 4,257 | 1,605 |
| Rescue Squads | 2,375 | 2,375 | 1,537 | 838 |
| Grants | 0 | 2,250 | 2,140 | 110 |
| Emergency Communications Center | 1,955,633 | 1,964,242 | 1,799,458 | 164,784 |
| Office of the Sheriff | | | | |
| Law Enforcement | 11,022,417 | 10,891,595 | 10,678,471 | 213,124 |
| Corrections | 5,783,506 | 5,902,506 | 5,813,988 | 88,518 |
| Training | 95,200 | 176,337 | 173,834 | 2,503 |
| Canine | 18,754 | 18,754 | 19,124 | (370) |
| Grants | 340,044 | 337,193 | 395,048 | (57,855) |
| Office of the Sheriff | 17,259,921 | 17,326,385 | 17,080,465 | 245,920 |
| Volunteer Fire Depts. & Rescue Squads | 1,459,440 | 1,468,046 | 1,467,949 | 97 |
| 911 Emergency Communications Contract | 1,201,460 | 1,201,460 | 1,201,457 | 3 |
| Total Public Safety | \$22,930,197 | \$23,654,323 | \$23,203,635 | \$450,688 |
| PUBLIC WORKS AND TRANSPORTATION | | | | |
| Department of PW and Transportation | | | | |
| Administration | 346,463 | 347,343 | 321,993 | 25,350 |
| Engineering Services | 285,001 | 283,381 | 240,986 | 42,395 |
| Construction & Inspections | 348,827 | 316,827 | 291,031 | 25,796 |
| County Highways | 2,682,026 | 2,662,889 | 2,627,861 | 35,028 |
| Solid Waste | 1,784,975 | 1,994,800 | 1,993,548 | 1,252 |
| Recycling | 362,378 | 362,080 | 368,069 | (5,989) |
| St. Mary's County Airport | 35,900 | 25,650 | 13,733 | 11,917 |
| St. Mary's Transit System | 1,687,628 | 1,707,753 | 1,582,838 | 124,915 |
| Department of PW and Transportation | 7,533,198 | 7,700,723 | 7,440,059 | 260,664 |
| Maryland Geological Survey | 17,130 | 13,090 | 13,090 | 0 |
| Maryland Dept. of Agriculture Weed Control | 12,500 | 12,500 | 8,935 | 3,565 |

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
 BUDGETARY (NON-GAAP) BASIS AND ACTUAL
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2004
 (CONTINUED)

| | Budgeted Amounts | | Actual | Favorable (Unfavorable) Variance |
|---------------------------------------|------------------|-------------|-------------|--|
| | Original | Final | | |
| Total Public Works and Transportation | \$7,562,828 | \$7,726,313 | \$7,462,084 | \$264,229 |

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
BUDGETARY (NON-GAAP) BASIS AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)

| | Budgeted Amounts | | Actual | Favorable (Unfavorable) Variance |
|--|---------------------|---------------------|---------------------|--|
| | Original | Final | | |
| HEALTH | | | | |
| Operating Allocation | | | | |
| Mental Health Authority of St. Mary's | \$54,945 | \$54,945 | \$54,945 | \$0 |
| Health Department | 1,018,098 | 1,018,098 | 1,017,649 | 449 |
| Operating Allocation | 1,073,043 | 1,073,043 | 1,072,594 | 449 |
| Office of the State's Attorney | | | | |
| Project Graduation | 36,110 | 36,110 | 33,827 | 2,283 |
| Total Health | \$1,109,153 | \$1,109,153 | \$1,106,421 | \$2,732 |
| SOCIAL SERVICES | | | | |
| Marcey Halfway House | 377,154 | 377,154 | 369,573 | 7,581 |
| Office on Aging | | | | |
| Office on Aging | 883,806 | 883,868 | 853,923 | 29,945 |
| SMILE/Medical Adult Daycare | 31,500 | 31,500 | 31,500 | 0 |
| Grants | 953,290 | 908,935 | 809,849 | 99,086 |
| Office on Aging | 1,868,596 | 1,824,303 | 1,695,272 | 129,031 |
| Department of Social Services | 324,999 | 324,999 | 315,731 | 9,268 |
| Operating Allocation | | | | |
| Hospice of St. Mary's | 15,000 | 15,000 | 15,000 | 0 |
| The ARC of Southern Maryland, Inc. | 132,150 | 132,150 | 132,150 | 0 |
| Big Brothers / Big Sisters | 4,000 | 4,000 | 2,319 | 1,681 |
| Catholic Charities | 15,000 | 15,000 | 15,000 | 0 |
| So. Md. Center for L.I.F.E. | 15,000 | 15,000 | 15,000 | 0 |
| The Center for Life Enrichment | 155,908 | 155,908 | 155,908 | 0 |
| Greenwell Foundation | 30,000 | 30,000 | 30,000 | 0 |
| Three Oaks Center | 50,000 | 50,000 | 50,000 | 0 |
| Tri-County Alternatives for Youth/Families | 26,250 | 26,250 | 26,250 | 0 |
| Tri-County Community Action | 17,751 | 17,751 | 17,751 | 0 |
| Tri-County Youth Services Bureau | 116,479 | 116,479 | 116,479 | 0 |
| Walden/Sierra | 195,038 | 195,038 | 195,038 | 0 |
| Women's Center | 72,409 | 72,409 | 72,409 | 0 |
| Operating Allocation | 844,985 | 844,985 | 843,304 | 1,681 |
| Total Social Services | \$3,415,734 | \$3,371,441 | \$3,223,880 | \$147,561 |
| PRIMARY AND SECONDARY EDUCATION | | | | |
| Board of Education | 56,124,939 | 56,238,197 | 56,238,197 | 0 |
| Non-Public School Bus Transportation | 1,642,446 | 1,642,446 | 1,606,577 | 35,869 |
| Operating Allocation | | | | |
| Literacy Council of St. Mary's County | 12,000 | 12,000 | 12,000 | 0 |
| Total Primary and Secondary Education | \$57,779,385 | \$57,892,643 | \$57,856,774 | \$35,869 |
| POST-SECONDARY EDUCATION | | | | |
| College of Southern Maryland | | | | |
| County Funding - general operations | 1,950,563 | 2,017,763 | 2,017,763 | 0 |
| Operating Allocation | | | | |
| St. Mary's College Scholarship Fund | 6,000 | 6,000 | 6,000 | 0 |
| Southern Md. Higher Education Center | 50,000 | 50,000 | 50,000 | 0 |
| Operating Allocation | 56,000 | 56,000 | 56,000 | 0 |

THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2004

LAND PRESERVATION

| | | |
|--------------------------|-------------|-------------|
| Agriculture Preservation | \$1,661,529 | \$1,661,529 |
|--------------------------|-------------|-------------|

HIGHWAYS

| | | |
|--------------------------|-----------|-------------|
| Adequate Pub Facilities | \$296,761 | |
| Asphalt Overlay | 58,336 | |
| Bridge/Culvert Replace. | 171,161 | |
| Coral Place | 8,800 | |
| Lex Pk Sidewalk/Strscape | 225,679 | |
| Patuxent Pk Subdivision | 10,269 | |
| Retrofit Sidewalks | 104,913 | |
| Roadside Obstacles | 19,237 | |
| Rodo Beach Taxing Dist | 125 | |
| S Bottom, L. Hayden Rd | 50,206 | |
| Slurry Seal | 12,457 | |
| Streetscape Improvement | 50,585 | |
| Surface Treatment | 2,175 | |
| Transportation Plan | 142,589 | |
| Tulagi Place Master Plan | 211,691 | \$1,364,984 |

MARINE

| | | |
|-----------------------|----------|----------|
| St. Jeromes Creek | \$25,000 | |
| Tanner Creek Dredging | 10,775 | |
| Thomas Road Revetment | 15,000 | \$50,775 |

PUBLIC WORKS

| | | |
|-----------------------------|-----------|--------------|
| ADA Upgrades | \$7,834 | |
| Adult Detention Center - AC | 49,128 | |
| Airport Economic Impact | 4,872 | |
| Airport Envir. Assess | 211,482 | |
| Airport Improvements | 39,490 | |
| Airport Security | 5,693 | |
| Archives/Elections Bldg | 195 | |
| Building Maint. & Repairs | 151,083 | |
| Charlotte Hall Senior Cntr | 1,489,027 | |
| Comm College Ph 2 | 817,158 | |
| Courthouse Add/Renov. | 95,200 | |
| Courthouse Humidity | 157,914 | |
| CSM Humidity Control | 57,204 | |
| Fire & Rescue Rev Fnd | 175,800 | |
| Former Lex Pk Library | 16,577 | |
| Governmental Annex | 7,393 | |
| Isabel Buildings | 8,918 | |
| Leonardtown Library | 8,405 | |
| Lex Mnr North MEDAAF | 3,764,850 | |
| Lexington Manor | 4,246,830 | |
| Lexington Park Library | 13,458 | |
| Mansfield Mitigation | 490,800 | |
| Parking/Site Improv. | 79,772 | |
| Pat Riv Naval Museum-N | 46 | \$11,899,129 |

PIERS AND BOAT RAMPS

| | | |
|------------------------|---------|--|
| Bushwood Wharf | \$2,081 | |
| Derelict Boat Removal | 18,220 | |
| Forest Landing | 85,949 | |
| Isabel-Piers & Wharfs | 163,245 | |
| Leonardtown Wharf | 250,000 | |
| St Inigoes Pub Landing | 133,739 | |

Wicomico Pub Landing 149,205 \$802,439
 THE COUNTY COMMISSIONERS FOR ST. MARY'S COUNTY
 SCHEDULE OF UNEXPENDED APPROPRIATIONS FOR CAPITAL PROJECTS
 FOR THE YEAR ENDED JUNE 30, 2004
 (CONTINUED)

PUBLIC SCHOOLS

| | | |
|--------------------------|-----------|--------------|
| ADA Transition Plan | \$27,235 | |
| Banneker E Add/Renv. | 19,066 | |
| Carver Elem Addition | 106,007 | |
| Chopticon H Add/Renv. | 5,470 | |
| Elementary Sch 235/4 | 55,828 | |
| Green Holly Site Restore | 599 | |
| Greenview Knolls Parking | 93,115 | |
| Greenview Knolls Roof | 36,968 | |
| K Addition Oakville | 108,882 | |
| K Addition Ridge | 99,671 | |
| Leonardtwn H Add/Renv. | 6,172 | |
| Lexington Pk Add/Renv. | 26,608 | |
| Margaret Brent Add/Renv. | 4,643,801 | |
| Mech. Roof Syst. Renov. | 251,739 | |
| Mechanicsville HVAC | 1,710 | |
| Park Hall Ele Well Repla | 4,345 | |
| Qualified Zone Acad Bnd | 11,302 | |
| Relocation Classrooms | 24,610 | |
| Ridge Ele Gym Add | 357,577 | |
| Ridge Elem HVAC | 8,772 | |
| SMCPS-CIP ADA Fund | 1,549 | |
| Tech Center Addition | 9,393,570 | |
| White Marsh HVAC | 2,184 | \$15,286,780 |

RECREATION & PARKS

| | | |
|--------------------------|-----------|-------------|
| Chaptico Park | \$923,204 | |
| Dorsey Park Improv. | 30,715 | |
| Nicolet Park Expansion | 203,079 | |
| Park Planning | 51,207 | |
| Parks ADA Access. | 20,177 | |
| Piney Pt Lighthouse Park | 171,938 | |
| Three Notch Trail | 209,212 | |
| Wicomico Club House | 1,374,339 | \$2,983,871 |

SOLID WASTE

| | | |
|----------------------------|-----------|-------------|
| Environmental Assess. | \$45,744 | |
| Ridge Trf Site Acquisition | 10,741 | |
| St. Andrews Area C | 1,165,753 | |
| St. Andrews Area D | 25,723 | \$1,247,961 |

OTHER

| | | |
|-------------------------|---------|-----------|
| 2003 GOB Issuance Costs | 18,593 | |
| Funds Held in Reserve | 662,112 | \$680,705 |

Total \$35,978,173

Included in the above total is \$10,957,542 in unexpended State and Federal projects appropriations.



CPA, LLC

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The County Commissioners
for St. Mary's County, Maryland
Leonardtown, Maryland

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the County Commissioners for St. Mary's County, Maryland, as of and for the year ended June 30, 2004, which collectively comprise the County Commissioners for St. Mary's County, Maryland's basic financial statements and have issued our report thereon dated December 3, 2004. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County Commissioners of St. Mary's County, Maryland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

Murphy & Murphy CPA, LLC

La Plata, Maryland
December 3, 2004

Member: AICPA Private Companies Practice Section

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