

COUNTY COUNCIL OF
DORCHESTER COUNTY, MARYLAND

FINANCIAL REPORT

JUNE 30, 2012

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INDEPENDENT AUDITORS' REPORT

County Council of
Dorchester County, Maryland
Cambridge, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of Dorchester County, Maryland (the "County") as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Dorchester County Sanitary Districts. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Dorchester County Sanitary Districts, is based solely upon the reports of the other auditors.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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


Salisbury, Maryland
March 1, 2013

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2012

Management is pleased to present this narrative overview and analysis of the financial activities of Dorchester County, Maryland (the County) for the fiscal year ended June 30, 2012. The following discussion focuses on the County's primary government and, unless otherwise noted, component unit information is not included.

FINANCIAL HIGHLIGHTS

- The government-wide assets of the County exceeded its liabilities at the close of Fiscal Year 2012 (FY12) by \$50.8 million (total net assets). That amount is net of a \$12.9 million unrestricted deficit. The deficit occurs because the County issues debt to fund the construction of assets owned by Dorchester County Public Schools and Chesapeake College. Debt outstanding for these entities amounted to \$24.3 million at June 30, 2012. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net assets of \$11.4 million.
- The County's government-wide net assets increased by \$2.2 million.
- As of the close of FY12, the County's governmental funds reported combined ending fund balances of \$11.1 million, an increase of \$1.4 million from the prior year's ending fund balances. Of the total ending fund balances, \$7.8 million remains in the General Fund of the County as unassigned, which represents approximately 16.9% of total general fund expenditures for fiscal year 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The statement of net assets shows the County's assets less its liabilities at June 30, 2012. The difference between the assets and liabilities is reported as net assets. Changes in net assets over time may be helpful in indicating an improving or deteriorating financial position. Additionally, nonfinancial factors, such as a change in the County's property tax base or the condition of the County's facilities, should be considered to assess the overall health of the County.

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

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2012

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

Fund Financial Statements

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

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

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

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

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

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

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2012

Notes to the Financial Statements

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

Other Information

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

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net assets over time is a useful indicator of financial position. The County's total net assets as of June 30, 2012 were \$50.8 million. Investment in capital assets such as land, roads, bridges, buildings, machinery and equipment accounts for \$63.4 million of net assets. The amount is presented less any outstanding debt related to the acquisition and accumulated depreciation of those assets. The County uses capital assets to provide services to the citizens, and consequently, these assets are not available for future spending. Although assets are reported net of related debt, the capital assets themselves cannot be used to liquidate that liability, and other resources will be needed to repay any associated debt.

**Schedule of Net Assets
June 30, 2012 and 2011**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$19,920,582	\$20,085,095	\$12,146,680	\$11,019,290	\$32,067,262	\$31,104,385
Capital assets	\$50,820,869	\$51,331,623	\$17,585,724	\$18,693,858	\$68,406,593	\$70,025,481
Total assets	\$70,741,451	\$71,416,718	\$29,732,404	\$29,713,148	\$100,473,855	\$101,129,866
Liabilities:						
Long-term liabilities	\$35,619,054	\$36,668,036	\$9,271,039	\$9,099,114	\$44,890,093	\$45,767,150
Other liabilities	\$4,676,883	\$6,477,337	\$64,156	\$188,114	\$4,741,039	\$6,665,451
Total liabilities	\$40,295,937	\$43,145,373	\$9,335,195	\$9,287,228	\$49,631,132	\$52,432,601
Net assets:						
Invested in capital assets, net of related debt	\$46,139,662	\$45,010,598	\$17,212,724	\$18,289,858	\$63,352,386	\$63,300,456
Restricted	\$431,259	\$442,832	\$0	\$0	\$431,259	\$442,832
Unrestricted (deficit)	(\$16,125,407)	(\$17,182,085)	\$3,184,485	\$2,136,062	(\$12,940,922)	(\$15,046,023)
Total net assets	\$30,445,514	\$28,271,345	\$20,397,209	\$20,425,920	\$50,842,723	\$48,697,265

Restricted net assets are resources subject to external restriction on how they may be used to meet the County's ongoing obligations to citizens and creditors. As indicated earlier, the County's governmental activities unrestricted net assets deficit is primarily attributable to outstanding debt that has been issued to fund constructions costs of assets owned by the Dorchester County Public Schools and Chesapeake College. Counties in the State of Maryland issue and report the debt for school construction; however, the buildings are not owned or reported by the County. All other governmental and business-type activities had positive net asset balances as of June 30, 2012.

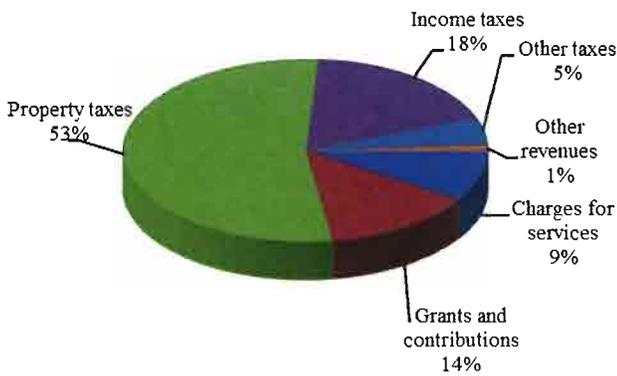
As reflected above, the County's government-wide net assets increased from \$48.7 million to \$50.8 million, an increase of \$2.1 million. This increase is mainly attributable to:

1. Income tax revenues being over budget by \$2.1 million.

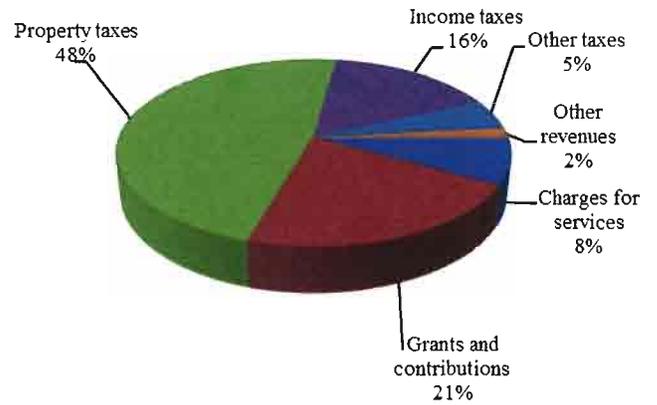
Dorchester County, Maryland
 Management's Discussion and Analysis
 June 30, 2012

The following represents revenues by source and expenses by function of primary government for the years ended June 30, 2012 and June 30, 2011.

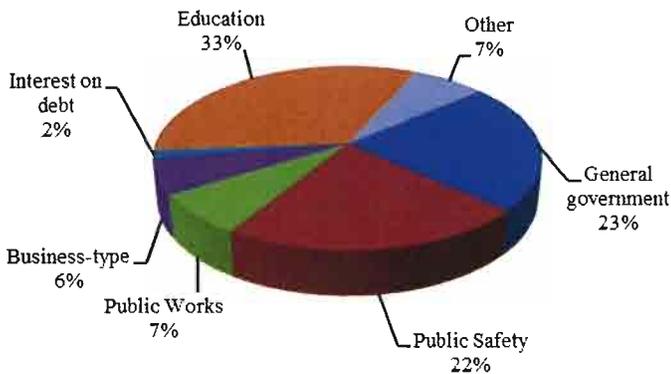
Revenue by Source FY 2012



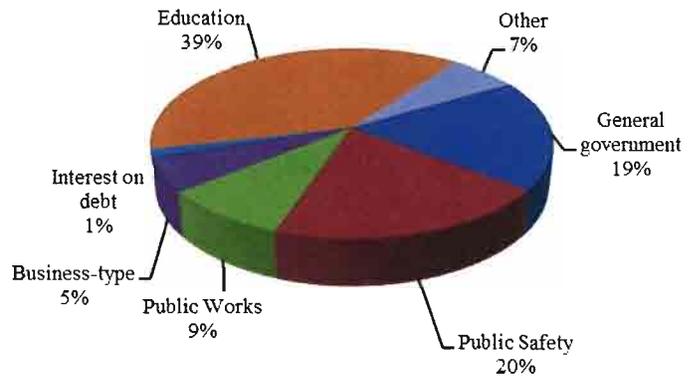
Revenue by Source FY 2011



Expenses by Function FY2012



Expenses by Function FY2011



Dorchester County, Maryland
Management's Discussion and Analysis
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**Schedule of Changes in Net Assets
For the years ended June 30, 2012 and 2011**

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$2,449,692	\$2,219,530	\$2,892,850	\$2,814,078	\$5,342,542	\$5,033,608
Operating grants and contributions	\$5,224,386	\$5,809,048	\$0	\$0	\$5,224,386	\$5,809,048
Capital grants and contributions	\$2,738,875	\$7,274,969	\$18,786	\$193,226	\$2,757,661	\$7,468,195
General revenues:						
Property taxes	\$31,428,151	\$29,563,733	\$0	\$0	\$31,428,151	\$29,563,733
Income taxes	\$10,767,858	\$9,880,600	\$0	\$0	\$10,767,858	\$9,880,600
Other taxes	\$2,721,398	\$3,219,603	\$0	\$0	\$2,721,398	\$3,219,603
Other revenues	\$576,467	\$701,862	\$30,139	\$329,690	\$606,606	\$1,031,552
Total revenues	\$55,906,827	\$58,669,345	\$2,941,775	\$3,336,994	\$58,848,602	\$62,006,339
Expenses:						
General government	\$12,869,275	\$12,268,670	\$0	\$0	\$12,869,275	\$12,268,670
Public safety	\$12,608,644	\$12,896,254	\$0	\$0	\$12,608,644	\$12,896,254
Social services	\$1,975,348	\$2,356,897	\$0	\$0	\$1,975,348	\$2,356,897
Public works	\$4,178,263	\$5,841,600	\$0	\$0	\$4,178,263	\$5,841,600
Recreation and parks	\$544,837	\$658,284	\$0	\$0	\$544,837	\$658,284
Natural resources	\$772,303	\$448,684	\$0	\$0	\$772,303	\$448,684
Economic development	\$746,774	\$857,091	\$0	\$0	\$746,774	\$857,091
Interest on debt	\$1,005,496	\$1,046,121	\$0	\$0	\$1,005,496	\$1,046,121
Education	\$18,571,352	\$25,219,763	\$0	\$0	\$18,571,352	\$25,219,763
Airport	\$0	\$0	\$879,640	\$853,556	\$879,640	\$853,556
Solid waste	\$0	\$0	\$2,551,212	\$2,801,502	\$2,551,212	\$2,801,502
Total expenses	\$53,272,292	\$61,593,364	\$3,430,852	\$3,655,058	\$56,703,144	\$65,248,422
Transfers	(\$460,366)	(\$379,622)	\$460,366	\$379,622	\$0	\$0
Change in net assets	\$2,174,169	(\$3,303,641)	(\$28,711)	\$61,558	\$2,145,458	(\$3,242,083)
Net assets – beginning of year	\$28,271,345	\$31,574,986	\$20,425,920	\$20,364,362	\$48,697,265	\$51,939,348
Net assets - end of year	\$30,445,514	\$28,271,345	\$20,397,209	\$20,425,920	\$50,842,723	\$48,697,265

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2012

Governmental Activities

The County's total revenue from governmental activities decreased from \$58.7 million in FY 2011 to \$55.9 million in FY 2012, a decrease of \$2.8 million or 4.7 percent.

Property and income taxes combined comprise 75.5 percent of governmental activities revenues. The property tax rate was 97.6 cents per \$100 of assessed value for FY 2012 and was increased 8 cents from FY 2011. Income taxes increased by \$0.9 million or 9.0 percent. The local income tax rate was 2.62 percent of the State taxable income for calendar year 2012 and was unchanged from 2011.

The expense of all governmental activities decreased from \$61.6 million in FY 2011 to \$53.3 million in FY 2012, a decrease of \$8.3 million or 13.5 percent.

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

	Expenses		Revenues		Net Cost of Services	
	2012	2011	2012	2011	2012	2011
Education	\$18,571,352	\$25,219,763	\$0	\$0	\$18,571,352	\$25,219,763
Public safety	\$12,608,644	\$12,896,254	\$2,756,359	\$3,365,921	\$9,852,285	\$9,530,333
Public works	\$4,178,263	\$5,841,600	\$1,302,959	\$3,988,136	\$2,875,304	\$1,853,464
General government	\$12,869,275	\$12,268,670	\$3,270,902	\$3,216,795	\$9,598,373	\$9,051,875
Social services	\$1,975,348	\$2,356,897	\$1,878,270	\$1,793,438	\$97,078	\$563,459
Interest on Debt	\$1,005,496	\$1,046,121	\$0	\$0	\$1,005,496	\$1,046,121
Recreation and parks	\$544,837	\$658,284	\$73,930	\$118,090	\$470,907	\$540,194
Economic Development	\$746,774	\$857,091	\$915,474	\$2,646,693	(\$168,700)	(\$1,789,602)
Natural Resources	\$772,303	\$448,684	\$215,059	\$174,474	\$557,244	\$274,210
Total	\$53,272,292	\$61,593,364	\$10,412,953	\$15,303,547	\$42,859,339	\$46,289,817

A more detailed discussion of the County's revenue and expense results for FY 2012 as compared to what was budgeted can be found in the General Fund Budgetary Highlights section of this analysis.

Business-type Activities

Highlights of the County's business-type activities for FY12 are as follows:

- Net assets of business-type activities decreased from \$20.43 million to \$20.40 million, a decrease of \$28,711 for FY 2012. Airport activities produced a positive net change in assets of \$17,641 and landfill activities resulted in a negative change in net assets of (\$46,352).
- Charges for services to users comprise 99 percent of total business-type activities revenue, with \$2.4 million (83 percent of charges for services revenue) attributable to solid waste activities and \$0.5 million (17 percent) attributable to airport operations.

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2012

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds

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

As of June 30, 2012, County governmental funds reported total fund balances of \$11.1 million, an increase of \$1.4 million from the end of FY 2011. Unassigned governmental fund balances total \$6.6 million with \$7.8 million from the General Fund and (\$1.3) million in the Capital Fund. The unassigned fund balance deficit in the Capital Fund results from a delay in financing Technology Park infrastructure costs. This financing is expected to occur in FY 2013.

The General Fund is the primary operating fund of the County. At June 30, 2012, total fund balance in the general fund was \$8.5 million of which \$7.8 million was unassigned. The general fund balance increased \$3.1 million as a result of current fiscal year operations.

The following key factors were responsible for the changes:

- Total revenues of \$49.8 million exceeded the FY 2012 budget by \$1.7 million or 3.6 percent
- Total expenditures of \$46.5 million were below the FY 2012 budget by \$0.2 million or 0.5 percent
- Other financing sources (uses) of (\$0.2) million were below the FY 2012 budget by \$1.2 million. This variance primarily reflects the budgeted transfer of \$1.0 million into the Reserve Fund, which for accounting purposes, does not constitute expenditure.

The County implemented Statement of Governmental Accounting Standards (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in 2011. GASB 54 requires the County to record its designated revenue stabilization funds as part of the unassigned fund balance. Prior to implementing this standard (2010 and prior) revenue stabilization funds were recorded as a separate special revenue fund called the "Reserve Fund". At the end of fiscal year 2012, the County has designated \$2.6 million of its unassigned governmental fund balance for revenue stabilization arrangements, which is a decrease of \$0.5 million from the prior year. The purpose of the revenue stabilization fund is to provide a fiscal means for the County to respond to potential adversities such as public emergencies, natural disasters, major unanticipated projects or economic downturns.

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

The Building Excise Tax Fund ended the year with a fund balance of \$1.4 million. This fund was created by Dorchester County Bill Number 2004-6, effective date of September 15, 2004, which established an excise tax on new development. The proceeds of the tax are dedicated for the capital costs associated with new growth specific to schools (\$1.1 million balance), emergency communications (\$0.2 million balance), and Sheriff's Office (\$0.1 million balance).

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The Transfer Tax Fund ended the year with a fund balance of \$1.8 million, which decreased \$0.2 million from prior year. The purpose of this fund is to account for the proceeds of the transfer tax which is dedicated for repairs, maintenance and security of the Circuit Courthouse as well as public school capital facility expenditures.

Proprietary funds

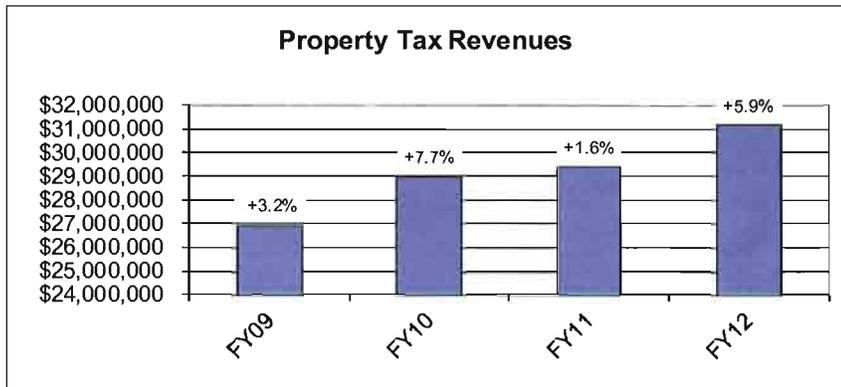
Airport Enterprise Fund – At June 30, 2012, total net assets amounted to \$15.1 million, with unrestricted net assets of \$1.8 million, and an operating loss of \$0.4 million. After non-operating revenues and transfers of \$0.5 million, the fund ended FY 2012 with an increase in net assets of \$17,641.

Landfill Enterprise Fund – At June 30, 2012, total net assets amounted to \$5.3 million, with unrestricted net assets of \$1.4 million, and an operating loss of \$0.1 million. After non-operating revenues of \$24,985, the fund ended FY 2012 with a decrease in net assets of \$46,352.

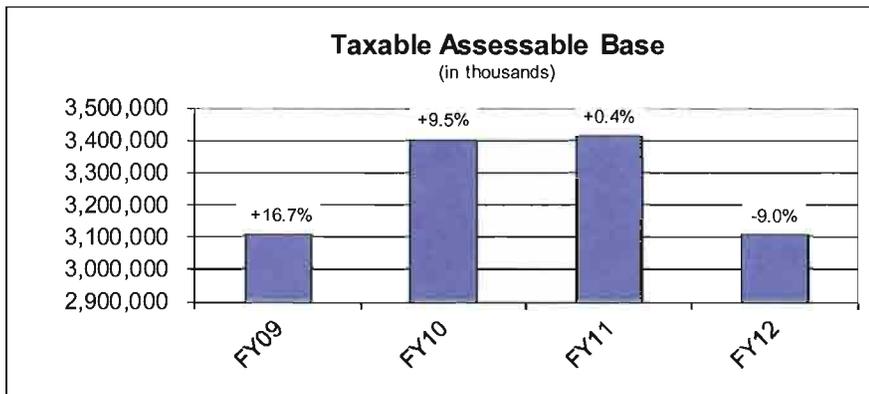
Dorchester County, Maryland
 Management's Discussion and Analysis
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Budget Variations

Property Taxes - The largest revenue source for the County is property taxes. Net property tax revenue in the General Fund amounted to \$31.2 million, which was above the budget estimate by \$0.1 million or 0.4 percent and \$1.7 million or 5.9 percent above actual revenue in FY 2011. For FY 2012, the real property tax rate was increased from 0.896 per \$100 of assessed value to 0.976 per \$100 of assessed value, an increase of 8 cents or 8.9 percent. The taxable assessable base before including the homestead credit declined by 307.5 million or 9.0 percent; with the homestead credit the decline was 126.8 million or 4.2 percent.

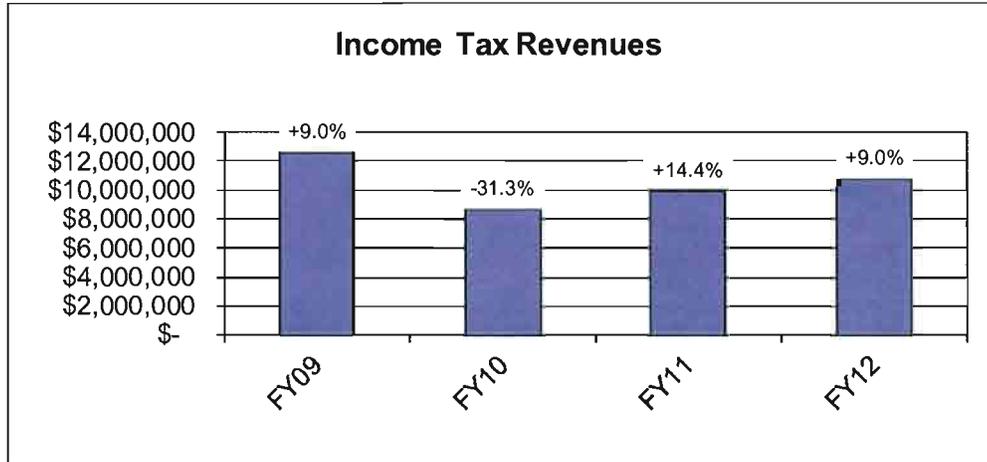


The taxable assessable base of real property for FY 2012 declined by 9.0 percent following the relatively unchanged base in FY 2011.

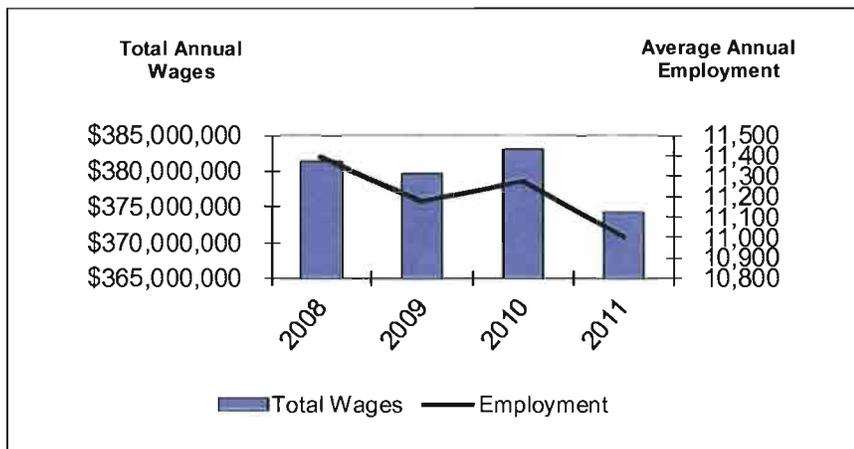


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Income Taxes - The second largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$10.8 million which was \$2.2 million or 25.2 percent above budget and \$0.9 million or 9.0 percent above actual revenues in FY 2011. The local income tax rate remained unchanged at 2.62%.



The growth in income tax revenue is primarily attributed to non-wage income, as net employment and total annual payroll wages both declined from CY 2010 to CY 2011. Employment declined by 267 jobs or 2.4 percent. Total annual payroll wages declined by \$8.8 million or 2.3 percent. The average weekly wage per worker during CY 2011 increased by \$1 to \$654.



General Fund actual expenditures of \$46.5 million were below the FY 2012 budget by \$0.2 million or 0.5 percent and \$1.9 million or 3.9 percent below actual FY 2011.

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Management's Discussion and Analysis
June 30, 2012

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2012, amounted to \$68.4 million (net of accumulated depreciation), as summarized below:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$18,364,261	\$12,789,715	\$3,418,807	\$3,026,987	\$21,783,068	\$15,816,702
Buildings and improvements	\$22,430,802	\$22,207,180	\$9,840,584	\$9,840,584	\$32,271,386	\$32,047,764
Furniture, machinery, equipment	\$24,356,709	\$21,942,302	\$4,175,171	\$4,175,171	\$28,531,880	\$26,117,473
Leasehold improvements	\$286,572	\$286,572	\$0	\$0	\$286,572	\$286,572
Infrastructure	\$45,445,338	\$42,603,570	\$8,511,474	\$8,511,474	\$53,956,812	\$51,115,044
Construction in progress	\$99,322	\$8,990,217	\$5,051,958	\$5,464,017	\$5,151,280	\$14,454,234
Total assets	\$110,983,004	\$108,819,556	\$30,997,994	\$31,018,233	\$141,980,998	\$139,837,789
Less: Accumulated depreciation	\$60,162,135	\$57,487,933	\$13,412,270	\$12,324,375	\$73,574,405	\$69,812,308
Total	\$50,820,869	\$51,331,623	\$17,585,724	\$18,693,858	\$68,406,593	\$70,025,481

Changes in the County's capital assets for FY 2012 are summarized as follows:

	Governmental Activities	Business-Type Activities	Total	
	2012	2012	2012	2011
Beginning Balance	\$51,331,623	\$18,693,858	\$70,025,481	\$64,433,852
Additions*	\$2,388,832	\$19,267	\$2,408,099	\$9,699,476
Retirements, net*	\$1,754	\$39,506	\$41,260	\$35,325
Depreciation expense	\$2,897,832	\$1,087,895	\$3,985,727	\$4,072,522
Ending Balance	\$50,820,869	\$17,585,724	\$68,406,593	\$70,025,481

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

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

- \$1.2 million in construction of the business and technology park,
- \$.5 million in construction of shoreline erosion in Elliott's Island

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

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2012

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2012:

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$26,320,000	\$28,885,000	\$0	\$0	\$26,320,000	\$28,885,000
Notes payable	\$2,716,016	\$3,532,353	\$373,000	\$404,000	\$3,089,016	\$3,936,353
Capital leases	\$0	\$0	\$0	\$0	\$0	\$0
Pension liability	\$684,569	\$667,174	\$0	\$0	\$684,569	\$667,174
OPEB Obligation	\$4,911,164	\$2,589,842	\$0	\$0	\$4,911,164	\$2,589,842
Compensated absences	\$987,305	\$993,667	\$43,696	\$48,966	\$1,031,001	\$1,042,633
Total	\$35,619,054	\$36,668,036	\$416,696	\$452,966	\$36,035,750	\$37,121,002

At June 30, 2012, the County had outstanding general obligation bonds of \$26.3 million. General obligation (GO) bonds are backed by the issuer's pledge of its full faith, credit and taxing power for the payment of the bond. GOs are generally viewed as the most secure type of municipal security and typically finance public projects such as schools, parks, libraries, roads and county buildings. Over the last ten years, the County issued its GO bonds three times totaling \$37.26 million. Dorchester County also issues debt to finance the capital construction of Dorchester County Public Schools and Chesapeake College not otherwise financed by the State of Maryland. The County continues to maintain its status as a stable smaller government issuer of municipal securities, with the third highest credit rating possible for a local government. For its GO bonds, the County is rated A2 from Moody's Investors Service, Inc., and A+ from Standard and Poor's. These bond ratings, by definition, represent the County is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than counties in higher-rated categories. However, the County's capacity to meet its financial commitment on the bonds is still strong.

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

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

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2012

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Dorchester County, like most local jurisdictions around the state, continues to face difficult economic circumstances. Combined with severe reductions in State aid, the top priority of the FY 2013 budget was the preservation of essential services the County provides and funds, not only for the 2013 budget, but for future budgets as well. The County's share of highway user revenues for 2012 continues to reflect a 90% reduction of more than \$4 million, as the State uses these funds to address their own structural deficit.

The adopted FY 2013 total budget equals \$55.8 million, a decrease of \$0.2 million or 0.36% compared to the prior year's adopted budget.

The primary goals of the FY 2013 adopted budget were (1.) to maintain essential services, (2.) to maintain or lower the current property tax rates, and (3.) to end the temporary salary reduction for county employees and associated furloughs. The adopted operating budget met all of the above goals.

End the Temporary Salary Reduction for County Employees

The adopted 2013 budget ends the temporary salary reduction and furlough program initially instituted during fiscal year 2010. Last year's budget reflected pay reductions of 1.923% and 5 furlough days. The adopted budget eliminates this reduced rate of pay and ends the furlough program. Additionally, a 1% cost of living adjustment is adopted for county employees. The total value of these two measures is \$331,287 excluding related benefit costs.

Maintenance of Current Property Tax Rates

Adopted property tax rates will be equal to or below both the current rate and the constant yield tax rate.

REQUESTS FOR INFORMATION

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

DORCHESTER COUNTY, MARYLAND
STATEMENT OF NET ASSETS
PRIMARY GOVERNMENT AS OF JUNE 30, 2012
COMPONENT UNITS AS OF JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and short-term investments	\$ 11,852,973	\$ 10,897,629	\$ 22,750,602
Receivables:			
State and local property taxes	4,360,689	-	4,360,689
Accounts receivable, net	-	238,012	238,012
Federal government	799,335	44,977	844,312
State of Maryland	1,261,969	1,767	1,263,736
Local	136,431	-	136,431
Other	2,132,884	-	2,132,884
Internal balances, net	(902,554)	902,554	-
Inventories, at cost	-	61,741	61,741
Other	278,855	-	278,855
Nondepreciable capital assets	18,463,583	8,470,765	26,934,348
Depreciable capital assets, net	32,357,286	9,114,959	41,472,245
Total assets	70,741,451	29,732,404	100,473,855
LIABILITIES			
Accounts payable and accrued expenses	2,009,320	58,806	2,068,126
Due to State of Maryland	661,904	-	661,904
Due to delinquent taxpayers	379,710	-	379,710
Deferred revenue	1,509,064	5,350	1,514,414
Other	116,885	-	116,885
Long-term liabilities, due within one year:			
Compensated absences	409,839	21,161	431,000
Bonds and notes payable	3,103,878	32,000	3,135,878
Long-term liabilities, due in more than one year:			
Compensated absences	577,466	22,535	600,001
Bonds and notes payable	25,932,138	341,000	26,273,138
Landfill closure and postclosure care costs	-	8,854,343	8,854,343
Pension liability	684,569	-	684,569
Other post-employment benefits obligation	4,911,164	-	4,911,164
Total liabilities	40,295,937	9,335,195	49,631,132
NET ASSETS			
Invested in capital assets, net of related debt	46,139,662	17,212,724	63,352,386
Restricted	431,259	-	431,259
Unrestricted	(16,125,407)	3,184,485	(12,940,922)
Total Net Assets	\$ 30,445,514	\$ 20,397,209	\$ 50,842,723

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

Component Units	
Board of Education of Dorchester County	Dorchester County Sanitary Districts
\$ 5,533,407	\$ 1,715,674
-	-
-	59,972
452,207	-
742,157	-
3,532	-
506,318	137,610
-	-
17,277	-
-	-
239,600	2,645
90,038,304	12,015,737
<u>97,532,802</u>	<u>13,931,638</u>
3,116,872	552,563
-	-
-	-
1,673,341	-
22,250	3,810
86,325	-
-	56,486
856,421	-
-	2,123,544
-	-
-	-
4,883,637	-
<u>10,638,846</u>	<u>2,736,403</u>
90,277,904	9,838,352
293,072	-
(3,677,020)	1,356,883
<u>\$ 86,893,956</u>	<u>\$ 11,195,235</u>

DORCHESTER COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
Governmental Activities				
General government	\$ 12,869,275	\$ 336,858	\$ 2,536,215	\$ 397,829
Public safety	12,608,644	1,865,600	610,278	280,481
Social services	1,975,348	-	1,524,518	353,753
Recreation and parks	544,837	50,077	11,869	11,984
Natural resources	772,303	41,542	173,517	-
Economic development	746,774	-	151,778	763,696
Education	18,571,352	-	-	-
Public works	4,178,263	155,614	216,212	931,133
Interest on long-term debt	1,005,496	-	-	-
Total Governmental Activities	53,272,292	2,449,692	5,224,386	2,738,875
Business-Type Activities				
Airport	879,640	445,797	-	18,786
Landfill	2,551,212	2,447,053	-	-
Total Business-Type Activities	3,430,852	2,892,850	-	18,786
Total Primary Government	\$ 56,703,144	\$ 5,342,542	\$ 5,224,386	\$ 2,757,661
Component Units				
Board of Education of Dorchester County	69,617,006	3,496,896	56,722,938	2,884,050
Dorchester County Sanitary Districts	749,510	944,621	-	1,172,520
Total Component Units	\$ 70,366,516	\$ 4,441,517	\$ 56,722,938	\$ 4,056,570

General Revenues (Expenses)

Taxes:

Property

Income

Other

Interest

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning of Year

Net Assets, End of Year

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

Net (Expense) Revenue and Changes in Net Assets

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Board of Education of Dorchester County	Dorchester County Sanitary Districts
\$ (9,598,373)	\$ -	\$ (9,598,373)	\$ -	\$ -
(9,852,285)	-	(9,852,285)	-	-
(97,078)	-	(97,078)	-	-
(470,907)	-	(470,907)	-	-
(557,244)	-	(557,244)	-	-
168,700	-	168,700	-	-
(18,571,352)	-	(18,571,352)	-	-
(2,875,304)	-	(2,875,304)	-	-
(1,005,496)	-	(1,005,496)	-	-
(42,859,339)	-	(42,859,339)	-	-
-	(415,057)	(415,057)	-	-
-	(104,159)	(104,159)	-	-
-	(519,216)	(519,216)	-	-
(42,859,339)	(519,216)	(43,378,555)	-	-
-	-	-	(6,513,122)	-
-	-	-	-	1,367,631
-	-	-	(6,513,122)	1,367,631
31,428,151	-	31,428,151	-	-
10,767,858	-	10,767,858	-	-
2,721,398	-	2,721,398	-	-
15,268	24,985	40,253	3,974	35,917
561,199	5,154	566,353	551,827	-
45,493,874	30,139	45,524,013	555,801	35,917
(460,366)	460,366	-	-	-
45,033,508	490,505	45,524,013	555,801	35,917
2,174,169	(28,711)	2,145,458	(5,957,321)	1,403,548
28,271,345	20,425,920	48,697,265	92,851,277	9,791,687
\$ 30,445,514	\$ 20,397,209	\$ 50,842,723	\$ 86,893,956	\$ 11,195,235

DORCHESTER COUNTY, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012**

	General Fund	Special Revenue Grants Fund	Capital Fund
ASSETS			
Cash and short-term investments	\$ 8,391,470	\$ 740,288	\$ 807,516
Receivables:			
State and local property taxes	4,360,689	-	-
Federal government	133,327	666,008	-
State of Maryland	-	1,261,969	-
Local	136,431	-	-
Other	1,936,558	94,147	-
Interfund	4,073,204	59,406	27,224
Other	87,141	-	191,714
Total assets	\$ 19,118,820	\$ 2,821,818	\$ 1,026,454
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 1,581,637	\$ 792,391	\$ 25,811
Due to State of Maryland	661,904	-	-
Due to delinquent taxpayers	379,710	-	-
Interfund payables	3,492,437	709,640	2,097,843
Due to others	70,106	-	-
Deferred revenue	4,368,543	876,365	-
Other	34,616	12,163	-
Total liabilities	10,588,953	2,390,559	2,123,654
FUND BALANCES			
Nonspendable	87,141	-	191,714
Restricted for:			
Grants	-	431,259	-
Committed for:			
Schools and courthouse	-	-	-
Public safety communication system	-	-	-
Sheriff	-	-	-
Assigned for:			
Future budget	600,000	-	-
Unassigned	7,842,726	-	(1,288,914)
Total fund balances	8,529,867	431,259	(1,097,200)
Total liabilities and fund balances	\$ 19,118,820	\$ 2,821,818	\$ 1,026,454

Other Governmental Funds	Total Governmental Funds
\$ 1,913,699	\$ 11,852,973
-	4,360,689
-	799,335
-	1,261,969
-	136,431
102,179	2,132,884
1,736,711	5,896,545
-	278,855
<u>\$ 3,752,589</u>	<u>\$ 26,719,681</u>
\$ 19,320	\$ 2,419,159
-	661,904
-	379,710
499,179	6,799,099
-	70,106
35,924	5,280,832
-	46,779
<u>554,423</u>	<u>15,657,589</u>
-	278,855
-	431,259
2,915,124	2,915,124
144,977	144,977
138,065	138,065
-	600,000
-	6,553,812
<u>3,198,166</u>	<u>11,062,092</u>
<u>\$ 3,752,589</u>	<u>\$ 26,719,681</u>

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

DORCHESTER COUNTY, MARYLAND
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total fund balances, governmental funds	\$ 11,062,092
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are therefore not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets.	50,820,869
Certain revenues that do not provide current financial resources are reported as deferred income in the fund financial statements, but are reported as revenue in the governmental activities of the Statement of Net Assets.	3,771,768
Some liabilities are not due and payable in the current period and therefore are not reported in the fund financial statements, but are reported in the governmental activities of the Statement of Net Assets. Those liabilities consist of:	
Bonds and notes payable	(29,036,016)
Pension liability	(684,569)
Compensated absences	(577,466)
Other post-employment benefits obligation	<u>(4,911,164)</u>
Total long-term liabilities	<u>(35,209,215)</u>
Net assets of governmental activities in the Statement of Net Assets	<u>\$ 30,445,514</u>

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

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012**

	General Fund	Special Revenue Grants Fund	Capital Fund
REVENUES:			
Taxes	\$ 43,914,785	\$ -	\$ -
Licenses and permits	219,920	-	-
Intergovernmental:			
Federal	128,096	1,693,173	501,049
State	2,890,949	2,515,833	234,160
Service charges and fees	2,229,773	-	-
Miscellaneous	451,561	14,141	-
Total revenues	49,835,084	4,223,147	735,209
EXPENDITURES:			
Current:			
General government	3,559,929	266,922	28,908
Public safety	10,370,953	350,591	183,815
Social services	174,545	1,798,680	-
Recreation and parks	428,470	23,853	-
Natural resources	354,891	362,182	-
Economic development	573,273	118,789	-
Miscellaneous	5,386,040	-	-
Education	18,297,362	-	1,643
Public works	3,002,924	321,585	372,776
Debt service:			
Principal	3,281,094	-	-
Interest	989,376	-	-
Capital outlay	111,001	1,031,059	1,207,267
Total expenditures	46,529,858	4,273,661	1,794,409
Excess (deficiency) of revenues over expenditures	3,305,226	(50,514)	(1,059,200)
OTHER FINANCING SOURCES (USES):			
Net change in pension liability	17,395	-	-
Interest and dividends received	8,428	1,448	2,294
Transfers, net	(226,539)	37,493	(271,320)
Total other financing sources (uses)	(200,716)	38,941	(269,026)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	3,104,510	(11,573)	(1,328,226)
Fund balances, beginning of year	5,425,357	442,832	231,026
Fund balances (deficit), end of year	\$ 8,529,867	\$ 431,259	\$ (1,097,200)

Other Governmental Funds	Total Governmental Funds
\$ 730,149	\$ 44,644,934
-	219,920
-	2,322,318
-	5,640,942
-	2,229,773
95,497	561,199
<u>825,646</u>	<u>55,619,086</u>
492,602	4,348,361
305,127	11,210,486
-	1,973,225
-	452,323
-	717,073
-	692,062
-	5,386,040
272,347	18,571,352
-	3,697,285
132,600	3,413,694
16,120	1,005,496
-	2,349,327
<u>1,218,796</u>	<u>53,816,724</u>
<u>(393,150)</u>	<u>1,802,362</u>
-	17,395
3,098	15,268
-	(460,366)
<u>3,098</u>	<u>(427,703)</u>
(390,052)	1,374,659
<u>3,588,218</u>	<u>9,687,433</u>
<u>\$ 3,198,166</u>	<u>\$ 11,062,092</u>

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

DORCHESTER COUNTY, MARYLAND

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2012**

Net change in fund balances, governmental funds \$ 1,374,659

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

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

Capital outlay	2,388,832	
Depreciation expense	<u>(2,897,832)</u>	
Excess of depreciation expense over capital outlay		(509,000)

Loss on disposal of equipment (1,754)

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

Principal payments on long-term debt 3,381,337

Because some revenues will not be collected for several months after the County's
fiscal year ends, they are not considered "available" revenues and are deferred in the
governmental funds. Deferred revenues increased by this amount this year. 272,473

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

Increase in pension liability	(17,395)
Increase in compensated absences	(4,829)
Change in other post-employment benefits obligation	<u>(2,321,322)</u>

Change in net assets of governmental activities \$ 2,174,169

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS**

June 30, 2012

	Business-Type Activities		
	Landfill	Airport	Total
ASSETS			
Current assets			
Cash	\$ 10,897,304	\$ 325	\$ 10,897,629
Receivables:			
Accounts, net of \$58,235 allowance (landfill) and \$6,500 allowance (airport)	169,953	68,059	238,012
Federal government	-	44,977	44,977
State of Maryland	-	1,767	1,767
Interfund	(743,454)	1,646,008	902,554
Inventories	-	61,741	61,741
Total current assets	10,323,803	1,822,877	12,146,680
Noncurrent assets			
Capital assets at cost	13,471,438	17,526,556	30,997,994
Less accumulated depreciation	(9,521,615)	(3,890,655)	(13,412,270)
Total noncurrent assets	3,949,823	13,635,901	17,585,724
Total assets	\$ 14,273,626	\$ 15,458,778	\$ 29,732,404
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 53,006	\$ 5,800	\$ 58,806
Accrued vacation	15,278	5,883	21,161
Deferred revenue	-	5,350	5,350
Current maturities long-term debt	1,000	31,000	32,000
Total current liabilities	69,284	48,033	117,317
Noncurrent liabilities			
Accrued vacation	15,488	7,047	22,535
Landfill - closure and postclosure	8,854,343	-	8,854,343
Long-term debt, less current maturities	-	341,000	341,000
Total noncurrent liabilities	8,869,831	348,047	9,217,878
Total liabilities	\$ 8,939,115	\$ 396,080	\$ 9,335,195
NET ASSETS			
Invested in capital assets, net of related debt	\$ 3,948,823	\$ 13,263,901	\$ 17,212,724
Unrestricted	1,385,688	1,798,797	3,184,485
Total net assets	\$ 5,334,511	\$ 15,062,698	\$ 20,397,209

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

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012**

	Business-Type Activities		
	Landfill	Airport	Totals
OPERATING REVENUES:			
Tipping fees	\$ 2,294,186	\$ -	\$ 2,294,186
Permits	152,867	-	152,867
Fuel sales	-	265,557	265,557
Hangar and tie-down rentals	-	180,240	180,240
Other	32,822	11,838	44,660
Total operating revenues	2,479,875	457,635	2,937,510
OPERATING EXPENSES:			
Salaries and related taxes	901,772	205,553	1,107,325
Repairs and maintenance	331,015	61,589	392,604
Rental of land, buildings and equipment	47,605	13,200	60,805
Fuel	181,829	225,282	407,111
Closure and postclosure costs accrual	208,195	-	208,195
Utilities	15,487	85,352	100,839
Depreciation	837,903	249,992	1,087,895
Other operating	27,406	22,404	49,810
Total operating expenses	2,551,212	863,372	3,414,584
Net operating income (loss)	(71,337)	(405,737)	(477,074)
NON-OPERATING REVENUES (EXPENSES):			
Grants - Federal government	-	18,304	18,304
Grants - state government	-	482	482
Transfer of capital asset to general fund	-	(39,506)	(39,506)
Interest income	24,985	-	24,985
Interest expense	-	(16,268)	(16,268)
Total non-operating revenues (expenses)	24,985	(36,988)	(12,003)
Income (loss) before transfers	(46,352)	(442,725)	(489,077)
Operating transfers	-	460,366	460,366
Change in net assets	(46,352)	17,641	(28,711)
Net assets beginning of year	5,380,863	15,045,057	20,425,920
Net assets end of year	\$ 5,334,511	\$ 15,062,698	\$ 20,397,209

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

DORCHESTER COUNTY, MARYLAND

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2012

	Landfill	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 2,614,285	\$ 620,995	\$ 3,235,280
Other receipts	32,822	11,838	44,660
Payments to employees	(908,578)	(204,017)	(1,112,595)
Payments for services	(15,487)	(85,352)	(100,839)
Payments for rentals	(47,605)	(13,200)	(60,805)
Payments for materials and supplies	(631,977)	(291,696)	(923,673)
Other payments	(27,406)	(22,404)	(49,810)
Net cash provided by operating activities	1,016,054	16,164	1,032,218
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Decrease in interfund receivable	(548,900)	(428,781)	(977,681)
Operating transfers from General Fund	-	460,366	460,366
Net cash (used) provided by non-capital financing activities	(548,900)	31,585	(517,315)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Grant and bond receipts	-	18,786	18,786
Repayment of long-term debt	-	(31,000)	(31,000)
Purchases of property and equipment	-	(19,267)	(19,267)
Interest paid	-	(16,268)	(16,268)
Net cash used by financing activities	-	(47,749)	(47,749)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income received	24,985	-	24,985
Net cash provided by investing activities	24,985	-	24,985
Net increase in cash and short-term investments	492,139	-	492,139
Cash and short-term investments, beginning of year	10,405,165	325	10,405,490
Cash and short-term investments, end of year	\$ 10,897,304	\$ 325	\$ 10,897,629
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:			
Operating loss	\$ (71,337)	\$ (405,737)	\$ (477,074)
Adjustments:			
Depreciation	837,903	249,992	1,087,895
Landfill closure and postclosure cost accrual	208,195	-	208,195
(Increase) decrease in assets:			
Accounts receivable	167,232	184,635	351,867
Inventory	-	(9,437)	(9,437)
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	(119,133)	(4,825)	(123,958)
Accrued vacation	(6,806)	1,536	(5,270)
Total adjustments	1,087,391	421,901	1,509,292
Net cash provided by operating activities	\$ 1,016,054	\$ 16,164	\$ 1,032,218

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

DORCHESTER COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2012

	Other Post-Employment Benefits Trust Fund
ASSETS	
Cash	\$ 2,230,472
<hr/>	
Total assets	2,230,472
<hr/>	
LIABILITIES	
Due to other funds	290,364
<hr/>	
Total liabilities	290,364
<hr/>	
NET ASSETS	
Net assets held in trust for other post-employment benefits	\$ 1,940,108
<hr/>	

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

DORCHESTER COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
Year Ended June 30, 2012

	Other Post-Employment Benefits Trust Fund
ADDITIONS:	
Investment income	
Interest	\$ 5,997
<hr/>	
Total additions	5,997
<hr/>	
DEDUCTIONS:	
Benefits paid	290,363
<hr/>	
Total deductions	290,363
<hr/>	
Change in net assets	(284,366)
<hr/>	
Net assets beginning of year	2,224,474
<hr/>	
Net assets end of year	\$ 1,940,108
<hr/>	

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Reporting Entity

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

Financial Reporting Entity

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

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

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

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

Note 2. Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

B. Fund Accounting

The County uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Fund Types

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

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Special Revenue Grants Fund, which includes Local Management Board (LMB) grant activity, the Tax funds (see more detail below), and the Commissary fund are all special revenue funds of the County.

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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

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

Proprietary Fund Types

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

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

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

Fiduciary Fund Types

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

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

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

Property taxes for which there was an enforceable legal claim at June 30, 2012, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

E. Budgets and Budgetary Accounting

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

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

F. Inventory

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

G. Property Tax

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

H. Capital Assets

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

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

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings and Improvements	10 - 40 years	20 - 40 years
Furniture and Equipment	3 - 40 years	3 - 15 years
Vehicles	1 - 10 years	3 - 8 years
Infrastructure	10 - 50 years	5 - 23 years

I. Interfund Receivables and Payables

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

J. Compensated Absences

Vacation and Sick Leave

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

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

K. Accrued Liabilities and Long-Term Obligations

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

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

L. Net Assets

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

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

M. Fund Balance Reserves

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

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

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

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

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

Unassigned – Amounts not included in other spendable classifications.

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

NOTES TO FINANCIAL STATEMENTS

Note 2. Summary of Significant Accounting Policies (continued)

N. Operating Revenues and Expenses

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

O. Interfund Transactions

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

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

P. Estimates

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

Q. Cash and Cash Equivalents

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

Note 3. Cash and Short-Term Investments

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

Primary Government

At June 30, 2012, the County had bank deposits with various commercial banks totaling \$21,697,442 (carrying value \$22,750,602). As required by law, each depository is to pledge securities in addition to FDIC insurance at least equal to the amount on deposit at all times. The depository banks pledge collateral for specific accounts which are held in the County's name at several banks. At June 30, 2012, the County was exposed to custodial risk in the amount of \$1,409,099. Since then the Bank pledged securities to fully collateralize bank deposits.

NOTES TO FINANCIAL STATEMENTS

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

Board of Education of Dorchester County

At June 30, 2012, the Board had bank deposits with various commercial banks totaling \$3,570,631 (carrying value \$2,281,847). As of June 30, 2012, bank deposits were fully insured by the Federal Deposit Insurance Corporation (FDIC).

Investments consist of \$3,251,560 of U.S. Government Securities made through the State of Maryland Local Government Investment Pool (MLGIP) which provide local government units of the State a safe investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 94 22G of the Annotated Code of Maryland. The MLGIP is managed by PNC Safe Deposit and Trust Company, which is under administrative control of the State Treasurer. A MLGIP Advisory Committee of current participants has been formed to review the activities of the Fund on a quarterly basis and provide suggestions to enhance the pool. The MLGIP is rated AAAM by Standard and Poors. The fair value of the pool is the same as the value of the pool shares. Investments are recorded at cost, which approximates market value. Statutes authorize the Board to invest in obligations of the U.S. Treasury and U.S. Agencies, municipal securities and repurchase agreements, collateralized certificates of deposit, bankers' acceptance or money market funds.

The Board's exposure to investment rate and credit risk is minimal, as all investments are in cash and MLGIP and are thus precluded from having to sell below original cost. Custodial credit risk is mitigated by attempting to have all investments fully collateralized by securities. Cash is invested pursuant to the Annotated Code of Maryland and County Code.

Dorchester County Sanitary Districts

At June 30, 2012 the Dorchester County Sanitary Districts had bank deposits with various commercial banks totaling \$1,724,214 (carrying value \$1,715,674). Of the bank balance, \$1,322,098 was covered by federal depository insurance, and \$402,116 was covered by collateral segregated on the books of local banks, but not in the Sanitary District's name.

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

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

	Balances at June 30, 2011	Additions	Deletions/ Transfers	Balances at June 30, 2012
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated				
Land	\$ 12,789,715	\$ -	\$ 5,574,546	\$ 18,364,261
Construction in progress	8,990,217	1,686,808	(10,577,703)	99,322
Total capital assets, not being depreciated	21,779,932	1,686,808	(5,003,157)	18,463,583
Capital assets, being depreciated				
Buildings and improvements	22,207,180	223,622	-	22,430,802
Furniture and equipment	21,942,302	161,263	2,253,144	24,356,709
Leasehold improvements	286,572	-	-	286,572
Infrastructure assets	42,603,570	317,139	2,524,629	45,445,338
Total capital assets, being depreciated	87,039,624	702,024	4,777,773	92,519,421
Less: accumulated depreciation	(57,487,933)	(2,897,832)	223,630	(60,162,135)
Net capital assets, being depreciated	29,551,691	(2,195,808)	5,001,403	32,357,286
Governmental activities capital assets, net	\$ 51,331,623	\$ (509,000)	\$ (1,754)	\$ 50,820,869

Depreciation expense was charged to governmental functions as follows:

General government	\$ 776,366
Public safety	1,398,158
Social services	369
Recreation and parks	92,514
Natural resources	55,230
Economic development	94,217
Public works	480,978
	<u>\$ 2,897,832</u>

During 2012, the Airport fund transferred land valued at \$39,506 to the governmental activities which was capitalized as part of the Tech Park.

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

	Balances at June 30, 2011	Additions	Deletions/ Transfers	Balances at June 30, 2012
BUSINESS-TYPE ACTIVITIES				
Dorchester County Landfill				
Capital assets, not being depreciated				
Land	\$ 875,187	\$ -	\$ -	\$ 875,187
Construction in progress	35,407	-	-	35,407
Total capital assets, not being depreciated	910,594	-	-	910,594
Capital assets, being depreciated				
Buildings and improvements	148,739	-	-	148,739
Machinery and equipment	3,900,631	-	-	3,900,631
Beulah landfill - cells	8,511,474	-	-	8,511,474
Total capital assets, being depreciated	12,560,844	-	-	12,560,844
Less: accumulated depreciation	(8,683,712)	(837,903)	-	(9,521,615)
Net capital assets, being depreciated	3,877,132	(837,903)	-	3,039,229
Landfill capital assets, net	\$ 4,787,726	\$ (837,903)	\$ -	\$ 3,949,823
Dorchester County Airport				
Capital assets, not being depreciated				
Land	\$ 2,151,800	\$ -	\$ 391,820	\$ 2,543,620
Construction in progress	5,428,610	19,267	(431,326)	5,016,551
Total capital assets, not being depreciated	7,580,410	19,267	(39,506)	7,560,171
Capital assets, being depreciated				
Buildings and improvements	9,691,845	-	-	9,691,845
Machinery and equipment	274,540	-	-	274,540
Total capital assets, being depreciated	9,966,385	-	-	9,966,385
Less: accumulated depreciation	(3,640,663)	(249,992)	-	(3,890,655)
Net capital assets, being depreciated	6,325,722	(249,992)	-	6,075,730
Airport capital assets, net	\$ 13,906,132	\$ (230,725)	\$ (39,506)	\$ 13,635,901
Business-type activities capital assets, net	\$ 18,693,858	\$ (1,068,628)	\$ (39,506)	\$ 17,585,724

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

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

	Balances at June 30, 2011	Additions	Deletions/ Transfers	Balances at June 30, 2012
Board of Education of Dorchester County				
Governmental activities				
Capital assets, not being depreciated				
Construction in progress	\$ 27,148,559	\$ 2,100,960	\$(29,009,919)	\$ 239,600
Total capital assets, not being depreciated	27,148,559	2,100,960	(29,009,919)	239,600
Capital assets, being depreciated				
Buildings and improvements	99,853,463	-	28,654,277	128,507,740
Furniture and equipment	2,448,622	77,510	355,642	2,881,774
Vehicles	808,092	90,888	(56,924)	842,056
Total capital assets, being depreciated	103,110,177	168,398	28,952,995	132,231,570
Less: accumulated depreciation	(38,435,939)	(3,825,829)	56,924	(42,204,844)
Net capital assets, being depreciated	64,674,238	(3,657,431)	29,009,919	90,026,726
Governmental activities capital assets, net	\$ 91,822,797	\$ (1,556,471)	\$ -	\$ 90,266,326
Business-type activities				
Equipment	\$ 36,250	\$ -	\$ -	\$ 36,250
Accumulated depreciation	(22,669)	(2,003)	-	(24,672)
Business-type activities capital assets, net	\$ 13,581	\$ (2,003)	\$ -	\$ 11,578
Board of Education capital assets, net	\$ 91,836,378	\$ (1,558,474)	\$ -	\$ 90,277,904
Dorchester County Sanitary Districts				
Capital assets, not being depreciated				
Land	\$ 2,645	\$ -	\$ -	\$ 2,645
Construction in progress	6,707,303	1,061,520	(7,768,823)	-
Total capital assets, not being depreciated	6,709,948	1,061,520	(7,768,823)	2,645
Capital assets, being depreciated				
Intangible assets	1,044,000	-	-	1,044,000
Plant and equipment	7,164,252	4,112	7,768,823	14,937,187
Total capital assets, being depreciated	8,208,252	4,112	7,768,823	15,981,187
Less: accumulated depreciation	(3,805,068)	(160,382)	-	(3,965,450)
Net capital assets, being depreciated	4,403,184	(156,270)	7,768,823	12,015,737
Sanitary Districts capital assets, net	\$ 11,113,132	\$ 905,250	\$ -	\$ 12,018,382
Total component units capital assets, net	\$ 102,949,510	\$ (653,224)	\$ -	\$ 102,296,286

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt

The following is a summary of long-term debt transactions of the Primary Government for the year ended June 30, 2012:

	Governmental Activities	Business-Type Activities
Amounts payable at June 30, 2011	\$ 36,668,036	\$ 452,966
Borrowings from bonds and notes payable	-	-
Increase in pension liability (See also Note 8)	17,395	-
Decrease in accrued compensated absences	(6,362)	(5,270)
Increase in other post-employment benefits obligation (See also Note 9)	2,321,322	-
Repayment of bonds and notes payable	(3,381,337)	(31,000)
Amounts payable at June 30, 2012	\$ 35,619,054	\$ 416,696

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Long-term debt consists of the following as of June 30, 2012:

Dorchester County Governmental Activities Long-Term Debt

	Balances at June 30, 2011	Additions	Reductions	Balances at June 30, 2012	Amounts Due in One Year
<u>Public Facilities Bonds</u>					
Public School Capital Improvement Bonds for 2002 due in annual principal installments of \$320,000 to \$650,000 through August 1, 2017; interest, payable semi-annually, from 3.5% to 4.5%.	3,930,000	-	(480,000)	3,450,000	505,000
General Improvements and Refunding Bonds of 2004, payable in annual payments from \$65,000 to \$1,050,000 through February 1, 2019; interest payable annually from 2% to 3.9%.	3,850,000	-	(1,020,000)	2,830,000	1,050,000
Public School Capital Improvement Bonds of 2000 due in annual principal installments of \$145,000 to \$300,000 through March 1, 2015; interest, payable semi-annually, from 4.5% to 5.2%.	1,105,000	-	(255,000)	850,000	270,000
Consolidated Public Improvement Bonds of 2010 due in annual principal installments of \$810,000 to \$1,435,000 through February 1, 2030; interest payable semi-annually, from 1% to 6%.	20,000,000	-	(810,000)	19,190,000	820,000
Total public facilities bonds	28,885,000	-	(2,565,000)	26,320,000	2,645,000

State of Maryland Department of Natural Resources

Maryland Industrial Land Act Loans (MILA)

Maryland Industrial Land Act loan due in quarterly installments of \$21,177, including interest at 4.64%, through April 2012. The final balloon payment of \$360,031 was paid in July, 2011 (known as the Connelly Building).

	360,031	-	(360,031)	-	-
Total MILA loans payable	\$ 360,031	\$ -	\$ (360,031)	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2011	Additions	Transfers/ Reductions	Balances at June 30, 2012	Amounts Due in One Year
<u>State of Maryland Department of Natural Resources</u>					
<u>Shore Erosion Control Loans (SEC)</u>					
SEC 3-92 - Hoopersville Road Boat Ramp; due in annual installments of \$4,780 through July 2019; no interest.	\$ 38,232	\$ -	\$ (4,780)	\$ 33,452	\$ 4,780
SEC 7-92 - Middle Hoopers Island Causeway; due in annual installments of \$5,516 through July 2020; no interest.	55,160	-	(5,516)	49,644	5,516
SEC 8-92 - McCready's Point Road; due in annual installments of \$1,683 through July 2019; no interest.	15,153	-	(1,683)	13,470	1,683
SEC 9-92 - Hoopersville Road; due in annual installments of \$2,718 through July 2020; no interest.	24,465	-	(2,718)	21,747	2,718
SEC 3-95 - Punch Island Road; due in annual installments of \$3,519 through July 2011; no interest.	3,515	-	(3,515)	-	-
SEC 2-96 - Rooster Island; due in annual installments of \$8,202 through July 2012; no interest.	16,409	-	(8,207)	8,202	8,202
SEC 03-03 - Hoopersville Road; due in annual installments of \$19,245 through July 2033; no interest.	442,635	-	(19,245)	423,390	19,245
SEC 04-02 - Hoopers Island Road; due in annual installments of \$5,930 through July 2027; no interest.	100,812	-	(5,930)	94,882	5,930
SEC 05-03 - Taylors Island; due in annual installments of \$14,593 through July 2035; no interest.	335,647	-	(14,593)	321,054	14,593
SEC 18-02 - Punch Island Road; due in annual installments of \$12,958 through July 2035; no interest.	298,027	-	(12,958)	285,069	12,958
Total SEC loans payable	\$ 1,330,055	\$ -	\$ (79,145)	\$ 1,250,910	\$ 75,625

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2011	Additions	Reductions	Balances at June 30, 2012	Amounts Due in One Year
<u>Notes Payable</u>					
County Commissioners of Queen Anne's County loan due in annual principal installments of \$5,500 to \$18,700 through November 2013; interest payable semi-annually at 5.91% (known as the Chesapeake College Economic Development Center).	\$ 52,800	\$ -	\$ (16,500)	\$ 36,300	\$ 17,600
County Commissioners of Queen Anne's County loan due in annual principal installments of \$20,000 to \$50,000 through January 2020; interest payable annually at 5.173% to 5.25% (known as the Learning Resource Center).	355,000	-	(30,000)	325,000	35,000
County Commissioners of Queen Anne's County loan due in annual principal installments of \$5,096 to \$12,314 through January 2023; interest payable semi-annually at 4%.	114,528	-	(7,219)	107,309	7,583
Note due in quarterly principal installments of \$24,313, plus interest at 5.33% through 2014 (known as the Delmarva Power and Light Building).	289,189	-	(83,442)	205,747	88,070
MDOT due in annual installments of \$200,000 through January 2015 with balance due January 2016; no interest.	955,750	-	(200,000)	755,750	200,000
The Rippons Pier deferred purchase price due in annual principal installments of \$35,000 to \$40,000 through 2012, no interest.	75,000	-	(40,000)	35,000	35,000
Total notes payable	1,842,267	-	(377,161)	1,465,106	383,253
Total governmental activities debt	\$32,417,353	\$ -	\$(3,381,337)	\$29,036,016	\$ 3,103,878

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Dorchester County Business-Type Activities Long-Term Debt

	Balances at			Balances at		Amounts Due
	June 30, 2011	Additions	Reductions	June 30, 2012	in One Year	
Dorchester County Landfill:						
Refuse and bid bonds payable	\$ 1,000	\$ -	\$ -	\$ 1,000	\$	1,000
Dorchester County Airport:						
Airport Improvement Bonds of 2003 issued through BB&T Bank for 15 years with annual payments of \$31,000 through 2018 and a final payment of \$186,000 in 2019; interest payable quarterly at 4.19%.	403,000	-	(31,000)	372,000		31,000
Total enterprise fund debt	\$ 404,000	\$ -	\$ (31,000)	\$ 373,000	\$	32,000

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

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

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

Governmental Activities

Year Ending June 30	Principal	Interest	Totals
2013	\$ 3,103,878	\$ 898,093	\$ 4,001,971
2014	3,156,929	812,000	3,968,929
2015	2,490,401	720,388	3,210,789
2016	1,786,909	646,254	2,433,163
2017	1,691,584	596,202	2,287,786
2018 - 2022	6,191,724	2,328,911	8,520,635
2023 - 2027	6,150,944	1,430,652	7,581,596
2028 - 2032	4,370,067	322,246	4,692,313
2033 - 2037	93,580	-	93,580
Total governmental activities debt	\$ 29,036,016	\$ 7,754,746	\$ 36,790,762

Business-Type Activities

Year Ending June 30	Principal	Interest	Totals
2013	\$ 32,000	\$ 15,587	\$ 47,587
2014	31,000	14,288	45,288
2015	31,000	12,989	43,989
2016	31,000	11,690	42,690
2017	31,000	10,391	41,391
2018 - 2019	217,000	16,886	233,886
Total business-type activities debt	\$ 373,000	\$ 81,831	\$ 454,831

Interest expense on all County long-term debt totaled \$1,021,764 for the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Long-term debt of the Dorchester County Sanitary Districts at June 30, 2012 consists of the following:

	Balances at June 30, 2011	Additions	Reductions	Balances at June 30, 2012
<u>Dorchester County Sanitary Districts</u>				
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.6726%. Annual installments of principal and interest of \$9,389 began March 30, 1993 and continue to March 30, 2020.	\$ 62,032	\$ -	\$ (5,249)	\$ 56,783
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 6.6726%. Annual installments of principal and interest of \$4,736 began March 30, 1993, and continue to March 30, 2020.	31,293	-	(2,648)	28,645
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.6726%. Interest only payments of \$8,207 due September 17, 1991 and 1992. Annual installments of principal and interest of \$9,816 began September 17, 1993, and continue to September 17, 2020.	69,998	-	(5,145)	64,853
Loan payable to the State of Maryland under the Water Quality Loan of 1974; due in annual installments of \$2,051 including interest of 6.09956% until October 2012.	3,745	-	(1,823)	1,922
Loan payable to the State of Maryland under the Water Quality Loan of 1974 due in annual installments of \$6,898 including interest of 8.178824% until July 2014.	22,716	-	(5,040)	17,676
Loan payable to the State of Maryland under the Drinking Water State Water Revolving Fund; due in annual installments of \$4,653 including interest of 3.13% until February 2013.	8,421	-	(4,389)	4,032
Loan payable in the amount of \$290,000 to the USDA. Due in quarterly installments of \$2,874 including interest of 2.5%, until March 2051.	288,939	-	(4,313)	284,626
Loan payable in the amount of \$1,754,000 to the USDA. Due in quarterly installments of \$17,383 including interest of 2.5%, until March 2051.	1,747,580	-	(26,087)	1,721,493
Total Sanitary Districts' debt	<u>\$ 2,234,724</u>	<u>\$ -</u>	<u>\$ (54,694)</u>	2,180,030
Less: current maturities				56,486
				<u>\$ 2,123,544</u>

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

The annual requirements to amortize all Dorchester County Sanitary Districts' debt outstanding as of June 30, 2012 are as follows:

Year Ending June 30	Principal	Interest	Totals
2013	\$ 56,486	\$ 61,578	\$ 118,064
2014	52,693	59,175	111,868
2015	54,917	56,897	111,814
2016	50,474	54,495	104,969
2017	52,449	52,520	104,969
2018 - 2022	256,430	230,338	486,768
2023 - 2027	210,279	194,861	405,140
2028 - 2032	238,185	166,955	405,140
2033 - 2037	269,797	135,343	405,140
2038 - 2042	305,601	99,539	405,140
2043 - 2047	346,155	58,984	405,139
2048 - 2053	286,564	9,412	295,976
Total Sanitary Districts' debt	<u>\$ 2,180,030</u>	<u>\$ 1,180,097</u>	<u>\$ 3,360,127</u>

Note 6. Long-Term Operating Leases

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

Approximate future minimum lease commitments are as follows:

<u>Year Ending June 30,</u>	
2013	\$ 172,000
2014	134,000
2015	92,000
2016	80,000
2017	68,000

Rent expense under these leases totaled approximately \$265,000 for the year ended June 30, 2012.

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Operating Leases (continued)

Component Unit - Board of Education

The Board leases computers, copy machines and internet access service for the majority of the educational system over three to five year terms.

Approximate future minimum lease commitments are as follows:

<u>Year Ending June 30,</u>	
2013	\$ 426,000
2014	92,000
2015	11,000
2016	11,000
2017	2,000

Rent expense under these leases totaled approximately \$700,000 for the year ended June 30, 2012.

Note 7. Interfund Receivables and Payables

As a result of its operations, the County affects a variety of transactions between funds to finance operations, service debt, etc. Accordingly, to the extent that certain interfund transactions have not been paid or received as of June 30, 2012, appropriate due to/from other funds have been established.

Due to/from other funds balances as of June 30, 2012 were as follows:

<u>Primary Government</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental activities	\$ 5,896,545	\$ 6,799,099
Business-Type activities	-	(902,554)
<u>Total due to/from other funds</u>	<u>\$ 5,896,545</u>	<u>\$ 5,896,545</u>

Note 8. Pension Plans

Plan Description

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

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans (continued)

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

Funding Policy

The State Personnel and Pensions Article requires active members to contribute to the System at the rate of 5% or 7% of their covered salary depending upon the retirement option selected. The combined State contribution rate for the year ending 2012 is established by annual actuarial valuations. The current rate is 15.45% of covered payroll for teachers and 7.4% for classified employees. Except for teachers or other employees whose retirement expense is reimbursed from Federal restricted grants, the State pays virtually all of the employer's annual contribution. The Board remits quarterly payments to the State which represent the amount of retirement expense charged to the Federal restricted programs. On-behalf payments are recognized as revenues and expenditures in the general fund. The County and Board have no contingent liability for funding deficits in the system should such occur.

Employers' Payroll and Contributions Under the Plans

The employers' current year payroll for the years ended June 30, 2012, 2011, and 2010, payroll covered under the various state plans, and contributions paid are as follows:

	2012	2011	2010
Total payroll	\$ 42,100,502	\$ 42,890,662	\$ 43,573,508
Payroll covered under the plans	40,202,365	40,766,848	42,099,803
Contributions paid:			
County payments	1,450,002	1,506,436	1,179,202
Board of Education payments	685,972	590,265	562,394
State On-Behalf payments:			
Board of Education	4,168,043	4,308,318	3,940,669

Funding Status

As a result of a 1997 actuarial study of the State Retirement and Pension System of Maryland, the County Commissioners of Dorchester County, Maryland (Highway Department) were identified as one of 23 municipal corporations not having enough assets in the system to fund the present value of accrued benefits for participants in the retirement system. Under rules of House Bills 1348 and 430, the County will repay the \$684,569 fund deficit (an increase of \$17,395 over the prior fiscal year) over a period of 40 years. The fiscal year 2012 annual payment was \$38,098 and will increase 5% per year until maturity at December 31, 2035. This liability has been recorded in the governmental activities column on the Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS

Note 8. Pension Plans (continued)

Dorchester County Sanitary Districts

All full-time employees of the Sanitary Districts are considered and treated as employees of the County and as such come under the benefit package of the County including retirement and health benefits. Part-time employees are not considered County employees, are paid by the Sanitary District, and receive no benefits. The Sanitary District reimburses the County for all payroll costs of the full-time employees including pension and post-employment health care benefits. Pension cost for the year ended June 30, 2012, 2011 and 2010 were \$5,582, \$5,190 and \$1,924, respectively. Post-employment health care cost for the year ended June 30, 2012, 2011 and 2010 were \$5,962, \$6,388 and \$2,662, respectively.

Note 9. Post-Employment Health Care Benefits

Plan Description

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

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

The Board's benefit provisions are based on contractual agreements with employee groups. Employees are eligible to participate in the Plan upon retirement. Participants must meet the eligibility requirements of the Maryland State Teachers' pension system, which are age 55 with 15 years of service, 30 years of service or age 62 with 5 years of service. The Board is required to perform an actuarial valuation of its post-employment benefits other than pensions at least biennially. As of July 1, 2011, the date of the last actuarial valuation, approximately 263 retirees were receiving benefits, and an estimated 588 active employees are potentially eligible to receive future benefits. The Plan does not issue a stand alone report.

Funding Policy

The County's eligible employees and their dependents can elect coverage in the Plan. Pre-65 retirees pay the same percentage of the premiums charged as an active for both themselves and their dependents. Post-65 retirees pay 15% of the premiums charged for both themselves and their dependents. Surviving spouses must pay 100% of the premium to continue coverage. For fiscal year 2012, the County contributed \$293,110 to the plan for the eligible retirees.

The Board pays retiree healthcare premiums based on years-of-service ranging from \$3,145 for 15 years of service to \$3,878 for 30 plus years of service until the retiree reaches age 65 up to a maximum of \$4,767 per year based on years of service. The retiree pays the remaining premium, including the cost of eligible dependents. For fiscal year 2012, the Board contributed \$1,014,194 to the plan for 246 eligible retirees.

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits (continued)

Annual OPEB Cost and Net OPEB Obligation

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

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

	Board	County
Annual required contribution	\$ 4,271,000	\$ 2,621,248
Interest on net OPEB obligation	60,000	22,640
Amortization of net OPEB obligation	-	(29,456)
Adjustment to annual required contribution	(58,000)	-
Annual OPEB cost (expense)	4,273,000	2,614,432
Contributions made	(1,014,194)	(293,110)
Increase (decrease) in net OPEB Obligation	3,258,806	2,321,322
Net OPEB obligation, beginning of year	1,624,831	2,589,842
Net OPEB obligation, end of year	\$ 4,883,637	\$ 4,911,164

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

County

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation / (Benefit)
2010	\$ 1,704,933	24.60%	\$ 452,807
2011	2,614,432	18.26%	2,589,842
2012	2,614,432	11.21%	4,911,164

Board

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 1,469,000	55.67%	\$ 1,045,440
2011	1,542,000	62.43%	1,624,831
2012	4,273,000	23.73%	4,883,637

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits (continued)

Funding Status and Funding Progress

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
County							
2010	July 1, 2008	\$ -	\$ 15,302,442	\$ 15,302,442	0.0%	\$ 13,581,270	113%
2011	July 1, 2010	2,224,474	24,831,086	22,606,612	9.0%	13,203,055	171%
2012	July 1, 2010	1,940,108	24,831,086	22,890,978	7.8%	12,246,756	187%
Board							
2010	July 1, 2009	-	23,385,000	23,385,000	0.0%	30,573,404	76%
2011	July 1, 2010	-	23,867,000	23,867,000	0.0%	29,687,607	80%
2012	July 1, 2011	-	55,846,000	55,846,000	0.0%	29,853,746	187%

The Board's AAL increase of \$31,979,000 from the last study is due to increases in the fixed dollar subsidy, population growth, updated State retirement and pension system assumptions and a change in the medical trend assumptions.

The County's AAL increase of \$9,528,644 between the July 1, 2008 study, and the July 1, 2010 study, is due to changes in the discount rate from 7% to 5% and annual per capita cost assumptions were updated to reflect changes in plan experience.

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

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

In the July 1, 2010 actuarial valuation of the County, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a funded rate of 5%; an annual healthcare cost trend of 8.58% initially, reduced by decrements to ultimate rate of 5.0%. Assets are valued at their market values. The UAAL is being amortized on a closed level dollar amortization over a 30 year period. The remaining amortization period at July 1, 2012 was 26 years.

NOTES TO FINANCIAL STATEMENTS

Note 9. Post-Employment Health Care Benefits (continued)

In the July 1, 2011 actuarial valuation of the Board, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 4 percent investment rate of return (net of administrative expenses) based on the Board's own investments; an annual healthcare cost trend rate of 7.5% decreasing gradually to 5.40% by 2050; and payroll growth of 4%. The UAAL is being amortized on a closed level of percentage of payroll basis over a 30 year period. The remaining amortization period at July 1, 2012 was 26 years.

Note 10. Deferred Compensation

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

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

The County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. In accordance with GASB Statement No. 32, adopted by the County in 1998, the plan's assets are not reported on the combined balance sheet of the County. A summary of the activity in the plan is presented in the additional supplementary information for the year ended June 30, 2012.

Note 11. Landfill Closure and Post-closure Care Costs

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

The Secretary landfill stopped accepting waste in 1982. The landfill has been capped and only has post-closure care costs associated with it, currently estimated to be approximately \$10,700 each year for the next thirty years.

The Golden Hill landfill stopped accepting waste in 1991. The landfill has been capped and only has post-closure care costs associated with it, currently estimated to be approximately \$13,950 each year for the next thirty years.

The Old Beulah landfill stopped accepting waste in 1996. The cost to cap the landfill is expected to be approximately \$4,358,000. The County is currently awaiting final approval of its plan of closure from the Maryland Department of the Environment. Post-closure care costs for this location are currently estimated to be approximately \$19,600 each year for the next thirty years.

NOTES TO FINANCIAL STATEMENTS

Note 11. Landfill Closure and Postclosure Care Costs (continued)

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

<u>Secretary landfill</u>	
Postclosure care costs	\$ 321,000
<u>Golden Hill landfill</u>	
Postclosure care costs	418,500
<u>Old Beulah landfill</u>	
Closure costs	4,358,287
Postclosure care costs	588,000
	4,946,287
<u>New Beulah landfill - cells 1 - 4</u>	
Closure costs	2,918,459
Postclosure care costs	250,097
	3,168,556
Total closure and postclosure care costs	\$ 8,854,343

The above amounts are based on the current costs to perform all closure and post-closure care as of June 30, 2012. However, actual costs may ultimately be higher than estimated costs due to inflation, changes in technology, or changes in regulations.

Though there are currently no legal restrictions on available funds, the County has approximately \$10,897,000 of currently available assets for landfill closure and post-closure care costs. The shortfalls, if any, may need to be covered by any combination of charges to future landfill users, future tax revenues, or additional borrowings.

The New Beulah landfill will consist of six cells. Cells 1 & 2 began accepting waste in November 1995 and were completely filled in 2003. Accruals of closure and post-closure care costs have been recognized. Total closure and post-closure care costs for Cells 1 & 2 are estimated to be approximately \$1,386,000 and \$119,000, respectively.

New Beulah landfill cell 3 was completed and began accepting waste in 2003. Accrual of closure and post-closure care costs have been recognized based on the estimated capacity used to date (88.87%). Total closure and post-closure care costs for Cell 3 are estimated to be approximately \$1,026,000 and \$88,000, respectively.

New Beulah landfill cell 4 was completed and began accepting waste in 2007. Accrual of closure and post-closure care costs have been recognized based on the estimated capacity used to date (51.26%). Total closure and post-closure care costs for Cell 4 are estimated to be approximately \$410,000 and \$35,000, respectively.

New Beulah landfill cell 5 was completed and began accepting waste in 2011. Accrual of closure and post-closure care costs have been recognized based on the estimated capacity used to date (12.71%). Total closure and post-closure care costs for Cell 5 are estimated to be approximately \$96,000 and \$8,000, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 12. Commitments and Contingencies

Dorchester County

Grants

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

Risk Management

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Note 12. Commitments and Contingencies (continued)

Board of Education of Dorchester County

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. In the opinion of the Board, there are no approved contracts that would have a material effect on the financial statements. The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2012 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Risk Management

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

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

In September 2001, the Board joined the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self-sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 16% as a recommended conservative reserve. As of January 31, 2012 the Board's funds held by ESMEC exceeded the recommended conservative reserve by \$4,262,502. All funds held by ESMEC are restricted to being used only for health care expenses.

NOTES TO FINANCIAL STATEMENTS

Note 13. Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended June 30, 2012.

Fund	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
Special Revenue Grants	\$ 1,961,072	\$ 4,273,661	\$ 2,312,589
Transfer Tax	760,084	850,952	90,868
Capital	440,500	1,794,409	1,353,909

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

REQUIRED SUPPLEMENTARY INFORMATION

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Taxes:				
Property taxes	\$ 31,029,064	\$ 31,029,064	\$ 31,155,678	\$ 126,614
Income taxes	8,600,000	8,600,000	10,767,858	2,167,858
Other taxes	2,336,886	2,336,886	1,991,249	(345,637)
Total taxes	41,965,950	41,965,950	43,914,785	1,948,835
Licenses and permits	197,320	197,320	219,920	22,600
Intergovernmental:				
Federal	96,943	96,943	128,096	31,153
State	2,945,768	2,945,768	2,890,949	(54,819)
Service charges	2,180,851	2,283,869	2,229,773	(54,096)
Miscellaneous	596,723	604,663	451,561	(153,102)
Total revenues	47,983,555	48,094,513	49,835,084	1,740,571
EXPENDITURES:				
General government				
County council				
Operating personnel	267,664	267,664	268,138	(474)
Other	31,568	31,568	26,079	5,489
	299,232	299,232	294,217	5,015
Circuit court				
Operating personnel	93,236	93,236	90,729	2,507
Other	59,548	59,548	58,539	1,009
	152,784	152,784	149,268	3,516
Orphan's court				
Operating personnel	14,100	14,100	14,100	-
Other	6,123	6,123	6,363	(240)
	20,223	20,223	20,463	(240)
State's attorney				
Operating personnel	607,901	607,901	594,928	12,973
Other	87,912	87,912	97,430	(9,518)
	695,813	695,813	692,358	3,455
Elections				
Operating personnel	15,400	15,400	15,800	(400)
Other	351,800	351,800	365,418	(13,618)
	367,200	367,200	381,218	(14,018)
Finance & treasurer				
Operating personnel	344,506	344,506	340,886	3,620
Other	91,661	91,661	94,976	(3,315)
	436,167	436,167	435,862	305

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2012
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
General government (continued)				
Human resources				
Operating personnel	\$ 52,020	\$ 52,020	\$ 52,250	\$ (230)
Other	31,260	31,260	18,733	12,527
	<u>83,280</u>	<u>83,280</u>	<u>70,983</u>	<u>12,297</u>
Information technology				
Operating personnel	165,078	165,078	165,234	(156)
Other	38,355	38,355	27,800	10,555
	<u>203,433</u>	<u>203,433</u>	<u>193,034</u>	<u>10,399</u>
Other general government				
Operating personnel	39,593	39,593	37,221	2,372
Other	772,770	772,770	646,425	126,345
	<u>812,363</u>	<u>812,363</u>	<u>683,646</u>	<u>128,717</u>
Planning and zoning				
Operating personnel	313,499	313,499	314,879	(1,380)
Other	59,094	59,094	52,724	6,370
	<u>372,593</u>	<u>372,593</u>	<u>367,603</u>	<u>4,990</u>
Maintenance				
Operating personnel	138,175	138,175	137,299	876
Other	145,975	145,975	133,978	11,997
	<u>284,150</u>	<u>284,150</u>	<u>271,277</u>	<u>12,873</u>
Total general government	<u>3,727,238</u>	<u>3,727,238</u>	<u>3,559,929</u>	<u>167,309</u>
Public safety				
Sheriff				
Operating personnel	1,813,823	1,813,823	1,955,088	(141,265)
Other	590,070	590,070	602,109	(12,039)
	<u>2,403,893</u>	<u>2,403,893</u>	<u>2,557,197</u>	<u>(153,304)</u>
Volunteer fire and life support				
Other	716,711	716,711	713,345	3,366
	<u>716,711</u>	<u>716,711</u>	<u>713,345</u>	<u>3,366</u>
EMS				
Operating personnel	1,719,128	1,726,095	1,808,205	(82,110)
Other	603,045	699,096	566,778	132,318
	<u>2,322,173</u>	<u>2,425,191</u>	<u>2,374,983</u>	<u>50,208</u>
Detention center				
Operating personnel	2,208,710	2,208,710	2,183,604	25,106
Other	1,247,600	1,247,600	1,329,239	(81,639)
	<u>3,456,310</u>	<u>3,456,310</u>	<u>3,512,843</u>	<u>(56,533)</u>

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2012
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (continued)				
911 emergency communications				
Operating personnel	\$ 631,500	\$ 631,500	\$ 619,064	\$ 12,436
Other	447,570	447,570	430,590	16,980
	<u>1,079,070</u>	<u>1,079,070</u>	<u>1,049,654</u>	<u>29,416</u>
Emergency management				
Operating personnel	-	-	25,257	(25,257)
Other	30,594	30,594	24,268	6,326
	<u>30,594</u>	<u>30,594</u>	<u>49,525</u>	<u>(18,931)</u>
Animal control				
Operating personnel	55,694	55,694	68,991	(13,297)
Other	106,360	106,360	44,415	61,945
	<u>162,054</u>	<u>162,054</u>	<u>113,406</u>	<u>48,648</u>
Total public safety	<u>10,170,805</u>	<u>10,273,823</u>	<u>10,370,953</u>	<u>(97,130)</u>
Social services				
Youth services				
Operating personnel	-	-	18,660	(18,660)
Other	-	-	878	(878)
	<u>-</u>	<u>-</u>	<u>19,538</u>	<u>(19,538)</u>
Other				
Other	173,814	173,814	155,007	18,807
	<u>173,814</u>	<u>173,814</u>	<u>155,007</u>	<u>18,807</u>
Total social services	<u>173,814</u>	<u>173,814</u>	<u>174,545</u>	<u>(731)</u>
Public works				
Highways & streets				
Operating personnel	1,202,269	1,202,269	1,113,087	89,182
Other	2,031,157	2,031,157	1,753,407	277,750
	<u>3,233,426</u>	<u>3,233,426</u>	<u>2,866,494</u>	<u>366,932</u>
Engineering				
Operating personnel	113,132	113,132	130,104	(16,972)
Other	7,523	7,523	6,326	1,197
	<u>120,655</u>	<u>120,655</u>	<u>136,430</u>	<u>(15,775)</u>
Total public works	<u>3,354,081</u>	<u>3,354,081</u>	<u>3,002,924</u>	<u>351,157</u>
Miscellaneous				
Other	5,264,134	5,264,134	5,386,040	(121,906)
Total miscellaneous	<u>5,264,134</u>	<u>5,264,134</u>	<u>5,386,040</u>	<u>(121,906)</u>

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2012
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Recreation and parks				
Recreation and parks				
Operating personnel	\$ 306,306	\$ 306,306	\$ 288,555	\$ 17,751
Other	150,100	150,100	139,915	10,185
Total recreation and parks	456,406	456,406	428,470	27,936
Natural resources				
Cooperative extension service				
Other	133,000	133,000	100,975	32,025
	133,000	133,000	100,975	32,025
Other				
Operating personnel	222,916	222,916	243,283	(20,367)
Other	11,740	11,740	10,633	1,107
	234,656	234,656	253,916	(19,260)
Total natural resources	367,656	367,656	354,891	12,765
Economic development				
Economic development				
Operating personnel	138,702	138,702	133,488	5,214
Other	121,565	121,565	102,439	19,126
	260,267	260,267	235,927	24,340
Other				
Other	15,175	15,175	11,155	4,020
	15,175	15,175	11,155	4,020
Tourism				
Operating personnel	88,154	88,154	88,114	40
Other	97,562	105,502	238,077	(132,575)
	185,716	193,656	326,191	(132,535)
Total economic development	461,158	469,098	573,273	(104,175)
Education				
Board of Education	16,994,888	16,994,888	16,994,888	-
Chesapeake College	1,302,474	1,302,474	1,302,474	-
Total education	18,297,362	18,297,362	18,297,362	-
Debt service				
Principal	3,309,202	3,309,202	3,281,094	28,108
Interest	1,050,218	1,050,218	989,376	60,842
Capital outlay	-	-	111,001	(111,001)
Total expenditures	46,632,074	46,743,032	46,529,858	213,174
Excess (deficiency) of revenues over expenditures	1,351,481	1,351,481	3,305,226	1,953,745

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2012
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OTHER FINANCING SOURCES (USES):				
Increase in pension liability	\$ (38,098)	\$ (38,098)	\$ 17,395	\$ 55,493
Interest and dividend	-	-	8,428	8,428
Transfers, net	(1,313,383)	(1,313,383)	(226,539)	1,086,844
Total other financing sources (uses)	(1,351,481)	(1,351,481)	(200,716)	1,150,765
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ 3,104,510	\$ 3,104,510

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL
SPECIAL REVENUE - GRANTS FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Intergovernmental Federal	\$ 173,108	\$ 159,973	\$ 1,693,173	\$ 1,533,200
Intergovernmental state	1,723,434	1,714,849	2,515,833	800,984
Miscellaneous	37,981	37,981	14,141	(23,840)
Total revenues	1,934,523	1,912,803	4,223,147	2,310,344
EXPENDITURES:				
General government				
Salaries	37,981	37,981	18,821	19,160
Other	-	-	248,101	(248,101)
Total general government	37,981	37,981	266,922	(228,941)
Public safety				
Salaries	73,518	60,383	68,040	(7,657)
Other	136,080	136,080	282,551	(146,471)
Total public safety	209,598	196,463	350,591	(154,128)
Social services				
Salaries	62,591	62,591	136,363	(73,772)
Other	1,285,749	1,277,164	1,662,317	(385,153)
Total social services	1,348,340	1,339,755	1,798,680	(458,925)
Recreation and parks				
Salaries	5,396	5,396	5,439	(43)
Other	6,208	6,208	18,414	(12,206)
Total recreation and parks	11,604	11,604	23,853	(12,249)
Natural resources				
Salaries	75,269	75,269	75,747	(478)
Other	135,000	135,000	286,435	(151,435)
Total natural resources	210,269	210,269	362,182	(151,913)
Economic development				
Salaries	-	-	73,530	(73,530)
Other	165,000	165,000	45,259	119,741
Total economic development	165,000	165,000	118,789	46,211
Public works				
Other	-	-	321,585	(321,585)
Total public works	-	-	321,585	(321,585)
Capital outlay	-	-	1,031,059	(1,031,059)
Total expenditures	1,982,792	1,961,072	4,273,661	(2,312,589)
Excess (deficiency) of revenues over expenditures	(48,269)	(48,269)	(50,514)	(2,245)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL
SPECIAL REVENUE - GRANTS FUND
Year Ended June 30, 2012
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OTHER FINANCING SOURCES (USES):				
Interest and dividend received	\$ -	\$ -	\$ 1,448	\$ 1,448
Transfers in	48,269	48,269	37,493	(10,776)
Total other financing sources (uses)	48,269	48,269	38,941	(9,328)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (11,573)	\$ (11,573)

DORCHESTER COUNTY, MARYLAND

SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2008	\$ -	\$15,302,442	\$15,302,442	0.0%	\$13,581,270	113%
2011	July 1, 2010	2,224,474	24,831,086	22,606,612	9.0%	13,203,055	171%
2012	July 1, 2010	1,940,108	24,831,086	22,890,978	7.8%	12,246,756	187%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 1,704,933	24.60%	\$ 452,807
2011	2,614,432	18.26%	2,589,842
2012	2,614,432	11.21%	4,911,164

ADDITIONAL SUPPLEMENTARY INFORMATION

DORCHESTER COUNTY, MARYLAND

**REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
TRANSFER TAX FUND
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES:				
County transfer tax	\$ 760,084	\$ 760,084	\$ 646,940	\$ (113,144)
EXPENDITURES:				
General government				
Salaries/other	72,026	72,026	85,123	(13,097)
Other expenses	279,909	279,909	311,982	(32,073)
Total general government	351,935	351,935	397,105	(45,170)
Public safety				
Salaries/other	248,847	248,847	268,464	(19,617)
Other expenses	10,586	10,586	36,663	(26,077)
Total public safety	259,433	259,433	305,127	(45,694)
Debt service:				
Principal	132,600	132,600	132,600	-
Interest	16,116	16,116	16,120	(4)
Total expenditures	760,084	760,084	850,952	(90,868)
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (204,012)	\$ (204,012)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
CAPITAL FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Favorable (Unfavorable)
REVENUES:				
Emergency Numbers Systems Board	\$ -	\$ -	\$ 171,660	\$ 171,660
Intergovernmental:				
Federal	-	-	501,049	501,049
State	-	-	62,500	62,500
Total revenues	-	-	735,209	735,209
EXPENDITURES:				
Current:				
General government	-	-	28,908	(28,908)
Public Safety	33,000	33,000	183,815	(150,815)
Education	-	-	1,643	(1,643)
Public works	407,500	407,500	372,776	34,724
Capital outlay	-	-	1,207,267	(1,207,267)
Total expenditures	440,500	440,500	1,794,409	(1,353,909)
Excess (deficiency) of revenues over expenditures	(440,500)	(440,500)	(1,059,200)	(618,700)
OTHER FINANCING SOURCES (USES):				
Interest	-	-	2,294	2,294
Operating transfers in	440,500	440,500	(271,320)	(711,820)
Total other financing sources (uses)	440,500	440,500	(269,026)	(709,526)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (1,328,226)	\$ (1,328,226)

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
AIRPORT ENTERPRISE FUND
Year Ended June 30, 2012**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES:				
Fuel sales	\$ 275,000	\$ 275,000	\$ 265,557	\$ (9,443)
Hanger and tie-down rentals	177,000	177,000	180,240	3,240
Other	10,000	10,000	11,838	1,838
Total operating revenues	462,000	462,000	457,635	(4,365)
OPERATING EXPENSES:				
Salaries and related taxes	210,566	210,566	205,553	5,013
Repairs and maintenance	106,000	106,000	61,589	44,411
Rental of land, buildings and equipment	13,200	13,200	13,200	-
Fuel	215,000	215,000	225,282	(10,282)
Utilities	83,000	83,000	85,352	(2,352)
Depreciation	250,000	250,000	249,992	8
Other operating	26,600	26,600	22,404	4,196
Total operating expenses	904,366	904,366	863,372	40,994
Net operating income (loss)	(442,366)	(442,366)	(405,737)	36,629
NON-OPERATING REVENUES (EXPENSES):				
Grants - Federal government	-	-	18,304	18,304
Grants - state government	-	-	482	482
Transfer of capital asset to general fund	-	-	(39,506)	(39,506)
Interest expense	(18,000)	(18,000)	(16,268)	1,732
Total non-operating revenues (expenses)	(18,000)	(18,000)	(36,988)	(18,988)
Income (loss) before transfers	(460,366)	(460,366)	(442,725)	17,641
Operating transfers	460,366	460,366	460,366	-
Change in net assets	\$ -	\$ -	\$ 17,641	\$ 17,641

DORCHESTER COUNTY, MARYLAND
STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
LANDFILL ENTERPRISE FUND
Year Ended June 30, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
OPERATING REVENUES:				
Tipping fees	\$ 2,590,112	\$ 2,590,112	\$ 2,294,186	\$ (295,926)
Permits	90,000	90,000	152,867	62,867
Other	6,000	6,000	32,822	26,822
Total operating revenues	2,686,112	2,686,112	2,479,875	(206,237)
OPERATING EXPENSES:				
Salaries and related taxes	1,114,112	1,114,112	901,772	212,340
Repairs and maintenance	309,000	303,000	331,015	(28,015)
Rental of land, buildings and equipment	59,000	47,000	47,605	(605)
Fuel	165,000	185,000	181,829	3,171
Closure and postclosure costs accrual	300,000	300,000	208,195	91,805
Utilities	20,500	18,500	15,487	3,013
Depreciation	700,000	700,000	837,903	(137,903)
Other operating	38,500	38,500	27,406	11,094
Total operating expenses	2,706,112	2,706,112	2,551,212	154,900
Net operating income (loss)	(20,000)	(20,000)	(71,337)	(51,337)
NON-OPERATING REVENUES (EXPENSES):				
Interest income	20,000	20,000	24,985	4,985
Total non-operating revenues (expenses)	20,000	20,000	24,985	4,985
Change in net assets	\$ -	\$ -	\$ (46,352)	\$ (46,352)

DORCHESTER COUNTY, MARYLAND

**COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS**

June 30, 2012

	Other Governmental Funds			Total
	Building Excise Tax Fund	Transfer Tax Fund	Commissary Fund	
ASSETS				
Cash and investments	\$ 1,877,775	\$ -	\$ 35,924	\$ 1,913,699
Accounts receivable	-	102,179	-	102,179
Interfund receivables	-	1,736,711	-	1,736,711
Total assets	\$ 1,877,775	\$ 1,838,890	\$ 35,924	\$ 3,752,589
LIABILITIES				
Accounts payable and accrued expenses	\$ -	\$ 19,320	\$ -	\$ 19,320
Deferred revenues	-	-	35,924	35,924
Interfund payables	499,179	-	-	499,179
Total liabilities	499,179	19,320	35,924	554,423
FUND BALANCES				
Committed for:				
Schools and courthouse	1,095,554	1,819,570	-	2,915,124
Public safety communication system	144,977	-	-	144,977
Sheriff	138,065	-	-	138,065
Total fund equity	1,378,596	1,819,570	-	3,198,166
Total liabilities and fund balances	\$ 1,877,775	\$ 1,838,890	\$ 35,924	\$ 3,752,589

DORCHESTER COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	Other Governmental Funds			
	Building Excise Tax Fund	Transfer Tax Fund	Commissary Fund	Total
REVENUES				
Taxes	\$ 83,209	\$ 646,940	\$ -	\$ 730,149
Miscellaneous	-	-	95,497	95,497
Total revenues	83,209	646,940	95,497	825,646
EXPENDITURES				
General government	-	397,105	95,497	492,602
Public safety	-	305,127	-	305,127
Education	272,347	-	-	272,347
Debt service:				
Principal	-	132,600	-	132,600
Interest	-	16,120	-	16,120
Total expenditures	272,347	850,952	95,497	1,218,796
Excess (deficiency) of revenues over expenditures	(189,138)	(204,012)	-	(393,150)
OTHER FINANCING SOURCES:				
Interest and dividends received	3,098	-	-	3,098
Total other financing sources	3,098	-	-	3,098
Excess (deficiency) of revenues and other financing sources over expenditures	(186,040)	(204,012)	-	(390,052)
Fund balances, beginning of year	1,564,636	2,023,582	-	3,588,218
Fund balances, end of year	\$ 1,378,596	\$ 1,819,570	\$ -	\$ 3,198,166

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
DEFERRED COMPENSATION PLAN
Year Ended June 30, 2012**

	Balances, June 30, <u>2011</u>	Employee Contributions	Earnings on Investments	Distributions	Gains/Losses	Balances, June 30, <u>2012</u>
Assets:						
Investments	\$ 1,424,194	\$ 84,242	\$ 27,931	\$ (151,213)	\$ (2,602)	\$ 1,382,552
Liabilities:						
Due to participants	\$ 1,424,194	\$ 84,242	\$ 27,931	\$ (151,213)	\$ (2,602)	\$ 1,382,552

DORCHESTER COUNTY, MARYLAND

**SCHEDULE OF REVENUES AND EXPENDITURES -
AS REQUIRED BY THE GOC FOR LMB OFFICES
ON BEHALF OF THE CHILDREN'S CABINET
Year Ended June 30, 2012**

REVENUES

Intergovernmental:	
State	\$ 378,472
Total GOC revenues	378,472

EXPENDITURES

Public safety	
Substance abuse prevention	20,324
Total public safety	20,324
Social services	
After school program	86,440
Youth services bureau	65,061
School based behavioral health	84,200
Girls circle	50,000
Administration	65,000
Total social services	350,701
Total GOC expenditures	371,025
Excess (deficiency) of GOC revenues over expenditures	\$ 7,447

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

DORCHESTER COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

JUNE 30, 2012

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

County Council of
Dorchester County, Maryland
Cambridge, 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 Dorchester County, Maryland (“the County”) as of and for the year ended June 30, 2012, which collectively comprise the County’s basic financial statements and have issued our report thereon dated March 1, 2013. 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.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the County in a separate letter dated March 1, 2013.

This report is intended solely for the information and use of management, the County Council, 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.

Salisbury, Maryland
March 1, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

County Council of
Dorchester County, Maryland
Cambridge, Maryland

Compliance

We have audited Dorchester County, Maryland's ("the County") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2012. The County's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

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 as of and for the year ended June 30, 2012, and have issued our report thereon dated March 1, 2013, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the County's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the County Council, 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.

A handwritten signature in red ink, appearing to read "LHM Group LLC".

Salisbury, Maryland
March 1, 2013

DORCHESTER COUNTY, MARYLAND

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012**

Federal Grantor/Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Grantor's Number	Federal Expenditures
<u>U.S. Department of Agriculture*</u>			
Passed through the State of Maryland			
Department of Human Resources			
Emergency Food Assistance Program	10.568	OMG/FNS 12-010	\$ 7,993
<u>U.S. Department of Commerce</u>			
Direct			
Interstate Corrpac EDA	11.300	01-79-14022	225,637
Tech Park - ARRA	11.307	17973014	501,048
			<u>726,685</u>
<u>U.S. Department of Commerce</u>			
Passed through the State of Maryland			
Department of Natural Resources			
Chesapeake Bay Critical Area Commission			
Critical Areas Grant	11.429	P2400051	14,000
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the State of Maryland			
Department of Housing & Community Development			
CDBG Housing Rehabilitation Program	14.218	MD-11-CD-24	190,223
CDBG Foreclosure CNSL	14.218	MD-11-CD-1	60,000
Emergency Shelter Grant Program	14.231	11-ESG-10	35,000
			<u>285,223</u>

DORCHESTER COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

(continued)

Federal Grantor/Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Grantor's Number	Federal Expenditures
<u>U.S. Department of Justice</u>			
Direct			
Bulletproof Vest Partnership	16.607	-	\$ 382
<u>U.S. Department of Justice</u>			
Passed through the State of Maryland Governor's Office of Crime Prevention & Control			
BJAG Justice Assistance	16.738	BJAG-2010-1075	35,888
<u>U.S. Department of Transportation</u>			
Federal Aviation Administration			
Airport Improvement Program	20.106	3-24-0007-24	18,304
<u>U.S. Department of Transportation*</u>			
Passed through the State of Maryland Department of Transportation Mass Transit Administration			
Operating Assistance	20.509	DO11531102012	199,034
<u>U.S. Environmental Protection Agency</u>			
Passed through the State of Maryland Department of the Environment			
Elliott Island Living Shoreline Restoration Project - ARRA	66.458	WQSGG 0854310L	413,249

DORCHESTER COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

(continued)

Federal Grantor/Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Grantor's Number	Federal Expenditures
<u>U.S. Department of Energy*</u>			
Passed through the State of Maryland			
Department of Housing & Community Development			
Weatherization Assistance Program - ARRA	81.042	WAP2010	\$ 41,474
MEA Clean Energy Grant - ARRA	81.128	MEA2010-54-431FB	163,530
Boys & Girls Club / CDBG Program	81.128	MD-10-CD-2	10,000
			215,004
<u>U.S. Department of Transportation</u>			
Direct			
Nat'l UGRR Network To Freedom - Tour Providers Training Program	84.345	GA6059J009	21,300
<u>U.S. Department of Transportation</u>			
Passed through the State of Maryland			
State Highway Administration			
HTURB Interpretive Wayside System	84.345	SB0910-SB0913	37,011
HTURB Centennial Map-Guide	84.345	SB0910-SB0913	18,703
HTURB Consumer Website	84.345	SB0910-SB0913	7,174
			62,888
<u>U.S. Department of Homeland Security</u>			
Passed through the State of Maryland			
Emergency Management Agency			
Disaster Grant FEMA - Snow 2010	97.036	FEMA DR-1910-MD	73,954
<u>U.S. Department of Homeland Security</u>			
Passed through the State of Maryland			
Emergency Management Agency			
Civil Defense	97.042	EMPG	47,797
EMPG FFY11	97.042	EMW-2011-EP-005-S01	66,996
USMS Fugitive Task Force	97.042	-	6,346
			121,139

DORCHESTER COUNTY, MARYLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2012

(continued)

Federal Grantor/Pass-through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Pass-through Grantor's Number	Federal Expenditures
<u>U.S. Department of Homeland Security</u>			
Passed through the State of Maryland Emergency Management Agency			
Pre-Disaster Mitigation Program	97.047	--	\$ 5,000
<u>U.S. Department of Homeland Security</u>			
Passed through the State of Maryland Emergency Management Agency			
State Homeland Security Program 09	97.073	2009-SS-T9-0080	53,256
Law Enforcement Terrorism Prevention Program 09	97.073	2009-SS-T9-0080	19,821
Citizens Corp Program 09	97.073	2009-SS-T9-0080	6,260
State Homeland Security Program 10	97.073	10-SS-TO-0025	15,791
Law Enforcement Terrorism Prevention Program 10	97.073	10-SS-TO-0025	45,450
			<u>140,578</u>
Total expenditures of federal awards			\$ 2,340,621

*Sub-recipient relationship

DORCHESTER COUNTY, MARYLAND

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012**

Note 1. Basis of Accounting

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

Note 2. Subrecipients

Dorchester County, Maryland provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided</u>
Emergency Food Assistance Program	10.568	\$ 7,993
Operating Assistance	20.509	199,034
Weatherization Assistance Program - ARRA	81.042	41,474
MEA Clean Energy Grant - ARRA	81.128	163,530
Boys & Girls Club / CDBG Program	81.128	<u>10,000</u>
		<u>\$ 422,031</u>

DORCHESTER COUNTY, MARYLAND

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Dorchester County, Maryland.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. There were no instances of noncompliance material to the financial statements of Dorchester County, Maryland disclosed during the current year audit.
4. No significant deficiencies relating to the audit of the major federal award programs for Dorchester County, Maryland are reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for Dorchester County, Maryland expresses an unqualified opinion.
6. There were no audit findings relative to major federal award programs for Dorchester County, Maryland.
7. The programs tested as major programs include:
 - U.S. Department of Commerce**
 - Tech Park – ARRA – CFDA # 11.307
 - U.S. Environmental Protection Agency**
 - Elliott Island Living Shoreline Restoration Project – ARRA - CFDA # 66.458
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Dorchester County, Maryland was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None