

**COUNTY COUNCIL OF
DORCHESTER COUNTY, MARYLAND**

FINANCIAL REPORT

JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

County Council of
Dorchester County, Maryland
Cambridge, Maryland

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 statements were audited by other auditors whose report 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 standard 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The additional supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The additional supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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, as listed in the table of contents, is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2015 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* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "JHM Group LLC". The signature is written in a cursive, flowing style.

Salisbury, Maryland
January 2, 2015

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2014

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, 2014. 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 2014 (FY14) by \$47.9 million (total net position). That amount is net of \$15.5 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 \$22.2 million at June 30, 2014. Absent the effect of this relationship, the County would have reported government-wide positive unrestricted net position of \$6.7 million.
- The County's government-wide net position decreased by \$3.5 million.
- As of the close of FY14, the County's governmental funds reported combined ending fund balances of \$11.1 million, a decrease of \$0.8 million from the prior year's ending fund balances. Of the total ending fund balances, \$6.8 million remains in the General Fund of the County as unassigned, which represents approximately 14.1% of total general fund expenditures for fiscal year 2014.

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 position** and a **statement of activities**, which can be found within this report, as listed in the table of contents.

The statement of net position shows the County's assets less its liabilities at June 30, 2014. The difference between the assets and liabilities is reported as net position. Changes in net position over time may be helpful in indicating an improving or deteriorating financial condition. 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 position and presents information on how the net position changed during the fiscal year. The statement presents all underlying events, which give rise to the change, regardless of the timing of the related cash flows.

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

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2014

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, as listed in the table of contents, 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 as additional supplementary information, as listed in the table of contents.

Proprietary funds – The proprietary funds, as listed in the table of contents, 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. The fiduciary fund can be found within this report, as listed in the table of contents.

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. The notes to the financial statements can be found within this report, as listed in the table of contents.

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 can be found within this report, as listed in the table of contents.

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net position over time is a useful indicator of financial condition. The County's total net position as of June 30, 2014 was \$47.9 million. Investment in capital assets such as land, roads, bridges, buildings, machinery and equipment accounts for \$63.1 million of net position. 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 Position
June 30, 2014 and 2013**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 18,950,665	\$ 19,974,728	\$ 14,199,711	\$ 13,297,836	\$ 33,150,376	\$ 33,272,564
Capital assets	48,896,925	49,737,537	16,607,267	17,043,205	65,504,192	66,780,742
Total assets	67,847,590	69,712,265	30,806,978	30,341,041	98,654,568	100,053,306
Liabilities:						
Long-term liabilities	34,546,597	34,335,929	11,725,967	9,565,747	46,272,564	43,901,676
Other liabilities	4,359,365	4,589,276	97,278	122,622	4,456,643	4,711,898
Total liabilities	38,905,962	38,925,205	11,823,245	9,688,369	50,729,207	48,613,574
Net position:						
Net investment in capital assets	46,814,844	46,357,875	16,295,267	16,700,205	63,110,111	63,058,080
Restricted	363,932	316,837	-	-	363,932	316,837
Unrestricted (deficit)	(18,237,148)	(15,887,652)	2,688,466	3,952,467	(15,548,682)	(11,935,185)
Total net position - as restated*	\$ 28,941,628	\$ 30,787,060	\$ 18,983,733	\$ 20,652,672	\$ 47,925,361	\$ 51,439,732

* - See Note 14

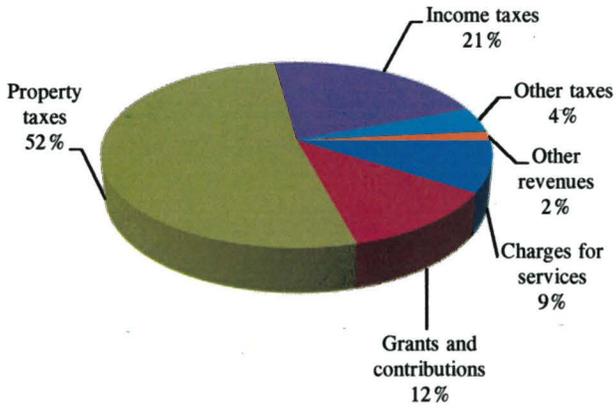
Amounts shown as restricted net position are resources subject to external restriction on how they may be used to meet the County's ongoing obligations to citizens and creditors. As indicated earlier, the County's governmental activities unrestricted net position deficit is primarily attributable to outstanding debt that has been issued to fund construction costs of assets owned by the Dorchester County Public Schools and Chesapeake College. Counties in the State of Maryland issue and report the debt for school construction; however, the buildings are not owned or reported by the County. All other governmental and business-type activities had positive net position balances as of June 30, 2014.

As reflected above, the County's government-wide net position decreased from \$51.4 million to \$47.9 million, a decrease of \$3.5 million. This decrease is primarily attributable to an increase of \$1.9 million in the landfill annual closure and postclosure accrual.

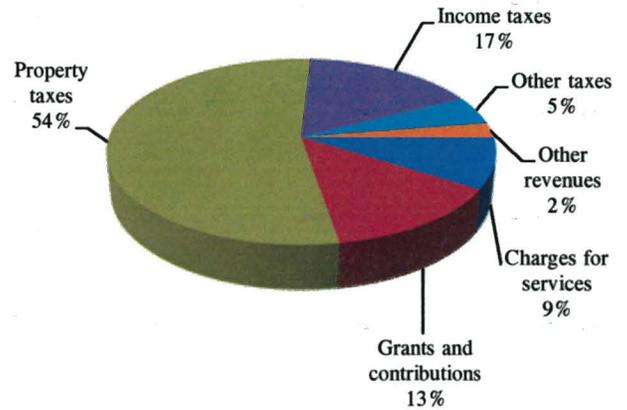
Dorchester County, Maryland
 Management's Discussion and Analysis
 June 30, 2014

The following represents revenues by source and expenses by function of primary government for the years ended June 30, 2014 and June 30, 2013.

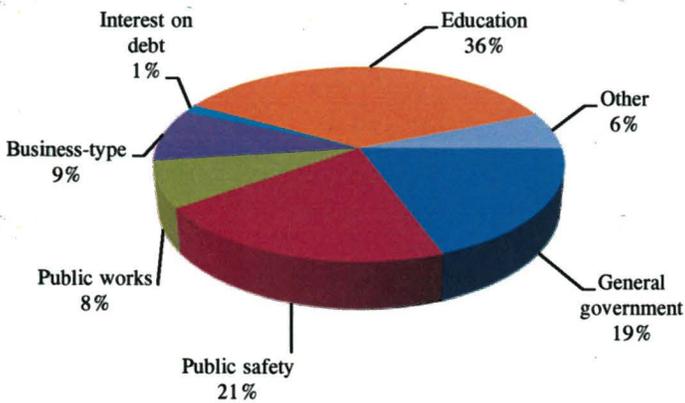
Revenue by Source FY 2014



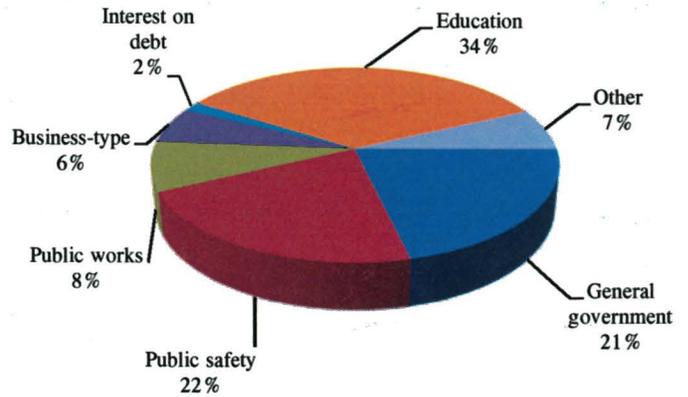
Revenue by Source FY 2013



Expenses by Function FY 2014



Expenses by Function FY 2013



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Management's Discussion and Analysis
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**Schedule of Changes in Net Position
For the years ended June 30, 2014 and 2013**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 2,047,503	\$ 2,173,528	\$ 3,099,543	\$ 2,993,807	\$ 5,147,046	\$ 5,167,335
Operating grants and contributions	5,972,565	6,063,369	-	-	5,972,565	6,063,369
Capital grants and contributions	815,712	1,580,668	32,029	192,400	847,741	1,773,068
General revenues:						
Property taxes	30,052,816	31,202,323	-	-	30,052,816	31,202,323
Income taxes	12,258,240	9,692,631	-	-	12,258,240	9,692,631
Other taxes	2,492,179	2,872,473	-	-	2,492,179	2,872,473
Other revenues	853,667	1,414,725	53,916	52,272	907,583	1,466,997
Total revenues	54,492,682	54,999,717	3,185,488	3,238,479	57,678,170	58,238,196
Expenses:						
General government	11,859,093	12,402,318	-	-	11,859,093	12,402,318
Public safety	12,675,457	12,466,667	-	-	12,675,457	12,466,667
Social services	1,729,399	1,923,862	-	-	1,729,399	1,923,862
Public works	4,791,515	4,732,916	-	-	4,791,515	4,732,916
Recreation and parks	564,015	524,196	-	-	564,015	524,196
Natural resources	543,106	563,755	-	-	543,106	563,755
Economic development	909,861	955,231	-	-	909,861	955,231
Interest on debt	861,285	921,345	-	-	861,285	921,345
Education	21,943,740	19,719,936	-	-	21,943,740	19,719,936
Airport	-	-	955,886	884,443	955,886	884,443
Solid waste	-	-	4,359,184	2,546,518	4,359,184	2,546,518
Total expenses	55,877,471	54,210,226	5,315,070	3,430,961	61,192,541	57,641,187
Transfers	(460,643)	(447,945)	460,643	447,945	-	-
Change in net position	(1,845,432)	341,546	(1,668,939)	255,463	(3,514,371)	597,009
Net position - beginning of year-as restated*	30,787,060	30,445,514	20,652,672	20,397,209	51,439,732	50,842,723
Net position - end of year	\$ 28,941,628	\$ 30,787,060	\$ 18,983,733	\$ 20,652,672	\$ 47,925,361	\$ 51,439,732

* - See Note 14

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2014

Governmental Activities

The County's total revenue from governmental activities decreased from \$55.0 million in FY 2013 to \$54.5 million in FY 2014, a decrease of \$0.5 million or 0.9 percent.

Property and income taxes combined comprise 77.6 percent of governmental activities revenues. The property tax rate was 97.6 cents per \$100 of assessed value for FY 2014 and was unchanged from FY 2013. Income taxes increased by \$2.6 million or 26.5 percent. The local income tax rate was 2.62 percent of the State taxable income for calendar year 2014 and was unchanged from 2013.

The expense of all governmental activities increased from \$54.2 million in FY 2013 to \$55.9 million in FY 2014, an increase of \$1.7 million or 3.0 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	
	2014	2013	2014	2013	2014	2013
Education	\$ 21,943,740	\$ 19,719,936	\$ 73	\$ 2,282	\$ 21,943,667	\$ 19,717,654
Public safety	12,675,457	12,466,667	2,239,059	2,679,831	10,436,398	9,786,836
Public works	4,791,515	4,732,916	930,596	990,212	3,860,919	3,742,704
General government	11,859,093	12,402,318	3,721,809	3,794,129	8,137,284	8,608,189
Social services	1,729,399	1,923,862	1,146,092	1,270,534	583,307	653,328
Interest on debt	861,285	921,345	-	-	861,285	921,345
Recreation and parks	564,015	524,196	217,865	91,628	346,150	432,568
Economic development	909,861	955,231	362,522	762,297	547,339	192,934
Natural resources	543,106	563,755	217,764	226,652	325,342	337,103
Total	\$ 55,877,471	\$ 54,210,226	\$ 8,835,780	\$ 9,817,565	\$ 47,041,691	\$ 44,392,661

A more detailed discussion of the County's revenue and expense results for FY 2014 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 FY14 are as follows:

- The net position of business-type activities decreased from \$20.7 million to \$19.0 million, a decrease of \$1.7 million for FY 2014. Airport activities produced a negative net change in position of \$35,471 and landfill activities resulted in a negative net change in position of \$1,633,468.
- Charges for services to users comprise 98 percent of total business-type activities revenue, with \$2.6 million (85 percent of charges for services revenue) attributable to solid waste activities and \$0.5 million (15 percent) attributable to airport operations.

Dorchester County, Maryland
Management's Discussion and Analysis
June 30, 2014

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, 2014, County governmental funds reported total fund balances of \$11.1 million, a decrease of \$0.8 million from the end of FY 2013. Unassigned governmental fund balances total \$6.0 million with \$6.8 million from the General Fund and a deficit of (\$0.8) 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 2015.

The General Fund is the primary operating fund of the County. At June 30, 2014, total fund balance in the general fund was \$8.9 million of which \$6.8 million was unassigned. The general fund balance decreased \$0.7 million as a result of current fiscal year operations.

The following key factors were responsible for the changes:

- Total revenues of \$49.9 million were below the FY 2014 budget by \$0.2 million or 0.5 percent
- Total expenditures of \$48.1 million exceeded the FY 2014 budget by \$0.4 million or 0.8 percent
- Other financing sources (uses) of (\$2.4) million were below the FY 2014 budget by \$0.1 million

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 2014, the County has assigned \$1.7 million of its unassigned governmental fund balance for future budget. The purpose of the revenue stabilization designation 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 \$1.3 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 (\$0.1 million balance), and Sheriff's Office (\$0.1 million balance).

The Transfer Tax Fund ended the year with a fund balance of \$1.4 million. The purpose of this fund is to account for the proceeds of the transfer tax which is dedicated for repairs, maintenance and security of the Circuit Courthouse as well as public school capital facility expenditures.

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Proprietary funds

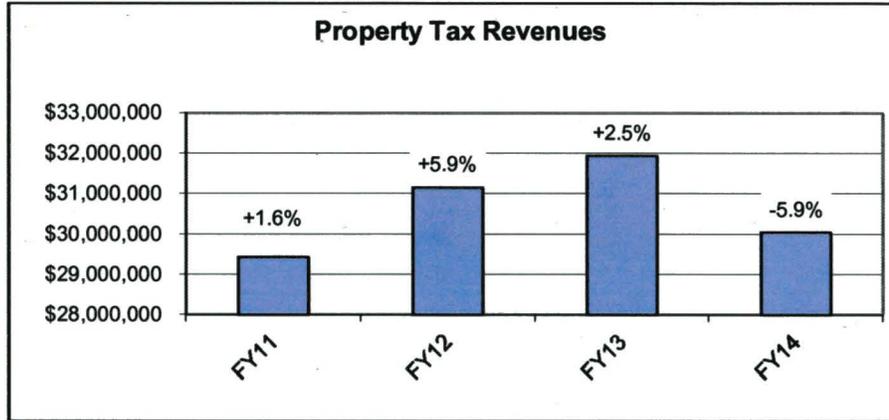
Airport Enterprise Fund – At June 30, 2014, total net position amounted to \$15.2 million, with unrestricted net position of \$2.2 million, and an operating loss of \$0.5 million. After non-operating revenues and transfers of \$0.5 million, the fund ended FY 2014 with a decrease in net position of \$0.1 million.

Landfill Enterprise Fund – At June 30, 2014, total net position amounted to \$3.8 million, with unrestricted net position of \$0.5 million, and an operating loss of \$1.7 million. After non-operating revenues of \$0.1 million, the fund ended FY 2014 with a decrease in net position of \$1.6 million.

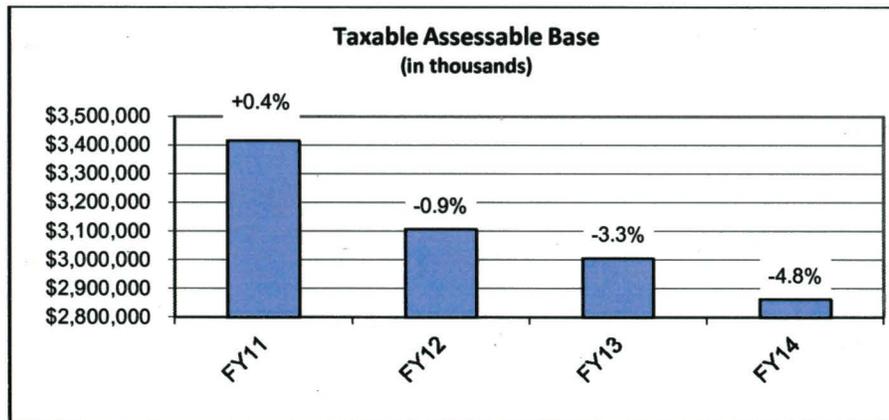
Dorchester County, Maryland
 Management's Discussion and Analysis
 June 30, 2014

Budget Variations

Property Taxes - The largest revenue source for the County is property taxes. Net property tax revenue in the General Fund amounted to \$30.0 million, which was below the budget estimate by \$0.1 million or 0.3 percent and \$1.9 million or 5.9 percent below actual revenue in FY 2013. For FY 2014, the real property tax rate was 0.896 per \$100 of assessed value, unchanged from FY 2013. The real property taxable assessable base before including the homestead credit declined by 143.8 million or 4.8 percent; with the homestead credit the decline was 78.6 million or 2.7 percent.

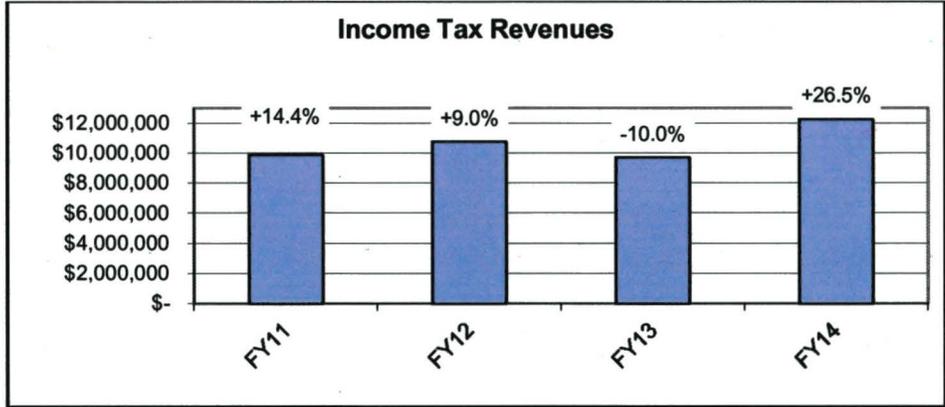


Net property tax revenues decreased by \$1.9 million or 5.9 percent with reduction in homestead credit and change in deferred taxes more than offsetting the 4.8 percent reduction in taxable assessable base.

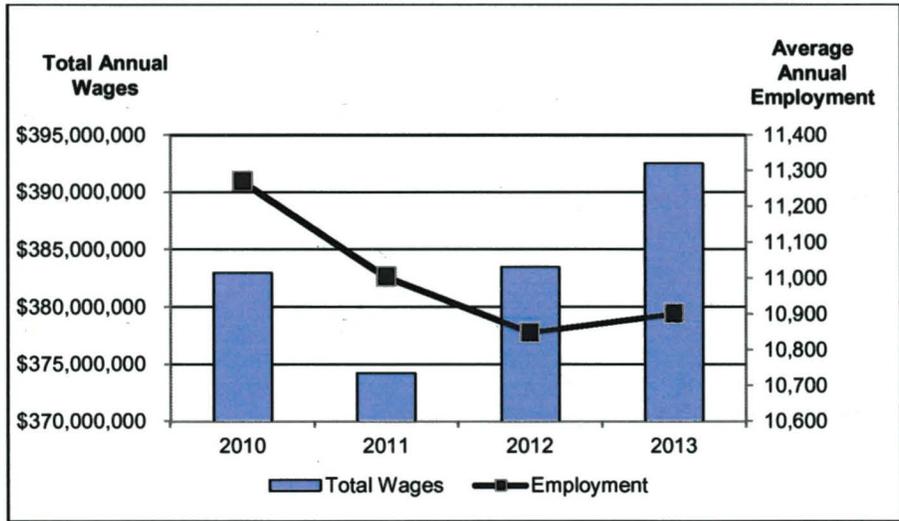


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Income Taxes - The second largest revenue source for the General Fund is the County income tax. Revenues from the income tax were \$12.3 million which was \$2.4 million or 25.0 percent above budget and \$2.6 million or 26.5 percent above actual revenues in FY 2013. The local income tax rate remained unchanged at 2.62%.



The increase in income tax revenue is primarily attributed to increased non-wage income, as net employment increased by 53 jobs or 0.5 percent and total annual payroll wages increased by \$9.0 million or 2.4 percent in CY 2013. The average weekly wage per worker during CY 2013 increased by \$12 to \$692.



General Fund actual expenditures of \$48.1 million were above the FY 2014 budget by \$0.4 million or 0.8 percent and \$0.2 million or 0.3 percent above actual FY 2013.

Dorchester County, Maryland
Management's Discussion and Analysis
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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's investment in capital assets as of June 30, 2014, amounted to \$65.5 million (net of accumulated depreciation), as summarized below:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 18,364,261	\$ 18,364,261	\$ 3,418,807	\$ 3,418,807	\$ 21,783,068	\$ 21,783,068
Buildings and improvements	23,585,243	22,458,689	14,142,166	14,099,391	37,727,409	36,558,080
Furniture, machinery, equipment	26,371,704	24,967,252	4,288,861	4,175,171	30,660,565	29,142,423
Leasehold improvements	286,572	286,572	-	-	286,572	286,572
Infrastructure	45,612,240	45,445,338	8,511,474	8,511,474	54,123,714	53,956,812
Construction in progress	329,794	1,096,448	1,289,250	1,167,146	1,619,044	2,263,594
Total assets	<u>114,549,814</u>	<u>112,618,560</u>	<u>31,650,558</u>	<u>31,371,989</u>	<u>146,200,372</u>	<u>143,990,549</u>
Less: Accumulated						
Depreciation	65,652,889	62,881,023	15,043,291	14,328,784	80,696,180	77,209,807
Total	<u>\$ 48,896,925</u>	<u>\$ 49,737,537</u>	<u>\$ 16,607,267</u>	<u>\$ 17,043,205</u>	<u>\$ 65,504,192</u>	<u>\$ 66,780,742</u>

Changes in the County's capital assets for FY 2014 are summarized as follows:

	Governmental	Business-Type	Total	
	Activities	Activities	2014	2013
Beginning Balance	\$ 49,737,537	\$ 17,043,205	\$ 66,780,742	\$ 68,406,593
Additions*	1,931,254	528,569	2,459,823	2,028,766
Retirements, net*	-	-	-	1,853
Depreciation expense	2,771,866	964,507	3,736,373	3,652,764
Ending Balance	<u>\$ 48,896,925</u>	<u>\$ 16,607,267</u>	<u>\$ 65,504,192</u>	<u>\$ 66,780,742</u>

* 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:

- \$0.3 million acquiring an articulated hauler for the landfill, and
- \$0.6 million in construction of an emergency services radio system

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, 2014

Long-Term Debt

The following is a summary of the County's gross outstanding long-term debt as of June 30, 2014:

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 20,940,000	\$ 23,675,000	\$ -	\$ -	\$ 20,940,000	\$ 23,675,000
Notes payable	3,355,460	2,257,288	312,000	343,000	3,667,460	2,600,288
Pension liability	709,331	693,860	-	-	709,331	693,860
OPEB obligation	8,641,850	6,776,507	-	-	8,641,850	6,776,507
Compensated absences	899,956	933,274	39,858	44,322	939,814	977,596
Total	\$ 34,546,597	\$ 34,335,929	\$ 351,858	\$ 387,322	\$ 34,898,455	\$ 34,723,251

At June 30, 2014, the County had outstanding general obligation bonds of \$20.9 million. General obligation (GO) bonds are backed by the issuer's pledge of its full faith, credit and taxing power for the payment of the bond. GOs are generally viewed as the most secure type of municipal security and typically finance public projects such as schools, parks, libraries, roads and county buildings. Over the last ten years, the County issued its GO bonds three times totaling \$30.3 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 AA- 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, 2014

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 continuing severe reductions in State aid, the top priority of the FY 2015 budget was the preservation of essential services the County provides and funds, not only for the 2015 budget, but for future budgets as well. The County's share of highway user revenues for 2014 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 2015 total budget equals \$64.2 million, a decrease of \$0.1 million or 0.16% compared to the prior year adopted budget.

The primary goals of the FY 2015 adopted budget were (1.) to maintain essential services, (2.) to maintain or lower the current property tax rates, and (3.) to begin judiciously addressing deferred capital projects. The adopted operating budget met all of the above goals.

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.

FY 2015 Capital Budget

The adopted capital budget for FY 2015 is \$7.6 million compared to \$7.5 million in FY 2014. \$5.4 million of this amount, or 70 percent, was funded with pay-as-you-go (PAYGO) sources consisting of state aid, federal aid, and existing prior fund balances.

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 POSITION
PRIMARY GOVERNMENT AS OF JUNE 30, 2014
COMPONENT UNITS AS OF JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and short-term investments	\$ 11,954,632	\$ 12,037,686	\$ 23,992,318
Receivables:			
State and local property taxes	3,604,350	-	3,604,350
Accounts receivable, net	-	253,118	253,118
Federal government	498,855	3,361	502,216
State of Maryland	1,208,891	187	1,209,078
Local	589,656	-	589,656
Other	2,551,215	-	2,551,215
Internal balances, net	(1,827,293)	1,827,293	-
Inventories, at cost	-	73,277	73,277
Other	370,359	4,789	375,148
Nondepreciable capital assets	18,694,055	4,708,057	23,402,112
Depreciable capital assets, net	30,202,870	11,899,210	42,102,080
Total assets	67,847,590	30,806,978	98,654,568
LIABILITIES			
Accounts payable and accrued expenses	1,938,042	90,378	2,028,420
Due to State of Maryland	398,572	-	398,572
Due to delinquent taxpayers	670,410	-	670,410
Unearned revenue	987,380	6,900	994,280
Other	364,961	-	364,961
Long-term liabilities, due within one year:			
Compensated absences	383,453	19,643	403,096
Bonds and notes payable	2,544,095	33,000	2,577,095
Long-term liabilities, due in more than one year:			
Compensated absences	516,503	20,215	536,718
Bonds and notes payable	21,751,365	279,000	22,030,365
Landfill closure and postclosure care costs	-	11,374,109	11,374,109
Pension liability	709,331	-	709,331
Other post-employment benefits obligation	8,641,850	-	8,641,850
Total liabilities	38,905,962	11,823,245	50,729,207
NET POSITION			
Net investment in capital assets	46,814,844	16,295,267	63,110,111
Restricted	363,932	-	363,932
Unrestricted (deficit)	(18,237,148)	2,688,466	(15,548,682)
Total Net Position	\$ 28,941,628	\$ 18,983,733	\$ 47,925,361

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

Component Units	
Board of Education of Dorchester County	Dorchester County Sanitary Districts
\$ 4,902,552	\$ 1,915,181
-	-
-	49,219
552,878	-
468,162	-
-	-
345,414	24,069
-	-
12,243	126,355
-	-
52,720	2,645
85,238,607	11,582,189
<u>91,572,576</u>	<u>13,699,658</u>
3,645,988	180,696
-	-
-	-
471,055	-
21,375	-
112,368	-
-	54,917
830,321	-
-	2,015,935
-	-
-	-
13,030,767	-
<u>18,111,874</u>	<u>2,251,548</u>
85,291,327	9,513,982
349,119	-
(12,179,744)	1,934,128
<u>\$ 73,460,702</u>	<u>\$ 11,448,110</u>

DORCHESTER COUNTY, MARYLAND

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

Function/Program	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
Governmental Activities				
General government	\$ 11,859,093	\$ 340,034	\$ 3,179,185	\$ 202,590
Public safety	12,675,457	1,265,451	800,374	173,234
Social services	1,729,399	-	1,146,092	-
Recreation and parks	564,015	44,595	-	173,270
Natural resources	543,106	36,000	181,764	-
Economic development	909,861	-	252,834	109,688
Education	21,943,740	-	73	-
Public works	4,791,515	361,423	412,243	156,930
Interest on long-term debt	861,285	-	-	-
Total Governmental Activities	55,877,471	2,047,503	5,972,565	815,712
Business-Type Activities				
Airport	955,886	453,158	-	3,548
Landfill	4,359,184	2,646,385	-	28,481
Total Business-Type Activities	5,315,070	3,099,543	-	32,029
Total Primary Government	\$ 61,192,541	\$ 5,147,046	\$ 5,972,565	\$ 847,741
Component Units				
Board of Education of Dorchester County	74,891,980	3,705,285	61,081,292	2,267,750
Dorchester County Sanitary Districts	1,437,961	1,155,221	-	293,620
Total Component Units	\$ 76,329,941	\$ 4,860,506	\$ 61,081,292	\$ 2,561,370
General Revenues (Expenses)				
Taxes:				
Property				
Income				
Other				
Interest				
Other				
Total General Revenues				
Transfers				
Total General Revenues and Transfers				
Change in Net Position				
Net Position, Beginning of Year, as restated				
Net Position, End of Year				

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

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Total	Board of Education of Dorchester County	Dorchester County Sanitary Districts
\$ (8,137,284)	\$ -	\$ (8,137,284)	\$ -	\$ -
(10,436,398)	-	(10,436,398)	-	-
(583,307)	-	(583,307)	-	-
(346,150)	-	(346,150)	-	-
(325,342)	-	(325,342)	-	-
(547,339)	-	(547,339)	-	-
(21,943,667)	-	(21,943,667)	-	-
(3,860,919)	-	(3,860,919)	-	-
(861,285)	-	(861,285)	-	-
<u>(47,041,691)</u>	<u>-</u>	<u>(47,041,691)</u>	<u>-</u>	<u>-</u>
-	(499,180)	(499,180)	-	-
-	<u>(1,684,318)</u>	<u>(1,684,318)</u>	<u>-</u>	<u>-</u>
-	(2,183,498)	(2,183,498)	-	-
<u>(47,041,691)</u>	<u>(2,183,498)</u>	<u>(49,225,189)</u>	<u>-</u>	<u>-</u>
-	-	-	(7,837,653)	-
-	-	-	-	10,880
-	-	-	<u>(7,837,653)</u>	<u>10,880</u>
30,052,816	-	30,052,816	-	-
12,258,240	-	12,258,240	-	-
2,492,179	-	2,492,179	-	-
7,018	8,022	15,040	2,031	2,543
<u>846,649</u>	<u>45,894</u>	<u>892,543</u>	<u>733,876</u>	<u>-</u>
45,656,902	53,916	45,710,818	735,907	2,543
<u>(460,643)</u>	<u>460,643</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>45,196,259</u>	<u>514,559</u>	<u>45,710,818</u>	<u>735,907</u>	<u>2,543</u>
(1,845,432)	(1,668,939)	(3,514,371)	(7,101,746)	13,423
<u>30,787,060</u>	<u>20,652,672</u>	<u>51,439,732</u>	<u>80,562,448</u>	<u>11,434,687</u>
<u>\$ 28,941,628</u>	<u>\$ 18,983,733</u>	<u>\$ 47,925,361</u>	<u>\$ 73,460,702</u>	<u>\$ 11,448,110</u>

DORCHESTER COUNTY, MARYLAND

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2014

	General Fund	Special Revenue Grants Fund	Capital Fund
ASSETS			
Cash and short-term investments	\$ 8,125,340	\$ 740,274	\$ 809,258
Receivables:			
State and local property taxes	3,604,350	-	-
Federal government	126,680	372,175	-
State of Maryland	-	1,208,891	-
Local	589,656	-	-
Other	2,443,865	-	-
Interfund	3,806,936	4,948	42,775
Other	370,359	-	-
Total assets	\$ 19,067,186	\$ 2,326,288	\$ 852,033
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and accrued expenses	\$ 1,664,191	534,471	\$ 80,830
Due to State of Maryland	398,572	-	-
Due to delinquent taxpayers	670,410	-	-
Interfund payables	3,487,237	1,032,611	1,527,043
Due to others	68,368	-	-
Unearned revenue	548,777	383,111	-
Other	284,430	12,163	-
Total liabilities	7,121,985	1,962,356	1,607,873
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	3,061,087	-	-
FUND BALANCES			
Nonspendable	370,359	-	-
Restricted for:			
Grants	-	363,932	-
Committed for:			
Schools and courthouse	-	-	-
Public safety communication system	-	-	-
Sheriff	-	-	-
Assigned for:			
Future budget	1,729,103	-	-
Unassigned	6,784,652	-	(755,840)
Total fund balances	8,884,114	363,932	(755,840)
Total liabilities, deferred inflows of resources, and fund balances	\$ 19,067,186	\$ 2,326,288	\$ 852,033

Other Governmental Funds	Total Governmental Funds
\$ 2,279,760	\$ 11,954,632
-	3,604,350
-	498,855
-	1,208,891
-	589,656
107,350	2,551,215
1,328,799	5,183,458
-	370,359
<u>\$ 3,715,909</u>	<u>\$ 25,961,416</u>
\$ 42,003	\$ 2,321,495
-	398,572
-	670,410
963,860	7,010,751
-	68,368
55,492	987,380
-	296,593
<u>1,061,355</u>	<u>11,753,569</u>
<u>-</u>	<u>3,061,087</u>
-	370,359
-	363,932
2,446,657	2,446,657
154,524	154,524
53,373	53,373
-	1,729,103
-	6,028,812
<u>2,654,554</u>	<u>11,146,760</u>
<u>\$ 3,715,909</u>	<u>\$ 25,961,416</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 POSITION
June 30, 2014

Total fund balances, governmental funds		\$ 11,146,760
Amounts reported for governmental activities in the statement of net position 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 Position.		48,896,925
Certain property tax collections are not available to pay for current-period expenditures and therefore are reported as deferred inflows of resources in the governmental activities of the Statement of Net Position.		3,061,087
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 Position. Those liabilities consist of:		
Bonds and notes payable	(24,295,460)	
Pension liability	(709,331)	
Compensated absences	(516,503)	
Other post-employment benefits obligation	<u>(8,641,850)</u>	
Total long-term liabilities		<u>(34,163,144)</u>
Net position of governmental activities in the Statement of Net Position		<u>\$ 28,941,628</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, 2014**

	General Fund	Special Revenue Grants Fund	Capital Fund
REVENUES:			
Taxes	\$ 44,068,072	\$ -	\$ -
Licenses and permits	221,126	-	-
Intergovernmental:			
Federal	5,000	1,053,863	-
State	3,370,497	2,189,286	169,631
Service charges and fees	1,826,377	-	-
Miscellaneous	370,682	384,380	-
Total revenues	49,861,754	3,627,529	169,631
EXPENDITURES:			
Current:			
General government	3,400,440	111,484	34,586
Public safety	10,625,707	393,859	67,370
Social services	129,113	1,599,917	-
Recreation and parks	430,021	6,405	35,729
Natural resources	412,330	46,196	-
Economic development	525,096	255,890	-
Miscellaneous	5,303,655	-	-
Education	20,069,213	-	1,520,000
Public works	3,269,037	842,745	197,195
Debt service:			
Principal	3,066,988	-	-
Interest	853,442	-	-
Capital outlay	31,670	497,128	1,260,497
Total expenditures	48,116,712	3,753,624	3,115,377
Excess (deficiency) of revenues over expenditures	1,745,042	(126,095)	(2,945,746)
OTHER FINANCING SOURCES (USES):			
Note proceeds	-	-	1,520,000
Net change in pension liability	15,471	-	-
Interest and dividends received	3,768	370	701
Transfers, net	(2,430,303)	102,887	1,866,773
Total other financing sources (uses)	(2,411,064)	103,257	3,387,474
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	(666,022)	(22,838)	441,728
Fund balances (deficit), beginning of year, as restated	9,550,136	386,770	(1,197,568)
Fund balances (deficit), end of year	\$ 8,884,114	\$ 363,932	\$ (755,840)

Other Governmental Funds	Total Governmental Funds
\$ 717,762	\$ 44,785,834
-	221,126
-	1,058,863
-	5,729,414
-	1,826,377
<u>91,587</u>	<u>846,649</u>
<u>809,349</u>	<u>54,468,263</u>
394,446	3,940,956
327,613	11,414,549
-	1,729,030
-	472,155
-	458,526
-	780,986
-	5,303,655
354,527	21,943,740
-	4,308,977
141,700	3,208,688
7,843	861,285
<u>141,959</u>	<u>1,931,254</u>
<u>1,368,088</u>	<u>56,353,801</u>
<u>(558,739)</u>	<u>(1,885,538)</u>
-	1,520,000
-	15,471
2,179	7,018
-	<u>(460,643)</u>
<u>2,179</u>	<u>1,081,846</u>
(556,560)	(803,692)
<u>3,211,114</u>	<u>11,950,452</u>
<u>\$ 2,654,554</u>	<u>\$ 11,146,760</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, 2014**

Net change in fund balances, governmental funds \$ (803,692)

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	1,931,254	
Depreciation expense	<u>(2,771,866)</u>	
Excess of depreciation expense over capital outlay		(840,612)

Loan proceeds provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the Statement of Net Position. In the current period, loans of this amount were issued: (1,520,000)

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

Principal payments on long-term debt	3,156,828
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Property tax revenue in the government-wide Statement of Activities include economic resources that are not reported as revenues in the governmental funds	17,401
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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:

Change in pension liability	(15,471)
Change in compensated absences	25,457
Change in other post-employment benefits obligation	<u>(1,865,343)</u>

Change in net position of governmental activities	<u>\$ (1,845,432)</u>
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DORCHESTER COUNTY, MARYLAND
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business-Type Activities		
	Landfill	Airport	Total
ASSETS			
Current assets			
Cash	\$ 12,037,361	\$ 325	\$ 12,037,686
Receivables:			
Accounts, net of \$58,235 allowance (landfill) and \$38,000 allowance (airport)	224,292	28,826	253,118
Federal government	-	3,361	3,361
State of Maryland	-	187	187
Interfund	-	2,110,714	2,110,714
Inventories	-	73,277	73,277
Other	-	4,789	4,789
Total current assets	12,261,653	2,221,479	14,483,132
Noncurrent assets			
Capital assets at cost	13,805,648	17,844,910	31,650,558
Less accumulated depreciation	(10,541,475)	(4,501,816)	(15,043,291)
Total noncurrent assets	3,264,173	13,343,094	16,607,267
Total assets	\$ 15,525,826	\$ 15,564,573	\$ 31,090,399
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	\$ 71,431	\$ 18,947	\$ 90,378
Accrued vacation	15,278	4,365	19,643
Unearned revenue	-	6,900	6,900
Interfund payable	283,421	-	283,421
Current maturities long-term debt	2,000	31,000	33,000
Total current liabilities	372,130	61,212	433,342
Noncurrent liabilities			
Accrued vacation	16,915	3,300	20,215
Landfill - closure and postclosure	11,374,109	-	11,374,109
Long-term debt, less current maturities	-	279,000	279,000
Total noncurrent liabilities	11,391,024	282,300	11,673,324
Total liabilities	\$ 11,763,154	\$ 343,512	\$ 12,106,666
NET POSITION			
Net investment in capital assets	\$ 3,262,173	\$ 13,033,094	\$ 16,295,267
Unrestricted	500,499	2,187,967	2,688,466
Total net position	\$ 3,762,672	\$ 15,221,061	\$ 18,983,733

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

DORCHESTER COUNTY, MARYLAND

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2014**

	Business-Type Activities		
	Landfill	Airport	Totals
OPERATING REVENUES:			
Tipping fees	\$ 2,513,796	\$ -	\$ 2,513,796
Permits	132,589	-	132,589
Fuel sales	-	248,172	248,172
Hangar and tie-down rentals	-	204,986	204,986
Other	42,828	3,066	45,894
Total operating revenues	2,689,213	456,224	3,145,437
OPERATING EXPENSES:			
Salaries and related taxes	978,371	188,506	1,166,877
Repairs and maintenance	362,820	73,848	436,668
Rental of land, buildings and equipment	8,934	13,200	22,134
Fuel	165,078	208,879	373,957
Closure and postclosure costs accrual	2,195,684	-	2,195,684
Utilities	16,123	84,320	100,443
Depreciation	603,629	360,878	964,507
Other operating	28,545	12,718	41,263
Total operating expenses	4,359,184	942,349	5,301,533
Net operating income (loss)	(1,669,971)	(486,125)	(2,156,096)
NON-OPERATING REVENUES (EXPENSES):			
Grants - Federal government	-	3,361	3,361
Grants - state government	28,481	187	28,668
Interest income	8,022	-	8,022
Interest expense	-	(13,537)	(13,537)
Total non-operating revenues (expenses)	36,503	(9,989)	26,514
Income (loss) before transfers	(1,633,468)	(496,114)	(2,129,582)
Operating transfers	-	460,643	460,643
Change in net position	(1,633,468)	(35,471)	(1,668,939)
Net position beginning of year	5,396,140	15,256,532	20,652,672
Net position end of year	\$ 3,762,672	\$ 15,221,061	\$ 18,983,733

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, 2014

	Landfill	Airport	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	\$ 2,620,916	\$ 622,253	\$ 3,243,169
Other receipts	42,828	3,066	45,894
Payments to employees	(978,807)	(192,534)	(1,171,341)
Payments for services	(16,123)	(84,320)	(100,443)
Payments for rentals	(8,934)	(13,200)	(22,134)
Payments for materials and supplies	(521,840)	(315,546)	(837,386)
Other payments	(28,545)	(12,718)	(41,263)
Net cash provided by operating activities	1,109,495	7,001	1,116,496
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Decrease in interfund receivable	(183,913)	(319,226)	(503,139)
Operating transfers from General Fund	-	460,643	460,643
Net cash (used) provided by non-capital financing activities	(183,913)	141,417	(42,496)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Grant and bond receipts	28,481	3,548	32,029
Repayment of long-term debt	-	(31,000)	(31,000)
Purchases of property and equipment	(421,140)	(107,429)	(528,569)
Interest paid	-	(13,537)	(13,537)
Net cash used by financing activities	(392,659)	(148,418)	(541,077)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest income received	8,022	-	8,022
Net cash provided by investing activities	8,022	-	8,022
Net increase in cash and short-term investments	540,945	-	540,945
Cash and short-term investments, beginning of year	11,496,416	325	11,496,741
Cash and short-term investments, end of year	\$ 12,037,361	\$ 325	\$ 12,037,686
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ (1,669,971)	\$ (486,125)	\$ (2,156,096)
Adjustments:			
Depreciation	603,629	360,878	964,507
Landfill closure and postclosure cost accrual	2,195,684	-	2,195,684
(Increase) decrease in assets:			
Accounts receivable	(25,469)	181,754	156,285
Inventory	-	(14,209)	(14,209)
Other	-	133	133
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses	6,058	(32,952)	(26,894)
Accrued vacation	(436)	(4,028)	(4,464)
Unearned revenue	-	1,550	1,550
Total adjustments	2,779,466	493,126	3,272,592
Net cash provided by operating activities	\$ 1,109,495	\$ 7,001	\$ 1,116,496

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

DORCHESTER COUNTY, MARYLAND
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2014

	<u>Other Post-Employment Benefits Trust Fund</u>
ASSETS	
Cash	\$ 2,239,365
<hr/>	
Total assets	2,239,365
<hr/>	
LIABILITIES	
Due to other funds	729,225
<hr/>	
Total liabilities	729,225
<hr/>	
NET POSITION	
Held in trust for other post-employment benefits	\$ 1,510,140
<hr/>	

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

DORCHESTER COUNTY, MARYLAND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
Year Ended June 30, 2014

	Other Post-Employment Benefits Trust Fund
ADDITIONS:	
Investment income	
Interest	\$ 4,297
<hr/>	
Total additions	4,297
<hr/>	
DEDUCTIONS:	
Benefits paid	247,316
<hr/>	
Total deductions	247,316
<hr/>	
Change in net position	(243,019)
Net position beginning of year	1,753,159
<hr/>	
Net position end of year	\$ 1,510,140
<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 separate political and corporate body created by the Commissioners of Dorchester County, Maryland, and 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 position 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 position 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 position 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 position, 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 that are required to be held in trust for the members and beneficiaries of the postemployment benefit plan.

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 position.

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 position. The statement of changes in revenues, expenses, and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. 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 unearned 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 Outflows/Inflows of Resources – In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The County has no deferred outflows of resources for the current year.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 position 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 position 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 position. The only interfund balances which remain on the government-wide statement of net position 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 \$30 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 Position

The government-wide and business-type activities fund financial statements utilize a net position presentation. Net position represents the difference between assets plus deferred inflows of resources and liabilities plus deferred outflows of resources. Net investment 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 position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted or through external restrictions imposed by grantors, creditors or laws or regulations of other governments.

Restricted resources are applied first when an expense is incurred for purposes for which both restricted and unrestricted net position is 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.

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, 2014, the County had bank deposits with various commercial banks totaling \$24,700,545 (carrying value \$23,992,318). 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, 2014, the bank deposits were fully insured or collateralized.

NOTES TO FINANCIAL STATEMENTS

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

Board of Education of Dorchester County

At June 30, 2014, the Board had bank deposits with various commercial banks totaling \$1,697,661 (carrying value \$1,598,403). As required by law, each depository is to pledge securities at least equal to the amount on deposit at all times in addition to insurance provided by the Federal Deposit Insurance Corporation (FDIC). The depository banks pledge collateral for specific accounts which are held in the Board's name at The Bank of New York Mellon. As of June 30, 2014, the bank deposits were fully insured or collateralized.

Investments consist of \$3,304,149 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, 2014 the Dorchester County Sanitary Districts had bank deposits with various commercial banks totaling \$2,066,654 (carrying value \$1,915,181). Of the bank balance, \$982,821 was covered by federal depository insurance, and \$1,083,833 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, 2014, was as follows:

	Balances at June 30, 2013	Additions	Deletions/ Transfers	Balances at June 30, 2014
GOVERNMENTAL ACTIVITIES				
Capital assets, not being depreciated				
Land	\$ 18,364,261	\$ -	\$ -	\$ 18,364,261
Construction in progress	1,096,448	401,252	(1,167,906)	329,794
Total capital assets, not being depreciated	19,460,709	401,252	(1,167,906)	18,694,055
Capital assets, being depreciated				
Buildings and improvements	22,458,689	125,550	1,001,004	23,585,243
Furniture and equipment	24,967,252	1,404,452	-	26,371,704
Leasehold improvements	286,572	-	-	286,572
Infrastructure assets	45,445,338	-	166,902	45,612,240
Total capital assets, being depreciated	93,157,851	1,530,002	1,167,906	95,855,759
Less: accumulated depreciation	(62,881,023)	(2,771,866)	-	(65,652,889)
Net capital assets, being depreciated	30,276,828	(1,241,864)	1,167,906	30,202,870
Governmental activities capital assets, net	\$ 49,737,537	\$ (840,612)	\$ -	\$ 48,896,925

Depreciation expense was charged to governmental functions as follows:

General government	\$ 722,736
Public safety	1,260,908
Social services	369
Recreation and parks	91,860
Natural resources	84,580
Economic development	128,875
Public works	482,538
	<u>\$ 2,771,866</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

	Balances at June 30, 2013	Additions	Deletions/ Transfers	Balances at June 30, 2014
BUSINESS-TYPE ACTIVITIES				
Dorchester County Landfill				
Capital assets, not being depreciated				
Land	\$ 875,187	\$ -	\$ -	\$ 875,187
Construction in progress	198,477	115,320	-	313,797
Total capital assets, not being depreciated	1,073,664	115,320	-	1,188,984
Capital assets, being depreciated				
Buildings and improvements	148,739	-	-	148,739
Machinery and equipment	3,900,631	305,820	(250,000)	3,956,451
Beulah landfill - cells	8,511,474	-	-	8,511,474
Total capital assets, being depreciated	12,560,844	305,820	(250,000)	12,616,664
Less: accumulated depreciation	(10,187,846)	(603,629)	250,000	(10,541,475)
Net capital assets, being depreciated	2,372,998	(297,809)	-	2,075,189
Landfill capital assets, net	\$ 3,446,662	\$ (182,489)	\$ -	\$ 3,264,173
Dorchester County Airport				
Capital assets, not being depreciated				
Land	\$ 2,543,620	\$ -	\$ -	\$ 2,543,620
Construction in progress	968,669	6,784	-	975,453
Total capital assets, not being depreciated	3,512,289	6,784	-	3,519,073
Capital assets, being depreciated				
Buildings and improvements	13,950,652	42,775	-	13,993,427
Machinery and equipment	274,540	57,870	-	332,410
Total capital assets, being depreciated	14,225,192	100,645	-	14,325,837
Less: accumulated depreciation	(4,140,938)	(360,878)	-	(4,501,816)
Net capital assets, being depreciated	10,084,254	(260,233)	-	9,824,021
Airport capital assets, net	\$ 13,596,543	\$ (253,449)	\$ -	\$ 13,343,094
Business-type activities capital assets, net	\$ 17,043,205	\$ (435,938)	\$ -	\$ 16,607,267

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

Capital asset activity for the component units for the year ended June 30, 2014 was as follows:

	Balances at June 30, 2013	Additions	Deletions/ Transfers	Balances at June 30, 2014
Board of Education of Dorchester County				
Governmental activities				
Capital assets, not being depreciated				
Construction in progress	\$ 11,208	\$ 2,347,359	\$ (2,305,847)	\$ 52,720
Total capital assets, not being depreciated	11,208	2,347,359	(2,305,847)	52,720
Capital assets, being depreciated				
Buildings and improvements	130,640,265	-	2,305,847	132,946,112
Furniture and equipment	2,962,114	34,980	-	2,997,094
Vehicles	794,262	-	-	794,262
Total capital assets, being depreciated	134,396,641	34,980	2,305,847	136,737,468
Less: accumulated depreciation	(46,806,061)	(4,700,372)	-	(51,506,433)
Net capital assets, being depreciated	87,590,580	(4,665,392)	2,305,847	85,231,035
Governmental activities capital assets, net	\$ 87,601,788	\$ (2,318,033)	\$ -	\$ 85,283,755
Business-type activities				
Equipment	\$ 36,250	\$ -	\$ -	\$ 36,250
Accumulated depreciation	(26,675)	(2,003)	-	(28,678)
Business-type activities capital assets, net	\$ 9,575	\$ (2,003)	\$ -	\$ 7,572
Board of Education capital assets, net	\$ 87,611,363	\$ (2,320,036)	\$ -	\$ 85,291,327
Dorchester County Sanitary Districts				
Capital assets, not being depreciated				
Land	\$ 2,645	\$ -	\$ -	\$ 2,645
Total capital assets, not being depreciated	2,645	-	-	2,645
Capital assets, being depreciated				
Intangible assets	1,044,000	-	-	1,044,000
Plant and equipment	14,998,864	230,563	(7,687)	15,221,740
Total capital assets, being depreciated	16,042,864	230,563	(7,687)	16,265,740
Less: accumulated depreciation	(4,285,202)	(405,718)	7,369	(4,683,551)
Net capital assets, being depreciated	11,757,662	(175,155)	(318)	11,582,189
Sanitary Districts capital assets, net	\$ 11,760,307	\$ (175,155)	\$ (318)	\$ 11,584,834
Total component units capital assets, net	\$ 99,371,670	\$ (2,495,191)	\$ (318)	\$ 96,876,161

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, 2014:

	Governmental Activities	Business-Type Activities
Amounts payable at June 30, 2013	\$ 34,335,929	\$ 387,322
Borrowings from bonds and notes payable	1,520,000	-
Increase in pension liability (See also Note 8)	15,471	-
Decrease in accrued compensated absences	(33,318)	(4,464)
Increase in other post-employment benefits obligation (See also Note 9)	1,865,343	-
Repayment of bonds and notes payable	(3,156,828)	(31,000)
Amounts payable at June 30, 2014	\$ 34,546,597	\$ 351,858

The County has agreed to subsidize 76% of the debt service cost associated with the City of Cambridge's USDA loan for the technology park. The County's portion of the principal was \$51,860 and interest was \$24,279 for the year ended June 30, 2014. These costs are included in debt service on the Statement of Revenues, Expenditures and Changes in Fund Balance.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Long-term debt consists of the following as of June 30, 2014:

Dorchester County Governmental Activities Long-Term Debt

	Balances at June 30, 2013	Additions	Reductions	Balances at June 30, 2014	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%.	\$ 2,945,000	\$ -	\$ (530,000)	\$ 2,415,000	\$ 560,000
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%.	1,780,000	-	(1,090,000)	690,000	445,000
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%.	580,000	-	(280,000)	300,000	300,000
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%.	18,370,000	-	(835,000)	17,535,000	850,000
Total public facilities bonds	\$23,675,000	\$ -	\$(2,735,000)	\$20,940,000	\$ 2,155,000

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2013	Additions	Transfers/ Reductions	Balances at June 30, 2014	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.	\$ 28,672	\$ -	\$ (4,780)	\$ 23,892	\$ 4,780
SEC 7-92 - Middle Hoopers Island Causeway; due in annual installments of \$5,516 through July 2020; no interest.	44,128	-	(5,516)	38,612	5,516
SEC 8-92 - McCready's Point Road; due in annual installments of \$1,683 through July 2019; no interest.	11,787	-	(1,683)	10,104	1,683
SEC 9-92 - Hoopersville Road; due in annual installments of \$2,718 through July 2020; no interest.	19,029	-	(2,718)	16,311	2,718
SEC 03-03 - Hoopersville Road; due in annual installments of \$19,245 through July 2033; no interest.	404,145	-	(19,245)	384,900	19,245
SEC 04-02 - Hoopers Island Road; due in annual installments of \$5,930 through July 2027; no interest.	88,952	-	(5,930)	83,022	5,930
SEC 05-03 - Taylors Island; due in annual installments of \$14,593 through July 2035; no interest.	306,461	-	(14,593)	291,868	14,593
SEC 18-02 - Punch Island Road; due in annual installments of \$12,958 through July 2035; no interest.	272,111	-	(12,958)	259,153	12,958
Total SEC loans payable	\$ 1,175,285	\$ -	\$ (67,423)	\$ 1,107,862	\$ 67,423

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2013	Additions	Reductions	Balances at June 30, 2014	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).	\$ 18,700	\$ -	\$ (18,700)	\$ -	\$ -
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).	290,000	-	(35,000)	255,000	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%.	99,726	-	(7,947)	91,779	8,311
County Commissioners of Queen Anne's County loan due in annual principal installments of \$53,292 to \$107,262 through April 2034; interest payable semi-annually at 2% to 4%.	-	1,520,000	-	1,520,000	53,292
Note due in quarterly principal installments of \$24,313, plus interest at 5.33% through 2014 (known as the Delmarva Power and Light Building).	117,827	-	(92,758)	25,069	25,069
MDOT due in annual installments of \$200,000 through January 2015 with balance due January 2016; no interest.	555,750	-	(200,000)	355,750	200,000
Total notes payable	1,082,003	1,520,000	(354,405)	2,247,598	321,672
Total governmental activities debt	\$ 25,932,288	\$ 1,520,000	\$ (3,156,828)	\$ 24,295,460	\$ 2,544,095

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Dorchester County Business-Type Activities Long-Term Debt

	Balances at June 30, 2013	Additions	Reductions	Balances at June 30, 2014	Amounts Due in One Year
Dorchester County Landfill:					
Refuse and bid bonds payable	\$ 2,000	\$ -	\$ -	\$ 2,000	\$ 2,000
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%.	341,000	-	(31,000)	310,000	31,000
Total enterprise fund debt	\$ 343,000	\$ -	\$ (31,000)	\$ 312,000	\$ 33,000

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 <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 2,544,095	\$ 773,966	\$ 3,318,061
2016	1,839,861	700,934	2,540,795
2017	1,746,572	649,293	2,395,865
2018	1,809,434	591,743	2,401,177
2019	1,197,293	545,120	1,742,413
2020 - 2024	5,976,250	2,192,033	8,168,283
2025 - 2029	7,016,046	1,154,954	8,171,000
2030 - 2034	2,165,909	117,159	2,283,068
Total governmental activities debt	<u>\$ 24,295,460</u>	<u>\$ 6,725,202</u>	<u>\$ 31,020,662</u>

Business-Type Activities

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 33,000	\$ 12,184	\$ 45,184
2016	31,000	10,896	41,896
2017	31,000	9,551	40,551
2018	31,000	8,234	39,234
2019	186,000	1,991	187,991
Total business-type activities debt	<u>\$ 312,000</u>	<u>\$ 42,856</u>	<u>\$ 354,856</u>

Interest expense on all County long-term debt totaled \$874,822 for the year ended June 30, 2014.

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

Long-term debt of the Dorchester County Sanitary Districts at June 30, 2014 consists of the following:

	Balances at June 30, 2013	Additions	Reductions	Balances at June 30, 2014
<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.	\$ 51,183	\$ -	\$ (5,974)	\$ 45,209
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.	25,820	-	(3,014)	22,806
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 \$9,816 began September 17, 1993, and continue to September 17, 2020.	59,365	-	(5,855)	53,510
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.	12,224	-	(5,899)	6,325
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.	280,203	-	(4,532)	275,671
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.	1,694,749	-	(27,418)	1,667,331
Total Sanitary Districts' debt	\$ 2,123,544	\$ -	\$ (52,692)	2,070,852
Less: current maturities				54,917
				\$ 2,015,935

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, 2014 are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 54,917	\$ 56,897	\$ 111,814
2016	50,474	54,495	104,969
2017	52,449	52,520	104,969
2018	54,519	50,450	104,969
2019	56,693	48,236	104,929
2020 - 2024	226,199	212,687	438,886
2025 - 2029	221,027	184,113	405,140
2030 - 2034	250,358	154,782	405,140
2035 - 2039	283,585	121,554	405,139
2040 - 2044	321,219	83,921	405,140
2045 - 2049	363,845	41,293	405,138
2050 - 2051	135,567	3,356	138,923
Total Sanitary Districts' debt	<u>\$ 2,070,852</u>	<u>\$ 1,064,304</u>	<u>\$ 3,135,156</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>	
2015	\$ 113,000
2016	76,000
2017	52,000
2018	52,000
2019	52,000

Rent expense under these leases totaled approximately \$179,000 for the year ended June 30, 2014.

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>	
2015	\$ 416,000
2016	416,000
2017	416,000
2018	416,000
2019	1,000

Expense under these leases totaled approximately \$430,000 for the year ended June 30, 2014.

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, 2014, appropriate due to/from other funds have been established.

Due to/from other funds balances as of June 30, 2014 were as follows:

<u>Primary Government</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental activities	\$ 5,183,458	\$ 7,010,751
Business-Type activities	2,110,714	283,421
<u>Total due to/from other funds</u>	<u>\$ 7,294,172</u>	<u>\$ 7,294,172</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 require 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 2014 is established by annual actuarial valuations. The current rate is 14.71% of covered payroll for teachers and 6.47% 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. During fiscal year 2014, in accordance with Maryland Senate Bill 1301, *Budget Reconciliation and Financing Act of 2012*, the Board contributed \$832,186 to the plan. 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, 2014, 2013, and 2012, payroll covered under the various state plans, and contributions paid are as follows:

	2014	2013	2012
Total payroll	\$ 43,000,265	\$ 42,763,829	\$ 42,100,502
Payroll covered under the plans	41,019,620	40,854,242	40,202,365
Contributions paid:			
County payments	1,328,705	1,203,809	1,450,002
Board of Education payments	1,547,712	1,293,747	685,972
State On-Behalf payments:			
Board of Education	3,585,040	3,120,710	4,168,043

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 \$709,331 fund deficit (an increase of \$15,471 over the prior fiscal year) over a period of 40 years. The fiscal year 2014 annual payment was \$42,003 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 Position.

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, 2014, 2013 and 2012 were \$5,282, \$4,702 and \$5,582, respectively. Post-employment health care cost for the year ended June 30, 2014, 2013 and 2012 were \$6,118, \$6,118 and \$5,962, 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, 2012, the date of the last actuarial valuation, the plan included 75 retirees, 229 active employees and 29 dependents, for a total of 333 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, 2013, the date of the last actuarial valuation, approximately 293 retirees were receiving benefits, and an estimated 592 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 2014, the County contributed \$0 to the plan for the eligible retirees.

The Board pays retiree healthcare premiums based on years-of-service ranging from \$3,248 for 15 years of service to \$4,015 for 30 plus years of service until the retiree reaches age 65 up to a maximum of \$5,279 per year based on years of service. The retiree pays the remaining premium, including the cost of eligible dependents. For fiscal year 2014, the Board contributed \$1,186,332 to the plan for 254 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 pays 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	\$ 5,880,000	\$ 1,938,927
Interest on net OPEB obligation	315,000	245,558
Amortization of net OPEB obligation	-	(319,142)
Adjustment to annual required contribution	(327,000)	-
Annual OPEB cost (expense)	5,868,000	1,865,343
Contributions made	(1,186,332)	-
Increase (decrease) in net OPEB Obligation	4,681,668	1,865,343
Net OPEB obligation, beginning of year	8,349,099	6,776,507
 Net OPEB obligation, end of year	 \$ 13,030,767	 \$ 8,641,850

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)
2012	\$ 2,614,432	11.21%	\$ 4,911,164
2013	1,865,343	0.00%	6,776,507
2014	1,865,343	0.00%	8,641,850

Board

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 4,273,000	23.73%	\$ 4,883,637
2013	4,549,000	23.82%	8,349,099
2014	5,868,000	20.22%	13,030,767

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)
<u>County</u>							
2012	July 1, 2010	\$ 1,940,108	\$ 24,831,086	\$ 22,890,978	7.8%	\$ 12,246,756	187%
2013	July 1, 2012	1,753,159	18,503,552	16,750,393	9.5%	12,239,706	137%
2014	July 1, 2012	1,510,139	18,503,552	16,993,413	8.2%	12,311,498	138%
<u>Board</u>							
2012	July 1, 2011	-	55,846,000	55,846,000	0.0%	29,853,746	187%
2013	July 1, 2011	-	58,473,000	58,473,000	0.0%	30,524,124	192%
2014	July 1, 2013	-	69,303,000	69,303,000	0.0%	30,688,767	226%

The County's AAL decrease of \$6,327,534 between the July 1, 2010 study, and the July 1, 2012 study, is due to a decrease in the number of plan participants from 368 to 333 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, 2012 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 7.69% 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, 2013 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 7.0% 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, 2013 was 25 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, 2014.

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 \$10,800 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 \$14,150 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 \$6,500,000. 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 \$19,800 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	\$ 324,000
<u>Golden Hill landfill</u>	
Postclosure care costs	424,500
<u>Old Beulah landfill</u>	
Closure costs	6,500,000
Postclosure care costs	594,000
	7,094,000
<u>New Beulah landfill - cells 1 - 4</u>	
Closure costs	3,267,662
Postclosure care costs	263,947
	3,531,609
Total closure and postclosure care costs	\$ 11,374,109

The above amounts are based on the current costs to perform all closure and post-closure care as of June 30, 2014. 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 \$12,037,000 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 \$1,470,000 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 (89%). Total closure and post-closure care costs for Cell 3 are estimated to be approximately \$1,088,000 and \$88,000, respectively.

New Beulah landfill cell 4 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 (51%). Total closure and post-closure care costs for Cell 4 are estimated to be approximately \$435,000 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 (34%). Total closure and post-closure care costs for Cell 5 are estimated to be approximately \$273,000 and \$22,000, 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.

Dorchester County Sanitary District

The Dorchester County Sanitary District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. Dorchester County Sanitary District purchases commercial insurance to cover these risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

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, 2014 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

Risk Management

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

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

In September 2001, the Board joined the Eastern Shore of Maryland Educational Consortium (ESMEC) Health Alliance Trust, a public entity risk pool operating as a common risk management and insurance program for health insurance coverage. It is intended that ESMEC be self-sustaining through member premiums. Callable deficits, which are paid to ESMEC to cover potential shortfalls, are 8% of total premiums. Currently, ESMEC keeps on hand 16% as a recommended conservative reserve. As of February 28, 2014 the Board's funds held by ESMEC exceeded the recommended conservative reserve by \$2,661,386. 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, 2014.

Fund	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General Fund	\$ 47,752,219	\$ 48,116,712	\$ 364,493
Transfer Tax	728,257	861,974	133,717
Building Excise Tax	60,000	414,527	354,527

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

Note 14. Accounting Changes – Prior Period Adjustment

The County implemented Governmental Accounting Standards Board (GASB) Statement 65 “Items Previously Reported as Assets and Liabilities”. The objective of GASB 65 is to either properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or to recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The implementation of GASB 65 resulted in the reclassification of Bond Issuance Cost as an expense of prior periods and resulted in the adjustments below.

	Capital Fund	Governmental Activities
Fund (deficit) / net position, beginning of year	\$ (1,034,762)	\$ 30,949,866
Change in reporting for bond issuance cost	(162,806)	(162,806)
Fund (deficit) / net position, beginning of year, as restated	<u>\$ (1,197,568)</u>	<u>\$ 30,787,060</u>

REQUIRED SUPPLEMENTARY INFORMATION

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Taxes:				
Property taxes	\$ 30,154,734	\$ 30,154,734	\$ 30,035,415	\$ (119,319)
Income taxes	9,809,329	9,809,329	12,258,240	2,448,911
Other taxes	2,140,386	2,140,386	1,774,417	(365,969)
Total taxes	42,104,449	42,104,449	44,068,072	1,963,623
Licenses and permits	190,600	190,600	221,126	30,526
Intergovernmental:				
Federal	66,943	66,943	5,000	(61,943)
State	3,507,474	3,507,474	3,370,497	(136,977)
Service charges	2,140,835	2,140,835	1,826,377	(314,458)
Miscellaneous	2,100,419	2,100,419	370,682	(1,729,737)
Total revenues	50,110,720	50,110,720	49,861,754	(248,966)
EXPENDITURES:				
General government				
County council				
Operating personnel	320,804	320,804	275,953	44,851
Other	31,568	31,568	22,520	9,048
	352,372	352,372	298,473	53,899
Circuit court				
Operating personnel	96,458	96,458	92,472	3,986
Other	61,848	61,848	76,310	(14,462)
	158,306	158,306	168,782	(10,476)
Orphan's court				
Operating personnel	14,100	14,100	14,100	-
Other	6,123	6,123	6,295	(172)
	20,223	20,223	20,395	(172)
State's attorney				
Operating personnel	627,618	627,618	599,554	28,064
Other	51,340	51,340	96,964	(45,624)
	678,958	678,958	696,518	(17,560)
Elections				
Operating personnel	34,300	44,300	43,234	1,066
Other	341,400	331,400	323,926	7,474
	375,700	375,700	367,160	8,540
Finance & treasurer				
Operating personnel	358,321	358,321	360,710	(2,389)
Other	91,661	91,661	90,425	1,236
	449,982	449,982	451,135	(1,153)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2014
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
General government (continued)				
Human resources				
Operating personnel	\$ 54,106	\$ 54,106	\$ 54,268	\$ (162)
Other	29,525	29,525	11,622	17,903
	<u>83,631</u>	<u>83,631</u>	<u>65,890</u>	<u>17,741</u>
Information technology				
Operating personnel	171,698	171,698	158,178	13,520
Other	38,355	38,355	36,004	2,351
	<u>210,053</u>	<u>210,053</u>	<u>194,182</u>	<u>15,871</u>
Other general government				
Operating personnel	40,759	40,759	37,147	3,612
Other	537,742	550,742	523,488	27,254
	<u>578,501</u>	<u>591,501</u>	<u>560,635</u>	<u>30,866</u>
Planning and zoning				
Operating personnel	278,494	278,494	274,375	4,119
Other	98,564	98,564	86,636	11,928
	<u>377,058</u>	<u>377,058</u>	<u>361,011</u>	<u>16,047</u>
Maintenance				
Operating personnel	93,079	93,079	93,953	(874)
Other	135,182	122,182	122,306	(124)
	<u>228,261</u>	<u>215,261</u>	<u>216,259</u>	<u>(998)</u>
Total general government	<u>3,513,045</u>	<u>3,513,045</u>	<u>3,400,440</u>	<u>112,605</u>
Public safety				
Sheriff				
Operating personnel	1,857,883	1,857,883	2,031,034	(173,151)
Other	577,618	577,618	738,143	(160,525)
	<u>2,435,501</u>	<u>2,435,501</u>	<u>2,769,177</u>	<u>(333,676)</u>
Volunteer fire and life support				
Other	726,707	726,707	693,545	33,162
	<u>726,707</u>	<u>726,707</u>	<u>693,545</u>	<u>33,162</u>
EMS				
Operating personnel	1,757,817	1,757,817	1,889,700	(131,883)
Other	603,204	603,204	574,722	28,482
	<u>2,361,021</u>	<u>2,361,021</u>	<u>2,464,422</u>	<u>(103,401)</u>
Detention center				
Operating personnel	2,232,749	2,232,749	2,168,670	64,079
Other	1,295,862	1,295,862	1,295,781	81
	<u>3,528,611</u>	<u>3,528,611</u>	<u>3,464,451</u>	<u>64,160</u>

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2014
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public safety (continued)				
911 emergency communications				
Operating personnel	\$ 649,455	\$ 649,455	\$ 616,588	\$ 32,867
Other	427,928	427,928	424,834	3,094
	<u>1,077,383</u>	<u>1,077,383</u>	<u>1,041,422</u>	<u>35,961</u>
Emergency management				
Other	30,594	30,594	15,559	15,035
	<u>30,594</u>	<u>30,594</u>	<u>15,559</u>	<u>15,035</u>
Animal control				
Operating personnel	83,609	83,609	85,553	(1,944)
Other	80,175	80,175	91,578	(11,403)
	<u>163,784</u>	<u>163,784</u>	<u>177,131</u>	<u>(13,347)</u>
Total public safety	<u>10,323,601</u>	<u>10,323,601</u>	<u>10,625,707</u>	<u>(302,106)</u>
Social services				
Other				
Other	173,814	173,814	129,113	44,701
	<u>173,814</u>	<u>173,814</u>	<u>129,113</u>	<u>44,701</u>
Total social services	<u>173,814</u>	<u>173,814</u>	<u>129,113</u>	<u>44,701</u>
Public works				
Highways & streets				
Operating personnel	1,141,513	1,145,013	1,052,970	92,043
Other	2,077,615	2,074,115	2,098,592	(24,477)
	<u>3,219,128</u>	<u>3,219,128</u>	<u>3,151,562</u>	<u>67,566</u>
Engineering				
Operating personnel	117,669	117,669	113,718	3,951
Other	7,523	7,523	3,757	3,766
	<u>125,192</u>	<u>125,192</u>	<u>117,475</u>	<u>7,717</u>
Total public works	<u>3,344,320</u>	<u>3,344,320</u>	<u>3,269,037</u>	<u>75,283</u>
Miscellaneous				
Other	4,844,209	4,844,209	5,303,655	(459,446)
Total miscellaneous	<u>4,844,209</u>	<u>4,844,209</u>	<u>5,303,655</u>	<u>(459,446)</u>
Recreation and parks				
Recreation and parks				
Operating personnel	301,975	299,775	283,122	16,653
Other	150,100	152,300	146,899	5,401
Total recreation and parks	<u>452,075</u>	<u>452,075</u>	<u>430,021</u>	<u>22,054</u>

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2014
(continued)

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Natural resources				
Cooperative extension service				
Other	\$ 133,000	\$ 133,000	\$ 133,000	\$ -
	133,000	133,000	133,000	-
Other				
Operating personnel	274,835	274,835	268,471	6,364
Other	20,440	20,440	10,859	9,581
	295,275	295,275	279,330	15,945
Total natural resources	428,275	428,275	412,330	15,945
Economic development				
Economic development				
Operating personnel	149,860	149,860	118,752	31,108
Other	219,565	219,565	119,299	100,266
	369,425	369,425	238,051	131,374
Other				
Other	10,000	10,000	10,000	-
	10,000	10,000	10,000	-
Tourism				
Operating personnel	92,004	92,004	94,595	(2,591)
Other	185,562	185,562	182,450	3,112
	277,566	277,566	277,045	521
Total economic development	656,991	656,991	525,096	131,895
Education				
Board of Education	18,872,680	18,872,680	18,872,680	-
Chesapeake College	1,291,818	1,291,818	1,196,533	95,285
Total education	20,164,498	20,164,498	20,069,213	95,285
Debt service				
Principal	3,015,229	3,015,229	3,066,988	(51,759)
Interest	804,162	804,162	853,442	(49,280)
Capital outlay	32,000	32,000	31,670	330
Total expenditures	47,752,219	47,752,219	48,116,712	(364,493)
Excess (deficiency) of revenues over expenditures	2,358,501	2,358,501	1,745,042	(613,459)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2014
(continued)

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING SOURCES (USES):				
Increase in pension liability	\$ (42,003)	\$ (42,003)	\$ 15,471	\$ 57,474
Interest and dividend	-	-	3,768	3,768
Transfers, net	(2,316,498)	(2,316,498)	(2,430,303)	(113,805)
Total other financing sources (uses)	(2,358,501)	(2,358,501)	(2,411,064)	(52,563)
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (666,022)	\$ (666,022)

DORCHESTER COUNTY, MARYLAND

**REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL
SPECIAL REVENUE - GRANTS FUND
Year Ended June 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Intergovernmental Federal	\$ 31,731	\$ 1,542,080	\$ 1,053,863	\$ (488,217)
Intergovernmental state	1,818,400	3,593,772	2,189,286	(1,404,486)
Miscellaneous	-	-	384,380	384,380
Total revenues	1,850,131	5,135,852	3,627,529	(1,508,323)
EXPENDITURES:				
General government				
Salaries	39,952	39,952	39,952	-
Other	-	240,000	71,532	168,468
Total general government	39,952	279,952	111,484	168,468
Public safety				
Salaries	52,970	264,411	118,817	145,594
Other	14,631	326,085	275,042	51,043
Total public safety	67,601	590,496	393,859	196,637
Social services				
Salaries	124,811	110,996	120,858	(9,862)
Other	1,366,219	1,823,311	1,479,059	344,252
Total social services	1,491,030	1,934,307	1,599,917	334,390
Recreation and parks				
Other	-	-	6,405	(6,405)
Total recreation and parks	-	-	6,405	(6,405)
Natural resources				
Salaries	36,683	36,683	36,683	-
Other	-	165,250	9,513	155,737
Total natural resources	36,683	201,933	46,196	155,737
Economic development				
Salaries	-	-	63,700	(63,700)
Other	150,000	754,354	192,190	562,164
Total economic development	150,000	754,354	255,890	498,464

DORCHESTER COUNTY, MARYLAND

**REVENUE AND EXPENDITURES DETAIL
BUDGET AND ACTUAL
SPECIAL REVENUE - GRANTS FUND
Year Ended June 30, 2014
(continued)**

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Public works				
Salaries	\$ -	\$ -	\$ 16,777	\$ (16,777)
Other	-	1,160,824	825,968	334,856
Total public works	-	1,160,824	842,745	318,079
Capital outlay	165,000	314,121	497,128	(183,007)
Total expenditures	1,950,266	5,235,987	3,753,624	1,482,363
Excess (deficiency) of revenues over expenditures	(100,135)	(100,135)	(126,095)	(25,960)
OTHER FINANCING SOURCES (USES):				
Interest and dividend received	-	-	370	370
Transfers in	100,135	100,135	102,887	2,752
Total other financing sources (uses)	100,135	100,135	103,257	3,122
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	\$ -	\$ -	\$ (22,838)	\$ (22,838)

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)
2012	July 1, 2010	\$1,940,108	\$24,831,086	\$22,890,978	7.8%	\$12,246,756	187%
2013	July 1, 2012	1,753,159	18,503,552	16,750,393	9.5%	12,239,706	137%
2014	July 1, 2012	1,510,139	18,503,552	16,993,413	8.2%	12,311,498	138%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2012	\$ 2,614,432	11.2%	\$4,911,164
2013	1,865,343	0.0%	6,776,507
2014	1,865,343	0.0%	8,641,850

ADDITIONAL SUPPLEMENTARY INFORMATION

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
TRANSFER TAX FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
County transfer tax	\$ 728,257	\$ 728,257	\$ 634,992	\$ (93,265)
EXPENDITURES:				
General government				
Salaries/other	77,502	77,502	103,261	(25,759)
Other expenses	179,684	179,684	199,598	(19,914)
Total general government	257,186	257,186	302,859	(45,673)
Public safety				
Salaries/other	281,791	281,791	302,711	(20,920)
Other expenses	39,742	39,742	24,902	14,840
Total public safety	321,533	321,533	327,613	(6,080)
Debt service:				
Principal	141,700	141,700	141,700	-
Interest	7,838	7,838	7,843	(5)
Capital outlay	-	-	81,959	(81,959)
Total expenditures	728,257	728,257	861,974	(133,717)
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ (226,982)	\$ (226,982)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
BUILDING EXCISE TAX
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
Building excise tax	\$ -	\$ -	\$ 82,770	\$ 82,770
EXPENDITURES:				
Education	-	-	354,527	(354,527)
Capital outlay	60,000	60,000	60,000	-
Total expenditures	60,000	60,000	414,527	(354,527)
Excess (deficiency) of revenues over expenditures	(60,000)	(60,000)	(331,757)	(271,757)
OTHER FINANCING SOURCES (USES):				
Interest and dividend received	-	-	2,179	2,179
Appropriated prior year surplus	60,000	60,000	-	(60,000)
Total other financing sources (uses)	60,000	60,000	2,179	(57,821)
Excess (deficiency) of revenues over expenditures and other financing sources	\$ -	\$ -	\$ (329,578)	\$ (329,578)

DORCHESTER COUNTY, MARYLAND
REVENUE AND EXPENDITURE DETAIL
BUDGET AND ACTUAL
CAPITAL FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
REVENUES:				
Emergency Numbers Systems Board	\$ -	\$ -	\$ 169,631	\$ 169,631
Intergovernmental:				
Federal	-	-	-	-
State	1,200,000	1,200,000	-	(1,200,000)
Total revenues	1,200,000	1,200,000	169,631	(1,030,369)
EXPENDITURES:				
Current:				
General government	104,944	104,944	34,586	70,358
Public Safety	313,599	313,599	67,370	246,229
Recreation and parks	34,730	34,730	35,729	(999)
Economic development	2,094,333	2,094,333	-	2,094,333
Education	-	-	1,520,000	(1,520,000)
Public works	340,000	340,000	197,195	142,805
Capital outlay	1,179,167	1,179,167	1,260,497	(81,330)
Total expenditures	4,066,773	4,066,773	3,115,377	951,396
Excess (deficiency) of revenues over expenditures	(2,866,773)	(2,866,773)	(2,945,746)	(78,973)
OTHER FINANCING SOURCES (USES):				
Note proceeds	1,000,000	1,000,000	1,520,000	520,000
Interest	-	-	701	701
Operating transfers in	1,866,773	1,866,773	1,866,773	-
Total other financing sources (uses)	2,866,773	2,866,773	3,387,474	520,701
Excess (deficiency) of revenues over expenditures and other financing sources	\$ -	\$ -	\$ 441,728	\$ 441,728

DORCHESTER COUNTY, MARYLAND
STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
AIRPORT ENTERPRISE FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
OPERATING REVENUES:				
Fuel sales	\$ 275,000	\$ 275,000	\$ 248,172	\$ (26,828)
Hanger and tie-down rentals	177,000	177,000	204,986	27,986
Other	23,200	23,200	3,066	(20,134)
Total operating revenues	475,200	475,200	456,224	(18,976)
OPERATING EXPENSES:				
Salaries and related taxes	226,572	226,572	188,506	38,066
Repairs and maintenance	38,000	38,000	73,848	(35,848)
Rental of land, buildings and equipment	13,200	13,200	13,200	-
Fuel	215,000	215,000	208,879	6,121
Utilities	80,600	80,600	84,320	(3,720)
Depreciation	250,000	250,000	360,878	(110,878)
Other operating	2,868,705	2,868,705	12,718	2,855,987
Total operating expenses	3,692,077	3,692,077	942,349	2,749,728
Net operating income (loss)	(3,216,877)	(3,216,877)	(486,125)	2,730,752
NON-OPERATING REVENUES (EXPENSES):				
Grants - Federal government	2,700,000	2,700,000	3,361	(2,696,639)
Grants - state government	71,052	71,052	187	(70,865)
Interest expense	(14,818)	(14,818)	(13,537)	1,281
Total non-operating revenues (expenses)	2,756,234	2,756,234	(9,989)	(2,766,223)
Income (loss) before transfers	(460,643)	(460,643)	(496,114)	(35,471)
Operating transfers	460,643	460,643	460,643	-
Change in net position	\$ -	\$ -	\$ (35,471)	\$ (35,471)

DORCHESTER COUNTY, MARYLAND
STATEMENT OF REVENUES AND EXPENSES
BUDGET AND ACTUAL
LANDFILL ENTERPRISE FUND
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Favorable (Unfavorable)
OPERATING REVENUES:				
Tipping fees	\$ 2,150,000	\$ 2,150,000	\$ 2,513,796	\$ 363,796
Permits	149,000	149,000	132,589	(16,411)
Other	882,151	882,151	42,828	(839,323)
Total operating revenues	3,181,151	3,181,151	2,689,213	(491,938)
OPERATING EXPENSES:				
Salaries and related taxes	972,918	972,918	978,371	(5,453)
Repairs and maintenance	362,000	363,500	362,820	680
Rental of land, buildings and equipment	31,000	29,000	8,934	20,066
Fuel	172,000	170,500	165,078	5,422
Closure and postclosure costs accrual	326,000	326,000	2,195,684	(1,869,684)
Utilities	15,500	15,500	16,123	(623)
Depreciation	810,000	810,000	603,629	206,371
Other operating	511,733	513,733	28,545	485,188
Total operating expenses	3,201,151	3,201,151	4,359,184	(1,158,033)
Net operating income (loss)	(20,000)	(20,000)	(1,669,971)	(1,649,971)
NON-OPERATING REVENUES (EXPENSES):				
Grants - state government	-	-	28,481	28,481
Interest income	20,000	20,000	8,022	(11,978)
Total non-operating revenues (expenses)	20,000	20,000	36,503	16,503
Change in net position	\$ -	\$ -	\$ (1,633,468)	\$ (1,633,468)

DORCHESTER COUNTY, MARYLAND

**COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS**

June 30, 2014

	Other Governmental Funds			Total
	Building Excise Tax Fund	Transfer Tax Fund	Commissary Fund	
ASSETS				
Cash and investments	\$ 2,224,268	\$ -	\$ 55,492	\$ 2,279,760
Accounts receivable	-	107,350	-	107,350
Interfund receivables	5,000	1,323,799	-	1,328,799
Total assets	\$ 2,229,268	\$ 1,431,149	\$ 55,492	\$ 3,715,909
LIABILITIES				
Accounts payable and accrued expenses	\$ -	\$ 42,003	\$ -	\$ 42,003
Unearned revenues	-	-	55,492	55,492
Interfund payables	963,860	-	-	963,860
Total liabilities	963,860	42,003	55,492	1,061,355
FUND BALANCES				
Committed for:				
Schools and courthouse	1,057,511	1,389,146	-	2,446,657
Public safety communication system	154,524	-	-	154,524
Sheriff	53,373	-	-	53,373
Total fund equity	1,265,408	1,389,146	-	2,654,554
Total liabilities and fund balances	\$ 2,229,268	\$ 1,431,149	\$ 55,492	\$ 3,715,909

DORCHESTER COUNTY, MARYLAND
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
Year Ended June 30, 2014

	Other Governmental Funds			Total
	Building Excise Tax Fund	Transfer Tax Fund	Commissary Fund	
REVENUES				
Taxes	\$ 82,770	\$ 634,992	\$ -	\$ 717,762
Miscellaneous	-	-	91,587	91,587
Total revenues	82,770	634,992	91,587	809,349
EXPENDITURES				
General government	-	302,859	91,587	394,446
Public safety	-	327,613	-	327,613
Education	354,527	-	-	354,527
Debt service:				
Principal	-	141,700	-	141,700
Interest	-	7,843	-	7,843
Capital outlay	60,000	81,959	-	141,959
Total expenditures	414,527	861,974	91,587	1,368,088
Excess (deficiency) of revenues over expenditures	(331,757)	(226,982)	-	(558,739)
OTHER FINANCING SOURCES:				
Interest and dividends received	2,179	-	-	2,179
Total other financing sources	2,179	-	-	2,179
Excess (deficiency) of revenues and other financing sources over expenditures	(329,578)	(226,982)	-	(556,560)
Fund balances, beginning of year	1,594,986	1,616,128	-	3,211,114
Fund balances, end of year	\$ 1,265,408	\$ 1,389,146	\$ -	\$ 2,654,554

DORCHESTER COUNTY, MARYLAND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
DEFERRED COMPENSATION PLAN
Year Ended June 30, 2014

	Balances, June 30, <u>2013</u>	Employee <u>Contributions</u>	Earnings on <u>Investments</u>	<u>Distributions</u>	<u>Gains/Losses</u>	Balances, June 30, <u>2014</u>
Assets:						
Investments	\$ 1,445,223	\$ 68,554	\$ 27,808	\$ (408,138)	\$ 98,466	\$ 1,231,913
Liabilities:						
Due to participants	\$ 1,445,223	\$ 68,554	\$ 27,808	\$ (408,138)	\$ 98,466	\$ 1,231,913

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, 2014

REVENUES

Intergovernmental:

State	\$ 57,905
Local - earned reinvestment	325,475
Total CCIF revenues	383,380

EXPENDITURES

Public safety

Substance abuse prevention	28,024
Total public safety	28,024

Social services

After school program	84,000
Youth services bureau	76,537
School based behavioral health	80,000
Girls circle	50,000
Administration	64,819
Total social services	355,356

Total expenditures	383,380
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Excess (deficiency) of revenues over expenditures	\$ -
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This schedule represents the CCIF and earned reinvestment funds recorded within the Special Revenue Grants Fund reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds of these financial statements.