

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

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

### Note 2. Summary of Significant Accounting Policies

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

#### A. Basis of Presentation

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

#### Government-Wide Financial Statements

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

## NOTES TO FINANCIAL STATEMENTS

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

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

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

#### Fund Financial Statements

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

#### B. Fund Accounting

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

#### Governmental Fund Types

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS

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

#### Proprietary Fund Types

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

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

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

#### C. Measurement Focus

##### Government-Wide Financial Statements

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

##### Fund Financial Statements

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

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

#### D. Basis of Accounting

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

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

## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

### **E. Budgets and Budgetary Accounting**

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

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

### **F. Inventory**

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

## NOTES TO FINANCIAL STATEMENTS

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

#### G. Property Tax

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

#### H. Capital Assets

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

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

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

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

#### I. Interfund Receivables and Payables

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

## NOTES TO FINANCIAL STATEMENTS

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

#### J. Compensated Absences

##### Vacation and Sick Leave

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

Upon retirement, employees of the Board of Education (a component unit) ("Board") receive severance pay for unused sick leave accumulated for service while employed at the Board. This estimated liability is computed on the accumulated sick leave of Board employees who have 20 years of service with the Board at the rate of \$20 per day. 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.

#### K. Accrued Liabilities and Long-Term Obligations

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

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

#### L. Net Assets

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

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

#### M. Fund Balance Reserves

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

## NOTES TO FINANCIAL STATEMENTS

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

#### N. Operating Revenues and Expenses

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

#### O. Interfund Transactions

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

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

#### P. Estimates

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

### Note 3. Cash and Short-Term Investments

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

#### Primary Government

At June 30, 2008, the Primary Government had bank deposits with various commercial banks totaling \$23,984,498 (carrying value \$23,716,765). As required by law, each depository is required to pledge securities in addition to FDIC insurance at least equal to the amount on deposit at all times. The depository banks pledge collateral for specific accounts which are held in the Primary Government's name at several banks. As of June 30, 2008, all bank deposits were fully insured or collateralized. Petty cash totaled approximately \$8,300 at June 30, 2008.

## NOTES TO FINANCIAL STATEMENTS

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

#### Board of Education of Dorchester County

At June 30, 2008, the Board had bank deposits with various commercial banks totaling \$1,524,272 (carrying value \$827,353). As required by law, each depository is to pledge securities in addition to FDIC insurance at least equal to that amount on deposit at all times. The depository banks pledge collateral for specific accounts which are held in the Board's name at the Federal Reserve Bank of Boston. As of June 30, 2008, bank deposits were not fully insured or collateralized by approximately \$75,000 in one local financial institution. Investments of \$2,592,169 consist solely 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.

#### Dorchester County Sanitary Districts

At June 30, 2008 the Dorchester County Sanitary Districts had bank deposits with various commercial banks totaling \$964,181 (carrying value \$961,082). Of the \$964,181 balance at June 30, 2008, \$200,000 was fully insured by federal depository insurance and \$703,935 was collateralized by investments that were held by a third party custodian in the Sanitary District's name. The remaining \$60,246 was uninsured and uncollateralized.

NOTES TO FINANCIAL STATEMENTS

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2008, was as follows:

	Balances at June 30, 2007	Additions	Deletions/ Transfers	Balances at June 30, 2008
<b>GOVERNMENTAL ACTIVITIES</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 7,624,514	\$ 12,066	\$ -	\$ 7,636,580
Construction in progress	1,233,179	3,745,077	(70,489)	4,907,767
<b>Total capital assets, not being depreciated</b>	<b>8,857,693</b>	<b>3,757,143</b>	<b>(70,489)</b>	<b>12,544,347</b>
<b>Capital assets, being depreciated</b>				
Buildings and improvements	21,396,843	623,281	70,489	22,090,613
Furniture and equipment	18,215,115	1,582,726	(149,384)	19,648,457
Leasehold improvements	286,572	-	-	286,572
Infrastructure assets	37,370,619	1,211,144	-	38,581,763
<b>Total capital assets, being depreciated</b>	<b>77,269,149</b>	<b>3,417,151</b>	<b>(78,895)</b>	<b>80,607,405</b>
Less: accumulated depreciation	(45,540,958)	(2,970,242)	141,882	(48,369,318)
<b>Net capital assets, being depreciated</b>	<b>31,728,191</b>	<b>446,909</b>	<b>62,987</b>	<b>32,238,087</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 40,585,884</b>	<b>\$ 4,204,052</b>	<b>\$ (7,502)</b>	<b>\$ 44,782,434</b>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 745,491
Public safety	1,645,833
Social services	4,084
Recreation and parks	81,127
Natural resources	2,230
Economic development	77,113
Public works	414,364
	<u>\$ 2,970,242</u>

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets (continued)

	Balances at June 30, 2007	Additions	Deletions/ Transfers	Balances at June 30, 2008
<b>BUSINESS-TYPE ACTIVITIES</b>				
<b>Dorchester County Landfill</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 875,187	\$ -	\$ -	\$ 875,187
Construction in progress	37,931	223,789	-	261,720
Total capital assets, not being depreciated	913,118	223,789	-	1,136,907
<b>Capital assets, being depreciated</b>				
Buildings and improvements	82,089	66,650	-	148,739
Machinery and equipment	3,595,894	144,046	-	3,739,940
Beulah landfill - cells	6,323,510	-	-	6,323,510
Total capital assets, being depreciated	10,001,493	210,696	-	10,212,189
Less: accumulated depreciation	(6,432,590)	(826,148)	-	(7,258,738)
Net capital assets, being depreciated	3,568,903	(615,452)	-	2,953,451
Landfill capital assets, net	\$ 4,482,021	\$ (391,663)	\$ -	\$ 4,090,358
<b>Dorchester County Airport</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 1,867,582	\$ 281,218	\$ -	\$ 2,148,800
Construction in progress	852,662	223,562	-	1,076,224
Total capital assets, not being depreciated	2,720,244	504,780	-	3,225,024
<b>Capital assets, being depreciated</b>				
Buildings and improvements	9,691,845	-	-	9,691,845
Machinery and equipment	258,416	-	-	258,416
Total capital assets, being depreciated	9,950,261	-	-	9,950,261
Less: accumulated depreciation	(2,588,897)	(269,950)	-	(2,858,847)
Net capital assets, being depreciated	7,361,364	(269,950)	-	7,091,414
Airport capital assets, net	\$ 10,081,608	\$ 234,830	\$ -	\$ 10,316,438
Business-type activities capital assets, net	\$ 14,563,629	\$ (156,833)	\$ -	\$ 14,406,796

NOTES TO FINANCIAL STATEMENTS

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

Capital asset activity for the component units for the year ended June 30, 2008 was as follows:

	Balances at June 30, 2007	Additions	Deletions/ Transfers	Balances at June 30, 2008
<b>Board of Education of Dorchester County</b>				
<b>Governmental activities</b>				
<b>Capital assets, not being depreciated</b>				
Construction in progress	\$ 975,193	\$ 8,989,154	\$ (423,584)	\$ 9,540,763
Total capital assets, not being depreciated	975,193	8,989,154	(423,584)	9,540,763
<b>Capital assets, being depreciated</b>				
Buildings and improvements	74,008,732	80,838	252,757	74,342,327
Furniture and equipment	932,506	146,875	165,327	1,244,708
Vehicles	831,360	52,938	(41,899)	842,399
Total capital assets, being depreciated	75,772,598	280,651	376,185	76,429,434
Less: accumulated depreciation	(29,185,210)	(1,589,556)	47,399	(30,727,367)
Net capital assets, being depreciated	46,587,388	(1,308,905)	423,584	45,702,067
<b>Governmental activities capital assets, net</b>	<b>\$ 47,562,581</b>	<b>\$ 7,680,249</b>	<b>\$ -</b>	<b>\$ 55,242,830</b>
<b>Business-type activities</b>				
Equipment	\$ 559,950	\$ -	\$ -	\$ 559,950
Accumulated depreciation	(537,322)	(2,417)	-	(539,739)
<b>Business-type activities capital assets, net</b>	<b>\$ 22,628</b>	<b>\$ (2,417)</b>	<b>\$ -</b>	<b>\$ 20,211</b>
<b>Board of Education capital assets, net</b>	<b>\$ 47,585,209</b>	<b>\$ 7,677,832</b>	<b>\$ -</b>	<b>\$ 55,263,041</b>
<b>Dorchester County Sanitary Districts</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 2,645	\$ -	\$ -	\$ 2,645
Construction in progress	14,148	2,361	-	16,509
Total capital assets, not being depreciated	16,793	2,361	-	19,154
<b>Capital assets, being depreciated</b>				
Plant and equipment	7,128,907	-	-	7,128,907
Total capital assets, being depreciated	7,128,907	-	-	7,128,907
Less: accumulated depreciation	(3,164,130)	(162,422)	-	(3,326,552)
Net capital assets, being depreciated	3,964,777	(162,422)	-	3,802,355
<b>Sanitary Districts capital assets, net</b>	<b>\$ 3,981,570</b>	<b>\$ (160,061)</b>	<b>\$ -</b>	<b>\$ 3,821,509</b>
<b>Total component units capital assets, net</b>	<b>\$ 51,566,779</b>	<b>\$ 7,517,771</b>	<b>\$ -</b>	<b>\$ 59,084,550</b>

NOTES TO FINANCIAL STATEMENTS

**Note 5. Long-Term Debt**

The following is a summary of long-term debt transactions of the Primary Government for the year ended June 30, 2008:

	Governmental Activities	Business-Type Activities
Amounts payable at June 30, 2007	\$ 21,927,376	\$ 564,793
Borrowings from bonds, notes payable, and capital leases	1,452,620	-
Increase in pension liability (See also Note 9)	15,915	-
Increase in vested vacation benefits and compensatory time	93,324	9,368
Repayment of long-term debt and capital lease obligations	(2,941,653)	(32,000)
Amounts payable at June 30, 2008	\$ 20,547,582	\$ 542,161

Long-term debt consists of the following as of June 30, 2008:

Dorchester County Governmental Activities Long-Term Debt

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008	Amounts Due in One Year
<u>Capital Leases</u>					
Dell Financial Services capital lease agreement on the computer equipment. Lease due in annual installments of \$39,171 including interest at 6.46% through July 2010.	\$ -	\$ 118,380	\$ (39,171)	\$ 79,209	\$ 34,057
	\$ -	\$ 118,380	\$ (39,171)	\$ 79,209	\$ 34,057

NOTES TO FINANCIAL STATEMENTS

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

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008	Amounts Due in One Year
<u>Public Facilities Bonds</u>					
1996 Public Facilities Bonds due in annual principal installments of \$190,000 to \$1,065,000 through November 1, 2010; interest, payable semi-annually, from 3.5% to 6.7%.	\$ 1,730,000	\$ -	\$ (1,065,000)	\$ 665,000	\$ 210,000
Public School Capital Improvement bonds for 2002 due in annual principal installments of \$320,000 to \$650,000 through August 1, 2017; interest, payable semi-annually, from 3.5% to 4.5%.	5,620,000	-	(390,000)	5,230,000	410,000
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%.	7,665,000	-	(915,000)	6,750,000	940,000
Public School Capital Improvement Bonds of 2000 due in annual principal installments of \$145,000 to \$300,000 through March 1, 2015; interest, payable semi-annually, from 4.5% to 5.2%.	2,005,000	-	(210,000)	1,795,000	220,000
<b>Total public facilities bonds</b>	<b>\$ 17,020,000</b>	<b>\$ -</b>	<b>\$ (2,580,000)</b>	<b>\$ 14,440,000</b>	<b>\$ 1,780,000</b>

NOTES TO FINANCIAL STATEMENTS

Note 5. Long-Term Debt (continued)

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008	Amounts Due in One Year
<u>State of Maryland Department of Natural Resources</u>					
<u>Maryland Industrial Land Act Loans (MILA)</u>					
Maryland Industrial Land Act loan due in quarterly installments of \$15,886, including interest at 6.32%, through March 2016, secured by 5.6 acres of land and improvements located in the Chesapeake Industrial Park in Cambridge, Maryland (known as the Regina building).	\$ 401,351	\$ -	\$ (37,835)	\$ 363,516	\$ 39,928
Maryland Industrial Land Act loan due in quarterly installments of \$21,177, including interest at 4.64%, through April 2012. A final balloon payment of \$397,242 is due at maturity (known as the Connelly Building).	607,074	-	(57,619)	549,455	58,909
Total MILA loans payable	\$ 1,008,425	\$ -	\$ (95,454)	\$ 912,971	\$ 98,837

NOTES TO FINANCIAL STATEMENTS

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

	Balances at June 30, 2007	Additions	Transfers/ Reductions	Balances at June 30, 2008	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.	\$ 57,352	\$ -	\$ (4,780)	\$ 52,572	\$ 4,780
SEC 7-92 - Middle Hoopers Island Causeway; due in annual installments of \$5,516 through July 2020; no interest.	77,224	-	(5,516)	71,708	5,516
SEC 8-92 - McCready's Point Road; due in annual installments of \$1,683 through July 2019; no interest.	21,885	-	(1,683)	20,202	1,683
SEC 9-92 - Hoopersville Road; due in annual installments of \$2,718 through July 2020; no interest.	35,337	-	(2,718)	32,619	2,718
SEC 3-95 - Punch Island Road; due in annual installments of \$3,519 through July 2011; no interest.	17,591	-	(3,519)	14,072	3,519
SEC 2-96 - Rooster Island; due in annual installments of \$8,207 through July 2012; no interest.	49,237	-	(8,207)	41,030	8,207
SEC 03-03 - Hoopersville Road; due in annual installments of \$8,829 through July 2032; no interest.	233,667	-	-	233,667	15,578
SEC 04-02 - Hoopers Island Road; due in annual installments of \$6,032 through July 2027; no interest.	124,532	-	(5,930)	118,602	5,930
SEC 05-03 - Taylors Island - \$350,000 total loan to be repaid in 25 annual installments of \$14,000, no interest, to begin July 1 after the completion of the project.	95,050	22,283	(25,000)	92,333	-
SEC 18-02 - Punch Island Road; \$323,957 total loan to be repaid in 25 annual installments of \$12,958, no interest, to begin July 1 after the completion of the project.	-	298,957	25,000	323,957	-
<b>Total SEC loans payable</b>	<b>\$ 711,875</b>	<b>\$ 321,240</b>	<b>\$ (32,353)</b>	<b>\$ 1,000,762</b>	<b>\$ 47,931</b>

NOTES TO FINANCIAL STATEMENTS

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

<u>Notes Payable</u>	<u>Balances at June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances at June 30, 2008</u>	<u>Amounts Due in One Year</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).	\$ 108,900	\$ -	\$ (13,200)	\$ 95,700	\$ 13,200
County Commissioners of Queen Anne's County loan due in annual principal installments of \$20,000 to \$50,000 through January 2020; interest payable annually at 5.173% to 5.25% (known as the Learning Resource Center).	465,000	-	(25,000)	440,000	25,000
County Commissioners of Queen Anne's County loan due in annual principal installments of \$5,096 to \$12,314 through January 2023; interest payable semi-annually at 4%.	140,067	-	(5,945)	134,122	6,188
Note due in quarterly principal installments of \$24,313, plus interest at 5.33% through 2014 (known as the Delmarva Power and Light Building).	582,109	-	(67,458)	514,651	71,258
MDOT due in annual installments of \$202,600 to January 2013; no interest.	-	1,013,000	-	1,013,000	202,600
The Rippons Pier deferred purchase price due in annual principal installments of \$35,000 to \$40,000 through 2012, no interest.	235,000	-	(40,000)	195,000	40,000
Note due in quarterly installments of \$16,639 to \$27,525, including interest at 8.5%, through April 2008, secured by 22.0 acres of land (known as the new Eastern Shore State Hospital Center).	43,072	-	(43,072)	-	-
<b>Total notes payable</b>	<b>1,574,148</b>	<b>1,013,000</b>	<b>(194,675)</b>	<b>2,392,473</b>	<b>358,246</b>
<b>Total governmental activities debt</b>	<b>\$ 20,314,448</b>	<b>\$ 1,452,620</b>	<b>\$ (2,941,653)</b>	<b>\$ 18,825,415</b>	<b>\$ 2,319,071</b>

NOTES TO FINANCIAL STATEMENTS

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

Dorchester County Business-Type Activities Long-Term Debt

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008	Amounts Due in One Year
<b>Dorchester County Landfill:</b>					
Refuse and bid bonds payable	\$ 3,000	\$ -	\$ (1,000)	\$ 2,000	\$ 2,000
<b>Dorchester County Airport:</b>					
Airport Improvement Bonds of 2003 issued through M&T Bank for 15 years with annual payments of \$31,000 through 2018 and a final payment of \$186,000 in 2019; interest payable quarterly at 4.19%.	527,000	-	(31,000)	496,000	31,000
Total enterprise fund debt	\$ 530,000	\$ -	\$ (32,000)	\$ 498,000	\$ 33,000

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

## NOTES TO FINANCIAL STATEMENTS

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

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

#### Governmental Activities

Year Ending June 30	Principal	Interest	Totals
2009	\$ 2,319,071	\$ 645,102	\$ 2,964,173
2010	2,428,417	569,174	2,997,591
2011	2,476,975	486,558	2,963,533
2012	2,611,163	396,195	3,007,358
2013	2,322,222	317,828	2,640,050
2014 - 2018	6,017,893	581,265	6,599,158
2019 - 2023	436,857	17,778	454,635
2024 - 2028	112,908	-	112,908
2029 - 2033	83,258	-	83,258
2034	16,651	-	16,651
Total governmental activities debt	<u>\$ 18,825,415</u>	<u>\$ 3,013,900</u>	<u>\$ 21,839,315</u>

#### Business-Type Activities

Year Ending June 30	Principal	Interest	Totals
2009	\$ 33,000	\$ 20,782	\$ 53,782
2010	31,000	19,484	50,484
2011	31,000	18,185	49,185
2012	31,000	16,886	47,886
2013	31,000	15,586	46,586
2014 - 2018	155,000	58,451	213,451
2019	186,000	7,793	193,793
Total business-type activities debt	<u>\$ 498,000</u>	<u>\$ 157,167</u>	<u>\$ 655,167</u>

Interest expense on all County long-term debt totaled \$752,567 for the year ended June 30, 2008.

Additionally, the County has agreed to execute a shore erosion control project loan agreement with the Maryland Department of Natural Resources for a no interest loan in the amount of \$350,000 to complete the Taylor's Island Environmental Restoration Project to be repaid over 25 years with annual payments of \$14,000 beginning on July 1 of the year in which the project is completed. Of the \$350,000 amount, \$92,333 has been borrowed and included in the governmental activities' long-term debt.

## NOTES TO FINANCIAL STATEMENTS

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

Long-term debt of the Dorchester County Sanitary Districts at June 30, 2008 consists of the following:

	Balances at June 30, 2007	Additions	Reductions	Balances at June 30, 2008
<u>Dorchester County Sanitary Districts</u>				
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.67%. Annual level installments of principal and interest of \$9,389 through March 2020.	\$ 79,947	\$ -	\$ (4,055)	\$ 75,892
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 6.67%. Annual level installments of principal and interest of \$4,736 through March 2020.	40,330	-	(2,045)	38,285
Loan payable to the State of Maryland under the Water Quality Loan of 1983. Annual interest rate of 6.67%. Annual level installments of principal and interest of \$9,816 through September 2020.	87,556	-	(3,974)	83,582
Loan payable to Bank of Eastern Shore. Annual interest rate of 6.4%. Monthly installments of principal and interest of \$488 through April 2010. Collateralized by a certificate of deposit held at the Bank of the Eastern Shore.	14,727	-	(5,064)	9,663
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 6.10%. Annual level installments of principal and interest of \$2,051 through October 2012.	10,047	-	(1,438)	8,609
Loan payable to the State of Maryland under the Water Quality Loan of 1974. Annual interest rate of 8.18%. Annual level installments of principal and interest of \$6,898 through July 2014.	39,343	-	(3,680)	35,663
Loan payable to the State of Maryland under the Drinking Water State Water Revolving Fund. Annual interest rate of 3.13%. Annual level installments of principal and interest of \$4,653 through February 2013.	24,687	-	(3,880)	20,807
Total Sanitary Districts' debt	\$ 296,637	\$ -	\$ (24,136)	272,501
Less: current maturities				25,653
				\$ 246,848

## 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, 2008 are as follows:

Year Ending June 30	Principal	Interest	Totals
2009	\$ 25,653	\$ 17,751	\$ 43,404
2010	25,781	16,142	41,923
2011	22,861	14,683	37,544
2012	24,296	13,248	37,544
2013	25,320	11,717	37,037
2014 - 2018	97,020	36,426	133,446
2019 - 2021	51,570	6,128	57,698
Total sanitary districts debt	\$ 272,501	\$ 116,095	\$ 388,596

### Note 6. Capital Leases

#### Primary Government

The County entered into a lease agreement in July 2007, for the purpose of acquiring computer equipment. The original cost of the equipment acquired under the capital lease agreement was \$124,830, which included \$6,450 of capitalized shipping cost. Accumulated depreciation on the equipment as of June 30, 2008 was \$24,966. Since the lease is a financing arrangement that transfers ownership at the end of the lease, the County has recorded the present value of the future minimum lease payments and the related assets in the appropriate funds.

<u>Year Ending June 30,</u>	
2009	\$ 39,171
2010	39,171
2011	9,470
	87,812
Less amounts representing interest	(8,603)
Present value of net minimum lease payments	\$ 79,209

## NOTES TO FINANCIAL STATEMENTS

### Note 7. Long-Term Operating Lease

In July 2008, the County entered into a 2-year non-cancelable operating lease for its sanitary landfill site #2, commonly referred to as the "Golden Hill Landfill". Lease expense for 2008 was \$6,000. A final minimum lease payment of \$6,000 is due for each of the years ending June 30, 2009 and 2010.

#### Component Unit - Board of Education

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

Approximate future minimum lease commitments are as follows:

<u>Year Ending June 30,</u>	
2009	\$ 211,000
2010	147,000
2011	146,000

Rent expense, under these leases, totaled approximately \$300,000 for the year ended June 30, 2008.

### Note 8. Interfund Receivables and Payables

As a result of its operations, the County affects a variety of transactions between funds to finance operations, service debt, etc. Accordingly, to the extent that certain interfund transactions have not been paid or received as of June 30, 2008, appropriate due to/from other funds have been established.

Due to/from other funds balances as of June 30, 2008 were as follows:

<u>Primary Government</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental activities	\$ 6,048,379	\$ 7,316,019
Business-Type activities	1,269,908	2,268
<u>Total due to/from other funds</u>	<u>\$ 7,318,287</u>	<u>\$ 7,318,287</u>

### Note 9. Pension Plans

#### Plan Description

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

## NOTES TO FINANCIAL STATEMENTS

### Note 9. Pension Plans (continued)

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

#### Funding Policy

The State Personnel and Pensions Article requires active members to contribute to the System at the rate of 4%, 5% or 7% of their covered salary depending upon the retirement option selected. The combined State contribution rate for the year ending 2008 is established by annual actuarial valuations. The current rate is 11.6% of covered payroll for teachers and 5.27% for classified employees. On-behalf payments consist of pension contributions made by the State of Maryland to the State Retirement System for applicable employees of the Board of Education. The amounts recognized as revenue and expenditures for the fiscal year ended June 30, 2008 was \$2,957,761 for the Board of Education.

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

The employers' current year payroll for the years ended June 30, 2008, 2007, and 2006, payroll covered under the various state plans, and contributions paid are as follows:

	2008	2007	2006
Total payroll	\$ 46,233,135	\$ 41,407,611	\$ 38,065,195
Payroll covered under the plans	42,528,763	38,687,276	34,909,116
Contributions paid:			
County payments	984,018	822,465	603,897
Board of Education payments	579,697	441,306	388,622
State On-Behalf payments:			
Board of Education	2,957,761	2,414,577	2,145,324

#### 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 \$622,014 fund deficit (an increase of \$15,915 over the prior fiscal year) over a period of 40 years. The fiscal year 2008 annual payment was \$31,343 and will increase 5% per year until maturity at December 31, 2035. This liability has been recorded in the governmental activities column on the Statement of Net Assets.

## NOTES TO FINANCIAL STATEMENTS

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

The County provides post-employment health care benefits to their respective retired employees. Retired employees who complete 16 years of service will receive full health care benefits (including spouse) of which the employer pays 85%. Employees with less than 16 years of service will pay on a pro-rata basis. The cost of retiree health care is recognized as an expenditure when the premiums are paid. At June 30, 2008 there were 63 retirees participating. Total cost to the County for the year ended June 30, 2008 was \$236,919.

The Board of Education of Dorchester County provides individual health insurance for its retired employees. Board employees may become eligible at retirement after 15 years of service. The amount contributed by the Board varies based on age and the number of years of service. The cost of retiree health care is recognized as an expenditure when the premiums are paid. At June 30, 2008 there were 214 retirees participating. Total cost to the Board for the year ended June 30, 2008 was \$653,215.

In April 2004, GASB issued Statement No. 43, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans. GASB Statement No. 43 addresses the financial reporting for other post-employment benefit plans. The County and the Board were not required to implement this standard as of June 30, 2008, as there was no trust established at that time.

In June 2004, GASB issued Statement No. 45, Accounting and Financial Reporting by Employees for Post-Employment Benefits Other Than Pensions. GASB No. 45 requires employer governments to account for and report the annual cost of other postemployment benefits in the same manner as they do for pensions. This statement is effective for the County's and Board's financial statements for periods beginning after December 15, 2007, fiscal year 2009.

The County obtained an actuarial valuation of its Post-Employment Health Benefits obligations, calculated in accordance with GASB No. 45 standards as of January 1, 2007. Based on the plan and contribution level that the County offers, the present value of future benefits, assuming a 4.5% interest rate, was estimated to be \$13.8 million, while the annual normal cost is \$1,014,000. If the unfunded accrued actuarial liability of approximately \$19.3 million were amortized over a 30-year period, the total annual required contribution (normal cost plus amortization amount and interest) would be approximately \$1.7 million.

The Board obtained an actuarial valuation of its Post-Employment Health Benefits obligations, calculated in accordance with GASB No. 45 standards as of January 1, 2007. Based on the plan and contribution level that the Board offers, the present value of future benefits, assuming a 4% interest rate, was estimated to be \$8.8 million, while the annual normal cost is \$546,000. If the unfunded accrued actuarial liability of approximately \$18.1 million were amortized over a 29-year period, the total annual required contribution (normal cost plus amortization amount and interest) would be approximately \$1.2 million.

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

The Dorchester County Sanitary Districts has elected a pay-as-you-go system to fund these benefits. For the fiscal year ended June 30, 2008 the premiums totaled \$3,802 for one retired employee. For the fiscal years ended June 30, 2007 and 2006, the premiums totaled \$7,499 and \$6,578, respectively for two retired employees. Due to the limited liability of these benefits the District has elected not to account for or report on these benefits in accordance with GASB Statement No. 43 Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans.

## NOTES TO FINANCIAL STATEMENTS

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

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

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

The County has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. In accordance with GASB Statement No. 32, adopted by the County in 1998, the plan's assets are not reported on the combined balance sheet of the County. A summary of the activity in the plan is presented in the supplementary information for the year ended June 30, 2008.

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

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

Use of per lot assessments totaling \$145,387 at June 30, 2008 by the Dorchester County Sanitary Districts is restricted to capital improvements, repairs and maintenance to the water system, and debt service.

### **Note 13. Landfill Closure and Postclosure Care Costs**

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

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

The Golden Hill landfill stopped accepting waste in 1991. The landfill has been capped and only has postclosure care costs associated with it, currently estimated to be approximately \$14,200 each year for the next thirty years.

The Old Beulah landfill stopped accepting waste in February 1996. The landfill is expected to be covered during fiscal year 2009 at an estimated total cost of approximately \$3,872,000. The County is currently waiting final approval of its plan of closure from the Maryland Department of the Environment. Postclosure care costs for this location are currently estimated to be approximately \$20,100 each year for the next thirty years.

## NOTES TO FINANCIAL STATEMENTS

### Note 13. 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	\$ 328,224
<u>Golden Hill landfill</u>	
Postclosure care costs	425,280
<u>Old Beulah landfill</u>	
Closure costs	3,872,282
Postclosure care costs	602,616
	4,474,898
<u>New Beulah landfill - cells 1 - 4</u>	
Closure costs	2,285,352
Postclosure care costs	253,833
	2,539,185
Total closure and postclosure care costs	\$ 7,767,587

The above amounts are based on the current costs to perform all closure and postclosure care as of June 30, 2008. As noted above, the County expects to cap the Old Beulah landfill over the next fiscal year. However, actual costs may ultimately be higher than estimated costs due to inflation, changes in technology, or changes in regulations.

Though there are currently no legal restrictions on available funds, the County has approximately \$6,974,000 of currently available assets for landfill closure and postclosure care costs. The shortfalls may need to be covered by any combination of charges to future landfill users, future tax revenues, or additional borrowings.

The New Beulah landfill will consist of six cells. Cells 1 & 2 began accepting waste in November 1995 and were completely filled in 2003. Accruals of closure and postclosure care costs have been recognized. Total closure and postclosure care costs for Cells 1 & 2 are estimated to be \$1,231,285 and \$136,758, respectively.

New Beulah landfill cell 3 was completed and began accepting waste in October 2002. Accrual of closure and postclosure care costs have been recognized based on the estimated capacity used to date (88.87%). Total closure and postclosure care costs for Cell 3 are estimated to be \$911,866 and \$101,281, respectively.

New Beulah landfill cell 4 was completed and began accepting waste in January 2007. Accrual of closure and postclosure care costs have been recognized based on the estimated capacity used to date (19.99%). Total closure and postclosure care costs for Cell 4 are estimated to be \$142,201 and \$15,794, respectively.

## NOTES TO FINANCIAL STATEMENTS

### Note 14. Commitments and Contingencies

#### Dorchester County

##### Grants

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

##### Conduit Debt

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

##### Risk Management

The County's risk financing techniques include participation in a public entity 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 coverages, 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.

##### Dorchester County Sanitary Districts

The County Council of Dorchester County has guaranteed certain obligations of the Dorchester County Sanitary Districts, Inc. in the amount of \$20,807.

## NOTES TO FINANCIAL STATEMENTS

### Note 14. Commitments and Contingencies (continued)

#### Board of Education of Dorchester County

The Board regularly enters into contracts for goods and services during the normal course of operations. The contracts often extend over fiscal years. In the opinion of the Board, there are no approved contracts that would have a material effect on the financial statements. The Board receives a substantial amount of its support from Federal, State and local agencies in the form of grants. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Board has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2008 may be impaired. In the opinion of the Board, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

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

### Note 15. Required Individual Fund Disclosures

The following funds had an excess of expenditures over appropriations for the year ended June 30, 2008.

Fund	Budgeted Expenditures	Actual Expenditures	Excess of Actual Over Budgeted Expenditures
General Fund	\$ 52,165,300	\$ 56,072,463	\$ 3,907,163
Special Revenue	2,787,799	5,591,299	2,803,500

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

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

The debt service fund had a fund deficit of \$139,141 for the year ended June 30, 2008.